GLOBAL PAYMENTS INC
Form DEF 14A
August 18, 2016
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As filed with the Securities and Exchange Commission on August 18, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Section 240.14a-12

GLOBAL PAYMENTS INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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10 Glenlake Parkway, North Tower

Atlanta, Georgia 30328-3473

(770) 829-8991

August 18, 2016

Dear Shareholder:

The board of directors and officers of Global Payments Inc. join me in extending to you a cordial invitation to attend our 2016 annual meeting of shareholders. The meeting will be held on Wednesday, September 28, 2016, at 9:30 a.m. Eastern Daylight Time, at our offices at 10 Glenlake Parkway, North Tower, Atlanta, Georgia 30328-3473. At the annual meeting, shareholders will be asked to vote on four proposals set forth in the Notice of 2016 Annual Meeting of Shareholders and the proxy statement following this letter.

Whether or not you plan to attend the annual meeting, it is important that your shares are represented and voted regardless of the size of your holdings. We urge you to vote promptly and submit your proxy via the internet, by telephone or by signing, dating and returning the enclosed proxy card in the enclosed envelope. If you decide to attend the annual meeting, you will be able to vote in person, even if you have submitted your proxy previously.

If you have any questions concerning the annual meeting and you are the shareholder of record of your shares, please contact our Investor Relations department at Investor.Relations@globalpay.com or (770) 829-8991. If your shares are held by a broker or other nominee (that is, in street name), please contact your broker or other nominee for questions concerning the annual meeting.

We look forward to seeing you on September 28th.

Sincerely,

Jeffrey S. Sloan
Chief Executive Officer

William I Jacobs
Chairman of the Board

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10 Glenlake Parkway, North Tower

Atlanta, Georgia 30328-3473

August 18, 2016

NOTICE OF 2016 ANNUAL MEETING OF SHAREHOLDERS

The 2016 annual meeting of shareholders of Global Payments Inc. (the Company), will be held at the Company s offices at 10 Glenlake Parkway, North Tower, Atlanta, Georgia, 30328-3473 on Wednesday, September 28, 2016, at 9:30 a.m. Eastern Daylight Time, for the following purposes:

1. To elect the five directors nominated by our board of directors and named in the proxy statement;

2. To approve the extension of the term of, and the limits on non-employee director compensation and the material terms of the performance goals included in, the Global Payments Inc. Amended and Restated 2011 Incentive Plan;

3. To approve, on an advisory basis, the compensation of our named executive officers; and

4. To ratify the reappointment of Deloitte & Touche LLP, or Deloitte, as the Company s independent public accounting firm.

The shareholders may also transact any other business that may properly come before the annual meeting or any adjournments or postponements thereof.

On August 18, 2016, we mailed a notice of electronic availability of proxy materials to our shareholders. Only shareholders of record at the close of business on July 28, 2016 are entitled to receive notice of, and to vote at, the annual meeting or any adjournment or postponement thereof. If you do not attend the annual meeting, you may vote your shares via the internet or by telephone, as instructed in the Notice of Electronic Availability of Proxy Materials, or if you received your proxy materials by mail, you may also vote by mail.

YOUR VOTE IS IMPORTANT

Submitting your proxy does not affect your right to vote in person if you attend the annual meeting. Instead, it benefits us by reducing the expenses of additional proxy solicitation. Therefore, we urge you to submit your proxy as soon as possible, regardless of whether or not you expect to attend the annual meeting. You may revoke your proxy at any time before its exercise by (i) delivering written notice of revocation to our Corporate Secretary, David L. Green, at the above address, (ii) submitting to us a duly executed proxy card bearing a later date, (iii) voting via the internet or by telephone at a later date, or (iv) appearing at the annual meeting and voting in person; provided, however, that no such revocation under clause (i) or (ii) shall be effective until written notice of revocation or a later dated proxy card is

received by the Corporate Secretary at or before the annual meeting, and no such revocation under clause (iii) shall be effective unless received on or before 11:59 p.m., Eastern Daylight Time, on September 27, 2016.

When you submit your proxy, you authorize Jeffrey S. Sloan and David L. Green, or either one of them, each with full power of substitution, to vote your shares at the annual meeting in accordance with your instructions or, if no instructions are given, for the election of the director nominees; for the extension of the term of, and the limits on non-employee director compensation and the material terms of the performance goals included in, the Global Payments Inc. Amended and Restated 2011 Incentive Plan; for the approval, on an advisory basis, of the compensation of our named executive officers; and for the ratification of the reappointment of Deloitte as the Company s independent public accounting firm. The proxies, in their discretion, are further authorized to vote on any adjournments or postponements of the annual meeting, for the election of one or more persons to the board of directors if any of the nominees becomes unable to serve or for good cause will not serve, on matters which the board does not know a reasonable time before making the proxy solicitations will be presented at the annual meeting, or any other matters which may properly come before the annual meeting and any postponements or adjournments thereto.

By Order of the Board of Directors,

David L. Green

Executive Vice President, General Counsel and Corporate Secretary

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Proxy Summary

This summary highlights information contained elsewhere in this proxy statement, but does not contain all of the information you should consider before voting your shares. For complete information regarding the 2016 annual shareholder meeting, which we refer to as the annual meeting, the proposals to be voted on at the annual meeting, and our performance during the fiscal year ended May 31, 2016, or fiscal 2016, please review the entire proxy statement and our Annual Report on Form 10-K for fiscal 2016, or the 2016 annual report. In this proxy statement, the company, we, our and us refer to Global Payments Inc. and its consolidated subsidiaries, unless the context requires otherwise.

Information About Our 2016 Annual Meeting

Date and Time:	Wednesday, September 28, 2016, at 9:30 a.m. Eastern Daylight Time
Place:	Our offices at 10 Glenlake Parkway, North Tower, Atlanta, Georgia, 30328-3473
Record Date:	July 28, 2016
Voting:	Holders of our common stock as of the close of business on the record date may vote at the annual meeting. Each shareholder is entitled to one vote per share for each director nominee and one vote per share for each of the other proposals described below.

Proposals and Voting Recommendations

Proposal		Board Vote Recommendation	Page Number
1	Election of Five Directors	FOR	10
2	Approval of Extension and Certain Terms of the Amended and Restated 2011 Incentive Plan	FOR	27
3	Advisory Vote on Compensation of Our Named Executive Officers (say-on-pay vote)	FOR	37
4	Ratification of the Reappointment of Our Independent Public Accounting Firm	FOR	64

Fiscal 2016 Performance Highlights

We completed our most significant business combination in the history of our company when we merged with Heartland Payment Systems, Inc., or Heartland, in April 2016. Following the merger, we now have more than 8,500 employees worldwide and service nearly 2.5 million merchants in 30 countries. In addition, Robert H.B. Baldwin, Jr. and Mitchell L. Hollin joined our board of directors from Heartland.

GAAP revenues were $2.90 billion, compared to $2.77 billion in fiscal 2015. Diluted earnings per share were $2.04 compared to $2.06 in fiscal 2015 and operating margin was 14.7% compared to 16.5% in fiscal 2015, notwithstanding approximately $50 million of expenses related to the Heartland transaction and the unfavorable effect of fluctuations in foreign currency on our operating income of approximately $44 million.

Adjusted net revenue grew 11% to $2.17 billion during fiscal 2016, compared to $1.95 billion in fiscal 2015. Cash diluted earnings per share grew 18% to $2.98 during fiscal 2016, compared to $2.52 in fiscal 2015. Cash operating margin increased to 29.2%, a 50 basis point increase over fiscal 2015.[(1)]

Our share price increased 48% during fiscal 2016, while the S&P 500 index remained flat. We also completed a two-for-one stock split in the form of a stock dividend. Our stock price performance over the last three fiscal years relative to the performance of our peer group and the S&P 500 index, which we joined during fiscal 2016, is shown in the graph below.

(1) Adjusted net revenue, cash diluted earnings per share and cash operating margin are non-GAAP financial measures. For information about how these measures are calculated, including reconciliations to the most comparable GAAP measures, see Additional Information Non-GAAP Financial Measures beginning on page 66.

The following graph compares the cumulative shareholder returns of $100 invested in the S&P 500 Index and the average of our performance peer group (excluding Heartland, which we acquired in fiscal 2016) over the last three fiscal years, assuming reinvestment of dividends.

Corporate Governance Highlights (Page 15)

Our board of directors values independent, effective and ethical corporate governance. Highlights of our corporate governance structure include the following:

þ Independent Chairman with 15-year tenure as director
þ Eight of nine directors are non-employee directors
þ Seven of eight non-employee directors are independent
þ Fully independent Audit, Compensation, and Governance and Nominating Committees
þ Eight year average tenure of independent directors
þ Classified board structure
þ Majority voting for directors in uncontested elections
þ Minimum stock ownership requirements
þ Limitation on outside board and audit committee service
þ Greater than 75% attendance at meetings
þ Non-employee directors meet without management present
þ Annual board and committee self-evaluations
þ Code of business conduct and ethics for directors

Director Nominees (Page 12)

Name	Tenure (Years)	Principal Occupation	Non-Employee	Audit Committee	Compensation Committee	Governance and Nominating Committee	Risk Oversight Committee	Technolo Committ
Robert H.B. Baldwin, Jr.	<1	Former Vice Chairman, Heartland	Yes					
Mitchell L. Hollin	<1	Managing Partner, LLR Management	Yes*					
Ruth Ann Marshall	10	Former President, Americas, MasterCard International	Yes*					
John M. Partridge	3	Former President, Visa	Yes*					
Jeffrey S. Sloan	2.5	CEO, Global Payments	No					

Chair. Member.

* Our board of directors has determined that this director is independent.

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Named Executive Officers

Beginning on page 53, we provide specific data about the compensation of our named executive officers, as defined by rules promulgated by the Securities and Exchange Commission, or the SEC, for fiscal 2016. Our named executive officers include the following individuals:

- Jeffrey S. Sloan, Chief Executive Officer
- David E. Mangum, President and Chief Operating Officer
- Cameron M. Bready, Executive Vice President and Chief Financial Officer
- Dr. Guido F. Sacchi, Executive Vice President and Chief Information Officer
- David L. Green, Executive Vice President, General Counsel and Corporate Secretary

Compensation Philosophy and Highlights (Page 39)

We Do:	We Do Not:
þ Tie pay to financial and share price performance	x Provide for excise tax gross-ups
þ Retain an independent compensation consultant	x Permit hedging or pledging of our stock
þ Benchmark against our peer group	x Re-price or discount stock options or SARs
þ Conduct an annual say-on-pay vote	x Permit liberal share recycling or net share counting upon exercise of stock options or SARs
þ Adjust performance goals under our short-term incentive plan to reflect acquisition impacts	x Pay dividend equivalent rights on restricted stock units
þ Employ double-trigger change-in-control compensation	
þ Have a clawback policy	
þ Impose minimum stock ownership thresholds and holding periods until such thresholds are met	

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Core Compensation Components

Core Component	Objective/Features	Page
Base Salary	Base salaries are intended to provide compensation consistent with our executives skills, responsibilities, experience and performance in relation to the marketplace.	43
Annual Cash Incentives	Our annual performance plan rewards short-term company performance, while aligning the interests of our named executive officers with those of our shareholders. For fiscal 2016, awards under our annual performance plan were determined based on specified goals for adjusted cash earnings per share, adjusted revenue and adjusted operating margin, each as adjusted for certain acquisitions and divestitures.	44
Performance Units	Performance units represented 50% of our long-term incentive awards. Performance units are performance-based restricted stock units that, after a three-year performance period, may convert into a number of unrestricted shares depending on the average of the growth of our annual cash EPS for each of the three years in the performance period. These long-term equity awards are intended to closely align the performance of our executives with the interests of our shareholders by utilizing a lengthy performance period and a single performance metric that is most relevant to the daily management of our operations.	47
Stock Options	Stock options represented 25% of our long-term incentive awards. These stock options will vest in equal installments on each of the first three anniversaries of the grant date. The exercise price of each option was equal to the closing price of our stock on the grant date. Stock options are intended to provide a strong incentive for creation of long-term shareholder value, as stock options may be exercised for a profit only to the extent the price of our stock appreciates after the grant date.	48
Restricted Stock	Restricted shares of our common stock with time-based vesting represented 25% of our long-term incentive awards. Restricted stock granted as part of our annual compensation program vest in equal installments on each of the first three anniversaries of the grant date. Time-based restricted stock provides a retentive element to our compensation program, while tying the value of the award to the	48

performance of our stock.

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The following charts show the mix of total target compensation for our CEO and for all the other named executive officers as a group, based on a weighted average, as well as the portion of that compensation that is subject to forfeiture (at risk) or performance-based.

CEO TOTAL TARGET COMPENSATION

OTHER NEOs TOTAL TARGET COMPENSATION

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Questions and Answers About Our Annual Meeting and this Proxy Statement

1. Why did I receive these materials?

This proxy statement is being furnished to solicit proxies on behalf of the board of directors of our company for use at the 2016 annual meeting of shareholders and at any adjournments or postponements thereof. The annual meeting will be held at our offices at 10 Glenlake Parkway, North Tower, Atlanta, Georgia, 30328-3473 on Wednesday, September 28, 2016, at 9:30 a.m., Eastern Daylight Time.

2. What am I voting on and how does the board of directors recommend that I vote?

Our board of directors recommends that you vote **FOR** each of the following four proposals scheduled to be voted on at the meeting:

Proposal 1: Election of the five directors nominated by our board.

Proposal 2: Approval of the extension of the term of, and the limits on non-employee director compensation and the material terms of the performance goals included in, the Global Payments Inc. Amended and Restated 2011 Incentive Plan, which we refer to as the Amended and Restated 2011 Incentive Plan.

Proposal 3: Approval, on an advisory basis, of the compensation of our named executive officers for fiscal 2016. This proposal is referred to as the say-on-pay proposal.

Proposal 4: Ratification of the reappointment of Deloitte & Touche LLP, or Deloitte, as our independent public accounting firm.

3. Could other matters be decided at the annual meeting?

Yes. The shareholders may transact any other business that may properly come before the annual meeting or any adjournments or postponements thereof. If any other matter properly comes before the meeting and you have submitted your proxy, the proxy holders will vote as recommended by the board or, if no recommendation is made, in their own discretion. Our board of directors is not aware of any properly submitted shareholder proposals.

4. Why did I receive a mailed notice of internet availability of proxy materials instead of a full set of proxy materials?

As permitted by the SEC, we are making this proxy statement and our annual report available to our shareholders electronically via the internet. The notice contains instructions on how to access this proxy statement and our annual report and how to vote online or submit your proxy over the internet or by telephone. You will not receive a printed copy of the proxy materials in the mail unless you request one, which you may do by following the instructions contained in the notice. We encourage you to take advantage of the electronic availability of proxy materials to help reduce the cost and environmental impact of the annual meeting.

5. How do I vote?

If you received a notice of electronic availability, that notice provides instructions on how to vote by internet, by telephone or by requesting and returning a paper proxy card. You may submit your proxy voting instructions via the internet or telephone by following the instructions provided in the notice. The internet and telephone voting procedures are designed to authenticate your identity, to allow you to vote your shares, and to confirm that your voting instructions are properly recorded. If your shares are held in the name of a bank or a broker, the availability of internet and telephone voting will depend on the voting processes of the bank or broker. Therefore, we recommend that you follow the instructions on the form you receive. If you received a printed version of the proxy materials by mail, you may vote by following the instructions provided with your proxy materials and on your proxy card.

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6. What if I change my mind after I vote?

Your submission of a proxy via the internet, by telephone or by mail does not affect your right to attend the annual meeting in person. You may revoke your proxy at any time before it is exercised in any of the following ways:

Deliver written notice of revocation to our Corporate Secretary at 10 Glenlake Parkway, North Tower, Atlanta, Georgia 30328-3473, or submit to us a duly executed proxy card bearing a later date. To be effective, your notice of revocation or new proxy card must be received by our Corporate Secretary, David L. Green, at or before the annual meeting.

Change your vote via the internet or by telephone at a later date. To be effective, your vote must be received before 11:59 p.m., Eastern Daylight Time, on September 27, 2016, the day before the annual meeting.

Appear at the annual meeting and vote in person, regardless of whether you previously submitted a notice of revocation.

7. Who is entitled to vote?

All shareholders who owned shares of our common stock at the close of business on July 28, 2016 are entitled to vote at the annual meeting. On that date, there were 153,733,888 shares of common stock issued and outstanding, held by approximately 2,154 shareholders of record. Shareholders are entitled to one vote per share.

8. How many votes must be present to hold the annual meeting?

In order for any business to be conducted, the holders of a majority of the shares entitled to vote at the annual meeting must be present, either in person or by proxy. This is referred to as a quorum. Abstentions and broker non-votes (described below) will be treated as present for purposes of establishing a quorum. If a quorum is not present, the annual meeting may be adjourned by the holders of a majority of the shares represented at the annual meeting. The annual meeting may be rescheduled at the time of the adjournment with no further notice of the reconvened meeting if the date, time and place of the reconvened meeting are announced at the adjourned meeting before its adjournment; provided, however, that if a new record date is or must be fixed, notice of the reconvened meeting must be given to the shareholders of record as of the new record date. An adjournment will have no effect on the business to be conducted at the meeting.

9. What are the voting standards for the proposals?

Each of the four scheduled proposals will be approved by the affirmative vote of a majority of the votes cast. This means that a proposal is approved if the number of shares voted for the proposal exceeds the number of shares voted against the proposal.

10. What is the difference between a shareholder of record and a beneficial owner of shares held in street name?

Shareholders of record. If your shares are registered directly in your name with our transfer agent, Computershare, you are the shareholder of record with respect to those shares, and we sent the notice of electronic availability directly to you. If you request copies of the proxy materials by mail, you will receive a proxy card.

Beneficial owners of shares held in street name. If your shares are held in an account at a brokerage firm, bank, broker-dealer or other similar organization, then you are the beneficial owner of shares held in street name, and the notice of electronic availability was forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares held in your account. If you request copies of the proxy materials by mail, you will receive a voting instruction form.

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11. What happens if I do not return a proxy or do not give specific voting instructions?

Shareholders of record. If you are a shareholder of record and you do not vote via the internet, by telephone or by mail, your shares will not be voted unless you attend the annual meeting to vote them in person. If you are a shareholder of record and you sign and return a proxy card without giving specific voting instructions, then your shares will be voted in the manner recommended by the board of directors on all matters presented in this proxy statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the annual meeting.

Beneficial owners of shares held in street name. If you hold your shares in street name and do not provide voting instructions to your broker, your broker will have the discretionary authority to vote your shares only on proposals that are considered routine. The only proposal at the annual meeting that is considered routine is the ratification of the reappointment of our independent auditor. All of the other proposals are considered non-routine, which means that your broker will not have the discretionary authority to vote your shares with respect to such proposals. Shares for which a broker lacks discretionary voting authority are referred to as broker non-votes. Broker non-votes are counted as present for the purpose of establishing a quorum, but whether they are counted for purpose of voting on proposals depends on the voting standard for the particular proposal. Since each of the scheduled proposals requires approval by a majority of votes cast, abstentions and broker non-votes will not be counted as votes for or against the proposal. As a result, although abstentions and broker non-votes may be counted for the purpose of establishing a quorum for the meeting, they have no effect on the voting results.

12. What should I do if I receive more than one proxy or voting instruction card?

Shareholders may receive more than one set of voting materials, including multiple copies of the notice of electronic availability, these proxy materials and proxy cards or voting instruction cards. For example, shareholders who hold shares in more than one brokerage account may receive separate notices for each brokerage account in which shares are held. Shareholders of record whose shares are registered in more than one name will receive more than one notice. You should vote in accordance with all of the notices you receive to ensure that all of your shares are counted.

13. Who pays the cost of proxy solicitation?

The cost of soliciting proxies will be borne by us. However, shareholders voting electronically (via phone or the internet) should understand that there may be costs associated with electronic access, such as usage charges from internet service providers or telephone companies. In addition to solicitation of shareholders of record by mail, telephone or personal contact, arrangements will be made with brokerage houses to furnish proxy materials to their principals, and we may reimburse them for mailing expenses. Custodians and fiduciaries will be supplied with proxy materials to forward to beneficial owners of common stock.

14. May I propose actions for consideration at next year s annual shareholder meeting?

Yes. As previously reported, we are changing our fiscal year to a calendar year-end, following a seven-month transition period from June 1, 2016 to December 31, 2016, which we refer to as the 2016 fiscal transition period. As a result, our next regularly scheduled shareholder meeting will be accelerated to coincide with the new fiscal year-end. We refer to this shareholder meeting as the transition period shareholder meeting. Any shareholder wishing to have a proposal considered for inclusion in our proxy statement for the transition period shareholder meeting must submit his or her proposal to us in writing on or before February 2, 2017. Proposals must comply with all applicable SEC rules and our bylaws.

If a shareholder wishes for the Governance and Nominating Committee to consider a candidate for director recommended by the shareholder for nomination to our board of directors, the shareholder must submit the recommendation to our Corporate Secretary at our corporate offices in accordance with the procedures described above. In addition, our bylaws require that, among other things, all shareholder recommendations for director candidates must be in writing and must set forth the shareholder s name, address and other contact information as well as the following information about the recommended candidate: (i) name, date of birth,

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business address and residential address, (ii) a complete description of the candidate s qualifications, experience, background and affiliations, as would be required to be disclosed in the proxy statement pursuant to Schedule 14A under the Exchange Act of 1934, as amended, or the Exchange Act; (iii) a sworn or certified statement by the candidate in which he or she consents to being named in the proxy statement as a nominee and to serve as director if elected, and (vii) a written statement from the shareholder making the recommendation stating why such recommended candidate meets the criteria and would be able to fulfill the duties of a director.

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Proposal One: Election of Directors

Our board of directors is divided into three classes, with the term of office of each class ending in successive years. Each class of directors serves staggered three-year terms.

In connection with our merger with Heartland, we agreed to submit two nominees from Heartland to our board of directors for election to our board. At the recommendation of our Governance and Nominating Committee, effective upon the closing of the merger on April 22, 2016, our board of directors increased the number of members of our board and appointed Robert H.B. Baldwin, Jr. and Mitchell L. Hollin to fill the resulting vacancies until the 2016 annual meeting. Mr. Baldwin served as Vice Chairman (an executive office) of Heartland until the closing of the merger, and Mitchell L. Hollin served as Heartland s lead independent director until the closing of the merger. Our board of directors believes that the addition of these two new directors will provide critical continuity with respect to board-level oversight of Heartland s operations and will contribute a wealth of knowledge and experience accumulated during their combined 31 years of serving in senior leadership roles at Heartland.

Two directors retired since the beginning of fiscal 2016. Alex W. Hart, after 14 years of service, retired from our board immediately following the 2015 annual shareholder meeting. Gerald J. Wilkins, also after 14 years of service, retired from our board effective June 27, 2016. As a result of these changes, we currently have four Class I directors, two Class II directors, and three Class III directors, as set forth below:

Class I		Class II		Class III	
Name	Term Expiration	Name	Term Expiration	Name	Term Expiration
Mitchell L. Hollin*	2016	John G. Bruno*	2017	Robert H.B. Baldwin, Jr.[(1)]	2016
Ruth Ann Marshall*	2016	Michael W. Trapp*	2017	William I Jacobs*	2018
John M. Partridge*	2016			Alan M. Silberstein*	2018
Jeffrey S. Sloan	2016				

* Our board of directors has determined that this director is independent.

(1) Pursuant to our bylaws, Mr. Baldwin s initial term expires upon the 2016 annual meeting, earlier than the terms of the other Class III directors, because he was elected to fill a vacancy created by an increase in the size of our board.

In order to allocate the directors among the classes so that each class will be as nearly equal in number as possible as required by our bylaws, our board of directors has nominated Mr. Sloan, currently a Class I director whose term expires at the annual meeting, to serve as a Class II director immediately following the annual meeting. The five directors nominated for election at the 2016 annual meeting and the class for which they have been nominated are as follows:

Robert H.B. Baldwin, Jr. (Class III)

John M. Partridge (Class I)

Mitchell L. Hollin (Class I)

Jeffrey S. Sloan (Class II)

Ruth Ann Marshall (Class I)

If the director nominees are elected at the annual meeting, the composition of the three classes of our board will be as follows:

Class I		Class II		Class III	
Name	Term Expiration	Name	Term Expiration	Name	Term Expiration
Mitchell L. Hollin	2019	John G. Bruno	2017	Robert H.B. Baldwin, Jr.	2018
Ruth Ann Marshall	2019	Michael W. Trapp	2017	William I Jacobs	2018
John M. Partridge	2019	Jeffrey S. Sloan	2017	Alan M. Silberstein	2018

In each case, the director nominee, if elected, will serve a shorter term in the event of his or her resignation, retirement, disqualification, removal from office or death. In the event that any of the nominees is unable to serve (which is not anticipated), the persons designated as proxies will cast votes for such other person(s) as they may select. The affirmative vote of at least a majority of the votes cast with respect to the director nominee at the annual meeting at which a quorum is present is required for the election of each of the nominees. If a choice is specified on the proxy card by a shareholder, the shares will be voted as specified. If no specification is made, the shares will be voted FOR each of the five nominees.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE

FOR THE ELECTION OF ALL OF THE NOMINEES FOR DIRECTOR.

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Nominees for Election as Directors

Biographical and other information about each director nominated for election is set forth below:

Robert H.B. Baldwin, Jr. Class III Non-employeedirector since April 2016 If elected, term expires in 2018 Risk Oversight Committee Technology Committee Age 61	Vice Chairman (an executive office), Heartland (June 2012 April 2016); Interim Chief Financial Officer, Heartland (October 2013 April 2014); President, Heartland (2007 June 2012); Chief Financial Officer, Heartland and its predecessor, Heartland Payment Systems LLC (2000 2011); Chief Financial Officer, COMFORCE Corp., a publicly-traded staffing company (1998 2000); Managing Director, financial institutions advisory business of Smith Barney (1985 1998); Vice President, Citicorp (1980 1985). In determining to nominate Mr. Baldwin, our Board considered his in-depth knowledge of Heartland s business gained from his 16 years of service as a member of Heartland s executive management team, as well as his many contributions to the growth and success of Heartland during his tenure.
Mitchell L. Hollin Class I Independent director since April 2016 If elected, term expires in 2019	Director, Heartland (2001 April 2016); Lead Independent Director, Heartland (January 2011 April 2016); Managing Partner, LLR Management, L.P., an independent private equity investment firm (since 2000); Founder and Managing Director, Advanta Partners LP, a private equity firm affiliated with Advanta Corporation (1994 2000). In determining to nominate Mr. Hollin, our Board considered his valuable knowledge of Heartland gained throughout his 15-year tenure as an independent director of Heartland and 5-year tenure as Lead Independent Director. In addition, our Board believes his extensive private equity experience will provide valuable oversight and direction for our company s future acquisitive growth.

Compensation Committee

Risk Oversight Committee

Age 53

Ruth Ann Marshall

Class I

Independent director since 2006

If elected, term expires in 2019

Risk Oversight Committee (Chair)

Governance and Nominating Committee

President, Americas for MasterCard International (2000 2006); Senior Executive Vice President, Concord EFS, Inc., a public provider of processing services that merged with First Data Corporation in 2004 (1995 1999); Director, Regions Financial Corporation (since 2011) and ConAgra, Inc., a publicly-traded packaged food company (since 2007). In determining to nominate Ms. Marshall, our Board considered her deep knowledge of our business and industry as well as her experience with the issues, opportunities and challenges facing our company, which our Board believes will continue to make her an invaluable member of our Board.

Age 62

John M. Partridge

Class I

Independent director since November 2013

If elected, term expires in 2019

Advisor to Visa Inc. (April 2013 to December 2013); President, Visa Inc. (2009 2013); Chief Operating Officer, Visa Inc. (2007 2009); President and Chief Executive Officer, Inovant, a subsidiary of Visa Inc. (2000 2007); Interim President of VISA USA (2007); Director, Cigna Corporation, a publicly-traded health insurance company (since 2009); Advisory Board Member, Corsair Capital, a private equity firm (since November 2013). In determining to nominate Mr. Partridge, our Board considered his substantial experience in the financial services industry, having served as, among other things, President of Visa Inc., which our Board believes will continue to bring valuable insight from the perspective of card networks.

Audit Committee

Compensation Committee

Technology Committee

Age 67

Jeffrey S. Sloan Currently Class I; nominated as Class II Director since January 2014 If elected, term expires in 2019 No committees Age 49	Chief Executive Officer of the Company (since October 2013); President of the Company (June 2010 June 2014); Partner, Goldman Sachs Group, Inc. (2004 May 2010), where Mr. Sloan led the Financial Technology Group in New York and focused on mergers, acquisitions and corporate finance; Managing Director, Goldman Sachs Group, Inc. (2001 2004); Vice President, Goldman Sachs Group, Inc. (1998 2001); Director, Fleetcor Technologies, Inc., a publicly-traded provider of fuel cards and workforce payment products and services (since July 2013). In determining to nominate Mr. Sloan, our Board considered his more than 20 years of experience in the financial services and technology industries, the in-depth knowledge of the Company he obtained as our CEO since October 2013 (and formerly our President), his extensive experience with public companies and mergers and acquisitions and his strong leadership skills.

Other Directors

Biographical information with respect to our other directors is set forth below:

John G. Bruno Class II Independent director since June 2014 Term expires in 2017 Compensation Committee	Executive Vice President of Enterprise Innovation and Chief Information Officer, Aon plc, a publicly-traded global risk management service provider (since September 2014); Executive Vice President, Industry and Field Operations and Corporate Development, NCR Corporation, a publicly-traded technology company (November 2013 September 2014), where Mr. Bruno chaired the company s Enterprise Risk Management Committee; Executive Vice President and Chief Technology Officer, NCR Corporation (November 2011 November 2013); Executive Vice President, Industry Solutions Group, NCR Corporation (2008 October 2011); Managing Director, Goldman Sachs Group, Inc. (2007 2008); Managing Director, Merrill Lynch & Co., Inc. (2006 2007); Senior Vice President, General Manager, RFID Division of Symbol Technologies, Inc., a private information technology company (2005 2006); Senior Vice President, Corporate Development, Symbol Technologies, Inc. (2004 2005); Senior Vice President, Business Development, and Chief Information Officer, Symbol Technologies, Inc. (2002 2004). At the time of his nomination, our Board considered his extensive experience with technology-related matters within the financial services industry.

Technology Committee (Chair)

Age 51

William I Jacobs

Chairman of the Board

Class III

Independent director since 2001

Lead director since 2003

Term expires in 2018

Compensation Committee (Chair)

Governance and Nominating Committee

Age 74

Chairman of the Company s Board of Directors (since June 2014); Lead Director of the Company s Board of Directors (2003 May 2014); Business Advisor (since August 2002); Managing Director and Chief Financial Officer of The New Power Company (2000 2002); Senior Executive Vice President, Strategic Ventures for MasterCard International (1999 2000); Executive Vice President, Global Resources for MasterCard International (1995 1999); Executive Vice President, Chief Operating Officer, Financial Security Assurance, Inc., a bond insurance company (1984 1994); Director, Green Dot Corporation, a publicly-traded financial services company (since April 2016); Director, Asset Acceptance Capital Corp., a publicly-traded debt collection company that merged with Encore Capital Group, Inc. in June 2013 (2004 June 2013). At the time of his nomination, our Board considered Mr. Jacobs executive management experience, leadership skills demonstrated throughout his 12-year tenure as our Chairman of the Board or lead director, board expertise and legal training, which the Board believes will continue to provide leadership and consensus building skills on matters of strategic importance.

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Alan M. Silberstein Class III Independent director since 2003 Term expires in 2018 Governance and Nominating Committee (Chair) Audit Committee Age 68	President, Allston Associates LLP (previously Silco Associates Inc.), a private management services firm (since 2004); President and Chief Operating Officer, Debt Resolve, Inc., a public online collections services provider (2003 2004); President and Chief Executive Officer, Western Union, formerly a subsidiary of First Data Corporation (2000 2001); Chairman and Chief Executive Officer, Claim Services, Travelers Property Casualty Insurance (1996 1997); Executive Vice President, Retail Banking, Midlantic Corporation (1992 1995); Director, Green Bancorp, Inc., a publicly-traded bank holding company (since 2010). Mr. Silberstein also previously served as a director of CAN Capital (formerly Capital Access Network, Inc.), a private non-bank alternative capital provider. At the time of his nomination, our Board considered his experience specifically in the financial services industry, his broader experience managing several diverse companies and the in-depth knowledge about our company gained from his lengthy tenure as a director.
Michael W. Trapp Class II Independent director since 2003 Term expires in 2017 Audit Committee (Chair) Risk Oversight Committee	Managing Partner, Southeast area, Ernst & Young LLP (1993 2000); Director, Ann Inc. (2003 May 2013); Non-executive Chairman, The North Highland Company, Inc., a private consulting firm (November 2012 February 2015); Director, The North Highland Company, Inc. (2001 February 2015). At the time of his nomination, our Board considered his expertise and knowledge regarding finance and accounting matters, as well as his in-depth knowledge of the Company that he obtained from his lengthy tenure as a director, which the Board believes enable him to continue to provide valuable leadership to the oversight of financial reporting.

Audit Committee Financial Expert

Age 76

There is no family relationship between any of our executive officers or directors. Other than as described above with respect to Messrs. Baldwin and Hollin, there are no arrangements or understandings between any of our directors and any other person pursuant to which any of them was elected as a director, other than arrangements or understandings with the directors solely in their capacities as such.

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Corporate Governance

Board Leadership

Our board of directors is chaired by Mr. Jacobs, one of our independent directors. Our board believes that Mr. Jacobs service as Chairman enhances the independent oversight of management, while continuing to provide the decisive leadership necessary for an effective Chairman. From his 15-year tenure as a member of our board and 13-year tenure as either Chairman of the Board or lead director, Mr. Jacobs has acquired a deep knowledge of our history and culture as well as the issues, opportunities and challenges facing our business. As a result, our board believes that Mr. Jacobs is well-positioned to ensure that the board s time and attention is focused on the most critical matters.

Our Corporate Governance Guidelines do not express a formal policy on whether the same person should serve as the Chairman of the Board and the Chief Executive Officer. Although our Chairman of the Board is an independent director, if in the future a non-independent director serves as Chairman of the Board, the board will appoint a lead director to fulfill the following responsibilities:

- Preside at all meetings of the board at which the Chairman is not present (including all executive sessions);

- Serve as the liaison between the Chairman and the independent directors;

- Generally approve information provided to the board, board meeting agendas and meeting schedules to ensure there is sufficient time for discussion of all agenda items;

- In conjunction with the Compensation Committee, review and approve corporate goals and objectives relevant to the Chief Executive Officer s compensation, evaluating the Chief Executive Officer s performance in light of those goals and objectives, determining and approving the Chief Executive Officer s compensation based upon such evaluation, and communicating with the Chief Executive Officer regarding the foregoing; and

- Any other responsibilities that may be delegated to the lead director by the board from time-to-time.

Board Independence

At least a majority of our directors, and all of the members of our Audit Committee, Compensation Committee and Governance and Nominating Committee, must be independent based on the listing standards of the New York Stock Exchange, or the NYSE. Each year, our board of directors reviews the independence of our directors and considers, among other things, relationships and transactions during the past three years between each director or any member of his or her immediate family, on the one hand, and our company and our subsidiaries and affiliates, on the other hand. The purpose of the review is to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent as defined under the NYSE listing standards. In July 2016, our board of directors reviewed the independence of our directors and determined that all of our directors, except Messrs. Baldwin and Sloan, are independent under the NYSE listing standards.

The NYSE listing standards provide that to qualify as an independent director, in addition to satisfying certain bright-line criteria, our board of directors must affirmatively determine that a director has no material relationship with our company (either directly or as a partner, shareholder or officer of an organization that has a relationship with our company). Additional independence requirements established by the SEC and the NYSE apply to members of the Audit Committee and the Compensation Committee. Specifically, Audit Committee members may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from our or any of our subsidiaries other than their directors compensation, and they may not be affiliated with our company or any of our subsidiaries. In addition, when affirmatively determining the independence of any director who will serve on the Compensation Committee, our board of directors must consider all factors specifically relevant to determining whether a director has a relationship to our company that is material to that director s ability to be independent from management in connection with the duties of a member of the Compensation Committee, including (i) the source of compensation of the director, including any consulting, advisory or other compensatory fee paid by our company to such director; and (ii) whether the director is affiliated with our company, our subsidiaries or our affiliates.

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Criteria for Board Membership

When making recommendations to our board of directors regarding director candidates, our Governance and Nominating Committee evaluates candidates primarily based on the following criteria:

- Experience as a member of senior management or director of a significant business corporation, educational institution, or not-for-profit organization;
- Particular skills or experience that enhances the overall composition of the board of directors;
- Service on no more than five other boards of directors of publicly-held corporations; and
- Service on no more than two other audit committees of publicly-held corporations.

In lieu of a formal diversity policy, as part of our Governance and Nominating Committee s evaluation of director candidates and in addition to other standards the committee may deem appropriate from time-to-time for the overall structure and composition of the board, the committee considers whether each candidate, if elected, assists in achieving a mix of board members that represent a diversity of background and experience. Accordingly, the committee seeks members from diverse professional backgrounds who combine a broad spectrum of relevant industry and strategic experience and expertise that, in concert, offer us and our shareholders diversity of opinion and insight in the areas most important to us and our corporate mission. The committee considers the independence of candidates for director nominees, including the appearance of any conflict in serving as a director. Candidates for director nominees who do not meet all of these criteria may still be considered for nomination if the committee believes the candidate will make an exceptional contribution to our company and our shareholders. In evaluating nominees, the committee also takes into account the consideration that members of the board of directors should collectively possess a broad range of skills, expertise, industry knowledge and other knowledge, business experience and other experience useful to the effective oversight of our business.

The Governance and Nominating Committee considers candidates for director who are recommended by other members of the board of directors and by management, as well as those identified by any outside consultants who are periodically retained by the committee to assist in identifying possible candidates. The committee will evaluate potential nominees for open board positions suggested by shareholders in accordance with our policies for shareholder proposals on the same basis as all other potential nominees. See Questions and Answers About Our Annual Meeting and this Proxy Statement May I Propose Actions for Consideration at Next Year s Annual Shareholder Meeting? for additional information about our policies for shareholder proposals.

Committee Composition

Our board of directors has established five standing committees, which include the Audit Committee, the Compensation Committee, the Governance and Nominating Committee, the Risk Oversight Committee and the Technology Committee, all of which are comprised exclusively of non-employee directors. The Audit Committee, the Compensation Committee, and the Governance and Nominating Committee are comprised exclusively of independent non-employee directors.

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The following table provides information about current committee membership for our board and each committee:

	Audit Committee[1]	Compensation Committee[2]	Governance & Nominating Committee[3]	Risk Oversight Committee[3]	Technology Committee[4]
William I Jacobs					
Robert H.B. Baldwin, Jr.					
John G. Bruno					
Mitchell L. Hollin					
Ruth Ann Marshall					
John M. Partridge					
Alan M. Silberstein					
Jeffrey S. Sloan					
Michael W. Trapp					

Chair Member Financial Expert[5]

(1) As of June 1, 2015, the Audit Committee was comprised of Mr. Silberstein, Mr. Trapp and Mr. Wilkins. Mr. Wilkins retired from the board on June 27, 2016. Following Mr. Wilkins retirement, Mr. Partridge was appointed to the Audit Committee, effective July 5, 2016.

(2) As of June 1, 2015, the Compensation Committee was comprised of Alex W. Hart (Chair), Mr. Jacobs, Ms. Marshall and Mr. Partridge. Following Mr. Hart s retirement from the board on November 18, 2015, Mr. Jacobs was appointed as Interim Chair of the Compensation Committee effective February 23, 2016. Also effective February 23, 2016, Mr. Bruno was appointed to the Compensation Committee, and Ms. Marshall stepped down from the Compensation Committee to join the Governance and Nominating Committee. Effective April 22, 2016, Mr. Hollin was appointed to the Compensation Committee.

(3) From June 1, 2015 through February 23, 2016, the former Governance and Risk Oversight Committee was comprised of Mr. Silberstein (Chair), Mr. Jacobs, Ms. Marshall and Mr. Trapp. Effective February 23, 2016, our board of directors split the Governance and Risk Oversight Committee into two separate standing committees: The Governance and Nominating Committee and the Risk Oversight Committee. The newly formed Governance and Nominating Committee is comprised of Mr. Silberstein (Chair), Mr. Jacobs and Ms. Marshall. The newly formed Risk Oversight Committee was initially comprised of Ms. Marshall (Chair) and Mr. Trapp. Mr. Baldwin and Mr. Hollin were additionally appointed to the Risk Oversight Committee effective April 22, 2016.

(4) As of June 1, 2015, the Technology Committee was comprised of Mr. Wilkins (Chair), Mr. Bruno, Mr. Hart and Mr. Partridge. Mr. Hart retired from the board on November 18, 2015, and Mr. Baldwin was appointed to the Technology Committee effective April 22, 2016. Mr. Wilkins retired from the board on June 27, 2016. On July 27, 2016, the board appointed Mr. Bruno to serve as Chair of the Technology Committee.

(5) The term financial expert refers to an audit committee financial expert, as that term is defined under SEC rules.

Meetings and Attendance

Our full board of directors met eight times during fiscal 2016. During fiscal 2016, the Audit Committee and the Compensation Committee each met four times, and the Technology Committee met five times. On February 23, 2016, the former Governance and Risk Oversight Committee was split into two separate committees the Governance and Nominating Committee and the Risk Oversight Committee. The former Governance and Risk Oversight Committee met three times during fiscal 2016. During the approximate three-month period during fiscal 2016 that followed the split of the former Governance and Risk Oversight Committee, the Governance and Nominating Committee met once and the Risk Oversight Committee did not meet.

All of our directors attended at least 75% of the meetings of the board in fiscal 2016, including meetings of the committees of which they were members. Pursuant to our Corporate Governance Guidelines, all of our directors are expected to attend the annual meeting of shareholders, and all of our directors attended the 2015 annual meeting.

Committee Responsibilities

Each of the committee charters and our corporate governance guidelines is available in the investor relations section of our website, *www.globalpaymentsinc.com*, and will be provided free of charge, upon written request of any shareholder addressed to Global Payments Inc., 10 Glenlake Parkway, North Tower, Atlanta, Georgia 30328-3473, Attention: Investor Relations. Each committee is authorized to delegate responsibilities to subcommittees as appropriate. The responsibilities of each committee are described below.

Audit Committee

The Audit Committee, which was established in accordance with Section 3(a)(58)(A) of the Exchange Act, helps ensure the integrity of our financial statements, our compliance with certain legal and regulatory requirements, the qualifications and independence of our independent auditor, the performance of our internal audit function and independent auditor, the effectiveness of our disclosure controls and procedures and internal control over financial reporting. In addition, the Audit Committee is responsible for reviewing and approving or ratifying all related-party transactions that would require disclosure under Item 404 of Regulation S-K, promulgated under the Exchange Act. The Audit Committee also prepares a report that is included in this proxy statement. Members of the Audit Committee may not serve simultaneously on the audit committees of more than two other public companies unless our board of directors determines that such service would not impair the ability of the director to effectively serve on the Audit Committee.

Compensation Committee

The Compensation Committee reviews levels of compensation, benefits and performance criteria for our executive officers and administers our equity compensation plans for our named executive officers and other employees. The Compensation Committee also considers our compensation programs from a risk perspective, conducting reviews and risk assessments of our compensation policies and practices and monitoring its compensation consultants, including their independence. See Corporate Governance Board Oversight of Risk Management on page 19 for additional information about the Compensation Committee s responsibilities relating to risk management.

During fiscal 2016, our Compensation Committee retained the services of Frederic W. Cook & Co., Inc., or FWC, an independent consulting firm, to provide compensation consulting services for fiscal 2016. Our processes and procedures for the consideration and determination of executive compensation, including the role of the independent consultant in determining compensation, are described under Compensation, Discussion and Analysis How Compensation Decisions Are Made beginning on page 41.

None of the members of the Compensation Committee (i) has ever served as an officer or an employee of our company or any of our subsidiaries or (ii) has ever had any relationship requiring disclosure by us under Item 404 of Regulation S-K. None of our executive officers serves as a member of the board of directors or compensation committee, or similar committee, of any other company that has one or more of its executive officers serving as a member of our board of directors or Compensation Committee.

Technology Committee

The Technology Committee provides board-level oversight with regard to our technology and information security practices and serves as a liaison between our board of directors and management with regard to such matters. The Technology Committee reviews all of our key initiatives and practices relating to technology and information security, approves significant policies, monitors our compliance with regulatory requirements and industry standards and provides guidance with regard to strategic direction. The Technology Committee helps to ensure that our strategic goals are aligned with our technology strategy and infrastructure and to ensure that we receive

adequate support from our internal technology and information security providers. See Corporate Governance Board Oversight of Risk Management on page 19 for additional information about the Technology Committee s responsibilities relating to risk management.

Governance and Nominating Committee

The Governance and Nominating Committee is responsible for developing and recommending to the board of directors a set of corporate governance principles, evaluating and making recommendations regarding structure of the board and its committees and for identifying, discussing and proposing nominees (including incumbent directors) for open seats on the board of directors, based primarily on the criteria described under Corporate Governance Criteria for Board Membership on page 16. The Governance and Nominating Committee is also responsible for annually reviewing each director s independence and periodically reviewing and assessing director compensation. See Corporate Governance Board Oversight of Risk Management on page 19 for additional information about the Governance and Nominating Committee s responsibilities relating to risk management.

Risk Oversight Committee

The Risk Oversight Committee oversees the identification, assessment and management of the key risks facing our company, which it carries out primarily through its oversight of our enterprise risk management program, as further described below under Corporate Governance Board Oversight of Risk Management. In addition, the Risk Oversight Committee oversees our business continuity, disaster recovery and pandemic plans, our insurance program and our vendor management program and serves as a liaison between the full board and management with respect to these matters.

Board Oversight of Risk Management

Our board of directors views the oversight of risk management as one of its key functions, regularly engaging with management to maintain a risk-aware culture where risk management is deeply and pervasively embedded in all of our activities worldwide. Through its oversight of our enterprise risk management program, our board takes a multi-layered approach to this oversight role. The full board engages directly with management to set high level policy and receive reports on risk management activities from each committee chairman and directly from management, while relying on each of its five standing committees to provide more in-depth oversight of specific key risk exposures.

Our board has delegated to the Risk Oversight Committee the responsibility to directly oversee our enterprise risk management program. Specifically, subject to oversight by the full board of directors, the Risk Oversight Committee is responsible for overseeing the process for identifying, assessing and managing the key risks our company faces, receiving recommendations from management with respect to such risks, and making recommendations to the full board of directors. The committee s responsibilities related to oversight of the enterprise risk management program are process-oriented, meaning the committee takes steps to ensure that an effective process is in place to identify and manage key risk exposures, develop a risk mitigation plan and ensure proper reporting on compliance with such plan. Under the direction of the Risk Oversight Committee, we established a management risk committee comprised primarily of executive management that is responsible for identifying, assessing, prioritizing and developing action plans to mitigate key risks. The management risk committee reports to the full board or appropriate board committee periodically and more frequently as needed.

Risk oversight responsibilities related to the substance of each identified key risk exposure, such as the application of the board s risk tolerance in a particular area, are in some cases carried out by the full board without any delegation to

a committee. For example, the full board directly oversees our risk management activities with respect to risks associated with our strategic direction. More frequently, oversight of defined risk exposures is carried out by the board committee with the most relevant subject-matter expertise. In these cases, the relevant board committee carries out these responsibilities utilizing the process established by the Risk Oversight Committee, with reporting obligations to the full board. Our board has delegated risk oversight responsibilities for certain key risk exposures to its committees as follows:

Audit Committee. The Audit Committee oversees our risk management activities with respect to our financial reporting and disclosure obligations as well as our financial management and liquidity risks.

Compensation Committee. The Compensation Committee oversees our risk management activities with respect to our compensation policies and practices for our executive officers and all other employees, specifically to ensure that our policies and practices promote appropriate approaches to risk management. The Compensation Committee also oversees our succession planning.

Governance and Nominating Committee. The Governance and Nominating Committee oversees our risk management activities with respect to our corporate governance structure at the board and senior management level. At the board level, functions of the Governance and Nominating Committee are intended to ensure that our full board and its other committees continue to operate functionally and with an appropriate degree of independence from management. At the senior management level, the Governance and Nominating Committee promotes a risk-aware culture by, for example, periodically reviewing our employee business code of conduct and ethics.

Risk Oversight Committee. In addition to the process-oriented risk management activities outlined above, the Risk Oversight Committee directly oversees our risk management activities with respect to enterprise risk management, business continuity and disaster recovery, regulatory and industry compliance, geopolitical risk and privacy.

Technology Committee. The Technology Committee oversees our risk management activities with respect to information security and the scalability of our technological infrastructure.

Director Compensation

Our non-employee director compensation plan is designed to attract, retain and compensate highly-qualified directors by providing them with competitive compensation and an equity interest in our company to align their interests with those of our shareholders. In lieu of per-meeting fees, we pay our non-employee directors annual cash and stock retainers, which are payable in advance on the first business day after each annual meeting (prorated for partial periods for new directors). We do not pay additional compensation to directors who are also our employees for their service as a director.

Our Governance and Nominating Committee periodically reviews our non-employee director compensation plan and makes recommendations as necessary to our full board of directors. Following a competitive market assessment conducted by FWC and presented to our Governance and Nominating Committee in July 2015, and based on the recommendation of our Governance and Nominating Committee, our board of directors approved (i) a $5,000 increase in the basic cash retainer, the supplemental cash retainer for the independent Chairman, the supplemental cash retainer for the Chair of each committee other than the Audit Committee and the Compensation Committee, (ii) a $2,500 increase in the supplemental cash retainer for the Chair of the Compensation Committee, (iii) a $10,000 increase in the annual stock retainer for the independent Chairman or the lead director, and (iv) a $5,000 increase in the annual stock retainer for each other non-employee director. Each of these modifications took effect on September 29, 2015, prior to the 2015 annual shareholder meeting.

After giving effect to these modifications, we pay our non-employee directors the annual cash and stock retainers set forth below:

Director	Basic Cash Retainer	Supplemental Cash Retainer	Annual Stock Retainer
Non-Employee Chairman[1]	$ 90,000	$ 95,000	$ 185,000
Lead Director[2]	$ 90,000	$ 65,000	$ 185,000
Chair of Audit Committee	$ 90,000	$ 20,000	$ 145,000
Chair of Other Committees	$ 90,000	$ 17,500	$ 145,000
All Other Non-Employee Directors	$ 90,000	N/A	$ 145,000

(1) These retainers are payable only if the Chairman of the Board is a non-employee director. Mr. Jacobs, our Chairman of the Board, is a non-employee director and, therefore, receives these retainers. See Corporate Governance Board Leadership beginning on page 15.

(2) Our board will appoint a lead director only if the Chairman of the Board is an employee of the company. Since our Chairman of the Board is a non-employee, our board has not appointed a lead director and these retainers are not applicable. See Corporate Governance Board Leadership beginning on page 15.

The number of fully-vested shares of our common stock granted as the annual stock retainer is based on the market price of our common stock on the grant date. As a result, on November 29, 2015, Mr. Jacobs received 2,596 shares of common stock, and each of the other non-employee directors on that date received 2,035 shares of common stock. Directors are also reimbursed for their out-of-pocket expenses incurred in connection with attendance at board and committee meetings.

All of the non-employee directors are eligible to participate in our Non-Qualified Deferred Compensation Plan described under Corporate Governance Director Compensation Non-Qualified Deferred Compensation Plan below. In fiscal 2016, only Ms. Marshall participated, and she did not receive any interest on deferred compensation at an above-market rate of interest.

Fiscal 2016 Director Compensation Table

The following table summarizes the compensation of our non-employee directors during fiscal 2016.

Name	Fees Earned or Paid in Cash ($)[(1)]	Stock Awards ($)[(2)]	Total ($)
William I Jacobs	$ 197,862	$ 185,000	$ 382,862
Robert H.B. Baldwin, Jr.	$ 51,639	$ 72,500	$ 124,139
John G. Bruno	$ 90,000	$ 145,000	$ 235,000
Alex W. Hart[(3)]	$	$	$
Mitchell L. Hollin	$ 51,639	$ 72,500	$ 124,139
Ruth Ann Marshall	$ 102,862	$ 145,000	$ 247,862
John M. Partridge	$ 90,000	$ 145,000	$ 235,000
Alan M. Silberstein	$ 107,500	$ 145,000	$ 252,500
Michael W. Trapp	$ 110,000	$ 145,000	$ 255,000
Gerald J. Wilkins[(4)]	$ 107,500	$ 145,000	$ 252,500

(1) Represents basic and supplemental cash retainers earned during fiscal 2016. All annual cash retainers are payable in advance on the first business day after each annual meeting (prorated for partial periods for new directors and new committee chair appointments) and are considered fully earned when paid.

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(2) Represents the aggregate grant date fair value of awards of stock in fiscal 2016, all of which were fully-vested on the grant date, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation (FASB ASC Topic 718). The amount shown in this column is based on the closing price of our common stock on the grant date. None of our non-employee directors had any unvested stock awards outstanding as of May 31, 2016. Prior to fiscal 2012, our non-employee directors received grants of stock options with four-year vesting periods and ten-year expiration periods. All of these stock options were fully vested as of May 31, 2016. The following table reflects the stock options for each non-employee director that were outstanding as of May 31, 2016.

Non-Employee Directors	Options Outstanding as of May 31, 2016
William I Jacobs	50,248
Robert H.B. Baldwin, Jr.	
John G. Bruno	
Mitchell L. Hollin	
Ruth Ann Marshall	41,508
John M. Partridge	
Alan M. Silberstein	41,508
Michael W. Trapp	
Gerald J. Wilkins	15,204

(3) Mr. Hart retired from our board of directors on November 18, 2015 and did not receive any compensation during fiscal 2016.

(4) Mr. Wilkins retired from our board of directors on June 27, 2016.

Non-Qualified Deferred Compensation Plan

The non-employee directors are eligible to participate in our non-qualified deferred compensation plan, or the deferred compensation plan. Ms. Marshall is the only director who participated in the deferred compensation plan during fiscal 2016. Pursuant to the deferred compensation plan, non-employee directors are permitted to elect to defer up to 100% of their annual cash retainer. Participant accounts are credited with earnings based on the participant s investment allocation among a menu of investment options selected by the deferred compensation plan administrator. Participants are 100% vested in the participant deferrals and related earnings. We do not make contributions to the deferred compensation plan and do not guarantee any return on participant account balances. Participants may allocate their plan accounts into sub-accounts that are payable upon separation from service or on designated specified dates. Except in the case of death or disability, participants may elect in advance to have their various account balances pay out in a single lump sum or in installments over a period of two to ten years. In the event a participant separates from service by reason of death or disability, the participant or his or her designated beneficiary will receive the undistributed portion of his or her account balances in a lump-sum payment. Subject to approval by the deferred compensation plan administrator, in the event of an unforeseen financial emergency beyond the participant s control, a participant may request a withdrawal from an account up to the amount necessary to satisfy the emergency (provided the participant does not have the financial resources to otherwise meet the hardship).

Target Stock Ownership Guidelines

Our board of directors has implemented stock ownership guidelines for our directors in order to foster equity ownership and align the interests of our directors with our shareholders. Within five years of becoming a director, each director is expected to beneficially own a number of shares of our common stock at least equal in value to 500% of the director s annual cash retainer.

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Contacting Our Board of Directors

Any interested party may contact any or all of our directors by directing such communications to the applicable directors in care of the Corporate Secretary at our address at 10 Glenlake Parkway, North Tower, Atlanta, Georgia 30328-3473. Any correspondence received by the Corporate Secretary in accordance with the foregoing will be forwarded to the applicable director or directors.

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Common Stock Ownership

Common Stock Ownership by Management

The following table sets forth information as of July 28, 2016 with respect to the beneficial ownership of our common stock by (i) each of our directors, (ii) each of our named executive officers, and (iii) the 15 persons, as a group, who were directors or executive officers of our company on July 28, 2016.

Name and Address of Beneficial Owner[(1)]	Shares Beneficially Owned[(2)]	Shares Issuable Upon Exercise of Stock Options[(3)]	Total	Percentage of Class
Named Executive Officers:				
Jeffrey S. Sloan[(4)]	292,696	162,190	454,886	*
David E. Mangum	182,204	133,915	316,119	*
Cameron M. Bready	52,648	31,165	83,813	*
Guido F. Sacchi	33,118	8,807	41,925	*
David L. Green	26,097	22,176	48,273	*
Non-Employee Director and Director Nominees:				
William I Jacobs	44,716	50,248	94,964	*
Robert H.B. Baldwin, Jr.[(5)]	382,419		382,419	*
John G. Bruno	7,097		7,097	*
Mitchell L. Hollin	30,986		30,986	*
Ruth Ann Marshall.	33,072	41,508	74,580	*
John M. Partridge	9,795		9,795	*
Alan M. Silberstein	47,387	41,508	88,895	*
Michael W. Trapp[(6)]	39,109		39,109	*
All Directors and Executive Officers as a Group	1,198,437	496,047	1,694,484	1.1%

* Less than one percent.

(1) The address of each of the directors and officers listed is c/o Global Payments Inc., 10 Glenlake Parkway, North Tower, Atlanta, Georgia 30328-3473.

(2) Includes the number of shares of common stock the person beneficially owns, as determined by SEC rules, other than shares issuable upon the exercise of options that are currently vested or that will vest within 60 days of July 28, 2016. Unless otherwise indicated, each person listed in the table possesses sole voting and investment power with respect to the common shares reported in this column to be owned by such person.

(3) Includes the number of shares that the person had a right to acquire as of, or within 60 days after, July 28, 2016 through the exercise of stock options.

(4) Includes 61,012 shares held by a grantor retained annuity trust.

(5) Includes 20,356 shares held by the Robert H.B. Baldwin, Jr. Trust U/A/D June 30, 2004.

(6) Includes 8,677 shares owned by a revocable trust for which Mr. Trapp and his spouse serve as co-trustees.

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Common Stock Ownership by Non-Management Shareholders

The following table sets forth information as of July 28, 2016 with respect to the only persons who are known by us, based exclusively on such persons filings with the SEC under Sections 13(d) and 13(g) of the Exchange Act, to be the beneficial owners of more than 5% of the outstanding shares of our common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Shares[1]
Wellington Management Group LLP[2]	15,634,012	10.2%
FMR LLC[3]	10,465,104	6.8%
Blackrock, Inc.[4]	10,246,723	6.7%
The Vanguard Group[5]	9,369,157	6.1%

(1) Percentages calculated based on number of shares outstanding as of July 28, 2016.

(2) This information is contained in a Schedule 13G filed by Wellington Management Group LLP with the SEC on July 11, 2016. Wellington Management Group LLP reported shared dispositive power of all shares listed above and shared voting power for 11,833,703 of the shares listed above. The address of Wellington Management Group LLP is c/o Wellington Management Company LLP, 280 Congress Street, Boston, Massachusetts 02210.

(3) This information is contained in a Schedule 13G/A filed by FMR LLC with the SEC on February 12, 2016. FMR LLC reported sole dispositive power of all shares listed above and sole voting power for 439,056 of the shares listed above. The address of FMR LLC is 245 Summer Street, Boston, Massachusetts 02210.

(4) This information is contained in a Schedule 13G/A filed by Blackrock, Inc. with the SEC on January 26, 2016. Blackrock, Inc. reported sole dispositive power of all shares listed above and sole voting power for 9,484,132 of the shares listed above. The address of Blackrock, Inc. is 40 East 52nd Street, New York, NY 10022.

(5) This information is contained in a Schedule 13G/A filed by The Vanguard Group with the SEC on February 10, 2016. The Vanguard Group reported sole dispositive power for 9,229,711 shares, shared dispositive power for 139,446 shares, sole voting power for 128,546 shares, and shared voting power for 12,500 shares. The address of The Vanguard Group is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

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Biographical Information About Our Executive Officers

Biographical and other information about each of our current executive officers is set forth below, except for Mr. Sloan, our Chief Executive Officer, whose biographical information is provided above under Proposal One: Election of Directors Nominees for Election as Directors beginning on page 10.

Name	Age	Current Position	Position with Global Payments and Other Principal Business Affiliations
David E. Mangum	50	President and Chief Operating Officer	President and Chief Operating Officer (since June 2014); Senior Executive Vice President and Chief Financial Officer of the Company (August 2011 June 2014); Executive Vice President and Chief Financial Officer of the Company (2008 August 2011); Executive Vice President, Fiserv Corp., a financial services technology provider which acquired CheckFree Corporation in 2007 (2007 2008); Executive Vice President and Chief Financial Officer, CheckFree Corporation (2000 2007); Senior Vice President, Finance and Accounting, CheckFree Corporation (1999 2000).
Cameron M. Bready	44	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer (since June 2014); Executive Vice President and Chief Financial Officer, ITC Holdings Corp., or ITC, a publicly-traded independent electric transmission company (February 2012 June 2014); Executive Vice President, Treasurer and Chief Financial Officer, ITC (January 2011 February 2012); Senior Vice President, Treasurer and Chief Financial Officer, ITC (2009 January 2011).
Dr. Guido F. Sacchi	52	Executive Vice President and Chief Information Officer	Executive Vice President and Chief Information Officer (since August 2013); Chief Information Officer of the Company (June 2011 August 2013); Managing Director, Digital Commerce, Slalom, LLC d/b/a Slalom Consulting, a consulting firm (April 2010 May 2011); Chief Executive Officer, Moneta Corp., a consumer online payments company (2008 2010).
David L. Green	48	Executive Vice President, General Counsel and Corporate Secretary	Executive Vice President, General Counsel and Corporate Secretary (since November 2013); Senior Vice President and Division General Counsel of the Company (November 2011 November 2013); Vice President and Division General Counsel of the Company (2007 November 2011).
Jane M. Elliott	50	Executive Vice President and Chief of Staff	Executive Vice President and Chief of Staff (since November 2013); Senior Vice President, Strategic Planning and Investor Relations of the Company (2010 December 2013); Vice President, Investor Relations of the Company (2003 2010).
David M. Sheffield	54		

	Senior Vice President and Chief Accounting Officer	Senior Vice President and Chief Accounting Officer (since April 2015); Vice President, Accounting and Controller U.S. Tower Division of American Tower Corporation, a publicly-traded real estate investment trust (January 2012 to April 2015); Vice President, Finance and Chief Accounting Officer of EMS Technologies, Inc., a publicly-traded technology company (2008 January 2012).

There are no arrangements or understandings between any of our executive officers and any other person pursuant to which any of them was appointed an officer, other than arrangements or understandings with our officers acting solely in their capacities as such.

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Proposal Two: Approval of Extension of the Term of, and the Limits on Non-Employee Director Compensation and the Material Terms of Performance Goals Included in, the 2011 Incentive Plan

Subject to shareholder approval of this proposal, we intend to amend and restate the Global Payments Inc. 2011 Incentive Plan, or the 2011 Incentive Plan, for the reasons described herein. We refer to the proposed Amended and Restated 2011 Incentive Plan, in the form attached hereto as Appendix A, as the Amended and Restated 2011 Incentive Plan. The Board is requesting that you approve, in each case as set forth in the Amended and Restated 2011 Incentive Plan:

1. The material terms of the performance goals under the Amended and Restated 2011 Incentive Plan in order to preserve our ability to grant fully tax-deductible performance-based awards under the Amended and Restated 2011 Incentive Plan;

2. The limit on the value of compensation paid to our non-employee directors for any fiscal year under the Amended and Restated 2011 Incentive Plan; and

3. The extension of the term of the Amended and Restated 2011 Incentive Plan to September 28, 2026.

The Board is not requesting that our shareholders approve additional shares to be authorized for grant under the Amended and Restated 2011 Incentive Plan.

Approval of Material Terms of Performance Goals

Section 162(m) of the Internal Revenue Code, or the Code, imposes a $1 million limit on the amount that a public company may deduct for compensation paid in any given year to the corporation s chief executive officer and the three most highly compensated officers (other than the chief financial officer) who are employed as of the end of the year, unless the compensation qualifies as performance-based compensation under Section 162(m) of the Code. Market-priced stock options and stock appreciation rights, or SARs, are two examples of performance-based compensation. Other types of awards, such as restricted stock and restricted stock units that are granted pursuant to pre-established objective performance formulas, may also qualify as fully-deductible performance-based compensation, so long as certain requirements are met. One of the requirements for compensation to qualify as performance-based under Section 162(m) is that the material terms of the performance goals, including the list of permissible business criteria for performance objectives under the plan, be disclosed to and approved by shareholders at least every five years. Our shareholders previously approved the material terms of the performance goals at the 2011 annual meeting. In order to preserve our ability to grant awards under the Amended and Restated 2011 Incentive Plan that qualify as performance-based compensation under Section 162(m) of the Code, we are asking our shareholders to approve the material terms of the performance goals of the Amended and Restated 2011 Incentive Plan at this annual meeting.

In accordance with Section 162(m), the material terms that our shareholders approve constitute the framework for our Compensation Committee to establish programs and awards under which compensation we provide may qualify as performance-based compensation for purposes of Section 162(m). Shareholder approval of the material terms of performance goals under the Amended and Restated 2011 Incentive Plan is only one of several requirements under Section 162(m) that must be satisfied for amounts realized under the Amended and Restated 2011 Incentive Plan to qualify for the performance-based compensation exemption under Section 162(m), and shareholder approval of the

material terms of the performance goals of the Amended and Restated 2011 Incentive Plan does not alone ensure that all compensation paid under the Amended and Restated 2011 Incentive Plan will qualify as tax-deductible compensation. There can be no guarantee that amounts payable under the Amended and Restated 2011 Incentive Plan will be treated as qualified performance-based compensation under Section 162(m). In addition, while our Amended and Restated 2011 Incentive Plan will allow us to grant awards that are intended to be exempt from Section 162(m) of the Code, our Compensation

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Committee may, in its judgment, grant awards under the Amended and Restated 2011 Incentive Plan that are not exempt from Section 162(m) of the Code when it believes that such awards are appropriate to attract and retain executive talent and are in the best interests of our shareholders. Accordingly, even if approved by our shareholders, this proposal would not limit our right to pay compensation that does not qualify as performance-based compensation for purposes of Section 162(m), in whole or in part.

Material Terms of the Performance Goals under the Amended and Restated 2011 Incentive Plan

For purposes of Section 162(m) of the Code, the material terms of the Amended and Restated 2011 Incentive Plan include (i) the individuals eligible to receive compensation, (ii) a description of the business criteria on which the performance goals are based, and (iii) the maximum amount of compensation that can be paid to an individual during any single fiscal year. Each of these aspects is discussed below, and shareholder approval of this proposal will constitute approval of each of these aspects of our Amended and Restated 2011 Incentive Plan for purposes of the approval requirements of Section 162(m) of the Code. The following summary is qualified in its entirety by reference to the complete text of the Amended and Restated 2011 Incentive Plan, which is attached hereto as Appendix A.

Eligibility. The Amended and Restated 2011 Incentive Plan permits the grant of incentive awards to employees, non-employee directors and consultants or independent contractors, as selected by the Compensation Committee. The number of eligible participants in the Amended and Restated 2011 Incentive Plan will vary from year to year. As of the record date, approximately 8,580 employees and nine non-employees (representing our non-employee directors) were eligible to receive awards under the Amended and Restated 2011 Incentive Plan. The group of employees whose compensation would be subject to the performance goals described in this proposal includes our executive officers. Although Section 162(m) only limits deductibility for compensation paid to the chief executive officer or any of our three most highly compensated executive officers (other than the chief financial officer) who are employed as of the end of the year, we may apply the performance goals to compensation opportunities available to any of our employees.

Performance Objectives. Options and SARs granted under the Amended and Restated 2011 Incentive Plan are designed to be exempt from the $1,000,000 deduction limit imposed by Section 162(m) of the Code. When granting any other award, the Compensation Committee may designate such award as a qualified performance-based award intended to qualify for the Section 162(m) exemption. If an award is so designated, the Compensation Committee must establish objectively determinable performance goals for such award within the time period prescribed by Section 162(m) based on one or more of the following business criteria, which may be expressed in terms of company-wide objectives or in terms of objectives that relate to the performance of an affiliate or a division, region, department or function within our company or an affiliate:

Revenue (premium revenue, total revenue or other revenue measures)

Sales

Return measures (including, but not limited to, return on assets, capital, equity, investments or sales, and cash flow return on assets, capital, equity, or sales);

Market share

Profit (net profit, gross profit, operating profit, economic profit, profit margins or other corporate profit measures)

Earnings (EBIT, EBITDA, earnings per share, or other corporate earnings measures)

Net income (before or after taxes, operating income or other income measures)

Cash (cash flow, cash generation or other cash measures)

Stock price or performance

Total shareholder return (stock price appreciation plus reinvested dividends divided by beginning share price)

Economic value added

Improvements in capital structure

Expenses (expense management, expense ratio, expense efficiency ratios or other expense measures)

Business expansion (acquisitions)

Internal rate of return or increase in net present value

Productivity measures

Cost reduction measures

Strategic plan development and implementation

The Compensation Committee may provide, at the time the performance goals are established, that any evaluation of performance will exclude or otherwise be objectively adjusted for any specified circumstance or event that occurs during a performance period, including for example: (a) asset write-downs or impairment charges; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax or other laws, accounting principles or other provisions affecting reported results; (d) accruals for reorganization and restructuring programs; (e) unusual or infrequently occurring items as described in Financial Accounting Standards Board, or FASB, accounting standards and/or in management s discussion and analysis of financial condition and results of operations appearing in our annual report to shareholders for the applicable year; (f) acquisitions or divestitures; (g) any other specific, unusual or nonrecurring events, or objectively determinable category thereof, including discontinued operations or a change in our fiscal year; and (h) foreign exchange gains and losses.

Limitations on Individual Awards. The maximum aggregate number of shares of common stock subject to time-vesting options or time-vesting SARs that may be granted under the Amended and Restated 2011 Incentive Plan in any 12-month period to any one participant is 1,200,000 each. The maximum aggregate dollar value or number of shares of common stock subject to performance-vesting awards under the Amended and Restated 2011 Incentive Plan that may be paid in any 12-month period to any one participant is as follows:

for performance awards settled in common stock, the greater of 1,200,000 shares or shares having a fair market value of $30 million as of the date of grant of the award; and

for performance awards settled in cash or property other than shares of common stock, $10 million.

For purposes of applying these limits in the case of multi-year performance periods, the amount of cash or property or number of shares deemed paid in any one 12-month period is the total amount payable or shares earned for the performance period divided by the number of 12-month periods in the performance period. These limits are subject to anti-dilution adjustments in the event of stock splits, mergers, consolidations, stock dividends, recapitalizations and similar transactions, but may not otherwise be amended without shareholder approval.

Approval of Limits on Compensation Paid to Non-Employee Directors

As part of its commitment to sound corporate governance practices, the Board is requesting that our shareholders approve certain limits on compensation paid to our non-employee directors. The Amended and Restated 2011 Incentive Plan provides that the maximum number of shares of common stock subject to awards granted during a single fiscal year to any non-employee director, taken together with any cash fees paid to such non-employee director during the fiscal year, may not exceed $600,000 in total value (calculating the value of equity awards based on the grant date fair value of such awards for financial reporting purposes); provided, that the Board may make exceptions to this limit for (i) individual non-employee directors in extraordinary circumstances as the Board may determine in its sole discretion, or (ii) a Non-Employee Director who serves as Chairman of the Board or Lead Director, in each case so long as (A) the aggregate limit does not exceed $850,000 in total value during a fiscal year and (B) the non-employee director receiving such additional compensation does not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving non-employee directors.

Extension of Term of Amended and Restated 2011 Incentive Plan

The Amended and Restated 2011 Incentive Plan is the primary vehicle by which we grant equity and cash awards to employees, directors and consultants, and its original ten-year term expires on September 27, 2021. If this proposal is

approved by our shareholders, the Amended and Restated 2011 Incentive Plan will terminate on September 28, 2026, the tenth anniversary of the date of our 2016 annual meeting, unless earlier terminated by our Board or Compensation Committee.

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Important Provisions of the Amended and Restated 2011 Incentive Plan

The Amended and Restated 2011 Incentive Plan contains the following provisions that our Compensation Committee believes are consistent with the interests of shareholders and sound corporate governance practices:

No repricing of stock options or SARs. The Amended and Restated 2011 Incentive Plan prohibits the repricing of stock options or SARs without shareholder approval. This prohibition includes reducing the exercise price or base price after the date of grant or replacing, regranting or canceling a stock option or SAR for cash or another award (including following a participant s voluntary surrender of underwater stock options or SARs).

No discounted stock options or SARs. All stock options and SARs must have an exercise price or base price equal to or greater than the fair market value of the underlying stock on the date of grant.

No liberal share recycling provisions. The Amended and Restated 2011 Incentive Plan prohibits the re-use of shares withheld or delivered to satisfy the exercise price of a stock option or SAR or to satisfy tax withholding requirements. The Amended and Restated 2011 Incentive Plan also prohibits net share counting upon the exercise of stock options or SARs.

No liberal change-in-control definition. The change-in-control definition contained in the Amended and Restated 2011 Incentive Plan is not a liberal definition that would be activated on mere shareholder approval of a transaction.

Minimum vesting. With certain exceptions, full-value awards granted to participants other than non-employee directors shall either (i) be subject to a minimum vesting period of three years (which may include graduated vesting within such three-year period), or one year if the vesting is based on performance criteria other than continued service, or (ii) be granted solely in exchange for foregone cash compensation.

No award may be transferred for value. The Amended and Restated 2011 Incentive Plan prohibits the transfer of unexercised, unvested or restricted awards to independent third parties for value.

Limit on awards to non-employee directors. As discussed above, the Amended and Restated 2011 Incentive Plan imposes a limit on compensation that may be awarded to any non-employee director in any fiscal year.

Limitation on amendments. No material amendments to the Amended and Restated 2011 Incentive Plan can be made without shareholder approval if any such amendment would materially increase the number of shares reserved or the per-participant award limitations under the Amended and Restated 2011 Incentive Plan, or that would diminish the prohibitions on repricing stock options or SARs.

Description of Amended and Restated 2011 Incentive Plan

The following summary of the material terms of the Amended and Restated 2011 Incentive Plan is qualified in its entirety by reference to the complete text of the Amended and Restated 2011 Incentive Plan, which is attached hereto as Appendix A.

Purpose. The purpose of the Amended and Restated 2011 Incentive Plan is to promote our success by linking the personal interests of our employees, officers, directors and consultants to those of our shareholders, and by providing participants with an incentive for outstanding performance.

Administration. The Amended and Restated 2011 Incentive Plan will be administered by our Compensation Committee or such other committee of the Board as may be designated by the Board to administer the Amended and Restated 2011 Incentive Plan, other than with respect to compensation of our non-employee directors, as further described below. Our Compensation Committee will have the authority to: designate participants; grant awards; determine the type or types of awards to be granted to each participant and the number, terms and conditions thereof; establish, adopt or revise any rules and regulations as it may deem advisable to administer the Amended and Restated 2011 Incentive Plan; and make all other decisions and determinations that may be required under the Amended and Restated 2011 Incentive Plan.

Awards to Non-Employee Directors. Notwithstanding the above, awards granted under the Amended and Restated 2011 Incentive Plan to our non-employee directors will be made only in accordance with the terms,

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conditions and parameters of a plan, program or policy for the compensation of non-employee directors as in effect from time-to-time and will be subject to the limit on compensation that may be awarded to any non-employee director in any fiscal year, as discussed above. With respect to compensation of our non-employee directors, our Board approves all such compensation upon the recommendation of our Governance and Nominating Committee. Our Board or applicable committee may not make discretionary grants under the Amended and Restated 2011 Incentive Plan to non-employee directors outside of such established program for director compensation.

Permissible Awards. The Amended and Restated 2011 Incentive Plan authorizes the granting of awards in any of the following forms:

- options to purchase shares of our common stock, which may be designated under the Code as nonstatutory stock options (which may be granted to all participants) or incentive stock options (which may be granted to officers and employees but not to consultants or non-employee directors);

- SARs, which give the holder the right to receive the difference (payable in cash or stock, as specified in the award agreement) between the fair market value per share of our common stock on the date of exercise over the base price of the award;

- restricted stock, which is subject to restrictions on transferability and subject to forfeiture on terms set by our Compensation Committee;

- restricted stock units, or RSUs, which represent the right to receive shares of our common stock (or an equivalent value in cash or other property, as specified in the award agreement) in the future, based upon the attainment of stated vesting criteria;

- deferred stock units, or DSUs, which represent the right granted to receive shares of our common stock (or an equivalent value in cash or other property, as specified in the award agreement) at a future time as determined by our Compensation Committee, or as determined by the recipient within guidelines established by our Compensation Committee in the case of voluntary deferral elections;

- performance awards, which are awards payable in cash or stock upon the attainment of specified performance goals (any award that may be granted under the Amended and Restated 2011 Incentive Plan may be granted in the form of a performance award);

- other stock-based awards in the discretion of our Compensation Committee, including unrestricted stock grants; and

- cash-based awards, including cash-based awards granted under our short-term incentive plan, which operates as a subplan of the Amended and Restated 2011 Incentive Plan.

Dividend equivalent rights, which entitle the participant to payments in cash or property calculated by reference to the amount of dividends paid on the shares of stock underlying an award, may be granted with respect to awards other than options or SARs.

Shares Available for Awards. The aggregate number of shares of common stock that may be issued under the Amended and Restated 2011 Incentive Plan is 14,000,000 shares, subject to proportionate adjustment in the event of stock splits and similar events. Shares underlying options and SARs will count as four tenths of one share, and shares underlying all other stock-based awards will count as one share, against the number of shares available for issuance under the Amended and Restated 2011 Incentive Plan. Shares subject to awards that terminate or expire unexercised, or are cancelled, forfeited or lapse for any reason, and shares underlying awards that are ultimately settled in cash, will again become available for future grants of awards under the Amended and Restated 2011 Incentive Plan. To the extent that the full number of shares subject to a full-value award is not issued for any reason, including by reason of failure to achieve maximum performance goals, the unissued shares originally subject to the award will be added back to the plan share reserve. Shares delivered by the participant or withheld from an award to satisfy tax withholding requirements, and shares delivered or withheld to pay the exercise price of an option, will not be used to replenish the plan share reserve. Our Compensation Committee may grant awards under the Amended and Restated 2011 Incentive Plan in substitution for awards held by employees of another entity who become our employees as a result of a business combination, and such substitute awards will not count against the plan share reserve.

Minimum Vesting Requirements. Except in the case of substitute awards granted in a business combination as described above, full-value awards shall either (i) be subject to a minimum vesting period of three years (which may include graduated vesting within such three-year period), or one year if the vesting is based on performance criteria other than continued service, or (ii) be granted solely in exchange for foregone cash compensation. However, our Compensation Committee may accelerate vesting of such full-value awards in the event of the participant s termination of service or upon the occurrence of a change in control and the minimum vesting requirements shall not apply to awards made to non-employee directors.

Limitations on Transfer; Beneficiaries. No right or interest of a participant in any award may be pledged or encumbered to or in favor of any person other than us, or be subject to any lien, obligation or liability of the participant to any person other than us or our affiliate. Except to the extent otherwise determined by our Compensation Committee with respect to awards other than incentive stock options, no award may be assignable or transferable by a participant otherwise than by will or the laws of descent and distribution, and any option or other purchase right shall be exercisable during the participant s lifetime only by such participant. A beneficiary, guardian, legal representative or other person claiming any rights under the Amended and Restated 2011 Incentive Plan from or through a participant will be subject to all the terms and conditions of the Amended and Restated 2011 Incentive Plan and any award agreement applicable to the participant.

Treatment of Awards upon a Participant s Termination of Service. Unless otherwise provided in an employment agreement or an award agreement or any other special plan document governing an award, upon the termination of a participant s service due to death:

- all of that participant s outstanding options and SARs will become fully vested and exercisable and will remain exercisable for one year thereafter (or the earlier end of the term of the award);

- all time-based vesting restrictions on that participant s outstanding awards will lapse as of the date of termination; and

- the payout opportunities attainable under all of that participant s outstanding performance-based awards will be determined as provided in the applicable award agreement or an employment agreement or similar agreement with the participant.

In addition, subject to limitations applicable to certain qualified performance-based awards, our Compensation Committee may, in its discretion, accelerate awards upon the termination of service of a participant or the occurrence of a change in control. Our Compensation Committee may discriminate among participants or among awards in exercising such discretion. Unless otherwise provided by the Compensation Committee at the time of a participant s retirement, or as otherwise provided in an employment agreement or an award agreement or any other special plan document governing an award, in the case of acceleration upon the participant s retirement, any awards in the nature of rights that may be exercised will remain exercisable until the earlier of (i) the original expiration of the award, or (ii) the fifth anniversary of the participant s retirement.

Anti-dilution Adjustments. In the event of a transaction between us and our shareholders that causes the per-share value of our common stock to change (including, without limitation, any stock dividend, stock split, spin-off, rights offering or large nonrecurring cash dividend), the share authorization limits and annual award limits under the Amended and Restated 2011 Incentive Plan will be adjusted proportionately, and our Compensation Committee shall

make such adjustments to the Amended and Restated 2011 Incentive Plan and awards as it deems necessary, in its sole discretion, to prevent dilution or enlargement of rights immediately resulting from such transaction. In the event of a stock split, a stock dividend, or a combination or consolidation of the outstanding shares of our common stock into a lesser number of shares, the authorization limits and annual award limits under the Amended and Restated 2011 Incentive Plan will automatically be adjusted proportionately, and the shares then subject to each award will automatically be adjusted proportionately without any change in the aggregate purchase price.

Termination and Amendment. The Amended and Restated 2011 Incentive Plan will terminate on September 28, 2026, the tenth anniversary of the date of our 2016 annual meeting, unless earlier terminated by our Board or Compensation Committee. Our Board or Compensation Committee may, at any time and from time-to-time, terminate or amend the Amended and Restated 2011 Incentive Plan, but if an amendment to the Amended and

Restated 2011 Incentive Plan would constitute a material amendment requiring shareholder approval under applicable listing requirements, laws, policies or regulations, then such amendment will be subject to shareholder approval. No termination or amendment of the Amended and Restated 2011 Incentive Plan may adversely affect any award previously granted under the Amended and Restated 2011 Incentive Plan without the written consent of the participant. Without the prior approval of our shareholders, and except as otherwise permitted by the anti-dilution provisions of the Amended and Restated 2011 Incentive Plan, the Amended and Restated 2011 Incentive Plan may not be amended to permit, direct or indirect repricing, replacement or repurchase of options or SARs.

Our Compensation Committee may amend or terminate outstanding awards. However, such amendments may require the consent of the participant and, unless approved by our shareholders or otherwise permitted by the anti-dilution provisions of the Amended and Restated 2011 Incentive Plan, (i) the exercise price or base price of an option or SAR may not be reduced, directly or indirectly, (ii) an option or SAR may not be cancelled in exchange for cash, other awards, or options or SARS with an exercise price or base price that is less than the exercise price or base price of the original option or SAR, or otherwise, (iii) we may not repurchase an option or SAR for value (in cash or otherwise) from a participant if the current fair market value of the shares of our common stock underlying the option or SAR is lower than the exercise price or base price per share of the option or SAR, and (iv) the original term of an option or SAR may not be extended.

Prohibition on Repricing. As indicated above under Termination and Amendment, outstanding stock options and SARs cannot be repriced, directly or indirectly, without the prior consent of our shareholders. The exchange of an underwater option or SAR (i.e., an option or SAR having an exercise price or base price in excess of the current market value of the underlying stock) for cash or for another award would be considered an indirect repricing and would, therefore, require the prior consent of our shareholders.

Clawback Policy. Awards under the Amended and Restated 2011 Incentive Plan will be subject to any compensation recoupment policy (sometimes referred to as a clawback policy) as we may adopt from time to time.

Federal Income Tax Consequences

The U.S. federal income tax discussion set forth below is intended for general information only and does not purport to be a complete analysis of all of the potential tax effects of the Amended and Restated 2011 Incentive Plan. It is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. State, local and ex-U.S. income tax consequences are not discussed, and may vary from jurisdiction to jurisdiction.

Nonqualified Stock Options. There will be no federal income tax consequences to the optionee or to us upon the grant of a nonqualified stock option under the Amended and Restated 2011 Incentive Plan. When the optionee exercises a nonqualified option, however, he or she will recognize ordinary income in an amount equal to the excess of the fair market value of the stock received upon exercise of the option at the time of exercise over the exercise price, and we will be allowed a corresponding federal income tax deduction. Any gain that the optionee realizes when he or she later sells or disposes of the option shares will be short-term or long-term capital gain, depending on how long the shares were held.

Incentive Stock Options. There will be no federal income tax consequences to the optionee or to our company upon the grant of an incentive stock option. If the optionee holds the option shares for the required holding period of at least two years after the date the option was granted and one year after exercise, the difference between the exercise price and the amount realized upon sale or disposition of the option shares will be long-term capital gain or loss, and we will not be entitled to a federal income tax deduction. If the optionee disposes of the option shares in a sale, exchange, or other disqualifying disposition before the required holding period ends, he or she will recognize taxable ordinary

income in an amount equal to the excess of the fair market value of the option shares at the time of exercise over the exercise price, and we will be allowed a federal income tax deduction equal to such amount. While the exercise of an incentive stock option does not result in current taxable income, the excess of the fair market value of the option shares at the time of exercise over the exercise price will be an item of adjustment for purposes of determining the optionee s alternative minimum taxable income.

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SARs. A participant receiving a SAR under the Amended and Restated 2011 Incentive Plan will not recognize income, and we will not be allowed a tax deduction, at the time the award is granted. When the participant exercises the SAR, the amount of cash and the fair market value of any shares of stock received will be ordinary income to the participant and we will be allowed a corresponding federal income tax deduction at that time.

Restricted Stock. Unless a participant makes an election to accelerate recognition of the income to the date of grant as described below, a participant will not recognize income, and we will not be allowed a tax deduction, at the time a restricted stock award is granted, provided that the award is nontransferable and is subject to a substantial risk of forfeiture. When the restrictions lapse, the participant will recognize ordinary income equal to the fair market value of the stock as of that date (less any amount he or she paid for the stock), and we will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m). If the participant files an election under Code Section 83(b) within 30 days after the date of grant of the restricted stock, he or she will recognize ordinary income as of the date of grant equal to the fair market value of the stock as of that date (less any amount paid for the stock), and we will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m). Any future appreciation in the stock will be taxable to the participant at capital gains rates. However, if the stock is later forfeited, the participant will not be able to recover the tax previously paid pursuant to the Code Section 83(b) election.

Stock Units. A participant will not recognize income, and we will not be allowed a tax deduction, at the time a stock unit award is granted. Upon receipt of shares of stock (or the equivalent value in cash or other property) in settlement of a stock unit award, a participant will recognize ordinary income equal to the fair market value of the stock or other property as of that date (less any amount he or she paid for the stock or property), and we will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m).

Performance Awards. A participant will not recognize income, and we will not be allowed a tax deduction, at the time a performance award is granted (for example, when the performance goals are established). Upon receipt of cash, stock or other property in settlement of a performance award, the participant will recognize ordinary income equal to the cash, stock or other property received, and we will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m).

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Existing Plan Benefits

The 2011 Incentive Plan has been the primary vehicle by which our Compensation Committee and Board have granted equity awards to our employees and non-employee directors, respectively. Pursuant to SEC rules, the table below shows the number of shares issued to, or subject to outstanding awards granted to, our named executive officers and the other individuals and groups indicated under the 2011 Incentive Plan as of the record date. The closing price of our common stock on the record date was $78.19.

Name and Position	Restricted Shares Granted Under 2011 Incentive Plan (#)	Performance-Based Restricted Stock Units Granted Under 2011 Incentive Plan[1] (#)	Time-Based Restricted Stock Units Granted Under 2011 Incentive Plan (#)	Stock Options Granted Under 2011 Incentive Plan (#)
Jeffrey S. Sloan Chief Executive Officer	51,568	415,979		203,890
David E. Mangum President and Chief Operating Officer	17,762	193,262		70,230
Cameron M. Bready Executive Vice President and Chief Financial Officer	66,488	60,671		56,638
Guido F. Sacchi Executive Vice President and Chief Information Officer	26,104	62,885		33,302
David L. Green Executive Vice President, General Counsel and Corporate Secretary	15,554	27,525		27,350
All Executive Officers as a Group	211,060	774,744		405,004
All Employees as a Group (Including all Officers who are not Executive Officers)	887,260	11,599	658,766	
All Non-Employee Directors as a Group	132,530			

(1) Reflects the target number of shares granted.

New Plan Benefits

Awards under the Amended and Restated 2011 Incentive Plan will be granted at the discretion of the Compensation Committee, the Board or other committee designated by the Board. As a result, it is not possible to determine the

number or type of awards that will be granted in the future to any person under the Amended and Restated 2011 Incentive Plan.

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Shares Available Under Existing Equity Compensation Plans

The following table provides certain information as of May 31, 2016 concerning the shares of our common stock that may be issued under existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securitie Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securitie Reflected in Column (a)
Equity compensation plans approved by security holders	811,036	$ 31.81	14,985,644
Equity compensation plans not approved by security holders			
Total	811,036	$ 31.81	14,985,644

(1) Includes 12,110,609 shares authorized for issuance under the 2011 Incentive Plan, all of which are available for issuance pursuant to grants of full-value stock awards. Also includes 233,740 shares authorized under the Amended and Restated 2005 Incentive Plan and 179,172 shares authorized under the 2000 Director Option Plan. We do not intend to issue shares under either of the Amended and Restated 2005 Incentive Plan or the 2000 Director Option Plan.

OUR BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR THE PROPOSAL TO APPROVE THE

EXTENSION OF THE TERM OF, AND THE LIMITS ON NON-EMPLOYEE DIRECTOR COMPENSATION AND

THE MATERIAL TERMS OF THE PERFORMANCE GOALS INCLUDED IN, THE AMENDED AND RESTATED

2011 INCENTIVE PLAN.

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Proposal Three: Advisory Vote to Approve the

Compensation of Our Named Executive Officers

In accordance with Section 14A of the Exchange Act, our board of directors is asking shareholders to approve an advisory resolution on executive compensation. The advisory vote is a non-binding vote to approve the compensation of our named executive officers. The vote, which is known as a say-on-pay vote, is intended to give our shareholders the opportunity to express their views on our named executive officers compensation. The vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. At last year s annual meeting of shareholders, approximately 84% of the votes cast were cast in support of the compensation of our named executive officers. The text of the resolution is as follows:

Resolved, that the Company s shareholders APPROVE, on an advisory basis, the compensation of the Company s named executive officers as disclosed in this proxy statement, including the Compensation Discussion and Analysis, the summary compensation table and related compensation tables and narrative discussion.

We urge you to read the Compensation Discussion and Analysis in this proxy statement, which discusses how our compensation policies and procedures implement our compensation philosophy. You should also read the summary compensation table and other related compensation tables and narrative disclosure which provide additional details about the compensation of our named executive officers in fiscal 2016. We have designed our compensation and benefits program and philosophy to attract, retain and motivate talented, qualified and committed executive officers who share our philosophy and desire to work toward our goals. We believe that for fiscal 2016, our executive compensation program aligned individual compensation with the short-term and long-term performance of our company in ways such as the following:

- Pay opportunities were appropriate to the size of our company when compared to peer companies.

- Our annual compensation program was heavily performance-based, using multiple measures for short-term incentives and a simple, single measure for long-term incentives, as described in this proxy statement.

- The performance metrics under our short-term incentive plan were adjusted to reflect our acquisitions, including our merger with Heartland.

- Long-term incentives were linked to shareholder value through performance units, stock options and time-based restricted stock that change in value as share price fluctuates.

- Perquisites are a minor part of our compensation program.

- Excise tax gross-ups are not provided to any of our executive officers.

- Executives are subject to stock ownership requirements.

- Our insider trading policy prohibits directors and employees from engaging in any transaction in which they profit if the value of our common stock falls.

- Pursuant to our clawback policy, we may recoup the value of any annual or long-term incentive awards provided to any executive officers in the event that our financial statements are restated due to material noncompliance with any financial reporting requirement.

- Change-in-control severance provisions in employment agreements are double trigger.

- The Compensation Committee engages independent compensation consultants.

- We do not re-price stock options or issue discounted stock options.

- We do not pay dividend equivalent rights with respect to restricted stock units.

The vote regarding the compensation of our named executive officers described in this Proposal No. 3 is advisory, and therefore, is not binding on us or our board. Although non-binding, our board values the opinions

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that shareholders express in their votes and will review the voting results and take them into consideration when making future decisions regarding our executive compensation programs as it deems appropriate. Our board of directors has adopted a policy providing for an annual say-on-pay vote. Unless our board of directors modifies this policy, the next say-on-pay vote will be held at our next annual shareholder meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE

FOR THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF OUR

NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT.

Compensation Discussion and Analysis

Executive Summary of Fiscal 2016

Performance Highlights

We experienced strong business and financial performance around the world during fiscal 2016. Highlights include the following:

- We completed our most significant business combination in the history of our company when we merged with Heartland in April 2016. Following the merger, we now have more than 8,500 employees worldwide and service nearly 2.5 million merchants in 30 countries.

- GAAP revenues were $2.90 billion, compared to $2.77 billion in fiscal 2015. Diluted earnings per share were $2.04 compared to $2.06 in the prior year and operating margin was 14.7% compared to 16.5% in fiscal 2015, notwithstanding approximately $50 million of expenses related to the Heartland transaction and the unfavorable effect of fluctuations in foreign currency on our operating income of approximately $44 million.

- Adjusted net revenue grew 11% to $2.17 billion during fiscal 2016, compared to $1.95 billion in fiscal 2015. Cash diluted earnings per share grew 18% to $2.98 during fiscal 2016, compared to $2.52 in fiscal 2015. Cash operating margin increased to 29.2%, a 50 basis point increase over fiscal 2015.[1]

- Our share price increased 48% during fiscal 2016, while the S&P 500 index remained flat. We also completed a two-for-one stock split in the form of a stock dividend. Our stock price performance over the last three fiscal years relative to the performance of our peer group and the S&P 500 index, which we joined during fiscal 2016, is shown in the graph below.

The following graph compares the cumulative shareholder returns of $100 invested in the S&P 500 Index and the average of our performance peer group (excluding Heartland, which we acquired in fiscal 2016) over the last three fiscal years, assuming reinvestment of dividends.

(1) Adjusted net revenue, cash diluted earnings per share and cash operating margin are non-GAAP financial measures. For information about how these measures are calculated, including reconciliations to the most comparable GAAP measures, see Additional Information Non-GAAP Financial Measures beginning on page 66.

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Compensation Highlights

The chart below shows the mix of total target compensation for our CEO and for all the other named executive officers as a group, based on a weighted average, as well as the portion of that compensation that is subject to forfeiture (at risk) or performance-based.

CEO TOTAL TARGET COMPENSATION **OTHER NEOs TOTAL TARGET COMPENSATION**

Our compensation program is aligned with short- and long-term company performance and includes best practices designed to reflect sound corporate governance. As illustrated above, with the exception of base salary and restricted stock awards, all target compensation is performance-based. Executives are also subject to stock ownership guidelines, and the securities they are required to hold under those guidelines will continue to fluctuate with our share price.

The short-term cash incentives awarded under our annual performance plan incent and reward our executives for achievement of short-term goals aligned with our fiscal year operating plan. The long-term incentive plan incents and rewards our executives for achievement of long-term goals measured over a multi-year period. Together, these plans support our strategy of facilitating the adoption of, and transition to, card, electronic and digital-based payments by expanding our share in existing markets through our distribution channels, service innovation and acquisitions to improve our scale of offerings, while simultaneously seeking expansion into new markets through acquisitions around the world.

Our annual performance plan is 100% based on achievement of company performance goals, equally weighted between adjusted cash earnings per share, which we refer to as adjusted cash EPS, adjusted net revenue and adjusted operating margin. For fiscal 2016, each of our named executive officers (identified below) earned 181% of his target under the annual performance plan. These performance goals are discussed below under Compensation Discussion and Analysis Short-Term Incentive Plan beginning on page 44.

Awards under our long-term incentive plan include performance-based restricted stock units, which we refer to as performance units, stock options and time-based restricted stock. Performance units are earned based on achievement of an adjusted cash EPS growth target over a three-year performance period. To the extent earned, performance units convert into unrestricted shares after performance results for the three-year performance period are certified. Stock options and restricted stock vest in equal installments on each of the first three anniversaries of their respective grant dates. The value of each of the long-term incentive awards changes as our share price changes, thereby aligning the interests of our executives with those of our shareholders. Awards under our long-term incentive plan for fiscal 2016 are discussed below under Compensation Discussion and Analysis Long-Term Incentive Plan beginning on page 46.

Named Executive Officers

The following individuals are identified as named executive officers pursuant to SEC rules for the purpose of describing our compensation for fiscal 2016:

Jeffrey S. Sloan, Chief Executive Officer;

David E. Mangum, President and Chief Operating Officer;

- Cameron M. Bready, Executive Vice President and Chief Financial Officer;
- Dr. Guido F. Sacchi, Executive Vice President and Chief Information Officer; and
- David L. Green, Executive Vice President, General Counsel and Corporate Secretary.

The discussion below explains the detailed information provided in the tables contained in this section and places that information within the context of our overall compensation program. See Compensation of Named Executive Officers below for a series of tables containing specific information about the compensation earned or paid in fiscal 2016 to our named executive officers.

How Compensation Decisions Are Made

Objectives of Compensation Policies

Our Compensation Committee designs and at least annually reviews our compensation program with a view to retaining and attracting executive leadership of a caliber and level of experience necessary to manage our complex, growth-oriented and global businesses. Our objective is to maintain a compensation program that will allow us to:

- support the financial and business objectives of our organization;
- attract, motivate and retain highly qualified executives;
- create an environment where performance is expected and rewarded;
- deliver an externally competitive and transparent total compensation structure; and
- align the interests of our executives with our shareholders.

In order to achieve these results, our Compensation Committee believes our program must:

- provide our executives with total compensation opportunities at levels that are competitive for comparable positions in a highly competitive industry;
- provide variable, at-risk incentive award opportunities that are only payable if specific goals are achieved;
- provide significant upside opportunities for outstanding performance;

align our executives interests with those of our shareholders by making stock-based incentives a core element of our executives compensation; and

protect our competitive position by prohibiting our executive officers from competing with our company for a specified period of time following termination of employment.

Our Compensation Committee also considers and assesses risk mitigation factors and potential risk aggravators in our compensation program. For fiscal 2016, our Compensation Committee concluded that our compensation practices are balanced, do not encourage excessive risk taking by our employees, and are not reasonably likely to have a material adverse effect on our company.

Role of the Independent Compensation Consultant

Our Compensation Committee retained Frederic W. Cook & Co., Inc., or FWC, as its independent compensation consultant. The Compensation Committee assessed the independence of FWC and whether its work raised any conflict of interest, taking into consideration the independence factors set forth in applicable SEC and NYSE rules, and determined that FWC is independent. FWC took guidance from and reported directly to the Compensation Committee and, solely with respect to non-employee director compensation, the Governance and Nominating Committee. FWC advised the Compensation Committee on current and future trends and issues in executive compensation and on the competitiveness of the compensation structure and levels of our executives, including our named executive officers. At the request of the Compensation Committee and to provide context for the Compensation Committee s compensation decisions made for fiscal 2016, FWC performed the following services relating to the Company s fiscal 2016 compensation:

FWC conducted a market review and analysis for our named executive officers to determine whether their total targeted compensation opportunities were competitive with positions of a similar scope in similarly sized companies in similar industries;

FWC conducted pay and performance relationship analyses to evaluate the correlation of prior year performance of our company and pay levels to those of the peer group companies;

FWC prepared tally sheets on our named executive officers to allow the Compensation Committee to review the reasonableness of the total wealth accumulated during each executive s tenure with our company and to show the impact on our company of a termination of employment;

FWC assisted with an analysis and update to our compensation peer group;

FWC conducted a market review and analysis with respect to awards intended to reward employees for driving cost synergies following a material business combination transaction; and

FWC attended Compensation Committee meetings as requested by the committee to discuss these items.
All services performed for us by FWC during fiscal 2016 were related to executive or director compensation.

Market Data

Our Compensation Committee considers the compensation levels, programs and practices of selected other companies to assist us in setting our executive compensation to ensure that it remains competitive. For fiscal 2016, our Compensation Committee requested that FWC review the peer group and suggest potential revisions. The Compensation Committee reviewed and discussed the analysis and approved the following peer group for fiscal 2016 benchmarking purposes. The companies were chosen because (i) each company in the peer group is in the transaction processing or data services business, (ii) each company in the peer group is publicly traded, (iii) at the time the peer group was constructed, our revenues were near the median of the group as a whole, and (iv) we compete for talent with many of these companies. For fiscal 2016, our peer group, which was set prior to the Heartland transaction, included the following companies:

Alliance Data Systems Corporation	Jack Henry & Associates, Inc.
Broadridge Financial Solutions, Inc.	Heartland Payment Systems, Inc.
DST Systems, Inc.	Paychex, Inc.
The Dun & Bradstreet Corporation	Total System Services, Inc.

Equifax Inc.	Vantiv, Inc.
Euronet Worldwide, Inc.	Verifone Systems, Inc.
Fidelity National Information Services, Inc.	The Western Union Company
Fiserv, Inc.	

The fiscal 2016 group of peer companies listed above is the same as the peer group most recently used for fiscal 2015, except that Acxiom Corporation and MasterCard Inc. were removed. Our Compensation Committee, in consultation with FWC, determined that MasterCard Inc. and Acxiom Corporation, as the largest and smallest companies in the fiscal 2015 peer group, respectively, were least comparable to our company and should not be considered in setting our executive compensation.

Before the Compensation Committee set fiscal 2016 compensation, FWC collected and analyzed comprehensive market data for its use. FWC presented market figures representing competitive ranges for base salary, target short-term incentive opportunity and long-term incentive opportunity.

Role of Executive Officers

At the beginning of fiscal 2016, our Chief Executive Officer, with the assistance of our human resources department, developed compensation recommendations for the executive officers who reported directly to him (including our named executive officers) based on market data supplied by FWC, our company s performance relative to goals approved by the Compensation Committee and other individual contributions to our performance. The Compensation Committee considered the Chief Executive Officer s recommendations, in

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conjunction with the counsel of FWC and the market data, in determining the compensation elements for these named executive officers. The Compensation Committee determined all aspects of Mr. Sloan s compensation as Chief Executive Officer in consultation with FWC. Mr. Sloan did not participate in the Compensation Committee s determination of his compensation.

Shareholder Say-on-Pay Vote for Fiscal 2015 and Compensation Actions Taken

At last year s annual meeting of shareholders, approximately 84% of the votes cast were cast in support of the compensation of our named executive officers. The Compensation Committee considered this a positive result and concluded that the shareholders support the compensation paid to our executive officers and our overall pay practices. In light of this support, the Compensation Committee decided to retain the design of our executive compensation program.

The Compensation Committee will continue to monitor best practices, future advisory votes on executive compensation and other shareholder feedback to guide it in evaluating our executive compensation program. The Compensation Committee invites our shareholders to communicate any concerns or opinions on executive pay directly to our board of directors. Please refer to Corporate Governance Contacting Our Board of Directors on page 23 for information about communicating with the board of directors.

Elements of Executive Compensation Program

Our Compensation Committee, with guidance from FWC, reviewed the market data for each of our named executive officers and allocated, on an individual basis, the major elements of our compensation, including base salary, short-term incentives and long-term incentives, taking into consideration factors such as the individual s peer group market position, as well as the individual s performance, retention, internal equity, individual development and succession planning. The following executive pay at target levels was set by the Compensation Committee for fiscal 2016:

Name	Base Salary	% of Total	Target Short-Term Cash Incentive	% of Total	Target Long-Term Equity Incentives	% of Total	Total
Jeffrey S. Sloan	$ 1,000,000	14%	$ 1,500,000	22%	$ 4,500,000	64%	$ 7,000,000
David E. Mangum	$ 585,000	21%	$ 585,000	22%	$ 1,550,000	57%	$ 2,720,000
Cameron M. Bready	$ 530,000	24%	$ 477,000	21%	$ 1,250,000	55%	$ 2,257,000
Guido F. Sacchi	$ 470,000	28%	$ 399,500	24%	$ 800,000	48%	$ 1,669,500
David L. Green	$ 400,000	27%	$ 320,000	22%	$ 750,000	51%	$ 1,470,000

The annual compensation program also includes other benefits, including limited perquisites and a nonqualified deferred compensation plan.

From time to time, our Compensation Committee also may approve certain supplemental awards. No supplemental awards were granted in fiscal 2016. However, during fiscal 2016, our Compensation Committee discussed a synergy incentive program in connection with the Heartland transaction. The synergy incentive program, which was finally approved and awarded after fiscal 2016, is described in more detail below.

Base Salary

Base salary provides our executive officers with a level of compensation consistent with their skills, responsibilities, experience and performance in relation to comparable positions in the marketplace. Base salary represents 14% of our Chief Executive Officer s total compensation target and 24% of the total compensation target for our other named executive officers (based on a weighted average). It is the one component of compensation that does not fluctuate with our company s performance or the value of our stock. The Compensation Committee reviews the base salaries of our executive officers annually. After an evaluation by the Compensation Committee of the factors described above under Compensation Discussion and Analysis How Decisions Are Made Market Data on page 42, all the named executive officers received increases in their base salaries compared to fiscal 2015.

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The base salaries for our named executive officers for fiscal 2016, compared to their base salaries in effect at the end of fiscal 2015, are set forth below:

Name	Fiscal 2016	Fiscal 2015	% Change
Jeffrey S. Sloan	$ 1,000,000	$ 900,000	11%
David E. Mangum	$ 585,000	$ 575,000	2%
Cameron M. Bready	$ 530,000	$ 500,000	6%
Guido F. Sacchi	$ 470,000	$ 375,000	25%
David L. Green	$ 400,000	$ 320,000	25%

Short-Term Incentive Plan

Under our short-term incentive plan, we provide our named executive officers with short-term incentive opportunities to motivate and reward them for the achievement of our defined business goals and objectives. Our short-term incentive plan provides an opportunity for executives to earn variable at-risk cash compensation and is designed to allow annual incentive awards that are fully deductible under Section 162(m) of the Code as further described under Compensation, Discussion and Analysis Tax Considerations on page 51 below.

Target Bonus Opportunities

For fiscal 2016, after its review of the market data, our Compensation Committee approved the following target bonus opportunities for each of our named executive officers, expressed as a percentage of base salary:

	Target Award Opportunity	% of Base Salary
Jeffrey S. Sloan	$ 1,500,00	150%
David E. Mangum	$ 585,000	100%
Cameron M. Bready	$ 477,000	90%
Guido F. Sacchi	$ 399,500	85%
David. L. Green	$ 320,000	80%

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Performance Metrics

For fiscal 2016, the Compensation Committee allocated the target opportunity under the short-term incentive plan evenly among the following three performance metrics (each as adjusted by the Compensation Committee for certain acquisitions and divestitures, including without limitation the Heartland transaction): adjusted cash EPS, adjusted net revenue and adjusted operating margin. The methodology for determining, and the rationale for using, each component in the plan is outlined in the following table:

Metric	Definition	Rationale for Use
Adjusted Cash EPS	Cash EPS, as described under Additional Information Non-GAAP Financial Measures beginning on page 66, excluding the impact of foreign currency exchange.	Adjusted cash EPS is a primary metric management uses to more clearly focus on the economic benefits to our core business and other factors we believe are pertinent to the daily management of our operations.
Adjusted Net Revenue	Adjusted net revenue, as described under Additional Information Non-GAAP Financial Measures beginning on page 66, excluding the impact of foreign currency exchange.	Adjusted net revenue excludes gross-up related payments associated with certain wholesale lines of business to reflect economic benefits to the company. Adjusted net revenue demonstrates our performance in further penetrating our global footprint and executing against our market opportunities.
Adjusted Operating Margin	GAAP operating income, as described under Additional Information Non-GAAP Financial Measures beginning on page 66, excluding the impact of foreign currency exchange, divided by adjusted net revenue as described above.	Adjusted operating margin allows us to assess the quality and efficiency of our operations to promote a long-term outlook.

Because these performance metrics are calculated for the sole purpose of determining compensation, they may differ from similar non-GAAP financial measures reported elsewhere. For each of these separately-calculated performance metrics, each named executive officer could earn up to 200% of the target opportunity.

Degree of Performance Attainment	Adjusted Cash EPS Weighted 33%	Adjusted Net Revenue Weighted 33%	Adjusted Operating Margin Weighted 33%	Total Opportunity
Maximum	200%	200%	200%	200%
Target	100%	100%	100%	100%
Threshold	50%	50%	50%	50%
Below Threshold	0%	0%	0%	0%

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The following table sets forth the range of goals for fiscal 2016 annual performance measures, our actual performance results for fiscal 2016 and the resulting payouts (expressed as a percentage of target). Per-share amounts are split-adjusted.

Performance / Payout	Adjusted Cash EPS	Adjusted Net Revenue (millions)	Adjusted Operating Margin
Performance thresholds:			
Maximum	$ 2.93	$ 2,124	28.80%
Target	$ 2.84	$ 2,062	28.60%
Threshold	$ 2.70	$ 1,959	28.10%
Below Threshold	$ <2.70	$ <1,958	<28.10%
Actual fiscal 2016 performance	$ 3.02	$ 2,087	29.50%
Actual payout	200%	142%	200%

Payouts for 2016 Short-Term Incentive Plan

The following table summarizes the final annual performance incentive plan payouts for each named executive officer based on fiscal 2016 performance for each performance metric and in total:

Name	Adjusted Cash EPS	Adjusted Net Revenue	Adjusted Operating Margin	Total Payout	Percentage Of Target Payout
Jeffrey S. Sloan	$ 1,000,000	$ 710,000	$ 1,000,000	$ 2,710,000	181%
David E. Mangum	$ 390,000	$ 276,900	$ 390,000	$ 1,056,900	181%
Cameron M. Bready	$ 318,000	$ 225,780	$ 318,000	$ 861,780	181%
Guido F. Sacchi	$ 266,333	$ 189,097	$ 266,333	$ 721,763	181%
David L. Green	$ 213,333	$ 151,467	$ 213,333	$ 578,133	181%

Long-Term Incentive Plan

Each year, we grant long-term incentive awards, which we refer to as LTIs, to executives and other key employees throughout the company. All LTI grants are made pursuant to our 2011 Incentive Plan, which was last approved by our shareholders at our 2011 annual shareholders meeting. All grants of LTIs to our named executive officers were approved by the Compensation Committee and based on target values consistent with the executives skills, responsibilities, experience and performance in relation to comparable positions in the marketplace. LTIs align the executives interests with those of the shareholders by linking their compensation to our share price.

The annual LTI grants for our named executive officers represent pay opportunity for performance at the following targets in the aggregate:

Name	Performance Units	Stock Options	Restricted Stock	Total
Jeffrey S. Sloan	$ 2,250,000	$ 1,125,000	$ 1,125,000	$ 4,500,000
David E. Mangum	$ 775,000	$ 387,500	$ 387,500	$ 1,550,000
Cameron M. Bready	$ 625,000	$ 312,500	$ 312,500	$ 1,250,000
Guido F. Sacchi	$ 400,000	$ 200,000	$ 200,000	$ 800,000
David L. Green	$ 375,000	$ 187,500	$ 187,500	$ 750,000

Approximately half of the LTIs granted to the executives for fiscal 2016 were in the form of performance units (expressed at target), approximately 25% were in the form of stock options, and approximately 25% were in the form of time-based restricted shares of common stock. The LTI mix for fiscal 2016 was the same as for fiscal

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2015. In determining the appropriate mix, the Compensation Committee took into account competitive market practices of peer groups companies, its belief that a blend of equity awards provides both an incentive and retention effect, and its belief that the utilization of the various LTI awards mitigates compensation risk that may be associated with the use of a single LTI vehicle.

Performance Units

In fiscal 2016, our Compensation Committee allocated 50% of the value of the target LTI awards to performance units. The performance units granted to the named executive officers in fiscal 2016 are earned based on the growth of our annual adjusted cash EPS over a three-year performance period. At the beginning of the performance period, the threshold, target and maximum annual adjusted cash EPS growth rates are set by the Compensation Committee for the entire three-year performance period. The threshold, target and maximum cash EPS growth goal for each of the three years in the performance period is determined as a percentage increase over the actual results from the prior fiscal year, assuming constant currencies.

At the end of the performance period, the adjusted cash EPS growth performance for each year (calculated separately based on actual cash EPS from the preceding year) is evaluated and the calculated payout percentage (0% to 200% of target) is certified by the Compensation Committee. The final payout percentage (as a percentage of target) is determined as the average of each of the three annual payout percentages. As a result, payouts for the second and third year of the performance period will be conditioned on continued growth over a long-term period. Because growth rates are calculated separately for each year in the performance period and are not aggregated over the three-year performance period, the plan allows for a long-term growth goal while recalibrating to actual performance on an annual basis.

The earned units will convert into unrestricted shares on the third anniversary of the performance unit grant date, provided that the Compensation Committee has previously certified the performance results described above. As a result, there is no payout of the award until the end of the three-year performance period.

The following table summarizes the performance units based on financial performance metrics at target granted during fiscal 2016:

Name	Target Allocation to Performance Units	Actual Number of Performance Units Granted[1]
Jeffrey S. Sloan	$ 2,250,000	40,238
David E. Mangum	$ 775,000	13,860
Cameron M. Bready	$ 625,000	11,178
Guido F. Sacchi	$ 400,000	7,154
David L. Green	$ 375,000	6,708

(1) Calculated as the target allocation to performance units (in dollars) divided by our stock price on the grant date ($55.92 after adjusting for the stock split).

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Stock Options

In fiscal 2016, our Compensation Committee allocated 25% of the value of the target LTI awards to stock options. Our Compensation Committee believes stock options provide a strong incentive for creation of long-term shareholder value, as stock options may be exercised for a profit only to the extent the price of the Company s stock appreciates after the grant date. The exercise price is the closing price of the stock on the grant date. We do not grant discounted options or re-price previously granted options. The stock options vest in equal installments on each of the first three anniversaries of the grant date, subject to the executive s continued employment with us on each vesting date. During fiscal 2016, the Compensation Committee approved the following stock option grants for each of the named executive officers:

Name	Target Allocation to Stock Options	Number of Stock Options Granted[1]
Jeffrey S. Sloan	$ 1,125,000	71,204
David E. Mangum	$ 387,500	24,526
Cameron M. Bready	$ 312,500	19,780
Guido F. Sacchi	$ 200,000	12,660
David L. Green	$ 187,500	11,868

(1) Calculated based on the closing price of our stock on the grant date and the Black-Scholes conversion ratio approved by the Compensation Committee at the time the grants were approved, as adjusted for the stock split. Figures in the tables under Compensation of Named Executive Officers beginning on page 53 may be slightly different as they reflect specific accounting methodologies required for table reporting as described therein.

Time-Based Restricted Stock

In fiscal 2016, our Compensation Committee allocated 25% of the value of target LTI awards to restricted stock. Our Compensation Committee believes restricted stock provides a retentive element to the long-term incentive program while still maintaining alignment with the long-term interests of our shareholders by tying the value of the awards to the value of our stock price. The restricted shares vest in equal installments on each of the first three anniversaries of the grant date, subject to the executive s continued employment with us on each vesting date.

Our named executive officers received the following number of restricted shares as part of the annual compensation plan for fiscal 2016:

Name	Target Allocation to Restricted Stock	Number of Restricted Shares Granted[1]
Jeffrey S. Sloan	$ 1,125,000	20,120

David E. Mangum	$	387,500	6,930
Cameron M. Bready	$	312,500	5,590
Guido F. Sacchi	$	200,000	3,578
David L. Green	$	187,500	3,354

(1) Calculated as the target allocation to restricted stock (in dollars) divided by the stock price as of the grant date ($55.92 after adjusting for the stock split).

Supplemental Awards

Synergy Incentive Program

Acquisitions have been and remain a key component of our strategy. Unlike our previous acquisitions, our merger with Heartland is transformative for our company. The purchase price of approximately $3.9 billion exceeds all of our prior acquisitions in recent history combined. We intend to generate substantial synergies by fully integrating Heartland s operations into ours.

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Aligning the synergy initiatives of the Heartland merger to the compensation of our key personnel, including our executive management team, will drive the achievement of the initiatives which, in turn, are intended to increase the accretive nature of the transaction and create enterprise value to our shareholders. Accordingly, our Compensation Committee met on April 8, 2016 in anticipation of the merger to discuss and approve a framework for a synergy incentive program designed to maximize synergies relating to the Heartland transaction. The synergy performance units were granted on June 8, 2016, following the Compensation Committee s regularly scheduled meeting on that date, at which the Compensation Committee approved all of the material terms and conditions of the awards. The grant date fair value of the synergy performance units is excluded from the Summary Compensation Table under Compensation of Named Executive Officers because the units were not granted during fiscal 2016, but will be included in the Summary Compensation Table for the 2016 fiscal transition period.

Under the synergy incentive program, certain eligible employees, including each of our named executive officers, have an opportunity to earn cash and shares of our stock, subject to a maximum limit, based upon the achievement between April 22, 2016 (the closing date for the transaction) and August 31, 2018 of pre-established synergy goals established by our Compensation Committee.

The following chart summarizes the target and maximum award opportunities pursuant to the synergy incentive program for each of our named executive officers.

Name	Target	Maximum
Jeffrey S. Sloan	$ 2,200,000	$ 3,800,000
David E. Mangum	$ 1,800,000	$ 3,200,000
Cameron M. Bready	$ 1,500,000	$ 2,800,000
Guido F. Sacchi	$ 1,300,000	$ 2,400,000
David L. Green	$ 500,000	$ 700,000

The Compensation Committee allocated 50% of the maximum award opportunity to cash and 50% to performance units, as described in the following table.

Name	Maximum Allocation to Cash Award	Maximum Allocation to Performance Units	Actual Number of Performance Units Granted(1)
Jeffrey S. Sloan	$ 1,900,000	$ 1,900,000	25,925
David E. Mangum	$ 1,600,000	$ 1,600,000	21,832
Cameron M. Bready	$ 1,400,000	$ 1,400,000	19,103
Guido F. Sacchi	$ 1,200,000	$ 1,200,000	16,374
David L. Green	$ 350,000	$ 350,000	4,776

(1) Calculated as the maximum allocation to performance units (in dollars) divided by our stock price on the closing date of the Heartland transaction ($73.29).

Depending on the Compensation Committee s certification of the achievement of the synergy goals as presented by an independent accounting firm, each of the named executive officers may earn an award up to the maximum award set

forth above, subject to our Compensation Committee s negative discretion to pay a lesser amount based upon the achievement of the synergy goals. Achievement of synergies below target will result in zero payout. Achievement between target and maximum will result in a payout interpolated between the target and maximum payouts. No incentive is paid for synergies above the maximum goal. Our Compensation Committee has the final authority to determine whether a specific item qualifies as cost savings under the synergy incentive program. The cash portion, to the extent earned, will be paid out no later than the pay period immediately following August 31, 2018, subject to the executive s continued employment with us on such date. Half of any earned performance units will convert into unrestricted shares on August 31, 2018, and the remaining units will convert to unrestricted shares on August 31, 2019, subject to the executive s continued employment with us on each respective date.

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Prior Year Awards of Restricted Stock Units Earned in Fiscal 2016

During fiscal 2014, we granted TSR units, or the fiscal 2014 TSR units, which are performance-based restricted stock units earned based on our future three-year total shareholder return compared to the constituent companies in the S&P 500 as of June 1 each year. Once the performance results are certified, the fiscal 2014 TSR units convert into unrestricted shares of common stock. No TSR units were granted during fiscal 2015 or fiscal 2016, but the fiscal 2014 TSR units were earned in fiscal 2016 and were or will be converted into unrestricted shares during the 2016 fiscal transition period. The following table summarizes the structure of the fiscal 2014 TSR units:

Percentile in 3-Year TSR vs. Comparator Group	Resulting Shares Earned (% of Target)
90th or above	200%
70th	150%
50th	100%
30th	50%
<30th	0%

The final payout for the fiscal 2014 TSR units was 200%, determined based on the average of the hypothetical payouts related to our relative TSR positioning as of August 31, 2015, November 30, 2015, February 28, 2016 and May 31, 2016, using straight-line interpolation. As a result, for the 2014 TSR units, our named executive officers earned the split-adjusted number of units set forth below, which were converted to unrestricted shares on a one-for-one basis:

Name	Fiscal 2014 TSR Units
Jeffrey S. Sloan[(1)]	119,732
David E. Mangum	44,284
Cameron M. Bready[(2)]	
Guido F. Sacchi	17,328
David L. Green[(2)]	

(1) Represents payouts for two fiscal 2014 TSR units granted to Mr. Sloan on July 26, 2013 and October 1, 2013, respectively, each based on a three-year performance period ending May 31, 2016.

(2) Mr. Bready and Mr. Green did not receive fiscal 2014 TSR units.

Other Benefits

Our named executive officers are eligible to participate in other health and welfare programs that are available to substantially all full-time salaried employees, including our 401(k) plan.

Perquisites offered to our named executive officers on an annual basis are limited to financial planning. These items create taxable income to the executive, which we do not gross up. In addition, we may ask named executive officers and their spouses to participate in President s Club trips offered as rewards to certain other employees for excellent sales or other performance. We treat the expenses of spouses as taxable income to the executives. Because spousal participation is at our request and can be disruptive to other plans they may have, we gross up that taxable income.

Our named executive officers are also eligible to participate in our non-qualified deferred compensation plan, pursuant to which they may elect to defer up to 100% of their base salary and other forms of compensation. We do not make contributions to the deferred compensation plan. In fiscal 2016, none of our named executive officers made any contributions to or withdrawals from the plan. See Compensation of Named Executive Officers Non-Qualified Deferred Compensation Plan on page 58 for more detail regarding the plan.

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Employment Agreements

We are party to an employment agreement with all of our named executive officers. These employment agreements provide benefits to our company and, we believe, are necessary in order to attract and retain highly-qualified executives. Each named executive officer who is a party to an employment agreement has agreed not to disclose confidential information or compete with us, and not to solicit our customers or recruit our employees, for a period of generally 24 months following the termination of his or her employment. In exchange, we offer limited income and benefit protections to the executive, but we do not provide for any excise tax gross-ups. All of our employment agreements with named executive officers contain a term.

Policies and Guidelines

Policy Regarding Timing of Equity Grants

Our Compensation Committee, in its discretion, typically makes the annual grant to all eligible employees as soon as practicable after (but no earlier than) the first business day following the issuance of our earnings release for the fourth quarter of our preceding fiscal year based upon the closing price of our common stock on the grant date. Our Compensation Committee from time to time may approve supplemental or other non-recurring grants outside of our annual compensation program at any other time.

Anti-Hedging Policy

Our insider trading policy prohibits directors and employees from engaging in any transaction in which they profit if the value of our common stock declines.

Target Stock Ownership Guidelines

The Compensation Committee has implemented stock ownership guidelines for our executives. This fosters equity ownership and aligns the interests of our executives with our shareholders. Within five years of the executive s initial appointment to his or her position, our Chief Executive Officer is expected to beneficially own a number of shares at least equal to 500% of his or her base salary, and all other executives are expected to beneficially own a number of shares at least equal to 200% of their base salary. Additionally, each executive is required to hold his or her stock or other securities until the executive has met the applicable ownership guideline. Each of our executive officers was in compliance with the stock ownership guidelines as of the record date.

Clawback Policy

The Compensation Committee has adopted a clawback policy, pursuant to which we may recoup all or any portion of the value of any annual or long-term incentive awards provided to any current or former executive officers in the event that our financial statements are restated due to material noncompliance with any financial reporting requirement under the securities laws.

Tax Considerations

Section 162(m) of the Code places a limit of $1,000,000 on the amount of compensation that we may deduct in any one year with respect to any one of our named executive officers (other than our Chief Financial Officer). However, qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. The 2011 Incentive Plan is designed to allow the Compensation Committee to grant awards that may qualify for the

performance-based compensation exemption from Section 162(m), such as the performance-based restricted stock units and synergy incentive awards granted in fiscal 2016. Our short-term incentive plan, as a subplan of the 2011 Incentive Plan, also allows annual cash incentive awards that may qualify as performance-based compensation. Under the 2011 Incentive Plan, the minimum threshold performance goal that our Compensation Committee sets for each plan year is the achievement of positive operating income, as reflected in our consolidated statements of income and filed with our Annual Report on Form 10-K for such fiscal year, which we refer to as threshold operating income performance. No bonuses will be payable under the short-term incentive plan unless we achieve threshold operating income performance. In any year that our

company achieves threshold operating income performance, our Chief Executive Officer s maximum award is 2% of such operating income and each other named executive officer s maximum award is 1% of such operating income (but in no event in excess of $10,000,000 per participant). The Compensation Committee then uses negative discretion to pay a lesser amount. To guide it in exercising such discretion, the Compensation Committee establishes intermediate performance metrics and their respective weightings, and intermediate award opportunity ranges, as it deems appropriate to encourage and reward particular areas of performance.

A number of requirements must be met for particular compensation to qualify under Section 162(m), so there can be no assurance that any compensation awarded will be fully deductible under all circumstances. Also, to maintain flexibility in compensating our executives, the Compensation Committee reserves the right to use its judgment to authorize compensation payments that may be subject to the deduction limit when the Compensation Committee believes that such payments are appropriate.

Report of Compensation Committee Members

The members of the Compensation Committee at the time the compensation of our named executive officers for fiscal 2016 was approved have reviewed and discussed the foregoing section entitled Compensation Discussion and Analysis with management. Based on such review and discussion, these Compensation Committee members recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement, which is to be incorporated by reference into the Company s Annual Report on Form 10-K for fiscal 2016.

COMPENSATION COMMITTEE MEMBERS

William I Jacobs, Chair

Ruth Ann Marshall

John M. Partridge

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Compensation of Named Executive Officers

Summary Compensation Table

The following table presents certain summary information concerning compensation that we paid or accrued for services rendered in all capacities during the fiscal years ended May 31, 2016, 2015 and 2014, which we refer to respectively as fiscal 2016, fiscal 2015 and fiscal 2014, for our named executive officers.

Name and Principal Position	Fiscal Year	Salary ($)[1]	Bonus ($)[2]	Stock Awards ($)[3]	Option Awards ($)[4]	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)[5]	Total ($)
Jeffrey S. Sloan	2016	$ 1,000,000		$ 3,375,219	$ 1,110,782	$ 2,710,000	$ 41,401	$ 8,237,403
Chief Executive Officer	2015	$ 900,000		$ 6,045,511	$ 1,120,533	$ 2,106,324	$ 33,179	$ 10,205,547
	2014	$ 739,333	$ 350,000	$ 3,825,841		$ 1,103,390	$ 41,943	$ 6,060,507
David E. Mangum	2016	$ 585,000		$ 1,162,577	$ 382,606	$ 1,056,900	$ 35,111	$ 3,222,194
President and Chief Operating Officer	2015	$ 575,000		$ 2,252,574	$ 385,970	$ 996,820	$ 29,205	$ 4,239,569
	2014	$ 530,000	$ 315,000	$ 1,293,079		$ 569,607	$ 27,600	$ 2,735,286
Cameron M. Bready	2016	$ 530,000		$ 937,667	$ 308,568	$ 861,780	$ 35,715	$ 2,673,730
EVP and Chief Financial Officer	2015	$ 458,904		$ 3,715,644	$ 311,266	$ 736,780	$ 281,974	$ 5,504,568
Guido F. Sacchi	2016	$ 470,000		$ 600,133	$ 197,496	$ 721,763	$ 29,253	$ 2,018,645
EVP and Chief Information Officer	2015	$ 375,000		$ 1,049,899	$ 174,322	$ 390,060	$ 28,400	$ 2,017,681
	2014	$ 350,200		$ 505,981		$ 212,428	$ 21,859	$ 1,090,468
David L. Green	2016	$ 400,000		$ 562,667	$ 185,141	$ 578,133	$ 35,682	$ 1,761,623
EVP, General Counsel and	2015	$ 320,000		$ 799,549	$ 130,745	$ 277,376	$ 27,543	$ 1,555,213

Corporate
Secretary

(1) Represents base salary earned during the fiscal year.

(2) This column represents the discretionary bonus amounts paid for fiscal 2014.

(3) This column reflects the aggregate grant date fair value of awards of time-based restricted shares of our common stock and awards of performance-based restricted stock units (including performance units and, for fiscal 2015, supplemental leveraged performance units, or LPUs). The aggregate grant date fair value of awards of time-based restricted shares was calculated in accordance with FASB ASC Topic 718, based on the value of the underlying shares. The aggregate grant date fair value of awards of performance-based restricted stock units was calculated in accordance with FASB ASC Topic 718, based on the value of the underlying shares and the probable outcome of performance-based vesting conditions on the grant date (at target performance levels), excluding the effect of estimated forfeitures.

The tables below set forth the maximum grant date fair value for all performance-based awards granted during fiscal 2016, fiscal 2015 and fiscal 2014 for which an amount less than the maximum is reflected in the table above, assuming that the highest levels of performance conditions were achieved.

	Fiscal 2016 Performance Units	
Name	Grant Date Fair Value at Target	Value Assuming Highest Performance
Jeffrey S. Sloan	$ 2,250,000	$ 4,500,000
David E. Mangum	$ 775,000	$ 1,550,000
Cameron M. Bready	$ 625,000	$ 1,250,000
Guido F. Sacchi	$ 400,000	$ 800,000
David L. Green	$ 375,000	$ 750,000

				Fiscal 2015			
		Performance Units					75
Equity securities	1	0	0	35	53	35	53
Total	99	$ 130,878	$ 1,137	$ 53,110	$ 37,755	$ 183,988	$ 38,892
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
Other residential mortgage-backed securities	2	21,227	176	598	6	21,825	182
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 95% of collateralized mortgage obligations ("CMOs") 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 issued by state and municipal authorities, and the majority are supported by third-party insurance or some other form of credit enhancement. Management does not believe any individual unrealized loss as of September 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 at maturity.

The unrealized losses on CDOs as of September 30, 2010 reflect 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 likely than not that the Company will be required to sell them

before recovery of their amortized cost bases, which may be at 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 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 these CDOs, 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 this valuation methodology, refer to Note 14, "Fair Value."

Certain Characteristics and Metrics of the CDOs as of September 30, 2010
(Dollar amounts in thousands)

Number	Class	Original Par	Amortized Cost	Fair Value	Lowest Credit Rating Assigned to the Security: Moody's	Fitch	Number of Banks/ Insurers	Percentage of Banks/ Insurers Currently Performing	Actual Deferrals and Defaults as a Percentage of the Original Collateral	Excess Subordination as a Percent of the Remaining Performing Collateral (1)
1	C-1	$ 17,500	$ 7,140	$ 2,401	Ca	C	57	64.9%	32.1%	0.0%
2	C-1	15,000	7,657	1,636	Ca	C	69	75.4%	26.8%	0.0%
3	C-1	15,000	13,480	3,253	Ca	C	75	73.3%	18.1%	9.1%
4	B1	15,000	13,922	4,367	Ca	C	64	65.6%	22.9%	9.4%
5	C	10,000	1,317	88	Ca	C	56	67.9%	36.0%	0.0%
6	C	6,500	6,179	1,679	Ca	C	77	71.4%	22.2%	11.7%
7	A-3L	6,750	0	0	C	C	86	58.1%	41.4%	0.0%
		$ 85,750	$ 49,695	$ 13,424						

(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 CDO Impairment Losses
(Dollar amounts in thousands)

Number	Quarters Ended September 30, 2010: 2010	2009	Nine Months Ended September 30,: 2010	2009	Life-to-Date
1	$ 0	$ 3,547	$ 0	$ 7,296	$ 10,360
2	0	3,195	794	5,496	7,343
3	142	202	142	762	1,159
4	0	0	684	0	1,078
5	711	2,711	2,801	2,711	8,570
6	0	0	243	0	243
7	0	1,845	0	2,306	6,750
	$ 853	$ 11,500	$ 4,664	$ 18,571	$ 35,503

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 both the near-term and long-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 at maturity. Management does not believe any individual unrealized loss is attributable to credit quality, but rather to changes in interest rates and temporary market movements.

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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 $888.9 million at September 30, 2010 and $1.0 billion at December 31, 2009.

4. LOANS

Loan Portfolio
(Dollar amounts in thousands)

	September 30, 2010	December 31, 2009
Commercial and industrial	$ 1,472,439	$ 1,438,063
Agricultural	212,800	209,945
Commercial real estate:		
Office	402,947	394,228
Retail	329,153	331,803
Industrial	483,549	486,934
Total office, retail, and industrial	1,215,649	1,212,965
Residential construction	226,126	313,919
Commercial construction	98,562	134,680
Commercial land	94,479	96,838
Total construction	419,167	545,437
Multi-family	350,458	333,961
Investor-owned rental property	119,974	119,132
Other commercial real estate	717,903	679,851
Total commercial real estate	2,823,151	2,891,346
Total corporate loans	4,508,390	4,539,354
Direct installment	43,875	47,782
Home equity	457,981	470,523
Indirect installment	4,310	5,604
Real estate – 1-4 family	150,110	139,983
Total consumer loans	656,276	663,892
Total loans, excluding covered loans	5,164,666	5,203,246
Covered loans (1)	487,755	214,264
Total loans	$ 5,652,421	$ 5,417,510
Deferred loan fees included in total loans	$ 8,023	$ 8,104
Overdrawn demand deposits included in total loans	$ 3,034	$ 4,837

(1) Includes the FDIC indemnification asset of $88.7 million at September 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 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 as well as the Company's lending standards and credit monitoring and remediation procedures.

During third quarter 2010, we disposed of $30.2 million of primarily non-performing loans at a loss of $13.7 million in two separate transactions. One of the transactions was a bulk sale representing 36 relationships. The Company did not retain servicing responsibilities for these loans or any recourse for credit losses.

5. ALLOWANCE FOR CREDIT LOSSES AND IMPAIRED LOANS

Allowance for Credit Losses
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ 145,477	$ 127,528	$ 144,808	$ 93,869
Loans charged-off	(35,806)	(32,118)	(80,535)	(84,301)
Recoveries of loans previously charged-off	1,772	859	7,294	2,029
Net loans charged-off	(34,034)	(31,259)	(73,241)	(82,272)
Provision for credit losses	33,576	38,000	73,452	122,672
Balance at end of period (1)	$ 145,019	$ 134,269	$ 145,019	$ 134,269

(1)Includes a $450,000 liability for unfunded commitments as of September 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)

	September 30, 2010	December 31, 2009
Impaired loans:		
Impaired loans with valuation allowance required (2)	$ 35,600	$ 45,246
Impaired loans with no valuation allowance required	175,423	216,074
Total impaired loans, excluding covered loans	$ 211,023	$ 261,320
Non-accrual loans:		
Impaired loans on non-accrual	$ 200,021	$ 230,767
Other non-accrual loans (3)	11,345	13,448
Total non-accrual loans, excluding covered loans	$ 211,366	$ 244,215
Restructured loans, still accruing interest	$ 11,002	$ 30,553
Loans past due 90 days or more and still accruing interest	$ 9,136	$ 4,079
Valuation allowance related to impaired loans	$ 11,881	$ 20,170

(1)For information on covered loans, refer to Note 6, “Covered Assets.”
(2)These impaired loans require a valuation allowance because the present value of expected future cash flows 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.

	Nine Months Ended September 30,	
	2010	2009
Average recorded investment in impaired loans	$ 217,168	$ 207,011
Interest income recognized on impaired loans (1)	1,925	99

(1)Recorded using the cash basis of accounting.

As of September 30, 2010, the Company had $57.1 million of additional funds committed to be advanced in connection with impaired loans.

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6. COVERED ASSETS

Since October 2009, the Company has acquired the majority of the assets of three financial institutions in FDIC-assisted transactions. Most loans and other real estate owned ("OREO") acquired in the acquisitions are covered by loss sharing agreements with the FDIC (the "Agreements"), whereby the FDIC will reimburse the Company for the majority of the losses incurred.

The following table presents certain key data related to the Company's acquisitions.

FDIC-Assisted Transactions
(Dollar amounts in thousands)

Date acquired	First DuPage Bank ("First DuPage") October 23, 2009	Peotone Bank and Trust Company ("Peotone") April 23, 2010	Palos Bank and Trust Company ("Palos") August 13, 2010
Total assets of acquired institution, at the date of acquisition	$ 261,422	$ 129,447	$ 493,435
Bargain-purchase gains	13,071	4,303	0
Goodwill	0	0	7,941
Stated loss threshold	65,000	N/A	117,000
Reimbursement rate (1):			
Before stated loss threshold	80%	80%	70%
After stated loss threshold	95%	N/A	80%

(1)Represents the rate at which the FDIC will reimburse the Company for losses incurred.

Total covered assets as of September 30, 2010 and December 31, 2009 are as follows:

Covered Assets
(Dollar amounts in thousands)

	September 30, 2010	December 31, 2009
Covered loans	$ 399,032	$ 146,319
FDIC indemnification asset	88,723	67,945
Total covered loans	487,755	214,264
Covered other real estate owned	31,550	8,981
Total covered assets	$ 519,305	$ 223,245
Covered loans past due 90 days or more and still accruing interest	$ 74,777	$ 30,286

The loans purchased in the three FDIC-assisted 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. An allowance for loan losses was not recorded on these loans at the acquisition date. Except for leases and revolving loans, including lines of credit and credit card loans, management determined that a significant portion of the 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 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 is reasonably estimable. The non-accretable yield

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represents estimated losses in the portfolio and is equal to the difference between contractually required payments and the cash flows expected to be collected at acquisition.

In connection with the 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 Agreements.

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 asset 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 estimated 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. Similarly, decreases in the related FDIC indemnification asset are recognized as a reduction to 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 allowance for loan losses and a related increase in the FDIC indemnification asset.

Although some loans were contractually 90 days or more past due at the acquisition date, none of the purchased impaired loans at September 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)

	Nine Months Ended September 30, 2010
Balance at beginning of period	$ 9,298
Additions	41,745
Accretion	(10,461)
Reclassifications from non-accretable difference, net	18,230
Balance at end of period	$ 58,812

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 contribution to its wholly-owned banking subsidiary, First Midwest Bank ("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 Company recorded the assets 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 allowance for loan losses was recorded at the Company on the date of the purchase of these assets. As of September 30, 2010, the Company had $119.5 million in non-performing assets. Since the Bank'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.

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There were no additional material transactions that affected stockholders' equity during the quarter or nine months ended September 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 GAAP. The Company includes the following items, net of tax, in Other comprehensive income in the Consolidated Statements of Changes in Stockholders' Equity: changes in unrealized gains or losses on securities available-for-sale, changes in the fair value of derivatives designated under cash flow hedges, and changes in the funded status of the Company's pension plan.

Components of Other Comprehensive Income (Loss)
(Dollar amounts in thousands)

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Securities available-for-sale:						
Unrealized holding gains	$ 26,254	$ 10,230	$ 16,024	$ 30,978	$ 12,069	$ 18,909
Less: Reclassification of net gains included in net income	10,755	4,194	6,561	7,882	3,075	4,807
Net unrealized holding gains	15,499	6,036	9,463	23,096	8,994	14,102
Funded status of pension plan:						
Unrealized holding losses	0	0	0	(1,650)	(644)	(1,006)
Total other comprehensive income	$ 15,499	$ 6,036	$ 9,463	$ 21,446	$ 8,350	$ 13,096

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 income (loss)		14,102		(1,006)		13,096
Balance at September 30, 2009	$	803	$	(17,020)	$	(16,217)
Balance at January 1, 2010	$	(13,015)	$	(5,651)	$	(18,666)
Other comprehensive income		9,463		0		9,463
Balance at September 30, 2010	$	(3,552)	$	(5,651)	$	(9,203)

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9. EARNINGS PER COMMON SHARE

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	$ 2,585	$ 3,351	$ 18,475	$ 11,741
Preferred dividends	(2,412)	(2,412)	(7,237)	(7,237)
Accretion on preferred stock	(163)	(155)	(483)	(459)
Net income applicable to non-vested restricted shares	1	(11)	(145)	(54)
Net income applicable to common shares	$ 11	$ 773	$ 10,610	$ 3,991
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding (basic)	73,072	48,942	72,199	48,647
Dilutive effect of common stock equivalents	0	0	0	0
Weighted-average diluted common shares outstanding	73,072	48,942	72,199	48,647
Basic earnings per common share	$ 0.00	$ 0.02	$ 0.15	$ 0.08
Diluted earnings per common share	$ 0.00	$ 0.02	$ 0.15	$ 0.08
Anti-dilutive shares not included in the computation of diluted earnings per common share (1)	3,799	3,964	3,832	4,009

(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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Components of net periodic benefit cost:				
Service cost	$ 569	$ 547	$ 1,763	$ 2,707
Interest cost	726	535	1,999	2,653
Expected return on plan assets	(1,029)	(731)	(3,109)	(3,624)
Recognized net actuarial loss	6	185	6	917
Amortization of prior service cost	0	0	2	2
Other	0	118	0	586
Net periodic cost	$ 272	$ 654	$ 661	$ 3,241

11. INCOME TAXES
Income Tax (Benefit) Expense
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
(Loss) income before income tax (benefit) expense	$ (1,387)	$ (2,569)	$ 14,997	$ (10,093)
Income tax (benefit) expense:				
Federal income tax benefit	$ (3,610)	$ (4,285)	$ (3,892)	$ (15,079)
State income tax (benefit) expense	(362)	(1,635)	414	(6,755)
Total income tax benefit	$ (3,972)	$ (5,920)	$ (3,478)	$ (21,834)

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

The decrease in income tax benefit from third quarter 2009 to third quarter 2010 was attributable to an increase in pre-tax income, the recording of state tax benefits totaling $1.3 million in the third quarter of 2009, and to a decrease in tax-exempt income from investment securities. The decrease in income tax benefit for the first nine months of 2010 in comparison to the same period in 2009 was attributable to the recording of state tax benefits totaling $4.1 million in the first quarter of 2009 and the other factors previously stated.

12. 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, 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)

	September 30, 2010	December 31, 2009
Commitments to extend credit:		
Home equity lines	$ 257,321	$ 272,290
Credit card lines to businesses	13,690	12,443
1-4 family real estate construction	29,373	41,436
Commercial real estate	216,531	190,573
Commercial and industrial	584,958	539,304
Overdraft protection program	172,556	0
All other commitments	110,134	117,572
Letters of credit:		
1-4 family real estate construction	11,893	17,152
Commercial real estate	50,338	53,534
All other	75,896	71,738
Unamortized fees associated with letters of credit (1)	723	755
Recourse on securitized assets	7,661	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 September 30, 2010, standby letters of credit had a remaining weighted-average term of approximately 12.8 months, with remaining actual lives ranging from less than one year to 4.9 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 2004, the Company is contractually obligated 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 both September 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Recourse loans repurchased during the period	$ 0	$ 336	$ 114	$ 336
Recourse loans charged-off during the period	$ 0	$ 0	$ 36	$ 66

Legal Proceedings

As of September 30, 2010, there were certain legal proceedings pending against the Company and its subsidiaries in the ordinary course of business. The Company does not believe that liabilities, individually or in the aggregate, arising from these proceedings, if any, would have a material adverse effect on the consolidated financial condition of the Company as of September 30, 2010.

13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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. To achieve its interest rate risk management objectives, the Company primarily uses interest rate swaps with indices that relate to the pricing of specific assets and liabilities. The nature and volume of the derivative instruments used to manage interest rate risk depend on the level and type of assets and liabilities held and the risk management strategies for the current and anticipated interest rate environment.

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

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 to earnings. For fair value hedges, the gain or loss is amortized over the remaining life of the hedged asset or liability. For cash flow hedges, the gain or loss is amortized over the same period(s) that the forecasted hedged transactions impact earnings. If the hedged item is disposed of, or the forecasted transaction is no longer probable, any fair value adjustments are included in the gain or loss from the disposition of the hedged item. In the case of a forecasted transaction that is no longer probable, the gain or loss is included in earnings immediately.

For effective fair value hedges, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. Accounting for cash flow hedges requires that the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income. The unrealized gain or loss is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings (for example, when a hedged item is terminated or redesignated). For all types of hedges, any ineffectiveness in the hedging relationship is recognized immediately in earnings during the period of change.

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During 2009 and 2010, the Company hedged the fair value of fixed rate commercial real estate loans through the use of pay fixed, receive variable interest rate swaps. These derivative contracts were designated as fair value hedges and are valued using observable market prices, if available, or third party cash flow projection models. The valuations produced by these pricing models are regularly validated through comparison with other third parties. The valuations and expected lives presented in the following table are based on yield curves, forward yield curves, and implied volatilities that were observable in the cash and derivatives markets as of September 30, 2010 and December 31, 2009.

Interest Rate Derivatives Portfolio
(Dollar amounts in thousands)

	September 30, 2010	December 31, 2009
Fair Value Hedges		
Related to fixed rate commercial loans		
Notional amount outstanding	$ 18,250	$ 19,005
Weighted-average interest rate received	2.17%	2.14%
Weighted-average interest rate paid	6.39%	6.40%
Weighted-average maturity (in years)	7.01	7.76
Derivative liability fair value	$ (2,570)	$ (1,208)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net hedge ineffectiveness recognized in noninterest income:				
Change in fair value of swaps	$ (449)	$ (320)	$ (1,325)	$ 973
Change in fair value of hedged items	447	317	1,320	(981)
Net hedge ineffectiveness (1)	$ (2)	$ (3)	$ (5)	$ (8)
Gains recognized in net interest income (2)	$ 0	$ 40	$ 0	$ 120

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

Derivative instruments are inherently subject to credit risk. Credit risk occurs 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 gains in agreements, monitoring the size and the maturity structure of the derivatives, and applying uniform credit standards for all activities with credit risk. Under Company policy, credit exposure to any single counterparty cannot exceed 2.5% of stockholders' equity. In addition, the Company established bilateral collateral agreements with its primary derivative counterparties that provide for exchanges of marketable securities or cash to collateralize either party's net gains above an agreed-upon minimum threshold. In determining the amount of collateral required, gains and losses are netted on derivative instruments with the same counterparty. On September 30, 2010, these collateral agreements covered 100% of the fair value of the Company's outstanding interest rate swaps. Net losses with counterparties must be collateralized with either cash or U.S. government and U.S. government-sponsored agency securities. The Company pledged cash of $2.4 million as of

September 30, 2010 and $1.8 million as of December 31, 2009 to collateralize net unrealized losses with its counterparties. No other collateral was required to be pledged as of September 30, 2010 or December 31, 2009. Derivative assets and liabilities are presented gross, rather than net of pledged collateral amounts. If the credit risk-related contingent features of the derivatives were triggered as of September 30, 2010, the aggregate fair value of assets needed to settle the instruments immediately would be $2.6 million.

As of September 30, 2010 and December 31, 2009, all of the Company's derivative instruments contained provisions that require the Company's debt to remain above a certain credit rating by each of the major credit rating agencies. If the Company's debt were to fall below that credit rating, it would be in violation of those provisions, and the counterparties to the derivative instruments could terminate the swap transaction and demand cash settlement of the derivative instrument in an amount equal to the derivative liability fair value. For the quarter and nine month periods ended September 30, 2010, the Company was not in violation of these provisions.

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The Company's derivative portfolio also includes derivative instruments not designated in a hedge relationship consisting of commitments to originate real estate 1-4 family mortgage loans. The amount of the mortgage loan commitments was not material for any period presented. The Company had no other derivative instruments as of September 30, 2010 or December 31, 2009. The Company does not enter into derivative transactions for purely speculative purposes.

14. FAIR VALUE

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

GAAP establishes a fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels based on the observability of the inputs. The three levels of the fair value hierarchy are defined as follows:

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

The categorization of an asset or liability within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. There have been no transfers of assets or liabilities between levels of the fair value hierarchy during the periods presented.

The following tables provide the level and fair value for each class of assets and liabilities measured at fair value.

Fair Value Measurements
(Dollar amounts in thousands)

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value on a recurring basis				
Assets:				
Trading securities:				
Money market funds	$ 996	$ 0	$ 0	$ 996
Bond funds	0	2,906	0	2,906
Equity funds	0	9,554	0	9,554
Balanced fund	0	328	0	328
Total trading securities	996	12,788	0	13,784
Securities available-for-sale (1):				
U.S. agency securities	0	24,135	0	24,135
Collateralized residential mortgage obligations	0	300,998	0	300,998
Other residential mortgage-backed securities	0	114,008	0	114,008
State and municipal securities	0	568,534	0	568,534
Collateralized debt obligations	0	0	13,424	13,424
Corporate debt securities	0	31,682	0	31,682
Hedge fund investment	0	1,649		1,649
Other equity securities	41	1,394	0	1,435
Total securities available-for-sale	41	1,042,400	13,424	1,055,865
Mortgage servicing rights (2)	0	0	1,090	1,090
Total assets	$ 1,037	$ 1,055,188	$ 14,514	$ 1,070,739
Liabilities:				
Derivative liabilities (2)	$ 0	$ 2,570	$ 0	$ 2,570
Assets measured at fair value on a non-recurring basis				
Collateral-dependent impaired loans (3)	$ 0	$ 0	$ 117,865	$ 117,865
Other real estate owned (4)	0	0	83,594	83,594
Total assets	$ 0	$ 0	$ 201,459	$ 201,459

Refer to the following page for footnotes.

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value on a recurring basis				
Assets:				
Trading securities:				
Money market funds	$ 1,763	$ 0	$ 0	$ 1,763
Bond funds	0	2,884	0	2,884
Equity funds	0	9,223	0	9,223
Balanced fund	0	366	0	366
Total trading securities	1,763	12,473	0	14,236
Securities available-for-sale:				
U.S. agency securities	0	756	0	756
Collateralized residential mortgage obligations	0	307,921	0	307,921
Other residential mortgage-backed securities	0	249,282	0	249,282
State and municipal securities	0	651,680	0	651,680
Collateralized debt obligations	0	0	11,728	11,728
Corporate debt securities	0	37,551	0	37,551
Hedge fund investment	0	1,426	0	1,426
Other equity securities	2,646	3,770	0	6,416
Total securities available-for-sale	2,646	1,252,386	11,728	1,266,760
Mortgage servicing rights (2)	0	0	1,238	1,238
Total assets	$ 4,409	$ 1,264,859	$ 12,966	$ 1,282,234
Liabilities:				
Derivative liabilities (2)	$ 0	$ 1,208	$ 0	$ 1,208
Assets measured at fair value on a non-recurring basis				
Collateral-dependent impaired loans (3)	$ 0	$ 0	$ 120,549	$ 120,549
Other real estate owned (4)	0	0	66,118	66,118
Total assets	$ 0	$ 0	$ 186,660	$ 186,660

(1)Excludes a miscellaneous equity security carried at cost with an aggregate carrying value totaling $2.7 million.

(2)Mortgage servicing rights are included in Other assets, and derivative liabilities are included in Other liabilities in the Consolidated Statements of Financial Condition.

(3)Represents the carrying value of loans for which fair value adjustments are based on the appraised or market-quoted value of the collateral, net of selling costs.

(4)Represents the estimated fair value, net of selling costs, based on appraised value and includes covered OREO.

The following describes the valuation methodologies used by the Company for assets and liabilities measured at fair value on a recurring basis.

Trading Securities – Trading securities represent diversified investment securities held in a grantor trust under deferred compensation arrangements in which plan participants may direct amounts earned to be invested in securities other than Company common stock. The trading securities held in the trust are invested in money market, bond, and equity funds. While the underlying securities within those funds are traded on an active exchange market, the bond and equity funds themselves are not. The fair value of trading securities invested in bond and equity funds is based on quoted market prices obtained from external pricing services, and the fair value of trading securities invested in money market funds is based on quoted market prices in active exchange markets. Accordingly, the fair value of trading securities invested in money market funds is classified in level 1, and the fair value of trading securities invested in bond and equity funds is classified in level 2 of the fair value hierarchy. All trading securities are reported at fair value, with unrealized gains and losses included in noninterest income.

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

Collateralized Residential Mortgage Obligations – The Company's CMOs and other mortgage-backed securities ("MBS") are classified in level 2 of the fair value hierarchy. Their fair value is based on quoted market prices obtained from external pricing services or dealer market participants where trading in an active market exists. Substantially all of these securities are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises.

	Collateralized Mortgage Obligations	Other Mortgage-Backed Securities
Weighted-average coupon rate	5.3%	5.3%
Weighted-average maturity (in years)	1.4	3.2
Information on underlying residential mortgages:		
Origination dates	2000 to 2009	2000 to 2009
Weighted-average coupon rate	6.2%	6.3%
Weighted-average maturity (in years)	8.4	7.7

Collateralized Debt Obligations – Due to the illiquidity in the secondary market for the Company's CDOs, the Company estimates the value of these securities using discounted cash flow analyses with the assistance of a structured credit valuation firm, and classifies these investments in level 3 of the fair value hierarchy. The valuation for each of the CDOs relies on independently verifiable historical financial data. The valuation firm performs a credit analysis of each of the entities comprising the collateral underlying each CDO in order to estimate the entities' likelihood of default on their trust-preferred obligations. Cash flows are modeled according to the contractual terms of the CDO, discounted to their present values, and are used to derive the estimated fair value of the individual CDO, as well as any credit loss or impairment. The discount rates used in the discounted cash flow analyses range from LIBOR plus 1,200 to LIBOR plus 1,300 basis points, depending upon the specific CDO and reflects the higher risk inherent in these securities given the current market environment. Currently, all of these CDOs are deferring interest payments. The Company has ceased accruing interest on these securities. The component of loss for any CDO that is deemed to be an other-than-temporary impairment, if any, is determined by comparing the current amortized cost to the discounted cash flows for each CDO using each CDO's original contractual yield. The contractual yields for these CDOs range from LIBOR plus 125 to LIBOR plus 160 basis points.

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.

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

	Quarters Ended September 30,				Nine Months Ended September 30,			
	2010		2009		2010		2009	
	Collateralized Debt Obligations	Other Mortgage-Backed Securities	Collateralized Debt Obligations	Total	Collateralized Debt Obligations	Other Mortgage-Backed Securities	Collateralized Debt Obligations	Total
Balance at beginning of period	$ 13,664	$ 16,222	$ 20,315	$ 36,537	$ 11,728	$ 16,632	$ 42,086	$ 58,718
Total income (losses):								
Included in earnings (1)	(852)	0	(11,500)	(11,500)	(4,664)	0	(18,571)	(18,571)
Included in other comprehensive income	612	250	6,727	6,977	6,360	566	(7,950)	(7,384)
Principal paydowns and accretion	0	(866)	1	(865)	0	(1,592)	(22)	(1,614)
Balance at end of period	$ 13,424	$ 15,606	$ 15,543	$ 31,149	$ 13,424	$ 15,606	$ 15,543	$ 31,149
Change in unrealized losses recognized in earnings relating to securities still held at end of period	$ (852)	$ 0	$ (11,500)	$ (11,500)	$ (4,664)	$ 0	$ (18,571)	$ (18,571)

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

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

Mortgage Servicing Rights – The Company retains servicing responsibilities for certain securitized loans and records the related mortgage servicing rights at fair value in Other assets in the Consolidated Statements of Financial Condition. Mortgage servicing rights do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of mortgage servicing rights by estimating the present value of the future cash flows associated with the mortgage loans being serviced. Key economic assumptions used in measuring the fair value of mortgage servicing rights at September 30, 2010 included a weighted-average prepayment speed of 15.5%, a weighted-average maturity of 206.1 months, and a weighted-average discount rate of 11.4%. While market-based data is used to determine the assumptions, the Company incorporates its own estimates of the assumptions market participants would use in determining the fair value of mortgage servicing rights, which results in a level 3

classification in the fair value hierarchy.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ 1,133	$ 1,005	$ 1,238	$ 1,461
New servicing assets	0	237	0	237
Total gains (losses) included in earnings (1):				
Due to changes in valuation inputs and assumptions (2)	21	(74)	44	(350)
Other changes in fair value (3)	(64)	(69)	(192)	(249)
Balance at end of period	$ 1,090	$ 1,099	$ 1,090	$ 1,099
Contractual servicing fees earned during the period (1)	$ 75	$ 72	$ 233	$ 235

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	September 30, 2010	December 31, 2009
Total amount of loans being serviced for the benefit of others at end of period (4)	$ 126,838	$ 123,842

(1) Included in Other service charges, commissions, and fees in the Consolidated Statements of Income and relate to assets still held at the end of the period.
(2) Principally reflects changes in prepayment speed assumptions.
(3) Primarily represents changes in expected cash flows over time due to payoffs and paydowns.
(4) These loans are serviced for and owned by third parties and are not included in the Consolidated Statements of Financial Condition.

Derivative Assets and Derivative Liabilities – The interest rate swaps entered into by the Company are executed in the dealer market, and pricing is based on market quotes obtained from the counterparty that transacted the derivative contract. The market quotes were developed by the counterparty using market observable inputs, which primarily include LIBOR for swaps. 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 has a policy of executing derivative transactions only with counterparties above a certain credit rating. Credit risk is also mitigated through the pledging of collateral when certain thresholds are reached.

Collateral-Dependent Impaired Loans - The carrying value of impaired loans is disclosed in Note 5, “Allowance for Credit Losses and Impaired Loans.” The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded in the form of specific reserves or charge-offs on these loans to reflect (1) specific reserves or partial write-downs that are based on the current appraised value of the underlying collateral or (2) the full charge-off of the loan’s carrying value. The fair value adjustments are primarily determined by current appraised values, net of estimated selling costs. For collateral-dependent impaired loans, new appraisals are required every six months for residential land and construction and commercial land and construction loans, and annually for all other commercial real estate loans. In limited circumstances, such as cases of outdated appraisals, the appraised values may be reduced by a certain percentage depending on the specific facts and circumstances or an internal valuation may be used when the underlying collateral is located in areas where comparable sales data is limited, outdated, or unavailable. Accordingly, collateral-dependent impaired loans are classified in level 3 of the fair value hierarchy.

Other Real Estate Owned – OREO includes properties acquired in partial or total satisfaction of certain loans. Upon initial transfer into OREO, a current appraisal is required (less than six months old for residential and commercial land and less than one year old for all other commercial property). Properties are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or the fair value, which represents the current appraised value of the properties less estimated selling costs. Fair value assumes an orderly disposition except where a specific disposition strategy is expected, which would require the use of other appraised values such as forced liquidation or as-completed/stabilized values. In certain circumstances, the current appraised value may not represent an accurate measurement of the property’s current fair value due to imprecision, subjectivity, outdated market information, or other factors. In these cases, the fair value is determined based on the lower of the (1) current appraised value, (2) internal valuation, (3) current listing price, or (4) signed sales contract. Any appraisal that is greater than twelve months old is adjusted to account for estimated declines in the real estate market until an updated appraisal can be obtained. Given these valuation methods, OREO is classified in level 3. Any write-downs in the carrying value of a property at the time of initial transfer into OREO are charged against the allowance for loan losses. Subsequent to the initial transfer, quarterly impairment analyses of OREO are performed and new appraisals are

obtained annually unless circumstances warrant an earlier appraisal. Quarterly impairment analyses take into consideration current real estate market trends and adjustments to listing prices. Any write-downs of the properties subsequent to initial transfer, as well as gains or losses on disposition and income or expense from the operations of OREO, are recognized in operating results in the period in which they occur.

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

	Quarter Ended September 30, 2010		Nine Months Ended September 30, 2010	
	Collateral-Dependent Impaired Loans	Other Real Estate Owned (1)	Collateral-Dependent Impaired Loans	Other Real Estate Owned (1)
Write-downs charged to allowance for loan losses	$ 14,498	$ 0	$ 46,373	$ 0
Write-downs charged to earnings	0	5,800	0	11,410

(1)Represents only the OREO properties that had fair value adjustments during the period.

Fair Value Disclosure of Other Assets and Liabilities

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

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

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

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

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

Loans, net of Allowance for Loan Losses - The fair value of loans is estimated using present value techniques by discounting the future cash flows of the remaining maturities of the loans, and prepayment assumptions were

considered based on historical experience and current economic and lending conditions. The discount rate was based on the LIBOR yield curve, with rate adjustments for liquidity and credit risk. The primary impact of credit risk on the fair value of the loan portfolio, however, was accommodated through the use of the allowance for loan losses, which is believed to represent the current fair value of probable incurred losses for purposes of the fair value calculation.

Covered Loans (included in Loans, net of Allowance for Loan Losses) – The fair value of the covered loan portfolio and related FDIC indemnification asset is determined by discounting the expected cash flows at a market interest rate based on certain input assumptions. The market interest rate (discount rate) is derived from LIBOR swap rates over the expected weighted-average life of the asset. The expected cash flows are based on contractual terms and default timing assumptions. The fair value of the FDIC indemnification asset is calculated by discounting the cash flows expected to be received from the FDIC. These cash flows are estimated by multiplying expected losses by the reimbursement rate set forth in the Agreements.

Investment in Bank Owned Life Insurance – The fair value of investments in bank owned life insurance is based on quoted market prices of the underlying assets.

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

Borrowed Funds - The fair value of repurchase agreements and FHLB advances is estimated by discounting the agreements based on maturities using the rates currently offered for repurchase agreements of similar remaining maturities. The carrying amounts of federal funds purchased, federal term auction facilities, and other borrowed funds approximate their fair value due to their short-term nature.

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

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

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

Financial Instruments
(Dollar amounts in thousands)

	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 177,537	$ 177,537	$ 101,177	$ 101,177
Federal funds sold and other short-term investments	558,408	558,408	26,202	26,202
Mortgages held-for-sale	1,168	1,168	0	0
Trading account securities	13,784	13,784	14,236	14,236
Securities available-for-sale	1,058,609	1,058,609	1,266,760	1,266,760
Securities held-to-maturity	85,687	90,509	84,182	84,496
Loans, net of allowance for loan losses	5,507,852	5,498,063	5,272,702	5,255,862
Accrued interest receivable	32,740	32,740	32,600	32,600
Investment in bank owned life insurance	198,666	198,666	197,962	197,962
Financial Liabilities:				
Deposits	$6,677,259	$6,684,252	$5,885,279	$5,884,345
Borrowed funds	323,077	327,768	691,176	697,088
Subordinated debt	137,741	123,642	137,735	116,845
Accrued interest payable	7,280	7,280	5,108	5,108
Derivative liabilities	2,570	2,570	1,208	1,208
Standby letters of credit	723	723	755	755

15. VARIABLE INTEREST ENTITIES

A variable interest entity ("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 one of three characteristics associated with owning a controlling financial interest. Those characteristics are: (i) the direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights; (ii) the obligation to absorb the expected losses of an entity, if they occur; and (iii) the right to receive the expected residual returns of the entity, if they occur.

GAAP requires VIEs to be consolidated by the party that has both (i) the ability to direct the VIE's activities that most impact the entity's economic performance and (ii) who is exposed to a majority of the VIE's expected losses and/or residual returns (i.e., the primary beneficiary). The following summarizes the VIEs in which the Company has an interest and discusses the application of the accounting treatment applied for these VIEs.

	September 30, 2010			December 31, 2009		
	Number of VIEs	Carrying Amount of Assets	Maximum Exposure to Loss	Number of VIEs	Carrying Amount of Assets	Maximum Exposure to Loss
First Midwest Capital Trust ("FMCT")	1	$ 89,296	$ 89,296	1	$ 87,776	$ 87,776
Interest in preferred capital securities issuances	1	$ 34	$ 87	3	$ 95	$ 198
Investment in low-income housing tax credit partnerships	12	$ 5,167	$ 4,843	12	$ 5,167	$ 4,772

The Company owns 100% of the common stock of a business trust that was formed in November 2003 to issue trust preferred securities to third party investors (the "trust"). The trust's only assets as of September 30, 2010 were the $87.3 million principal balance of the debentures issued by the Company and the related interest receivable of $2.0 million that were acquired by the trust using proceeds from the issuance of preferred securities and common stock. The trust meets the definition of a VIE, but the Company is not the primary beneficiary of the trust. Accordingly, the trust is not consolidated in the Company's financial statements. The subordinated debentures issued by the Company to the trust are included in the Company's Consolidated Statements of Financial Condition as "Subordinated debt."

The Company holds interests in trust preferred capital securities issuances. Although these investments may meet the definition of a VIE, the Company is not the primary beneficiary. The Company accounts for its interest in these investments as available-for-sale securities.

The Company has a limited partner interest in 12 low-income housing tax credit partnerships and limited liability corporations, which were acquired at various times from 1997 to 2004. These entities meet the definition of a VIE. Since the Company is not the primary beneficiary of the entities, it accounts for its interest in these partnerships using the cost method. The carrying amount of the Company's investment in these partnerships is included in Other assets in the Consolidated Statements of Financial Condition.

16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date its financial statements were issued. Management does not believe any subsequent events have occurred that would require further disclosure or adjustment to the financial statements.

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

The discussion presented below provides an analysis of our results of operations and financial condition for the quarters and nine month periods ended September 30, 2010 and 2009. When we use the terms "First Midwest," the

“Company,” “we,” “us,” and “our,” we mean First Midwest Bancorp, Inc., a Delaware Corporation, and its consolidated subsidiaries. When we use the term “Bank,” we are referring to our wholly-owned banking subsidiary, First Midwest Bank. Management’s discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes presented elsewhere in this report, as well as in our 2009 Annual Report on Form 10-K (“2009 10-K”). Results of operations for the quarter and nine months ended September 30, 2010 are not necessarily indicative of results to be expected for the year ending December 31, 2010. 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.

RECENT DEVEOPMENTS

Recent allegations of improper and fraudulent mortgage servicing and foreclosure documentation have been discovered at some of the nation's largest lenders and have resulted in legal investigations into the foreclosure practices of several financial institutions and their service providers and the suspension of foreclosures of single-family homes. Additionally, Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") have indicated that their mortgage servicers will be held liable for losses incurred by the government sponsored enterprises as a result of flawed foreclosure processes. Further, the Securities and Exchange Commission has issued a request for information

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about accounting and disclosure issues related to potential risks and costs associated with mortgage and foreclosure related activities.

We have a centralized foreclosure process within a single department of the Bank, including foreclosures relating to all residential, home equity, commercial, and serviced loans. As of September 30, 2010, the Bank serviced $104.3 million in loans guaranteed by Fannie Mae or Freddie Mac as part of various securitization transactions. In addition, we engage a loan servicer to support the administration and the resolution of covered assets, including single-family covered assets acquired by the Bank in Federal Deposit Insurance Corporation ("FDIC")-assisted transactions. During the quarter, we conducted an internal review of the Bank's foreclosure processes, and made inquiries of the Bank's covered asset loan servicer, and such other persons that we deemed appropriate. Based on these actions, nothing has come to our attention that would indicate the existence of any material risk relating to the Bank's foreclosure-related activities for its loan portfolio, including loan serviced by the covered asset loan servicer.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act will result in sweeping changes in the regulation of financial institutions aimed at strengthening the operation of the financial services sector. The Dodd-Frank Act's provisions that have received the most public attention generally have been those applying to, or more likely to initially affect, larger institutions. However, it contains numerous other provisions that will affect all banks and bank holding companies that will fundamentally change the system of oversight described in Part I, Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 under the caption "Supervision and Regulation." The Dodd-Frank Act includes provisions that, among other things:

- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund ("DIF"), and increase the floor of the size of the DIF, which generally will require an increase in the level of assessments for financial institutions with assets in excess of $10 billion.
- Make permanent the $250 thousand limit for federal deposit insurance, and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.
- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactional and other accounts.
- Centralize responsibility for consumer financial protection by creating a new agency responsible for implementing, examining and enforcing compliance with federal consumer financial laws.
- Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, which, among other requirements as applied to the Company, going forward will preclude the Company from including in Tier 1 Capital trust preferred securities or cumulative preferred stock, if any, issued on or after May 19, 2010.
- Amend the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Some of these provisions may have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The specific impact of the Dodd-Frank Act on our current activities or new financial activities will be considered in the future, and our financial performance and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers, or the financial industry more generally.

PERFORMANCE OVERVIEW

General Overview

Our banking network is located primarily in suburban metropolitan Chicago with additional locations in central and western Illinois and provides a full range of business and retail banking and trust and advisory services through 100 banking branches, one operational facility, and one dedicated lending office. Our primary sources of revenue are net interest income and fees from financial services provided to customers. Business volumes tend to be influenced by overall economic factors including market interest rates, business spending, consumer confidence, competitive conditions within the marketplace, and certain seasonal factors.

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

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Operating Results						
Interest income	$ 82,338	$ 82,762	(0.5)	$ 246,391	$ 259,381	(5.0)
Interest expense	12,125	21,781	(44.3)	38,621	73,790	(47.7)
Net interest income	70,213	60,981	15.1	207,770	185,591	12.0
Fee-based revenues	22,456	21,846	2.8	64,374	63,207	1.8
Other noninterest income	1,921	2,228	(13.8)	3,153	6,175	(48.9)
Noninterest expense, excluding losses realized on other real estate owned (“OREO”), FDIC special assessment, and integration costs associated with FDIC-assisted transactions (2)	(59,665)	(54,839)	8.8	(173,889)	(156,264)	11.3
Pre-tax, pre-provision core operating earnings (3)	34,925	30,216	15.6	101,408	98,709	2.7
Provision for credit losses	(33,576)	(38,000)	(11.6)	(73,452)	(122,672)	(40.1)
Securities gains, net	7,340	4,525	62.2	15,415	26,453	(41.7)
Securities impairment losses	(964)	(11,500)	(91.6)	(4,861)	(18,571)	(73.8)
Gain on FDIC-assisted transaction	0	0	0.0	4,303	0	0.0
Integration costs associated with FDIC-assisted transactions	(847)	0	100.0	(2,748)	0	
Gains on early extinguishment of debt	0	13,991	(100.0)	0	13,991	(100.0)
Write-downs of OREO (2)	(5,800)	(1,089)	432.6	(11,410)	(3,407)	234.9
Losses on sales of OREO, net (2)	(2,465)	(712)	246.2	(13,658)	(1,096)	1,146.2
FDIC special deposit insurance assessment (2)	0	0	0.0	0	(3,500)	(100.0)
(Loss) income before income tax benefit	(1,387)	(2,569)	(46.0)	14,997	(10,093)	(248.6)
Income tax benefit	3,972	5,920	(32.9)	3,478	21,834	(84.1)
Net income	2,585	3,351	(22.9)	18,475	11,741	57.4
Preferred dividends	(2,575)	(2,567)	0.3	(7,720)	(7,696)	0.3
Net income applicable to non-vested	1	(11)	(109.1)	(145)	(54)	168.5

restricted shares										
Net income applicable to common shares	$	11	$	773	(98.6)	$	10,610	$	3,991	165.8
Weighted-average diluted common shares outstanding		73,072		48,942			72,199		48,647	
Diluted earnings per common share	$	0.00	$	0.02		$	0.15	$	0.08	
Performance Ratios (1)										
Return on average common equity		0.00%		0.43%			1.49%		0.75%	
Return on average assets		0.13%		0.17%			0.31%		0.19%	
Net interest margin – tax equivalent		4.05%		3.66%			4.18%		3.62%	
Efficiency ratio		59.91%		59.13%			58.76%		57.64%	

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

(2)For further discussion of losses realized on OREO, the FDIC special assessment, and integration costs associated with FDIC-assisted transactions, see the section titled "Noninterest Expense."

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

N/M – Not meaningful.

	September 30, 2010	December 31, 2009	September 30, 2009	September 30, 2010 Change From December 31, 2009	September 30, 2010 Change From September 30, 2009
Balance Sheet Highlights					
Total assets	$ 8,376,494	$ 7,710,672	$ 7,678,434	$ 665,822	$ 698,060
Total loans, excluding covered loans (1)	5,164,666	5,203,246	5,306,068	(38,580)	(141,402)
Total deposits	6,677,259	5,885,279	5,749,153	791,980	928,106
Transactional deposits	4,533,662	3,885,885	3,833,267	647,777	700,395
Loans to deposits ratio	77.3%	88.4%	92.3%		
Transactional deposits to total deposits	67.9%	66.0%	66.7%		

	September 30, 2010	December 31, 2009	September 30, 2009	September 30, 2010 Change From December 31, 2009	September 30, 2010 Change From September 30, 2009
Asset Quality Highlights (1)					
Non-accrual loans	$ 211,366	$ 244,215	$ 256,805	$ (32,849)	$ (45,439)
90 days or more past due loans (still accruing interest)	9,136	4,079	5,960	5,057	3,176
Total non-performing loans	220,502	248,294	262,765	(27,792)	(42,263)
Restructured loans (still accruing interest)	11,002	30,553	26,718	(19,551)	(15,716)
Other real estate owned	52,044	57,137	57,945	(5,093)	(5,901)
Total non-performing assets	$ 283,548	$ 335,984	$ 347,428	$ (52,436)	$ (63,880)
30-89 days past due loans (still accruing interest)	$ 41,590	$ 37,912	$ 44,346	$ 3,678	$ (2,756)
Allowance for credit losses	$ 145,019	$ 144,808	$ 134,269	$ 211	$ 10,750
Allowance for credit losses as a percent of loans	2.81%	2.78%	2.53%		

(1)Excludes covered assets. For a discussion of covered assets, refer to Note 6 of "Notes to Consolidated Financial Statements" in Item 1 of this Form 10-Q.

Net income was $2.6 million before adjustment for preferred dividends and non-vested restricted shares, and $11,000, or $0.00 per share, applicable to common shareholders after such adjustments. This compares to net income of $3.4 million and net income applicable to common shareholders of $773,000, or $0.02 per share, for third quarter 2009.

Pre-tax, pre-provision core operating earnings were $34.9 million and $101.4 million for the quarter and nine-month periods ended September 30, 2010, respectively. The 15.6% increase over third quarter 2009 and 2.7% increase from the nine-month period ended September 30, 2009 were primarily driven by higher average earning assets, improved net interest margins, and greater fee-based revenues, which offset higher costs related to FDIC-assisted transactions

and loan remediation activities.

Performance for the quarter reflected continued success in growing our core business and ongoing efforts to remediate problem credits. Quarterly results also showed balance sheet growth as total assets and total deposits grew compared to December 31, 2009. Further, non-performing assets decreased 15.6% from December 31, 2009 and 18.4% from September 30, 2009. We maintained the allowance for credit losses consistent with the December 31, 2009 level and increased it by $10.8 million over the September 30, 2009 balance.

On August 13, 2010, we acquired approximately $297.1 million in loans, $23.7 million in OREO, and $121.5 million in cash and securities and assumed $215.2 million in core deposits and $246.6 million in time deposits of the former Palos Bank and Trust Company ("Palos") in an FDIC-assisted transaction. In this transaction, we also gained five retail banking centers. This represents the third such transaction since October 2009. The majority of the loans and OREO acquired from Palos are subject to a loss sharing arrangement with the FDIC whereby the Company is indemnified against the majority of any losses incurred on these loans and OREO.

EARNINGS PERFORMANCE

Net Interest Income

Net interest income equals the difference between interest income plus fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin represents net interest income as a percentage of total average interest-earning assets. The accounting policies underlying the recognition of interest income on loans, securities, and other interest-earning assets are included in the "Notes to Consolidated Financial Statements" contained in our 2009 10-K.

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

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

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Net interest income (GAAP)	$ 70,213	$ 60,981	15.1	$207,770	$ 185,591	12.0
Tax-equivalent adjustment	4,053	4,691	(13.6)	12,570	15,210	(17.4)
Tax-equivalent net interest income	$ 74,266	$ 65,672	13.1	$220,340	$200,801	9.7

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

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

	Quarters Ended September 30, 2010			Quarters Ended September 30, 2009			Attribution of Change in Net Interest Income (1)		
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Volume	Yield/ Rate	Total
Assets:									
Federal funds sold and other short-term investments	$ 451,673	$ 344	0.30	$ 198,365	$ 106	0.21	$ 179	$ 59	$ 238
Trading account securities	13,120	25	0.76	12,302	33	1.07	2	(10)	(8)
Securities available-for-sale (2)	1,092,734	14,057	5.15	1,433,424	19,135	5.34	(4,405)	(673)	(5,078)
Securities held-to-maturity	86,060	1,526	7.09	84,866	1,463	6.90	21	42	63
Federal Home Loan Bank and Federal Reserve Bank stock	60,998	339	2.22	54,768	310	2.26	35	(6)	29
Loans (2):									
Commercial and industrial	1,486,985	18,469	4.93	1,486,582	18,472	4.93	5	(8)	(3)
Agricultural	128,028	1,429	4.43	121,040	1,344	4.41	78	7	85
Commercial real estate	2,940,434	37,944	5.12	3,047,847	38,159	4.97	(1,662)	1,447	(215)
Consumer	506,077	5,974	4.68	532,642	6,221	4.63	(315)	68	(247)
Real estate - 1-4 family	145,895	1,990	5.41	158,658	2,210	5.53	(175)	(45)	(220)
Total loans, excluding covered loans	5,207,419	65,806	5.01	5,346,769	66,406	4.93	(2,069)	1,469	(600)
Covered assets (3)	367,727	4,294	4.63	0	0	0.00	4,294	0	4,294
Total loans	5,575,146	70,100	4.99	5,346,769	66,406	4.93	2,225	1,469	3,694
Total interest-earning assets (2)	7,279,731	86,391	4.72	7,130,494	87,453	4.88	(1,943)	881	(1,062)
Cash and due from banks	165,743			121,378					
Allowance for loan losses	(155,312)			(140,065)					
Other assets	913,455			765,248					
Total assets	$ 8,203,617			$ 7,877,055					

Liabilities and Stockholders' Equity:									
Savings deposits	$ 832,672	561	0.27	$ 749,995	726	0.38	94	(259)	(165)
NOW accounts	1,173,347	469	0.16	1,062,708	729	0.27	87	(347)	(260)
Money market deposits	1,226,314	1,449	0.47	995,132	2,457	0.98	811	(1,819)	(1,008)
Time deposits	2,022,721	6,570	1.29	1,938,445	11,412	2.34	520	(5,362)	(4,842)
Borrowed funds	337,905	797	0.94	870,397	2,768	1.26	(1,386)	(585)	(1,971)
Subordinated debt	137,740	2,279	6.56	226,693	3,689	6.46	(1,473)	63	(1,410)
Total interest-bearing liabilities	5,730,699	12,125	0.84	5,843,370	21,781	1.48	(1,347)	(8,309)	(9,656)
Demand deposits	1,242,257			1,056,188					
Other liabilities	67,000			72,150					
Stockholders' equity - common	970,661			712,347					
Stockholders' equity - preferred	193,000			193,000					
Total liabilities and stockholders' equity	$ 8,203,617			$ 7,877,055					
Net interest income/margin (2)		$ 74,266	4.05		$ 65,672	3.66	$ (596)	$ 9,190	$ 8,594

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

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

(3) Covered interest-earning assets consist of loans acquired through FDIC-assisted transactions and the related FDIC indemnification asset. For additional discussion, please refer to the section titled "Covered Assets."

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

	Nine Months Ended September 30,						Attribution of Change in Net Interest Income (1)		
	2010			2009					
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Volume	Yield/ Rate	Total
Assets:									
Federal funds sold and other short-term investments	$ 265,843	$ 547	0.28	$ 107,913	$ 175	0.22	$ 314	58	$ 372
Trading account securities	13,841	82	0.79	11,899	108	1.21	22	(48)	(26)
Securities available-for-sale (2)	1,141,860	46,482	5.43	1,778,772	72,453	5.43	(25,927)	(44)	(25,971)
Securities held-to-maturity	88,060	4,572	6.92	84,813	4,357	6.85	169	46	215
Federal Home Loan Bank and Federal Reserve Bank stock	59,759	1,002	2.24	54,768	907	2.21	84	11	95
Loans (2):									
Commercial and industrial	1,463,118	54,718	5.00	1,484,758	52,977	4.77	(756)	2,497	1,741
Agricultural	125,960	4,063	4.31	132,073	4,004	4.05	(154)	213	59
Commercial real estate	2,960,093	113,853	5.14	3,031,122	112,783	4.97	(2,440)	3,510	1,070
Consumer	511,587	17,851	4.67	539,859	19,109	4.73	(990)	(268)	(1,258)
Real estate - 1-4 family	142,439	5,937	5.57	176,093	7,718	5.86	(1,418)	(363)	(1,781)
Total loans, excluding covered loans	5,203,197	196,422	5.05	5,363,905	196,591	4.90	(5,758)	5,589	(169)
Covered assets (3)	270,681	9,854	4.87	0	0	0	9,854	0	9,854
Total loans	5,473,878	206,276	5.04	5,363,905	196,591	4.90	4,096	5,589	9,685
Total interest-earning assets (2)	7,043,241	258,961	4.91	7,402,070	274,591	4.96	(21,242)	5,612	(15,630)
Cash and due from banks	149,763			118,699					
Allowance for loan losses	(153,789)			(120,764)					
Other assets	887,677			765,182					
Total assets	$ 7,926,892			$ 8,165,187					

Liabilities and Stockholders' Equity:									
Savings deposits	$ 798,871	1,804	0.30	$ 753,580	2,387	0.42	154	(737)	(583)
NOW accounts	1,085,177	1,526	0.19	994,895	2,551	0.34	257	(1,282)	(1,025)
Money market deposits	1,164,665	4,949	0.57	889,852	7,188	1.08	4,188	(6,427)	(2,239)
Time deposits	1,965,436	20,941	1.42	1,998,673	39,277	2.63	(643)	(17,693)	(18,336)
Borrowed funds	385,501	2,556	0.89	1,272,738	11,293	1.19	(6,412)	(2,325)	(8,737)
Subordinated debt	137,738	6,845	6.64	230,460	11,094	6.44	(4,621)	372	(4,249)
Total interest-bearing liabilities	5,537,388	38,621	0.93	6,140,198	73,790	1.61	(7,077)	(28,092)	(35,169)
Demand deposits	1,182,990			1,043,047					
Other liabilities	61,047			73,114					
Stockholders' equity - common	952,467			715,828					
Stockholders' equity - preferred	193,000			193,000					
Total liabilities and stockholders' equity	$ 7,926,892			$ 8,165,187					
Net interest income/margin (2)		$ 220,340	4.18		$ 200,801	3.62	$ (14,165)	$ 33,704	$ 19,539

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

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

(3)Covered interest-earning assets consist of loans acquired through FDIC-assisted transactions and the related FDIC indemnification asset. For additional discussion, please refer to the section titled "Covered Assets."

Tax-equivalent net interest margin improved 39 basis points to 4.05% for third quarter 2010 from 3.66% for third quarter 2009. The improvement reflected a 64 basis point decline in the average rate paid for interest-bearing liabilities, led by a 105 basis point decline in the average rate paid for time deposits, while over the same period, the average yield on earning assets declined 16 basis points. Over the same period, maturities and proceeds from sales of securities, coupled with the acquisition of deposits from FDIC-assisted transactions, reduced the need for higher cost wholesale funds. The reduction in rates paid on deposits also reflected the decline in the yield curve over the period.

For the nine-month period ended September 30, 2010, tax-equivalent net interest margin was 4.18%, up 56 basis points from 3.62% for the same period in 2009. The yield on average interest-earning assets declined 5 basis points, while the cost of funds declined 68 basis points. These changes for the nine-month period primarily reflect the factors and strategies cited above.

Third quarter 2010 tax-equivalent interest income declined $1.1 million due to a 16 basis point decline in tax-equivalent yield. Interest expense declined $9.7 million, reflecting both a decline in total interest-bearing liabilities and the rates paid for these liabilities. The net result of these changes was an increase in tax-equivalent net interest income for third quarter 2010 of $8.6 million compared to third quarter 2009.

Similar to the quarter results, tax-equivalent interest income declined $15.6 million for the nine-month period ended September 30, 2010 compared to the same period for 2009, while interest expense decreased $35.2 million. The net result was an increase in tax-equivalent net interest income for the nine-month period of $19.5 million.

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

Noninterest Income

Table 5
Noninterest Income Analysis
(Dollar amounts in thousands)

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Service charges on deposit accounts	$ 9,249	$ 10,046	(7.9)	$ 26,682	$ 28,777	(7.3)
Trust and investment advisory fees	3,728	3,555	4.9	11,023	10,355	6.5
Other service charges, commissions, and fees	4,932	4,222	16.8	13,732	12,249	12.1
Card-based fees	4,547	4,023	13.0	12,937	11,826	9.4
Total fee-based revenues	22,456	21,846	2.8	64,374	63,207	1.8
Bank owned life insurance (“BOLI”) income	267	282	(5.3)	864	1,982	(56.4)
Other income	533	587	(9.2)	1,729	2,096	(17.5)
Total operating revenues	23,256	22,715	2.4	66,967	67,285	(0.5)
Trading gains, net	1,121	1,359	(17.5)	560	2,097	(73.3)
Gains on securities sales, net	7,340	4,525	62.2	15,415	26,453	(41.7)
Securities impairment losses	(964)	(11,500)	(91.6)	(4,861)	(18,571)	(73.8)
Gain on FDIC-assisted transaction	0	0	0	4,303	0	100.0
	0	13,991	(100.0)	0	13,991	(100.0)

Gains on early extinguishment of debt								
Total noninterest income	$	30,753	$	31,090	(1.1)	$ 82,384	$	91,255	(9.7)

Total noninterest income decreased 1.1% for third quarter 2010 and 9.7% for the first nine months of 2010 compared to the same periods in 2009. The declines from 2009 resulted primarily from the third quarter 2009 gains on early extinguishment of debt, differences in net securities gains, and the fair value adjustment related to our non-qualified deferred compensation plan, which is reflected in trading gains, net.

Fee-based revenues of $–22.5 million for third quarter 2010 grew by 2.8% compared to third quarter 2009. Service charge fees declined by 7.9% due primarily to lower overdraft and non-sufficient fund fees. However, this decline was more than offset by increases in other service charges, commissions, and fees (primarily merchant fee income) of 16.8%, card-based fees of 13.0%, and trust and investment advisory fees of 4.9%. Fee-based revenues for the first nine months of 2010 increased 1.8% from the first nine months of 2009, which again reflected a decline in service charge fees and growth in the other fee-based revenue categories.

Trust and investment advisory fees improved from 2009 to 2010 primarily due to an almost 10% increase in trust assets under management from September 30, 2009 to September 30, 2010.

Higher retail investment advisory fees and merchant processing fees drove the increase in other service charges, commission, and fees from 2009 to 2010. Retail investment advisory fees increased 22.4%, and merchant processing fees improved 15.9% for third quarter 2010 compared to third quarter 2009 and 14.8% and 14.4%, respectively, for the year-to-date periods.

Approximately half of the quarter and year-to-date growth in card-based fees resulted from the migration from multi-merchant networks to an exclusive MasterCard network in most areas, which drove higher transaction yields and incentives.

BOLI income represents benefit payments received and the change in cash surrender value ("CSV") of the policies, net of premiums paid. The change in CSV is attributable to earnings or losses credited to the policies based on investments made by the insurer. The decline in BOLI income resulted from decreases in the earnings on the underlying investments. See the section titled "Investment in Bank Owned Life Insurance" for a discussion of our investment in BOLI.

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

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

For the nine-months ended September 30, 2010, total noninterest income was strengthened by the $4.3 million pre-tax bargain purchase gain on the FDIC-assisted acquisition of the former Peotone Bank and Trust Company, while the same period in 2009 included gains on early extinguishment of debt of $14.0 million from the retirement of $39.3 million of trust preferred debt and $29.5 million of subordinated debt at a discount to par in exchange for approximately 5.6 million shares of the Company's common stock.

Noninterest Expense

Table 6
Noninterest Expense Analysis
(Dollar amounts in thousands)

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Compensation expense:						
Salaries and wages	$ 24,562	$ 22,274	10.3	$ 67,844	$ 60,940	11.3
Retirement and other employee benefits	5,364	5,142	4.3	15,506	18,016	(13.9)
Total compensation expense	29,926	27,416	9.2	83,350	78,956	5.6
OREO expense, net:						
Write-downs of OREO	5,800	1,089	432.6	11,410	3,407	234.9
Losses on the sales of OREO, net	2,465	712	246.2	13,658	1,096	N/M
OREO operating expense, net	1,312	1,660	(21.0)	7,146	3,263	119.0
Total OREO expense	9,577	3,461	176.7	32,214	7,766	314.8
FDIC premiums:						
FDIC special assessment	0	0	0	0	3,500	(100.0)
FDIC insurance premiums	2,835	2,558	10.8	7,913	7,453	6.2
Total FDIC premiums	2,835	2,558	10.8	7,913	10,953	(27.8)
Loan remediation costs	2,817	1,833	53.7	8,690	4,568	90.2
Other professional services	3,370	1,936	74.1	9,689	5,860	65.3
Total professional services	6,187	3,769	64.2	18,379	10,428	76.2
Net occupancy expense	6,092	5,609	8.6	17,789	17,309	2.8
Equipment expense	2,234	2,228	0.3	6,513	6,754	(3.6)
Technology and related costs	2,593	2,230	16.3	7,861	6,612	18.9
Advertising and promotions	1,473	2,237	(34.2)	5,005	5,039	(0.7)
Merchant card expense	2,023	1,729	17.0	5,669	4,901	15.7
Other expenses	5,837	5,403	8.0	17,012	15,549	9.4
Total noninterest expense	$ 68,777	$ 56,640	21.4	$201,705	$ 164,267	22.8
Average full-time equivalent (“FTE”) employees	1,884	1,751		1,792	1,761	
Efficiency ratio	59.91%	59.13%		58.76%	57.64%	

N/M – Not meaningful.

Noninterest expense rose by $12.1 million for third quarter 2010 compared to third quarter 2009 and $37.4 million for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The increases were attributed to higher losses and write-downs on OREO and increases in salaries and benefits, loan remediation costs (including costs to service certain assets acquired in FDIC-assisted transactions), and professional services fees from the valuation and integration of FDIC-acquired assets.

The increases in salaries and wages for the quarter and year-to-date periods in 2010 compared to 2009 were driven by the addition of retail banking employees from our three FDIC-assisted acquisitions, as well as standard merit increases and higher incentive compensation expense.

The 13.9% decline in retirement and other employee benefits for the first nine months of 2010 compared to the same period in 2009 resulted from reductions in the accruals for pension and profit sharing plans. These accruals were lower since certain

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assumptions used in the pension valuation were revised as of December 31, 2009 to better reflect current expectations and historical trends.

Losses on sales and write-downs of OREO properties increased substantially when comparing the quarter and nine months ended September 30, 2010 to the same periods in 2009, which reflected continued weakness in the real estate market. For a discussion of sales of OREO properties, refer to the section titled “Non-performing Assets.” OREO operating expense, net, consists of real estate taxes, commissions on sales, insurance, and maintenance, net of any rental income. Costs associated with sales of OREO properties accounted for the increase in OREO operating expenses, net for the nine months ended September 30, 2010 compared to the prior year period.

In May 2009, the FDIC levied a special assessment upon all insured depository institutions to rebuild the Deposit Insurance Fund (“DIF”). Deposit insurance expense during the nine-month period ended September 30, 2009 included a $3.5 million accrual related to this special assessment.

The increase in loan remediation and other professional expenses for the quarter and year-to-date periods in 2010 compared to 2009 reflect higher costs incurred to remediate problem loans as well as costs incurred to integrate and remediate FDIC-acquired covered assets. In addition, we recorded one-time integration expenses associated with FDIC-assisted acquisitions of $847,000 for third quarter 2010 and $2.7 million for the nine months ended September 30, 2010.

The majority of the increases in technology and related costs of $363,000 from third quarter 2009 to third quarter 2010 and $1.2 million for the year-to-date periods were driven by system conversion costs related to FDIC-assisted acquisitions.

The decrease in advertising and promotions expense in third quarter 2010 compared to third quarter 2009 resulted from the timing of certain marketing expenses, which was accelerated in second quarter 2010 in response to FDIC-assisted transaction activity in the Chicago banking market.

Merchant card expense increased from 2009 to 2010 in concert with the increased merchant fee income previously described.

The efficiency ratio expresses noninterest expense as a percentage of tax-equivalent net interest income plus total fees, BOLI, and other income. Operating efficiency for third quarter 2010 was relatively flat at 59.91% compared to 59.13% for third quarter 2009. For the nine month periods, the efficiency ratio increased from 57.64% to 58.76%. The increased ratio resulted from the increase in noninterest expense partially offset by an increase in tax-equivalent net interest income during those periods.

Income Taxes

Our accounting policies underlying the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 16 to the Consolidated Financial Statements of our 2009 10-K.

Federal income tax expense, and the related effective income tax rate, is primarily influenced by the amount of tax-exempt income derived from investment securities and 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 related to consolidated/combined reporting and sourcing of income and expense.

Income tax benefit was $4.0 million for third quarter 2010 compared to an income tax benefit of $5.9 million for third quarter 2009. Income tax benefit was $3.5 million for first nine months of 2010 compared to an income tax benefit of

$21.8 million for the same period in 2009. The decrease in income tax benefit for third quarter 2010 was primarily attributable to a decrease in pre-tax loss, the recording of $1.3 million in state tax benefits in the third quarter of 2009, and a decrease in tax-exempt income from investment securities. The decrease in income tax benefit for the first nine months of 2010 compared to the same period in 2009 was attributable to the recording of state tax benefits totaling $4.1 million in the first quarter of 2009 and the other factors previously stated.

As of September 30, 2010, net deferred tax assets totaled $87.5 million. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. Based on this analysis, we established a valuation allowance of $3.7 million to offset certain state net operating loss carryforwards and other state deferred tax assets, which management has determined will not likely be realized. Management has determined that it is more likely than not that the other deferred tax assets will be fully realized through carryback to taxable income in prior years, future reversals of existing deferred tax liabilities, and future taxable income.

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FINANCIAL CONDITION

Investment Portfolio Management

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

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

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

	As of September 30, 2010			As of December 31, 2009		
	Fair Value	Amortized Cost	% of Total Amortized Cost	Fair Value	Amortized Cost	% of Total Amortized Cost
Available-for-Sale						
U.S. agency securities	$ 24,135	$ 24,088	2.1	$ 756	$ 756	0.0
Collateralized mortgage obligations	300,998	297,935	25.9	307,921	299,920	21.8
Other mortgage-backed securities	114,008	107,966	9.4	249,282	239,567	17.5
State and municipal securities	568,534	549,505	47.8	651,680	649,269	47.3
Collateralized debt obligations	13,424	49,695	4.3	11,728	54,359	4.0
Corporate debt securities	31,682	29,918	2.6	37,551	36,571	2.7
Equity securities	5,828	5,352	0.5	7,842	7,667	0.6
Total available-for-sale	1,058,609	1,064,459	92.6	1,266,760	1,288,109	93.9
Held-to-Maturity						
State and municipal securities	90,509	85,687	7.4	84,496	84,182	6.1
Total securities	$ 1,149,118	$ 1,150,146	100.0	$ 1,351,256	$ 1,372,291	100.0

	At September 30, 2010			At December 31, 2009		
	Effective Duration (1)	Average Life (2)	Yield to Maturity (3)	Effective Duration (1)	Average Life (2)	Yield to Maturity
Available-for-Sale						

U.S. agency securities	0.98%	0.65	3.19%	1.29%	1.40	0.78%
Collateralized mortgage obligations	0.07%	1.35	3.15%	1.96%	2.44	5.02%
Other mortgage-backed securities	1.72%	3.16	4.72%	2.64%	3.69	4.95%
State and municipal securities	5.10%	4.97	6.15%	5.43%	7.12	6.17%
Collateralized debt obligations	0.25%	8.83	0.00%	0.25%	8.27	0.00%
Other securities	6.65%	11.48	6.24%	5.80%	11.94	5.28%
Total available-for-sale	3.06%	4.03	4.81%	3.88%	5.57	5.38%
Held-to-Maturity						
State and municipal securities	5.57%	9.13	6.73%	6.28%	8.51	6.88%
Total securities	3.25%	4.41	4.96%	4.03%	5.75	5.47%

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

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

(3)Presented on a tax-equivalent basis, assuming a federal income tax rate of 35%.

As of September 30, 2010, our securities portfolio totaled $1.1 billion, decreasing 15.0% from December 31, 2009.

Approximately 95% of our $1.1 billion available-for-sale portfolio is comprised of municipals, collateralized mortgage obligations ("CMOs"), and agency pass-through securities. The remainder consists of trust-preferred collateralized debt obligation pools ("CDOs") with a fair value of $13.4 million and unrealized losses of $36.3 million, and miscellaneous other securities totaling $37.5 million.

Net securities gains were $6.4 million for third quarter 2010, which included other-than-temporary impairment charges of $1.0 million. For the first nine months of 2010, net securities gains were $10.6 million and included other-than-temporary impairment charges of $4.9 million. Impairment charges for both periods primarily related to our CDOs.

Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The unrealized loss on these securities decreased $6.4 million since December 31, 2009. We do not believe the unrealized losses on the CDOs as of September 30, 2010 represent other-than-temporary impairment. We currently have no evidence that would suggest further reductions in net cash flows on these investments from what has already been recognized. In addition, we do not intend to sell the CDOs with unrealized losses, and it is not 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 cash flows for these investments and resulting fair values were based upon cash flow modeling, as described in Note 14 of "Notes to the Consolidated Financial Statements."

Our available-for-sale state and municipal securities totaled $568.5 million at September 30, 2010, which represents a decrease of 12.8% from December 31, 2009. The decline was driven by maturities, paydowns, and opportunities to realize gains from sales, given the interest rate environment over the past nine months, and in concert with management's investment strategies. In addition, the majority of the securities in the state and municipal portfolio carries some form of credit enhancement.

As of September 30, 2010, net unrealized gains in the state and municipal securities portfolio totaled $19.0 million compared to a net unrealized gain of $2.4 million at December 31, 2009. The change in fair value of municipal securities reflects a decline in market interest rates and a tightening of spreads, which drove the increase in fair values.

Securities that we have the ability and intent to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premiums and accretion of discounts.

COVERED ASSETS

We have completed three FDIC-assisted transactions since third quarter 2009. On October 23, 2009, we acquired substantially all the assets of the $260 million former First DuPage Bank ("First DuPage") and recorded a bargain-purchase gain of $13.1 million in fourth quarter 2009. The acquisition of Peotone Bank and Trust Company, a community bank headquartered in Peotone, Illinois ("Peotone") with $130 million of assets, was completed on April 23, 2010 and generated a $4.3 million pre-tax bargain purchase gain in second quarter 2010. On August 13, 2010, we acquired Palos Bank and Trust Company ("Palos") from the FDIC adding approximately $297.1 million in loans, $23.7 million in OREO, and $121.5 million in cash and securities. We recorded goodwill of approximately $7.9 million related to this transaction in third quarter 2010.

Loans comprise the majority of the assets acquired through these transactions and are subject to loss sharing agreements with the FDIC whereby we are indemnified against the majority of any losses incurred on these assets. In connection with the loss sharing arrangements, we recorded an FDIC indemnification asset. In addition to covered loans and the FDIC indemnification asset, covered assets also include covered other real estate owned. For a

discussion of covered assets, refer to Note 6 of "Notes to Consolidated Financial Statements" in Item 1 of this Form 10-Q.

Covered assets, excluding covered OREO, earned a yield of 4.87% for the nine months ended September 30, 2010. Table 8 below provides the components of covered assets.

Table 8
Covered Assets
(Dollar amounts in thousands)

	September 30, 2010	December 31, 2009
Covered loans	$ 399,032	$ 146,319
FDIC indemnification asset	88,723	67,945
Total covered loans	487,755	214,264
Covered other real estate owned	31,550	8,981
Total covered assets	$ 519,305	$ 223,245

LOAN PORTFOLIO AND CREDIT QUALITY

Portfolio Composition

Table 9
Loan Portfolio
(Dollar amounts in thousands)

	September 30, 2010	% of Total	December 31, 2009	% of Total	Annualized % Change
Commercial and industrial	$ 1,472,439	28.5	$ 1,438,063	27.6	3.2
Agricultural	212,800	4.1	209,945	4.0	1.9
Commercial real estate:					
Office	402,947	7.8	394,228	7.6	2.9
Retail	329,153	6.4	331,803	6.4	(1.1)
Industrial	483,549	9.4	486,934	9.3	(0.9)
Total office, retail, and industrial	1,215,649	23.6	1,212,965	23.3	0.3
Residential construction	226,126	4.4	313,919	6.0	(37.3)
Commercial construction	98,562	1.9	134,680	2.6	(35.7)
Commercial land	94,479	1.8	96,838	1.9	(3.2)
Total construction	419,167	8.1	545,437	10.5	(30.9)
Multi-family	350,458	6.8	333,961	6.4	6.5
Investor-owned rental property	119,974	2.3	119,132	2.3	0.9
Other commercial real estate	717,903	13.9	679,851	13.1	7.5
Total commercial real estate	2,823,151	54.7	2,891,346	55.6	(3.2)
Total corporate loans	4,508,390	87.3	4,539,354	87.2	(0.9)
Direct installment	43,875	0.8	47,782	0.9	(10.9)
Home equity	457,981	8.9	470,523	9.1	(3.6)
Indirect installment	4,310	0.1	5,604	0.1	(30.8)
Real estate – 1-4 family	150,110	2.9	139,983	2.7	9.6
Total consumer loans	656,276	12.7	663,892	12.8	(1.5)
Total loans, excluding covered loans	5,164,666	100.0	5,203,246	100.0	(0.9)
Covered loans	487,755		214,264		
Total loans	$ 5,652,421		$ 5,417,510		

Total loans, including covered loans, were $5.7 billion as of September 30, 2010, an increase of $234.9 million from December 31, 2009. The increase was driven by the addition of covered loans acquired through FDIC-assisted transactions, which more than offset declines in the residential and commercial construction categories.

Outstanding loans, excluding covered loans, of $5.2 billion as of September 30, 2010 remained relatively unchanged from December 31, 2009. The 30.9% annualized decline in the construction loan portfolios from December 31, 2009 resulted from

continued efforts to remediate and reduce exposure to these lending categories and was partially offset by 3.2% annualized growth in commercial and industrial loans in addition to annualized increases in multifamily loans of 6.5% and other commercial real estate lending of 7.5%.

Covered loans grew to $487.8 million at September 30, 2010 compared to $214.3 million at December 31, 2009, due to the Peotone and Palos acquisitions.

Non-performing Assets

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days or more past due or management deems the collectibility of the principal or interest to be in question. Loans to customers whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due. Once interest accruals are discontinued, accrued but uncollected interest is charged to current year operations. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as non-accrual does not preclude the ultimate collection of loan principal or interest. We continue to accrue interest on certain loans 90 days or more past due when we determine such loans are well-secured and collection of principal and interest is expected within a reasonable period.

Restructured loans are loans for which the original contractual terms have been modified, including forgiveness of principal or interest, due to deterioration in the borrower’s financial condition. We do not accrue interest on any restructured loan until we believe collection of all principal and interest under the modified terms is reasonably assured. Generally, six months of consecutive payment performance by the borrower under the restructured terms is required before a restructured loan is returned to accrual status assuming the loan is restructured at reasonable market terms (e.g., not at below market terms). However, the period could vary depending on the individual facts and circumstances of the loan.

For a restructured loan to begin accruing interest, the borrower must demonstrate both some level of performance under the original contractual terms and the capacity to perform under the modified terms. A history of timely payments (including partial payments) and adherence to financial covenants generally serves as sufficient evidence of the borrower’s performance under the original terms. An evaluation of the borrower’s current creditworthiness is used to assess whether the borrower has the 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. Once the borrower demonstrates the ability to meet the modified terms of the restructured loan and we are reasonably assured we will receive the full principal and interest under the restructured terms, we will return the loan to accrual status. However, in accordance with industry regulation, such restructured loans continue to be separately reported as restructured until after the calendar year in which the restructuring occurred if the loan was restructured at market rates and terms.

In certain loan restructurings, the borrower's historical performance may provide an indicator of the ability to make the payments required under the restructured terms. On occasion, we may also restructure the loan into two instruments, and charge-off one of the restructured loans. If the borrower demonstrates an ongoing ability to comply with the restructured terms of the remaining loan, the restructured loan may be classified as an accruing loan. Otherwise, the restructured loan would be placed on nonaccrual status.

Loan modifications are generally performed at the request of the individual borrower and may include reduction in interest rates, changes in payments, and maturity date extensions. Although we do not have formal, standardized loan modification “programs” for our commercial or consumer loan portfolios, we do participate in the U.S. Department of the Treasury Home Affordable Modification Program (“HAMP”) and comply with Regulation Z, the Federal Truth in

Lending Act. HAMP gives qualifying homeowners an opportunity to refinance into more affordable monthly payments, with the U.S. Department of Treasury compensating us for a portion of the reduction in monthly amounts due from borrowers participating in this program.

We evaluate requested modifications by assessing a borrower's capacity to perform under the revised terms by reviewing borrower financial information and collateral values, if applicable. The success of our loan modifications is measured on an individual loan basis by analyzing several credit quality indicators, including delinquency rates, re-default rates (if any), and balance reduction trends for the modified loans. Among other things, we consider these credit quality indicators when determining the allowance for loan losses.

OREO represents property acquired as the result of borrower defaults on loans. OREO is recorded at the lower of the recorded investment in the loans for which the property served as collateral or estimated fair value, less estimated selling costs. Write-downs occurring at foreclosure are charged against the allowance for loan losses. On an ongoing basis, the carrying values of OREO may be adjusted to reflect reductions in value resulting from new appraisals, new list prices, and/or

changes in market conditions. Write-downs are recorded for these subsequent declines in value and are included in other noninterest expense along with other expenses related to maintenance of the properties.

Table 10
Loan Portfolio by Performing/Non-Performing Status
(Dollar amounts in thousands)

			Past Due			
	Total Loans	Current	30-89 Days Past Due	90 Days Past Due	Non-accrual	Restructured
As of September 30, 2010						
Commercial and industrial	$1,472,439	$1,411,646	$15,657	$2,909	$40,955	$1,272
Agricultural	212,800	205,187	4,116	2	3,495	0
Commercial real estate:						
Office	402,947	395,155	1,765	94	5,791	142
Retail	329,153	321,038	202	268	7,645	0
Industrial	483,549	473,190	1,906	98	8,285	70
Total office, retail, and industrial	1,215,649	1,189,383	3,873	460	21,721	212
Residential construction	226,126	158,269	5,922	408	61,050	477
Commercial construction	98,562	98,562	0	0	0	0
Commercial land	94,479	73,008	0	0	21,471	0
Multi-family	350,458	342,514	0	0	6,813	1,131
Investor-owned rental property	119,974	113,150	2,155	562	4,107	0
Other commercial real estate	717,903	673,143	1,493	2,858	40,409	0
Total commercial real estate	2,823,151	2,648,029	13,443	4,288	155,571	1,820
Total corporate loans	4,508,390	4,264,862	33,216	7,199	200,021	3,092
Direct installment	43,875	43,344	425	85	21	0
Home equity	457,981	440,909	5,434	1,244	7,999	2,395
Indirect installment	4,310	4,257	33	5	15	0
Real estate - 1-4 family	150,110	138,200	2,482	603	3,310	5,515
Total consumer loans	656,276	626,710	8,374	1,937	11,345	7,910
Total loans, excluding covered loans	5,164,666	4,891,572	41,590	9,136	211,366	11,002
Covered loans	487,755	388,973	24,005	74,777	0	0
Total loans	$5,652,421	$5,280,545	$65,595	$83,913	$211,366	$11,002

	Total Loans	Current	Past Due 30-89 Days Past Due	Past Due 90 Days Past Due	Non-accrual	Restructured
As of December 31, 2009						
Commercial and industrial	$1,438,063	$1,392,555	$11,915	$1,964	$28,193	$3,436
Agricultural	209,945	207,272	0	0	2,673	0
Commercial real estate:						
Office	394,228	385,851	2,327	0	6,050	0
Retail	331,803	318,368	96	330	12,918	91
Industrial	486,934	482,903	1,603	0	2,428	0
Total office, retail, and industrial	1,212,965	1,187,122	4,026	330	21,396	91
Residential construction	313,919	200,061	974	86	112,798	0
Commercial construction	134,680	134,680	0	0	0	0
Commercial land	96,838	75,974	0	0	20,864	0
Multi-family	333,961	313,306	2,152	55	12,486	5,962
Investor-owned rental property	119,132	110,234	3,967	225	4,351	355
Other commercial real estate	679,851	634,561	5,132	130	28,006	12,022
Total commercial real estate	2,891,346	2,655,938	16,251	826	199,901	18,430
Total corporate loans	4,539,354	4,255,765	28,166	2,790	230,767	21,866
Direct installment	47,782	46,291	1,271	165	55	0
Home equity	470,523	455,214	5,192	1,032	7,549	1,536
Indirect installment	5,604	5,100	458	21	25	0
Real estate - 1-4 family	139,983	124,117	2,825	71	5,819	7,151
Total consumer loans	663,892	630,722	9,746	1,289	13,448	8,687
Total loans, excluding covered loans	5,203,246	4,886,487	37,912	4,079	244,215	30,553
Covered loans	214,264	160,990	22,988	30,286	0	0
Total loans	$5,417,510	$5,047,477	$60,900	$34,365	$244,215	$30,553

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

Table 11
Non-performing Assets and Past Due Loans
(Dollar amounts in thousands)

	2010			2009	
	September 30	June 30	March 31	December 31	September 30
Non-performing assets, excluding covered assets					
Non-accrual loans	$211,366	$193,689	$216,073	$244,215	$256,805
90 days or more past due loans	9,136	6,280	7,995	4,079	5,960
Total non-performing loans	220,502	199,969	224,068	248,294	262,765
Restructured loans (still accruing interest)	11,002	9,030	5,168	30,553	26,718
Other real estate owned	52,044	57,023	62,565	57,137	57,945
Total non-performing assets	$283,548	$266,022	$291,801	$335,984	$347,428
30-89 days past due loans	$41,590	$32,012	$28,018	$37,912	$44,346
Non-accrual loans to total loans	4.09 %	3.72 %	4.16 %	4.69 %	4.84 %
Non-performing loans to total loans	4.27 %	3.84 %	4.31 %	4.77 %	4.95 %
Non-performing assets to loans plus OREO	5.44 %	5.05 %	5.55 %	6.39 %	6.48 %
Covered assets (1)					
Non-accrual loans	$0	$0	$0	$0	$0
90 days or more past due loans	74,777	47,912	52,464	30,286	0
Total non-performing loans	74,777	47,912	52,464	30,286	0
Restructured loans (still accruing interest)	0	0	0	0	0
Other real estate owned	31,550	10,657	8,649	8,981	0
Total non-performing assets	$106,327	$58,569	$61,113	$39,267	$0
30-89 days past due loans	$24,005	$13,725	$10,175	$22,988	$0
Non-performing assets, including covered assets					
Non-accrual loans	$211,366	$193,689	$216,073	$244,215	$256,805
90 days or more past due loans	83,913	54,192	60,459	34,365	5,960
Total non-performing loans	295,279	247,881	276,532	278,580	262,765
Restructured loans (still accruing interest)	11,002	9,030	5,168	30,553	26,718
Other real estate owned	83,594	67,680	71,214	66,118	57,945
Total non-performing assets	$389,875	$324,591	$352,914	$375,251	$347,428
30-89 days past due loans	$65,595	$45,737	$38,193	$60,900	$44,346
Non-accrual loans to total loans	3.74 %	3.55 %	4.01 %	4.51 %	4.84 %
Non-performing loans to total loans	5.22 %	4.55 %	5.13 %	5.14 %	4.95 %
Non-performing assets to loans plus OREO	6.80 %	5.88 %	6.46 %	6.84 %	6.48 %

(1) For a discussion of covered assets, refer to Note 6 of "Notes to Consolidated Financial Statements" in Item 1 of this Form 10-Q.

Total non-performing assets were $389.9 million as of September 30, 2010 compared to $375.3 million as of December 31, 2009. Non-performing assets as of September 30, 2010 included covered assets of $106.3 million compared to $39.3 million as of December 31, 2009. The non-performing covered assets were recorded at their estimated fair values at the time of acquisition. These assets are covered by loss sharing agreements with the FDIC that substantially mitigate the risk of loss.

Excluding covered assets, non-performing assets as of September 30, 2010 were $283.5 million, up 6.6% from June 30, 2010, but down 15.6%, compared to December 31, 2009, and 18.4%, from September 30, 2009. The increase from June was

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due primarily to three large credits. While non-performing assets increased from June 30, 2010, over the past twelve months non-performing assets have declined $63.9 million. The improvement was driven by disposals of other real estate owned, charge-offs, principal paydowns, and the return of restructured loans to performing status.

During third quarter 2010, we disposed of $30.2 million of primarily non-performing loans at a loss of $13.7 million in two separate transactions. One of the transactions was a bulk sale representing 36 relationships. In evaluating whether to enter into these transactions, management assessed current collateral values, projected cash flows, long-term costs to remediate and/or maintain collateral, current disposition strategies, and other unique circumstances specific to these loans. As a result of this analysis, management changed the remediation strategies on these loans to accelerate their disposition.

Non-performing loans, excluding covered loans, represented 4.27% of total loans at September 30, 2010, compared to 4.77% at December 31, 2009 and 4.95% at September 30, 2009. Loans 30-89 days delinquent totaled $41.6 million at September 30, 2010, down $2.8 million from September 30, 2009.

At September 30, 2010, we had restructured loans totaling $35.3 million, a decrease of $5.3 million from December 31, 2009. Included in the totals were loans that were restructured at market terms and continued to accrue interest, which totaled $11.0 million as of September 30, 2010, a decrease of $19.6 million from December 31, 2009. To the extent these loans continue to perform, they will no longer be classified as non-performing subsequent to December 31, 2010. In January 2010, $27.9 million of restructured loans were returned to performing status as a result of satisfactory payment performance after the modification of the loans.

Table 12
Restructured Loans by Type
(Dollar amounts in thousands)

	September 30, 2010		June 30, 2010		March 31, 2010		December 31, 2009	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
Commercial and industrial	35	$ 18,612	33	$ 18,682	10	$ 1,685	25	$ 4,062
Commercial real estate:								
Office, retail, and industrial	2	212	1	142	0	0	1	91
Residential construction	6	1,900	1	1,423	1	1,423	1	1,423
Multi-family	8	3,619	9	4,860	7	3,798	9	11,462
Other commercial real estate	4	2,415	8	3,001	6	1,458	10	13,852
Total commercial real estate loans	20	8,146	19	9,426	14	6,679	21	26,828
Home equity loans	43	2,603	39	2,260	24	1,433	33	1,724
Real estate – 1-4 family loans	44	5,898	37	5,330	29	4,214	51	7,953
Total consumer loans	87	8,501	76	7,590	53	5,647	84	9,677

Total restructured loans	142	$ 35,259	128	$ 35,698	77	$ 14,011	130	$ 40,567
Restructured loans, still accruing interest	104	$ 11,002	81	$ 9,030	52	$ 5,168	105	$ 30,553
Restructured loans included in non-accrual	38	24,257	47	26,668	25	8,843	25	10,014
Total restructured loans	142	$ 35,259	128	$ 35,698	77	$ 14,011	130	$ 40,567
Year-to-date charge-offs on restructured loans		$ 926		$ 793		$ 696		$ 4,993
Valuation allowance related to restructured loans		$ 0		$ 0		$ 0		$ 0

Other real estate owned, excluding covered assets, was $52.0 million at September 30, 2010 compared to $57.1 million at December 31, 2009 and $57.9 million at September 30, 2009.

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

	September 30, 2010		December 31, 2009		September 30, 2009	
	Number of Properties	Amount	Number of Properties	Amount	Number of Properties	Amount
Single family homes	15	$ 2,573	50	$ 9,245	62	$ 13,783
Land parcels:						
Raw land	5	11,511	4	9,658	4	9,673
Farmland	1	3,572	3	11,787	3	15,308
Commercial lots	16	5,158	1	620	0	0
Single-family lots	58	17,334	27	16,092	14	12,032
Total land parcels	80	37,575	35	38,157	21	37,013
Multi-family units	8	2,609	12	2,450	11	1,882
Commercial properties	12	9,287	15	7,285	13	5,267
Total OREO properties	115	$ 52,044	112	$ 57,137	107	$ 57,945
Covered OREO	47	$ 31,550	9	$ 8,981	0	$ 0

The following table summarizes reductions to OREO properties during the quarter and nine months ended September 30, 2010.

Table 14
OREO Sales
(Dollar amounts in thousands)

	Quarter Ended September 30, 2010			Nine Months Ended September 30, 2010		
	OREO	Covered OREO	Total	OREO	Covered OREO	Total
Proceeds from sales	$ 5,557	$ 3,750	$ 9,307	$ 35,709	$ 4,398	$ 40,107
Less: Basis of properties sold	8,020	3,752	11,772	49,307	4,458	53,765
Losses on sales of OREO, net	$ (2,463)	$ (2)	$ (2,465)	$ (13,598)	$ (60)	$ (13,658)
OREO transferred to Premises, furniture, and equipment (at fair value)	$ 0	$ 0	$ 0	$ 9,455	$ 0	$ 9,455
OREO write-downs	$ 5,682	$ 118	$ 5,800	$ 11,292	$ 118	$ 11,410

As we work to dispose of non-performing assets, our efforts could be impacted by a number of factors, including but not limited to, the pace and timing of the overall recovery of the economy, illiquidity in the real estate market, higher levels of real estate coming into the market, and changes to planned liquidation strategies. Accordingly, the future carrying value of these assets may be influenced by the same factors.

Construction Portfolio

Total construction loans of $419.2 million consist of residential construction, commercial construction, and commercial land loans. The residential construction portfolio totals $226.1 million at September 30, 2010, and 27.2% is classified as non-performing. This portfolio represents loans to developers of residential properties and, as such, is particularly susceptible to declining real estate values.

The following table provides details on the nature of these construction portfolios.

Table 15
Construction Loans by Type, Excluding Covered Loans
(Dollar amounts in thousands)

Underlying Collateral	Residential Construction Amount	Residential Construction Percent of Total	Commercial Construction Amount	Commercial Construction Percent of Total	Commercial Land Amount	Commercial Land Percent of Total	Combined Amount	Combined Percent of Total	Non-performing Loans
As of September 30, 2010									
Raw Land	$ 54,580	24.1	$ 659	0.7	$ 24,470	25.9	$ 79,709	19.0	$ 28,375
Developed Land	94,913	42.0	22,817	23.1	67,434	71.4	185,164	44.2	31,771
Construction	12,106	5.3	13,503	13.7	0	0	25,609	6.1	1,384
Substantially completed structures	47,654	21.1	58,201	59.1	598	0.6	106,453	25.4	6,136
Mixed and other	16,873	7.5	3,382	3.4	1,977	2.1	22,232	5.3	15,263
Total	$ 226,126	100.0	$ 98,562	100.0	$ 94,479	100.0	$ 419,167	100.0	$ 82,929
Weighted-average maturity (in years)	0.48		1.67		0.70		0.81		
Non-accrual loans	$ 61,050		$ 0		$ 21,471		$ 82,521		
90-days past due loans	408		0		0		408		
Total non-performing loans	$ 61,458		$ 0		$ 21,471		$ 82,929		
Non-performing loans as a percent of total loans	27.2%		0.0%		22.7%		19.8%		
As of December 31, 2009									
Raw land	$ 66,715	21.2	$ 10	0	$ 43,331	44.7	$ 110,056	20.2	$ 51,457
Developed land	133,604	42.6	24,942	18.5	53,265	55.0	211,811	38.8	43,525
Construction	14,227	4.5	18,580	13.8	0	0	32,807	6.0	2,735
Substantially completed structures	82,852	26.4	90,858	67.5	157	0.2	173,867	31.9	19,694
Mixed and other	16,521	5.3	290	0.2	85	0.1	16,896	3.1	16,337
Total	$ 313,919	100.0	$ 134,680	100.0	$ 96,838	100.0	$ 545,437	100.0	$ 133,748
Weighted-average maturity (in years)	0.35		1.41		1.12		0.74		
Non-accrual loans	$ 112,798		$ 0		$ 20,864		$ 133,662		
90-days past due loans	86		0		0		86		
	$ 112,884		$ 0		$ 20,864		$ 133,748		

Total non-performing loans				
Non-performing loans as a percent of total loans	36.0%	0	21.5%	24.5%

Total construction loans decreased by $126.3 million, and non-performing construction loans decreased by $50.8 million from December 31, 2009 to September 30, 2010. The decline in the portfolio was due to principal paydowns, charge-offs, reclassification of completed construction projects into other loan categories, and transfers of loan collateral into OREO as we continue our initiative to reduce and mitigate exposure to this lending category.

Allowance for Credit Losses

The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commitments. The allowance for loan losses represents management's best estimate of estimated losses inherent within the existing loan portfolio and is established through a provision for credit losses charged to expense. The allowance for loan losses takes into consideration such factors as changes in the nature, volume, size and current risk characteristics of the loan portfolio, an assessment of individual problem loans, actual and anticipated loss experience, current economic conditions that affect the borrower's ability to pay and other pertinent factors. Determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogenous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. The allowance consists of (i) specific reserves established for probable losses on individual loans for which the recorded investment in the loan exceeds the value of the loan, (ii) reserves based on historical

loan loss experience for each loan category, and (iii) the impact of general economic conditions in our marketplace and other qualitative factors.

Table 16
Allowance for Credit Losses
And Summary of Loan Loss Experience
(Dollar amounts in thousands)

	Quarters Ended				
	2010			2009	
	September 30	June 30	March 31	December 31	September 30
Change in allowance for credit losses: (1)					
Balance at beginning of quarter	$ 145,477	$ 144,824	$ 144,808	$ 134,269	$ 127,528
Loans charged-off:					
Commercial and industrial	(13,968)	(5,896)	(5,336)	(23,938)	(13,023)
Agricultural	(489)	(546)	(141)	(180)	0
Office, retail, and industrial	(3,205)	(2,377)	(1,852)	(3,264)	(3,496)
Residential construction	(4,571)	(10,048)	(4,557)	(38,559)	(5,315)
Commercial construction	0	0	0	0	0
Commercial land	(228)	(115)	(270)	(2,848)	(38)
Multi-family	(412)	(732)	(627)	(2,325)	(29)
Investor-owned rental property	(749)	(1,034)	(318)	(1,228)	(624)
Other commercial real estate	(9,668)	(526)	(4,220)	(7,965)	(6,006)
Consumer	(2,139)	(2,546)	(2,508)	(3,262)	(3,369)
Real estate – 1-4 family	(364)	(261)	(168)	(168)	(218)
Total loans charged-off	(35,793)	(24,081)	(19,997)	(83,737)	(32,118)
Recoveries on loans previously charged-off:					
Commercial and industrial	706	3,217	873	618	438
Agricultural	0	0	0	0	0
Office, retail, and industrial	380	24	208	(1)	0
Residential construction	111	54	105	244	134
Commercial construction	0	0	0	0	0
Commercial land	0	0	0	134	266
Multi-family	190	247	115	0	0
	1	52	64	(1)	2

Investor-owned rental property					
Other commercial real estate	199	1	25	57	0
Consumer	160	264	225	225	17
Real estate – 1-4 family	1	0	48	0	2
Total recoveries on loans previously charged-off	1,748	3,859	1,663	1,276	859
Net loans charged-off, excluding covered assets	(34,045)	(20,222)	(18,334)	(82,461)	(31,259)
Net recoveries (charge-offs) on covered assets	11	(651)	0	0	0
Net loans charged off	(34,034)	(20,873)	(18,334)	(82,461)	(31,259)
Provision charged to operating expense:					
Provision, excluding provision for covered loans	33,587	20,875	18,350	93,000	38,000
Provision for covered loans	(424)	13,023	0	0	0
Less: expected reimbursement from the FDIC	413	(12,372)	0	0	0
Net provision for covered loans	(11)	651	0	0	0
Total provision charged to operating expense	33,576	21,526	18,350	93,000	38,000
Balance at end of quarter (1)	$ 145,019	$ 145,477	$ 144,824	$ 144,808	$ 134,269

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	Quarters Ended				
	2010			2009	
	September 30	June 30	March 31	December 31	September 30
Average loans, excluding covered loans	$ 5,207,419	$ 5,204,566	$ 5,197,499	$ 5,304,690	$ 5,346,769
Net loans charged-off to average loans, excluding covered loans, annualized	2.59%	1.56%	1.43%	6.17%	2.32%
Allowance for credit losses at end of period as a percent of:					
Total loans, excluding covered loans	2.81%	2.79%	2.79%	2.78%	2.53%
Non-performing loans, excluding covered loans	66%	73%	65%	58%	51%
Average loans, including covered loans	$ 5,575,146	$ 5,438,473	$ 5,406,162	$ 5,467,093	$ 5,346,769
Net loans charged-off to average loans, annualized	2.42%	1.54%	1.38%	5.98%	2.32%
Allowance for credit losses at end of period as a percent of:					
Total loans	2.57%	2.67%	2.68%	2.71%	2.53%
Non-performing loans	49%	59%	52%	52%	51%

(1)The allowance for credit losses includes a liability for unfunded commitments of $450 thousand.

The allowance for credit losses represented 2.81% of total loans outstanding, excluding covered loans, at September 30, 2010 compared to 2.78% at December 31, 2009 and 2.53% at September 30, 2009.

Net charge-offs, excluding covered loans, for third quarter 2010 were $34.0 million compared to $20.2 million for second quarter 2010 and $31.3 million for third quarter 2009. The increases for third quarter 2010 relate to the disposition of $30.2 million in primarily non-performing loans referred to earlier. The $13.7 million in losses realized on these transactions were included in net charge-offs for third quarter 2010.

The accounting policies underlying the establishment and maintenance of the allowance for credit losses are discussed in Notes 1 and 7 to the Consolidated Financial Statements of our 2009 10-K.

INVESTMENT IN BANK OWNED LIFE INSURANCE

We purchase life insurance policies on the lives of certain directors and officers and are the sole owner and beneficiary of the policies. We invest in these policies, known as BOLI, to provide an efficient form of funding for

long-term retirement and other employee benefit costs. Therefore, our BOLI policies are intended to be long-term investments to provide funding for long-term liabilities. We record these BOLI policies as a separate line item in the Consolidated Statements of Financial Condition at each policy's respective CSV with changes recorded in noninterest income in the Consolidated Statements of Income. As of September 30, 2010, the CSV of BOLI assets totaled $198.7 million compared to $198.0 million as of December 31, 2009.

As of September 30, 2010, 25.0% of our total BOLI portfolio is in general account life insurance distributed between nine insurance carriers, all of which carry investment grade ratings. This general account life insurance typically includes a feature guaranteeing minimum returns. The remaining 75.0% is in separate account life insurance, which is managed by third party investment advisors under pre-determined investment guidelines. Stable value protection is a feature available with respect to separate account life insurance policies that is designed to protect, within limits, a policy's CSV from market fluctuations on underlying investments. Our entire separate account portfolio has stable value protection purchased from a highly rated financial institution. To the extent fair values on individual contracts fall below 80%, the CSV of the specific contracts may be reduced or the underlying assets may be transferred to short-duration investments, resulting in lower earnings.

BOLI income for third quarter 2010 declined 5.3% from third quarter 2009. Since fourth quarter 2008, management has elected to accept lower market returns in order to reduce our risk to market volatility through investment in shorter-duration, lower yielding money market instruments. This strategy also had the effect of improving our regulatory capital ratios by reducing risk-weighted assets.

GOODWILL

Goodwill is included in Goodwill and other intangible assets in the Consolidated Statements of Financial Condition. The carrying value of goodwill was $270.8 million as of September 30, 2010 and $262.9 million as of December 31, 2009. The $7.9 million increase resulted from goodwill generated by the Palos acquisition. Goodwill is tested at least annually for impairment or when events or circumstances indicate a need to perform interim tests. The impairment testing is performed using the market capitalization method and, if necessary, by comparing the carrying value of goodwill with the anticipated discounted future cash flows.

FUNDING AND LIQUIDITY MANAGEMENT

The following table provides a comparison of average funding sources for the quarter ended September 30, 2010, December 31, 2009, and September 30, 2009. 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 17
Funding Sources – Average Balances
(Dollar amounts in thousands)

	Quarters Ended			Third Quarter 2010 % Change From	
	September 30, 2010	December 31, 2009	September 30, 2009	Fourth Quarter 2009	Third Quarter 2009
Demand deposits	$ 1,242,257	$ 1,115,096	$ 1,056,188	11.4%	17.6%
Savings deposits	832,672	744,876	749,995	11.8%	11.0%
NOW accounts	1,173,347	953,772	1,062,708	23.0%	10.4%
Money market accounts	1,226,314	1,079,943	995,132	13.6%	23.2%
Transactional deposits	4,474,590	3,893,687	3,864,023	14.9%	15.8%
Time deposits	1,998,694	1,997,824	1,923,314	0.0%	3.9%
Brokered deposits	24,027	10,903	15,131	120.4%	58.8%
Total time deposits	2,022,721	2,008,727	1,938,445	0.7%	4.3%
Total deposits	6,497,311	5,902,414	5,802,468	10.1%	12.0%
Repurchase agreements	199,785	238,904	442,022	(16.4%)	(54.8%)
Federal funds purchased	0	37,886	93,123	(100.0%)	(100.0%)
Federal Home Loan Bank (“FHLB”) advances	138,120	100,403	131,089	37.6%	5.4%
Federal term auction facilities	0	284,783	204,163	(100.0%)	(100.0%)
Total borrowed funds	337,905	661,976	870,397	(49.0%)	(61.2%)
Subordinated debt	137,740	143,816	226,693	(4.2%)	(39.2%)
Total funding sources	$ 6,972,956	$ 6,708,206	$ 6,899,558	3.9%	1.1%
Average interest rate paid on borrowed funds	0.94%	0.76%	1.26%		
Weighted-average maturity of FHLB advances	30.6 months	37.5 months	1.7 months		
Weighted-average interest rate of FHLB advances	1.95%	2.03%	4.05%		

Total average deposits for third quarter 2010 increased 10.1% from fourth quarter 2009 and increased 12.0% from third quarter 2009, with most of the increases in transactional deposits.

Average core transactional deposits for third quarter 2010 were $4.5 billion, an increase of $610.6 million, or 15.8%, from third quarter 2009. Excluding core transactional deposits acquired through FDIC-assisted transactions, the year-over-year increase in core transactional deposits was $394.7 million, or 10.2%.

Average borrowed funds totaled $337.9 million for third quarter 2010, decreasing $532.5 million, or 61.2%, from third quarter 2009. During the last half of 2009 and early 2010, we delevered our balance sheet by using the proceeds from securities sales and maturities to reduce our level of borrowed funds and time deposits, resulting in an increase in our net interest margins.

Securities sold under agreements to repurchase, federal funds purchased, and term auction facilities generally mature within 1 to 90 days from the transaction date.

MANAGEMENT OF CAPITAL

Capital Measurements

The Federal Reserve Board ("FRB"), the primary regulator of the Company and the Bank, establishes minimum capital requirements that must be met by member institutions. We have managed our capital ratios to consistently maintain such measurements in excess of the FRB minimum levels to be considered "well-capitalized," which is the highest capital category established.

Capital resources of financial institutions are also regularly measured by tangible equity ratios, which are non-GAAP measures. Tangible common equity equals total shareholders' equity as defined by GAAP, less goodwill and other intangible assets and preferred stock, which does not benefit common shareholders. Tangible assets equals total assets as defined by GAAP, less goodwill and other intangible assets. The tangible equity ratios are a valuable indicator of a financial institution's capital strength since they eliminate intangible assets and preferred stock from shareholders' equity.

The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the FRB to be considered "well-capitalized."

Table 18
Capital Measurements
(Dollar amounts in thousands)

	September 30, 2010	September 30, 2009	December 31, 2009	Regulatory Minimum For "Well-Capitalized"	Excess Over Required Minimums at September 30, 2010	
Regulatory capital ratios:						
Total capital to risk-weighted assets	16.83%	15.27%	13.94%	10.00%	68%	$ 438,189
Tier 1 capital to risk-weighted assets	14.78%	12.88%	11.88%	6.00%	146%	$ 563,334
Tier 1 leverage to average assets	11.98%	10.52%	10.18%	5.00%	140%	$ 552,526
Regulatory capital ratios, excluding preferred stock (1):						
Total capital to risk-weighted assets	13.82%	12.18%	10.93%	10.00%	38%	$ 245,189
	11.77%	9.78%	8.88%	6.00%	96%	$ 370,334

Tier 1 capital to risk-weighted assets						
Tier 1 leverage to average assets	9.54%	7.99%	7.61%	5.00%	91%	$ 359,526
Tier 1 common capital to risk-weighted assets (2) (3)	10.45%	8.43%	7.56%	N/A (3)	N/A (3)	N/A (3)
Tangible equity ratios:						
Tangible common equity to tangible assets	8.34%	6.88%	6.29%	N/A (3)	N/A (3)	N/A (3)
Tangible common equity, excluding other comprehensive loss, to tangible assets	8.46%	7.10%	6.54%	N/A (3)	N/A (3)	N/A (3)
Tangible common equity to risk-weighted assets	10.51%	8.16%	7.27%	N/A (3)	N/A (3)	N/A (3)

(1)These ratios exclude the impact of $193.0 million in preferred shares issued to the U.S. Treasury in December 2008 as part of its Capital Purchase Plan ("CPP"). For additional discussion of the preferred share issuance and the CPP, refer to Note 13 to the Consolidated Financial Statements of our 2009 Form 10-K.

(2)Excludes the impact of preferred shares and trust preferred securities.

(3)Ratio is not subject to formal FRB regulatory guidance.

Regulatory and tangible common equity ratios improved compared to December 31, 2009. The notable improvements in the Tier 1 and tangible capital ratios primarily reflect the issuance of common stock as discussed below.

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

Common Shares Issued

In January 2010, we issued a total of 18,818,183 shares of common stock at a price of $11.00 per share, which resulted in a $196.0 million increase in stockholders' equity, net of the underwriting discount and related expenses. We are using the proceeds to improve the quality of our capital position and for general operating purposes. As a result, regulatory and tangible common equity ratios were significantly improved in comparison to December 31, 2009.

Dividends

The Company's Board of Directors has declared quarterly common stock dividends of $0.010 per share for the past seven quarters.

Since we elected to participate in the U.S. Treasury's Capital Purchase Program in fourth quarter 2008, our ability to increase quarterly common stock dividends above $0.310 per share will be subject to the applicable restrictions of this program for three years following the sale of the preferred stock.

Other Transactions

In January 2010, the Company made a $100.0 million capital contribution 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 Company recorded the assets 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 allowance for loan losses was recorded at the Company on the date of the purchase of these assets. As of September 30, 2010, the Company had $119.5 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.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with GAAP and are consistent with predominant 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 at 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 2009 10-K. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, 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 has determined that our accounting policies with respect to the allowance for loan 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, as such, are considered to be critical accounting policies, as discussed in our 2009 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 Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," contained in our 2009 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 Management 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/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 to inverted 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 and decreases of 200 and 300 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 assuming a 200 basis point gradual increase and decrease in all interest rates compared to net interest income in an unchanging interest rate environment. Current policy limits this exposure to plus or minus 8% of the anticipated level of net interest income over the corresponding 12-month horizon assuming no change in current interest rates. As of December 31, 2009, the percent change expected assuming a gradual decrease in interest rates was outside of policy by 2.1%. Given the current market conditions as of December 31, 2009, the Bank's Board of Directors temporarily authorized operations outside of policy limits. We were within policy limits as of September 30, 2010.

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

	Gradual Change in Rates (1)		Immediate Change in Rates			
	-200	+200	-200	+200	-300 (2)	+300
September 30, 2010:						
Dollar change	$ (5,398)	$ 9,316	$ (8,212)	$ 12,152	$ N/M	$ 24,830
Percent change	-2.0%	+3.4%	-3.0%	+4.4%	N/M	+9.0%
December 31, 2009:						
Dollar change	$ (27,122)	$ (2,540)	$ (36,934)	$ (1,312)	$ N/M	$ 4,246
Percent change	-10.1%	-1.0%	-13.8%	-0.5%	N/M	+1.6%

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

(2)

N/M – Due to the low level of interest rates as of September 30, 2010 and December 31, 2009, in management's judgment, an assumed 300 basis point drop in interest rates was deemed not meaningful in the existing interest rate environment.

Overall, in rising interest rate scenarios, interest rate risk volatility moved from being negative at December 31, 2009 to being positive at September 30, 2010. The change in interest rate risk volatility from December 31, 2009 is less negative in declining interest rate scenarios. The drivers of the improvement in the rising interest rate scenarios were longer duration securities sales in the first nine months of 2010 and a first quarter 2010 equity raise of $196.0 million, both of which reduced short-term funding needs of the Company. The reduction in the amount of negative earnings at risk in the declining scenarios is due to an increase in the aggregate interest rate floor on floating rate loans.

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- 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. Our policy guidelines call for preventative measures to be taken in the event that an immediate increase or decrease in interest rates of 200 basis points is estimated to reduce the economic value of equity by more than 20%.

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

	Immediate Change in Rates	
	-200	+200
September 30, 2010:		
Dollar change	$ (173,184)	$ 89,679
Percent change	-11.3%	+5.9%
December 31, 2009:		
Dollar change	$ (101,267)	$ (2,013)
Percent change	-6.8%	-0.1%

As of September 30, 2010, the estimated sensitivity of the economic value of equity to changes in interest rates reflected positive exposure to higher interest rates compared to negative exposure as of December 31, 2009 and more negative exposure to lower interest rates compared to that existing at December 31, 2009. The reduction in the securities portfolio reduced our exposure to rising interest rates. The low level of interest paid on transactional deposits caused a negative exposure to falling interest rates since we have limited ability to further reduce those rates.

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 and Exchange Act of 1934 (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 Company disclosed any material pending litigation matters relating to the Company in Item 3 of Part I of its Annual Report on Form 10-K for the year ended December 31, 2009. For the quarter ended September 30, 2010, there

were no material developments with regard to any previously disclosed matters, and no other matters were reported during the period, although there were certain legal proceedings pending against the Company and its subsidiaries in the ordinary course of business at September 30, 2010. Based on presently available information, the Company believes that any liabilities arising from these proceedings would not have a material adverse effect on the consolidated financial position of the Company.

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 the year ended December 31, 2009. However, these factors may not be the only risks or uncertainties the Company faces. Additional risks that the Company does not yet know of or that it currently thinks are immaterial may also impair its business operations.

Based on currently available information, the Company has not identified any new or material changes in the Company's risk factors as previously disclosed, except as discussed under the heading "Regulatory Developments" of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

The following table summarizes purchases made by or on our behalf, or by any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended September 30, 2010 pursuant to a repurchase program approved by our Board of Directors on November 27, 2007. Up to 2.5 million shares of our common stock may be repurchased, and the total remaining authorization under the program was 2,494,747 shares as of September 30, 2010. The repurchase program has no set expiration or termination date.

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

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program
July 1 – July 31, 2010	0	$ 0	0	2,494,747
August 1 – August 31, 2010	0	0	0	2,494,747
September 1 – September 30, 2010	0	0	0	2,494,747
Total	0	$ 0	0	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Documents	Sequential Page #
3.1	Restated Certificate of Incorporation is incorporated herein by reference to Exhibit 3 to the Annual Report on Form 10-K dated December 31, 2008.	
3.2	Restated Bylaws of the Company is incorporated herein by reference to Exhibit 3 to the Annual Report on Form 10-K dated December 31, 2008.	
11	Statement re: Computation of Per Share Earnings - The computation of basic and diluted earnings per share is included in Note 9 of the Company's Notes to 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.	

(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: November 5, 2010

* Duly authorized to sign on behalf of the Registrant.