

FIRST MIDWEST BANCORP INC  
Form 10-Q  
November 04, 2016

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

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FORM 10-Q  
(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2016

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-10967

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(Exact name of registrant as specified in its charter)

Delaware

36-3161078

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

One Pierce Place, Suite 1500

Itasca, Illinois 60143-1254

(Address of principal executive offices) (zip code)

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Registrant's telephone number, including area code: (630) 875-7463

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

As of October 31, 2016, there were 81,325,864 shares of common stock, \$.01 par value, outstanding.

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FORM 10-Q  
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## PART I. FINANCIAL INFORMATION (Unaudited)

## ITEM 1. FINANCIAL STATEMENTS

## FIRST MIDWEST BANCORP, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Amounts in thousands, except per share data)

|                                                                                 | September 30, December 31, |              |
|---------------------------------------------------------------------------------|----------------------------|--------------|
|                                                                                 | 2016                       | 2015         |
| Assets                                                                          | (Unaudited)                |              |
| Cash and due from banks                                                         | \$ 139,538                 | \$ 114,587   |
| Interest-bearing deposits in other banks                                        | 362,153                    | 266,615      |
| Trading securities, at fair value                                               | 18,351                     | 16,894       |
| Securities available-for-sale, at fair value                                    | 1,964,030                  | 1,306,636    |
| Securities held-to-maturity, at amortized cost                                  | 20,337                     | 23,152       |
| Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost | 53,506                     | 39,306       |
| Loans                                                                           | 8,171,782                  | 7,161,715    |
| Allowance for loan losses                                                       | (85,308)                   | (73,630)     |
| Net loans                                                                       | 8,086,474                  | 7,088,085    |
| Other real estate owned ("OREO")                                                | 28,049                     | 27,782       |
| Premises, furniture, and equipment, net                                         | 82,443                     | 122,278      |
| Investment in bank-owned life insurance ("BOLI")                                | 219,064                    | 209,601      |
| Goodwill and other intangible assets                                            | 367,961                    | 339,277      |
| Accrued interest receivable and other assets                                    | 236,291                    | 178,463      |
| Total assets                                                                    | \$ 11,578,197              | \$ 9,732,676 |
| Liabilities                                                                     |                            |              |
| Noninterest-bearing deposits                                                    | \$ 2,766,265               | \$ 2,414,454 |
| Interest-bearing deposits                                                       | 6,339,839                  | 5,683,284    |
| Total deposits                                                                  | 9,106,104                  | 8,097,738    |
| Borrowed funds                                                                  | 639,539                    | 165,096      |
| Senior and subordinated debt                                                    | 309,444                    | 201,208      |
| Accrued interest payable and other liabilities                                  | 253,846                    | 122,366      |
| Total liabilities                                                               | 10,308,933                 | 8,586,408    |
| Stockholders' Equity                                                            |                            |              |
| Common stock                                                                    | 913                        | 882          |
| Additional paid-in capital                                                      | 496,918                    | 446,672      |
| Retained earnings                                                               | 1,003,271                  | 953,516      |
| Accumulated other comprehensive loss, net of tax                                | (13,402)                   | (28,389)     |
| Treasury stock, at cost                                                         | (218,436)                  | (226,413)    |
| Total stockholders' equity                                                      | 1,269,264                  | 1,146,268    |

Total liabilities and  
stockholders' equity                      \$ 11,578,197    \$ 9,732,676

|                    | September<br>30, 2016<br>(Unaudited) | December 31, 2015   |                  |
|--------------------|--------------------------------------|---------------------|------------------|
|                    | Preferred<br>Shares                  | Preferred<br>Shares | Common<br>Shares |
| Par value          | \$ — \$ 0.01                         | \$ —                | \$ 0.01          |
| Shares authorized  | 1,000,000                            | 1,000               | 150,000          |
| Shares issued      | — 91,281                             | —                   | 88,228           |
| Shares outstanding | — 81,324                             | —                   | 77,952           |
| Treasury shares    | — 9,957                              | —                   | 10,276           |

See accompanying unaudited notes to the condensed consolidated financial statements.

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

|                                                     | Quarters Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |           |
|-----------------------------------------------------|---------------------------------|----------|---------------------------------------|-----------|
|                                                     | 2016                            | 2015     | 2016                                  | 2015      |
| Interest Income                                     |                                 |          |                                       |           |
| Loans                                               | \$87,505                        | \$75,522 | \$252,486                             | \$224,739 |
| Investment securities                               | 9,629                           | 7,723    | 27,550                                | 23,839    |
| Other short-term investments                        | 772                             | 1,047    | 1,968                                 | 2,739     |
| Total interest income                               | 97,906                          | 84,292   | 282,004                               | 251,317   |
| Interest Expense                                    |                                 |          |                                       |           |
| Deposits                                            | 2,520                           | 2,329    | 7,387                                 | 7,256     |
| Borrowed funds                                      | 1,782                           | 928      | 4,597                                 | 1,064     |
| Senior and subordinated debt                        | 2,632                           | 3,133    | 8,353                                 | 9,411     |
| Total interest expense                              | 6,934                           | 6,390    | 20,337                                | 17,731    |
| Net interest income                                 | 90,972                          | 77,902   | 261,667                               | 233,586   |
| Provision for loan losses                           | 9,998                           | 4,100    | 25,676                                | 16,652    |
| Net interest income after provision for loan losses | 80,974                          | 73,802   | 235,991                               | 216,934   |
| Noninterest Income                                  |                                 |          |                                       |           |
| Service charges on deposit accounts                 | 10,708                          | 10,519   | 30,350                                | 29,676    |
| Wealth management fees                              | 8,495                           | 7,222    | 24,696                                | 21,669    |
| Card-based fees                                     | 7,332                           | 6,868    | 21,642                                | 20,223    |
| Mortgage banking income                             | 3,394                           | 1,402    | 6,625                                 | 3,964     |
| Other service charges, commissions, and fees        | 8,537                           | 7,107    | 24,681                                | 17,800    |
| Net gain on sale-leaseback transaction              | 5,509                           | —        | 5,509                                 | —         |
| Net securities gains                                | 187                             | 524      | 1,097                                 | 1,551     |
| Other income                                        | 1,691                           | 1,372    | 5,001                                 | 5,220     |
| Total noninterest income                            | 45,853                          | 35,014   | 119,601                               | 100,103   |
| Noninterest Expense                                 |                                 |          |                                       |           |
| Salaries and employee benefits                      | 46,372                          | 41,361   | 137,233                               | 122,371   |
| Net occupancy and equipment expense                 | 10,755                          | 9,406    | 30,380                                | 29,464    |
| Professional services                               | 6,772                           | 6,172    | 17,984                                | 16,603    |
| Technology and related costs                        | 3,881                           | 3,673    | 11,251                                | 10,887    |
| Net OREO expense                                    | 313                             | 1,290    | 2,099                                 | 4,355     |
| Other expenses                                      | 13,623                          | 12,463   | 41,074                                | 36,793    |
| Acquisition and integration related expenses        | 1,172                           | —        | 6,810                                 | —         |
| Total noninterest expense                           | 82,888                          | 74,365   | 246,831                               | 220,473   |
| Income before income tax expense                    | 43,939                          | 34,451   | 108,761                               | 96,564    |
| Income tax expense                                  | 15,537                          | 11,167   | 37,130                                | 30,824    |
| Net income                                          | \$28,402                        | \$23,284 | \$71,631                              | \$65,740  |
| Per Common Share Data                               |                                 |          |                                       |           |
| Basic earnings per common share                     | \$0.35                          | \$0.30   | \$0.89                                | \$0.84    |
| Diluted earnings per common share                   | \$0.35                          | \$0.30   | \$0.89                                | \$0.84    |
| Dividends declared per common share                 | \$0.09                          | \$0.09   | \$0.27                                | \$0.27    |
| Weighted-average common shares outstanding          | 80,396                          | 77,106   | 79,589                                | 77,038    |
| Weighted-average diluted common shares outstanding  | 80,409                          | 77,119   | 79,602                                | 77,051    |

See accompanying unaudited notes to the condensed consolidated financial statements.

## FIRST MIDWEST BANCORP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollar amounts in thousands)

(Unaudited)

|                                                       | Quarters Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |          |
|-------------------------------------------------------|---------------------------------|----------|---------------------------------------|----------|
|                                                       | 2016                            | 2015     | 2016                                  | 2015     |
| Net income                                            | \$28,402                        | \$23,284 | \$71,631                              | \$65,740 |
| Securities Available-for-Sale                         |                                 |          |                                       |          |
| Unrealized holding (losses) gains:                    |                                 |          |                                       |          |
| Before tax                                            | (6,695 )                        | 6,126    | 21,671                                | 748      |
| Tax effect                                            | 2,676                           | (2,454 ) | (8,665 )                              | (312 )   |
| Net of tax                                            | (4,019 )                        | 3,672    | 13,006                                | 436      |
| Reclassification of net gains included in net income: |                                 |          |                                       |          |
| Before tax                                            | 187                             | 524      | 1,097                                 | 1,551    |
| Tax effect                                            | (75 )                           | (214 )   | (439 )                                | (634 )   |
| Net of tax                                            | 112                             | 310      | 658                                   | 917      |
| Net unrealized holding (losses) gains                 | (4,131 )                        | 3,362    | 12,348                                | (481 )   |
| Derivative Instruments                                |                                 |          |                                       |          |
| Unrealized holding (losses) gains:                    |                                 |          |                                       |          |
| Before tax                                            | (779 )                          | 3,420    | 4,420                                 | 870      |
| Tax effect                                            | 311                             | (1,368 ) | (1,781 )                              | (352 )   |
| Net of tax                                            | (468 )                          | 2,052    | 2,639                                 | 518      |
| Total other comprehensive (loss) income               | (4,599 )                        | 5,414    | 14,987                                | 37       |
| Total comprehensive income                            | \$23,803                        | \$28,698 | \$86,618                              | \$65,777 |

|                               | Accumulated<br>Unrealized<br>Gain (Loss)<br>on<br>Securities<br>Available-<br>for-Sale | Accumulated<br>Unrealized<br>Gain (Loss)<br>on<br>Derivative<br>Instruments | Unrecognized<br>Net Pension<br>Costs | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|-------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------------|
| Balance at December 31, 2014  | \$ (2,950 )                                                                            | \$ (1,138 )                                                                 | \$ (11,767 )                         | \$ (15,855 )                                           |
| Other comprehensive income    | (481 )                                                                                 | 518                                                                         | —                                    | 37                                                     |
| Balance at September 30, 2015 | \$ (3,431 )                                                                            | \$ (620 )                                                                   | \$ (11,767 )                         | \$ (15,818 )                                           |
| Balance at December 31, 2015  | \$ (10,271 )                                                                           | \$ (2,468 )                                                                 | \$ (15,650 )                         | \$ (28,389 )                                           |
| Other comprehensive income    | 12,348                                                                                 | 2,639                                                                       | —                                    | 14,987                                                 |
| Balance at September 30, 2016 | \$ 2,077                                                                               | \$ 171                                                                      | \$ (15,650 )                         | \$ (13,402 )                                           |

See accompanying unaudited notes to the condensed consolidated financial statements.

## FIRST MIDWEST BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in thousands, except per share data)

(Unaudited)

|                                                        | Common<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total       |
|--------------------------------------------------------|---------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------|-------------------|-------------|
| Balance at December 31, 2014                           | 77,695                          | \$ 882          | \$449,798                        | \$899,516            | \$ (15,855 )                                  | \$(233,566)       | \$1,100,775 |
| Net income                                             | —                               | —               | —                                | 65,740               | —                                             | —                 | 65,740      |
| Other comprehensive income                             | —                               | —               | —                                | —                    | 37                                            | —                 | 37          |
| Common dividends declared<br>(\$0.27 per common share) | —                               | —               | —                                | (21,047 )            | —                                             | —                 | (21,047 )   |
| Purchase of treasury stock                             | (7 )                            | —               | —                                | —                    | —                                             | (120 )            | (120 )      |
| Restricted stock activity                              | 255                             | —               | (10,108 )                        | —                    | —                                             | —                 | (10,108 )   |
| Treasury stock issued to<br>benefit plans              | (1 )                            | —               | (112 )                           | —                    | —                                             | 281               | 169         |
| Share-based compensation<br>expense                    | —                               | —               | 5,459                            | —                    | —                                             | 6,764             | 12,223      |
| Balance at September 30, 2015                          | 77,942                          | \$ 882          | \$445,037                        | \$944,209            | \$ (15,818 )                                  | \$(226,641)       | \$1,147,669 |
| Balance at December 31, 2015                           | 77,952                          | \$ 882          | \$446,672                        | \$953,516            | \$ (28,389 )                                  | \$(226,413)       | \$1,146,268 |
| Net income                                             | —                               | —               | —                                | 71,631               | —                                             | —                 | 71,631      |
| Other comprehensive income                             | —                               | —               | —                                | —                    | 14,987                                        | —                 | 14,987      |
| Common dividends declared<br>(\$0.27 per common share) | —                               | —               | —                                | (21,876 )            | —                                             | —                 | (21,876 )   |
| Acquisition, net of issuance<br>costs                  | 3,042                           | 31              | 54,865                           | —                    | —                                             | —                 | 54,896      |
| Common stock issued                                    | 10                              | —               | 169                              | —                    | —                                             | —                 | 169         |
| Restricted stock activity                              | 326                             | —               | (10,610 )                        | —                    | —                                             | 8,062             | (2,548 )    |
| Treasury stock issued to<br>benefit plans              | (6 )                            | —               | (21 )                            | —                    | —                                             | (85 )             | (106 )      |
| Share-based compensation<br>expense                    | —                               | —               | 5,843                            | —                    | —                                             | —                 | 5,843       |
| Balance at September 30, 2016                          | 81,324                          | \$ 913          | \$496,918                        | \$1,003,271          | \$ (13,402 )                                  | \$(218,436)       | \$1,269,264 |

See accompanying unaudited notes to the condensed consolidated financial statements.

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

|                                                                                  | Nine Months Ended<br>September 30, |            |
|----------------------------------------------------------------------------------|------------------------------------|------------|
|                                                                                  | 2016                               | 2015       |
| Net cash provided by operating activities                                        | \$104,235                          | \$93,423   |
| Investing Activities                                                             |                                    |            |
| Proceeds from maturities, repayments, and calls of securities available-for-sale | 263,243                            | 216,900    |
| Proceeds from sales of securities available-for-sale                             | 42,794                             | 57,255     |
| Purchases of securities available-for-sale                                       | (824,883 )                         | (241,300 ) |
| Proceeds from maturities, repayments, and calls of securities held-to-maturity   | 4,695                              | 4,016      |
| Purchases of securities held-to-maturity                                         | (16 )                              | (1,184 )   |
| Purchases of FHLB stock                                                          | (12,651 )                          | (1,190 )   |
| Net increase in loans                                                            | (630,012 )                         | (213,488 ) |
| Proceeds from claims on BOLI, net of premiums paid                               | 1,597                              | 1,095      |
| Proceeds from sales of OREO                                                      | 6,069                              | 13,820     |
| Proceeds from sales of premises, furniture, and equipment                        | 150,747                            | 195        |
| Purchases of premises, furniture, and equipment                                  | (12,320 )                          | (6,591 )   |
| Net cash received from acquisitions                                              | 57,347                             | —          |
| Net cash used in investing activities                                            | (953,390 )                         | (170,472 ) |
| Financing Activities                                                             |                                    |            |
| Net increase in deposit accounts                                                 | 413,445                            | 408,692    |
| Net increase in borrowed funds                                                   | 472,027                            | 31,949     |
| Purchase of treasury stock                                                       | —                                  | (120 )     |
| Net proceeds from the issuance of subordinated notes                             | 146,484                            | —          |
| Payments for the maturity of subordinated debt                                   | (38,500 )                          | —          |
| Cash dividends paid                                                              | (21,885 )                          | (20,132 )  |
| Restricted stock activity                                                        | (2,318 )                           | (2,853 )   |
| Excess tax benefit related to share-based compensation                           | 391                                | 794        |
| Net cash provided by financing activities                                        | 969,644                            | 418,330    |
| Net increase in cash and cash equivalents                                        | 120,489                            | 341,281    |
| Cash and cash equivalents at beginning of period                                 | 381,202                            | 606,262    |
| Cash and cash equivalents at end of period                                       | \$501,691                          | \$947,543  |
| Supplemental Disclosures of Cash Flow Information:                               |                                    |            |
| Income taxes paid                                                                | \$14,645                           | \$12,787   |
| Interest paid to depositors and creditors                                        | 17,656                             | 14,931     |
| Dividends declared, but unpaid                                                   | 7,241                              | 7,137      |
| Common stock issued for acquisitions, net of issuance costs                      | 54,896                             | —          |
| Non-cash transfers of loans to OREO                                              | 3,894                              | 11,956     |
| Non-cash transfers of loans held-for-investment to loans held-for-sale           | 77,030                             | 32,902     |

See accompanying unaudited notes to the condensed consolidated financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** – The accompanying unaudited condensed consolidated interim financial statements ("consolidated financial statements") of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, were prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and reflect all adjustments that management deems necessary for the fair presentation of the financial position and results of operations for the periods presented. The results of operations for the quarter and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry. The accompanying consolidated financial statements do not include certain information and note disclosures required by GAAP for complete annual financial statements. Therefore, these financial statements should be read in conjunction with the Company's 2015 Annual Report on Form 10-K ("2015 10-K"). The Company uses the accrual basis of accounting for financial reporting purposes. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

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

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

The accounting policies related to business combinations, loans, the allowance for credit losses, and derivative financial instruments are presented below. For a summary of all other significant accounting policies, see Note 1, "Summary of Significant Accounting Policies," in the Company's 2015 10-K.

**Business Combinations** – Business combinations are accounted for under the acquisition method of accounting. Assets acquired and liabilities assumed are recorded at their estimated fair values as of the date of acquisition, with any excess of the purchase price of the acquisition over the fair value of the identifiable net tangible and intangible assets acquired recorded as goodwill. Alternatively, a gain is recorded if the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid. The results of operations of the acquired business are included in the Condensed Consolidated Statements of Income from the effective date of the acquisition.

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

**Acquired and Covered Loans** – Covered loans consists of loans acquired by the Company in Federal Deposit Insurance Corporation ("FDIC")-assisted transactions, which are covered by loss share agreements with the FDIC (the "FDIC Agreements"), under which the FDIC reimburses the Company for the majority of the losses and eligible expenses related to these assets during the coverage period. Acquired loans consist of all other loans that were acquired in business combinations that are not covered by the FDIC Agreements. Covered loans and acquired loans are included within loans held-for-investment.

Acquired and covered loans are separated into (i) non-purchased credit impaired ("Non-PCI") and (ii) purchased credit impaired ("PCI") loans. Non-PCI loans include loans that did not have evidence of credit deterioration since origination at the acquisition date. PCI loans include loans that had evidence of credit deterioration since origination and for which it was probable at acquisition that the Company would not collect all contractually required principal and interest payments. Evidence of credit deterioration

was evaluated using various indicators, such as past due and non-accrual status. Leases and revolving loans do not qualify to be accounted for as PCI loans and are accounted for as Non-PCI loans.

The acquisition adjustment related to Non-PCI loans is amortized into interest income over the contractual life of the related loans. If an acquired Non-PCI loan is renewed subsequent to the acquisition date, any remaining acquisition adjustment is accreted into interest income and the loan is considered a new loan that is no longer classified as an acquired loan.

PCI loans are accounted for based on estimates of expected future cash flows. To estimate the fair value, the Company generally aggregates purchased consumer loans and certain smaller balance commercial loans into pools of loans with common risk characteristics, such as delinquency status, credit score, and internal risk ratings. The fair values of larger balance commercial loans are estimated on an individual basis. Expected future cash flows in excess of the fair value of loans at the purchase date ("accretable yield") are recorded as interest income over the life of the loans if the timing and amount of the expected future cash flows can be reasonably estimated. The non-accretable yield represents the difference between contractually required payments and the expected future cash flows determined at acquisition. Subsequent increases in expected future cash flows are offset against the allowance for credit losses to the extent an allowance has been established or otherwise recognized as interest income prospectively. The present value of any decreases in expected future cash flows is recognized by recording a charge-off through the allowance for loan losses or providing an allowance for loan losses.

**90-Days Past Due Loans** – The Company's accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is sufficiently collateralized and in the process of renewal or collection.

**Non-accrual Loans** – Generally, corporate loans are placed on non-accrual status (i) when either principal or interest payments become 90 days or more past due unless the credit is sufficiently collateralized and in the process of renewal or collection, or (ii) when an individual analysis of a borrower's creditworthiness warrants a downgrade to non-accrual regardless of past due status. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. After the loan is placed on non-accrual status, all debt service payments are applied to the principal on the loan. Future interest income may only be recorded on a cash basis after recovery of principal is reasonably assured. Non-accrual loans are returned to accrual status when the financial position of the borrower and other relevant factors indicate that the Company will collect all principal and interest.

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

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

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

The Company does not accrue interest on a TDR unless it believes collection of all principal and interest under the modified terms is reasonably assured. For a TDR to begin accruing interest, the borrower must demonstrate some level of past performance and the future capacity to perform under the modified terms. Generally, six months of consecutive payment performance under the restructured terms is required before a TDR is returned to accrual status. However, the period could vary depending on the individual facts and circumstances of the loan. An evaluation of the borrower's current creditworthiness is used to assess the borrower's capacity to repay the loan under the modified terms. This evaluation includes an estimate of expected future cash flows, evidence of strong financial position, and

estimates of the value of collateral, if applicable. For TDRs to be removed from TDR status in the calendar year after the restructuring, the loans must (i) have an interest rate and terms that reflect market conditions at the time of restructuring, and (ii) be in compliance with the modified terms. If the loan was restructured at below market rates and terms, it continues to be separately reported as restructured until it is paid in full or charged-off.

Impaired Loans – Impaired loans consist of corporate non-accrual loans and TDRs. A loan is considered impaired when it is probable that the Company will not collect all contractual principal and interest. With the exception of accruing TDRs, impaired loans are classified as non-accrual and are exclusive of smaller homogeneous loans, such as home equity, 1-4 family mortgages, and installment loans. Impaired loans with balances under a specified threshold are not individually evaluated for impairment. For all other impaired loans, impairment is measured by comparing the estimated value of the loan to the recorded book value.

The value of collateral-dependent loans is based on the fair value of the underlying collateral, less costs to sell. The value of other loans is measured using the present value of expected future cash flows discounted at the loan's initial effective interest rate.

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

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

**Allowance for Loan Losses** – The allowance for loan losses consists of (i) specific reserves for individual loans where the recorded investment exceeds the value, (ii) an allowance based on a loss migration analysis that uses historical credit loss experience for each loan category, and (iii) an allowance based on other internal and external qualitative factors.

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

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

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

The allowance for loan losses also consists of an allowance on acquired and covered Non-PCI and PCI loans. No allowance for loan losses is recorded on acquired loans at the acquisition date. Subsequent to the acquisition date, an allowance for credit losses is established as necessary to reflect credit deterioration. The acquired Non-PCI allowance is based on management's evaluation of the acquired Non-PCI loan portfolio giving consideration to the current portfolio balance including the remaining acquisition adjustments, maturity dates, and overall credit quality. The allowance for covered Non-PCI loans is calculated in the same manner as the general reserve component based on a loss migration analysis as discussed above. The acquired and covered PCI allowance reflects the difference between the carrying value and the discounted expected future cash flows of the acquired and covered PCI loans. On a periodic basis, the adequacy of this allowance is determined through a re-estimation of expected future cash flows on all of the outstanding acquired and covered PCI loans using either a probability of default/loss given default ("PD/LGD") methodology or a specific review methodology. The PD/LGD model is a loss model that estimates expected future cash flows using a probability of default curve and loss given default estimates. Acquired Non-PCI loans that have renewed subsequent to the respective acquisition dates are no longer classified as acquired loans. Instead, they are

included in the general loan population and allocated an allowance based on a loss migration analysis.

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

The establishment of the allowance for credit losses involves a high degree of judgment given the difficulty of assessing the factors impacting loan repayment and estimating the timing and amount of losses. While management utilizes its best judgment and

information available, the adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk classifications by regulatory authorities.

**Derivative Financial Instruments** – To provide derivative products to customers and 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 expected future cash flows caused by interest rate volatility. All derivative instruments are recorded at fair value as either other assets or other liabilities in the Consolidated Statements of Financial Condition. Subsequent changes in a derivative's fair value are recognized in earnings unless specific hedge accounting criteria are met.

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

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

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

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

### Adopted Accounting Pronouncements

**Amendments to Consolidation Analysis:** In February 2015, the Financial Accounting Standards Board ("FASB") issued guidance that updates current accounting for the consolidation of certain legal entities. This guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, affects the consolidation analysis of reporting entities that are involved with VIEs, and provides certain exceptions from consolidation guidance for certain reporting entities. This guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 did not materially impact the Company's financial condition, results of operations, or liquidity.

**Simplifying the Presentation of Debt Issuance Costs:** In April of 2015, the FASB issued guidance to clarify the presentation of debt issuance costs within the balance sheet. Additionally, the guidance requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. The guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 did not materially impact the Company's financial condition, results of operations, or liquidity.

### Accounting Pronouncements Pending Adoption

**Revenue from Contracts with Customers:** In May of 2014, the FASB issued guidance that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March of 2016, the FASB issued an amendment to this guidance to clarify the implementation of guidance on principal versus agent consideration. Additional amendments to clarify the implementation guidance on the identification of performance obligations and licensing were issued in April of 2016 and narrow-scope improvements and practical expedients were issued in May of 2016.

The guidance was initially effective for annual and interim reporting periods beginning on or after December 15, 2016. In August of 2015, the FASB issued guidance that defers the effective date by one year. The deferral causes the guidance to be effective for annual and interim reporting periods beginning on or after December 15, 2017, and must be applied either retrospectively or using the modified retrospective approach. Early adoption is permitted, but not before the original effective date. Management is evaluating the new guidance and the impact to the Company's financial condition, results of operations, and liquidity.

**Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern:** In August of 2014, the FASB issued guidance that requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

**Amendments to Guidance on Classifying and Measuring Financial Instruments:** In January of 2016, the FASB issued guidance that will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value. Any changes in fair value will be recognized in net income unless the investments qualify for a new practicability exception. This guidance also requires entities to recognize changes in instrument-specific credit risk related to financial liabilities measured under the fair value option in other comprehensive income. No changes were made to the guidance for classifying and measuring investments in debt securities and loans. This guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

**Leases:** In February of 2016, the FASB issued guidance to increase transparency and comparability across entities for leasing arrangements. This guidance requires lessees to recognize assets and liabilities for most leases. For lessors, this guidance modifies the lease classification criteria and the accounting for sales-type and direct financing leases. In addition, this guidance clarifies criteria for the determination of whether a contract is or contains a lease. This

guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. During the third quarter of 2016, the Company entered into a sale-leaseback transaction that resulted in a deferred gain of \$82.5 million. Upon adoption of this guidance, the remaining deferred gain will be recognized immediately as a cumulative-effect adjustment to equity. For additional discussion of the sale-leaseback transaction, see note 8 "Premises, Furniture, and Equipment." Management is evaluating the new guidance and the additional impact to the Company's financial condition, results of operations, or liquidity.

**Contingent Put and Call Options in Debt Instruments:** In March of 2016, the FASB issued final guidance clarifying the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. Entities are required to apply the guidance to existing debt instruments (or hybrid financial instruments that are determined to have a debt host) using a modified retrospective transition method as of the period of adoption. This guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

**Equity Method Accounting:** In March of 2016, the FASB issued final guidance to simplify the equity method of accounting. The guidance eliminates the requirement to retrospectively apply equity method accounting in previous periods when an investor initially obtains significant influence over an investee. This guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

**Accounting for Employee Share-based Payments:** In March of 2016, the FASB issued guidance to simplify the accounting for employee share-based payment transactions. The guidance requires entities to recognize the income tax effects of awards in the income statement when the awards vest or are settled. In addition, the guidance allows entities to repurchase more of an employee's shares than it can under current guidance for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. This guidance is effective for annual and interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted. Management is evaluating the new guidance, but does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

**Measurement of Credit Losses on Financial Instruments:** In June of 2016, the FASB issued guidance that will require entities to present financial assets measured at amortized cost at the net amount expected to be collected, considering an entity's current estimate of all expected credit losses. In addition, credit losses relating to available-for-sale debt securities will be required to be recorded through an allowance for credit losses, with changes in credit loss estimates recognized through current earnings. This guidance is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted, but not for periods beginning before December 15, 2018. Management is evaluating the new guidance and the impact to the Company's financial condition, results of operations, and liquidity.

**Classification of Certain Cash Receipts and Cash Payments:** In August of 2016, the FASB issued guidance clarifying certain cash flow presentation and classification issues to reduce diversity in practice. This guidance is effective for annual and interim reporting periods beginning on or after December 15, 2017. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's Consolidated Statement of Cash Flows.

### 3. ACQUISITIONS

#### Pending Acquisitions

##### Standard Bancshares, Inc.

On June 28, 2016, the Company entered into a definitive agreement to acquire Standard Bancshares, Inc. ("Standard"), the holding company for Standard Bank and Trust Company. With the acquisition, the Company would acquire 35 banking offices located primarily in the southwest Chicago suburbs and adjacent markets in northwest Indiana. As of June 30, 2016, Standard had total assets of approximately \$2.5 billion with \$2.2 billion in deposits and \$1.8 billion in loans. The merger agreement provides for a fixed exchange ratio of 0.4350 shares of First Midwest common stock for each share of Standard common stock. As of the date of announcement, the overall transaction was valued at approximately \$365 million, including Standard's common stock, stock options, phantom stock, and stock settled rights. The acquisition is expected to close in late 2016 or early 2017, subject to customary regulatory approvals and closing conditions, as well as the approval of the Company's and Standard's shareholders.

#### Completed Acquisitions

##### NI Bancshares Corporation

On March 8, 2016, the Company completed the acquisition of NI Bancshares Corporation ("NI Bancshares"), the holding company for The National Bank & Trust Company of Sycamore. As part of the acquisition, the Company acquired all assets and assumed all liabilities of NI Bancshares, which included ten banking offices in northern Illinois

and over \$700.0 million in trust assets under management. The merger consideration was a combination of Company common stock and cash, at a purchase price of \$70.1 million. Goodwill of \$20.8 million associated with the acquisition was recorded by the Company. The Company is finalizing the fair values of the assets and liabilities acquired. As a result, the fair value adjustments associated with these accounts and goodwill are preliminary and may change.

## Peoples Bancorp, Inc.

On December 3, 2015, the Company completed the acquisition of Peoples Bancorp, Inc. ("Peoples"), and its wholly-owned banking subsidiary, The Peoples' Bank of Arlington Heights. With the acquisition, the Company acquired all assets and assumed all liabilities of Peoples, which included two banking offices in Arlington Heights, Illinois, at a purchase price of \$16.8 million paid in cash. The Company recorded goodwill of \$7.5 million associated with the acquisition. The Company is finalizing the fair values of the assets and liabilities acquired. As a result, the fair value adjustments associated with these accounts and goodwill are preliminary and may change.

The following table presents the assets acquired and liabilities assumed, net of the fair value adjustments, in the NI Bancshares and Peoples transactions as of the acquisition date. The assets acquired and liabilities assumed, both intangible and tangible, were recorded at their estimated fair values as of the acquisition date and have been accounted for under the acquisition method of accounting.

## Acquisition Activity

(Amounts in thousands, except share and per share data)

|                                                                                   | NI Bancshares<br>March 8, 2016 | Peoples<br>December 3, 2015 |
|-----------------------------------------------------------------------------------|--------------------------------|-----------------------------|
| Assets                                                                            |                                |                             |
| Cash and due from banks<br>and interest-bearing<br>deposits in other banks        | \$ 72,533                      | \$ 781                      |
| Securities<br>available-for-sale                                                  | 125,843                        | 41,492                      |
| Securities<br>held-to-maturity                                                    | 1,864                          | —                           |
| FHLB and FRB stock                                                                | 1,549                          | 558                         |
| Loans                                                                             | 397,018                        | 53,917                      |
| OREO                                                                              | 2,863                          | 515                         |
| Investment in BOLI                                                                | 8,384                          | —                           |
| Goodwill                                                                          | 20,762                         | 7,544                       |
| Other intangible assets                                                           | 10,925                         | 580                         |
| Premises, furniture, and<br>equipment                                             | 20,019                         | 2,215                       |
| Accrued interest<br>receivable and other<br>assets                                | 16,004                         | 2,911                       |
| Total assets                                                                      | \$ 677,764                     | \$ 110,513                  |
| Liabilities                                                                       |                                |                             |
| Noninterest-bearing<br>deposits                                                   | \$ 130,909                     | \$ 15,869                   |
| Interest-bearing deposits                                                         | 464,012                        | 75,944                      |
| Total deposits                                                                    | 594,921                        | 91,813                      |
| Borrowed funds                                                                    | 2,416                          | 1,200                       |
| Intangible liabilities                                                            | 230                            | —                           |
| Accrued interest payable<br>and other liabilities                                 | 10,115                         | 672                         |
| Total liabilities                                                                 | 607,682                        | 93,685                      |
| Consideration Paid                                                                |                                |                             |
| Common stock (2016 -<br>3,042,494 shares issued at<br>\$18.059 per share), net of | 54,896                         | —                           |

\$48,000 in issuance  
costs

|                          |            |            |
|--------------------------|------------|------------|
| Cash paid                | 15,186     | 16,828     |
| Total consideration paid | 70,082     | 16,828     |
|                          | \$ 677,764 | \$ 110,513 |

Expenses related to the acquisition and integration of the transactions above and pending transactions totaled \$1.2 million and \$6.8 million during the quarter and nine months ended September 30, 2016, respectively, and are reported as a separate component within noninterest expense in the Condensed Consolidated Statements of Income. There were no acquisition and integration related expenses for the quarter and nine months ended September 30, 2015. The completed acquisitions were not considered material to the Company's financial statements; therefore, pro forma financial data and related disclosures are not included.

## 4. SECURITIES

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

The Company's trading securities consist of diversified investment securities reported at fair value that are held in a grantor trust under deferred compensation arrangements in which plan participants may direct amounts earned to be invested in securities other than Company stock.

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

A summary of the Company's securities portfolio by category and maturity is presented in the following tables.

## Securities Portfolio

(Dollar amounts in thousands)

|                                                          | As of September 30, 2016 |                |                      |               | As of December 31, 2015 |                |                      |               |
|----------------------------------------------------------|--------------------------|----------------|----------------------|---------------|-------------------------|----------------|----------------------|---------------|
|                                                          | Amortized<br>Cost        | Gross<br>Gains | Unrealized<br>Losses | Fair<br>Value | Amortized<br>Cost       | Gross<br>Gains | Unrealized<br>Losses | Fair<br>Value |
| <b>Securities Available-for-Sale</b>                     |                          |                |                      |               |                         |                |                      |               |
| U.S. treasury securities                                 | \$43,593                 | \$212          | \$(8)                | \$43,797      | \$17,000                | \$15           | \$(35)               | \$16,980      |
| U.S. agency securities                                   | 190,821                  | 2,159          | (49)                 | 192,931       | 86,461                  | 351            | (169)                | 86,643        |
| Collateralized mortgage obligations ("CMOs")             | 1,074,736                | 8,759          | (2,236)              | 1,081,259     | 695,198                 | 1,072          | (9,085)              | 687,185       |
| Other mortgage-backed securities ("MBSs")                | 319,964                  | 4,641          | (121)                | 324,484       | 152,481                 | 1,920          | (871)                | 153,530       |
| Municipal securities                                     | 280,884                  | 5,959          | (130)                | 286,713       | 321,437                 | 6,443          | (310)                | 327,570       |
| Trust-preferred collateralized debt obligations ("CDOs") | 47,893                   | 73             | (16,067)             | 31,899        | 48,287                  | 34             | (16,792)             | 31,529        |
| Equity securities                                        | 3,075                    | 110            | (238)                | 2,947         | 3,282                   | 86             | (169)                | 3,199         |
| Total securities available-for-sale                      | \$1,960,966              | \$21,913       | \$(18,849)           | \$1,964,030   | \$1,324,146             | \$9,921        | \$(27,431)           | \$1,306,636   |
| <b>Securities Held-to-Maturity</b>                       |                          |                |                      |               |                         |                |                      |               |
| Municipal securities                                     | \$20,337                 | \$—            | \$(2,227)            | \$18,110      | \$23,152                | \$—            | \$(3,098)            | \$20,054      |
| Trading Securities                                       |                          |                |                      | \$18,351      |                         |                |                      | \$16,894      |

## Remaining Contractual Maturity of Securities

(Dollar amounts in thousands)

|                                                                | As of September 30, 2016 |               |                   |               |
|----------------------------------------------------------------|--------------------------|---------------|-------------------|---------------|
|                                                                | Available-for-Sale       |               | Held-to-Maturity  |               |
|                                                                | Amortized<br>Cost        | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| One year or less                                               | \$75,444                 | \$74,392      | \$3,218           | \$2,866       |
| After one year to five years                                   | 433,027                  | 426,991       | 7,560             | 6,732         |
| After five years to ten years                                  | 6,827                    | 6,732         | 2,340             | 2,084         |
| After ten years                                                | 47,893                   | 47,225        | 7,219             | 6,428         |
| Securities that do not have a single contractual maturity date | 1,397,775                | 1,408,690     | —                 | —             |
| Total                                                          | \$1,960,966              | \$1,964,030   | \$20,337          | \$18,110      |

The carrying value of securities available-for-sale that were pledged to secure deposits or for other purposes as permitted or required by law totaled \$1.3 billion at September 30, 2016 and \$856.9 million at December 31, 2015. No securities held-to-maturity were pledged as of September 30, 2016 or December 31, 2015.



Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in net securities gains in the Condensed Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. During the quarters and nine months ended September 30, 2016 and 2015 there were no material gross trading gains or losses. The following table presents net realized gains on securities available-for-sale for the quarters and nine months ended September 30, 2016 and 2015.

#### Securities Available-for-Sale Gains

(Dollar amounts in thousands)

|                                                     | Quarters<br>Ended<br>September<br>30, |       | Nine Months<br>Ended<br>September 30, |         |
|-----------------------------------------------------|---------------------------------------|-------|---------------------------------------|---------|
|                                                     | 2016                                  | 2015  | 2016                                  | 2015    |
| Gains on sales of securities:                       |                                       |       |                                       |         |
| Gross realized gains                                | \$187                                 | \$524 | \$1,266                               | \$1,689 |
| Gross realized losses                               | —                                     | —     | (169 )                                | (138 )  |
| Net realized gains on sales of securities           | 187                                   | 524   | 1,097                                 | 1,551   |
| Non-cash impairment charges:                        |                                       |       |                                       |         |
| Other-than-temporary securities impairment ("OTTI") | —                                     | —     | —                                     | —       |
| Net realized gains                                  | \$187                                 | \$524 | \$1,097                               | \$1,551 |

Accounting guidance requires that the credit portion of an OTTI charge be recognized through income. If a decline in fair value below carrying value is not attributable to credit deterioration and the Company does not intend to sell the security or believe it would not be more likely than not required to sell the security prior to recovery, the Company records the non-credit related portion of the decline in fair value in other comprehensive income.

The following table presents a rollforward of life-to-date OTTI recognized in earnings related to all securities available-for-sale held by the Company for the quarters and nine months ended September 30, 2016 and 2015. The majority of the beginning and ending balance of OTTI relates to CDOs currently held by the Company.

#### Changes in OTTI Recognized in Earnings

(Dollar amounts in thousands)

|                                                  | Quarters Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |          |
|--------------------------------------------------|---------------------------------|----------|---------------------------------------|----------|
|                                                  | 2016                            | 2015     | 2016                                  | 2015     |
| Beginning balance                                | \$23,709                        | \$23,709 | \$23,709                              | \$23,880 |
| OTTI included in earnings <sup>(1)</sup> :       |                                 |          |                                       |          |
| Reduction for sales of securities <sup>(2)</sup> | —                               | —        | —                                     | (171 )   |
| Ending balance                                   | \$23,709                        | \$23,709 | \$23,709                              | \$23,709 |

<sup>(1)</sup> Included in net securities gains in the Condensed Consolidated Statements of Income.

<sup>(2)</sup> This reduction was driven by the sale of one CMO with a carrying value of \$1.3 million during the nine months ended September 30, 2015.

The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of September 30, 2016 and December 31, 2015.

Securities in an Unrealized Loss Position

(Dollar amounts in thousands)

|                               |                      | Less Than 12 Months |                   | 12 Months or Longer |                   | Total      |                   |
|-------------------------------|----------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                               | Number of Securities | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| As of September 30, 2016      |                      |                     |                   |                     |                   |            |                   |
| Securities Available-for-Sale |                      |                     |                   |                     |                   |            |                   |
| U.S. treasury securities      | 5                    | \$10,049            | \$7               | \$1,999             | \$ 1              | \$12,048   | \$ 8              |
| U.S. agency securities        | 12                   | 23,394              | 49                | —                   | —                 | 23,394     | 49                |
| CMOs                          | 64                   | 180,572             | 717               | 119,934             | 1,519             | 300,506    | 2,236             |
| MBSs                          | 15                   | 45,686              | 89                | 6,573               | 32                | 52,259     | 121               |
| Municipal securities          | 49                   | 18,615              | 112               | 2,307               | 18                | 20,922     | 130               |
| CDOs                          | 9                    | 1,218               | 9                 | 29,398              | 16,058            | 30,616     | 16,067            |
| Equity securities             | 2                    | 379                 | 226               | 2,379               | 12                | 2,758      | 238               |
| Total                         | 156                  | \$279,913           | \$1,209           | \$162,590           | \$ 17,640         | \$442,503  | \$ 18,849         |
| Securities Held-to-Maturity   |                      |                     |                   |                     |                   |            |                   |
| Municipal securities          | 16                   | \$18,110            | \$2,227           | \$—                 | \$ —              | \$18,110   | \$ 2,227          |
| As of December 31, 2015       |                      |                     |                   |                     |                   |            |                   |
| Securities Available-for-Sale |                      |                     |                   |                     |                   |            |                   |
| U.S. treasury securities      | 4                    | \$7,946             | \$35              | \$—                 | \$ —              | \$7,946    | \$ 35             |
| U.S. agency securities        | 10                   | 30,620              | 169               | —                   | —                 | 30,620     | 169               |
| CMOs                          | 133                  | 309,787             | 3,110             | 257,362             | 5,975             | 567,149    | 9,085             |
| MBSs                          | 27                   | 63,028              | 427               | 31,980              | 444               | 95,008     | 871               |
| Municipal securities          | 68                   | 8,135               | 65                | 24,227              | 245               | 32,362     | 310               |
| CDOs                          | 8                    | 8,034               | 971               | 21,642              | 15,821            | 29,676     | 16,792            |
| Equity securities             | 2                    | 485                 | 120               | 2,305               | 49                | 2,790      | 169               |
| Total                         | 252                  | \$428,035           | \$4,897           | \$337,516           | \$ 22,534         | \$765,551  | \$ 27,431         |
| Securities Held-to-Maturity   |                      |                     |                   |                     |                   |            |                   |
| Municipal securities          | 19                   | \$20,054            | \$3,098           | \$—                 | \$ —              | \$20,054   | \$ 3,098          |

Substantially all of the Company's CMOs and other MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. Municipal securities are issued by municipal authorities, and the majority are supported by third party insurance or some other form of credit enhancement. Management does not believe any of these securities with unrealized losses as of September 30, 2016 represent OTTI related to credit deterioration. These unrealized losses are attributed to changes in interest rates and temporary market movements. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

The unrealized losses on CDOs as of September 30, 2016 reflect changes in market activity for these securities. Management does not believe these unrealized losses represent OTTI related to credit deterioration. In addition, the Company does not intend to sell the CDOs with unrealized losses and the Company does not believe it is more likely than not that it will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Significant judgment is required to calculate the fair value of the CDOs. For a detailed discussion of the CDO valuation methodology, see Note 14, "Fair Value."



## 5. LOANS

## Loans Held-for-Investment

The following table presents the Company's loans held-for-investment by class.

## Loan Portfolio

(Dollar amounts in thousands)

|                                                   | As of         |              |
|---------------------------------------------------|---------------|--------------|
|                                                   | September 30, | December 31, |
|                                                   | 2016          | 2015         |
| Commercial and industrial                         | \$2,849,399   | \$2,524,726  |
| Agricultural                                      | 409,571       | 387,440      |
| Commercial real estate:                           |               |              |
| Office, retail, and industrial                    | 1,537,038     | 1,395,454    |
| Multi-family                                      | 625,305       | 528,324      |
| Construction                                      | 401,857       | 216,882      |
| Other commercial real estate                      | 970,855       | 931,190      |
| Total commercial real estate                      | 3,535,055     | 3,071,850    |
| Total corporate loans                             | 6,794,025     | 5,984,016    |
| Home equity                                       | 733,260       | 653,468      |
| 1-4 family mortgages                              | 388,145       | 355,854      |
| Installment                                       | 232,030       | 137,602      |
| Total consumer loans                              | 1,353,435     | 1,146,924    |
| Covered loans                                     | 24,322        | 30,775       |
| Total loans                                       | \$8,171,782   | \$7,161,715  |
| Deferred loan fees included in total loans        | \$4,034       | \$5,191      |
| Overdrawn demand deposits included in total loans | 3,428         | 2,810        |

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

It is the Company's policy to review each prospective credit to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state lending laws, the Company's lending standards, and credit monitoring and remediation procedures. A discussion of risk characteristics relevant to each portfolio segment is presented in Note 5, "Loans" to the Consolidated Financial Statements in the Company's 2015 10-K.

## Loan Sales

The following table presents loan sales for the quarters and nine months ended September 30, 2016 and 2015.

## Loan Sales

(Dollar amounts in thousands)

|                                                            | Quarters Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |          |
|------------------------------------------------------------|---------------------------------|----------|---------------------------------------|----------|
|                                                            | 2016                            | 2015     | 2016                                  | 2015     |
| Corporate loan sales                                       |                                 |          |                                       |          |
| Proceeds from sales                                        | \$12,223                        | \$10,226 | \$36,082                              | \$19,649 |
| Less book value of loans sold                              | 11,828                          | 9,771    | 34,718                                | 18,780   |
| Net gains on corporate loan sales <sup>(1)</sup>           | 395                             | 455      | 1,364                                 | 869      |
| 1-4 family mortgage loan sales                             |                                 |          |                                       |          |
| Proceeds from sales                                        | 110,167                         | 43,340   | 202,932                               | 132,367  |
| Less book value of loans sold                              | 107,255                         | 42,189   | 198,024                               | 128,634  |
| Net gains on 1-4 family mortgage loan sales <sup>(2)</sup> | 2,912                           | 1,151    | 4,908                                 | 3,733    |
| Total net gains on loan sales                              | \$3,307                         | \$1,606  | \$6,272                               | \$4,602  |

(1) Net gains on corporate loan sales are included in other service charges, commissions, and fees in the Condensed Consolidated Statements of Income.

(2) Net gains on 1-4 family mortgage loan sales are included in mortgage banking income in the Condensed Consolidated Statements of Income.

The Company retained servicing responsibilities for a portion of the 1-4 family mortgage loans sold and collects servicing fees equal to a percentage of the outstanding principal balance. The Company also retained limited recourse for credit losses on the sold 1-4 family mortgage loans. A description of the recourse obligation is presented in Note 13, "Commitments, Guarantees, and Contingent Liabilities."

## 6. ACQUIRED AND COVERED LOANS

The significant accounting policies related to acquired and covered loans, which are classified as PCI and Non-PCI, are presented in Note 1, "Summary of Significant Accounting Policies."

The following table presents acquired and covered PCI and Non-PCI loans as of September 30, 2016 and December 31, 2015.

### Acquired and Covered Loans

(Dollar amounts in thousands)

|                                  | As of September 30, 2016 |           |           | As of December 31, 2015 |           |           |
|----------------------------------|--------------------------|-----------|-----------|-------------------------|-----------|-----------|
|                                  | PCI                      | Non-PCI   | Total     | PCI                     | Non-PCI   | Total     |
| Acquired loans                   | \$57,777                 | \$686,427 | \$744,204 | \$50,286                | \$534,506 | \$584,792 |
| Covered loans                    | 8,228                    | 16,094    | 24,322    | 9,919                   | 20,856    | 30,775    |
| Total acquired and covered loans | \$66,005                 | \$702,521 | \$768,526 | \$60,205                | \$555,362 | \$615,567 |

Acquired Non-PCI loans that are renewed are no longer classified as acquired loans. These loans totaled \$101.5 million and \$61.6 million as of September 30, 2016 and December 31, 2015, respectively.

In connection with the FDIC Agreements, the Company recorded an indemnification asset. To maintain eligibility for the loss share reimbursement, the Company is required to follow certain servicing procedures as specified in the FDIC Agreements. The Company was in compliance with those requirements as of September 30, 2016 and December 31, 2015.

Rollforwards of the carrying value of the FDIC indemnification asset for the quarters and nine months ended September 30, 2016 and 2015 are presented in the following table.

### Changes in the FDIC Indemnification Asset

(Dollar amounts in thousands)

|                                                                                       | Quarters Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |          |
|---------------------------------------------------------------------------------------|---------------------------------|----------|---------------------------------------|----------|
|                                                                                       | 2016                            | 2015     | 2016                                  | 2015     |
| Beginning balance                                                                     | \$5,171                         | \$7,335  | \$3,903                               | \$8,452  |
| Amortization                                                                          | (302 )                          | (321 )   | (884 )                                | (1,174 ) |
| Change in expected reimbursements from the FDIC for changes in expected credit losses | (228 )                          | 487      | (487 )                                | 2,207    |
| Net payments to (from) the FDIC                                                       | 191                             | (1,395 ) | 2,300                                 | (3,379 ) |
| Ending balance                                                                        | \$4,832                         | \$6,106  | \$4,832                               | \$6,106  |

Changes in the accretable yield for acquired and covered PCI loans were as follows.

### Changes in Accretable Yield

(Dollar amounts in thousands)

|                      | Quarters Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |          |
|----------------------|---------------------------------|----------|---------------------------------------|----------|
|                      | 2016                            | 2015     | 2016                                  | 2015     |
| Beginning balances   | \$25,082                        | \$20,658 | \$24,912                              | \$28,244 |
| Additions            | —                               | —        | 3,981                                 | —        |
| Accretion            | (2,763 )                        | (2,366 ) | (6,612 )                              | (9,364 ) |
| Other <sup>(1)</sup> | (1,012 )                        | 336      | (974 )                                | (252 )   |
| Ending balance       | \$21,307                        | \$18,628 | \$21,307                              | \$18,628 |

<sup>(1)</sup> Decreases result from the resolution of certain loans occurring earlier than anticipated while increases represent a rise in the expected future cash flows to be collected over the remaining estimated life of the underlying portfolio.



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

## Past Due and Non-accrual Loans

The following table presents an aging analysis of the Company's past due loans as of September 30, 2016 and December 31, 2015. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (the majority of which are past due) and loans 90 days or more past due and still accruing interest, as of each balance sheet date.

## Aging Analysis of Past Due Loans and Non-performing Loans by Class

(Dollar amounts in thousands)

|                                | Aging Analysis (Accruing and Non-accrual) |                     |                          |                |             | Non-performing Loans |                                                   |
|--------------------------------|-------------------------------------------|---------------------|--------------------------|----------------|-------------|----------------------|---------------------------------------------------|
|                                | Current                                   | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Total Loans | Non-accrual          | 90 Days or More Past Due, Still Accruing Interest |
| As of September 30, 2016       |                                           |                     |                          |                |             |                      |                                                   |
| Commercial and industrial      | \$2,833,642                               | \$9,099             | \$6,658                  | \$15,757       | \$2,849,399 | \$13,823             | \$ 2,154                                          |
| Agricultural                   | 406,947                                   | 2,460               | 164                      | 2,624          | 409,571     | 184                  | —                                                 |
| Commercial real estate:        |                                           |                     |                          |                |             |                      |                                                   |
| Office, retail, and industrial | 1,516,820                                 | 5,816               | 14,402                   | 20,218         | 1,537,038   | 17,670               | 82                                                |
| Multi-family                   | 623,386                                   | 1,321               | 598                      | 1,919          | 625,305     | 316                  | 454                                               |
| Construction                   | 400,809                                   | 767                 | 281                      | 1,048          | 401,857     | 287                  | —                                                 |
| Other commercial real estate   | 964,135                                   | 3,254               | 3,466                    | 6,720          | 970,855     | 3,361                | 932                                               |
| Total commercial real estate   | 3,505,150                                 | 11,158              | 18,747                   | 29,905         | 3,535,055   | 21,634               | 1,468                                             |
| Total corporate loans          | 6,745,739                                 | 22,717              | 25,569                   | 48,286         | 6,794,025   | 35,641               | 3,622                                             |
| Home equity                    | 727,433                                   | 3,591               | 2,236                    | 5,827          | 733,260     | 4,916                | 165                                               |
| 1-4 family mortgages           | 385,024                                   | 1,869               | 1,252                    | 3,121          | 388,145     | 3,240                | 235                                               |
| Installment                    | 229,881                                   | 1,853               | 296                      | 2,149          | 232,030     | —                    | 296                                               |
| Total consumer loans           | 1,342,338                                 | 7,313               | 3,784                    | 11,097         | 1,353,435   | 8,156                | 696                                               |
| Covered loans                  | 23,905                                    | 319                 | 98                       | 417            | 24,322      | 492                  | —                                                 |
| Total loans                    | \$8,111,982                               | \$30,349            | \$29,451                 | \$59,800       | \$8,171,782 | \$44,289             | \$ 4,318                                          |
| As of December 31, 2015        |                                           |                     |                          |                |             |                      |                                                   |
| Commercial and industrial      | \$2,516,197                               | \$4,956             | \$3,573                  | \$8,529        | \$2,524,726 | \$5,587              | \$ 857                                            |
| Agricultural                   | 387,109                                   | 245                 | 86                       | 331            | 387,440     | 355                  | —                                                 |
| Commercial real estate:        |                                           |                     |                          |                |             |                      |                                                   |
| Office, retail, and industrial | 1,386,383                                 | 2,647               | 6,424                    | 9,071          | 1,395,454   | 6,875                | 4                                                 |
| Multi-family                   | 526,625                                   | 541                 | 1,158                    | 1,699          | 528,324     | 796                  | 548                                               |
| Construction                   | 216,377                                   | —                   | 505                      | 505            | 216,882     | 905                  | —                                                 |
| Other commercial real estate   | 922,531                                   | 3,575               | 5,084                    | 8,659          | 931,190     | 5,611                | 661                                               |
| Total commercial real estate   | 3,051,916                                 | 6,763               | 13,171                   | 19,934         | 3,071,850   | 14,187               | 1,213                                             |
| Total corporate loans          | 5,955,222                                 | 11,964              | 16,830                   | 28,794         | 5,984,016   | 20,129               | 2,070                                             |
| Home equity                    | 647,175                                   | 3,247               | 3,046                    | 6,293          | 653,468     | 5,310                | 216                                               |
| 1-4 family mortgages           | 350,980                                   | 2,680               | 2,194                    | 4,874          | 355,854     | 3,416                | 528                                               |
| Installment                    | 136,780                                   | 753                 | 69                       | 822            | 137,602     | 20                   | 69                                                |
| Total consumer loans           | 1,134,935                                 | 6,680               | 5,309                    | 11,989         | 1,146,924   | 8,746                | 813                                               |
| Covered loans                  | 29,808                                    | 405                 | 562                      | 967            | 30,775      | 555                  | 174                                               |
| Total loans                    | \$7,119,965                               | \$19,049            | \$22,701                 | \$41,750       | \$7,161,715 | \$29,430             | \$ 3,057                                          |



# Allowance for Credit Losses

The Company maintains an allowance for credit losses at a level deemed adequate by management to absorb estimated losses inherent in the existing loan portfolio. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for the allowance for credit losses. A rollforward of the allowance for credit losses by portfolio segment for the quarters and nine months ended September 30, 2016 and 2015 is presented in the table below.

## Allowance for Credit Losses by Portfolio Segment

(Dollar amounts in thousands)

|                                      | Commercial,<br>Industrial,<br>and<br>Agricultural | Office,<br>Retail,<br>and<br>Industrial | Multi-<br>family | Construction | Other<br>Commercial<br>Real<br>Estate | Consumer  | Covered<br>Loans | Reserve for<br>Unfunded<br>Commitments | Total<br>Allowance<br>for Credit<br>Losses |
|--------------------------------------|---------------------------------------------------|-----------------------------------------|------------------|--------------|---------------------------------------|-----------|------------------|----------------------------------------|--------------------------------------------|
| Quarter ended September 30, 2016     |                                                   |                                         |                  |              |                                       |           |                  |                                        |                                            |
| Beginning balance                    | \$ 40,084                                         | \$ 12,985                               | \$ 2,926         | \$ 2,239     | \$ 7,474                              | \$ 13,003 | \$ 1,394         | \$ 1,400                               | \$ 81,505                                  |
| Charge-offs                          | (1,760 )                                          | (2,193 )                                | —                | —            | (509 )                                | (1,488 )  | —                | —                                      | (5,950 )                                   |
| Recoveries                           | 615                                               | 42                                      | 69               | 9            | 94                                    | 326       | —                | —                                      | 1,155                                      |
| Net charge-offs                      | (1,145 )                                          | (2,151 )                                | 69               | 9            | (415 )                                | (1,162 )  | —                | —                                      | (4,795 )                                   |
| Provision for loan losses and other  | 3,579                                             | 3,019                                   | 1,048            | 916          | 1,488                                 | 50        | (102 )           | (400 )                                 | 9,598                                      |
| Ending balance                       | \$ 42,518                                         | \$ 13,853                               | \$ 4,043         | \$ 3,164     | \$ 8,547                              | \$ 11,891 | \$ 1,292         | \$ 1,000                               | \$ 86,308                                  |
| Quarter ended September 30, 2015     |                                                   |                                         |                  |              |                                       |           |                  |                                        |                                            |
| Beginning balance                    | \$ 33,729                                         | \$ 11,345                               | \$ 2,451         | \$ 1,890     | \$ 6,367                              | \$ 10,820 | \$ 4,861         | \$ 1,816                               | \$ 73,279                                  |
| Charge-offs                          | (1,948 )                                          | (563 )                                  | (68 )            | —            | (598 )                                | (1,172 )  | (8 )             | —                                      | (4,357 )                                   |
| Recoveries                           | 347                                               | 106                                     | 1                | 114          | 506                                   | 213       | 7                | —                                      | 1,294                                      |
| Net charge-offs                      | (1,601 )                                          | (457 )                                  | (67 )            | 114          | (92 )                                 | (959 )    | (1 )             | —                                      | (3,063 )                                   |
| Provision for loan losses and other  | 3,247                                             | 967                                     | 226              | (559 )       | (181 )                                | 1,144     | (744 )           | (591 )                                 | 3,509                                      |
| Ending balance                       | \$ 35,375                                         | \$ 11,855                               | \$ 2,610         | \$ 1,445     | \$ 6,094                              | \$ 11,005 | \$ 4,116         | \$ 1,225                               | \$ 73,725                                  |
| Nine months ended September 30, 2016 |                                                   |                                         |                  |              |                                       |           |                  |                                        |                                            |
| Beginning balance                    | \$ 37,074                                         | \$ 13,116                               | \$ 2,462         | \$ 1,440     | \$ 6,088                              | \$ 11,812 | \$ 1,638         | \$ 1,225                               | \$ 74,855                                  |
| Charge-offs                          | (5,684 )                                          | (4,358 )                                | (288 )           | (134 )       | (2,833 )                              | (3,973 )  | (2 )             | —                                      | (17,272 )                                  |
| Recoveries                           | 1,693                                             | 153                                     | 95               | 44           | 314                                   | 975       | —                | —                                      | 3,274                                      |
| Net charge-offs                      | (3,991 )                                          | (4,205 )                                | (193 )           | (90 )        | (2,519 )                              | (2,998 )  | (2 )             | —                                      | (13,998 )                                  |
| Provision for loan losses and other  | 9,435                                             | 4,942                                   | 1,774            | 1,814        | 4,978                                 | 3,077     | (344 )           | (225 )                                 | 25,451                                     |
| Ending balance                       | \$ 42,518                                         | \$ 13,853                               | \$ 4,043         | \$ 3,164     | \$ 8,547                              | \$ 11,891 | \$ 1,292         | \$ 1,000                               | \$ 86,308                                  |
| Nine months ended September 30, 2015 |                                                   |                                         |                  |              |                                       |           |                  |                                        |                                            |
| Beginning balance                    | \$ 29,458                                         | \$ 10,992                               | \$ 2,249         | \$ 2,297     | \$ 8,327                              | \$ 12,145 | \$ 7,226         | \$ 1,816                               | \$ 74,510                                  |
| Charge-offs                          | (13,524 )                                         | (2,613 )                                | (565 )           | (15 )        | (2,442 )                              | (2,723 )  | (634 )           | —                                      | (22,516 )                                  |

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|                                              |           |           |          |          |          |           |          |          |           |
|----------------------------------------------|-----------|-----------|----------|----------|----------|-----------|----------|----------|-----------|
| Recoveries                                   | 1,993     | 460       | 8        | 334      | 1,902    | 853       | 120      | —        | 5,670     |
| Net charge-offs                              | (11,531 ) | (2,153 )  | (557 )   | 319      | (540 )   | (1,870 )  | (514 )   | —        | (16,846 ) |
| Provision for<br>loan<br>losses and<br>other | 17,448    | 3,016     | 918      | (1,171 ) | (1,693 ) | 730       | (2,596 ) | (591 )   | 16,061    |
| Ending balance                               | \$ 35,375 | \$ 11,855 | \$ 2,610 | \$ 1,445 | \$ 6,094 | \$ 11,005 | \$ 4,116 | \$ 1,225 | \$ 73,725 |

The table below provides a breakdown of loans and the related allowance for credit losses by portfolio segment as of September 30, 2016 and December 31, 2015.

Loans and Related Allowance for Credit Losses by Portfolio Segment

(Dollar amounts in thousands)

|                                          | Loans                                          |                                                |           |              | Allowance for Credit Losses                    |                                                |          |           |
|------------------------------------------|------------------------------------------------|------------------------------------------------|-----------|--------------|------------------------------------------------|------------------------------------------------|----------|-----------|
|                                          | Individually<br>Evaluated<br>for<br>Impairment | Collectively<br>Evaluated<br>for<br>Impairment | PCI       | Total        | Individually<br>Evaluated<br>for<br>Impairment | Collectively<br>Evaluated<br>for<br>Impairment | PCI      | Total     |
| As of September 30, 2016                 |                                                |                                                |           |              |                                                |                                                |          |           |
| Commercial, industrial, and agricultural | \$ 11,903                                      | \$ 3,242,734                                   | \$ 4,333  | \$ 3,258,970 | \$ —                                           | \$ 41,880                                      | \$ 638   | \$ 42,518 |
| Commercial real estate:                  |                                                |                                                |           |              |                                                |                                                |          |           |
| Office, retail, and industrial           | 16,459                                         | 1,507,622                                      | 12,957    | 1,537,038    | 20                                             | 12,459                                         | 1,374    | 13,853    |
| Multi-family                             | 398                                            | 612,554                                        | 12,353    | 625,305      | —                                              | 3,840                                          | 203      | 4,043     |
| Construction                             | 34                                             | 397,206                                        | 4,617     | 401,857      | —                                              | 3,014                                          | 150      | 3,164     |
| Other commercial real estate             | 1,813                                          | 955,735                                        | 13,307    | 970,855      | 17                                             | 7,442                                          | 1,088    | 8,547     |
| Total commercial real estate             | 18,704                                         | 3,473,117                                      | 43,234    | 3,535,055    | 37                                             | 26,755                                         | 2,815    | 29,607    |
| Total corporate loans                    | 30,607                                         | 6,715,851                                      | 47,567    | 6,794,025    | 37                                             | 68,635                                         | 3,453    | 72,125    |
| Consumer                                 | —                                              | 1,343,225                                      | 10,210    | 1,353,435    | —                                              | 11,369                                         | 522      | 11,891    |
| Covered loans                            | —                                              | 16,094                                         | 8,228     | 24,322       | —                                              | 119                                            | 1,173    | 1,292     |
| Reserve for unfunded commitments         | —                                              | —                                              | —         | —            | —                                              | 1,000                                          | —        | 1,000     |
| Total loans                              | \$ 30,607                                      | \$ 8,075,170                                   | \$ 66,005 | \$ 8,171,782 | \$ 37                                          | \$ 81,123                                      | \$ 5,148 | \$ 86,308 |
| As of December 31, 2015                  |                                                |                                                |           |              |                                                |                                                |          |           |
| Commercial, industrial, and agricultural | \$ 2,871                                       | \$ 2,902,361                                   | \$ 6,934  | \$ 2,912,166 | \$ 883                                         | \$ 35,378                                      | \$ 813   | \$ 37,074 |
| Commercial real estate:                  |                                                |                                                |           |              |                                                |                                                |          |           |
| Office, retail, and industrial           | 6,162                                          | 1,376,789                                      | 12,503    | 1,395,454    | 715                                            | 10,833                                         | 1,568    | 13,116    |
| Multi-family                             | 800                                            | 526,037                                        | 1,487     | 528,324      | —                                              | 2,367                                          | 95       | 2,462     |
| Construction                             | 178                                            | 212,671                                        | 4,033     | 216,882      | —                                              | 1,160                                          | 280      | 1,440     |
| Other commercial real estate             | 3,665                                          | 913,161                                        | 14,364    | 931,190      | —                                              | 5,367                                          | 721      | 6,088     |
| Total commercial real estate             | 10,805                                         | 3,028,658                                      | 32,387    | 3,071,850    | 715                                            | 19,727                                         | 2,664    | 23,106    |
| Total corporate loans                    | 13,676                                         | 5,931,019                                      | 39,321    | 5,984,016    | 1,598                                          | 55,105                                         | 3,477    | 60,180    |
| Consumer                                 | —                                              | 1,135,959                                      | 10,965    | 1,146,924    | —                                              | 11,425                                         | 387      | 11,812    |
| Covered loans                            | —                                              | 20,856                                         | 9,919     | 30,775       | —                                              | 248                                            | 1,390    | 1,638     |
| Reserve for unfunded commitments         | —                                              | —                                              | —         | —            | —                                              | 1,225                                          | —        | 1,225     |
| Total loans                              | \$ 13,676                                      | \$ 7,087,834                                   | \$ 60,205 | \$ 7,161,715 | \$ 1,598                                       | \$ 68,003                                      | \$ 5,254 | \$ 74,855 |

## Loans Individually Evaluated for Impairment

The following table presents loans individually evaluated for impairment by class of loan as of September 30, 2016 and December 31, 2015. PCI loans are excluded from this disclosure.

## Impaired Loans Individually Evaluated by Class

(Dollar amounts in thousands)

|                                | As of September 30, 2016 |          |           |          | As of December 31, 2015 |          |           |          |
|--------------------------------|--------------------------|----------|-----------|----------|-------------------------|----------|-----------|----------|
|                                | Recorded                 |          |           |          | Recorded                |          |           |          |
|                                | Investment In            |          |           |          | Investment In           |          |           |          |
|                                | Loans                    | Loans    | Unpaid    | Specific | Loans                   | Loans    | Unpaid    | Specific |
|                                | with                     | with     | Principal | Reserve  | with                    | with     | Principal | Reserve  |
|                                | No                       | a        | Balance   |          | No                      | a        | Balance   |          |
|                                | Specific                 | Specific |           |          | Specific                | Specific |           |          |
|                                | Reserve                  | Reserve  |           |          | Reserve                 | Reserve  |           |          |
| Commercial and industrial      | \$ 11,903                | \$ —     | \$ 13,984 | \$ —     | \$ 1,673                | \$ 1,198 | \$ 4,592  | \$ 883   |
| Agricultural                   | —                        | —        | —         | —        | —                       | —        | —         | —        |
| Commercial real estate:        |                          |          |           |          |                         |          |           |          |
| Office, retail, and industrial | 15,784                   | 675      | 21,072    | 20       | 4,654                   | 1,508    | 12,083    | 715      |
| Multi-family                   | 398                      | —        | 398       | —        | 800                     | —        | 941       | —        |
| Construction                   | 34                       | —        | 34        | —        | 178                     | —        | 299       | —        |
| Other commercial real estate   | 1,543                    | 270      | 2,599     | 17       | 3,665                   | —        | 4,403     | —        |
| Total commercial real estate   | 17,759                   | 945      | 24,103    | 37       | 9,297                   | 1,508    | 17,726    | 715      |
| Total impaired loans           |                          |          |           |          |                         |          |           |          |
| individually evaluated         | \$ 29,662                | \$ 945   | \$ 38,087 | \$ 37    | \$ 10,970               | \$ 2,706 | \$ 22,318 | \$ 1,598 |
| for impairment                 |                          |          |           |          |                         |          |           |          |

The following table presents the average recorded investment and interest income recognized on impaired loans by class for the quarters and nine months ended September 30, 2016 and 2015. PCI loans are excluded from this disclosure.

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

|                                | Quarters Ended September 30,<br>2016 |                                         | 2015                              |                                         |
|--------------------------------|--------------------------------------|-----------------------------------------|-----------------------------------|-----------------------------------------|
|                                | Average<br>Recorded<br>Investment    | Interest<br>Income<br>Recognized<br>(1) | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized<br>(1) |
| Commercial and industrial      | \$7,829                              | \$ 57                                   | \$5,968                           | \$ 37                                   |
| Agricultural                   | —                                    | —                                       | —                                 | —                                       |
| Commercial real estate:        |                                      |                                         |                                   |                                         |
| Office, retail, and industrial | 16,101                               | 3                                       | 8,814                             | 4                                       |
| Multi-family                   | 399                                  | 11                                      | 925                               | 12                                      |
| Construction                   | 34                                   | —                                       | 2,995                             | 118                                     |
| Other commercial real estate   | 2,561                                | —                                       | 3,442                             | 15                                      |
| Total commercial real estate   | 19,095                               | 14                                      | 16,176                            | 149                                     |
| Total impaired loans           | \$26,924                             | \$ 71                                   | \$22,144                          | \$ 186                                  |

  

|                                | Nine Months Ended September 30,<br>2016 |                                         | 2015                              |                                         |
|--------------------------------|-----------------------------------------|-----------------------------------------|-----------------------------------|-----------------------------------------|
|                                | Average<br>Recorded<br>Investment       | Interest<br>Income<br>Recognized<br>(1) | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized<br>(1) |
| Commercial and industrial      | \$5,312                                 | \$ 107                                  | \$10,457                          | \$ 113                                  |
| Agricultural                   | —                                       | —                                       | —                                 | —                                       |
| Commercial real estate:        |                                         |                                         |                                   |                                         |
| Office, retail, and industrial | 12,012                                  | 80                                      | 10,158                            | 37                                      |
| Multi-family                   | 500                                     | 12                                      | 868                               | 13                                      |
| Construction                   | 70                                      | —                                       | 4,833                             | 118                                     |
| Other commercial real estate   | 3,190                                   | 72                                      | 3,222                             | 34                                      |
| Total commercial real estate   | 15,772                                  | 164                                     | 19,081                            | 202                                     |
| Total impaired loans           | \$21,084                                | \$ 271                                  | \$29,538                          | \$ 315                                  |

(1) Recorded using the cash basis of accounting.

## Credit Quality Indicators

Corporate loans and commitments are assessed for credit risk and assigned ratings based on various characteristics, such as the borrower's cash flow, leverage, and collateral. Ratings for commercial credits are reviewed periodically. The following tables present credit quality indicators by class for corporate and consumer loans, excluding covered loans, as of September 30, 2016 and December 31, 2015.

## Corporate Credit Quality Indicators by Class, Excluding Covered Loans

(Dollar amounts in thousands)

|                                | Pass        | Special<br>Mention<br>(1) (4) | Substandard<br>(2) (4) | Non-accrual<br>(3) | Total       |
|--------------------------------|-------------|-------------------------------|------------------------|--------------------|-------------|
| As of September 30, 2016       |             |                               |                        |                    |             |
| Commercial and industrial      | \$2,643,655 | \$110,716                     | \$81,205               | \$13,823           | \$2,849,399 |
| Agricultural                   | 375,484     | 17,735                        | 16,168                 | 184                | 409,571     |
| Commercial real estate:        |             |                               |                        |                    |             |
| Office, retail, and industrial | 1,444,815   | 38,672                        | 35,881                 | 17,670             | 1,537,038   |
| Multi-family                   | 616,820     | 4,399                         | 3,770                  | 316                | 625,305     |
| Construction                   | 389,174     | 69                            | 12,327                 | 287                | 401,857     |
| Other commercial real estate   | 941,072     | 12,427                        | 13,995                 | 3,361              | 970,855     |
| Total commercial real estate   | 3,391,881   | 55,567                        | 65,973                 | 21,634             | 3,535,055   |
| Total corporate loans          | \$6,411,020 | \$184,018                     | \$163,346              | \$35,641           | \$6,794,025 |
| As of December 31, 2015        |             |                               |                        |                    |             |
| Commercial and industrial      | \$2,379,992 | \$86,263                      | \$52,884               | \$5,587            | \$2,524,726 |
| Agricultural                   | 381,523     | —                             | 5,562                  | 355                | 387,440     |
| Commercial real estate:        |             |                               |                        |                    |             |
| Office, retail, and industrial | 1,320,164   | 32,627                        | 35,788                 | 6,875              | 1,395,454   |
| Multi-family                   | 517,412     | 6,146                         | 3,970                  | 796                | 528,324     |
| Construction                   | 201,496     | 4,678                         | 9,803                  | 905                | 216,882     |
| Other commercial real estate   | 898,746     | 13,179                        | 13,654                 | 5,611              | 931,190     |
| Total commercial real estate   | 2,937,818   | 56,630                        | 63,215                 | 14,187             | 3,071,850   |
| Total corporate loans          | \$5,699,333 | \$142,893                     | \$121,661              | \$20,129           | \$5,984,016 |

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

Loans categorized as substandard exhibit well-defined weaknesses that may jeopardize the liquidation of the debt.

(2) These loans continue to accrue interest because they are well secured and collection of principal and interest is expected within a reasonable time.

(3) Loans categorized as non-accrual exhibit well-defined weaknesses that may jeopardize the liquidation of the debt or result in a loss if the deficiencies are not corrected.

(4) Total special mention and substandard loans includes accruing TDRs of \$841,000 as of September 30, 2016 and \$862,000 as of December 31, 2015.

## Consumer Credit Quality Indicators by Class, Excluding Covered Loans

(Dollar amounts in thousands)

|                          | Performing  | Non-accrual | Total       |
|--------------------------|-------------|-------------|-------------|
| As of September 30, 2016 |             |             |             |
| Home equity              | \$728,344   | \$4,916     | \$733,260   |
| 1-4 family mortgages     | 384,905     | 3,240       | 388,145     |
| Installment              | 232,030     | —           | 232,030     |
| Total consumer loans     | \$1,345,279 | \$8,156     | \$1,353,435 |
| As of December 31, 2015  |             |             |             |
| Home equity              | \$648,158   | \$5,310     | \$653,468   |

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|                      |             |          |             |
|----------------------|-------------|----------|-------------|
| 1-4 family mortgages | 352,438     | 3,416    | 355,854     |
| Installment          | 137,582     | 20       | 137,602     |
| Total consumer loans | \$1,138,178 | \$ 8,746 | \$1,146,924 |

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## TDRs

TDRs are generally performed at the request of the individual borrower and may include forgiveness of principal, reduction in interest rates, changes in payments, and maturity date extensions. The table below presents TDRs by class as of September 30, 2016 and December 31, 2015. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for TDRs.

## TDRs by Class

(Dollar amounts in thousands)

|                                | As of September 30, 2016 |             |         | As of December 31, 2015 |             |         |
|--------------------------------|--------------------------|-------------|---------|-------------------------|-------------|---------|
|                                | Accruing                 | Non-accrual | Total   | Accruing                | Non-accrual | Total   |
|                                | (a)                      | (a)         |         | (a)                     | (a)         |         |
| Commercial and industrial      | \$286                    | \$ 150      | \$436   | \$294                   | \$ 1,050    | \$1,344 |
| Commercial real estate:        |                          |             |         |                         |             |         |
| Office, retail, and industrial | 157                      | —           | 157     | 164                     | —           | 164     |
| Multi-family                   | 588                      | 172         | 760     | 598                     | 186         | 784     |
| Other commercial real estate   | 324                      | —           | 324     | 340                     | —           | 340     |
| Total commercial real estate   | 1,069                    | 172         | 1,241   | 1,102                   | 186         | 1,288   |
| Total corporate loans          | 1,355                    | 322         | 1,677   | 1,396                   | 1,236       | 2,632   |
| Home equity                    | 181                      | 879         | 1,060   | 494                     | 667         | 1,161   |
| 1-4 family mortgages           | 832                      | 389         | 1,221   | 853                     | 421         | 1,274   |
| Total consumer loans           | 1,013                    | 1,268       | 2,281   | 1,347                   | 1,088       | 2,435   |
| Total loans                    | \$2,368                  | \$ 1,590    | \$3,958 | \$2,743                 | \$ 2,324    | \$5,067 |

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

TDRs are included in the calculation of the allowance for credit losses in the same manner as impaired loans. There were no specific reserves related to TDRs as of September 30, 2016 and there were \$758,000 in specific reserves related to TDRs as of December 31, 2015.

No TDRs were restructured during the quarters and nine months ended September 30, 2016 and 2015.

Accruing TDRs that do not perform in accordance with their modified terms are transferred to non-accrual. There were no material TDRs that defaulted within twelve months of the restructure date during the quarters and nine months ended September 30, 2016 and 2015.

A rollforward of the carrying value of TDRs for the quarters and nine months ended September 30, 2016 and 2015 is presented in the following table.

TDR Rollforward

(Dollar amounts in thousands)

|                               | Quarters Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |          |
|-------------------------------|---------------------------------|---------|---------------------------------------|----------|
|                               | 2016                            | 2015    | 2016                                  | 2015     |
| Accruing                      |                                 |         |                                       |          |
| Beginning balance             | \$2,491                         | \$3,067 | \$2,743                               | \$3,704  |
| Additions                     | —                               | 120     | —                                     | 120      |
| Net payments received         | (22 )                           | (355 )  | (91 )                                 | (746 )   |
| Returned to performing status | —                               | —       | —                                     | —        |
| Net transfers to non-accrual  | (101 )                          | (61 )   | (284 )                                | (307 )   |
| Ending balance                | 2,368                           | 2,771   | 2,368                                 | 2,771    |
| Non-accrual                   |                                 |         |                                       |          |
| Beginning balance             | 1,690                           | 2,070   | 2,324                                 | 19,904   |
| Additions                     | —                               | 325     | —                                     | 325      |
| Net payments received         | (31 )                           | (29 )   | (609 )                                | (15,483) |
| Charge-offs                   | (170 )                          | (61 )   | (409 )                                | (2,687 ) |
| Net transfers from accruing   | 101                             | 61      | 284                                   | 307      |
| Ending balance                | 1,590                           | 2,366   | 1,590                                 | 2,366    |
| Total TDRs                    | \$3,958                         | \$5,137 | \$3,958                               | \$5,137  |

For TDRs to be removed from TDR status in the calendar year after the restructuring, the loans must (i) have an interest rate and terms that reflect market conditions at the time of restructuring, and (ii) be in compliance with the modified terms. Loans that were not restructured at market rates and terms, that are not in compliance with the modified terms, or for which there is a concern about the future ability of the borrower to meet its obligations under the modified terms, continue to be separately reported as restructured until paid in full or charged-off.

There were no material commitments to lend additional funds to borrowers with TDRs as of September 30, 2016 and December 31, 2015.

## 8. PREMISES, FURNITURE, AND EQUIPMENT

The following table summarizes the Company's premises, furniture, and equipment by category.

## Premises, Furniture, and Equipment

(Dollar amounts in thousands)

|                                                      | As of              |                   |
|------------------------------------------------------|--------------------|-------------------|
|                                                      | September 30, 2016 | December 31, 2015 |
| Land                                                 | \$ 19,472          | \$ 43,442         |
| Premises                                             | 96,178             | 152,444           |
| Furniture and equipment                              | 103,326            | 90,672            |
| Total cost                                           | 218,976            | 286,558           |
| Accumulated depreciation                             | (141,500)          | (171,708)         |
| Net book value of premises, furniture, and equipment | 77,476             | 114,850           |
| Assets held-for-sale                                 | 4,967              | 7,428             |
| Total premises, furniture, and equipment             | \$82,443           | \$ 122,278        |

On September 27, 2016, First Midwest Bank (the "Bank") completed a sale-leaseback transaction, whereby the Bank sold to a third party for an aggregate cash purchase price of \$150.3 million, 55 properties with book values totaling \$58.8 million, owned and operated by the Bank as branches. Upon the sale of the branches the Bank concurrently entered into triple net lease agreements with certain affiliates of the third party for each of the branches sold. Subject to the right of the Bank to terminate certain of the lease agreements at the end of the eleventh year, the lease agreements have initial terms of 14 years. Each lease agreement provides the Bank with five consecutive renewal options of five years each. The sale-leaseback transaction resulted in a pre-tax gain of \$88.0 million, net of transaction related expenses, of which \$5.5 million was immediately recognized in earnings. The remaining pre-tax gain of \$82.5 million will be deferred and accreted into income on a straight-line basis over the initial terms of the leases. Aggregate first year rent expense to be paid under the sale-leaseback transaction is approximately \$10.5 million with a 1.50% annual rent escalation during the initial term and during the first and second five-year renewal periods.

Assets held-for-sale as of September 30, 2016 and December 31, 2015 consists of former branches that are no longer in operation and parcels of land previously purchased for expansion.

Depreciation on premises, furniture, and equipment totaled \$3.4 million and \$10.1 million for the quarter and nine months ended September 30, 2016, respectively. Depreciation on premises, furniture, and equipment totaled \$3.4 million and \$10.1 million for the same periods in 2015.

### Operating Leases

As of September 30, 2016, the Company was obligated to utilize certain premises and equipment under certain non-cancelable operating leases, which expire at various dates through the year ending December 31, 2031. Many of these leases contain renewal options and certain leases provide options to purchase the leased property during or at the expiration of the lease period at specific prices. Some leases contain escalation clauses calling for rentals to be adjusted for increased real estate taxes and other operating expenses or proportionately adjusted for increases in consumer or other price indices. The following summary reflects the future minimum payments by year required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2016.

#### Future Minimum Operating Lease Payments

(Dollar amounts in thousands)

|                                 | Total      |
|---------------------------------|------------|
| One year or less                | \$21,332   |
| After one year to two years     | 18,083     |
| After two years to three years  | 16,762     |
| After three years to four years | 15,882     |
| After four years to five years  | 14,476     |
| After five years                | 109,752    |
| Total minimum lease payments    | \$ 196,287 |

Deferred pre-tax gains of \$82.5 million related to the sale-lease back transaction will be accreted as a reduction to lease expense in other expenses on the Condensed Consolidated Statements of Income on a straight-line basis over the initial terms of the leases.

As part of the acquisition of the Chicago area banking operations of Banco Popular North America completed in 2014, the Company assumed certain operating leases related to various branches. On the date of acquisition, an intangible liability of \$10.6 million was recorded as the cash flows of the leases exceeded the fair market value. This intangible liability will be accreted into income as a reduction to net occupancy and equipment expense using the straight-line method over the initial term of each lease, which expire between 2018 to 2030. The intangible liability is included in accrued interest and other liabilities in the Consolidated Statements of Financial Condition.

The following table presents the remaining scheduled accretion of the intangible liability by year.

#### Scheduled Accretion of Operating Lease Intangible

(Dollar amounts in thousands)

|                                 | Total   |
|---------------------------------|---------|
| One year or less                | \$1,180 |
| After one year to two years     | 1,011   |
| After two years to three years  | 742     |
| After three years to four years | 648     |
| After four years to five years  | 648     |
| After five years                | 4,159   |
| Total accretion                 | \$8,388 |

The following table presents net operating lease expense for the quarters and nine months ended September 30, 2016 and 2015.

Net Operating Lease Expense  
(Dollar amounts in thousands)

|                                                             | Quarters<br>Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |         |
|-------------------------------------------------------------|------------------------------------|---------|---------------------------------------|---------|
|                                                             | 2016                               | 2015    | 2016                                  | 2015    |
| Lease expense charged to operations <sup>(1)</sup>          | \$1,950                            | \$1,438 | \$4,902                               | \$4,282 |
| Rental income from premises leased to others <sup>(2)</sup> | 118                                | 167     | 404                                   | 454     |
| Net operating lease expense                                 | \$1,832                            | \$1,271 | \$4,498                               | \$3,828 |

Includes amounts paid under short-term cancelable leases and is included in net occupancy and equipment expense in the Condensed Consolidated Statements of Income. For the quarter and nine months ended September 30, 2016, lease expense is net of accretion related to the intangible liability of \$295,000 and \$876,000, respectively. For the same periods in 2015, lease expense is net of accretion related to the intangible liability of \$286,000 and \$858,000.

<sup>(2)</sup> Included as a reduction to net occupancy and equipment expense in the Condensed Consolidated Statements of Income.

## 9. BORROWED FUNDS

The following table summarizes the Company's borrowed funds by funding source.

Summary of Borrowed Funds  
(Dollar amounts in thousands)

|                                                | As of<br>September 30,<br>2016 |           | December 31,<br>2015 |  |
|------------------------------------------------|--------------------------------|-----------|----------------------|--|
| Securities sold under agreements to repurchase | \$114,539                      | \$155,196 |                      |  |
| FHLB advances                                  | 525,000                        | 9,900     |                      |  |
| Total borrowed funds                           | \$639,539                      | \$165,096 |                      |  |

Securities sold under agreements to repurchase are treated as financings and the obligations to repurchase securities sold are included as a liability in the Consolidated Statements of Financial Condition. Repurchase agreements are secured by U.S. treasury and agency securities. The securities underlying the agreements remain in the respective asset accounts.

The Bank is a member of the FHLB and has access to term financing from the FHLB. These advances are secured by designated assets that may include qualifying commercial real estate, residential and multi-family mortgages, home equity loans, and municipal and mortgage-backed securities. As of September 30, 2016, the Company held various short-term FHLB advances with fixed interest rates that range from 0.40% to 0.48% and maturity dates that range from October 3, 2016 to December 1, 2016.

The Company hedges interest rates on borrowed funds using interest rate swaps through which the Company receives variable amounts and pays fixed amounts. See Note 12 "Derivative Instruments and Hedging Activities" for a detailed discussion of interest rate swaps.

On September 27, 2016, the Company entered into a loan agreement with U.S. Bank National Association providing for a \$50.0 million short-term, unsecured revolving credit facility. Advances will bear interest at a rate equal to one-month LIBOR plus 1.75%, adjusted on a monthly basis, and the Company must pay an unused facility fee equal to 0.35% per annum on a quarterly basis. The line of credit will mature on September 26, 2017. Management expects to use this line of credit for general corporate purposes. As of September 30, 2016, no amount was outstanding under the facility.



## 10. SENIOR AND SUBORDINATED DEBT

The following table presents the Company's senior and subordinated debt by issuance.

## Senior and Subordinated Debt

(Dollar amounts in thousands)

|                                                             | Issuance Date  | Maturity Date  | Interest Rate           | As of September 30, 2016 | December 31, 2015 |
|-------------------------------------------------------------|----------------|----------------|-------------------------|--------------------------|-------------------|
| Senior notes                                                | November 2011  | November 2016  | 5.875%                  | \$ 114,983               | \$ 114,891        |
| Subordinated notes:                                         |                |                |                         |                          |                   |
| Due in 2026                                                 | September 2016 | September 2026 | 5.875%                  | 146,484                  | —                 |
| Due in 2016                                                 | March 2006     | April 2016     | 5.850%                  | —                        | 38,499            |
| Junior subordinated debentures:                             |                |                |                         |                          |                   |
| First Midwest Capital Trust I ("FMCT")                      | November 2003  | December 2033  | 6.950%                  | 37,800                   | 37,799            |
| Great Lakes Statutory Trust II ("GLST II") <sup>(1)</sup>   | December 2005  | December 2035  | L+1.400% <sup>(2)</sup> | 4,367                    | 4,296             |
| Great Lakes Statutory Trust III ("GLST III") <sup>(1)</sup> | June 2007      | September 2037 | L+1.700% <sup>(2)</sup> | 5,810                    | 5,723             |
| Total junior subordinated debentures                        |                |                |                         | 47,977                   | 47,818            |
| Total senior and subordinated debt                          |                |                |                         | \$ 309,444               | \$ 201,208        |

The junior subordinated debentures related to GLST II and GLST III were assumed by the Company during 2014 through the acquisition of Great Lakes Financial Resources, Inc., the holding company for Great Lakes Bank.

<sup>(1)</sup> These amounts include acquisition adjustments which resulted in a discount of \$1.8 million to GLST II and \$2.4 million to GLST III as of September 30, 2016 and \$1.9 million to GLST II and \$2.5 million to GLST III as of December 31, 2015.

<sup>(2)</sup> The interest rates are a variable rate based on the three-month LIBOR plus 1.400% and 1.700% for GLST II and GLST III, respectively.

On April 1, 2016, \$38.5 million of 5.850% subordinated notes matured and were repaid by the Company. On November 22, 2016, \$115.0 million of 5.875% senior notes will mature.

## Issuance of Subordinated Notes

On September 29, 2016, the Company completed the issuance and sale of \$150.0 million aggregate principal amount of its 5.875% subordinated notes due 2026. Interest on the notes is payable semi-annually on March 29 and September 29, beginning on March 29, 2017. The Company received proceeds of \$146.5 million, net of underwriting discounts and commissions and issuance costs. The Company expects to use the net proceeds to repay at maturity the entire \$115.0 million aggregate principal amount outstanding of its 5.875% senior notes due November 22, 2016, plus accrued interest, and for other general corporate purposes.

## Junior Subordinated Debentures

FMCT, GLST II, and GLST III are Delaware statutory business trusts. These trusts were established for the purpose of issuing trust-preferred securities and lending the proceeds to the Company in return for junior subordinated debentures of the Company. The junior subordinated debentures are the sole assets of each trust. Therefore, each trust's ability to pay amounts due on the trust-preferred securities is solely dependent on the Company making payments on the related junior subordinated debentures. The trust-preferred securities are subject to mandatory redemption, in whole or in part, on repayment of the junior subordinated debentures at the stated maturity date or on redemption. The Company guarantees payments of distributions and redemptions on the trust-preferred securities on a limited basis.

Trust-preferred securities are included in Tier 1 capital of the Company for regulatory capital purposes. The statutory trusts qualify as VIEs for which the Company is not the primary beneficiary. Consequently, the accounts of those entities are not consolidated in the Company's financial statements.



## 11. EARNINGS PER COMMON SHARE

The table below displays the calculation of basic and diluted earnings per common share ("EPS").

## Basic and Diluted EPS

(Amounts in thousands, except per share data)

|                                                                                    | Quarters Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |          |
|------------------------------------------------------------------------------------|---------------------------------|----------|---------------------------------------|----------|
|                                                                                    | 2016                            | 2015     | 2016                                  | 2015     |
| Net income                                                                         | \$28,402                        | \$23,284 | \$71,631                              | \$65,740 |
| Net income applicable to non-vested restricted shares                              | (324 )                          | (226 )   | (826 )                                | (703 )   |
| Net income applicable to common shares                                             | \$28,078                        | \$23,058 | \$70,805                              | \$65,037 |
| Weighted-average common shares outstanding:                                        |                                 |          |                                       |          |
| Weighted-average common shares outstanding (basic)                                 | 80,396                          | 77,106   | 79,589                                | 77,038   |
| Dilutive effect of common stock equivalents                                        | 13                              | 13       | 13                                    | 13       |
| Weighted-average diluted common shares outstanding                                 | 80,409                          | 77,119   | 79,602                                | 77,051   |
| Basic EPS                                                                          | \$0.35                          | \$0.30   | \$0.89                                | \$0.84   |
| Diluted EPS                                                                        | \$0.35                          | \$0.30   | \$0.89                                | \$0.84   |
| Anti-dilutive shares not included in the computation of diluted EPS <sup>(1)</sup> | 454                             | 751      | 510                                   | 822      |

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

## 12. 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. The significant accounting policies related to derivative instruments and hedging activities are presented in Note 1, "Summary of Significant Accounting Policies."

## Fair Value Hedges

The Company hedges the fair value of fixed rate commercial real estate loans using interest rate swaps through which the Company pays fixed amounts and receives variable amounts. These derivative contracts are designated as fair value hedges.

## Fair Value Hedges

(Dollar amounts in thousands)

|                                         | As of         |              |
|-----------------------------------------|---------------|--------------|
|                                         | September 30, | December 31, |
|                                         | 2016          | 2015         |
| Gross notional amount outstanding       | \$10,710      | \$11,620     |
| Derivative liability fair value         | (399 )        | (643 )       |
| Weighted-average interest rate received | 2.44 %        | 2.25 %       |
| Weighted-average interest rate paid     | 6.35 %        | 6.36 %       |
| Weighted-average maturity (in years)    | 1.24          | 1.97         |
| Fair value of derivative <sup>(1)</sup> | \$418         | \$665        |

(1) This amount represents the fair value if credit risk related contingent features were triggered.

Hedge ineffectiveness is recognized in other noninterest income in the Condensed Consolidated Statements of Income. For the quarters and nine months ended September 30, 2016 and 2015, gains or losses related to fair value hedge ineffectiveness were not material.

## Cash Flow Hedges

As of September 30, 2016, the Company hedged \$710.0 million of certain corporate variable rate loans using interest rate swaps through which the Company receives fixed amounts and pays variable amounts. The Company also hedged

\$710.0 million of borrowed funds using forward starting interest rate swaps through which the Company receives variable amounts and pays fixed

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amounts. These transactions allow the Company to add stability to net interest income and manage its exposure to interest rate movements. Forward starting interest rate swaps totaling \$325.0 million began on various dates between June of 2015 and June of 2016, and mature between June and August of 2019. The remaining forward starting interest rate swaps begin at various dates between February of 2017 and May of 2018 and mature between February and May of 2020. These derivative contracts are designated as cash flow hedges.

#### Cash Flow Hedges

(Dollar amounts in thousands)

|                                         | As of              |                   |
|-----------------------------------------|--------------------|-------------------|
|                                         | September 30, 2016 | December 31, 2015 |
| Gross notional amount outstanding       | \$ 1,420,000       | \$ 1,220,000      |
| Derivative asset fair value             | 15,093             | 4,787             |
| Derivative liability fair value         | (14,836 )          | (8,950 )          |
| Weighted-average interest rate received | 1.32 %             | 1.24 %            |
| Weighted-average interest rate paid     | 1.04 %             | 0.75 %            |
| Weighted-average maturity (in years)    | 3.04               | 3.91              |

The effective portion of gains or losses on cash flow hedges is recorded in accumulated other comprehensive loss on an after-tax basis and is subsequently reclassified to interest income or expense in the period that the forecasted hedged item impacts earnings. Hedge effectiveness is determined using a regression analysis at the inception of the hedge relationship and on an ongoing basis. For the quarters and nine months ended September 30, 2016 and 2015, there were no material gains or losses related to cash flow hedge ineffectiveness. As of September 30, 2016, the Company estimates that \$3.7 million will be reclassified from accumulated other comprehensive loss as an increase to interest income over the next twelve months.

#### Other Derivative Instruments

The Company also enters into derivative transactions with its commercial customers and simultaneously enters into offsetting interest rate derivative transactions with third parties. This transaction allows the Company's customers to effectively convert a variable rate loan into a fixed rate loan. Due to the offsetting nature of these transactions, the Company does not apply hedge accounting treatment. The Company's credit exposure on these derivative transactions results primarily from counterparty credit risk. The credit valuation adjustment ("CVA") is a fair value adjustment to the derivative to account for this risk. As of September 30, 2016 and December 31, 2015, the Company's credit exposure was fully secured by the underlying collateral on customer loans and mitigated through netting arrangements with third parties, therefore, no CVA was recorded. Transaction fees related to commercial customer derivative instruments of \$2.9 million and \$8.2 million were recorded in noninterest income for the quarter and nine months ended September 30, 2016, respectively. There were \$1.2 million and \$2.7 million of transaction fees recorded for the quarter and nine months ended September 30, 2015, respectively.

#### Other Derivative Instruments

(Dollar amounts in thousands)

|                                         | As of              |                   |
|-----------------------------------------|--------------------|-------------------|
|                                         | September 30, 2016 | December 31, 2015 |
| Gross notional amount outstanding       | \$ 1,462,702       | \$ 853,385        |
| Derivative asset fair value             | 29,835             | 11,446            |
| Derivative liability fair value         | (29,835 )          | (11,446 )         |
| Fair value of derivative <sup>(1)</sup> | 30,451             | 11,939            |

(1) This amount represents the fair value if credit risk related contingent features were triggered.

The Company occasionally enters into risk participation agreements with counterparty banks to transfer or assume a portion of the credit risk related to customer transactions. The amounts of these instruments were not material for any periods presented. The Company had no other derivative instruments as of September 30, 2016 and December 31,

2015. The Company does not enter into derivative transactions for purely speculative purposes.

Credit Risk

Derivative instruments are inherently subject to credit risk, which represents the Company's risk of loss when the counterparty to a derivative contract fails to perform according to the terms of the agreement. Credit risk is managed by limiting and collateralizing the aggregate amount of net unrealized losses by transaction, monitoring the size and the maturity structure of the derivatives, and

applying uniform credit standards. Company policy establishes limits on credit exposure to any single counterparty. In addition, the Company established bilateral collateral agreements with derivative counterparties that provide for exchanges of marketable securities or cash to collateralize either party's net losses above a stated minimum threshold. As of September 30, 2016 and December 31, 2015, these collateral agreements covered 100% of the fair value of the Company's outstanding fair value hedges. Derivative assets and liabilities are presented gross, rather than net, of pledged collateral amounts.

Certain derivative instruments are subject to master netting agreements with counterparties. The Company records these transactions at their gross fair values and does not offset derivative assets and liabilities in the Consolidated Statements of Financial Condition. The following table presents the fair value of the Company's derivatives and offsetting positions as of September 30, 2016 and December 31, 2015.

#### Fair Value of Offsetting Derivatives

(Dollar amounts in thousands)

|                                                                                           | As of September 30,<br>2016 |             | As of December 31,<br>2015 |             |
|-------------------------------------------------------------------------------------------|-----------------------------|-------------|----------------------------|-------------|
|                                                                                           | Assets                      | Liabilities | Assets                     | Liabilities |
| Gross amounts recognized                                                                  | \$44,928                    | \$45,070    | \$16,233                   | \$21,039    |
| Less: amounts offset in the Consolidated Statements of Financial Condition                | —                           | —           | —                          | —           |
| Net amount presented in the Consolidated Statements of Financial Condition <sup>(1)</sup> | 44,928                      | 45,070      | 16,233                     | 21,039      |
| Gross amounts not offset in the Consolidated Statements of Financial Condition:           |                             |             |                            |             |
| Offsetting derivative positions                                                           | (15,245 )                   | (15,245 )   | (4,791 )                   | (4,791 )    |
| Cash collateral pledged                                                                   | —                           | (29,825 )   | —                          | (16,248 )   |
| Net credit exposure                                                                       | \$29,683                    | \$—         | \$11,442                   | \$—         |

<sup>(1)</sup> Included in other assets or other liabilities in the Consolidated Statements of Financial Condition.

As of September 30, 2016 and December 31, 2015, the Company's derivative instruments generally contained provisions that require the Company's debt to remain above a certain credit rating by each of the major credit rating agencies or that the Company maintain certain capital levels. If the Company's debt were to fall below that credit rating or the Company's capital were to fall below the required levels, it would be in violation of those provisions, and the counterparties to the derivative instruments could terminate the swap transaction and demand cash settlement of the derivative instrument in an amount equal to the derivative liability fair value. As of September 30, 2016 and December 31, 2015 the Company was in compliance with these provisions.

## 13. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

## Credit Commitments and Guarantees

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

## Contractual or Notional Amounts of Financial Instruments

(Dollar amounts in thousands)

|                                                      | As of         |              |
|------------------------------------------------------|---------------|--------------|
|                                                      | September 30, | December 31, |
|                                                      | 2016          | 2015         |
| Commitments to extend credit:                        |               |              |
| Commercial, industrial, and agricultural             | \$ 1,462,813  | \$ 1,303,056 |
| Commercial real estate                               | 439,518       | 366,250      |
| Home equity                                          | 387,194       | 352,114      |
| Other commitments <sup>(1)</sup>                     | 215,226       | 203,121      |
| Total commitments to extend credit                   | \$2,504,751   | \$ 2,224,541 |
| Letters of credit                                    | \$ 107,461    | \$ 100,610   |
| Recourse on assets sold:                             |               |              |
| Unpaid principal balance of loans sold               | \$ 187,891    | \$ 196,389   |
| Carrying value of recourse obligation <sup>(2)</sup> | 125           | 87           |

<sup>(1)</sup> Other commitments includes installment and overdraft protection program commitments.

<sup>(2)</sup> Included in other liabilities in the Consolidated Statements of Financial Condition.

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

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

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

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

As a result of the sale of certain 1-4 family mortgage loans, the Company is contractually obligated to repurchase any non-performing loans or loans that do not meet underwriting requirements at recorded value. In accordance with the sales agreements, there is no limitation to the maximum potential future payments or expiration of the Company's recourse obligation. There were no material loan repurchases during the quarters and nine months ended September 30, 2016 and 2015.

## Legal Proceedings

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at September 30, 2016. While the outcome of any legal proceeding is inherently uncertain, based on

information currently available, the Company's management does not expect that any liabilities arising from pending legal matters will have a material adverse effect on the Company's financial position, results of operations, or cash flows.

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#### 14. FAIR VALUE

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

Other assets and liabilities are not required to be measured at fair value in the Consolidated Statements of Financial Condition, but must be disclosed at fair value. See the "Fair Value Measurements of Other Financial Instruments" section of this note. Any aggregation of the estimated fair values presented in this note does not represent the value of the Company.

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

• Level 1 - Quoted prices in active markets for identical assets or liabilities.

• Level 2 - Observable inputs other than level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

• Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs require significant management judgment or estimation, some of which use model-based techniques and may be internally developed.

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

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

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

## Recurring Fair Value Measurements

(Dollar amounts in thousands)

|                                                   | As of September 30, 2016 |           |         | As of December 31, 2015 |           |         |
|---------------------------------------------------|--------------------------|-----------|---------|-------------------------|-----------|---------|
|                                                   | Level 1                  | Level 2   | Level 3 | Level 1                 | Level 2   | Level 3 |
| Assets:                                           |                          |           |         |                         |           |         |
| Trading securities:                               |                          |           |         |                         |           |         |
| Money market funds                                | \$1,707                  | \$—       | \$—     | \$—                     | \$—       | \$—     |
| Mutual funds                                      | 16,644                   | —         | —       | 14,364                  | —         | —       |
| Total trading securities                          | 18,351                   | —         | —       | 16,894                  | —         | —       |
| Securities available-for-sale:                    |                          |           |         |                         |           |         |
| U.S. treasury securities                          | 43,797                   | —         | —       | 16,980                  | —         | —       |
| U.S. agency securities                            | —                        | 192,931   | —       | —                       | 86,643    | —       |
| CMOs                                              | —                        | 1,081,259 | —       | —                       | 687,185   | —       |
| MBSs                                              | —                        | 324,484   | —       | —                       | 153,530   | —       |
| Municipal securities                              | —                        | 286,713   | —       | —                       | 327,570   | —       |
| CDOs                                              | —                        | —         | 31,899  | —                       | —         | 31,529  |
| Equity securities                                 | —                        | 2,947     | —       | —                       | 3,199     | —       |
| Total securities available-for-sale               | 43,797                   | 1,888,334 | 31,899  | 16,980                  | 1,258,127 | 31,529  |
| Mortgage servicing rights ("MSRs") <sup>(1)</sup> | —                        | —         | 5,076   | —                       | —         | 1,853   |
| Derivative assets <sup>(1)</sup>                  | —                        | 44,928    | —       | —                       | 16,233    | —       |
| Liabilities:                                      |                          |           |         |                         |           |         |
| Derivative liabilities <sup>(2)</sup>             | \$—                      | \$45,070  | \$—     | \$—                     | \$21,039  | \$—     |

<sup>(1)</sup> Included in other assets in the Consolidated Statements of Financial Condition.

<sup>(2)</sup> Included in other liabilities in the Consolidated Statements of Financial Condition.

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

## Trading Securities

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

## Securities Available-for-Sale

The Company's 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 values for these securities are based on quoted prices in active markets or market prices for similar securities obtained from external pricing services or dealer market participants and are classified in level 2 of the fair value hierarchy. The fair value of U.S. treasury securities is based on quoted market prices in active exchange markets and is classified in level 1 of the fair value hierarchy. Quarterly, the Company evaluates the methodologies used by its external pricing services to estimate the fair value of these securities to determine whether the valuations represent an exit price in the Company's principal markets.

CDOs are classified in level 3 of the fair value hierarchy. The Company estimates the fair values for each CDO using discounted cash flow analyses with the assistance of a structured credit valuation firm. This methodology is based on credit analysis and historical financial data for each of the issuers underlying the CDOs (the "Issuers"). These estimates are highly subjective and sensitive to several significant, unobservable inputs. The cash flows for each Issuer are then discounted to present values using LIBOR plus an adjustment to reflect the impact of market factors. Finally, the discounted cash flows for each Issuer are aggregated to derive the estimated fair value for the specific CDO.



The following table presents the ranges of significant, unobservable inputs calculated using the weighted-average of the Issuers used by the Company as of September 30, 2016 and December 31, 2015.

Significant Unobservable Inputs Used in the Valuation of CDOs

|                              | As of                 |                      |
|------------------------------|-----------------------|----------------------|
|                              | September 30,<br>2016 | December 31,<br>2015 |
| Probability of prepayment    | 1.8 % -15.0%          | 1.8 % -15.1%         |
| Probability of default       | 17.4 % -49.0%         | 19.1 % -32.6%        |
| Loss given default           | 93.1 % -98.5%         | 93.8 % -97.1%        |
| Probability of deferral cure | 17.3 % -100.0%        | 15.2 % -63.1%        |

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

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

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

Management monitors the valuation results of each CDO on a semi-annual basis, which includes an analysis of historical pricing trends for these types of securities, overall economic conditions (such as tracking LIBOR curves), and the performance of the Issuers' industries. Annually, management validates significant assumptions by reviewing detailed back-testing performed by the structured credit valuation firm.

A rollforward of the carrying value of CDOs for the quarters and nine months ended September 30, 2016 and 2015 is presented in the following table.

Carrying Value of CDOs

(Dollar amounts in thousands)

|                                                     | Quarters Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |          |
|-----------------------------------------------------|---------------------------------|----------|---------------------------------------|----------|
|                                                     | 2016                            | 2015     | 2016                                  | 2015     |
| Beginning balance                                   | \$30,431                        | \$32,004 | \$31,529                              | \$33,774 |
| Change in other comprehensive income <sup>(1)</sup> | 1,794                           | (62 )    | 764                                   | (1,560 ) |
| Paydowns                                            | (326 )                          | (72 )    | (394 )                                | (344 )   |
| Ending balance                                      | \$31,899                        | \$31,870 | \$31,899                              | \$31,870 |

<sup>(1)</sup> Included in unrealized holding gains in the Consolidated Statements of Comprehensive Income.

## MSRs

The Company services loans for others totaling \$630.7 million as of September 30, 2016 and \$242.9 million as of December 31, 2015. As of September 30, 2016, loans serviced for others includes approximately \$318.5 million of loans, the servicing of which transitioned from NI Bancshares to the Company as a result of the acquisition. These loans are owned by third parties and are not included in the Consolidated Statements of Financial Condition.

Additional information regarding the NI Bancshares transaction is presented in Note 3, "Acquisitions."

The Company determines the fair value of MSRs by estimating the present value of expected future cash flows associated with the mortgage loans being serviced and classifies them in level 3 of the fair value hierarchy. The following table presents the ranges of significant, unobservable inputs used by the Company to determine the fair value of MSRs as of September 30, 2016.

## Significant Unobservable Inputs Used in the Valuation of MSRs

|                   | As of              |        |                   |        |
|-------------------|--------------------|--------|-------------------|--------|
|                   | September 30, 2016 |        | December 31, 2015 |        |
| Prepayment speed  | 10.2 %             | -29.2% | 10.1 %            | -20.9% |
| Maturity (months) | 12                 | -80    | 6                 | -86    |
| Discount rate     | 9.5 %              | -13.0% | 9.5 %             | -13.0% |

The impact of changes in these key inputs could result in a significantly higher or lower fair value measurement for MSRs. Significant increases in expected prepayment speeds and discount rates have negative impacts on the valuation. Higher maturity assumptions have a favorable effect on the estimated fair value.

A rollforward of the carrying value of MSRs for the quarters and nine months ended September 30, 2016 and 2015 is presented in the following table.

## Carrying Value of MSRs

(Dollar amounts in thousands)

|                                                      | Quarters Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |         |
|------------------------------------------------------|---------------------------------|---------|---------------------------------------|---------|
|                                                      | 2016                            | 2015    | 2016                                  | 2015    |
| Beginning balance                                    | \$4,938                         | \$1,820 | \$1,853                               | \$1,728 |
| Additions from acquisition                           | —                               | —       | 3,092                                 | —       |
| New MSRs                                             | 581                             | 60      | 928                                   | 303     |
| (Losses) gains included in earnings <sup>(1)</sup> : |                                 |         |                                       |         |
| Changes in valuation inputs and assumptions          | (205 )                          | (12 )   | (377 )                                | (51 )   |
| Other changes in fair value <sup>(2)</sup>           | (238 )                          | (70 )   | (420 )                                | (182 )  |
| Ending balance                                       | \$5,076                         | \$1,798 | \$5,076                               | \$1,798 |
| Contractual servicing fees earned <sup>(1)</sup>     | \$373                           | \$136   | \$922                                 | \$404   |

<sup>(1)</sup> Included in mortgage banking income in the Condensed Consolidated Statements of Income and related to assets held as of September 30, 2016 and 2015.

<sup>(2)</sup> Primarily represents changes in expected future cash flows due to payoffs and paydowns.

## Derivative Assets and Derivative Liabilities

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



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

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

## Non-Recurring Fair Value Measurements

(Dollar amounts in thousands)

|                                                    | As of September 30, 2016 |         |          | As of December 31, 2015 |         |          |
|----------------------------------------------------|--------------------------|---------|----------|-------------------------|---------|----------|
|                                                    | Level 1                  | Level 2 | Level 3  | Level 1                 | Level 2 | Level 3  |
| Collateral-dependent impaired loans <sup>(1)</sup> | \$—                      | \$—     | \$10,156 | \$—                     | \$—     | \$10,519 |
| OREO <sup>(2)</sup>                                | —                        | —       | 4,090    | —                       | —       | 8,581    |
| Loans held-for-sale <sup>(3)</sup>                 | —                        | —       | 29,645   | —                       | —       | 14,444   |
| Assets held-for-sale <sup>(4)</sup>                | —                        | —       | 4,967    | —                       | —       | 7,428    |

<sup>(1)</sup> Includes impaired loans with charge-offs and impaired loans with a specific reserve during the periods presented.

<sup>(2)</sup> Includes OREO with fair value adjustments subsequent to initial transfer that occurred during the periods presented.

<sup>(3)</sup> Included in other assets in the Consolidated Statements of Financial Condition.

<sup>(4)</sup> Included in premises, furniture, and equipment in the Consolidated Statements of Financial Condition.

## Collateral-Dependent Impaired Loans

Certain collateral-dependent impaired loans are subject to fair value adjustments to reflect the difference between the carrying value of the loan and the value of the underlying collateral. The fair values of collateral-dependent impaired loans are primarily determined by current appraised values of the underlying collateral. Based on the age and/or type, appraisals may be adjusted in the range of 0% to 15%. In certain cases, an internal valuation may be used when the underlying collateral is located in areas where comparable sales data is limited or unavailable. Accordingly, collateral-dependent impaired loans are classified in level 3 of the fair value hierarchy.

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

## OREO

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

## Loans Held-for-Sale

As of September 30, 2016, loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell. These loans were recorded in the held-for-sale category at the contract price and, accordingly, are classified in level 3 of the fair value hierarchy. As of December 31, 2015, loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell, and a commercial real estate loan.

## Assets Held-for-Sale

Assets held-for-sale as of September 30, 2016 and December 31, 2015 consists of former branches that are no longer in operation and parcels of land previously purchased for expansion. These properties are being actively marketed and were transferred into the held-for-sale category at their fair value as determined by current appraisals. Based on these valuation methods, they are classified in level 3 of the fair value hierarchy.

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

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

## Fair Value Measurements of Other Financial Instruments

(Dollar amounts in thousands)

|                                          | Fair Value Hierarchy Level | As of              |             | December 31, 2015 |             |
|------------------------------------------|----------------------------|--------------------|-------------|-------------------|-------------|
|                                          |                            | September 30, 2016 |             | Carrying Amount   | Fair Value  |
|                                          |                            | Carrying Amount    | Fair Value  |                   |             |
| <b>Assets:</b>                           |                            |                    |             |                   |             |
| Cash and due from banks                  | 1                          | \$139,538          | \$139,538   | \$114,587         | \$114,587   |
| Interest-bearing deposits in other banks | 2                          | 362,153            | 362,153     | 266,615           | 266,615     |
| Securities held-to-maturity              | 2                          | 20,337             | 18,110      | 23,152            | 20,054      |
| FHLB and FRB stock                       | 2                          | 53,506             | 53,506      | 39,306            | 39,306      |
| Loans                                    | 3                          | 8,091,306          | 7,997,227   | 7,091,988         | 6,959,024   |
| Investment in BOLI                       | 3                          | 219,064            | 219,064     | 209,601           | 209,601     |
| Accrued interest receivable              | 3                          | 33,931             | 33,931      | 27,847            | 27,847      |
| Other interest-earning assets            | 3                          | 1,056              | 1,056       | 1,982             | 1,982       |
| <b>Liabilities:</b>                      |                            |                    |             |                   |             |
| Deposits                                 | 2                          | \$9,106,104        | \$9,104,564 | \$8,097,738       | \$8,093,640 |
| Borrowed funds                           | 2                          | 639,539            | 639,539     | 165,096           | 165,096     |
| Senior and subordinated debt             | 1                          | 309,444            | 317,948     | 201,208           | 205,726     |
| Accrued interest payable                 | 2                          | 4,856              | 4,856       | 2,175             | 2,175       |

Management uses various methodologies and assumptions to determine the estimated fair values of the financial instruments in the table above. The fair value estimates are made at a discrete point in time based on relevant market information and consider management's judgments regarding future expected economic conditions, loss experience, and specific risk characteristics of the financial instruments.

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

**Securities Held-to-Maturity** - The fair value of securities held-to-maturity is estimated using the present value of expected future cash flows of the remaining maturities of the securities.

**FHLB and FRB Stock** - The carrying amounts approximate fair value as the stock is non-marketable.

**Loans** - Loans includes the FDIC indemnification asset and net loans, which consists of loans held-for-investment, acquired loans, covered loans, and the allowance for loan losses. The fair value of loans is estimated using the present value of the expected future cash flows of the remaining maturities of the loans. Prepayment assumptions that consider the Company's historical experience and current economic and lending conditions were included. The discount rate was based on the LIBOR yield curve with adjustments for liquidity and credit risk inherent in the loans. The fair value of the covered loan portfolio is determined by discounting the expected future cash flows at a market interest rate, which is derived from LIBOR swap rates over the life of those loans. The expected future cash flows are derived from the contractual terms of the covered loans, net of any projected credit losses. For valuation purposes, these loans are placed into groups with similar characteristics and risk factors, where appropriate. The timing and amount of credit losses for each group are estimated using historical default and loss experience, current collateral valuations, borrower credit scores, and internal risk ratings. For individually significant loans or credit relationships, the estimated fair value is determined by a specific loan level review utilizing appraised values for collateral and projections of the timing and amount of expected future cash flows.



Investment in BOLI - The fair value of BOLI approximates the carrying amount as both are based on each policy's respective cash surrender value ("CSV"), which is the amount the Company would receive from the liquidation of these investments. The CSV is derived from monthly reports provided by the managing brokers and is determined using the Company's initial insurance premium and earnings of the underlying assets, offset by management fees. Other Interest-Earning Assets - The fair value of other interest-earning assets is estimated using the present value of the expected future cash flows of the remaining maturities of the assets.

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

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

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

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

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

### INTRODUCTION

First Midwest Bancorp, Inc. is a bank holding company headquartered in the Chicago suburb of Itasca, Illinois with operations throughout the Chicago metropolitan area as well as northwest Indiana, central and western Illinois, and eastern Iowa through 110 banking locations. Our principal subsidiary is First Midwest Bank, which provides a broad range of banking, treasury, and wealth management products and services to commercial and industrial, commercial real estate, municipal, and consumer customers. We are committed to meeting the financial needs of the people and businesses in the communities where we live and work by providing customized banking solutions, quality products, and innovative services that fulfill those financial needs.

The following discussion and analysis is intended to address the significant factors affecting our Condensed Consolidated Statements of Income for the quarters and nine months ended September 30, 2016 and 2015 and Consolidated Statements of Financial Condition as of September 30, 2016 and December 31, 2015. When we use the terms "First Midwest," the "Company," "we," "us," and "our," we mean First Midwest Bancorp, Inc. 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, accompanying notes thereto, and other information presented in Item 1 of this Form 10-Q, as well as in our 2015 Annual Report on Form 10-K ("2015 10-K"). The results of operations for the quarter and nine months ended September 30, 2016 are not necessarily indicative of future results.

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

• **Net Interest Income** - Net interest income, our primary source of revenue, equals the difference between interest income and fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities.

• **Net Interest Margin** - Net interest margin equals tax-equivalent net interest income divided by total average interest-earning assets.

• **Noninterest Income** - Noninterest income is the income we earn from fee-based revenues, investment in bank-owned life insurance ("BOLI"), other income, and non-operating revenues.

• **Noninterest Expense** - Noninterest expense is the expense we incur to operate the Company, which includes salaries and employee benefits, net occupancy and equipment, professional services, and other costs.

**Asset Quality** - Asset quality represents an estimation of the quality of our loan portfolio, including an assessment of the credit risk related to existing and potential loss exposure, and can be evaluated using a number of quantitative measures, such as non-performing loans to total loans.

**Regulatory Capital** - Our regulatory capital is classified in one of the following tiers: (i) Common Equity Tier 1 capital ("CET1"), which consists of common equity and retained earnings, less goodwill and other intangible assets and a portion of disallowed deferred tax assets, (ii) Tier 1 capital, which consists of CET1 and qualifying trust-preferred securities and the remaining portion of disallowed deferred tax assets, and (iii) Tier 2 capital, which includes qualifying subordinated debt and the allowance for credit losses, subject to limitations.

In addition, some of these metrics may be presented on a non-U.S. generally accepted accounting principles ("non-GAAP") basis. For detail on our non-GAAP metrics, see the discussion in the following section titled "Non-GAAP Financial Information and Reconciliations." 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.

As of March 31, 2016, both the Company and the Bank exceeded \$10.0 billion in total assets. As of September 30, 2016, the Company and the Bank each had total assets of approximately \$11.6 billion. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and its implementing regulations impose various additional requirements on bank holding companies and banks with \$10.0 billion or more in total consolidated assets. As a general matter, the Company and the Bank are not immediately subject to these additional requirements when they exceed \$10 billion in assets; instead, the Company and the Bank will be subject to these various requirements

over various dates. For a discussion of the impact that the Dodd-Frank Act and its implementing regulations will have on the Company and the Bank now that they have each exceeded \$10.0 billion in total consolidated assets, see the "Supervision and Regulation" section in Item 1, "Business" and Item 1A, "Risk Factors" in the Company's 2015 10-K.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q may contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of words such as "may," "might," "will," "would," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "probable," "potential," "possible," "target," "continue," "look forward," or "assume," and words of similar import. Forward-looking statements are not historical facts but instead express only management's beliefs regarding future results or events, many of which, by their nature, are inherently uncertain and outside of management's control. It is possible that actual results and events may differ, possibly materially, from the anticipated results or events indicated in these forward-looking statements. Forward-looking statements are not guarantees of future performance, and we caution you not to place undue reliance on these statements. Forward-looking statements are made only as of the date of this report, and we undertake no obligation to update any forward-looking statements contained in this report to reflect new information or events or conditions after the date hereof.

Forward-looking statements may be deemed to include, among other things, statements relating to our future financial performance, the performance of our loan or securities portfolio, the expected amount of future credit reserves or charge-offs, corporate strategies or objectives, anticipated trends in our business, regulatory developments, acquisition transactions, including estimated synergies, cost savings and financial benefits of pending or consummated transactions, including First Midwest's proposed acquisition of Standard Bancshares, Inc., and growth strategies, including possible future acquisitions. These statements are subject to certain risks, uncertainties and assumptions. For a discussion of these risks, uncertainties, and assumptions, you should refer to the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and in our 2015 10-K, as well as our subsequent filings made with the Securities and Exchange Commission ("SEC"). However, these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

## NON-GAAP FINANCIAL INFORMATION AND RECONCILIATIONS

The Company's accounting and reporting policies conform to U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry. As a supplement to GAAP, the Company provides non-GAAP performance results, which the Company believes are useful because they assist investors in assessing the Company's operating performance. These non-GAAP financial measures include earnings per share ("EPS") and the efficiency ratio, excluding certain significant transactions, tax-equivalent net interest income (including its individual components), tax-equivalent net interest margin, tangible common equity to tangible assets, tangible common equity, excluding accumulated other comprehensive loss, to tangible assets, tangible common equity to risk-weighted assets, return on average tangible common equity, and return on average tangible common equity, excluding certain significant transactions.

The Company presents earnings per share, excluding certain significant transactions, and the efficiency ratio, both of which exclude acquisition and integration related expenses and the net gain on the sale-leaseback transaction. Management believes excluding these significant transactions from earnings per share and the efficiency ratio are useful in assessing the Company's underlying operational performance since these transactions do not pertain to its core business operations and their exclusion facilitates better comparability between periods.

The tax-equivalent adjustment to net interest income and net interest margin recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 35% tax rate. Management believes that it is standard practice in the banking industry to present net interest income and net interest margin on a fully tax-equivalent basis and that it enhances comparability for peer comparison purposes.

In management's view, tangible common equity measures are capital adequacy metrics meaningful to the Company, as well as analysts and investors, in assessing the Company's use of equity and in facilitating comparisons with peers. These non-GAAP measures are valuable indicators of a financial institution's capital strength since they eliminate intangible assets from stockholders' equity and retain the effect of accumulated other comprehensive loss in stockholders' equity.

Although intended to enhance investors' understanding of the Company's business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP. See the following reconciliations for details on

the calculation of these measures to the extent presented herein.

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## Non-GAAP Reconciliations

(Amounts in thousands, except per share data)

|                                                                                                   | Quarters Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---------------------------------------------------------------------------------------------------|---------------------------------|-----------|------------------------------------|-----------|
|                                                                                                   | 2016                            | 2015      | 2016                               | 2015      |
| <b>Earnings Per Share</b>                                                                         |                                 |           |                                    |           |
| Net income                                                                                        | \$28,402                        | \$23,284  | \$71,631                           | \$65,740  |
| Net income applicable to non-vested restricted shares                                             | (324 )                          | (226 )    | (826 )                             | (703 )    |
| Net income applicable to common shares                                                            | 28,078                          | 23,058    | 70,805                             | 65,037    |
| Net gain on sale-leaseback transaction                                                            | (5,509 )                        | —         | (5,509 )                           | —         |
| Tax effect of gain on sale-leaseback transaction                                                  | 2,204                           | —         | 2,204                              | —         |
| Acquisition and integration related expenses                                                      | 1,172                           | —         | 6,810                              | —         |
| Tax effect of acquisition and integration related expenses                                        | (469 )                          | —         | (2,724 )                           | —         |
| Net income applicable to common shares, excluding certain significant transactions <sup>(1)</sup> | \$25,476                        | \$23,058  | \$71,586                           | \$65,037  |
| <b>Weighted-average common shares outstanding:</b>                                                |                                 |           |                                    |           |
| Weighted-average common shares outstanding (basic)                                                | 80,396                          | 77,106    | 79,589                             | 77,038    |
| Dilutive effect of common stock equivalents                                                       | 13                              | 13        | 13                                 | 13        |
| Weighted-average diluted common shares outstanding                                                | 80,409                          | 77,119    | 79,602                             | 77,051    |
| Basic EPS                                                                                         | \$0.35                          | \$0.30    | \$0.89                             | \$0.84    |
| Diluted EPS                                                                                       | \$0.35                          | \$0.30    | \$0.89                             | \$0.84    |
| Diluted EPS, excluding certain significant transactions <sup>(1)</sup>                            | \$0.32                          | \$0.30    | \$0.90                             | \$0.84    |
| <b>Tax-Equivalent Net Interest Income</b>                                                         |                                 |           |                                    |           |
| Net interest income                                                                               | \$90,972                        | \$77,902  | \$261,667                          | \$233,586 |
| Tax-equivalent adjustment                                                                         | 2,079                           | 2,609     | 6,579                              | 8,185     |
| Tax-equivalent net interest income <sup>(2)</sup>                                                 | \$93,051                        | \$80,511  | \$268,246                          | \$241,771 |
| <b>Efficiency Ratio Calculation</b>                                                               |                                 |           |                                    |           |
| Noninterest expense                                                                               | \$82,888                        | \$74,365  | \$246,831                          | \$220,473 |
| <b>Less:</b>                                                                                      |                                 |           |                                    |           |
| Net other real estate owned ("OREO") expense                                                      | (313 )                          | (1,290 )  | (2,099 )                           | (4,355 )  |
| Acquisition and integration related expenses                                                      | (1,172 )                        | —         | (6,810 )                           | —         |
| Total                                                                                             | \$81,403                        | \$73,075  | \$237,922                          | \$216,118 |
| Tax-equivalent net interest income <sup>(2)</sup>                                                 | \$93,051                        | \$80,511  | \$268,246                          | \$241,771 |
| Fee-based revenues                                                                                | 38,466                          | 33,118    | 107,994                            | 93,332    |
| <b>Add:</b>                                                                                       |                                 |           |                                    |           |
| Other income, excluding BOLI income                                                               | 762                             | 446       | 2,325                              | 1,957     |
| BOLI income                                                                                       | 929                             | 926       | 2,676                              | 3,263     |
| Tax-equivalent adjustment of BOLI income                                                          | 619                             | 617       | 1,784                              | 2,175     |
| Total                                                                                             | \$133,827                       | \$115,618 | \$383,025                          | \$342,498 |
| Efficiency ratio                                                                                  | 60.83                           | % 63.20   | % 62.12                            | % 63.10   |

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|                                                                                                                                | Quarters Ended<br>September 30, |              | Nine Months Ended<br>September 30, |             |   |
|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|------------------------------------|-------------|---|
|                                                                                                                                | 2016                            | 2015         | 2016                               | 2015        |   |
| Return on Average Common and Tangible Common Equity                                                                            |                                 |              |                                    |             |   |
| Net income applicable to common shares                                                                                         | \$28,078                        | \$23,058     | \$70,805                           | \$65,037    |   |
| Intangibles amortization                                                                                                       | 1,245                           | 973          | 3,475                              | 2,949       |   |
| Tax effect of intangibles amortization                                                                                         | (498)                           | ) (389       | ) (1,390                           | ) (1,180    | ) |
| Net income applicable to common shares, excluding intangibles amortization                                                     | 28,825                          | 23,642       | 72,890                             | 66,806      |   |
| Net gain on sale-leaseback transaction                                                                                         | (5,509                          | ) —          | (5,509                             | ) —         |   |
| Tax effect of gain on sale-leaseback transaction                                                                               | 2,204                           | —            | 2,204                              | —           |   |
| Acquisition and integration related expenses                                                                                   | 1,172                           | —            | 6,810                              | —           |   |
| Tax effect of acquisition and integration related expenses                                                                     | (469                            | ) —          | (2,724                             | ) —         |   |
| Net income applicable to common shares, excluding intangibles amortization and certain significant transactions <sup>(1)</sup> | \$26,223                        | \$23,642     | \$73,671                           | \$66,806    |   |
| Average stockholders' common equity                                                                                            | \$1,261,702                     | \$1,134,967  | 1,225,396                          | \$1,124,493 |   |
| Less: average intangible assets                                                                                                | (369,281                        | ) (331,720   | ) (361,697                         | ) (332,692  | ) |
| Average tangible common equity                                                                                                 | \$892,421                       | \$803,247    | \$863,699                          | \$791,801   |   |
| Return on average common equity <sup>(3)</sup>                                                                                 | 8.85                            | % 8.06       | % 7.72                             | % 7.73      | % |
| Return on average tangible common equity <sup>(3)</sup>                                                                        | 12.85                           | % 11.68      | % 11.27                            | % 11.28     | % |
| Return on average tangible common equity, excluding certain significant transactions <sup>(1) (3)</sup>                        | 11.69                           | % 11.68      | % 11.39                            | % 11.28     | % |
| Return on Average Assets                                                                                                       |                                 |              |                                    |             |   |
| Net income                                                                                                                     | \$28,402                        | \$23,284     | \$71,631                           | \$65,740    |   |
| Net gain on sale-leaseback transaction                                                                                         | (5,509                          | ) —          | (5,509                             | ) —         |   |
| Tax effect of gain on sale-leaseback transaction                                                                               | 2,204                           | —            | 2,204                              | —           |   |
| Acquisition and integration related expenses                                                                                   | 1,172                           | —            | 6,810                              | —           |   |
| Tax effect of acquisition and integration related expenses                                                                     | (469                            | ) —          | (2,724                             | ) —         |   |
| Net income, excluding certain significant transactions <sup>(1)</sup>                                                          | \$25,800                        | \$23,284     | \$72,412                           | \$65,740    |   |
| Average assets                                                                                                                 | \$11,322,325                    | \$9,875,632  | \$10,784,532                       | \$9,661,483 |   |
| Return on average assets <sup>(3)</sup>                                                                                        | 1.00                            | % 0.94       | % 0.89                             | % 0.91      | % |
| Return on average assets, excluding certain significant transactions <sup>(1) (3)</sup>                                        | 0.91                            | % 0.94       | % 0.90                             | % 0.91      | % |
|                                                                                                                                | As of                           |              |                                    |             |   |
|                                                                                                                                | September 30,                   | December 31, |                                    |             |   |
|                                                                                                                                | 2016                            | 2015         |                                    |             |   |
| Tangible Common Equity                                                                                                         |                                 |              |                                    |             |   |
| Stockholders' equity                                                                                                           | \$1,269,264                     | \$1,146,268  |                                    |             |   |
| Less: goodwill and other intangible assets                                                                                     | (367,961                        | ) (339,277   | )                                  |             |   |
| Tangible common equity                                                                                                         | 901,303                         | 806,991      |                                    |             |   |
| Less: accumulated other comprehensive income ("AOCI")                                                                          | 13,402                          | 28,389       |                                    |             |   |
| Tangible common equity, excluding AOCI                                                                                         | \$914,705                       | \$835,380    |                                    |             |   |
| Total assets                                                                                                                   | \$11,578,197                    | \$9,732,676  |                                    |             |   |
| Less: goodwill and other intangible assets                                                                                     | (367,961                        | ) (339,277   | )                                  |             |   |
| Tangible assets                                                                                                                | \$11,210,236                    | \$9,393,399  |                                    |             |   |
| Risk-weighted assets                                                                                                           | \$9,867,406                     | \$8,687,864  |                                    |             |   |
| Tangible common equity to tangible assets                                                                                      | 8.04                            | % 8.59       | %                                  |             |   |

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|                                                            |      |   |      |   |
|------------------------------------------------------------|------|---|------|---|
| Tangible common equity, excluding AOCI, to tangible assets | 8.16 | % | 8.89 | % |
| Tangible common equity to risk-weighted assets             | 9.13 | % | 9.29 | % |

- (1) Certain significant transactions include the net gain on sale-leaseback transaction and acquisition and integration related expenses associated with completed and pending acquisitions.
- (2) Presented on a tax-equivalent basis, which reflects federal and state tax benefits.
- (3) Annualized based on the actual number of days for each period presented.

## CRITICAL ACCOUNTING ESTIMATES

Our accounting and reporting policies conform to GAAP and general practices within the banking industry. Application of GAAP requires management to make estimates, assumptions, and judgments based on information available as of the date of the financial statements that affect the amounts reported in the financial statements and accompanying notes. Critical accounting estimates are those estimates that management believes are the most important to our financial position and results of operations. Future changes in information may impact these estimates, assumptions, and judgments, which may have a material effect on the amounts reported in the financial statements.

For additional information regarding critical accounting estimates, see the "Summary of Significant Accounting Policies," presented in Note 1 to the Consolidated Financial Statements and the section titled "Critical Accounting Estimates" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2015 10-K. There have been no significant changes in the Company's application of critical accounting estimates related to the allowance for credit losses, valuation of securities, income taxes, and goodwill and other intangible assets since December 31, 2015.

## PERFORMANCE OVERVIEW

### Sale-Leaseback Transaction

On September 27, 2016, the Bank completed a sale-leaseback transaction, whereby the Bank sold to Oak Street Real Estate Capital, LLC ("Oak Street") for an aggregate cash purchase price of \$150.3 million, 55 properties owned and operated by the Bank as branches. Upon the sale of the branches to Oak Street, the Bank concurrently entered into triple net lease agreements with certain affiliates of Oak Street for each of the branches sold. Subject to the right of the Bank to terminate certain of the lease agreements at the end of the eleventh year, the lease agreements have initial terms of 14 years. Each lease agreement provides the Bank with five consecutive renewal options of five years each. The sale-leaseback transaction resulted in a pre-tax gain of \$88.0 million, net of transaction related expenses, of which \$5.5 million was immediately recognized in earnings with the remaining \$82.5 million to be accreted into income on a straight-line basis over the initial terms of the leases. The Company expects the investment of proceeds and the gain from the sale of the branches, net of occupancy expenses associated with the branches, will be modestly accretive to the Company's earnings over the initial term of the lease agreements.

### Issuance of Subordinated Notes

On September 29, 2016, the Company completed the issuance and sale of \$150.0 million aggregate principal amount of its 5.875% subordinated notes due 2026. Interest on the notes is payable semiannually on March 29 and September 29, beginning on March 29, 2017. The Company received proceeds of \$146.5 million, net of underwriting discounts and commissions and issuance costs. The Company expects to use the net proceeds to repay at maturity the entire \$115.0 million aggregate principal amount outstanding of its 5.875% senior notes due November 22, 2016, plus accrued interest, and for other general corporate purposes.

### Pending Acquisition

#### Standard Bancshares, Inc.

On June 28, 2016, the Company entered into a definitive agreement to acquire Standard Bancshares, Inc. ("Standard"), the holding company for Standard Bank and Trust Company. With the acquisition, the Company would acquire 35 banking offices located primarily in the southwest Chicago suburbs and adjacent markets in northwest Indiana. As of June 30, 2016, Standard had total assets of approximately \$2.5 billion with \$2.2 billion in deposits, of which over 90% were core deposits, and \$1.8 billion in loans, of which 80% were commercial-related. The merger agreement provides for a fixed exchange ratio of 0.4350 shares of First Midwest common stock for each share of Standard common stock. As of the date of announcement, the overall transaction was valued at approximately \$365 million, including Standard's common stock, stock options, phantom stock, and stock settled rights. The acquisition is expected to close in late 2016 or early 2017, subject to customary regulatory approvals and closing conditions, as well as the approval of the Company's and Standard's shareholders.

### Completed Acquisitions

NI Bancshares Corporation

On March 8, 2016, the Company completed its acquisition of NI Bancshares Corporation ("NI Bancshares"), the holding company for The National Bank & Trust Company of Sycamore. With the acquisition, the Company obtained ten banking offices in northern Illinois, and added approximately \$400 million in loans and \$600 million in deposits. In addition, the Company acquired over \$700 million in trust assets under management, which increased the Company's trust assets under management by approximately 10%. The merger consideration totaled \$70.1 million and consisted of \$54.9 million in Company common stock and \$15.2 million in cash.

## Peoples Bancorp, Inc.

On December 3, 2015, the Company completed its acquisition of Peoples Bancorp, Inc. ("Peoples") and its wholly-owned banking subsidiary, The Peoples' Bank of Arlington Heights. With the acquisition, the Company acquired two banking offices in Arlington Heights, Illinois, and approximately \$92 million in deposits and \$54 million in loans. The merger consideration totaled \$16.8 million and was paid in cash.

Table 1

## Selected Financial Data

(Amounts in thousands, except per share data)

|                                                                                                                | Quarters Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |   |
|----------------------------------------------------------------------------------------------------------------|---------------------------------|----------|------------------------------------|-----------|---|
|                                                                                                                | 2016                            | 2015     | 2016                               | 2015      |   |
| Operating Results                                                                                              |                                 |          |                                    |           |   |
| Interest income                                                                                                | \$97,906                        | \$84,292 | \$282,004                          | \$251,317 |   |
| Interest expense                                                                                               | 6,934                           | 6,390    | 20,337                             | 17,731    |   |
| Net interest income                                                                                            | 90,972                          | 77,902   | 261,667                            | 233,586   |   |
| Provision for loan losses                                                                                      | 9,998                           | 4,100    | 25,676                             | 16,652    |   |
| Noninterest income                                                                                             | 45,853                          | 35,014   | 119,601                            | 100,103   |   |
| Noninterest expense                                                                                            | 82,888                          | 74,365   | 246,831                            | 220,473   |   |
| Income before income tax expense                                                                               | 43,939                          | 34,451   | 108,761                            | 96,564    |   |
| Income tax expense                                                                                             | 15,537                          | 11,167   | 37,130                             | 30,824    |   |
| Net income                                                                                                     | \$28,402                        | \$23,284 | \$71,631                           | \$65,740  |   |
| Weighted-average diluted common shares outstanding                                                             | 80,409                          | 77,119   | 79,602                             | 77,051    |   |
| Diluted earnings per common share                                                                              | \$0.35                          | \$0.30   | \$0.89                             | \$0.84    |   |
| Diluted earnings per common share, excluding<br>certain significant transactions <sup>(1)(2)</sup>             | \$0.32                          | \$0.30   | \$0.90                             | \$0.84    |   |
| Performance Ratios                                                                                             |                                 |          |                                    |           |   |
| Return on average common equity <sup>(3)</sup>                                                                 | 8.85                            | % 8.06   | % 7.72                             | % 7.73    | % |
| Return on average tangible common equity <sup>(2) (3)</sup>                                                    | 12.85                           | % 11.68  | % 11.27                            | % 11.28   | % |
| Return on average tangible common equity, excluding<br>certain significant transactions <sup>(1) (2) (3)</sup> | 11.69                           | % 11.68  | % 11.39                            | % 11.28   | % |
| Return on average assets <sup>(2) (3)</sup>                                                                    | 1.00                            | % 0.94   | % 0.89                             | % 0.91    | % |
| Return on average assets, excluding certain significant<br>transactions <sup>(1) (2) (3)</sup>                 | 0.91                            | % 0.93   | % 0.90                             | % 0.90    | % |
| Tax-equivalent net interest margin <sup>(2)(3)(4)</sup>                                                        | 3.60                            | % 3.58   | % 3.66                             | % 3.70    | % |
| Efficiency ratio <sup>(2)</sup>                                                                                | 60.83                           | % 63.20  | % 62.12                            | % 63.10   | % |

(1) Certain significant transactions include the net gain on sale-leaseback transaction and acquisition and integration related expenses associated with completed and pending acquisitions.

(2) These ratios are non-GAAP metrics. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

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

(4) See the section of this Item 2 titled "Earnings Performance" below for additional discussion and calculation of this metric.

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|                                                                 | As of                 |                      |                       | September 30, 2016<br>Change From |                       |
|-----------------------------------------------------------------|-----------------------|----------------------|-----------------------|-----------------------------------|-----------------------|
|                                                                 | September 30,<br>2016 | December 31,<br>2015 | September 30,<br>2015 | December 31,<br>2015              | September 30,<br>2015 |
| <b>Balance Sheet Highlights</b>                                 |                       |                      |                       |                                   |                       |
| Total assets                                                    | \$11,578,197          | \$9,732,676          | \$9,935,046           | \$1,845,521                       | \$1,643,151           |
| Total loans                                                     | 8,171,782             | 7,161,715            | 6,925,699             | 1,010,067                         | 1,246,083             |
| Total deposits                                                  | 9,106,104             | 8,097,738            | 8,296,450             | 1,008,366                         | 809,654               |
| Core deposits                                                   | 7,872,364             | 6,944,272            | 7,137,064             | 928,092                           | 735,300               |
| Loans to deposits                                               | 89.7                  | % 88.4               | % 83.5                | %                                 |                       |
| Core deposits to total deposits                                 | 86.5                  | % 85.8               | % 86.0                | %                                 |                       |
| <b>Asset Quality Highlights <sup>(1)</sup></b>                  |                       |                      |                       |                                   |                       |
| Non-accrual loans                                               | \$43,797              | \$28,875             | \$32,308              | \$14,922                          | \$11,489              |
| 90 days or more past due loans, still accruing interest         | 4,318                 | 2,883                | 4,559                 | 1,435                             | (241)                 |
| Total non-performing loans                                      | 48,115                | 31,758               | 36,867                | 16,357                            | 11,248                |
| Accruing troubled debt restructurings ("TDRs")                  | 2,368                 | 2,743                | 2,771                 | (375)                             | (403)                 |
| OREO                                                            | 27,986                | 27,349               | 31,129                | 637                               | (3,143)               |
| Total non-performing assets                                     | \$78,469              | \$61,850             | \$70,767              | \$16,619                          | \$7,702               |
| 30-89 days past due loans                                       | \$25,849              | \$16,329             | \$28,629              | \$9,520                           | \$(2,780)             |
| Non-performing assets to loans plus OREO                        | 0.96                  | % 0.86               | % 1.02                | %                                 |                       |
| <b>Allowance for Credit Losses</b>                              |                       |                      |                       |                                   |                       |
| Allowance for credit losses                                     | \$86,308              | \$74,855             | \$73,725              | \$11,453                          | \$12,583              |
| Allowance for credit losses to total loans <sup>(2)</sup>       | 1.06                  | % 1.05               | % 1.06                | %                                 |                       |
| Allowance for credit losses to non-accrual loans <sup>(1)</sup> | 194.11                | % 253.57             | % 215.45              | %                                 |                       |

These amounts and ratios exclude loans and OREO acquired through the Company's Federal Deposit Insurance Corporation ("FDIC")-assisted transactions subject to loss sharing agreements ("covered loans" and "covered OREO"). For a discussion of covered loans, see Note 1 and Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q. Asset quality, including covered loans and covered OREO, is included in the section of this Item 2 titled "Loan Portfolio and Credit Quality."

This ratio includes acquired loans that are recorded at fair value through an acquisition adjustment, which incorporates credit risk as of the acquisition date with no allowance for credit losses being established at that time.

<sup>(2)</sup> As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses is established as necessary to reflect credit deterioration. A discussion of the allowance for acquired loan losses and the related acquisition adjustment is presented in the section titled "Loan Portfolio and Credit Quality."

Net income for the third quarter and first nine months of 2016 were \$28.4 million, or \$0.35 per share, and \$71.6 million, or \$0.89 per share, respectively. Performance for the third quarter and first nine months of 2016 were impacted by certain significant transactions, which include acquisition and integration related pre-tax expenses of \$1.2 million and \$6.8 million, respectively, and the pre-tax net gain of \$5.5 million on the sale-leaseback transaction, which was realized during the third quarter of 2016. Excluding these transactions, earnings per share was \$0.32 for the third quarter of 2016 compared to \$0.30 for the third quarter of 2015 and \$0.90 for the first nine months of 2016 compared to \$0.84 for the same period in 2015. The increase in net income and earnings per share, excluding certain significant transactions, reflects the benefit of acquisitions completed in the fourth quarter of 2015 and first quarter of 2016, loan growth, growth in fee-based revenues, and controlled expenses. A discussion of net interest income,

noninterest income, and noninterest expense is presented in the following section titled "Earnings Performance." Total loans of \$8.2 billion grew by \$1.0 billion, or 14.1%, from December 31, 2015. This growth was driven by strong sales production from the corporate and consumer lending teams and the acquisition of NI Bancshares, which represents \$299.7 million of loans at September 30, 2016.

Non-performing assets to loans plus OREO, excluding covered loans and covered OREO, was 0.96% at September 30, 2016, compared to 0.86% at December 31, 2015 and down from 1.02% at September 30, 2015. See the "Loan Portfolio and Credit Quality" section below for further discussion of our loan portfolio, non-accrual loans, 90 days or more past due loans, TDRs, and OREO.

## EARNINGS PERFORMANCE

### Net Interest Income

Net interest income is our primary source of revenue and is impacted by interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities. The accounting policies for the recognition of interest income on loans, securities, and other interest-earning assets are presented in Note 1 to the Consolidated Financial Statements of our 2015 10-K.

Our accounting and reporting policies conform to GAAP and general practices within the banking industry. For purposes of this discussion, both net interest income and net interest margin have been adjusted to a fully tax-equivalent basis to more appropriately compare the returns on certain tax-exempt loans and securities to those on taxable interest-earning assets. The effect of this adjustment is at the bottom of Tables 2 and 3. Although we believe that these non-GAAP financial measures enhance investors' understanding of our business and performance, they should not be considered an alternative to GAAP. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the quarters ended September 30, 2016 and 2015, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 2 also details differences in interest income and expense from the prior quarter and the extent to which any changes are attributable to volume and rate fluctuations. Table 3 presents this same information for the nine months ended September 30, 2016 and 2015.

Table 2

## Net Interest Income and Margin Analysis

(Dollar amounts in thousands)

|                                                                        | Quarters Ended September 30,<br>2016 |          |                       | 2015               |          |                       | Attribution of Change<br>in Net Interest Income |                |          |
|------------------------------------------------------------------------|--------------------------------------|----------|-----------------------|--------------------|----------|-----------------------|-------------------------------------------------|----------------|----------|
|                                                                        | Average<br>Balance                   | Interest | Yield/<br>Rate<br>(%) | Average<br>Balance | Interest | Yield/<br>Rate<br>(%) | Volume                                          | Yield/<br>Rate | Total    |
| Assets                                                                 |                                      |          |                       |                    |          |                       |                                                 |                |          |
| Other interest-earning assets                                          | \$282,101                            | \$472    | 0.67                  | \$820,318          | \$645    | 0.31                  | \$(900 )                                        | \$727          | \$(173 ) |
| Securities <sup>(1)</sup>                                              | 1,896,195                            | 10,752   | 2.27                  | 1,194,711          | 9,559    | 3.20                  | 1,444                                           | (251 )         | 1,193    |
| Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock | 51,451                               | 261      | 2.03                  | 38,748             | 369      | 3.81                  | 256                                             | (364 )         | (108 )   |
| Loans <sup>(1)(2)(3)</sup>                                             | 8,067,900                            | 88,500   | 4.36                  | 6,887,611          | 76,328   | 4.40                  | 12,261                                          | (89 )          | 12,172   |
| Total interest-earning assets <sup>(1)(2)</sup>                        | 10,297,647                           | 99,985   | 3.87                  | 8,941,388          | 86,901   | 3.86                  | 13,061                                          | 23             | 13,084   |
| Cash and due from banks                                                | 150,467                              |          |                       | 132,504            |          |                       |                                                 |                |          |
| Allowance for loan losses                                              | (84,088 )                            |          |                       | (73,928 )          |          |                       |                                                 |                |          |
| Other assets                                                           | 958,299                              |          |                       | 875,668            |          |                       |                                                 |                |          |
| Total assets                                                           | \$11,322,325                         |          |                       | \$9,875,632        |          |                       |                                                 |                |          |
| Liabilities and Stockholders' Equity                                   |                                      |          |                       |                    |          |                       |                                                 |                |          |
| Savings deposits                                                       | \$1,655,604                          | 298      | 0.07                  | \$1,471,003        | 269      | 0.07                  | 29                                              | —              | 29       |
| NOW accounts                                                           | 1,754,330                            | 338      | 0.08                  | 1,405,371          | 172      | 0.05                  | 50                                              | 116            | 166      |
| Money market deposits                                                  | 1,680,886                            | 450      | 0.11                  | 1,589,582          | 490      | 0.12                  | 31                                              | (71 )          | (40 )    |
| Time deposits                                                          | 1,248,425                            | 1,434    | 0.46                  | 1,173,127          | 1,398    | 0.47                  | 81                                              | (45 )          | 36       |
| Borrowed funds                                                         | 605,177                              | 1,782    | 1.17                  | 168,807            | 928      | 2.18                  | 1,041                                           | (187 )         | 854      |
| Senior and subordinated debt                                           | 166,101                              | 2,632    | 6.30                  | 201,083            | 3,133    | 6.18                  | (555 )                                          | 54             | (501 )   |
| Total interest-bearing liabilities                                     | 7,110,523                            | 6,934    | 0.39                  | 6,008,973          | 6,390    | 0.42                  | 677                                             | (133 )         | 544      |
| Demand deposits                                                        | 2,806,851                            |          |                       | 2,601,442          |          |                       |                                                 |                |          |
| Total funding sources                                                  | 9,917,374                            |          |                       | 8,610,415          |          |                       |                                                 |                |          |
| Other liabilities                                                      | 143,249                              |          |                       | 130,250            |          |                       |                                                 |                |          |
| Stockholders' equity - common                                          | 1,261,702                            |          |                       | 1,134,967          |          |                       |                                                 |                |          |
| Total liabilities and stockholders' equity                             | \$11,322,325                         |          |                       | \$9,875,632        |          |                       |                                                 |                |          |
| Tax-equivalent net interest income/margin <sup>(1)</sup>               |                                      | 93,051   | 3.60                  |                    | 80,511   | 3.58                  | \$12,384                                        | \$156          | \$12,540 |
| Tax-equivalent adjustment                                              |                                      | (2,079 ) |                       |                    | (2,609 ) |                       |                                                 |                |          |
| Net interest income (GAAP)                                             |                                      | \$90,972 |                       |                    | \$77,902 |                       |                                                 |                |          |

- Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%. For
- (1) a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."
  - (2) Non-accrual loans, including covered loans, which totaled \$44.3 million as of September 30, 2016 and \$33.6 million as of September 30, 2015, are included in loans for purposes of this analysis. Additional detail regarding non-accrual loans is presented in the following section of this Item 2 titled "Non-performing Assets and Corporate Performing Potential Problem Loans."
  - (3) This item includes covered loans and the related FDIC indemnification asset. For additional discussion, see Note 1 and Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

Table 3

## Net Interest Income and Margin Analysis

(Dollar amounts in thousands)

|                                                          | Nine Months Ended September 30, |           |                 |                 |           |                 | Attribution of Change  |             |          |
|----------------------------------------------------------|---------------------------------|-----------|-----------------|-----------------|-----------|-----------------|------------------------|-------------|----------|
|                                                          | 2016                            |           | 2015            |                 |           |                 | in Net Interest Income |             |          |
|                                                          | Average Balance                 | Interest  | Yield/ Rate (%) | Average Balance | Interest  | Yield/ Rate (%) | Volume                 | Yield/ Rate | Total    |
| Assets                                                   |                                 |           |                 |                 |           |                 |                        |             |          |
| Other interest-earning assets                            | \$274,923                       | \$1,240   | 0.60            | \$671,794       | \$1,559   | 0.31            | \$(1,790 )             | \$1,471     | \$(319 ) |
| Securities <sup>(1)</sup>                                | 1,705,180                       | 31,386    | 2.45            | 1,196,695       | 29,762    | 3.32            | 4,116                  | (2,492 )    | 1,624    |
| FHLB and FRB stock                                       | 44,620                          | 620       | 1.85            | 38,442          | 1,094     | 3.79            | 217                    | (691 )      | (474 )   |
| Loans <sup>(1)(2)(3)</sup>                               | 7,767,015                       | 255,337   | 4.39            | 6,815,136       | 227,087   | 4.46            | 31,304                 | (3,054 )    | 28,250   |
| Total interest-earning assets <sup>(1)(2)</sup>          | 9,791,738                       | 288,583   | 3.94            | 8,722,067       | 259,502   | 3.98            | 33,847                 | (4,766 )    | 29,081   |
| Cash and due from banks                                  | 146,158                         |           |                 | 130,166         |           |                 |                        |             |          |
| Allowance for loan losses                                | (80,116 )                       |           |                 | (73,761 )       |           |                 |                        |             |          |
| Other assets                                             | 926,752                         |           |                 | 883,011         |           |                 |                        |             |          |
| Total assets                                             | \$10,784,532                    |           |                 | \$9,661,483     |           |                 |                        |             |          |
| Liabilities and Stockholders' Equity                     |                                 |           |                 |                 |           |                 |                        |             |          |
| Savings deposits                                         | \$1,628,879                     | 873       | 0.07            | \$1,456,160     | 799       | 0.07            | 74                     | —           | 74       |
| NOW accounts                                             | 1,606,765                       | 783       | 0.07            | 1,383,604       | 506       | 0.05            | 158                    | 119         | 277      |
| Money market deposits                                    | 1,645,237                       | 1,369     | 0.11            | 1,556,436       | 1,449     | 0.12            | 156                    | (236 )      | (80 )    |
| Time deposits                                            | 1,236,571                       | 4,362     | 0.47            | 1,218,344       | 4,502     | 0.49            | 142                    | (282 )      | (140 )   |
| Borrowed funds                                           | 457,133                         | 4,597     | 1.34            | 145,611         | 1,064     | 0.98            | 3,193                  | 340         | 3,533    |
| Senior and subordinated debt                             | 176,691                         | 8,353     | 6.32            | 200,998         | 9,411     | 6.26            | (1,117 )               | 59          | (1,058 ) |
| Total interest-bearing liabilities                       | 6,751,276                       | 20,337    | 0.40            | 5,961,153       | 17,731    | 0.40            | 2,606                  | —           | 2,606    |
| Demand deposits                                          | 2,681,021                       |           |                 | 2,451,597       |           |                 |                        |             |          |
| Total funding sources                                    | 9,432,297                       |           |                 | 8,412,750       |           |                 |                        |             |          |
| Other liabilities                                        | 126,839                         |           |                 | 124,240         |           |                 |                        |             |          |
| Stockholders' equity - common                            | 1,225,396                       |           |                 | 1,124,493       |           |                 |                        |             |          |
| Total liabilities and stockholders' equity               | \$10,784,532                    |           |                 | \$9,661,483     |           |                 |                        |             |          |
| Tax-equivalent net interest income/margin <sup>(1)</sup> |                                 | 268,246   | 3.66            |                 | 241,771   | 3.70            | \$31,241               | \$(4,766)   | \$26,475 |
| Tax-equivalent adjustment                                |                                 | (6,579 )  |                 |                 | (8,185 )  |                 |                        |             |          |
| Net interest income (GAAP)                               |                                 | \$261,667 |                 |                 | \$233,586 |                 |                        |             |          |

<sup>(1)</sup> Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial

Information and Reconciliations."

(2) Non-accrual loans, including covered loans, which totaled \$44.3 million as of September 30, 2016 and \$33.6 million as of September 30, 2015, are included in loans for purposes of this analysis. Additional detail regarding non-accrual loans is presented in the following section of this Item 2 titled "Non-performing Assets and Corporate Performing Potential Problem Loans."

(3) This item includes covered loans and the related FDIC indemnification asset. For additional discussion, see Note 1 and Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

Total average interest-earning assets for the third quarter and first nine months of 2016 increased by \$1.4 billion and \$1.1 billion, respectively, compared to the same periods in 2015. The increase compared to both prior periods presented was driven primarily by organic loan growth and security purchases, as well as \$528.8 million of interest-earning assets acquired in the NI Bancshares transaction late in the first quarter of 2016, and \$96.2 million of interest-earning assets acquired in the Peoples transaction late in the fourth quarter of 2015.

For the third quarter and first nine months of 2016, total average funding sources increased by \$1.3 billion and \$1.0 billion, respectively, compared to the same periods in 2015. Compared to both prior periods, the increase resulted primarily from deposits acquired in the NI Bancshares and Peoples transactions and the addition of \$515.1 million of FHLB advances during the first nine months of 2016.

Tax-equivalent net interest margin for the third quarter and first nine months of 2016 was 3.60% and 3.66%, respectively, increasing 2 basis points from the third quarter of 2015 and decreasing 4 basis points from the first nine months of 2015. Compared to the third quarter of 2015, the increase in tax-equivalent net interest margin was driven by higher accretion on acquired loans and the maturity of \$38.5 million of subordinated notes early in the second quarter of 2016, which were partially offset by the continued shift in the loan mix to floating rate loans. The decrease in net interest margin compared to the first nine months of 2015 was due primarily to the continued shift in the loan mix to floating rate loans and lower covered loan income, partially offset by the reinvestment of other interest-earning assets into higher yielding securities and loans.

Net interest income increased by 16.8% and 12.0% from the third quarter and first nine months of 2015, respectively. Compared to both prior periods, the increase in net interest income was driven primarily by organic loan growth and the acquisition of interest-earning assets from the NI Bancshares and Peoples transactions.

Acquired loan accretion contributed \$3.8 million and \$9.1 million to net interest income for the third quarter and first nine months of 2016, respectively, and \$1.8 million and \$7.7 million for the same periods in 2015.

#### Noninterest Income

A summary of noninterest income for the quarters and nine months ended September 30, 2016 and 2015 is presented in the following table.

Table 4

#### Noninterest Income Analysis

(Dollar amounts in thousands)

|                                              | Quarters Ended<br>September 30, |          |             | Nine Months<br>Ended<br>September 30, |           |             |
|----------------------------------------------|---------------------------------|----------|-------------|---------------------------------------|-----------|-------------|
|                                              | 2016                            | 2015     | %<br>Change | 2016                                  | 2015      | %<br>Change |
| Service charges on deposit accounts          | \$10,708                        | \$10,519 | 1.8         | \$30,350                              | \$29,676  | 2.3         |
| Wealth management fees                       | 8,495                           | 7,222    | 17.6        | 24,696                                | 21,669    | 14.0        |
| Card-based fees <sup>(1)</sup>               | 7,332                           | 6,868    | 6.8         | 21,642                                | 20,223    | 7.0         |
| Merchant servicing fees <sup>(2)</sup>       | 3,319                           | 3,207    | 3.5         | 9,517                                 | 8,810     | 8.0         |
| Mortgage banking income                      | 3,394                           | 1,402    | 142.1       | 6,625                                 | 3,964     | 67.1        |
| Other service charges, commissions, and fees | 5,218                           | 3,900    | 33.8        | 15,164                                | 8,990     | 68.7        |
| Total fee-based revenues                     | 38,466                          | 33,118   | 16.1        | 107,994                               | 93,332    | 15.7        |
| Net gain on sale-leaseback transaction       | 5,509                           | —        | 100.0       | 5,509                                 | —         | 100.0       |
| Net securities gains <sup>(3)</sup>          | 187                             | 524      | (64.3 )     | 1,097                                 | 1,551     | (29.3 )     |
| Other income <sup>(4)</sup>                  | 1,691                           | 1,372    | 23.3        | 5,001                                 | 5,220     | (4.2 )      |
| Total noninterest income                     | \$45,853                        | \$35,014 | 31.0        | \$119,601                             | \$100,103 | 19.5        |

Card-based fees consist of debit and credit card interchange fees for processing transactions as well as various fees

<sup>(1)</sup> on both customer and non-customer automated teller machine ("ATM") and point-of-sale transactions processed through the ATM and point-of-sale networks.

Merchant servicing fees are included in other service charges, commissions, and fees in the Condensed

<sup>(2)</sup> Consolidated Statements of Income. The related merchant card expense is included in noninterest expense for each period presented.

<sup>(3)</sup> For a discussion of this item, see the section of this Item 2 titled "Investment Portfolio Management."

<sup>(4)</sup> Other income consists of various items, including BOLI income, safe deposit box rentals, miscellaneous recoveries, and gains on the sales of various assets.

Total noninterest income increased by 31.0% and 19.5% from the third quarter and first nine months of 2015, respectively. Total fee-based revenues for the third quarter and first nine months of 2016 grew by 16.1% and 15.7%, respectively, from the same periods in 2015, reflecting growth across all categories.

Compared to the third quarter and first nine months of 2015, approximately half and one third, respectively, of the increases in fee-based revenues for each period were driven by services provided to customers acquired in the NI Bancshares and Peoples transactions. In addition, card-based fees increased as a result of higher transaction volumes and other service charges, commissions, and fees grew due to sales of capital market products to commercial clients. Gains realized on the sale of equipment financing contracts originated by First Midwest Equipment Finance also contributed to the increase compared to the first nine months of 2015.

Mortgage banking income resulted from sales of \$107.3 million and \$198.0 million of 1-4 family mortgage loans in the secondary market during the third quarter and first nine months of 2016 compared to \$42.2 million and \$128.6 million for the same periods in 2015.

During the third quarter of 2016, the Company completed a sale-leaseback transaction of 55 branches that resulted in a pre-tax gain of \$88.0 million, net of transaction related expenses, of which \$5.5 million was immediately recognized and the remaining \$82.5 million was deferred and will be accreted against lease expense over the initial terms of the leases.

#### Noninterest Expense

A summary of noninterest expense for the quarters and nine months ended September 30, 2016 and 2015 is presented in the following table.

Table 5

#### Noninterest Expense Analysis

(Dollar amounts in thousands)

|                                              | Quarters Ended<br>September 30, |          |             | Nine Months Ended<br>September 30, |           |             |
|----------------------------------------------|---------------------------------|----------|-------------|------------------------------------|-----------|-------------|
|                                              | 2016                            | 2015     | %<br>Change | 2016                               | 2015      | %<br>Change |
| Salaries and employee benefits:              |                                 |          |             |                                    |           |             |
| Salaries and wages                           | \$37,872                        | \$33,554 | 12.9        | \$112,084                          | \$99,444  | 12.7        |
| Retirement and other employee benefits       | 8,500                           | 7,807    | 8.9         | 25,149                             | 22,927    | 9.7         |
| Total salaries and employee benefits         | 46,372                          | 41,361   | 12.1        | 137,233                            | 122,371   | 12.1        |
| Net occupancy and equipment expense          | 10,755                          | 9,406    | 14.3        | 30,380                             | 29,464    | 3.1         |
| Professional services                        | 6,772                           | 6,172    | 9.7         | 17,984                             | 16,603    | 8.3         |
| Technology and related costs                 | 3,881                           | 3,673    | 5.7         | 11,251                             | 10,887    | 3.3         |
| Merchant card expense <sup>(1)(2)</sup>      | 2,857                           | 2,722    | 5.0         | 8,179                              | 7,391     | 10.7        |
| Advertising and promotions <sup>(1)</sup>    | 1,941                           | 1,828    | 6.2         | 5,457                              | 5,395     | 1.1         |
| Cardholder expenses <sup>(1)</sup>           | 1,515                           | 1,354    | 11.9        | 4,386                              | 3,914     | 12.1        |
| Net OREO expense                             | 313                             | 1,290    | (75.7 )     | 2,099                              | 4,355     | (51.8 )     |
| Other expenses <sup>(1)</sup>                | 7,310                           | 6,559    | 11.4        | 23,052                             | 20,093    | 14.7        |
| Acquisition and integration related expenses | 1,172                           | —        | 100.0       | 6,810                              | —         | 100.0       |
| Total noninterest expense                    | \$82,888                        | \$74,365 | 11.5        | \$246,831                          | \$220,473 | 12.0        |
| Efficiency ratio <sup>(3)</sup>              | 61                              | % 63     | %           | 62                                 | % 63      | %           |

<sup>(1)</sup> These line items are included in other expense in the Condensed Consolidated Statements of Income.

<sup>(2)</sup> The related merchant servicing fees are included in noninterest income for each period presented.

<sup>(3)</sup> The efficiency ratio is a non-GAAP metric. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

The efficiency ratio improved to 61% and 62% for the third quarter and first nine months of 2016, respectively, from 63% for both of the same periods in 2015. Excluding acquisition and integration related expenses, total noninterest expense increased by 9.9% and 8.9% compared to the third quarter and first nine months of 2015, respectively.

Operating costs associated with the NI Bancshares and Peoples transactions accounted for slightly more than half of the increase from both periods. In addition, compensation costs associated with merit increases and investments in additional talent and systems to support organizational growth contributed to the rise compared to both prior periods. Net OREO expense decreased compared to both prior periods due to reduced valuation adjustments and lower operating expenses. Compared to the first nine months of 2015, these reductions were partially offset by net losses on sales of OREO properties realized during the first nine months of 2016, compared to net gains on sales of OREO properties realized during the same periods in 2015.



## Income Taxes

Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes for the quarters and nine months ended September 30, 2016 and 2015 is detailed in the following table.

Table 6

## Income Tax Expense Analysis

(Dollar amounts in thousands)

|                                  | Quarters Ended |          | Nine Months Ended |          |
|----------------------------------|----------------|----------|-------------------|----------|
|                                  | September 30,  |          | September 30,     |          |
|                                  | 2016           | 2015     | 2016              | 2015     |
| Income before income tax expense | \$43,939       | \$34,451 | \$108,761         | \$96,564 |
| Income tax expense:              |                |          |                   |          |
| Federal income tax expense       | \$12,665       | \$9,036  | \$30,498          | \$24,956 |
| State income tax expense         | 2,872          | 2,131    | 6,632             | 5,868    |
| Total income tax expense         | \$15,537       | \$11,167 | \$37,130          | \$30,824 |
| Effective income tax rate        | 35.4           | % 32.4   | % 34.1            | % 31.9   |

Federal income tax expense and the related effective income tax rate are influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax income and state income taxes. State income tax expense and the related effective tax rate are driven by the amount of state tax-exempt income in relation to pre-tax income and state tax rules related to consolidated/combined reporting and sourcing of income and expense. The increase in total income tax expense and effective tax rate for the quarter and nine months ended September 30, 2016 compared to the same periods in 2015 resulted primarily from higher levels of income subject to tax at statutory rates and an increase in the state effective tax rate.

Our accounting policies for the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 15 to the Consolidated Financial Statements of our 2015 10-K.

## FINANCIAL CONDITION

## Investment Portfolio Management

Securities that we have the intent and ability to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premiums and accretion of discounts. Trading securities are carried at fair value and consist of securities held in a grantor trust for our nonqualified deferred compensation plan and are not considered part of the traditional investment portfolio. All other securities are classified as securities available-for-sale and are carried at fair value with unrealized gains and losses, net of related deferred income taxes, recorded in stockholders' equity as a separate component of accumulated other comprehensive loss.

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

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

Table 7

## Investment Portfolio

(Dollar amounts in thousands)

|                                                          | As of September 30, 2016 |            |             |       | As of December 31, 2015 |             |             |       |
|----------------------------------------------------------|--------------------------|------------|-------------|-------|-------------------------|-------------|-------------|-------|
|                                                          | Amortized                | Net        | Fair Value  | % of  | Amortized               | Net         | Fair Value  | % of  |
|                                                          | Cost                     | Unrealized |             | Total | Cost                    | Unrealized  |             | Total |
|                                                          |                          | Gains      |             |       |                         | Gains       |             |       |
|                                                          |                          | (Losses)   |             |       |                         | (Losses)    |             |       |
| <b>Securities Available-for-Sale</b>                     |                          |            |             |       |                         |             |             |       |
| U.S. treasury securities                                 | \$43,593                 | \$ 204     | \$43,797    | 2.2   | \$17,000                | \$(20 )     | \$16,980    | 1.3   |
| U.S. agency securities                                   | 190,821                  | 2,110      | 192,931     | 9.8   | 86,461                  | 182         | 86,643      | 6.6   |
| <b>Collateralized mortgage obligations ("CMOs")</b>      |                          |            |             |       |                         |             |             |       |
| Other mortgage-backed securities ("MBSs")                | 319,964                  | 4,520      | 324,484     | 16.5  | 152,481                 | 1,049       | 153,530     | 11.8  |
| Municipal securities                                     | 280,884                  | 5,829      | 286,713     | 14.6  | 321,437                 | 6,133       | 327,570     | 25.1  |
| Trust-preferred collateralized debt obligations ("CDOs") | 47,893                   | (15,994 )  | 31,899      | 1.6   | 48,287                  | (16,758 )   | 31,529      | 2.4   |
| Equity securities                                        | 3,075                    | (128 )     | 2,947       | 0.2   | 3,282                   | (83 )       | 3,199       | 0.2   |
| Total securities available-for-sale                      | \$1,960,966              | \$ 3,064   | \$1,964,030 | 100.0 | \$1,324,146             | \$(17,510 ) | \$1,306,636 | 100.0 |
| <b>Securities Held-to-Maturity</b>                       |                          |            |             |       |                         |             |             |       |
| Municipal securities                                     | \$20,337                 | \$(2,227 ) | \$18,110    |       | \$23,152                | \$(3,098 )  | \$20,054    |       |

## Portfolio Composition

As of September 30, 2016, our securities available-for-sale portfolio totaled \$2.0 billion, rising \$657.4 million, or 50.3%, from December 31, 2015. The increase from December 31, 2015 reflects securities purchases of \$824.9 million, consisting primarily of CMOs and MBSs, and \$125.8 million in securities acquired in the NI Bancshares transaction, which were partially offset by sales of \$41.7 million and maturities, calls, and prepayments of \$263.2 million. For additional detail regarding sales of securities see the "Securities Gains and Losses" section below.

Approximately 98% of our securities available-for-sale portfolio is comprised of U.S. treasury securities, U.S. agency securities, CMOs, MBSs, and municipal securities. The remainder consists of eleven CDOs with a fair value of \$31.9 million and miscellaneous other securities with a fair value of \$2.9 million.

Investments in municipal securities comprised \$286.7 million, or 14.6%, of the total securities available-for-sale portfolio at September 30, 2016. The majority consists of general obligations of local municipalities in various states. Our municipal securities portfolio has historically experienced very low default rates and provides a predictable cash flow.

Table 8

## Securities Effective Duration Analysis

|                                      | As of September 30, 2016     |                     |                             | As of December 31, 2015      |                     |                             |
|--------------------------------------|------------------------------|---------------------|-----------------------------|------------------------------|---------------------|-----------------------------|
|                                      | Effective<br>Duration<br>(1) | Average<br>Life (2) | Yield to<br>Maturity<br>(3) | Effective<br>Duration<br>(1) | Average<br>Life (2) | Yield to<br>Maturity<br>(3) |
| <b>Securities Available-for-Sale</b> |                              |                     |                             |                              |                     |                             |
| U.S. treasury securities             | 1.69 %                       | 1.72                | 1.02 %                      | 2.30 %                       | 2.38                | 1.16 %                      |
| U.S. agency securities               | 2.79 %                       | 3.96                | 1.58 %                      | 2.78 %                       | 3.79                | 1.78 %                      |
| CMOs                                 | 3.23 %                       | 4.27                | 1.93 %                      | 3.61 %                       | 3.99                | 1.94 %                      |
| MBSs                                 | 3.22 %                       | 5.02                | 2.18 %                      | 3.48 %                       | 4.42                | 2.60 %                      |
| Municipal securities                 | 3.85 %                       | 2.21                | 3.97 %                      | 3.08 %                       | 3.02                | 4.80 %                      |
| CDOs                                 | N/M                          | N/M                 | N/M                         | N/M                          | N/M                 | N/M                         |
| Equity securities                    | N/M                          | N/M                 | N/M                         | N/M                          | N/M                 | N/M                         |
| Total securities available-for-sale  | 3.24 %                       | 4.00                | 2.22 %                      | 3.39 %                       | 3.76                | 2.72 %                      |
| <b>Securities Held-to-Maturity</b>   |                              |                     |                             |                              |                     |                             |
| Municipal securities                 | 5.56 %                       | 7.41                | 4.02 %                      | 5.66 %                       | 7.86                | 4.44 %                      |

N/M - Not meaningful.

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

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

(3) Yields on municipal securities are reflected on a tax-equivalent basis, assuming a federal income tax rate of 35%.

#### Effective Duration

The average life and effective duration of our securities available-for-sale portfolio were 4.00 years and 3.24%, respectively, as of September 30, 2016 compared to 3.76 years and 3.39% as of December 31, 2015. The increase in average life resulted from purchases of \$824.9 million in securities during the first nine months of 2016. The securities purchases were primarily in lower-duration CMOs and MBS relative to their average lives, which drove the decrease in effective duration.

#### Realized Gains and Losses

Net securities gains for the third quarter and first nine months of 2016 were \$187,000 and \$1.1 million, respectively, on securities with carrying values of \$2.6 million and \$41.7 million for the same periods. No impairment charges were recognized during the third quarter and first nine months of 2016.

Net securities gains for the third quarter and first nine months of 2015 were \$524,000 and \$1.6 million, respectively, on securities with carrying values of \$9.4 million and \$55.7 million for the same periods. No impairment charges were recognized during the third quarter and first nine months of 2015.

#### Unrealized Gains and Losses

Unrealized gains and losses on securities available-for-sale represent the difference between the aggregate cost and fair value of the portfolio. These amounts are presented in the Consolidated Statements of Comprehensive Income and reported as a separate component of stockholders' equity in accumulated other comprehensive loss on an after-tax basis. This balance sheet component will fluctuate as current market interest rates and conditions change and affect the aggregate fair value of the portfolio. Lower market rates resulted in a shift from a \$17.5 million net unrealized loss position as of December 31, 2015 to a \$3.1 million net unrealized gain position as of September 30, 2016.



Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The net unrealized losses on these securities were \$16.0 million as of September 30, 2016 and \$16.8 million as of December 31, 2015. We do not believe the unrealized losses on the CDOs as of September 30, 2016 represent other-than-temporary securities impairment related to credit deterioration. In addition, we do not intend to sell the CDOs with unrealized losses and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Our estimation of fair values for the CDOs is described in Note 14 of "Notes to the Condensed Consolidated Financial Statements," in Part I, Item 1 of this Form 10-Q.

## LOAN PORTFOLIO AND CREDIT QUALITY

### Portfolio Composition

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 83.2% of total loans at September 30, 2016. Consistent with our emphasis on relationship banking, the majority of our corporate loans are made to our core, multi-relationship customers. The customers usually maintain deposit relationships and utilize our other banking services, such as treasury or wealth management services.

To maximize loan income within an acceptable level of risk, we have certain lending policies and procedures that management reviews on a regular basis. In addition, management receives periodic reporting related to loan production, loan quality, credit concentrations, loan delinquencies, and non-performing and corporate performing potential problem loans to monitor and mitigate current and potential risks in the portfolio.

Table 9

### Loan Portfolio

(Dollar amounts in thousands)

|                                | As of September 30, 2016 |                 |             |                     | As of December 31, 2015 |                     |             |
|--------------------------------|--------------------------|-----------------|-------------|---------------------|-------------------------|---------------------|-------------|
|                                | Legacy                   | Acquired<br>(1) | Total       | % of<br>Total Loans |                         | % of<br>Total Loans | %<br>Change |
| Commercial and industrial      | \$2,810,547              | \$38,852        | \$2,849,399 | 34.9                | \$2,524,726             | 35.3                | 12.9        |
| Agricultural                   | 387,173                  | 22,398          | 409,571     | 5.0                 | 387,440                 | 5.4                 | 5.7         |
| Commercial real estate:        |                          |                 |             |                     |                         |                     |             |
| Office, retail, and industrial | 1,466,847                | 70,191          | 1,537,038   | 18.8                | 1,395,454               | 19.5                | 10.1        |
| Multi-family                   | 594,729                  | 30,576          | 625,305     | 7.7                 | 528,324                 | 7.4                 | 18.4        |
| Construction                   | 398,383                  | 3,474           | 401,857     | 4.9                 | 216,882                 | 3.0                 | 85.3        |
| Other commercial real estate   | 900,773                  | 70,082          | 970,855     | 11.9                | 931,190                 | 13.0                | 4.3         |
| Total commercial real estate   | 3,360,732                | 174,323         | 3,535,055   | 43.3                | 3,071,850               | 42.9                | 15.1        |
| Total corporate loans          | 6,558,452                | 235,573         | 6,794,025   | 83.2                | 5,984,016               | 83.6                | 13.5        |
| Home equity                    | 720,566                  | 12,694          | 733,260     | 9.0                 | 653,468                 | 9.1                 | 12.2        |
| 1-4 family mortgages           | 371,548                  | 16,597          | 388,145     | 4.7                 | 355,854                 | 5.0                 | 9.1         |
| Installment                    | 197,234                  | 34,796          | 232,030     | 2.8                 | 137,602                 | 1.9                 | 68.6        |
| Total consumer loans           | 1,289,348                | 64,087          | 1,353,435   | 16.5                | 1,146,924               | 16.0                | 18.0        |
| Covered loans                  | 24,322                   | —               | 24,322      | 0.3                 | 30,775                  | 0.4                 | (21.0 )     |
| Total loans                    | \$7,872,122              | \$299,660       | \$8,171,782 | 100.0               | \$7,161,715             | 100.0               | 14.1        |

(1) Amounts represent loans acquired in the NI Bancshares transaction, which was completed late in the first quarter of 2016.

Total loans increased by 14.1% from December 31, 2015. Excluding loans acquired in the NI Bancshares transaction that totaled \$299.7 million as of September 30, 2016, total loans grew by 9.9% from December 31, 2015, driven primarily by strong sales production of the corporate and consumer lending teams. Overall, the mix of loans remained consistent with the prior period presented.

Growth in corporate loans reflects the strong sales performance across diversified commercial real estate categories, as well as broad-based increases within our middle market and sector-based lending business units. The rise in

construction loans compared to December 31, 2015 was driven mainly by select commercial projects for which permanent financing is expected upon their completion. Growth in consumer loans reflects the continued expansion of mortgage and installment loans, as well as the addition

of shorter-duration, floating rate home equity loans. Sales of 1-4 family mortgages on the secondary market during the first nine months of 2016 offset organic growth.

#### Commercial, Industrial, and Agricultural Loans

Commercial, industrial, and agricultural loans represent 39.9% of total loans and totaled \$3.3 billion at September 30, 2016, an increase of \$346.8 million, or 11.9%, from December 31, 2015. Loans acquired in the NI Bancshares transaction during the first quarter of 2016 contributed \$61.3 million to the increase. Our commercial and industrial loans are a diverse group of loans generally located in the Chicago metropolitan area with purposes that range from supporting seasonal working capital needs to term financing of equipment. Our commercial and industrial portfolio does not have significant direct exposure to the oil and gas industry. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory. The underlying collateral securing commercial and industrial loans may fluctuate in value due to the success of the business or economic conditions. For loans secured by accounts receivable, the availability of funds for repayment and economic conditions may impact the cash flow of the borrower. Accordingly, the underwriting for these loans is based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower and may incorporate a personal guarantee.

Agricultural loans are generally provided to meet seasonal production, equipment, and farm real estate borrowing needs of individual and corporate crop and livestock producers. Seasonal crop production loans are repaid by the liquidation of the financed crop that is typically covered by crop insurance. Equipment and real estate term loans are repaid through cash flows of the farming operation. Risks uniquely inherent in agricultural loans relate to weather conditions, agricultural product pricing, and loss of crops or livestock due to disease or other factors. Therefore, as part of the underwriting process, the Company examines projected future cash flows, financial statement stability, and the value of the underlying collateral.

#### Commercial Real Estate Loans

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. The repayment of commercial real estate loans depends on the successful operation of the property securing the loan or the business conducted on the property securing the loan. This category of loans may be more adversely affected by conditions in the real estate market. In addition, many commercial real estate loans do not fully amortize over the term of the loan, but have balloon payments due at maturity. The borrower's ability to make a balloon payment may depend on the availability of long-term financing or their ability to complete a timely sale of the underlying property. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography, and risk rating criteria.

Construction loans are generally based on estimates of costs and values associated with the completed projects and are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analyses of absorption and lease rates, and financial analyses of the developers and property owners. Sources of repayment may be permanent financing from long-term lenders, sales of developed property, or an interim loan commitment until permanent financing is obtained. Generally, construction loans have a higher risk profile than other real estate loans since repayment is impacted by real estate values, interest rate changes, governmental regulation of real property, demand and supply of alternative real estate, the availability of long-term financing, and changes in general economic conditions.

The following table presents commercial real estate loan detail as of September 30, 2016 and December 31, 2015.

Table 10

Commercial Real Estate Loans

(Dollar amounts in thousands)

|                                      | As of<br>September<br>30, 2016 | % of<br>Total | As of<br>December 31,<br>2015 | % of<br>Total |
|--------------------------------------|--------------------------------|---------------|-------------------------------|---------------|
| Office, retail, and industrial:      |                                |               |                               |               |
| Office                               | \$567,922                      | 16.1          | \$ 479,374                    | 15.6          |
| Retail                               | 425,854                        | 12.0          | 434,241                       | 14.1          |
| Industrial                           | 543,262                        | 15.5          | 481,839                       | 15.7          |
| Total office, retail, and industrial | 1,537,038                      | 43.6          | 1,395,454                     | 45.4          |
| Multi-family                         | 625,305                        | 17.7          | 528,324                       | 17.2          |
| Construction                         | 401,857                        | 11.4          | 216,882                       | 7.1           |
| Other commercial real estate:        |                                |               |                               |               |
| Multi-use properties                 | 216,527                        | 6.1           | 202,225                       | 6.6           |
| Rental properties                    | 163,756                        | 4.6           | 131,374                       | 4.3           |
| Warehouses and storage               | 135,973                        | 3.8           | 137,223                       | 4.5           |
| Restaurants                          | 64,864                         | 1.8           | 78,017                        | 2.5           |
| Recreational                         | 58,102                         | 1.6           | 57,967                        | 1.9           |
| Service stations and truck stops     | 57,618                         | 1.6           | 78,459                        | 2.6           |
| Automobile dealers                   | 54,586                         | 1.5           | 50,580                        | 1.6           |
| Hotels                               | 40,997                         | 1.2           | 46,889                        | 1.5           |
| Religious                            | 38,577                         | 1.1           | 38,307                        | 1.2           |
| Other                                | 139,855                        | 4.0           | 110,149                       | 3.6           |
| Total other commercial real estate   | 970,855                        | 27.3          | 931,190                       | 30.3          |
| Total commercial real estate         | \$3,535,055                    | 100.0         | \$ 3,071,850                  | 100.0         |

Commercial real estate loans represent 43.3% of total loans and totaled \$3.5 billion at September 30, 2016, increasing by \$463.2 million, or 15.1%, from December 31, 2015. Loans acquired in the NI Bancshares transaction during the first quarter of 2016 contributed \$174.3 million to the increase.

The mix of properties securing the loans in our commercial real estate portfolio is balanced between owner occupied and investor categories and are diverse in terms of type and geographic location, generally within the Company's markets. Approximately 30% of the commercial real estate portfolio is owner occupied as of September 30, 2016. Using outstanding loan balances non-owner occupied commercial real estate loans to total capital was 204% and construction loans to total capital was 28% as of September 30, 2016. Non-owner occupied commercial real estate is calculated in accordance with federal banking agency guidelines and includes construction, multi-family, non-farm non-residential property, and commercial real estate not secured by real estate loans.

Consumer Loans

Consumer loans represent 16.5% of total loans, and totaled \$1.4 billion at September 30, 2016, an increase of \$206.5 million, or 18.0% from December 31, 2015. Loans acquired in the NI Bancshares transaction during the first quarter of 2016 contributed \$64.1 million to the increase. Consumer loans are centrally underwritten using a credit scoring model developed by the Fair Isaac Corporation ("FICO"), which employs a risk-based system to determine the probability a borrower may default. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. The home equity category consists mainly of revolving lines of credit secured by junior liens on owner-occupied real estate. Loan-to-value ratios on home equity loans and 1-4 family mortgages are based on the current appraised value of the collateral. Repayment for these loans is dependent on the borrower's continued financial stability, and is more likely to be impacted by adverse personal circumstances.



## Non-performing Assets and Corporate Performing Potential Problem Loans

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

Table 11

## Loan Portfolio by Performing/Non-Performing Status

(Dollar amounts in thousands)

|                                | Total<br>Loans | Current     | Accruing<br>30-89<br>Days<br>Past<br>Due | 90<br>Days<br>Past<br>Due | TDRs    | Non-accrual |
|--------------------------------|----------------|-------------|------------------------------------------|---------------------------|---------|-------------|
| As of September 30, 2016       |                |             |                                          |                           |         |             |
| Commercial and industrial      | \$2,849,399    | \$2,824,346 | \$8,790                                  | \$2,154                   | \$286   | \$ 13,823   |
| Agricultural                   | 409,571        | 406,947     | 2,440                                    | —                         | —       | 184         |
| Commercial real estate:        |                |             |                                          |                           |         |             |
| Office, retail, and industrial | 1,537,038      | 1,515,353   | 3,776                                    | 82                        | 157     | 17,670      |
| Multi-family                   | 625,305        | 622,626     | 1,321                                    | 454                       | 588     | 316         |
| Construction                   | 401,857        | 400,803     | 767                                      | —                         | —       | 287         |
| Other commercial real estate   | 970,855        | 963,188     | 3,050                                    | 932                       | 324     | 3,361       |
| Total commercial real estate   | 3,535,055      | 3,501,970   | 8,914                                    | 1,468                     | 1,069   | 21,634      |
| Total corporate loans          | 6,794,025      | 6,733,263   | 20,144                                   | 3,622                     | 1,355   | 35,641      |
| Home equity                    | 733,260        | 725,614     | 2,384                                    | 165                       | 181     | 4,916       |
| 1-4 family mortgages           | 388,145        | 382,370     | 1,468                                    | 235                       | 832     | 3,240       |
| Installment                    | 232,030        | 229,881     | 1,853                                    | 296                       | —       | —           |
| Total consumer loans           | 1,353,435      | 1,337,865   | 5,705                                    | 696                       | 1,013   | 8,156       |
| Covered loans                  | 24,322         | 23,539      | 291                                      | —                         | —       | 492         |
| Total loans                    | \$8,171,782    | \$8,094,667 | \$26,140                                 | \$4,318                   | \$2,368 | \$ 44,289   |
| As of December 31, 2015        |                |             |                                          |                           |         |             |
| Commercial and industrial      | \$2,524,726    | \$2,513,648 | \$4,340                                  | \$857                     | \$294   | \$ 5,587    |
| Agricultural                   | 387,440        | 387,085     | —                                        | —                         | —       | 355         |
| Commercial real estate:        |                |             |                                          |                           |         |             |
| Office, retail, and industrial | 1,395,454      | 1,385,764   | 2,647                                    | 4                         | 164     | 6,875       |
| Multi-family                   | 528,324        | 525,841     | 541                                      | 548                       | 598     | 796         |
| Construction                   | 216,882        | 215,977     | —                                        | —                         | —       | 905         |
| Other commercial real estate   | 931,190        | 921,235     | 3,343                                    | 661                       | 340     | 5,611       |
| Total commercial real estate   | 3,071,850      | 3,048,817   | 6,531                                    | 1,213                     | 1,102   | 14,187      |
| Total corporate loans          | 5,984,016      | 5,949,550   | 10,871                                   | 2,070                     | 1,396   | 20,129      |
| Home equity                    | 653,468        | 644,996     | 2,452                                    | 216                       | 494     | 5,310       |
| 1-4 family mortgages           | 355,854        | 348,784     | 2,273                                    | 528                       | 853     | 3,416       |
| Installment                    | 137,602        | 136,780     | 733                                      | 69                        | —       | 20          |
| Total consumer loans           | 1,146,924      | 1,130,560   | 5,458                                    | 813                       | 1,347   | 8,746       |
| Covered loans                  | 30,775         | 29,670      | 376                                      | 174                       | —       | 555         |
| Total loans                    | \$7,161,715    | \$7,109,780 | \$16,705                                 | \$3,057                   | \$2,743 | \$ 29,430   |

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

Table 12

Non-Performing Assets and Past Due Loans

(Dollar amounts in thousands)

|                                                                 | As of         |          |           |              |               |   |   |
|-----------------------------------------------------------------|---------------|----------|-----------|--------------|---------------|---|---|
|                                                                 | September 30, | June 30, | March 31, | December 31, | September 30, |   |   |
|                                                                 | 2016          | 2016     | 2016      | 2015         | 2015          |   |   |
| Non-performing assets, excluding covered loans and covered OREO |               |          |           |              |               |   |   |
| Non-accrual loans                                               | \$43,797      | \$36,859 | \$31,383  | \$ 28,875    | \$ 32,308     |   |   |
| 90 days or more past due loans, still accruing interest         | 4,318         | 5,406    | 5,483     | 2,883        | 4,559         |   |   |
| Total non-performing loans                                      | 48,115        | 42,265   | 36,866    | 31,758       | 36,867        |   |   |
| Accruing TDRs                                                   | 2,368         | 2,491    | 2,702     | 2,743        | 2,771         |   |   |
| OREO                                                            | 27,986        | 29,452   | 29,238    | 27,349       | 31,129        |   |   |
| Total non-performing assets                                     | \$78,469      | \$74,208 | \$68,806  | \$ 61,850    | \$ 70,767     |   |   |
| 30-89 days past due loans                                       | \$25,849      | \$22,770 | \$29,826  | \$ 16,329    | \$ 28,629     |   |   |
| Non-accrual loans to total loans                                | 0.54          | % 0.46   | % 0.40    | % 0.40       | % 0.47        | % | % |
| Non-performing loans to total loans                             | 0.59          | % 0.53   | % 0.47    | % 0.45       | % 0.54        | % | % |
| Non-performing assets to total loans plus OREO                  | 0.96          | % 0.93   | % 0.88    | % 0.86       | % 1.02        | % | % |
| Non-performing covered loans and covered OREO <sup>(1)</sup>    |               |          |           |              |               |   |   |
| Non-accrual loans                                               | \$492         | \$453    | \$507     | \$ 555       | \$ 1,303      |   |   |
| 90 days or more past due loans, still accruing interest         | —             | —        | 352       | 174          | 1,372         |   |   |
| Total non-performing loans                                      | 492           | 453      | 859       | 729          | 2,675         |   |   |
| OREO                                                            | 63            | 538      | 411       | 433          | 906           |   |   |
| Total non-performing assets                                     | \$555         | \$991    | \$1,270   | \$ 1,162     | \$ 3,581      |   |   |
| 30-89 days past due loans                                       | \$291         | \$610    | \$316     | \$ 376       | \$ 221        |   |   |
| Total non-performing assets                                     |               |          |           |              |               |   |   |
| Non-accrual loans                                               | \$44,289      | \$37,312 | \$31,890  | \$ 29,430    | \$ 33,611     |   |   |
| 90 days or more past due loans, still accruing interest         | 4,318         | 5,406    | 5,835     | 3,057        | 5,931         |   |   |
| Total non-performing loans                                      | 48,607        | 42,718   | 37,725    | 32,487       | 39,542        |   |   |
| Accruing TDRs                                                   | 2,368         | 2,491    | 2,702     | 2,743        | 2,771         |   |   |
| OREO                                                            | 28,049        | 29,990   | 29,649    | 27,782       | 32,035        |   |   |
| Total non-performing assets                                     | \$79,024      | \$75,199 | \$70,076  | \$ 63,012    | \$ 74,348     |   |   |
| 30-89 days past due loans                                       | \$26,140      | \$23,380 | \$30,142  | \$ 16,705    | \$ 28,850     |   |   |
| Non-accrual loans to total loans                                | 0.54          | % 0.47   | % 0.41    | % 0.41       | % 0.49        | % | % |
| Non-performing loans to total loans                             | 0.59          | % 0.54   | % 0.48    | % 0.45       | % 0.57        | % | % |
| Non-performing assets to total loans plus OREO                  | 0.96          | % 0.94   | % 0.89    | % 0.88       | % 1.07        | % | % |

Due to the impact of protection provided by the loss share agreements with the FDIC that substantially mitigate the risk of loss, covered loans and covered OREO are separated in this table. Past due covered loans in the table above are determined by borrower performance compared to contractual terms, but are considered accruing loans since they continue to perform in accordance with our expectations of cash flows. For a discussion of covered loans, see Note 1 and Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

Excluding covered loans and OREO, total non-performing assets represented 0.96% of total loans and OREO at September 30, 2016, compared to 0.86% at December 31, 2015 and 1.02% at September 30, 2015.

Non-accrual loans increased by \$14.9 million from December 31, 2015, due primarily to the downgrade of four corporate loan relationships to non-accrual status during the first nine months of 2016, for which management is adequately collateralized. These downgrades were partially offset by charge-offs, payments, and transfers to OREO. TDRs

Loan modifications may be performed at the request of an individual borrower and may include reductions in interest rates, changes in payments, and extensions of maturity dates. We occasionally restructure loans at other than market rates or terms to enable the borrower to work through financial difficulties for a period of time, and these restructures remain classified as TDRs for the remaining term of the loans.

Table 13

## TDRs by Type

(Dollar amounts in thousands)

|                                   | As of              |          |                   |          |                    |          |
|-----------------------------------|--------------------|----------|-------------------|----------|--------------------|----------|
|                                   | September 30, 2016 |          | December 31, 2015 |          | September 30, 2015 |          |
|                                   | Number             | Amount   | Number            | Amount   | Number             | Amount   |
|                                   | Loans              |          | Loans             |          | Loans              |          |
| Commercial and industrial         | 3                  | \$ 436   | 5                 | \$ 1,344 | 5                  | \$ 1,360 |
| Commercial real estate:           |                    |          |                   |          |                    |          |
| Office, retail, and industrial    | 1                  | 157      | 1                 | 164      | 1                  | 166      |
| Multi-family                      | 3                  | 760      | 3                 | 784      | 3                  | 793      |
| Other commercial real estate      | 3                  | 324      | 3                 | 340      | 3                  | 346      |
| Total commercial real estate      | 7                  | 1,241    | 7                 | 1,288    | 7                  | 1,305    |
| Total corporate loans             | 10                 | 1,677    | 12                | 2,632    | 12                 | 2,665    |
| Home equity                       | 16                 | 1,060    | 17                | 1,161    | 17                 | 1,182    |
| 1-4 family mortgages              | 11                 | 1,221    | 11                | 1,274    | 11                 | 1,290    |
| Total consumer loans              | 27                 | 2,281    | 28                | 2,435    | 28                 | 2,472    |
| Total TDRs                        | 37                 | \$ 3,958 | 40                | \$ 5,067 | 40                 | \$ 5,137 |
| Accruing TDRs                     | 19                 | \$ 2,368 | 23                | \$ 2,743 | 23                 | \$ 2,771 |
| Non-accrual TDRs                  | 18                 | 1,590    | 17                | 2,324    | 17                 | 2,366    |
| Total TDRs                        | 37                 | \$ 3,958 | 40                | \$ 5,067 | 40                 | \$ 5,137 |
| Year-to-date charge-offs on TDRs  |                    | \$ 409   |                   | \$ 2,687 |                    | \$ 2,687 |
| Specific reserves related to TDRs |                    | —        |                   | 758      |                    | 769      |

TDRs totaled \$4.0 million at September 30, 2016, compared to \$5.1 million at December 31, 2015. Accruing TDRs were \$2.4 million at September 30, 2016 compared to \$2.7 million at December 31, 2015. TDRs are reported as non-accrual if they are not performing in accordance with their modified terms or they have not yet exhibited sufficient performance under their modified terms.

## Corporate Performing Potential Problem Loans

Corporate performing potential problem loans consist of special mention loans and substandard loans, excluding accruing TDRs. These loans are performing in accordance with their contractual terms, but we have concerns about the ability of the borrower to continue to comply with loan terms due to the borrower's operating or financial difficulties.

Table 14

## Corporate Performing Potential Problem Loans

(Dollar amounts in thousands)

|                                                                       | As of September 30, 2016          |                    |                      | As of December 31, 2015           |                    |                      |   |
|-----------------------------------------------------------------------|-----------------------------------|--------------------|----------------------|-----------------------------------|--------------------|----------------------|---|
|                                                                       | Special<br>Mention <sup>(1)</sup> | Substandard<br>(2) | Total <sup>(3)</sup> | Special<br>Mention <sup>(1)</sup> | Substandard<br>(2) | Total <sup>(3)</sup> |   |
| Commercial and industrial                                             | \$110,716                         | \$80,919           | \$191,635            | \$86,263                          | \$52,590           | \$138,853            |   |
| Agricultural                                                          | 17,735                            | 16,168             | 33,903               | —                                 | 5,562              | 5,562                |   |
| Commercial real estate:                                               |                                   |                    |                      |                                   |                    |                      |   |
| Office, retail, and industrial                                        | 38,515                            | 35,881             | 74,396               | 32,463                            | 35,788             | 68,251               |   |
| Multi-family                                                          | 4,001                             | 3,770              | 7,771                | 5,742                             | 3,970              | 9,712                |   |
| Construction                                                          | 69                                | 12,327             | 12,396               | 4,678                             | 9,803              | 14,481               |   |
| Other commercial real estate                                          | 12,427                            | 13,995             | 26,422               | 13,179                            | 13,654             | 26,833               |   |
| Total commercial real estate                                          | 55,012                            | 65,973             | 120,985              | 56,062                            | 63,215             | 119,277              |   |
| Total corporate performing<br>potential problem loans                 | \$183,463                         | \$163,060          | \$346,523            | \$142,325                         | \$121,367          | \$263,692            |   |
| Corporate performing potential<br>problem loans to corporate<br>loans | 2.70                              | % 2.40             | % 5.10               | % 2.38                            | % 2.03             | % 4.41               | % |

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

Loans categorized as substandard exhibit well-defined weaknesses that may jeopardize the liquidation of the debt.

(2) These loans continue to accrue interest because they are well-secured and collection of principal and interest is expected within a reasonable time.

(3) Total corporate performing potential problem loans excludes accruing TDRs of \$841,000 as of September 30, 2016 and \$862,000 as of December 31, 2015.

Corporate performing potential problem loans were 5.1% of corporate loans at September 30, 2016, higher than 4.4% at December 31, 2015, resulting from higher commercial and industrial and agricultural loans classified as special mention and substandard. The rise in commercial and industrial loans classified as special mention and substandard was due primarily to operating pressures as a result of lower sales unique to certain unrelated borrowers within various industries. Within the agricultural portfolio, cash flows that were weakened due to lower grain commodity prices drove the increase in loans classified as special mention and substandard. Management has specific monitoring and remediation plans associated with these loans.

## OREO

OREO consists of properties acquired as the result of borrower defaults on loans. OREO was \$28.0 million at September 30, 2016, increasing \$267,000, or 1.0%, from December 31, 2015. As of September 30, 2016, total OREO includes \$2.9 million acquired in the NI Bancshares transaction.

Table 15

## OREO by Type

(Dollar amounts in thousands)

|                       | As of              |                   |                    |
|-----------------------|--------------------|-------------------|--------------------|
|                       | September 30, 2016 | December 31, 2015 | September 30, 2015 |
| Single-family homes   | \$2,828            | \$ 3,965          | \$ 3,679           |
| Land parcels:         |                    |                   |                    |
| Raw land              | 1,464              | 1,464             | 2,572              |
| Commercial lots       | 8,982              | 9,207             | 10,135             |
| Single-family lots    | 1,110              | 1,719             | 1,100              |
| Total land parcels    | 11,556             | 12,390            | 13,807             |
| Multi-family units    | 48                 | 426               | 574                |
| Commercial properties | 13,617             | 11,001            | 13,975             |
| Total OREO            | \$28,049           | \$ 27,782         | \$ 32,035          |

## OREO Activity

A rollforward of OREO balances for the quarters and nine months ended September 30, 2016 and 2015 is presented in the following table.

Table 16

## OREO Rollforward

(Dollar amounts in thousands)

|                                 | Quarters Ended |          | Nine Months         |           |
|---------------------------------|----------------|----------|---------------------|-----------|
|                                 | September 30,  |          | Ended September 30, |           |
|                                 | 2016           | 2015     | 2016                | 2015      |
| Beginning balance               | \$29,990       | \$28,230 | \$27,782            | \$34,966  |
| Transfers from loans            | 219            | 7,299    | 3,894               | 11,956    |
| Acquisitions                    | —              | —        | 2,863               | —         |
| Proceeds from sales             | (2,217 )       | (3,236 ) | (6,069 )            | (13,820 ) |
| (Losses) gains on sales of OREO | (21 )          | (182 )   | (154 )              | 1,059     |
| OREO valuation adjustments      | 78             | (76 )    | (267 )              | (2,126 )  |
| Ending balance                  | \$28,049       | \$32,035 | \$28,049            | \$32,035  |

## Allowance for Credit Losses

## Methodology for the Allowance for Credit Losses

The allowance for credit losses is comprised of the allowance for loan losses and the reserve for unfunded commitments and is maintained by management at a level believed adequate to absorb estimated losses inherent in the existing loan portfolio. Determination of the allowance for credit losses is inherently subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, and consideration of current economic trends. Acquired loans are recorded at fair value, which incorporates credit risk, at the date of acquisition. No allowance for credit losses is recorded on the acquisition date. As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses is established as necessary to reflect credit deterioration. In addition, certain acquired loans that have renewed subsequent to their respective acquisition dates are no longer classified as acquired loans. Instead, they are included with our loan population that is allocated an allowance in accordance with our allowance for loan losses methodology.



While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk ratings by regulatory authorities. Management believes that the allowance for credit losses is an appropriate estimate of credit losses inherent in the loan portfolio as of September 30, 2016.

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

An allowance for credit losses is established on loans originated by the Bank, acquired loans, and covered loans. Additional discussion regarding acquired and covered loans can be found in Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q. The following table provides additional details related to acquired loans, the allowance for credit losses as related to acquired loans, and the remaining acquisition adjustment associated with acquired loans as of September 30, 2016 and December 31, 2015.

Table 17

Allowance for Credit Losses and Acquisition Adjustment  
(Dollar amounts in thousands)

|                                                    | Loans,<br>Excluding<br>Acquired<br>Loans | Acquired<br>Loans <sup>(1)</sup> | Total       |
|----------------------------------------------------|------------------------------------------|----------------------------------|-------------|
| Nine months ended September 30, 2016               |                                          |                                  |             |
| Beginning balance                                  | \$73,268                                 | \$1,587                          | \$74,855    |
| Net charge-offs                                    | (13,714 )                                | (284 )                           | (13,998 )   |
| Provision for loan losses and other expense        | 24,443                                   | 1,008                            | 25,451      |
| Ending balance                                     | \$83,997                                 | \$2,311                          | \$86,308    |
| As of September 30, 2016                           |                                          |                                  |             |
| Total loans                                        | \$7,463,572                              | \$708,210                        | \$8,171,782 |
| Remaining acquisition adjustment <sup>(2)</sup>    | N/A                                      | 24,651                           | 24,651      |
| Allowance for credit losses to total loans         | 1.13                                     | % 0.33                           | % 1.06 %    |
| Remaining acquisition adjustment to acquired loans | N/A                                      | 3.48                             | % N/A       |
| As of December 31, 2015                            |                                          |                                  |             |
| Total loans                                        | \$6,619,539                              | \$542,176                        | \$7,161,715 |
| Remaining acquisition adjustment <sup>(2)</sup>    | N/A                                      | 17,676                           | 17,676      |
| Allowance for credit losses to total loans         | 1.11                                     | % 0.29                           | % 1.05 %    |
| Remaining acquisition adjustment to acquired loans | N/A                                      | 3.26                             | % N/A       |

N/A - Not applicable.

<sup>(1)</sup> These amounts and ratios relate to the loans acquired in completed acquisitions.

The remaining acquisition adjustment consists of \$11.2 million and \$13.4 million relating to purchased credit impaired ("PCI") and non-purchased credit impaired ("Non-PCI") loans, respectively, as of September 30, 2016, and \$8.5 million and \$9.2 million relating to PCI and Non-PCI loans, respectively, as of December 31, 2015.

Excluding acquired loans, the allowance for credit losses to total loans was 1.13% as of September 30, 2016. The acquisition adjustment increased by \$7.0 million during the first nine months of 2016, driven primarily by the NI Bancshares transaction. This was partially offset by acquired loan accretion which is included in interest income, resulting in a remaining acquisition adjustment as a percent of acquired loans of 3.48%. Acquired loans that are renewed at market terms are no longer classified as acquired loans. These loans totaled \$101.5 million as of September 30, 2016 and are included in loans, excluding acquired loans, in the table above and allocated an allowance in accordance with our allowance for loan losses methodology. In addition, there is an allowance for credit losses of \$2.3 million on acquired loans.



Table 18  
 Allowance for Credit Losses  
 and Summary of Credit Loss Experience  
 (Dollar amounts in thousands)

|                                                                        | Quarters Ended     |               |                |                   |                    |
|------------------------------------------------------------------------|--------------------|---------------|----------------|-------------------|--------------------|
|                                                                        | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 |
| Change in allowance for credit losses                                  |                    |               |                |                   |                    |
| Beginning balance                                                      | \$81,505           | \$78,375      | \$74,855       | \$73,725          | \$73,279           |
| Loan charge-offs:                                                      |                    |               |                |                   |                    |
| Commercial, industrial, and agricultural                               | 1,760              | 2,026         | 1,898          | 2,361             | 1,948              |
| Office, retail, and industrial                                         | 2,193              | 1,641         | 524            | 274               | 563                |
| Multi-family                                                           | —                  | 84            | 204            | (20)              | 68                 |
| Construction                                                           | —                  | 8             | 126            | 121               | —                  |
| Other commercial real estate                                           | 509                | 879           | 1,445          | 201               | 598                |
| Consumer                                                               | 1,488              | 1,493         | 992            | 1,464             | 1,172              |
| Covered                                                                | —                  | 2             | —              | —                 | 8                  |
| Total loan charge-offs                                                 | 5,950              | 6,133         | 5,189          | 4,401             | 4,357              |
| Recoveries of loan charge-offs:                                        |                    |               |                |                   |                    |
| Commercial, industrial, and agricultural                               | 615                | 576           | 502            | 580               | 347                |
| Office, retail, and industrial                                         | 42                 | 8             | 103            | 7                 | 106                |
| Multi-family                                                           | 69                 | 1             | 25             | 7                 | 1                  |
| Construction                                                           | 9                  | 20            | 15             | 16                | 114                |
| Other commercial real estate                                           | 94                 | 69            | 151            | 91                | 506                |
| Consumer                                                               | 326                | 329           | 320            | 330               | 213                |
| Covered                                                                | —                  | —             | —              | —                 | 7                  |
| Total recoveries of loan charge-offs                                   | 1,155              | 1,003         | 1,116          | 1,031             | 1,294              |
| Net loan charge-offs                                                   | 4,795              | 5,130         | 4,073          | 3,370             | 3,063              |
| Provision for loan losses                                              | 9,998              | 8,085         | 7,593          | 4,500             | 4,100              |
| (Decrease) increase in reserve for unfunded commitments <sup>(1)</sup> | (400)              | 175           | —              | —                 | (591)              |
| Total provision for loan losses and other expense                      | 9,598              | 8,260         | 7,593          | 4,500             | 3,509              |
| Ending balance                                                         | \$86,308           | \$81,505      | \$78,375       | \$74,855          | \$73,725           |

<sup>(1)</sup> Included in other noninterest income in the Condensed Consolidated Statements of Income.

|                                                                    | Quarters Ended     |   |               |   |                |   |                   |   |                    |   |
|--------------------------------------------------------------------|--------------------|---|---------------|---|----------------|---|-------------------|---|--------------------|---|
|                                                                    | September 30, 2016 |   | June 30, 2016 |   | March 31, 2016 |   | December 31, 2015 |   | September 30, 2015 |   |
| Allowance for credit losses                                        |                    |   |               |   |                |   |                   |   |                    |   |
| Allowance for loan losses                                          | \$84,016           |   | \$78,711      |   | \$75,582       |   | \$71,992          |   | \$68,384           |   |
| Allowance for covered loan losses                                  | 1,292              |   | 1,394         |   | 1,568          |   | 1,638             |   | 4,116              |   |
| Total allowance for loan losses                                    | 85,308             |   | 80,105        |   | 77,150         |   | 73,630            |   | 72,500             |   |
| Reserve for unfunded commitments                                   | 1,000              |   | 1,400         |   | 1,225          |   | 1,225             |   | 1,225              |   |
| Total allowance for credit losses                                  | \$86,308           |   | \$81,505      |   | \$78,375       |   | \$74,855          |   | \$73,725           |   |
| Allowance for credit losses to loans <sup>(1)</sup>                | 1.06               | % | 1.02          | % | 1.00           | % | 1.05              | % | 1.06               | % |
| Allowance for credit losses to non-accrual loans <sup>(2)</sup>    | 194.11             | % | 217.34        | % | 244.74         | % | 253.57            | % | 215.45             | % |
| Allowance for credit losses to non-performing loans <sup>(2)</sup> | 176.69             | % | 189.54        | % | 208.34         | % | 230.55            | % | 188.81             | % |
| Average loans                                                      | \$8,062,035        |   | \$7,878,544   |   | \$7,341,331    |   | \$7,008,197       |   | \$6,881,128        |   |
| Net loan charge-offs to average loans, annualized                  | 0.24               | % | 0.26          | % | 0.22           | % | 0.19              | % | 0.18               | % |

This ratio includes acquired loans that are recorded at fair value through an acquisition adjustment, which incorporates credit risk as of the acquisition date with no allowance for credit losses being established at that time.

- (1) As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses is established as necessary to reflect credit deterioration. See the Allowance for Credit Losses and Acquisition Adjustment table above for further discussion of the allowance for acquired loan losses and the related acquisition adjustment.
- (2) These amounts and ratios exclude covered loans and covered OREO. For a discussion of covered loans, see Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

#### Activity in the Allowance for Credit Losses

The allowance for credit losses was \$86.3 million as of September 30, 2016, an increase of \$11.5 million from December 31, 2015, and represents 1.06% of total loans compared to 1.05% at December 31, 2015.

The provision for loan losses was \$10.0 million for the quarter ended September 30, 2016, increasing from \$4.5 million and \$4.1 million for the quarters ended December 31, 2015 and September 30, 2015, respectively. The increase compared to both prior periods resulted primarily from loan growth, higher levels of charge-offs, and the impact of establishing an allowance on acquired loans.

Total net loan charge-offs to average loans for the third quarter of 2016 was 24 basis points, or \$4.8 million, increasing from 19 basis points and 18 basis points for the fourth quarter of 2015 and third quarter of 2015, respectively.

## FUNDING AND LIQUIDITY MANAGEMENT

The following table provides a comparison of average funding sources. We believe that average balances, rather than period-end balances, are more meaningful in analyzing funding sources because of the normal fluctuations that may occur on a daily or monthly basis within funding categories.

Table 19

## Funding Sources - Average Balances

(Dollar amounts in thousands)

|                                                 | Quarters Ended        |                      |                       | September 30, 2016<br>% Change From |                       |    |
|-------------------------------------------------|-----------------------|----------------------|-----------------------|-------------------------------------|-----------------------|----|
|                                                 | September 30,<br>2016 | December 31,<br>2015 | September 30,<br>2015 | December<br>31,<br>2015             | September 30,<br>2015 |    |
| Demand deposits                                 | \$2,806,851           | \$2,560,604          | \$2,601,442           | 9.6                                 | % 7.9                 | %  |
| Savings deposits                                | 1,655,604             | 1,483,962            | 1,471,003             | 11.6                                | % 12.5                | %  |
| NOW accounts                                    | 1,754,330             | 1,411,425            | 1,405,371             | 24.3                                | % 24.8                | %  |
| Money market accounts                           | 1,680,886             | 1,576,258            | 1,589,582             | 6.6                                 | % 5.7                 | %  |
| Core deposits                                   | 7,897,671             | 7,032,249            | 7,067,398             | 12.3                                | % 11.7                | %  |
| Time deposits                                   | 1,230,286             | 1,136,766            | 1,157,005             | 8.2                                 | % 6.3                 | %  |
| Brokered deposits                               | 18,139                | 16,129               | 16,122                | 12.5                                | % 12.5                | %  |
| Total time deposits                             | 1,248,425             | 1,152,895            | 1,173,127             | 8.3                                 | % 6.4                 | %  |
| Total deposits                                  | 9,146,096             | 8,185,144            | 8,240,525             | 11.7                                | % 11.0                | %  |
| Securities sold under agreements to repurchase  | 111,699               | 122,273              | 106,307               | (8.6                                | )% 5.1                | %  |
| Federal funds purchased                         | —                     | 71                   | —                     | N/M                                 | N/M                   |    |
| FHLB advances                                   | 493,478               | 44,776               | 62,500                | N/M                                 | N/M                   |    |
| Total borrowed funds                            | 605,177               | 167,120              | 168,807               | 262.1                               | % 258.5               | %  |
| Senior and subordinated debt                    | 166,101               | 201,168              | 201,083               | (17.4                               | )% (17.4              | )% |
| Total funding sources                           | \$9,917,374           | \$8,553,432          | \$8,610,415           | 15.9                                | % 15.2                | %  |
| Average interest rate paid on borrowed funds    | 1.17                  | % 2.97               | % 2.18                | %                                   |                       |    |
| Weighted-average maturity of FHLB advances      | 0.9 months            | 2.0 months           | 2.1 months            |                                     |                       |    |
| Weighted-average interest rate of FHLB advances | 0.44                  | % 0.40               | % 0.32                | %                                   |                       |    |

N/M - Not meaningful.

Total average funding sources for the third quarter of 2016 increased by 15.9% compared to the fourth quarter of 2015 and 15.2% compared to the third quarter of 2015. The rise in average core deposits compared to the both prior periods resulted primarily from the full quarter impact of core deposits assumed in the Peoples and NI Bancshares transactions and organic growth. Compared to the fourth quarter of 2015, the increase in average core deposits was impacted by the seasonal increase in average municipal deposits. The addition in FHLB advances of \$515.1 million during 2016 contributed to the increase in average borrowed funds compared to both prior periods presented.

On April 1, 2016, \$38.5 million in 5.850% subordinated notes matured and were repaid by the Company. On September 29, 2016, the Company completed the issuance and sale of \$150.0 million aggregate principal amount of its 5.875% subordinated notes due 2026. The Company received proceeds of \$146.5 million, net of underwriting discounts and commissions and issuance costs. The Company expects to use the net proceeds to repay at maturity the entire \$115.0 million aggregate principal amount outstanding of its 5.875% senior notes due November 22, 2016, plus accrued interest, and for other general corporate purposes.



Table 20

## Borrowed Funds

(Dollar amounts in thousands)

|                                                                        | As of September 30,<br>2016 |                                  | As of September 30,<br>2015 |                                  |
|------------------------------------------------------------------------|-----------------------------|----------------------------------|-----------------------------|----------------------------------|
|                                                                        | Amount                      | Weighted-<br>Average<br>Rate (%) | Amount                      | Weighted-<br>Average<br>Rate (%) |
| At period-end:                                                         |                             |                                  |                             |                                  |
| Securities sold under agreements to repurchase                         | \$ 114,539                  | 0.06                             | \$ 107,443                  | 0.07                             |
| FHLB advances                                                          | 525,000                     | 0.44                             | 62,500                      | 0.32                             |
| Other borrowings                                                       | —                           | —                                | —                           | —                                |
| Total borrowed funds                                                   | \$ 639,539                  | 0.37                             | \$ 169,943                  | 0.16                             |
| Average for the year-to-date period:                                   |                             |                                  |                             |                                  |
| Securities sold under agreements to repurchase                         | \$ 124,244                  | 0.09                             | \$ 117,681                  | 0.03                             |
| FHLB advances                                                          | 332,460                     | 1.81                             | 27,930                      | 4.84                             |
| Other borrowings                                                       | 429                         | 3.74                             | —                           | —                                |
| Total borrowed funds                                                   | \$ 457,133                  | 1.34                             | \$ 145,611                  | 0.98                             |
| Maximum amount outstanding at the end of any day<br>during the period: |                             |                                  |                             |                                  |
| Securities sold under agreements to repurchase                         | \$ 174,266                  |                                  | \$ 142,545                  |                                  |
| FHLB advances                                                          | 625,000                     |                                  | 62,500                      |                                  |
| Other borrowings                                                       | 2,400                       |                                  | —                           |                                  |

Average borrowed funds totaled \$457.1 million for the first nine months of 2016 increasing by \$311.5 million compared to the same period in 2015. This increase was due primarily to the increase in FHLB advances of \$515.1 million during the first nine months of 2016. The weighted-average rate on FHLB advances for the third quarter of 2016 was impacted by the hedging of \$325.0 million of FHLB advances using interest rate swaps through which the Company receives variable amounts and pays fixed amounts. These interest rate swaps have a weighted-average interest rate of 2.19% as of September 30, 2016. The remaining \$200.0 million of FHLB advances have a fixed interest rate of 0.40%. For a detailed discussion of interest rate swaps, see Note 12 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

On September 27, 2016, the Company entered into a loan agreement with U.S. Bank National Association providing for a \$50.0 million short-term, unsecured revolving credit facility. Advances will bear interest at a rate equal to one-month LIBOR plus 1.75%, adjusted on a monthly basis, and the Company must pay an unused facility fee equal to 0.35% per annum on a quarterly basis. As of September 30, 2016, no amount was outstanding under the facility. Securities sold under agreements to repurchase generally mature within 1 to 90 days from the transaction date.

## MANAGEMENT OF CAPITAL

## Capital Measurements

A strong capital structure is required under applicable banking regulations and is crucial in maintaining investor confidence, accessing capital markets, and enabling us to take advantage of future growth opportunities. Our capital policy requires that the Company and the Bank maintain capital ratios in excess of the minimum regulatory guidelines. It serves as an internal discipline in analyzing business risks and internal growth opportunities and sets targeted levels of return on equity. Under regulatory capital adequacy guidelines, the Company and the Bank are subject to various capital requirements set and administered by the federal banking agencies. On January 1, 2015, the Company and the Bank became subject to the Basel III Capital rules, a new comprehensive capital framework for U.S. banking organizations published by the Federal Reserve. These rules are discussed in the "Supervision and Regulation" section in Item 1, "Business" in the Company's 2015 10-K.

The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve for the Bank to be categorized as "well-capitalized." We manage our capital levels for both the Company and the Bank to consistently maintain these measurements in excess of the Federal Reserve's

minimum levels to be considered "well-capitalized," which is the highest capital category established. All regulatory mandated ratios for characterization as "well-capitalized" were exceeded as of September 30, 2016 and December 31, 2015.

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The tangible common equity ratios presented in the table below are capital adequacy metrics used and relied on by investors and industry analysts; however, they are non-GAAP financial measures. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

Table 21

## Capital Measurements

(Dollar amounts in thousands)

|                                                            | As of              |                   |   | As of September 30, 2016                |                               |           |
|------------------------------------------------------------|--------------------|-------------------|---|-----------------------------------------|-------------------------------|-----------|
|                                                            | September 30, 2016 | December 31, 2015 |   | Regulatory Minimum For Well-Capitalized | Excess Over Required Minimums |           |
| Bank regulatory capital ratios                             |                    |                   |   |                                         |                               |           |
| Total capital to risk-weighted assets                      | 10.67 %            | 11.02 %           | % | 10.00 %                                 | 7 %                           | \$64,658  |
| Tier 1 capital to risk-weighted assets                     | 9.77 %             | 10.13 %           | % | 8.00 %                                  | 22 %                          | \$170,409 |
| Common equity Tier 1 to risk-weighted assets               | 9.77 %             | 10.13 %           | % | 6.50 %                                  | 50 %                          | \$314,469 |
| Tier 1 capital to average assets                           | 8.65 %             | 9.09 %            | % | 5.00 %                                  | 73 %                          | \$396,332 |
| Company regulatory capital ratios                          |                    |                   |   |                                         |                               |           |
| Total capital to risk-weighted assets                      | 12.25 %            | 11.15 %           | % | N/A                                     | N/A                           | N/A       |
| Tier 1 capital to risk-weighted assets                     | 9.89 %             | 10.28 %           | % | N/A                                     | N/A                           | N/A       |
| Common equity Tier 1 to risk-weighted assets               | 9.38 %             | 9.73 %            | % | N/A                                     | N/A                           | N/A       |
| Tier 1 capital to average assets                           | 8.90 %             | 9.40 %            | % | N/A                                     | N/A                           | N/A       |
| Company tangible common equity ratios <sup>(1)(2)</sup>    |                    |                   |   |                                         |                               |           |
| Tangible common equity to tangible assets                  | 8.04 %             | 8.59 %            | % | N/A                                     | N/A                           | N/A       |
| Tangible common equity, excluding AOCI, to tangible assets | 8.16 %             | 8.89 %            | % | N/A                                     | N/A                           | N/A       |
| Tangible common equity to risk-weighted assets             | 9.13 %             | 9.29 %            | % | N/A                                     | N/A                           | N/A       |

N/A - Not applicable.

<sup>(1)</sup> Ratios are not subject to formal Federal Reserve regulatory guidance.

<sup>(2)</sup> Tangible common equity ratios are non-GAAP metrics. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

The Company's total capital to risk-weighted assets was 12.25% as of September 30, 2016, increasing compared to December 31, 2016 due primarily to the issuance of \$150.0 million of subordinated notes during the third quarter of 2016. The decrease in the Company's other regulatory capital ratios from December 31, 2015 resulted from the addition of risk-weighted and average assets, including goodwill and other intangible assets, related to the NI Bancshares acquisition. These declines were partially offset by earnings and the \$54.9 million of common stock issued as consideration for the NI Bancshares acquisition.

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

## Dividends

The Board of Directors approved a quarterly cash dividend of \$0.09 per common share during the third quarter of 2016. The dividend increased from \$0.08 to \$0.09 per common share during the first quarter of 2015.

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

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is our primary market risk and is the result of repricing, basis, and option risk. A description and analysis of our interest rate risk management policies is included in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in our 2015 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 Liability Committee ("ALCO") oversees financial risk management by developing programs to measure and manage interest rate risks within authorized limits set by the Bank's Board of Directors. ALCO also approves the Bank's asset and liability management policies, oversees the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviews the Bank's interest rate sensitivity position. Management uses net interest income simulation modeling to analyze and capture exposure of earnings to changes in interest rates.

#### Net Interest Income Sensitivity

The analysis of net interest income sensitivity assesses the magnitude of changes in net interest income over a twelve-month measurement period resulting from immediate changes in interest rates using multiple rate scenarios. These scenarios include, but are not limited to, a flat or unchanged rate environment, immediate increases of 100, 200, and 300 basis points, and an immediate decrease of 100 basis points. Due to the low interest rate environment as of September 30, 2016 and December 31, 2015, management determined that an immediate decrease in interest rates greater than 100 basis points was not meaningful for this analysis.

This simulation analysis is based on expected future 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. In addition, this sensitivity analysis examines assets and liabilities at the beginning of the measurement period and does not assume any changes from growth or business plans over the next twelve months. Interest-earning assets and interest-bearing liabilities are assumed to re-price based on contractual terms over the twelve-month measurement period assuming an instantaneous parallel shift in interest rates in effect at the beginning of the measurement period. The simulation analysis also incorporates assumptions based on the historical behavior of deposit rates 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, but does provide an indication of the Company's sensitivity to changes in interest rates. 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.

Our balance sheet is asset sensitive based on repricing and maturity characteristics and simulation analysis assumptions. The Bank's current simulation analysis indicates we would benefit from rising interest rates.

Interest-earning assets consist of short and long-term products. Excluding non-accrual loans and including the impact of hedging certain corporate variable rate loans using interest rate swaps through which the Company receives fixed amounts and pays variable amounts, 49% of the loan portfolio consisted of fixed rate loans and 51% were floating rate loans as of September 30, 2016, compared to 54% and 46%, respectively, as of December 31, 2015.

As of September 30, 2016, investments, consisting of securities and interest-bearing deposits in other banks, are more heavily weighted toward fixed rate securities at 85% of the total compared to 15% for floating rate interest-bearing deposits in other banks. This compares to investments comprising 84% of fixed rate securities and 16% of floating rate interest-bearing deposits in other banks as of December 31, 2015. Fixed rate loans are most sensitive to the 3-5 year portion of the yield curve and the Bank limits its loans with maturities that extend beyond 5 years. The majority of floating rate loans are indexed to the short-term Prime or LIBOR rates. The amount of floating rate loans with active interest rate floors was \$376.9 million, or 8%, of the floating rate loan portfolio as of September 30, 2016, compared to \$374.5 million, or 10%, of the floating rate loan portfolio as of December 31, 2015. On the liability side of the balance sheet, 86% of deposits as of both September 30, 2016 and December 31, 2015 are demand deposits or interest-bearing core deposits, which either do not pay interest or the interest rates are expected to rise at a slower pace than short-term interest rates.



## Analysis of Net Interest Income Sensitivity

(Dollar amounts in thousands)

|                          | Immediate Change in Rates |          |          |            |
|--------------------------|---------------------------|----------|----------|------------|
|                          | +300                      | +200     | +100     | -100       |
| As of September 30, 2016 |                           |          |          |            |
| Dollar change            | \$56,698                  | \$35,168 | \$24,156 | \$(19,967) |
| Percent change           | 16.5 %                    | 10.2 %   | 7.0 %    | (5.8 )%    |
| As of December 31, 2015  |                           |          |          |            |
| Dollar change            | \$46,556                  | \$28,038 | \$19,420 | \$(18,421) |
| Percent change           | 14.8 %                    | 8.9 %    | 6.2 %    | (5.9 )%    |

The sensitivity of estimated net interest income to an instantaneous parallel shift in interest rates is reflected as both dollar and percentage changes. This table illustrates that an instantaneous 200 basis point rise in interest rates as of September 30, 2016 would increase net interest income by \$35.2 million, or 10.2%, over the next twelve months compared to no change in interest rates. This same measure was \$28.0 million, or 8.9%, as of December 31, 2015. Overall, interest rate risk volatility as of September 30, 2016 increased compared to December 31, 2015, driven primarily by organic growth in floating rate loans and the issuance of fixed-rate subordinated notes. These increases were partially offset by the NI Bancshares acquisition which added term securities and fixed rate loans. While net interest income is projected to decline in a decreasing interest rate environment, we believe the risk of a significant and sustained decrease in interest rates is minimal.

## ITEM 4. CONTROLS AND PROCEDURES

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

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at September 30, 2016. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect that any liabilities arising from pending legal matters will have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

## 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 2015. However, these factors may not be the only risks or uncertainties the Company faces.

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

The following table summarizes the Company's monthly Common Stock purchases during the third quarter of 2016. The Board approved a stock repurchase program on November 27, 2007. Up to 2.5 million shares of the Company's Common Stock may be repurchased, and the total remaining authorization under the program was 2,487,947 shares as of September 30, 2016. The repurchase program has no set expiration or termination date.

## Issuer Purchases of Equity Securities

|                                  | Total<br>Number<br>of<br>Shares<br>Purchased<br>(1) | Average<br>Price<br>Paid per<br>Share | Total<br>Number<br>of Shares<br>Purchased<br>as<br>Part of a<br>Publicly<br>Announced<br>Plan or<br>Program | Maximum<br>Number<br>of<br>Shares<br>that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Plan or<br>Program |
|----------------------------------|-----------------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| July 1 – July 31, 2016           | 731                                                 | \$ 18.56                              | —                                                                                                           | 2,487,947                                                                                                  |
| August 1 – August 31, 2016       | 1,363                                               | 19.01                                 | —                                                                                                           | 2,487,947                                                                                                  |
| September 1 – September 30, 2016 | 1,971                                               | 19.68                                 | —                                                                                                           | 2,487,947                                                                                                  |
| Total                            | 4,065                                               | \$ 19.25                              | —                                                                                                           |                                                                                                            |

Consists of shares acquired pursuant to the Company's share-based compensation plans and not the Company's Board-approved stock repurchase program. Under the terms of the Company's share-based compensation plans, the

- (1) Company accepts previously owned shares of Common Stock surrendered to satisfy tax withholding obligations associated with the vesting of restricted shares or by option holders upon exercise to cover the exercise price of the stock options.

ITEM 6. EXHIBITS

| Exhibit<br>Number | Description of Documents |
|-------------------|--------------------------|
|-------------------|--------------------------|

- |      |                                                                                                                                                                                                                                                                                                                                                          |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1  | Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.                                                                                                                              |
| 3.2  | Certificate of Amendment of Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2014.                                                                                                  |
| 3.3  | Amended and Restated By-Laws of the Company is incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2016.                                                                                                                                            |
| 4.1  | Satisfaction and Discharge of Indenture, dated September 9, 2016, between First Midwest Bancorp, Inc. and U.S. Bank National Association, as trustee, is incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 9, 2016.                             |
| 4.2  | Subordinated Notes Indenture, dated September 29, 2016, between First Midwest Bancorp, Inc. and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2016.                                         |
| 4.3  | First Supplemental Indenture, dated September 29, 2016, to the Subordinated Notes Indenture, between First Midwest Bancorp, Inc. and U.S. Bank National Association, as trustee, is incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2016. |
| 4.4  | Form of 5.875% Subordinated Notes due 2026 is incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2016.                                                                                                                                       |
| 10.1 | Agreement of Sale and Purchase, dated September 12, 2016, by First Midwest Bank and Oak Street Real Estate Capital, LLC, is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2016.                                                        |
| 10.2 | Form of Absolute Lease Agreement is incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2016.                                                                                                                                                |
| 10.3 | Loan Agreement, dated as of September 27, 2016, between First Midwest Bancorp, Inc. and U.S. Bank National Association, is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 3, 2016.                                                            |
| 11   | Statement re: Computation of Per Share Earnings - The computation of basic and diluted earnings per common share is included in Note 11 of the Company's Notes to the Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS" of this document.                                                                           |
| 15   | Acknowledgement 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 | 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 | 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   | Review Report of Independent Registered Public Accounting Firm.                                                                                                                                                                                                                                                                                          |
| 101  | Interactive Data File.                                                                                                                                                                                                                                                                                                                                   |

(1) Furnished, not filed.



SIGNATURES

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

First Midwest Bancorp, Inc.

/s/ PAUL F. CLEMENS

Paul F. Clemens

Executive Vice President and Chief Financial Officer\*

Date: November 4, 2016

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