FIRST MIDWEST BANCORP INC
Form 10-Q
August 08, 2017

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

FORM 10-Q
(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017

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

(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)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ].
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]
(Do not check if a smaller reporting company)	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X].

As of August 4, 2017, there were 102,737,430 shares of common stock, $.01 par value, outstanding.

FIRST MIDWEST BANCORP, INC.
FORM 10-Q
TABLE OF CONTENTS

		Page
Part I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Financial Condition	3
	Condensed Consolidated Statements of Income	4
	Consolidated Statements of Comprehensive Income	5
	Consolidated Statements of Changes in Stockholders' Equity	6
	Condensed Consolidated Statements of Cash Flows	7
	Notes to the Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	46
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	75
Item 4.	Controls and Procedures	76
Part II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	76
Item 1A.	Risk Factors	76
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	77
Item 6.	Exhibits	78

Table of Contents

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)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	$181,171	$155,055
Interest-bearing deposits in other banks	103,181	107,093
Trading securities, at fair value	19,545	17,920
Securities available-for-sale, at fair value	1,908,248	1,919,450
Securities held-to-maturity, at amortized cost	17,353	22,291
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost	66,333	59,131
Loans	10,232,159	8,254,145
Allowance for loan losses	(92,371)	(86,083)
Net loans	10,139,788	8,168,062
Other real estate owned ("OREO")	26,493	26,083
Premises, furniture, and equipment, net	135,745	82,577
Investment in bank-owned life insurance ("BOLI")	278,353	219,746
Goodwill and other intangible assets	752,413	366,876
Accrued interest receivable and other assets	340,517	278,271
Total assets	$13,969,140	$11,422,555
Liabilities		
Noninterest-bearing deposits	$3,525,905	$2,766,748
Interest-bearing deposits	7,473,815	6,061,855
Total deposits	10,999,720	8,828,603
Borrowed funds	639,333	879,008
Senior and subordinated debt	194,886	194,603
Accrued interest payable and other liabilities	298,358	263,261
Total liabilities	12,132,297	10,165,475
Stockholders' Equity		
Common stock	1,123	913
Additional paid-in capital	1,025,607	498,937
Retained earnings	1,056,072	1,016,674

Accumulated other comprehensive loss, net of tax	(36,567)	(40,910)
Treasury stock, at cost	(209,392)	(218,534)
Total stockholders' equity	1,836,843	1,257,080
Total liabilities and stockholders' equity	$13,969,140	$11,422,555

	June 30, 2017 (Unaudited)		December 31, 2016	
	Preferred Shares	Common Shares	Preferred Shares	Common Shares
Par value	$ —	$ 0.01	$—	$0.01
Shares authorized	1,000	150,000	1,000	150,000
Shares issued	—	112,345	—	91,284
Shares outstanding	—	102,741	—	81,325
Treasury shares	—	9,604	—	9,959

See accompanying unaudited notes to the condensed consolidated financial statements.

3

Table of Contents

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Income				
Loans	$114,820	$86,526	$227,185	$164,981
Investment securities	10,527	9,363	21,011	17,921
Other short-term investments	1,169	661	2,019	1,196
Total interest income	126,516	96,550	250,215	184,098
Interest Expense				
Deposits	3,729	2,482	6,938	4,867
Borrowed funds	2,099	1,499	4,293	2,815
Senior and subordinated debt	3,105	2,588	6,204	5,721
Total interest expense	8,933	6,569	17,435	13,403
Net interest income	117,583	89,981	232,780	170,695
Provision for loan losses	8,239	8,085	13,157	15,678
Net interest income after provision for loan losses	109,344	81,896	219,623	155,017
Noninterest Income				
Service charges on deposit accounts	12,153	10,169	23,518	19,642
Wealth management fees	10,525	8,642	20,185	16,201
Card-based fees	8,832	7,592	16,948	14,310
Capital market products income	2,217	2,066	3,593	5,281
Mortgage banking income	1,645	1,863	3,533	3,231
Other service charges, commissions, and fees	5,856	5,602	11,298	10,863
Net securities gains	284	23	284	910
Other income	3,433	1,865	5,537	3,310
Total noninterest income	44,945	37,822	84,896	73,748
Noninterest Expense				
Salaries and employee benefits	54,575	46,267	110,347	90,861
Net occupancy and equipment expense	12,485	9,928	24,810	19,625
Professional services	9,112	5,292	17,575	11,212
Technology and related costs	4,485	3,669	8,918	7,370
Net OREO expense	1,631	1,122	3,331	1,786
Other expenses	16,289	14,458	31,673	27,451
Acquisition and integration related expenses	1,174	618	19,739	5,638
Total noninterest expense	99,751	81,354	216,393	163,943
Income before income tax expense	54,538	38,364	88,126	64,822
Income tax expense	19,588	13,097	30,321	21,593
Net income	$34,950	$25,267	$57,805	$43,229
Per Common Share Data				
Basic earnings per common share	$0.34	$0.31	$0.57	$0.54
Diluted earnings per common share	$0.34	$0.31	$0.57	$0.54
Dividends declared per common share	$0.10	$0.09	$0.19	$0.18

Weighted-average common shares outstanding	101,743	80,383	101,081	79,182
Weighted-average diluted common shares outstanding	101,763	80,396	101,101	79,194

See accompanying unaudited notes to the condensed consolidated financial statements.

4

Table of Contents

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$34,950	$25,267	$57,805	$43,229
Securities Available-for-Sale				
Unrealized holding gains:				
Before tax	7,352	9,493	10,650	28,366
Tax effect	(2,941)	(3,795)	(4,262)	(11,341)
Net of tax	4,411	5,698	6,388	17,025
Reclassification of net gains included in net income:				
Before tax	284	23	284	910
Tax effect	(114)	(9)	(114)	(364)
Net of tax	170	14	170	546
Net unrealized holding gains	4,241	5,684	6,218	16,479
Derivative Instruments				
Unrealized holding gains (losses):				
Before tax	(905)	924	(3,125)	5,199
Tax effect	361	(370)	1,250	(2,092)
Net of tax	(544)	554	(1,875)	3,107
Total other comprehensive income	3,697	6,238	4,343	19,586
Total comprehensive income	$38,647	$31,505	$62,148	$62,815

	Accumulated Unrealized Gain (Loss) on Securities Available-for-Sale	Accumulated Unrealized Gain (Loss) on Derivative Instruments	Unrecognized Net Pension Costs	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2015	$ (10,271)	$ (2,468)	$ (15,650)	$ (28,389)
Other comprehensive income	16,479	3,107	—	19,586
Balance at June 30, 2016	$ 6,208	$ 639	$ (15,650)	$ (8,803)
Balance at December 31, 2016	$ (22,645)	$ (1,176)	$ (17,089)	$ (40,910)
Other comprehensive income	6,218	(1,875)	—	4,343
Balance at June 30, 2017	$ (16,427)	$ (3,051)	$ (17,089)	$ (36,567)

See accompanying unaudited notes to the condensed consolidated financial statements.

Table of Contents

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

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2015	77,952	$ 882	$446,672	$953,516	$ (28,389)	$(226,413)	$1,146,268
Net income	—	—	—	43,229	—	—	43,229
Other comprehensive income	—	—	—	—	19,586	—	19,586
Common dividends declared ($0.18 per common share)	—	—	—	(14,468)	—	—	(14,468)
Acquisition, net of issuance costs	3,042	31	54,865	—	—	—	54,896
Common stock issued	7	—	112	—	—	—	112
Restricted stock activity	316	—	(10,319)	—	—	7,819	(2,500)
Treasury stock issued to benefit plans	(5)	—	(8)	—	—	(63)	(71)
Share-based compensation expense	—	—	3,837	—	—	—	3,837
Balance at June 30, 2016	81,312	$ 913	$495,159	$982,277	$ (8,803)	$(218,657)	$1,250,889
Balance at December 31, 2016	81,325	$ 913	$498,937	$1,016,674	$ (40,910)	$(218,534)	$1,257,080
Net income	—	—	—	57,805	—	—	57,805
Other comprehensive income	—	—	—	—	4,343	—	4,343
Common dividends declared ($0.19 per common share)	—	—	—	(18,407)	—	—	(18,407)
Acquisitions, net of issuance costs	21,078	210	533,322	—	—	558	534,090
Common stock issued	5	—	110	—	—	—	110
Restricted stock activity	340	—	(12,588)	—	—	8,748	(3,840)
Treasury stock issued to benefit plans	(7)	—	(1)	—	—	(164)	(165)
Share-based compensation expense	—	—	5,827	—	—	—	5,827
Balance at June 30, 2017	102,741	$ 1,123	$1,025,607	$1,056,072	$ (36,567)	$(209,392)	$1,836,843

See accompanying unaudited notes to the condensed consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
Net cash provided by operating activities	$81,423	$59,238
Investing Activities		
Proceeds from maturities, repayments, and calls of securities available-for-sale	158,946	174,937
Proceeds from sales of securities available-for-sale	241,137	40,043
Purchases of securities available-for-sale	(172,451)	(532,934)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	4,948	4,360
Purchases of securities held-to-maturity	(10)	(16)
Net purchases of FHLB stock	(3,955)	(3,651)
Net increase in loans	(225,537)	(432,283)
Premiums paid on BOLI, net of proceeds from claims	(6)	1,599
Proceeds from sales of OREO	8,476	3,852
Proceeds from sales of premises, furniture, and equipment	7,056	3,213
Purchases of premises, furniture, and equipment	(6,619)	(7,536)
Net cash received from acquisitions	41,717	57,347
Net cash provided by (used in) investing activities	53,702	(691,069)
Financing Activities		
Net increase in deposit accounts	147,243	278,657
Net (decrease) increase in borrowed funds	(239,675)	282,232
Payments for the maturity of subordinated debt	—	(38,500)
Cash dividends paid	(16,485)	(14,123)
Restricted stock activity	(4,004)	(2,248)
Net cash (used in) provided by financing activities	(112,921)	506,018
Net increase (decrease) in cash and cash equivalents	22,204	(125,813)
Cash and cash equivalents at beginning of period	262,148	381,202
Cash and cash equivalents at end of period	$284,352	$255,389
Supplemental Disclosures of Cash Flow Information:		
Income taxes (refunded) paid	$(958)	$7,427
Interest paid to depositors and creditors	16,381	13,269
Dividends declared, but unpaid	9,165	7,595
Stock issued for acquisitions, net of issuance costs	534,090	54,896
Non-cash transfers of loans to OREO	1,982	3,675
Non-cash transfers of loans held-for-investment to loans held-for-sale	31,564	63,709

See accompanying unaudited notes to the condensed consolidated financial statements.

Table of Contents

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 six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.
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 2016 Annual Report on Form 10-K ("2016 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 2016 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. Certain loans that were previously classified as covered loans are no longer covered under the FDIC Agreements, and are included in acquired loans. 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

Table of Contents

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 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 generally 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.

Table of Contents

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 collateral 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

Table of Contents

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.

Table of Contents

2. RECENT ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

Contingent Put and Call Options in Debt Instruments: In March of 2016, the Financial Accounting Standards Board ("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. The adoption of this guidance on January 1, 2017 did not 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. The adoption of this guidance on January 1, 2017 did not 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. The adoption of this guidance on January 1, 2017 resulted in a $638,000 tax benefit to the provision for income tax expense for the six months ended June 30, 2017, recorded in the Company's results of operations. The Company elected to estimate forfeitures, which is consistent with the Company's practice before the adoption of this guidance.

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 but was deferred to 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. The Company's revenue is comprised of net interest income on financial assets and liabilities, which are excluded from the scope of this guidance, and noninterest income. The Company expects that this guidance will change how revenue from certain revenue streams is recognized within wealth management fees but does not expect these changes to have a significant impact on the Company's financial condition, results of operations, or liquidity. The Company continues to evaluate the impact of this guidance on other components of noninterest income. The Company will adopt this guidance on January 1, 2018, using the modified retrospective approach with a cumulative effect adjustment to opening retained earnings, if an adjustment is deemed to be significant.

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 2016, the Company entered into a sale-leaseback transaction that resulted in a deferred gain of $82.5 million, with $78.1 million remaining as of June 30, 2017. 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.

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.

Income Taxes: In October of 2016, the FASB issued guidance that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. 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.

Clarifying the Definition of a Business: In January of 2017, the FASB issued guidance that clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. Management will apply this guidance to future transactions upon adoption.

Accounting for Goodwill Impairment: In January of 2017, the FASB issued guidance that simplifies the accounting for goodwill impairment for all entities. The new guidance eliminates the requirement to calculate the implied fair value of goodwill using the second step of the quantitative two-step goodwill impairment model prescribed under current accounting guidance. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. This guidance is effective for annual and interim goodwill impairment testing dates beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

Presentation of Defined Benefit Retirement Plan Costs: In March of 2017, the FASB issued guidance that changes how employers that sponsor defined pension and or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Other components of net periodic benefit cost will be presented separately from the line item(s) that includes the service cost. 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.

Premium Amortization on Purchased Callable Debt Securities: In March of 2017, the FASB issued guidance that shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. This guidance is effective for annual and interim periods beginning after December 15, 2018. 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.

Share-based Payment Award Modifications: In May of 2017, the FASB issued guidance to reduce diversity in practice by clarifying when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. 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.

Table of Contents

3. ACQUISITIONS

Completed Acquisitions

Standard Bancshares, Inc.

On January 6, 2017, the Company completed the acquisition of Standard Bancshares, Inc. ("Standard"), the holding company for Standard Bank and Trust Company. Pursuant to the terms of the merger agreement, on January 6, 2017, each outstanding share of Standard common stock was canceled and converted into the right to receive 0.4350 of a share of Company common stock. Based on the closing trading price of shares of Company common stock on the NASDAQ on that date of $25.34, the value of the merger consideration per share of Standard common stock was $11.02. Each outstanding Standard stock settled right was redeemed for cash, and each outstanding Standard stock option and each share of Standard phantom stock was canceled and terminated in exchange for the right to receive cash, in each case, pursuant to the terms of the merger agreement. This resulted in an overall transaction value of approximately $580.7 million, which consisted of 21,057,085 shares of Company common stock and $47.1 million in cash. Goodwill of $339.3 million associated with the acquisition was recorded by the Company. All operating systems were converted during the first quarter of 2017.

During the second quarter of 2017, the Company updated the fair value adjustments associated with the Standard transaction. The adjustments were recognized in the current period in accordance with accounting guidance applicable to business combinations. The fair value adjustments, including goodwill, remain preliminary and may change as the Company continues to finalize the fair value of the assets and liabilities acquired.

Premier Asset Management LLC

On February 28, 2017, the Company completed the acquisition of Premier Asset Management LLC ("Premier"), a registered investment advisor based in Chicago, Illinois. At the close of the acquisition, the Company acquired approximately $550.0 million of trust assets under management. The fair value adjustments, including goodwill, remain preliminary and may change as the Company continues to finalize the fair value of the assets and liabilities acquired.

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 $22.2 million associated with the acquisition was recorded by the Company. The fair value adjustments associated with this transaction were finalized during the first quarter of 2017.

Table of Contents

The following table presents the assets acquired and liabilities assumed, net of the fair value adjustments, in the Standard and NI Bancshares 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)

	Standard	NI Bancshares
	January 6, 2017	March 8, 2016
Assets		
Cash and due from banks and interest-bearing deposits in other banks	$102,149	$ 72,533
Securities available-for-sale	214,107	125,843
Securities held-to-maturity	—	1,864
FHLB and FRB stock	3,247	1,549
Loans	1,769,655	396,181
OREO	8,424	2,863
Investment in BOLI	55,629	8,384
Goodwill	339,253	22,174
Other intangible assets	31,072	10,408
Premises, furniture, and equipment	60,207	19,636
Accrued interest receivable and other assets	56,036	16,453
Total assets	$2,639,779	$ 677,888
Liabilities		
Noninterest-bearing deposits	$675,354	$ 130,909
Interest-bearing deposits	1,348,520	464,012
Total deposits	2,023,874	594,921
Borrowed funds	—	2,416
Intangible liabilities	—	230
Accrued interest payable and other liabilities	35,190	10,239
Total liabilities	2,059,064	607,806
Consideration Paid		
Common stock (2017 - 21,057,085 shares issued at $25.34 per share, 2016 - 3,042,494 shares issued at $18.059 per share), net of issuance costs	533,590	54,896
Cash paid	47,125	15,186
Total consideration paid	580,715	70,082
	$2,639,779	$ 677,888

Expenses related to the acquisition and integration of the transactions above totaled $1.2 million and $19.7 million during the quarter and six months ended June 30, 2017, respectively, and are reported as a separate component within noninterest expense in the Condensed Consolidated Statements of Income. Expenses related to the acquisition and integration of the transactions above totaled $618,000 and $5.6 million during the quarter and six months ended June 30, 2016, respectively. The acquisition of Standard was considered material to the Company's financial statements; therefore, pro forma financial data and related disclosures are included in the following tables.

Table of Contents

The unaudited pro forma combined results of operations for the quarters and six months ended June 30, 2017 and 2016 are presented as if the Standard acquisition had occurred on January 1, 2016, the first day of the Company's 2016 fiscal year. The unaudited pro forma combined results of operations are presented for illustrative purposes only and do not necessarily indicate the financial results of the combined companies had the companies actually been combined at the beginning of the period presented. Fair value adjustments included in the following table are preliminary and may be revised. The unaudited pro forma results of operations also does not consider any potential impacts of potential revenue enhancements, anticipated cost savings and expense efficiencies, or asset dispositions, among other factors. Acquisition and integration related expenses directly attributable to the Standard acquisition have been excluded from the following table and are estimated to total $27.0 million, of which $1.2 million and $18.7 million was expensed during the quarter and six months ended June 30, 2017, respectively.

Unaudited Pro Forma Combined Results of Operations
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total revenues [1]	$162,528	$154,831	$319,285	$298,176
Net income	35,652	29,304	68,386	52,465

[1] Includes net interest income and total noninterest income.

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. Acquired loans are separated into (i) non-PCI and (ii) 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. PCI loans are accounted for based on estimates of expected future cash flows. 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. For additional discussion regarding significant accounting policies on acquired loans see Note 1, "Summary of Significant Accounting Policies."

The following table presents additional detail for loans acquired in the Standard transaction at the acquisition date.

Standard Acquired Loans
(Dollar amounts in thousands)

	January 6, 2017	
	PCI Loans	Non-PCI Loans
Fair value	$125,492	$1,644,163
Contractually required principal and interest payments	210,891	1,938,100
Best estimate of contractual cash flows not expected to be collected [1]	57,754	100,791
Best estimate of contractual cash flows expected to be collected	153,137	1,837,309

[1] Includes interest payments not expected to be collected due to loan prepayments as well as principal and interest payments not expected to be collected due to customer default.

Table of Contents

4. SECURITIES

The significant accounting policies related to securities are presented in Note 1, "Summary of Significant Accounting Policies" to the Consolidated Financial Statements in the Company's 2016 10-K.

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 June 30, 2017				As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale								
U.S. treasury securities	$48,568	$19	$(104)	$48,483	$48,581	$26	$(66)	$48,541
U.S. agency securities	174,757	599	(298)	175,058	183,528	519	(410)	183,637
Collateralized mortgage obligations ("CMOs")	1,017,896	1,086	(12,818)	1,006,164	1,064,130	969	(17,653)	1,047,446
Other mortgage-backed securities ("MBSs")	377,043	1,261	(4,644)	373,660	337,139	1,395	(5,879)	332,655
Municipal securities	262,906	2,446	(950)	264,402	273,319	1,245	(3,718)	270,846
Trust-preferred collateralized debt obligations ("CDOs")	47,740	279	(14,565)	33,454	47,681	261	(14,682)	33,260
Equity securities	7,106	154	(233)	7,027	3,206	147	(288)	3,065
Total securities available-for-sale	$1,936,016	$5,844	$(33,612)	$1,908,248	$1,957,584	$4,562	$(42,696)	$1,919,450
Securities Held-to-Maturity								
Municipal securities	$17,353	$—	$(2,454)	$14,899	$22,291	$—	$(4,079)	$18,212
Trading Securities				$19,545				$17,920

Remaining Contractual Maturity of Securities

(Dollar amounts in thousands)

	As of June 30, 2017			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$94,163	$91,946	$1,935	$1,661
After one year to five years	362,886	354,341	6,321	5,427
After five years to ten years	2,595	2,533	2,259	1,940
After ten years	74,327	72,577	6,838	5,871
Securities that do not have a single contractual maturity date	1,402,045	1,386,851	—	—
Total	$1,936,016	$1,908,248	$17,353	$14,899

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 $1.1 billion for both June 30, 2017 and December 31, 2016. No securities held-to-maturity were pledged as of June 30, 2017 or December 31, 2016.

Table of Contents

During the quarters and six months ended June 30, 2017 and 2016 there were no material gross trading gains (losses).
The following table presents net realized gains on securities available-for-sale for the quarters and six months ended June 30, 2017 and 2016.

Securities Available-for-Sale Gains
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gains on sales of securities:				
Gross realized gains	$284	$149	$284	$1,079
Gross realized losses	—	(126)	—	(169)
Net realized gains on sales of securities	284	23	284	910
Non-cash impairment charges:				
Other-than-temporary securities impairment ("OTTI")	—	—	—	—
Net realized gains	$284	$23	$284	$910

Securities acquired in the Standard transaction in the first quarter of 2017 were sold shortly after the acquisition date for $210.2 million, resulting in no gains or losses as the securities were recorded at fair value upon acquisition.
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 outstanding balance of OTTI previously recognized on securities available-for-sale was $23.3 million for both June 30, 2017 and December 31, 2016. During the quarters and six months ended June 30, 2017 and 2016 there were no additions or reductions to the balance of OTTI related to securities available-for-sale.

Table of Contents

The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of June 30, 2017 and December 31, 2016.
Securities in an Unrealized Loss Position
(Dollar amounts in thousands)

		Less Than 12 Months		12 Months or Longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of June 30, 2017							
Securities Available-for-Sale							
U.S. treasury securities	18	$42,442	$104	$—	$ —	$42,442	$ 104
U.S. agency securities	36	68,096	245	13,235	53	81,331	298
CMOs	186	737,140	10,196	87,787	2,622	824,927	12,818
MBSs	73	287,409	4,235	21,101	409	308,510	4,644
Municipal securities	141	58,746	868	3,623	82	62,369	950
CDOs	7	—	—	30,744	14,565	30,744	14,565
Equity securities	2	—	—	6,778	233	6,778	233
Total	463	$1,193,833	$15,648	$163,268	$ 17,964	$1,357,101	$ 33,612
Securities Held-to-Maturity							
Municipal securities	11	$—	$—	$14,899	$ 2,454	$14,899	$ 2,454
As of December 31, 2016							
Securities Available-for-Sale							
U.S. treasury securities	16	$33,505	$61	$3,995	$ 5	$37,500	$ 66
U.S. agency securities	28	62,064	364	11,814	46	73,878	410
CMOs	194	523,233	10,309	411,758	7,344	934,991	17,653
MBSs	68	221,174	4,726	77,780	1,154	298,954	5,880
Municipal securities	380	133,957	3,059	29,280	659	163,237	3,718
CDOs	7	—	—	30,592	14,682	30,592	14,682
Equity securities	2	404	201	2,319	86	2,723	287
Total	695	$974,337	$18,720	$567,538	$ 23,976	$1,541,875	$ 42,696
Securities Held-to-Maturity							
Municipal securities	14	$—	$—	$18,212	$ 4,079	$18,212	$ 4,079

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 June 30, 2017 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 June 30, 2017 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 15, "Fair Value."

19

Table of Contents

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	
	June 30, 2017	December 31, 2016
Commercial and industrial	$3,410,748	$ 2,827,658
Agricultural	433,424	389,496
Commercial real estate:		
Office, retail, and industrial	1,983,802	1,581,967
Multi-family	681,032	614,052
Construction	543,892	451,540
Other commercial real estate	1,383,937	979,528
Total commercial real estate	4,592,663	3,627,087
Total corporate loans	8,436,835	6,844,241
Home equity	865,656	747,983
1-4 family mortgages	614,818	423,922
Installment	314,850	237,999
Total consumer loans	1,795,324	1,409,904
Total loans	$10,232,159	$ 8,254,145
Deferred loan fees included in total loans	$4,375	$ 3,838
Overdrawn demand deposits included in total loans	7,946	7,836

The increase in total loans for the quarter ended June 30, 2017 includes loans acquired in the Standard acquisition. For additional disclosure related to the Standard transaction, see Note 3, "Acquisitions."
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 2016 10-K.

Table of Contents

Loan Sales
The following table presents loan sales for the quarters and six months ended June 30, 2017 and 2016.
Loan Sales
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Corporate loan sales				
Proceeds from sales	$19,569	$14,271	$34,937	$23,859
Less book value of loans sold	19,123	13,760	34,240	22,890
Net gains on corporate loan sales [1]	446	511	697	969
1-4 family mortgage loan sales				
Proceeds from sales	$60,894	$53,258	116,655	92,765
Less book value of loans sold	59,461	52,089	114,059	90,769
Net gains on 1-4 family mortgage loan sales [2]	1,433	1,169	2,596	1,996
Total net gains on loan sales	$1,879	$1,680	$3,293	$2,965

(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. For additional disclosure related to the Company's obligations resulting from the sale of certain 1-4 family mortgage loans, see Note 14, "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 the carrying amount of acquired and covered PCI and non-PCI loans as of June 30, 2017 and December 31, 2016.
Acquired and Covered Loans [1]
(Dollar amounts in thousands)

	As of June 30, 2017			As of December 31, 2016		
	PCI	Non-PCI	Total	PCI	Non-PCI	Total
Acquired loans	$161,222	$1,871,576	$2,032,798	$53,772	$613,339	$667,111
Covered loans	7,387	13,837	21,224	7,895	15,379	23,274
Total acquired and covered loans	$168,609	$1,885,413	$2,054,022	$61,667	$628,718	$690,385

(1) Included in loans in the Consolidated Statements of Condition.

The outstanding balance of PCI loans was $242.0 million and $84.8 million as of June 30, 2017 and December 31, 2016, respectively.
The increase in acquired loans compared to December 31, 2016 includes loans acquired in the Standard acquisition. For additional disclosure related to the Standard transaction, see Note 3, "Acquisitions."
Acquired non-PCI loans that are renewed are no longer classified as acquired loans. These loans totaled $233.6 million and $117.6 million as of June 30, 2017 and December 31, 2016, respectively.

21

Table of Contents

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 June 30, 2017 and December 31, 2016. Rollforwards of the carrying value of the FDIC indemnification asset for the quarters and six months ended June 30, 2017 and 2016 are presented in the following table.

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	$4,220	$5,680	$4,522	$3,903
Amortization	(302)	(302)	(604)	(582)
Change in expected reimbursements from the FDIC for changes in expected credit losses	(202)	(475)	(530)	(259)
Net payments to the FDIC	202	268	530	2,109
Ending balance	$3,918	$5,171	$3,918	$5,171

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

Changes in Accretable Yield
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balances	$41,249	$27,258	$19,385	$24,912
Additions	—	—	27,316	3,981
Accretion	(3,888)	(2,303)	(7,843)	(3,849)
Other [(1)]	2,509	127	1,012	38
Ending balance	$39,870	$25,082	$39,870	$25,082

(1) Increases represent a rise in the expected future cash flows to be collected over the remaining estimated life of the underlying portfolio.

Total accretion on acquired and covered PCI and non-PCI loans for the quarter and six months ended June 30, 2017 was $8.8 million and $20.1 million, respectively, and $4.9 million and $7.4 million for the same periods in 2016.

Table of Contents

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 June 30, 2017 and December 31, 2016. 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 [1]	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	Non-accrual [2]	90 Days or More Past Due, Still Accruing Interest
As of June 30, 2017							
Commercial and industrial	$3,399,763	$8,282	$2,703	$10,985	$3,410,748	$51,400	$ 1,550
Agricultural	432,672	379	373	752	433,424	387	—
Commercial real estate:							
Office, retail, and industrial	1,973,608	1,847	8,347	10,194	1,983,802	15,031	—
Multi-family	679,795	1,128	109	1,237	681,032	158	109
Construction	543,023	675	194	869	543,892	197	—
Other commercial real estate	1,378,534	2,363	3,040	5,403	1,383,937	3,736	64
Total commercial real estate	4,574,960	6,013	11,690	17,703	4,592,663	19,122	173
Total corporate loans	8,407,395	14,674	14,766	29,440	8,436,835	70,909	1,723
Home equity	859,362	4,083	2,211	6,294	865,656	5,126	41
1-4 family mortgages	612,669	1,149	1,000	2,149	614,818	3,161	—
Installment	312,132	2,423	295	2,718	314,850	—	295
Total consumer loans	1,784,163	7,655	3,506	11,161	1,795,324	8,287	336
Total loans	$10,191,558	$22,329	$18,272	$40,601	$10,232,159	$79,196	$ 2,059
As of December 31, 2016							
Commercial and industrial	$2,816,442	$6,426	$4,790	$11,216	$2,827,658	$29,938	$ 374
Agricultural	388,596	—	900	900	389,496	181	736
Commercial real estate:							
Office, retail, and industrial	1,564,007	5,327	12,633	17,960	1,581,967	17,277	1,129
Multi-family	612,446	858	748	1,606	614,052	311	604
Construction	450,927	332	281	613	451,540	286	—
Other commercial real estate	974,575	1,307	3,646	4,953	979,528	2,892	1,526
Total commercial real estate	3,601,955	7,824	17,308	25,132	3,627,087	20,766	3,259
Total corporate loans	6,806,993	14,250	22,998	37,248	6,844,241	50,885	4,369
Home equity	740,919	4,545	2,519	7,064	747,983	5,465	109
1-4 family mortgages	420,264	2,652	1,006	3,658	423,922	2,939	272
Installment	236,264	1,476	259	1,735	237,999	—	259

Total consumer loans	1,397,447	8,673	3,784	12,457	1,409,904	8,404	640
Total loans	$8,204,440	$22,923	$26,782	$49,705	$8,254,145	$59,289	$ 5,009

(1) PCI loans with an accretable yield are considered current.

(2) Includes PCI loans of $243,000 and $682,000 as of June 30, 2017 and December 31, 2016, respectively, which no longer have an accretable yield as estimates of expected future cash flows have decreased since the acquisition due to credit deterioration.

23

Table of Contents

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 six months ended June 30, 2017 and 2016 is presented in the table below.

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

	Commercial, Industrial, and Agricultural	Office, Retail, and Industrial	Multi-family	Construction	Other Commercial Real Estate	Consumer	Reserve for Unfunded Commitments	Total Allowance for Credit Losses
Quarter ended June 30, 2017								
Beginning balance	$ 41,786	$ 17,701	$ 2,860	$ 4,110	$ 6,922	$ 14,784	$ 1,000	$ 89,163
Charge-offs	(2,957)	—	—	(39)	(307)	(1,556)	—	(4,859)
Recoveries	400	8	6	12	79	323	—	828
Net charge-offs	(2,557)	8	6	(27)	(228)	(1,233)	—	(4,031)
Provision for loan losses and other	7,042	(2,701)	53	11	785	3,049	—	8,239
Ending balance	$ 46,271	$ 15,008	$ 2,919	$ 4,094	$ 7,479	$ 16,600	$ 1,000	$ 93,371
Quarter ended June 30, 2016								
Beginning balance	$ 37,736	$ 14,420	$ 2,547	$ 2,433	$ 6,588	$ 13,426	$ 1,225	$ 78,375
Charge-offs	(2,026)	(1,641)	(84)	(8)	(879)	(1,495)	—	(6,133)
Recoveries	576	8	1	20	69	329	—	1,003
Net charge-offs	(1,450)	(1,633)	(83)	12	(810)	(1,166)	—	(5,130)
Provision for loan losses and other	3,798	198	469	(206)	1,714	2,112	175	8,260
Ending balance	$ 40,084	$ 12,985	$ 2,933	$ 2,239	$ 7,492	$ 14,372	$ 1,400	$ 81,505
Six months ended June 30, 2017								
Beginning balance	$ 40,709	$ 17,595	$ 3,261	$ 3,444	$ 7,739	$ 13,335	$ 1,000	$ 87,083
Charge-offs	(7,031)	(127)	—	(44)	(715)	(3,220)	—	(11,137)
Recoveries	2,066	983	34	239	180	766	—	4,268
Net charge-offs	(4,965)	856	34	195	(535)	(2,454)	—	(6,869)
Provision for loan losses and other	10,527	(3,443)	(376)	455	275	5,719	—	13,157
Ending balance	$ 46,271	$ 15,008	$ 2,919	$ 4,094	$ 7,479	$ 16,600	$ 1,000	$ 93,371
Six months ended June 30, 2016								
Beginning balance	$ 37,074	$ 13,124	$ 2,469	$ 1,440	$ 6,109	$ 13,414	$ 1,225	$ 74,855
Charge-offs	(3,924)	(2,165)	(288)	(134)	(2,324)	(2,487)	—	(11,322)
Recoveries	1,078	111	26	35	220	649	—	2,119
Net charge-offs	(2,846)	(2,054)	(262)	(99)	(2,104)	(1,838)	—	(9,203)
Provision for loan losses and other	5,856	1,915	726	898	3,487	2,796	175	15,853
Ending balance	$ 40,084	$ 12,985	$ 2,933	$ 2,239	$ 7,492	$ 14,372	$ 1,400	$ 81,505

Table of Contents

The table below provides a breakdown of loans and the related allowance for credit losses by portfolio segment as of June 30, 2017 and December 31, 2016.

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

	Loans				Allowance for Credit Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total
As of June 30, 2017								
Commercial, industrial, and agricultural	$50,521	$3,763,526	$30,125	$3,844,172	$4,859	$ 40,922	$490	$46,271
Commercial real estate:								
Office, retail, and industrial	13,781	1,951,097	18,924	1,983,802	379	12,970	1,659	15,008
Multi-family	396	666,237	14,399	681,032	—	2,833	86	2,919
Construction	—	528,570	15,322	543,892	—	3,945	149	4,094
Other commercial real estate	2,174	1,314,977	66,786	1,383,937	—	6,225	1,254	7,479
Total commercial real estate	16,351	4,460,881	115,431	4,592,663	379	25,973	3,148	29,500
Total corporate loans	66,872	8,224,407	145,556	8,436,835	5,238	66,895	3,638	75,771
Consumer	—	1,772,271	23,053	1,795,324	—	15,173	1,427	16,600
Reserve for unfunded commitments	—	—	—	—	—	1,000	—	1,000
Total loans	$66,872	$9,996,678	$168,609	$10,232,159	$5,238	$ 83,068	$5,065	$93,371
As of December 31, 2016								
Commercial, industrial, and agricultural	$24,645	$3,189,327	$3,182	$3,217,154	$507	$ 39,554	$648	$40,709
Commercial real estate:								
Office, retail, and industrial	16,287	1,553,234	12,446	1,581,967	—	16,148	1,447	17,595
Multi-family	398	601,429	12,225	614,052	—	3,059	202	3,261
Construction	34	447,058	4,448	451,540	—	3,280	164	3,444
Other commercial real estate	1,286	965,900	12,342	979,528	18	6,613	1,108	7,739
Total commercial real estate	18,005	3,567,621	41,461	3,627,087	18	29,100	2,921	32,039
Total corporate loans	42,650	6,756,948	44,643	6,844,241	525	68,654	3,569	72,748
Consumer	—	1,392,880	17,024	1,409,904	—	12,210	1,125	13,335
Reserve for unfunded commitments	—	—	—	—	—	1,000	—	1,000
Total loans	$42,650	$8,149,828	$61,667	$8,254,145	$525	$ 81,864	$4,694	$87,083

Table of Contents

Loans Individually Evaluated for Impairment

The following table presents loans individually evaluated for impairment by class of loan as of June 30, 2017 and December 31, 2016. PCI loans are excluded from this disclosure.

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

	As of June 30, 2017				As of December 31, 2016			
	Recorded Investment In				Recorded Investment In			
	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial and industrial	$16,215	$34,027	$53,545	$4,859	$11,579	$13,066	$29,514	$ 507
Agricultural	279	—	1,629	—	—	—	—	—
Commercial real estate:								
Office, retail, and industrial	10,125	3,656	16,966	379	16,287	—	21,057	—
Multi-family	396	—	396	—	398	—	398	—
Construction	—	—	—	—	34	—	34	—
Other commercial real estate	2,174	—	2,271	—	1,016	270	2,141	18
Total commercial real estate	12,695	3,656	19,633	379	17,735	270	23,630	18
Total impaired loans individually evaluated for impairment	$29,189	$37,683	$74,807	$5,238	$29,314	$13,336	$53,144	$ 525

Table of Contents

The following table presents the average recorded investment and interest income recognized on impaired loans by class for the quarters and six months ended June 30, 2017 and 2016. 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 June 30,			
	2017		2016	
	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)
Commercial and industrial	$33,648	$ 342	$3,236	$ 12
Agricultural	697	—	—	—
Commercial real estate:				
Office, retail, and industrial	13,612	169	12,712	29
Multi-family	396	—	401	—
Construction	—	—	34	—
Other commercial real estate	2,334	8	3,641	53
Total commercial real estate	16,342	177	16,788	82
Total impaired loans	$50,687	$ 519	$20,024	$ 94

	Six Months Ended June 30,			
	2017		2016	
	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)
Commercial and industrial	$30,647	$ 556	$3,114	$ 50
Agricultural	464	—	—	—
Commercial real estate:				
Office, retail, and industrial	14,503	262	10,529	77
Multi-family	397	28	534	1
Construction	11	136	82	—
Other commercial real estate	1,984	20	3,649	72
Total commercial real estate	16,895	446	14,794	150
Total impaired loans	$48,006	$ 1,002	$17,908	$ 200

(1) Recorded using the cash basis of accounting.

Table of Contents

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, as of June 30, 2017 and December 31, 2016.

Corporate Credit Quality Indicators by Class
(Dollar amounts in thousands)

	Pass	Special Mention (1) (4)	Substandard (2) (4)	Non-accrual (3)	Total
As of June 30, 2017					
Commercial and industrial	$3,199,001	$67,252	$ 93,095	$ 51,400	$3,410,748
Agricultural	409,969	14,464	8,604	387	433,424
Commercial real estate:					
Office, retail, and industrial	1,896,327	27,894	44,550	15,031	1,983,802
Multi-family	673,946	5,051	1,877	158	681,032
Construction	523,046	8,739	11,910	197	543,892
Other commercial real estate	1,338,382	21,137	20,682	3,736	1,383,937
Total commercial real estate	4,431,701	62,821	79,019	19,122	4,592,663
Total corporate loans	$8,040,671	$144,537	$ 180,718	$ 70,909	$8,436,835
As of December 31, 2016					
Commercial and industrial	$2,638,833	$92,340	$ 66,547	$ 29,938	$2,827,658
Agricultural	366,382	17,039	5,894	181	389,496
Commercial real estate:					
Office, retail, and industrial	1,491,030	34,007	39,513	17,277	1,581,827
Multi-family	607,324	4,370	2,029	311	614,034
Construction	438,946	111	12,197	286	451,540
Other commercial real estate	951,115	11,808	13,544	2,892	979,359
Total commercial real estate	3,488,415	50,296	67,283	20,766	3,626,760
Total corporate loans	$6,493,630	$159,675	$ 139,724	$ 50,885	$6,843,914

(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.

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

(3) Loans categorized as non-accrual exhibit 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 $669,000 as of June 30, 2017 and $834,000 as of December 31, 2016.

Consumer Credit Quality Indicators by Class
(Dollar amounts in thousands)

	Performing	Non-accrual	Total
As of June 30, 2017			
Home equity	$860,530	$ 5,126	$865,656
1-4 family mortgages	611,657	3,161	614,818

Installment	314,850	—	314,850
Total consumer loans	$1,787,037	$ 8,287	$1,795,324
As of December 31, 2016			
Home equity	$727,618	$ 4,986	$732,604
1-4 family mortgages	413,415	2,939	416,354
Installment	237,999	—	237,999
Total consumer loans	$1,379,032	$ 7,925	$1,386,957

Table of Contents

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 June 30, 2017 and December 31, 2016. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for TDRs.

TDRs by Class

(Dollar amounts in thousands)

	As of June 30, 2017			As of December 31, 2016		
	Accruing	Non-accrual [1]	Total	Accruing	Non-accrual [1]	Total
Commercial and industrial	$273	$ 891	$1,164	$281	$ 150	$431
Agricultural	—	—	—	—	—	—
Commercial real estate:						
Office, retail, and industrial	—	860	860	155	4,733	4,888
Multi-family	579	158	737	586	168	754
Construction	—	—	—	—	—	—
Other commercial real estate	197	—	197	268	48	316
Total commercial real estate	776	1,018	1,794	1,009	4,949	5,958
Total corporate loans	1,049	1,909	2,958	1,290	5,099	6,389
Home equity	168	771	939	177	820	997
1-4 family mortgages	812	356	1,168	824	378	1,202
Installment	—	—	—	—	—	—
Total consumer loans	980	1,127	2,107	1,001	1,198	2,199
Total loans	$2,029	$ 3,036	$5,065	$2,291	$ 6,297	$8,588

[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 June 30, 2017 and as of December 31, 2016.

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 six months ended June 30, 2017 and 2016.

Table of Contents

A rollforward of the carrying value of TDRs for the quarters and six months ended June 30, 2017 and 2016 is presented in the following table.

TDR Rollforward
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Accruing				
Beginning balance	$2,112	$2,702	$2,291	$2,743
Additions	—	—	922	—
Net payments received	(83)	(28)	(107)	(69)
Net transfers to non-accrual	—	(183)	(1,077)	(183)
Ending balance	2,029	2,491	2,029	2,491
Non-accrual				
Beginning balance	3,112	2,268	6,297	2,324
Net payments received	(75)	(522)	(4,225)	(578)
Charge-offs	(1)	(239)	(113)	(239)
Net transfers from accruing	—	183	1,077	183
Ending balance	3,036	1,690	3,036	1,690
Total TDRs	$5,065	$4,181	$5,065	$4,181

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 June 30, 2017 and December 31, 2016.

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 June 30, 2017	December 31, 2016
Land	$31,623	$ 18,304
Premises	139,137	94,369
Furniture and equipment	135,328	105,859
Total cost	306,088	218,532
Accumulated depreciation	(182,075)	(140,030)
Net book value of premises, furniture, and equipment	124,013	78,502
Assets held-for-sale	11,732	4,075
Total premises, furniture, and equipment	$135,745	$ 82,577

Table of Contents

During 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. 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, with $78.1 million of deferred pre-tax gains remaining as of June 30, 2017.

As of June 30, 2017 and December 31, 2016 assets held-for-sale consisted of former branches that are no longer in operation and parcels of land previously purchased for expansion.

Depreciation on premises, furniture, and equipment totaled $3.5 million and $7.0 million for the quarter and six months ended June 30, 2017, respectively. Depreciation on premises, furniture, and equipment totaled $3.4 million and $6.6 million for the same periods in 2016.

Operating Leases

As of June 30, 2017, 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, 2033. 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 June 30, 2017.

Future Minimum Operating Lease Payments
(Dollar amounts in thousands)

	Total
One year or less	$18,383
After one year to two years	16,751
After two years to three years	16,606
After three years to four years	16,268
After four years to five years	16,119
After five years	120,356
Total minimum lease payments	$204,483

As of June 30, 2017, deferred pre-tax gains of $78.1 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.

Table of Contents

The Company assumed certain operating leases related to various branches in previous acquisitions. An intangible liability is recorded when the cash flows of a lease exceeds its 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 and 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	$1,095
After one year to two years	791
After two years to three years	648
After three years to four years	648
After four years to five years	648
After five years	3,673
Total accretion	$7,503

The following table presents net operating lease expense for the quarters and six months ended June 30, 2017 and 2016.

Net Operating Lease Expense
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Lease expense charged to operations	$4,721	$1,773	$9,280	$3,500
Accretion of operating lease intangible [1]	(295)	(295)	(590)	(581)
Accretion of deferred gain on sale-leaseback transaction [1]	(1,473)	—	(2,946)	—
Rental income from premises leased to others [1]	(169)	(128)	(350)	(286)
Net operating lease expense	$2,784	$1,350	$5,394	$2,633

(1) Included as reductions to net occupancy and equipment expense in the Condensed Consolidated Statements of Income.

Table of Contents

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's annual goodwill impairment test was performed as of October 1, 2016. It was determined that no impairment existed as of that date or as of June 30, 2017. For a discussion of the accounting policies for goodwill and other intangible assets, see Note 1, "Summary of Significant Accounting Policies" to the Consolidated Financial Statements in the Company's 2016 10-K.

The following table presents changes in the carrying amount of goodwill for the quarters and six months ended June 30, 2017 and 2016.

Changes in the Carrying Amount of Goodwill
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	$691,572	$339,768	$340,879	$319,007
Acquisitions	(45)	1,745	350,648	22,506
Ending balance	$691,527	$341,513	$691,527	$341,513

The decrease in goodwill for the quarter ended June 30, 2017 resulted from measurement period adjustments associated with the Standard transaction. The increase for the six months ended June 30, 2017 resulted from the Standard and Premier acquisitions and measurement period adjustments related to finalizing the fair values of the assets acquired and liabilities assumed in the NI Bancshares acquisition. During the quarter and six months ended June 30, 2016, the increase in goodwill resulted from the NI Bancshares acquisition.

The Company's other intangible assets are core deposit intangibles and trust department customer relationship intangibles, which are being amortized over their estimated useful lives. Other intangible assets are subject to impairment testing when events or circumstances indicate that its carrying amount may not be recoverable. The increase in other intangible assets for the six months ended June 30, 2017 resulted from the Standard and Premier acquisitions. The increase in other intangible assets for the six months ended June 30, 2016 resulted from the NI Bancshares acquisition. During the quarters ended June 30, 2017 and June 30, 2016 there were no events or circumstances to indicate impairment.

Other Intangible Assets
(Dollar amounts in thousands)

	Six Months Ended June 30,					
	2017			2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Beginning balance	$58,959	$ 32,962	$25,997	$48,550	$ 28,280	$20,270
Additions	39,017	—	39,017	10,409	—	10,409
Amortization expense	—	4,128	(4,128)	—	2,230	(2,230)
Ending balance	$97,976	$ 37,090	$60,886	$58,959	$ 30,510	$28,449

Scheduled Amortization of Other Intangible Assets
(Dollar amounts in thousands)

	Total
Year Ending June 30,	
2018	$7,332
2019	7,086
2020	7,055
2021	6,986

2022	6,908
2023 and thereafter	25,519
Total	$60,886

33

Table of Contents

10. DEPOSITS

The following table presents the Company's deposits by type.

Summary of Deposits
(Dollar amounts in thousands)

	As of June 30, 2017	December 31, 2016
Demand deposits	$3,525,905	$ 2,766,748
Savings deposits	2,059,833	1,615,833
NOW accounts	1,970,036	1,675,421
Money market deposits	1,905,402	1,577,316
Time deposits less than $100,000	894,530	755,558
Time deposits greater than $100,000	644,014	437,727
Total deposits	$10,999,720	$ 8,828,603

The increase in total deposits for the six months ended June 30, 2017 includes deposits assumed in the Standard acquisition. For additional disclosure related to the Standard transaction, see Note 3, "Acquisitions."

11. MATERIAL TRANSACTIONS AFFECTING STOCKHOLDERS' EQUITY

On May 17, 2017, the Company's stockholders approved and adopted an amendment to the Company's Restated Certificate of Incorporation. The amendment increased the Company's authorized common stock by 100,000,000 shares. Following this amendment, the Company is now authorized to issue a total of 251,000,000 shares, including 1,000,000 shares of Preferred Stock, without a par value, and 250,000,000 shares of Common Stock, $0.01 par value per share.

12. 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$34,950	$25,267	$57,805	$43,229
Net income applicable to non-vested restricted shares	(336)	(290)	(570)	(502)
Net income applicable to common shares	$34,614	$24,977	$57,235	$42,727
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding (basic)	101,743	80,383	101,081	79,182
Dilutive effect of common stock equivalents	20	13	20	12
Weighted-average diluted common shares outstanding	101,763	80,396	101,101	79,194
Basic EPS	$0.34	$0.31	$0.57	$0.54
Diluted EPS	$0.34	$0.31	$0.57	$0.54
Anti-dilutive shares not included in the computation of diluted EPS (1)	195	469	269	539

(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.

Table of Contents

13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In the ordinary course of business, the Company enters into derivative transactions as part of its overall interest rate risk management strategy. 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 June 30, 2017		December 31, 2016	
Gross notional amount outstanding	$5,708		$ 5,958	
Derivative liability fair value	(186	)	(282	)
Weighted-average interest rate received	3.08	%	2.63	%
Weighted-average interest rate paid	5.96	%	5.96	%
Weighted-average maturity (in years)	1.35		1.84	
Fair value of derivative [(1)]	$197		$ 296	

(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 six months ended June 30, 2017 and 2016, gains or losses related to fair value hedge ineffectiveness were not material.

Cash Flow Hedges

As of June 30, 2017, the Company hedged $980.0 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 $980.0 million of borrowed funds using forward starting interest rate swaps through which the Company receives variable amounts and pays fixed 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 $415.0 million began on various dates between June of 2015 and February of 2017, and mature between June of 2019 and February of 2020. The remaining forward starting interest rate swaps totaling $565.0 million begin at various dates between February of 2018 and February of 2020 and mature between February of 2020 and April of 2022. The weighted-average fixed interest rate to be paid on these interest rate swaps that have not yet begun was 1.96% as of June 30, 2017. These derivative contracts are designated as cash flow hedges.

Cash Flow Hedges
(Dollar amounts in thousands)

	As of June 30, 2017		December 31, 2016	
Gross notional amount outstanding	$1,960,000		$1,470,000	
Derivative asset fair value	3,528		5,402	
Derivative liability fair value	(7,627	)	(7,390	)
Weighted-average interest rate received	1.51	%	1.37	%

Weighted-average interest rate paid	1.40 %	1.11 %
Weighted-average maturity (in years)	2.75	2.83

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 six months ended June 30, 2017 and 2016, there were no material gains or losses related to cash flow hedge ineffectiveness. As of June 30, 2017, the Company estimates that $303,000 will be reclassified from accumulated other comprehensive loss as a decrease to interest income over the next twelve months.

Table of Contents

Other Derivative Instruments

The Company also enters into derivative transactions through capital market products with its commercial customers and simultaneously enters into an offsetting interest rate derivative transaction 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 June 30, 2017 and December 31, 2016, 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. Capital market products income related to commercial customer derivative instruments of $2.2 million and $3.6 million were recorded in noninterest income for the quarters and six months ended June 30, 2017, respectively. There were $2.1 million and $5.3 million of capital market products income recorded for quarters and six months ended June 30, 2016, respectively.

Other Derivative Instruments

(Dollar amounts in thousands)

	As of June 30, 2017	December 31, 2016
Gross notional amount outstanding	$2,252,704	$ 1,656,612
Derivative asset fair value	17,370	13,478
Derivative liability fair value	(15,347)	(13,478)
Fair value of derivative [(1)]	15,605	13,753

(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 June 30, 2017 and December 31, 2016. 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 June 30, 2017 and December 31, 2016, 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.

Table of Contents

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 June 30, 2017 and December 31, 2016.

Fair Value of Offsetting Derivatives
(Dollar amounts in thousands)

	As of June 30, 2017		As of December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Gross amounts recognized	$20,898	$23,160	$18,880	$21,150
Less: amounts offset in the Consolidated Statements of Financial Condition	—	—	—	—
Net amount presented in the Consolidated Statements of Financial Condition [(1)]	20,898	23,160	18,880	21,150
Gross amounts not offset in the Consolidated Statements of Financial Condition:				
Offsetting derivative positions	(8,646)	(8,646)	(10,889)	(10,889)
Cash collateral pledged	—	(14,514)	—	(10,261)
Net credit exposure	$12,252	$—	$7,991	$—

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

As of June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016 the Company was in compliance with these provisions.

Table of Contents

14. 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 June 30, 2017	December 31, 2016
Commitments to extend credit:		
Commercial, industrial, and agricultural	$1,750,477	$ 1,522,152
Commercial real estate	347,330	397,423
Home equity	508,295	426,384
Other commitments [1]	248,320	214,943
Total commitments to extend credit	$2,854,422	$ 2,560,902
Letters of credit	$137,913	$ 100,430
Recourse on assets sold:		
Unpaid principal balance of loans sold	$185,182	$ 187,158
Carrying value of recourse obligation [2]	153	142

[1] Other commitments includes installment and overdraft protection program commitments.

[2] 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 six months ended June 30, 2017

and 2016.

Legal Proceedings

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at June 30, 2017. 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.

Table of Contents

15. 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 required to be measured at fair value on a recurring basis between levels of the fair value hierarchy during the periods presented.

Table of Contents

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 June 30, 2017			As of December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Trading securities:						
Money market funds	$ 1,717	$ —	$ —	$ 1,645	$ —	$ —
Mutual funds	17,828	—	—	16,275	—	—
Total trading securities	19,545	—	—	17,920	—	—
Securities available-for-sale:						
U.S. treasury securities	48,483	—	—	48,541	—	—
U.S. agency securities	—	175,058	—	—	183,637	—
CMOs	—	1,006,164	—	—	1,047,446	—
MBSs	—	373,660	—	—	332,655	—
Municipal securities	—	264,402	—	—	270,846	—
CDOs	—	—	33,454	—	—	33,260
Equity securities	—	7,027	—	—	3,065	—
Total securities available-for-sale	48,483	1,826,311	33,454	48,541	1,837,649	33,260
Mortgage servicing rights ("MSRs") [1]	—	—	5,925			6,120
Derivative assets [1]	—	20,898	—	—	18,880	—
Liabilities:						
Derivative liabilities [2]	$ —	$ 23,160	$ —	$ —	$ 21,150	$ —

[1] Included in other assets in the Consolidated Statements of Financial Condition.
[2] Included in other liabilities in the Consolidated Statements of Financial Condition.

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

Trading Securities

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

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.

Table of Contents

The following table presents the ranges of significant, unobservable inputs calculated using the weighted-average of the Issuers used by the Company as of June 30, 2017 and December 31, 2016.

Significant Unobservable Inputs Used in the Valuation of CDOs

	As of	
	June 30, 2017	December 31, 2016
Probability of prepayment	0.0 % - 10.9%	0.0 % - 10.9%
Probability of default	15.6% - 44.1%	16.7% - 46.8%
Loss given default	93.3% - 99.2%	93.3% - 98.9%
Probability of deferral cure	0.0 % - 100.0%	7.6 % - 100.0%

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 quarterly basis, which includes an analysis of historical pricing trends for these types of securities, overall economic conditions (such as tracking LIBOR curves), and the performance of the Issuers' industries. 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 six months ended June 30, 2017 and 2016 is presented in the following table.

Carrying Value of CDOs
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	$33,436	$30,757	$33,260	$31,529
Change in other comprehensive income [1]	6	(244)	135	(1,030)
Other	12	(82)	59	(68)
Ending balance	$33,454	$30,431	$33,454	$30,431

[1] Included in unrealized holding gains in the Consolidated Statements of Comprehensive Income.

Table of Contents

MSRs

The Company services loans for others totaling $626.5 million as of June 30, 2017 and $640.5 million as of December 31, 2016. These loans are owned by third parties and are not included in the Consolidated Statements of Financial Condition. 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 June 30, 2017 and December 31, 2016.

Significant Unobservable Inputs Used in the Valuation of MSRs

	As of			
	June 30, 2017		December 31, 2016	
Prepayment speed	8.8%	-25.3%	7.7%	-22.8%
Maturity (months)	8	-92	12	-103
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 six months ended June 30, 2017 and 2016 is presented in the following table.

Carrying Value of MSRs
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	$6,245	$5,022	$6,120	$1,853
Additions from acquisition	—	—	—	3,092
New MSRs	205	162	361	347
Total gains (losses) included in earnings [1]:				
Changes in valuation inputs and assumptions	(260)	(132)	(88)	(172)
Other changes in fair value [2]	(265)	(114)	(468)	(182)
Ending balance	$5,925	$4,938	$5,925	$4,938
Contractual servicing fees earned [1]	$384	$366	$779	$549

(1) Included in mortgage banking income in the Condensed Consolidated Statements of Income and related to assets held as of June 30, 2017 and 2016.

(2) 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.

42

Table of Contents

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 June 30, 2017			As of December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Collateral-dependent impaired loans [1]	$ —	$ —	$ 40,698	$ —	$ —	$ 22,019
OREO [2]	—	—	6,835	—	—	8,624
Loans held-for-sale [3]	—	—	16,922	—	—	10,484
Assets held-for-sale [4]	—	—	11,732	—	—	4,075

[1] Includes impaired loans with charge-offs and impaired loans with a specific reserve during the periods presented.

[2] Includes OREO with fair value adjustments subsequent to initial transfer that occurred during the periods presented.

[3] Included in other assets in the Consolidated Statements of Financial Condition.

[4] 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 June 30, 2017, 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, 2016, loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell, and a corporate loan.

Assets Held-for-Sale

Assets held-for-sale as of June 30, 2017 and December 31, 2016 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.

Table of Contents

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)

		As of			
		June 30, 2017		December 31, 2016	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and due from banks	1	$181,171	$181,171	$155,055	$155,055
Interest-bearing deposits in other banks	2	103,181	103,181	107,093	107,093
Securities held-to-maturity	2	17,353	14,899	22,291	18,212
FHLB and FRB stock	2	66,333	66,333	59,131	59,131
Loans	3	10,143,706	9,905,748	8,172,584	7,973,845
Investment in BOLI	3	278,353	278,353	219,746	219,746
Accrued interest receivable	3	39,766	39,766	34,384	34,384
Other interest-earning assets	3	454	454	834	834
Liabilities:					
Deposits	2	$10,999,720	$10,989,384	$8,828,603	$8,820,572
Borrowed funds	2	639,333	639,333	879,008	879,008
Senior and subordinated debt	2	194,886	205,757	194,603	197,888
Accrued interest payable	2	4,470	4,470	3,416	3,416

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, 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.

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

44

Table of Contents

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 values of senior and subordinated notes are estimated based on quoted market prices of similar instruments. The fair values of junior subordinated debentures are estimated based on quoted market prices of comparable securities when available, or by discounting the expected future cash flows at market interest rates.

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.

Table of Contents

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 through over 130 locations throughout the Chicago metropolitan area, northwest Indiana, central and western Illinois, and eastern Iowa. Our principal subsidiary is First Midwest Bank, which provides a broad range of commercial, retail, 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 six months ended June 30, 2017 and 2016 and Consolidated Statements of Financial Condition as of June 30, 2017 and December 31, 2016. 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 Quarterly Report on Form 10-Q ("Form 10-Q"), as well as in our 2016 Annual Report on Form 10-K ("2016 10-K"). The results of operations for the quarter and six months ended June 30, 2017 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, 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.

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 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 fully diluted basis.

As of June 30, 2017, the Company and the Bank each had total assets of approximately $14.0 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, these requirements are phased in and become applicable to the Company and the Bank 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 2016 10-K, as well as our subsequent filings made with the Securities and Exchange Commission ("SEC").

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This 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, 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 2016 10-K, as well as our subsequent filings made with the SEC. However, these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and are consistent with general practice 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 2016 10-K. There have been no material 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, 2016.

SIGNIFICANT RECENT EVENTS

Acquisitions

Standard Bancshares, Inc.

On January 6, 2017, the Company completed its acquisition of Standard Bancshares, Inc. ("Standard"), the holding company for Standard Bank and Trust Company. With the acquisition, the Company acquired 35 banking offices located primarily in the southwest Chicago suburbs and adjacent markets in northwest Indiana, and added approximately $2.0 billion in deposits and $1.8 billion in loans. The merger consideration totaled $580.7 million and consisted of $533.6 million in Company common stock and $47.1 million in cash. All operating systems were converted during the first quarter of 2017.

Premier Asset Management LLC

On February 28, 2017, the Company completed its acquisition of Premier Asset Management LLC ("Premier"), a registered investment advisor based in Chicago, Illinois. At the close of the acquisition, the Company acquired approximately $550.0 million of trust assets under management.

Table of Contents

PERFORMANCE OVERVIEW
Table 1
Selected Financial Data
(Amounts in thousands, except per share data)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Results				
Interest income	$126,516	$96,550	$250,215	$184,098
Interest expense	8,933	6,569	17,435	13,403
Net interest income	117,583	89,981	232,780	170,695
Provision for loan losses	8,239	8,085	13,157	15,678
Noninterest income	44,945	37,822	84,896	73,748
Noninterest expense	99,751	81,354	216,393	163,943
Income before income tax expense	54,538	38,364	88,126	64,822
Income tax expense	19,588	13,097	30,321	21,593
Net income	$34,950	$25,267	$57,805	$43,229
Weighted-average diluted common shares outstanding	101,763	80,396	101,101	79,194
Diluted earnings per common share	$0.34	$0.31	$0.57	$0.54
Diluted earnings per common share, excluding certain significant transactions (1)(2)	$0.35	$0.32	$0.68	$0.58
Performance Ratios				
Return on average common equity (3)	7.58 %	8.13 %	6.42 %	7.12 %
Return on average tangible common equity (3)	13.37 %	11.94 %	11.52 %	10.44 %
Return on average tangible common equity, excluding certain significant transactions (1) (2) (3)	13.64 %	12.11 %	13.81 %	11.24 %
Return on average assets (3)	1.00 %	0.93 %	0.84 %	0.83 %
Return on average assets, excluding certain significant transactions (1) (2) (3)	1.02 %	0.94 %	1.02 %	0.89 %
Tax-equivalent net interest margin (2)(3)(4)	3.88 %	3.72 %	3.88 %	3.69 %
Efficiency ratio (2)	58.67 %	60.98 %	59.80 %	62.81 %

(1) Certain significant transactions include acquisition and integration related expenses associated with completed and pending acquisitions.

(2) This item is a non-GAAP financial measure. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

(3) These 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 financial measure.

Table of Contents

	As of			June 30, 2017 Change From	
	June 30, 2017	December 31, 2016	June 30, 2016	December 31, 2016	June 30, 2016
Balance Sheet Highlights					
Total assets	$13,969,140	$11,422,555	$10,995,810	$2,546,585	$2,973,330
Total loans	10,232,159	8,254,145	7,979,537	1,978,014	2,252,622
Total deposits	10,999,720	8,828,603	8,971,316	2,171,117	2,028,404
Core deposits	9,461,176	7,635,318	7,701,880	1,825,858	1,759,296
Loans to deposits	93.0 %	93.5 %	88.9 %		
Core deposits to total deposits	86.0 %	86.5 %	85.9 %		
Asset Quality Highlights					
Non-accrual loans	$79,196	$59,289	$37,312	$19,907	$41,884
90 days or more past due loans, still accruing interest [1]	2,059	5,009	5,406		