FIRST MIDWEST BANCORP INC
Form 10-K
March 02, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year-ended December 31, 2014
or
[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number 0-10967
FIRST MIDWEST BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	36-3161078 (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) 875-7450
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $.01 Par Value	The NASDAQ Stock Market
Preferred Share Purchase Rights	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ].
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X].
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X].
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]

Non-accelerated filer [ ] Smaller reporting company [ ]
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X].
The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2014, determined using a per share closing price on that date of $17.03, as quoted on the NASDAQ Stock Market, was $1,226,970,577.
As of February 26, 2015, there were 77,958,815 shares of common stock, $0.01 par value, outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant's Proxy Statement for the 2015 Annual Stockholders' Meeting are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

First Midwest Bancorp, Inc.

First Midwest Bancorp, Inc. (the "Company," "we," "us," or "our") is a Delaware corporation incorporated in 1982 and headquartered in the Chicago suburb of Itasca, Illinois. The Company is one of Illinois' largest independent publicly-traded banking companies, with assets of $9.4 billion as of December 31, 2014, and is registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Company's common stock, $0.01 par value per share ("Common Stock"), is listed on the NASDAQ Stock Market and trades under the symbol "FMBI".

Our principal subsidiary, First Midwest Bank (the "Bank"), is an Illinois state-chartered bank and provides a broad range of banking and wealth management services to commercial and industrial, commercial real estate, municipal, and consumer customers primarily throughout the greater Chicago metropolitan area as well as northwest Indiana, central and western Illinois, and eastern Iowa through 109 banking locations. At December 31, 2014, the Company and its subsidiaries employed a total of 1,788 full-time equivalent employees.

History

In 1983, the Company became a bank holding company through the simultaneous acquisition of over 20 affiliated financial institutions. The Bank, through its predecessors, has provided banking and trust services for over 70 years. Since becoming a bank holding company, the Company has grown organically and expanded its market footprint by opening new locations, growing existing locations, and acquiring financial institutions, branches, and non-banking organizations.

In the normal course of business, the Company explores potential opportunities for expansion in core market and adjacent areas through organic growth and the acquisition of banking and non-banking organizations. As a matter of policy, the Company generally does not comment on any dialogue or negotiations with potential targets or possible acquisitions until a definitive acquisition agreement is signed and publicly announced. The Company's ability to engage in certain merger or acquisition transactions, whether or not any regulatory approval is required, will depend on the bank regulators' views at the time as to the capital levels, quality of management, and overall condition of the Company, in addition to their assessment of a variety of other factors.

During 2014, the Bank completed the acquisitions of the Chicago area banking operations of Banco Popular North America ("Popular"), doing business as Popular Community Bank, the equipment lessor National Machine Tool Financial Corporation ("National Machine Tool"), now known as First Midwest Equipment Finance Co., and the south suburban Chicago-based Great Lakes Financial Resources, Inc. ("Great Lakes"), the holding company for Great Lakes Bank, National Association. Additional detail regarding these recent acquisitions is contained in Note 3 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Subsidiaries

The Company is responsible for the overall conduct, direction, and performance of its subsidiaries. In addition, the Company provides various services to its subsidiaries, establishes Company-wide policies and procedures, and provides other resources as needed, including capital. As of December 31, 2014, the following were the Company's primary subsidiaries:

First Midwest Bank

The Bank conducts operations primarily throughout the greater Chicago metropolitan area, in addition to northwest Indiana, central and western Illinois, and eastern Iowa. The following table presents key figures for the Bank.

(Dollar amounts in thousands)	December 31, 2014
Total assets	$9,314,575
Total deposits	$7,933,652
Bank branches	103
Bank offices	6

The Bank operates the following wholly owned subsidiaries:

- First Midwest Equipment Finance Co. is an Illinois corporation that provides equipment leasing and commercial financing alternatives to traditional bank financing.
- First Midwest Securities Management, LLC is a Delaware limited liability company that manages investment securities.
- LIH Holdings, LLC is an Illinois limited liability company that holds an equity interest in a Section 8 housing venture.
- Synergy Property Holdings, LLC is an Illinois limited liability company that manages the majority of the Bank's OREO properties.
- First Midwest Holdings, Inc. is a Delaware corporation that manages investment securities, principally municipal obligations, and provides corporate management services to its wholly owned subsidiary, FMB Investments Ltd., a Bermuda corporation. FMB Investments Ltd. manages investment securities and is largely inactive.

Catalyst Asset Holdings, LLC

Catalyst Asset Holdings, LLC, an Illinois limited liability company ("Catalyst"), manages a portion of the Company's non-performing assets. In March of 2010, the Company purchased $168.1 million of non-performing assets from the Bank and transferred them to Catalyst in the form of a capital injection. Catalyst had $6.7 million in non-performing assets remaining as of December 31, 2014.

Catalyst has one wholly owned subsidiary, Restoration Asset Management, LLC ("Restoration"), an Illinois limited liability company that manages Catalyst's OREO properties. The Bank provides certain administrative and management services to Catalyst and Restoration pursuant to a services agreement. The amounts charged under this services agreement are intended to reflect the actual costs to the Bank for providing such services.

Parasol Investment Management, LLC

Parasol Investment Management, LLC, a Delaware limited liability company ("Parasol"), began operations in 2011 and is a registered investment advisor under the Investment Advisors Act of 1940. Parasol provides wealth management services to the Bank's wealth management division and to individual and institutional clients, such as corporate and public retirement plans, foundations and endowments, high net worth individuals, and multi-employer trust funds.

First Midwest Capital Trust I, Great Lakes Statutory Trust II, and Great Lakes Statutory Trust III

First Midwest Capital Trust I, a Delaware statutory business trust ("FMCT"), was formed in 2003. Great Lakes Statutory Trust II ("GLST II") and Great Lakes Statutory Trust III ("GLST III") are Delaware statutory business trusts formed in 2005 and 2007, respectively, and were acquired in the Great Lakes acquisition. These trusts were established for the purpose of issuing trust-preferred securities and lending the proceeds to the Company in return for junior subordinated debentures of the Company. The Company guarantees payments of distributions on the trust-preferred securities and payments on redemption of the trust-preferred securities on a limited basis.

FMCT, GLST II, and GLST III qualify as variable interest entities for which the Company is not the primary beneficiary. Consequently, the accounts of those entities are not consolidated in the Company's financial statements. However, the combined $50.7 million in trust-preferred securities held by the three trusts at December 31, 2014 are included in Tier 1 capital of the Company for regulatory capital purposes.

Segments

The Company has one reportable segment. The Company's chief operating decision maker evaluates the operations of the Company using consolidated information for purposes of allocating resources and assessing performance.

Market Area

The Bank operates in the most active and diverse markets in Illinois, the largest of which is the suburban metropolitan Chicago market, as well as central and western Illinois. The Bank's other service areas are located primarily in northwestern Indiana and eastern Iowa. These service areas include a mixture of urban, suburban, and rural markets and contain a diversified mix of industry groups, including manufacturing, health care, pharmaceutical, higher education, wholesale and retail trade, service, and agricultural.

Competition

The banking and financial services industry in the markets in which the Bank operates (and particularly the Chicago metropolitan area) is highly competitive. Generally, the Bank competes for banking customers and deposits with other local, regional, national, and internet banks and savings and loan associations; personal loan and finance companies; credit unions; mutual funds; and investment brokers.

Competition is driven by a number of factors, including interest rates charged on loans and paid on deposits; the ability to attract new deposits; the scope and type of banking and financial services offered; the hours during which business can be conducted; the location of bank branches and automated teller machines ("ATMs"); the availability, ease of use, and range of banking services on the internet; the availability of related services; and a variety of additional services, such as wealth management services.

In providing investment advisory services, the Bank also competes with retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial institutions for wealth management clients. Competition is generally based on the variety of products and services offered to clients and the performance of funds under management. The Company's main competitors are financial service providers both within and outside of the geographic areas in which the Bank maintains offices.

The Company faces competition in attracting and retaining qualified employees. Its ability to continue to compete effectively will depend on its ability to attract new employees and retain and motivate existing employees.

Our Business

The Bank offers a variety of traditional financial products and services that are designed to meet the financial needs of the customers and communities it serves. The Bank has been in the basic business of commercial and retail banking for over 70 years, namely attracting deposits and making loans, as well as providing wealth management services. The Company does not engage in any sub-prime lending, nor does it engage in investment banking activities.

Deposit and Retail Services

The Bank offers a full range of deposit services that are typically available at most commercial banks and financial institutions, including checking accounts, NOW accounts, money market accounts, savings accounts, and time deposits of various types ranging from shorter-term to longer-term certificates of deposit. The transaction accounts and time deposits are tailored to our primary service area at competitive rates. The Company also offers certain retirement account services, including individual retirement accounts.

Lending Activities

The Bank originates commercial and industrial, agricultural, commercial real estate, and consumer loans. Substantially all of the Company's borrowers are businesses and residents in the Bank's service areas. The Company's largest category of lending is commercial real estate, followed by commercial and industrial. The mix of properties securing the loans in our commercial real estate portfolio are balanced between owner-occupied and investor categories and are diverse in terms of type and geographic location within the Company's markets. Generally, real estate loans are secured by the land and any improvements to, or developments on, the land. Generally, loan-to-value ratios at time of origination are capped at 50% for unimproved land and 65% for developed land. The Company's consumer loans consist primarily of home equity loans and lines of credit and 1-4 family mortgages.

No individual or single group of related accounts is considered material in relation to the assets or deposits of the Bank or in relation to the overall business of the Company. However, 60% of our loan portfolio consisted of real estate-related loans at December 31, 2014.

For detailed information regarding the Company's loan portfolio, see the "Loan Portfolio and Credit Quality" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K.

Sources of Funds

The Company's ability to maintain affordable funding sources allows the Bank to meet the credit needs of its customers and the communities it serves. The Bank maintains a relatively stable base of core deposits that are the primary source of the Company's funds for lending and other investment purposes. Deposits funded 84% of the Company's assets at the end of 2014 with a loans-to-deposits ratio of 85%. Consumer, commercial, and public deposits come from the Company's primary service areas through a broad selection of deposit products. By maintaining core deposits, the Company both controls its funding costs and builds client relationships.

In addition to deposits the Company obtains, or has the ability to obtain, funds from the amortization, repayment, and prepayment of loans; the sale or maturity of investment securities; certificates of deposits; advances from the Federal Home Loan Bank of Chicago ("FHLB"); securities sold under agreements to repurchase; federal funds purchased; revolving lines of credit from unaffiliated banks; cash flows generated by operations; and proceeds from the issuance of debt and sales of the Company's Common Stock. For detailed information regarding the Company's funding sources, see the "Funding and Liquidity Management" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K.

Investment Activities

The Bank maintains a securities portfolio to provide the Company with financial stability, asset diversification, income, and collateral for borrowing. The Company administers its securities portfolio in accordance with an investment policy that was approved and adopted by the Board of Directors of the Bank. The Bank's Asset Liability Committee implements the investment policy based on the established guidelines within the written policy.

The basic objectives of the Bank's investment activities are to enhance the profitability of the Company by fully investing available funds, provide adequate regulatory and operational liquidity, minimize and/or adjust the interest rate risk position of the Company, diversify and mitigate the Company's exposure to credit risk, and provide collateral for pledging requirements. For detailed information regarding the Company's securities portfolio, see the "Investment Portfolio Management" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K.

Intellectual Property

Intellectual property is important to the success of our business. We own a variety of trademarks, service marks, trade names, and logos and spend time and resources maintaining our intellectual property portfolio. We control access to our intellectual property through license agreements, confidentiality procedures, non-disclosure agreements with third parties, employment agreements, and other contractual rights to protect our intellectual property.

Supervision and Regulation

The Bank is an Illinois state-chartered bank and a member of the Federal Reserve System, and the Board of Governors of the Federal Reserve System (the "Federal Reserve") has the primary federal authority to examine and supervise the Bank in coordination with the Illinois Department of Financial and Professional Regulation (the "IDFPR"). The Company is a single bank holding company and is also subject to the primary federal bank regulatory authority of the Federal Reserve. The Company and its subsidiaries are also subject to extensive secondary regulation and supervision by various state and federal governmental regulatory authorities, including the Federal Deposit Insurance Corporation ("FDIC"), which oversees insured deposits and assets covered by loss share agreements with the FDIC ("the FDIC Agreements"), and the U.S. Department of the Treasury (the "Treasury"), which enforces money laundering and currency transaction regulations. As a public company, the Company is also subject to the regulatory authority of the U.S. Securities and Exchange Commission (the "SEC") and the disclosure and regulatory requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Federal and state laws and regulations generally applicable to financial institutions regulate the Company's and the subsidiaries' scope of business, investments, reserves against deposits, capital levels, the nature and amount of collateral for loans, the establishment of branches, mergers, acquisitions, dividends, and other matters. This supervision and regulation is intended primarily for the protection of the FDIC's deposit insurance fund ("DIF"), a bank's depositors, and the stability of the U.S financial system, rather than the stockholders of a financial institution.

The following sections describe the significant elements of the material statutes and regulations affecting the Company and its subsidiaries, many of which are the subject of ongoing revision and legislative rulemaking as a result of the federal government's long-term regulatory reform of the financial markets and the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which is discussed in more detail later in this Form 10-K. In some cases, the revisions and rulemaking may include a significant overhaul of the regulation of financial institutions or limitations on the products they may offer.

The final regulations, regulatory policies, and regulatory and supervisory guidance applicable to the Company and its subsidiaries, and the manner in which market practices and structures develop around the regulations, could have a material adverse effect on our business, financial condition, and results of operations. The Company cannot accurately predict the nature or the extent of the effects that any such developments will have on its business and earnings. These and other risks are discussed in more detail in Item 1A, "Risk Factors" of this Form 10-K.

Bank Holding Company Act of 1956

Generally, the BHC Act governs the acquisition and control of banks and non-banking companies by bank holding companies and requires bank holding companies to register with the Federal Reserve. The BHC Act requires a bank holding company to file an annual report of its operations and such additional information as the Federal Reserve may require. A bank holding company and its subsidiaries are subject to examination by the Federal Reserve.

The BHC Act, the Bank Merger Act, and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the Federal Reserve for the direct or indirect acquisition by a bank holding company of more than 5.0% of the voting shares of a commercial bank or its parent holding company. Under the Bank Merger Act, the prior approval of the Federal Reserve or other appropriate bank regulatory authority is required for a member bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's managerial and financial resources, the applicant's performance record under the Community Reinvestment Act and fair housing laws, and the effectiveness of the banks in combating money laundering activities.

In addition, the BHC Act prohibits (with certain exceptions) a bank holding company from acquiring direct or indirect control or ownership, or control of more than 5.0% of the voting shares of any "non-banking" company unless the non-banking activities are found by the Federal Reserve to be "so closely related to banking as to be a proper incident thereto." Under current regulations of the Federal Reserve, a bank holding company and its non-bank subsidiaries are permitted to engage in such banking-related business ventures as consumer finance, equipment leasing, data processing, mortgage banking, financial and investment advice, securities brokerage services, and other activities.

Transactions with Affiliates

Any transactions between the Bank and the Company and their respective subsidiaries are regulated by the Federal Reserve. The Federal Reserve's regulations limit the types and amounts of covered transactions engaged in by the Bank and generally require those transactions to be on terms at least as favorable to the Bank as if the transaction were conducted with an unaffiliated third party. Covered transactions are defined by statute to include:

- A loan or extension of credit, as well as a purchase of securities issued by an affiliate.
- The purchase of assets from an affiliate, unless otherwise exempted by the Federal Reserve.
- Certain derivative transactions that create a credit exposure to an affiliate.
- The acceptance of securities issued by an affiliate as collateral for a loan.
- The issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate.

In general, these regulations require that any extension of credit by the Bank (or its subsidiaries) with an affiliate must be secured by designated amounts of specified collateral and must be limited to certain thresholds on an individual and aggregate basis.

The Bank is also limited as to how much and on what terms it may lend to its insiders and the insiders of its affiliates, including executive officers and directors.

Source of Strength

Federal Reserve policy and federal law require bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, a holding company is expected to commit resources to support its bank subsidiary even at times when the holding company may not be in a financial position to provide such resources. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

Community Reinvestment Act of 1977

The Community Reinvestment Act of 1977, as amended (the "CRA"), requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practices. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low-income and moderate-income individuals and communities. Federal regulators conduct CRA examinations on a regular basis to assess the performance of financial institutions and assign one of four ratings to the institution's record of meeting the credit needs of its community. Banking regulators take into account CRA ratings when considering approval of a proposed transaction. During its last examination in August of 2012, the Bank received a rating of "outstanding," the highest rating available.

Gramm-Leach-Bliley Act of 1999

The Gramm-Leach-Bliley Act of 1999, as amended (the "GLB Act"), allows certain bank holding companies to elect to be treated as a financial holding company (an "FHC") that may offer customers a more comprehensive array of financial products and services. Such products and services may include insurance and securities underwriting and agency activities, merchant banking, and insurance company portfolio investment activities. Activities that are "complementary" to financial activities are also authorized. Under the GLB Act, the Federal Reserve may not permit a company to register or maintain status as an FHC if the company or any of its insured depository institution subsidiaries are not well-capitalized and well managed. The Federal Reserve may prohibit an FHC from engaging in otherwise permissible activities at its supervisory discretion. In addition, for an FHC to commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the FHC must have received a rating of at least "satisfactory" in its most recent examination under the CRA.

In addition, a financial institution may not disclose non-public personal information about a consumer to unaffiliated third parties unless the institution satisfies various disclosure requirements and the consumer has not elected to opt out of the information sharing. Under the GLB Act, a financial institution must provide its customers with a notice of its privacy policies and practices. The Federal Reserve, the FDIC, and other financial regulatory agencies issued regulations implementing notice requirements and restrictions on a financial institution's ability to disclose non-public personal information about consumers to unaffiliated third parties.

Bank Secrecy Act and USA PATRIOT Act

The Bank Secrecy and USA PATRIOT Acts require financial institutions to develop programs to prevent them from being used for money laundering, terrorist, and other illegal activities. If such activities are detected or suspected, financial institutions are obligated to file suspicious activity reports with the Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new accounts. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Office of Foreign Assets Control Regulation

The United States imposes economic sanctions that affect transactions with designated foreign countries, nationals, and others. These sanctions are administered by the Treasury's Office of Foreign Assets Control ("OFAC"). These sanctions include: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off, or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act significantly restructured the financial regulatory regime in the United States. Although the Dodd-Frank Act's provisions that have received the most public attention generally have been those applying to or more likely to affect larger institutions, such as bank holding companies and banks with total consolidated assets of $10 billion or more, it contains numerous other provisions that affect all bank holding companies and banks, including the Company and the Bank, some of which are described in more detail below. We are monitoring developments with respect to the provisions applicable to bank holding companies and banks with total consolidated assets of $10 billion or more in the event that the Company or Bank reaches that size.

Some of these provisions may have the consequence of increasing the Company's expenses, decreasing the Company's revenues, and changing the activities in which the Company chooses to engage. Many aspects of the Dodd-Frank Act are still subject to future rulemaking, implementation, and guidance that will occur over several years, making it difficult to anticipate the overall financial impact on the Company, its customers, or the financial industry in general.

Consumer Financial Protection

The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB") as a new and independent unit within the Federal Reserve System. With certain exceptions, the CFPB has authority to regulate any person or entity that engages in offering or providing a "consumer financial product or service" and has rulemaking, examination, and enforcement powers over financial institutions. For primary examination and enforcement authority of financial entities, however, the CFPB's authority is limited to institutions with assets of $10 billion or more. Existing regulators retain this authority over institutions with assets of $10 billion or less, such as the Company.

The powers of the CFPB currently include:

- The ability to prescribe consumer financial laws and rules that regulate all institutions that engage in offering or providing a consumer financial product or service.
- Primary enforcement and exclusive supervision authority for federal consumer financial laws over "very large" insured institutions with assets of $10 billion or more. This includes the right to obtain information about an institution's activities and compliance systems and procedures and to detect and assess risks to consumers and markets.
- The ability to require reports from institutions with assets under $10 billion, such as the Bank, to support the CFPB in implementing federal consumer financial laws, supporting examination activities, and assessing and detecting risks to consumers and financial markets.
- Examination authority (limited to assessing compliance with federal consumer financial laws) over institutions with assets under $10 billion, such as the Bank. Specifically, a CFPB examiner may be included on a sampling basis in the examinations performed by the institution's primary regulator.

The CFPB engages in several activities including (i) investigating consumer complaints about credit cards and mortgages, (ii) launching supervisory programs, (iii) conducting research for and developing mandatory financial product disclosures, and (iv) engaging in consumer financial protection rulemaking.

The Bank is also subject to a number of regulations intended to protect consumers in various areas, such as equal credit opportunity, fair lending, customer privacy, identity theft, and fair credit reporting. For example, the Bank is subject to the Federal Truth in Savings Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act. Electronic banking activities are subject to federal law, including the Electronic Funds Transfer Act. Wealth management activities of the Bank are subject to the Illinois Corporate Fiduciaries Act. Loans made by the Bank are subject to applicable provisions of the Federal Truth in Lending Act. Other consumer financial laws include the Equal Credit Opportunity Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, and applicable state laws.

The Federal Reserve has primary responsibility for examination and enforcement of federal consumer financial laws with respect to the Company, and state authorities are responsible for monitoring the Company's compliance with all state consumer laws. Failure to comply with these requirements could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Interchange Fees

Under the Durbin Amendment of the Dodd-Frank Act, the Federal Reserve established a maximum permissible interchange fee equal to no more than 21 cents plus five basis points of the transaction value for many types of debit interchange transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Company is in compliance with these fraud-related requirements. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Currently, the Company is exempt from the interchange fee cap under the "small issuer" exemption, which applies to any debit card issuer with total worldwide assets of less than $10 billion as of the end of the previous calendar year. In the event the Company's assets reach $10 billion or more, it will become subject to the interchange fee limitations beginning July 1 of the following year, and the fees the Company may receive for an electronic debit transaction will be capped at the statutory limit.

Capital Requirements

The Federal Reserve and other federal bank regulators established risk-based capital guidelines to provide a framework for assessing the adequacy of the capital of national and state banks, thrifts, and their holding companies (collectively, "banking institutions"). These guidelines apply to all banking institutions, regardless of size, and are used in the examination and supervisory process by the regulatory authorities. These guidelines require banking institutions to maintain capital based on the 1988 capital accord ("Basel I") of the Basel Committee on Banking Supervision (the "Basel Committee").

The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. The requirements are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments ("risk-weighted assets").

Capital is classified in one of the following tiers:

- Core Capital (Tier 1). Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, and qualifying trust-preferred securities, less goodwill, most intangible assets, and certain other assets.
- Supplementary Capital (Tier 2). Tier 2 capital includes perpetual preferred stock and trust-preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and the allowance for credit losses, subject to limitations.

Regulatory requirements also establish quantitative measures to ensure capital adequacy for banking institutions as follows:

	Adequately Capitalized Requirement	Well-Capitalized Requirement
Tier 1 capital to risk-weighted assets	4.00%	6.00%
Total capital to risk-weighted assets	8.00%	10.00%
Tier 1 capital to average assets	4.00%	5.00%

Basel III Capital Rules

In July 2013, the Federal Reserve published final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee’s December 2010 framework commonly known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues impacting the numerator in banks’ regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues impacting the denominator in regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. In addition, the Basel III Capital Rules implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies’ rules. The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period).

The Basel III Capital Rules (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) narrowly define CET1 by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments compared to existing regulations. Bank holding companies with less than $15 billion in consolidated assets as of December 31, 2009, such as the Company, are permitted to include trust-preferred securities in Additional Tier 1 Capital on a permanent basis and without any phase-out. As of December 31, 2014, the Company had $50.7 million of trust-preferred securities included in Tier 1 capital.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company and the Bank to maintain the following:

- A minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation).
- A minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation).
- A minimum ratio of total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (resulting in a minimum total capital ratio of 10.5% upon full implementation).
- A minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum, but below the conservation buffer, will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1 until it reaches 2.5% on January 1, 2019).

The Basel III Capital Rules also provide for a number of deductions from and adjustments to CET1 to be phased-in over a four-year period through January 1, 2019 (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). Examples of these include the requirement that mortgage servicing rights, deferred tax assets depending on future taxable income, and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, the Company and the Bank, may make a one-time permanent election to continue to exclude these items, and the Company and the Bank expect to make such an election.

Finally, the Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50%, and 100%) to a much larger and more risk-sensitive number of categories depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures, resulting in higher risk weights for a variety of asset categories.

Management believes that as of December 31, 2014, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

Liquidity Requirements

Historically, the regulation and monitoring of bank and bank holding company liquidity was addressed as a supervisory matter, without required formulaic measures. Liquidity risk management has become increasingly important since the financial crisis. The Basel III liquidity framework puts forth regulatory requirements that banks and bank holding companies measure their liquidity against specific liquidity tests. One test, referred to as the liquidity coverage ratio ("LCR"), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will provide an incentive for banking entities to increase their holdings of Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In September of 2014, the federal banking agencies approved final rules implementing the LCR for advanced approaches banking organizations (which includes banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to the Company or the Bank. The federal banking agencies have not yet proposed rules to implement the NSFR or addressed the scope of bank organizations to which it will apply.

Prompt Corrective Action

The Federal Deposit Insurance Act, as amended ("FDIA"), requires the federal banking agencies to take "prompt corrective action" for depository institutions that do not meet the minimum capital requirements. The FDIA includes the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend on how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio, and the leverage ratio.

A bank will be:

- "Well capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure.
- "Adequately capitalized" if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized."
- "Undercapitalized" if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%.
- "Significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%.
- "Critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating for certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes. As of December 31, 2014, the Company believes the Bank was "well capitalized" based on its ratios as defined above.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, the depository institution's parent holding company must guarantee that the institution will comply with the capital restoration plan and must also provide appropriate assurances of performance for a plan to be acceptable. The aggregate liability of the parent holding company is limited to the lesser of an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable to the institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized."

"Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The Basel III Capital Rules revised the former prompt corrective action requirements effective January 1, 2015 by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any prompt corrective action category.

Volcker Rule

The so-called "Volcker Rule" issued under the Dodd-Frank Act restricts the ability of the Company and its subsidiaries, including the Bank, to sponsor or invest in private funds or to engage in certain types of proprietary trading. The Federal Reserve adopted final rules implementing the Volcker Rule on December 10, 2013. Although the Volcker Rule became effective on July 21, 2012 and the final rules became effective April 1, 2014, the Federal Reserve issued an order extending the transition period to July 21, 2015. In December 2014, the Federal Reserve further extended the transition period as to the restrictions on sponsoring or investing in private funds to 2017. Banks, such as the Bank, with less than $10 billion in total consolidated assets that do not engage in any covered activities other than trading in certain government, agency, state or municipal obligations, do not have any significant compliance obligations under the final rules. Although the Company is continuing to evaluate the impact of the Volcker Rule, it generally does not engage in the businesses prohibited by the Volcker Rule; therefore, management does not currently anticipate that the Volcker Rule will have a material effect on the operations of the Company and its subsidiaries.

Illinois Banking Law

The Illinois Banking Act ("IBA") governs the activities of the Bank as an Illinois state-chartered bank. Among other things, the IBA (i) defines the powers and permissible activities of an Illinois state-chartered bank, (ii) prescribes corporate governance standards, (iii) imposes approval requirements on merger and acquisition activity of Illinois state banks, (iv) prescribes lending limits, and (v) provides for the examination of state banks by the IDFPR. The Banking on Illinois Act ("BIA") amended the IBA to provide a wide range of new activities allowed for Illinois state-chartered banks, including the Bank. The provisions of the BIA are to be construed liberally to create a favorable business climate for banks in Illinois. The main features of the BIA are to expand bank powers through a "wild card" provision that authorizes Illinois state-chartered banks to offer virtually any product or service that any bank or thrift may offer anywhere in the country, subject to restrictions imposed on those other banks and thrifts, certain safety and soundness considerations, and prior notification to the IDFPR and the FDIC.

Dividends

The Company's primary source of liquidity is dividend payments from the Bank. In addition to requirements to maintain adequate capital above regulatory minimums, the Bank is limited in the amount of dividends it can pay to the Company under the IBA. Under this law, the Bank is permitted to declare and pay dividends in amounts up to the amount of its accumulated net profits, provided that it retains in its surplus at least one-tenth of its net profits since the date of the declaration of its most recent dividend until those additions to surplus, in the aggregate, equal the paid-in capital of the Bank. While it continues its banking business, the Bank may not pay dividends in excess of its net profits then on hand (after deductions for losses and bad debts). In addition, the Bank is limited in the amount of dividends it can pay under the Federal Reserve Act and Regulation H. For example, dividends cannot be paid that would constitute a withdrawal of capital; dividends cannot be declared or paid if they exceed a bank's undivided profits; and a bank may not declare or pay a dividend if all dividends declared during the calendar year are greater than current year net income plus retained net income of the prior two years without Federal Reserve approval.

Since the Company is a legal entity, separate and distinct from the Bank, its dividends to stockholders are not subject to the bank dividend guidelines discussed above. However, the Company is subject to other regulatory policies and requirements related to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve and the IDFPR are authorized to determine that the payment of dividends by the Company would be an unsafe or unsound practice and to prohibit payment under certain circumstances related to the financial condition of a bank or bank holding company. The Federal Reserve has taken the position that dividends that would create pressure or undermine the safety and soundness of a subsidiary bank are inappropriate. Due to the current financial and economic environment, the Federal Reserve indicated that bank holding companies should carefully review their dividend policy and discourage payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Bank holding companies and banks with average total consolidated assets greater than $10 billion must conduct an annual stress test of capital and consolidated earnings and losses under one base, both of which are provided by the federal banking agencies. Capital ratios reflected in required stress test calculations will most likely be an important factor considered by the federal banking agencies in evaluating whether proposed payments of dividends or stock repurchases may be an unsafe or unsound practice. In the event that the Company or the Bank grows to assets of $10 billion or more, the Company will be subject to these stress test requirements.

FDIC Insurance Premiums

The Bank's deposits are insured through the DIF, which is administered by the FDIC. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It may also prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF. Insurance of deposits may be terminated by the FDIC upon a finding that the institution engaged or is engaging in unsafe and unsound practices; is in an unsafe or unsound condition to continue operations; or violated any applicable law, regulation, rule, order, or condition imposed by the FDIC or written agreement entered into with the FDIC.

The FDIC utilizes a risk-based assessment system that imposes insurance premiums based on a risk matrix that takes into account a bank's capital level and supervisory rating. The risk matrix utilizes four risk categories, which are distinguished by capital levels and supervisory ratings. For deposit insurance assessment purposes, an insured depository institution is placed into one of the four risk categories each quarter. An institution's assessment is determined by multiplying its assessment rate by its assessment base.

The total base assessment rates range from 2.5 basis points to 45 basis points. The assessment base is calculated using average consolidated total assets minus average tangible equity. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required.

In addition, institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a U.S. government-sponsored enterprise established in 1987 to serve as a financing vehicle for the failed Federal Savings and Loan Association. These assessments will continue until the Financing Corporation bonds mature in 2019.

Employee Incentive Compensation

In 2010, the Federal Reserve, along with the other federal banking agencies, issued guidance applying to all banking organizations that requires that their incentive compensation policies be consistent with safety and soundness principles. Under these rules, financial organizations must review their compensation programs to ensure that they: (i) provide employees with incentives that appropriately balance risk and reward and that do not encourage imprudent risk; (ii) are compatible with effective controls and risk management; and (iii) are supported by strong corporate governance including active and effective oversight by the banking organization's board of directors. Monitoring methods and processes used by a banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation.

In addition, the Dodd-Frank Act requires that the federal bank regulatory agencies and the SEC establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as the Company and the Bank, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director, or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. In 2011, the Federal Reserve, along with other federal banking agencies, proposed such rules, which have not yet been finalized. These proposed rules incorporate many of the executive compensation principles described above, including a prohibition on compensation practices that encourage covered persons to take inappropriate risks by providing such person with excessive compensation.

Future Legislation and Regulation

In addition to the specific legislation described above, various laws and regulations are being considered by Congress and regulatory agencies that may change banking statutes and the Company's operating environment in substantial and unpredictable ways and may increase reporting requirements and compliance costs. These changes could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions.

AVAILABLE INFORMATION

We file annual, quarterly, and current reports; proxy statements; and other information with the SEC, and we make this information available free of charge on the investor relations section of our website at www.firstmidwest.com/investorrelations. You may read and copy materials we file with the SEC from its Public Reference Room at 100 F. Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The following documents are also posted on our website or are available in print upon the request of any stockholder to our Corporate Secretary:

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

Within the time period required by the SEC and the NASDAQ Stock Market, we will post on our website any amendment to the Code and any waiver applicable to any executive officer, director, or senior financial officer (as defined in the Code). In addition, our website includes information concerning purchases and sales of our securities by our executive officers and directors. The Company's accounting and reporting policies conform to U.S. generally accepted accounting principles ("GAAP") and general practice within the banking industry. We post on our website any disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast, or by similar means from time to time.

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

ITEM 1A. RISK FACTORS

An investment in our Common Stock is subject to risks inherent in the Company's business. The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision with respect to any of the Company's securities, you should carefully consider the risks and uncertainties as described below, together with all of the information included herein. The risks and uncertainties described below are not the only risks and uncertainties the Company faces. Additional risks and uncertainties not presently known or currently deemed immaterial also may have a material adverse effect on the Company's results of operations and financial condition. If any of the following risks actually occur, the Company's business, financial condition, and results of operations could be adversely affected, possibly materially. In that event, the trading price of the Company's Common Stock or other securities could decline. The risks discussed below also include forward-looking statements, and actual results may differ substantially from those discussed or implied in these forward-looking statements.

Risks Related to the Company's Business

Interest Rate and Credit Risks

The Company is subject to interest rate risk.

The Company's earnings and cash flows largely depend on its net interest income. Net interest income equals the difference between interest income and fees earned on interest-earning assets (such as loans and securities) and interest expense incurred on interest-bearing liabilities (such as deposits and borrowed funds). Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence the amount of interest the Company earns on loans and securities and the amount of interest it pays on deposits and borrowings. These changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and

(iii) the average duration of the Company's securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it implements effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, or prolonged change in market interest rates could have a material adverse effect on the Company's business, financial condition, and results of operations. See "Net Interest Income" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Form 10-K for further discussion related to the Company's management of interest rate risk.

The Company is subject to lending risk.

There are inherent risks associated with the Company's lending activities. Underwriting and documentation controls cannot mitigate all credit risks, especially those outside the Company's control. These risks include the impact of changes in interest rates, changes in the economic conditions in the markets in which the Company operates and across the U.S., and the ability of borrowers to repay loans based on their respective circumstances. Increases in interest rates or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing those loans.

In particular, economic weakness in real estate and related markets could increase the Company's lending risk as it relates to its commercial real estate loan portfolio and the value of the underlying collateral. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil monetary penalties against the Company and other actions.

As of December 31, 2014, the Company's loan portfolio consisted of 86.3% of corporate loans, the majority of which were secured by commercial real estate, and 13.7% of consumer loans. The deterioration of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan and covered loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's business, financial condition, and results of operations. See "Loan Portfolio and Credit Quality" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Form 10-K for further discussion related to corporate and consumer loans.

Real estate market volatility and future changes in disposition strategies could result in net proceeds that differ significantly from fair value appraisals of loan collateral and OREO and could negatively impact the Company's business, financial condition, and results of operations.

Many of the Company's non-performing real estate loans are collateral-dependent, and the repayment of the loan largely depends on the value of the collateral securing the loan and the successful operation of the property. For collateral-dependent loans, the Company estimates the value of the loan based on the appraised value of the underlying collateral less costs to sell. The Company's OREO portfolio consists of properties acquired through foreclosure in partial or total satisfaction of certain loans as a result of borrower defaults.

In determining the value of OREO properties and other loan collateral, an orderly disposition of the property is generally assumed, except where a different disposition strategy is expected. The disposition strategy the Company has in place for a non-performing loan will determine the appraised value it uses (e.g., "as-is", "orderly liquidation", or "forced liquidation"). Significant judgment is required in estimating the fair value of property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility.

In response to market conditions and other economic factors, the Company may utilize alternative sale strategies other than orderly dispositions as part of its disposition strategy, such as immediate liquidation sales. In this event, the net proceeds realized could differ significantly from estimates used to determine the fair value of the properties as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition. This could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's lending activities are subject to strict regulations.

The Company is subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil monetary penalties against the Company and other actions, and could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's allowance for credit losses may be insufficient.

The Company maintains an allowance for credit losses at a level believed adequate to absorb estimated losses inherent in its existing loan portfolio. The level of the allowance for credit losses reflects management's continuing evaluation of industry concentrations; specific credit risks; credit loss experience; current loan portfolio quality; present economic and business conditions; changes in competitive, legal, and regulatory conditions; and unidentified losses inherent in the current loan portfolio. Determination of the allowance for credit losses is inherently subjective since it requires significant estimates and management judgment of credit risks and future trends, which are subject to material changes. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, changes in accounting principles, and other factors, both within and outside of the Company's control, may require an increase in the allowance for credit losses. In addition, bank regulatory agencies periodically review the Company's allowance for credit losses and may require an increase in the provision for loan and covered loan losses or the recognition of additional loan charge-offs based on judgments different from those of management. Furthermore, if charge-offs in future periods exceed the allowance for credit losses, the Company will need additional provisions to increase the allowance. Any increases in the allowance for credit losses will result in a decrease in net income and capital and may have a material adverse effect on the Company's financial condition and results of operations. See Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for further discussion related to the Company's process for determining the appropriate level of the allowance for credit losses.

Financial services companies depend on the accuracy and completeness of information about customers and counterparties.

The Company may rely on information furnished by or on behalf of customers and counterparties in deciding whether to extend credit or enter into other transactions. This information could include financial statements, credit reports, business plans, and other information. The Company may also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other information could have a material adverse impact on the Company's business, financial condition, and results of operations.

Funding Risks

The Company is a bank holding company and its sources of funds are limited.

The Company is a bank holding company, and its operations are primarily conducted by the Bank, which is subject to significant federal and state regulation. Cash available to pay dividends to stockholders of the Company is derived primarily from dividends received from the Bank. The Company's ability to receive dividends or loans from its subsidiaries is restricted by law. Dividend payments by the Bank to the Company in the future will require generation of future earnings by the Bank and could require regulatory approval if the proposed dividend is in excess of prescribed guidelines. Further, the Company's right to participate in the assets of the Bank upon its liquidation, reorganization, or otherwise will be subject to the claims of the Bank's creditors, including depositors, which will take priority except to the extent the Company may be a creditor with a recognized claim. As of December 31, 2014, the Company's subsidiaries had deposits and other liabilities of $8.1 billion.

The Company could experience an unexpected inability to obtain needed liquidity.

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets, and its access to alternative sources of funds. The Company seeks to ensure its funding needs are met by maintaining an adequate level of liquidity through asset and liability management. If the Company becomes unable to obtain funds when needed, it could have a material adverse effect on the Company's business, financial condition, and results of operations.

Loss of customer deposits could increase the Company's funding costs.

The Company relies on bank deposits to be a low cost and stable source of funding. The Company competes with banks and other financial services companies for deposits. If the Company's competitors raise the rates they pay on deposits, the Company's funding costs may increase, either because the Company raises its rates to avoid losing deposits or because the Company loses deposits and must rely on more expensive sources of funding. Higher funding costs could reduce the Company's net interest margin and net interest income and could have a material adverse effect on the Company's business, financial condition, and results of operations.

Any reduction in the Company's credit ratings could increase its financing costs.

Various rating agencies publish credit ratings for the Company's debt obligations, based on their evaluations of a number of factors, some of which relate to Company performance and some of which relate to general industry conditions. Management routinely communicates with each rating agency and anticipates the rating agencies will closely monitor the Company's performance and update their ratings from time to time during the year.

The Company cannot give any assurance that its current credit ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Downgrades in the Company's credit ratings may adversely affect its borrowing costs and its ability to borrow or raise capital, and may adversely affect the Company's reputation.

The Company's current credit ratings are as follows:

Rating Agency	Rating
Standard & Poor's Rating Group, a division of the McGraw-Hill Companies, Inc.	BBB-
Moody's Investor Services, Inc.	Baa2
Fitch, Inc.	BBB-

Regulatory requirements, future growth, or operating results may require the Company to raise additional capital, but that capital may not be available or be available on favorable terms, or it may be dilutive.

The Company is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. The Company may be required to raise capital if regulatory requirements change, the Company's future operating results erode capital, or the Company elects to expand through loan growth or acquisition.

The Company's ability to raise capital will depend on conditions in the capital markets, which are outside of its control, and on the Company's financial performance. Accordingly, the Company cannot be assured of its ability to raise capital when needed or on favorable terms. If the Company cannot raise additional capital when needed, it will be subject to increased regulatory supervision and the imposition of restrictions on its growth and business. These could negatively impact the Company's ability to operate or further expand its operations through acquisitions or the establishment of additional branches and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on its business, financial condition, and results of operations.

Operational Risks

The Company and its subsidiaries are subject to changes in accounting principles, policies, or guidelines.

The Company's financial performance is impacted by accounting principles, policies, and guidelines. Some of these policies require the use of estimates and assumptions that may affect the value of the Company's assets or liabilities and financial results. Some of the Company's accounting policies are critical because they require management to make subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions are incorrect, the Company may experience material losses. See "Critical Accounting Estimates" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K for further discussion.

From time to time, the Financial Accounting Standards Board ("FASB") and the SEC change the financial accounting and reporting standards, or the interpretation of those standards, that govern the preparation of the Company's external financial statements. These changes are beyond the Company's control, can be difficult to predict, and could materially impact how the Company reports its results of operations and financial condition.

These standards are continuously updated and refined and new standards are developed resulting in changes that could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Company's loan underwriting and monitoring process, internal controls, disclosure controls and procedures, compliance controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's accounting estimates and risk management processes rely on analytical and forecasting models.

The processes the Company uses to estimate its loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the

Company's financial condition and results of operations, depend on the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the

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models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models the Company uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses resulting from changes in market interest rates or other market measures. If the models the Company uses for estimating its loan losses are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models the Company uses to measure the fair value of financial instruments are inadequate, the fair value of these financial instruments may fluctuate unexpectedly or may not accurately reflect what the Company could realize on the sale or settlement. Any failure in the Company's analytical or forecasting models could have a material adverse effect on the Corporation's business, financial condition, and results of operations.

The Company may not be able to attract and retain skilled people.

The Company's success depends on its ability to attract and retain skilled people. Competition for the best people in most activities in which the Company engages can be intense, and the Company may not be able to hire people or retain them.

The unexpected loss of services of certain of the Company's skilled personnel could have a material adverse impact on the Company's business because of their skills, knowledge of the Company's market, years of industry experience, customer relationships, and the difficulty of promptly finding qualified replacement personnel.

Loss of key employees may disrupt relationships with certain customers.

The Company's customer relationships are critical to the success of its business, and loss of key employees with significant customer relationships may lead to the loss of business if the customers follow that employee to a competitor. While the Company believes its relationships with its key personnel are strong, it cannot guarantee that all of its key personnel will remain with the organization, which could result in the loss of some of its customers and could have an adverse impact on the Company's business, financial condition, and results of operations.

The Company's information systems may experience an interruption or breach in security.

The Company relies heavily on internal and outsourced digital technologies, communications, and information systems to conduct its business. As the Company's reliance on technology systems increases, the potential risks of technology-related operation interruptions in the Company's customer relationship management, general ledger, deposit, loan, or other systems or the occurrence of cyber incidents also increases. Cyber incidents can result from deliberate attacks or unintentional events including, among other things, (i) gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing potentially debilitating operational disruptions; (ii) causing denial-of-service attacks on websites; or (iii) intelligence gathering and social engineering aimed at obtaining information. The occurrence of operational interruption, cyber incident, or a deficiency in the cyber security of the Company's technology systems (internal or outsourced) could negatively impact the Company's financial condition or results of operations.

The Company has policies and procedures expressly designed to prevent or limit the effect of a failure, interruption, or security breach of its systems and maintains cyber security insurance. Significant interruptions to the Company's business from technology issues could result in expensive remediation efforts and distraction of management. During the year, the Company experienced certain immaterial cyber-attacks or breaches and continues to invest in security and controls to prevent and mitigate future incidents. Although the Company has not experienced any material losses related to a technology-related operational interruption or cyber-attack, there can be no assurance that such failures, interruptions, or security breaches will not occur in the future or, if they do occur, that the impact will not be substantial.

The occurrence of any failures, interruptions, or security breaches of the Company's technology systems could damage the Company's reputation, result in a loss of customer business, result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of proprietary information, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's business, financial condition, and results of operations, as well as its reputation or stock price. As cyber threats continue to evolve, the Company expects it will be required to spend significant resources on an ongoing basis to continue to modify and enhance its protective measures and to investigate and remediate any information security vulnerabilities.

The Company depends on outside third parties for processing and handling of Company records and data.

The Company relies on software developed by third party vendors to process various Company transactions. In some cases, the Company has contracted with third parties to run their proprietary software on its behalf. These systems include, but are not limited to, general ledger, payroll, employee benefits, wealth management record keeping, loan and deposit processing, merchant processing, and securities portfolio management. While the Company performs a review of controls instituted by the vendors over these programs in accordance with industry standards and performs its own testing of user controls, the Company must rely on the continued maintenance of these controls by the outside party, including safeguards over the security of customer data. In addition, the Company maintains backups of key processing output daily in the event of a failure on the part of any of these systems. Nonetheless, the Company may incur a temporary disruption in its ability to conduct its business or process its transactions or incur damage to its reputation if the third party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such disruption or breach of security may have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company continually encounters technological change.

The banking and financial services industry continually undergoes technological changes, with frequent introductions of new technology-driven products and services. In addition to better meeting customer needs, the effective use of technology increases efficiency and enables financial institutions to reduce costs. The Company's future success will depend, in part, on its ability to address the needs of its customers by using technology to provide products and services that enhance customer convenience and that create additional efficiencies in the Company's operations. Many of the Company's competitors have greater resources to invest in technological improvements, and the Company may not effectively implement new technology-driven products and services or do so as quickly as its competitors, which could reduce its ability to effectively compete. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on the Company's business, financial condition, and results of operations.

New lines of business or new products and services may subject the Company to additional risks.

From time to time, the Company may implement new lines of business or offer new products or services within existing lines of business. There can be substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products or services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and new products or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's estimate of fair values for its investments may not be realizable if it were to sell these securities today.

The Company's available-for-sale securities are carried at fair value. Accounting standards require the Company to disclose these securities according to a fair value hierarchy. Less than one percent of the Company's available-for-sale securities were categorized in level 1 of the fair value hierarchy. Over 97% of the Company's available-for-sale securities were categorized in level 2 of the fair value hierarchy and the remaining securities were categorized as level 3. See Note 22 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for a detailed description of the fair value hierarchies.

The determination of fair value for securities categorized in level 3 involves significant judgment due to the complexity of factors contributing to the valuation, many of which are not readily observable in the market. The market disruptions in recent years made the valuation process even more difficult and subjective.

Due to the illiquidity in the secondary market for the Company's level 3 securities, the Company estimates the value of these securities using discounted cash flow analyses with the assistance of a structured credit valuation firm. Third-party sources also use assumptions, judgments, and estimates in determining securities values, and different third parties use different methodologies or provide different prices for similar securities. In addition, the nature of the business of the third party source that is valuing the securities at any given time could impact the valuation of the securities.

Consequently, the ultimate sales price for any of these securities could vary significantly from the recorded fair value at December 31, 2014, especially if the security is sold during a period of illiquidity or market disruption or as part of a large block of securities under a forced transaction. Any resulting write-downs of the fair value of the Company's available-for-sale securities would reduce earnings in the period in which it is recorded and could have a material

adverse effect on the Company's business, financial condition, and results of operations.
The value of the Company's goodwill and other intangible assets may decline in the future.
As of December 31, 2014, the Company had $334.2 million of goodwill and other intangible assets. If the Company's stock price declines and remains low for an extended period of time, the Company could be required to write off all or a portion of its goodwill. The Company's stock price is subject to market conditions that can be impacted by forces outside of the control of management, such as a perceived weakness in financial institutions in general, and may not be a direct result of the Company's performance. In addition, a significant decline in the Company's expected future cash flows, a significant adverse change in the business climate,

or slower growth rates may necessitate taking future charges related to the impairment of the Company's goodwill and other intangible assets. A write-down of goodwill and other intangible assets would reduce earnings in the period in which it is recorded and could have a material adverse effect on the Company's business, financial condition, and results of operations.

External Risks

The Company operates in a highly competitive industry and market area.

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. These competitors primarily include national, regional, and community banks within the markets in which the Company operates. The Company also faces competition from many other types of financial institutions, including savings and loan associations, credit unions, personal loan and finance companies, retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory, and technological changes; further illiquidity in the credit markets; and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of an FHC, which can offer virtually any type of financial service, including banking, securities underwriting, insurance, and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic funds transfer and automatic payment systems. Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures. Due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services, as well as better pricing for those products and services than the Company can offer.

The Company's ability to compete successfully depends on a number of factors, including:

- Developing, maintaining, and building long-term customer relationships.
- Expanding the Company's market position.
- Offering products and services at prices and with the features that meet customers' needs and demands.
- Introducing new products and services.
- Maintaining a satisfactory level of customer service.
- Anticipating and adjusting to changes in industry and general economic trends.
- Continued development and support of internet-based services.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability. This, in turn, could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's business may be adversely affected by conditions in the financial markets and economic conditions generally.

The Company's financial performance depends to a large extent on the business environment in the suburban metropolitan Chicago market, the states of Illinois, Indiana, and Iowa, and the U.S. as a whole. In particular, the business environment impacts the ability of borrowers to pay interest on and repay principal of outstanding loans as well as the value of collateral securing those loans. A favorable business environment is generally characterized by economic growth, low unemployment, efficient capital markets, low inflation, high business and investor confidence, strong business earnings, and other factors. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

In recent years, the suburban metropolitan Chicago market, the states of Illinois, Indiana, and Iowa, and the U.S. as a whole experienced a downward economic cycle, including a significant recession from which it is slowly recovering. Business growth across a wide range of industries and regions in the United States remains reduced, and local governments and many businesses continue to experience financial difficulty. Since the recession, economic growth has been slow and uneven, unemployment levels generally remain elevated and there are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Periods of increased volatility in financial and other markets, such as those experienced recently with regard to oil and other commodity prices and current rates, and those that may arise from global political tensions and re-emerging concerns over European sovereign debt risk, can have a direct or indirect negative impact on the Company and our customers and introduce greater uncertainty into credit evaluation decisions and prospects for growth. Economic pressure on consumers and uncertainty regarding continuing economic improvement may also result in changes in consumer and business spending, borrowing and saving habits.

Such conditions could have a material adverse effect on the credit quality of the Company's loans or its business, financial condition, or results of operations, as well as other potential adverse impacts, including:

- There could be an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility, and widespread reduction of business activity generally.
- There could be an increase in write-downs of asset values by financial institutions, such as the Company.
- The Company's ability to assess the creditworthiness of customers could be impaired if the models and approaches it uses to select, manage, and underwrite credits become less predictive of future performance.
- The process the Company uses to estimate losses inherent in the Company's loan portfolio requires difficult, subjective, and complex judgments. This process includes analysis of economic conditions and the impact of these economic conditions on borrowers' ability to repay their loans. The process could no longer be capable of accurate estimation and may, in turn, impact its reliability.
- The Bank could be required to pay significantly higher FDIC premiums in the future if losses further deplete the DIF.
- The Company could face increased competition due to intensified consolidation of the financial services industry.

If periods of market disruption and volatility continue or worsen, there can be no assurance that the Company will not experience an adverse effect, which may be material, on its ability to access capital and on the Company's business, financial condition, and results of operations.

Turmoil in the financial markets could result in lower fair values for the Company's investment securities.

Major disruptions in the capital markets experienced in recent years have adversely affected investor demand for all classes of securities, excluding U.S. Treasury securities, and resulted in volatility in the fair values of the Company's investment securities. Significant prolonged reduced investor demand could manifest itself in lower fair values for these securities and may result in recognition of an other-than-temporary impairment ("OTTI"), which could have a material adverse effect on the Company's business, financial condition, and results of operations.

Municipal securities can also be impacted by the business environment of their geographic location. Although this type of security historically experienced extremely low default rates, municipal securities are subject to systemic risk since cash flows generally depend on (i) the ability of the issuing authority to levy and collect taxes or (ii) the ability of the issuer to charge for and collect payment for essential services rendered. If the issuer defaults on its payments, it may result in the recognition of OTTI or total loss, which could have a material adverse effect on the Company's business, financial condition, and results of operations.

Managing reputational risk is important to attracting and maintaining customers, investors, and employees.

Threats to the Company's reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of the Company's customers. The Company has policies and procedures in place that seek to protect its reputation and promote ethical conduct. Nonetheless, negative publicity may arise regarding the Company's business, employees, or customers, with or without merit, and could result in the loss of customers, investors, and employees; costly litigation; a decline in revenues; and increased governmental oversight. Negative publicity could have a material adverse impact on the Company's reputation, business, financial condition, results of operations, and liquidity.

The Company may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be realized upon liquidation or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company's business, financial condition, results of operations, and liquidity.

The Company is subject to environmental liability risk associated with lending activities.

A significant portion of the Company's loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and could materially reduce the affected property's value or limit the Company's ability to sell the affected property or to repay the indebtedness secured by the property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's business, financial condition, results of operations, and liquidity.

Severe weather, natural disasters, health emergencies, acts of war or terrorism, and other external events could significantly impact the Company's business.

Severe weather, natural disasters, pandemics and other health emergencies, acts of war or terrorism, and other adverse external events could have a significant impact on the Company's ability to conduct business. These events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, reduce the value of collateral securing loans, cause significant property damage, result in loss of revenue, or cause the Company to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Company's business, financial condition, and results of operations.

U.S. credit downgrades or changes in outlook by the major credit rating agencies may have an adverse effect on financial markets, including financial institutions and the financial industry.

During the past several years, due to concerns over the U.S. debt limit and budget deficit, the major ratings agencies have downgraded or lowered their outlooks for the U.S.'s credit rating. Further downgrades of the U.S. federal government's sovereign credit rating, and the perceived creditworthiness of U.S. government-backed obligations, could impact the Company's ability to obtain funding that is collateralized by affected instruments and to access capital markets on favorable terms. Such downgrades could also affect the pricing of funding, when funding is available. A downgrade of the credit rating of the U.S. government, or of its agencies, government-sponsored enterprises or related institutions, agencies or instrumentalities, may also adversely affect the market value of such instruments and, further, exacerbate the other risks to which the Company is subject. These events could have a material adverse effect on the Company's business, financial condition, or results of operations.

Legal/Compliance Risks

The Company is subject to extensive government regulation and supervision.

The Company and the Bank are subject to extensive federal and state regulations and supervision. Banking regulations are primarily intended to protect depositors' funds, FDIC funds, and the banking system as a whole, not security holders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy, and growth. Congress and federal regulatory agencies continually review banking laws, regulations, policies, and other supervisory guidance for possible changes.

Changes to statutes, regulations, regulatory policies, or other supervisory guidance, including changes in the interpretation or implementation of those regulations or policies, could affect the Company in substantial and unpredictable ways and could have a material adverse effect on the Company's business, financial condition, and results of operations. These changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer, limit the activities it is permitted to engage in, and increase the ability of non-banks to offer competing financial services and products. Failure to comply with laws, regulations, policies, or other regulatory guidance could result in civil or criminal sanctions by regulatory agencies, civil monetary penalties, and damage to the Company's reputation. Government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities. Any of these actions could have a material adverse effect on the Company's business, financial condition, and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See "Supervision and Regulation" in Item 1, "Business," and Note 19 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Rapidly implemented legislative and regulatory actions could have an unanticipated and adverse effect on the Company.

In response to the financial market crisis, the U.S. government, specifically the Treasury, Federal Reserve, and FDIC, working in cooperation with foreign governments and other central banks, took a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions. The rulemaking relating to these measures was accomplished on an emergency basis to address immediate concerns about the stability and continued existence of the global financial system. Recovery programs were rapidly proposed, adopted, and sometimes quickly abandoned in response to changing market conditions and other concerns. The speed of market developments required the government to abandon its traditional pattern and timeline of legislative and regulatory rulemaking, and issue rules on an interim basis without prior notice and comment. Rulemaking in this manner, rather than through the traditional legislative practice, does not allow for input by regulated financial institutions, such as the Company, and could lead to uncertainty in the financial markets, disruption to the Company's business, increased costs, and material adverse effects on the Company's business, financial condition, and results of operations.

The Company's business may be adversely affected in the future by the implementation of ongoing regulations regarding banks and financial institutions under the Dodd-Frank Act.

The Dodd-Frank Act significantly changed the bank regulatory structure and affects the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting and implementing rules and regulations and, consequently, many of the details and much of the impact of portions of the Dodd-Frank Act that remain to be implemented may not be known until final rules are adopted and market practices and structures develop around the rules, which may take several years. See "Supervision and Regulation" in Item 1 of this Form 10-K for a discussion of several significant provisions of the Dodd-Frank Act, including the Volcker Rule.

The Dodd-Frank Act is intended to address specific issues that are believed to have contributed to the financial crisis and is heavily remedial in nature. Several provisions in the Act are applicable to larger institutions (greater than $10 billion in assets). Many aspects of the Dodd-Frank Act that are applicable to the Company are subject to rulemaking, implementation, and regulatory and supervisory guidance, and the development of related market structures and practices, that will occur over several years, making it difficult to anticipate the overall financial impact on the Company. However, compliance with new laws and regulations likely will result in additional operating costs that could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company will be subject to heightened regulatory requirements if it exceeds $10 billion in total consolidated assets.

At December 31, 2014, the Company and the Bank had approximately $9.4 billion in total consolidated assets. The Company and the Bank may exceed $10 billion in total consolidated assets in the future if it continues to grow. Any additional acquisitions could significantly accelerate the time when the Company exceeds this threshold.

The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total consolidated assets, including compliance with portions of the Federal Reserve's enhanced prudential oversight requirements and annual stress testing requirements. In addition, banks with $10 billion or more in total consolidated assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might impact the Company's and the Bank's business.

Compliance with these requirements may cause the Company to hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on the Company's business, financial condition, or results of operations. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or the Company's customers and, as a result, may adversely affect the Company's stock price or the Company's ability to retain its customers or effectively compete for new business opportunities. To ensure compliance with these heightened requirements when effective, the Company's regulators may require it to fully comply with these requirements or take actions to prepare for compliance even before the Company's or the Bank's total consolidated assets equal or exceed $10 billion. As a result, the Company may incur compliance-related costs before it might otherwise be required, including if the Company does not continue to grow at the rate it expects or at all. The Company's regulators may also consider its preparation for compliance with these regulatory requirements when examining its operations generally or considering any request for regulatory approval the Company may make, even requests for approvals on unrelated matters.

The Company's business may be adversely affected in the future by the implementation of rules establishing standards for debit card interchange fees.

The Federal Reserve has implemented final rules establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions as required by the Dodd-Frank Act. A debit card interchange fee is a fee paid by a merchant's bank to the customer's bank for the use of the debit card.

Under the final rule, which is currently subject to litigation, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is 21 cents plus an amount equal to five basis points of the transaction value. In addition, under an interim final rule issued concurrently with the final rule, an additional one cent per transaction "fraud prevention adjustment" to the interchange fee is available to those issuers that comply with certain standards outlined by the Federal Reserve.

Currently, the Company is exempt from the interchange fee cap under the "small issuer" exemption, which applies to any debit card issuer with total worldwide assets of less than $10 billion as of the end of the previous calendar year. In the event the Company's assets reach $10 billion or more, it will become subject to the interchange fee limitations beginning July 1 of the following year, and the fees the Company may receive for an electronic debit transaction will be capped at the statutory limit.

Although the rule applies only to larger institutions and does not currently apply to the Company, future industry responses and developments relating to this rule that are currently unknown may affect the Company's business, financial condition, and results of operations in ways and to a degree that it cannot currently predict, including any impact on its future revenue.

The level of the commercial real estate loan portfolio may subject the Company to additional regulatory scrutiny.

The FDIC, the Federal Reserve, and the Office of the Comptroller of the Currency issued joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the guidance, a financial institution that is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multi-family and non-farm residential properties, loans for construction, land development, and other land loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital. The joint guidance requires heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment, and monitoring through market analysis and stress testing. The Company is currently in compliance with these regulations. If regulators determine the Company is in violation of these restrictions or has not adequately implemented risk management practices, they could impose additional regulatory restrictions against the Company, which could have a material adverse impact on the Company's business, financial condition, and results of operations.

The Company and its subsidiaries may not be able to realize the benefit of deferred tax assets.

The Company records deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The deferred tax assets can be recognized in future periods depending on a number of factors, including the ability to realize the asset through carryback or carryforward to taxable income in prior or future years, the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies. A valuation allowance is established for any deferred tax asset for which recovery or settlement is not more likely than not.

Each quarter, the Company assesses its deferred tax asset position, including the recoverability of this asset or the need for a valuation allowance. This assessment takes into consideration positive and negative evidence to determine whether it is more likely than not that a portion of the asset will not be realized. If the Company is not able to recognize deferred tax assets in future periods, it could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company is a defendant in a variety of litigation and other actions.

Currently, there are certain legal proceedings pending against the Company and its subsidiaries in the ordinary course of business. While the outcome of any legal proceeding is inherently uncertain, the Company's management believes that any liabilities arising from pending legal matters would be immaterial based on information currently available. However, if actual results differ from management's expectations, it could have a material adverse effect on the Company's financial condition, results of operations, or cash flows. For a detailed discussion on current legal proceedings, see Item 3, "Legal Proceedings," and Note 21 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Risks Related to Acquisition Activity

Future acquisitions may disrupt the Company's business and dilute stockholder value.

The Company strategically looks to acquire whole banks, branches of other banks, and non-banking organizations. The Company may consider future acquisitions of banks and non-banks to supplement internal growth opportunities, as permitted by regulators. The Company seeks merger or acquisition partners that are culturally similar and possess either significant market presence or have potential for improved profitability through financial management, economies of scale, or expanded services. Acquiring other banks, branches, or non-banks involves potential risks that could have a material adverse impact on the Company's business, financial condition, and results of operations, including:

- Exposure to unknown or contingent liabilities of acquired banks.
- Disruption of the Company's business.
- Loss of key employees and customers of acquired banks.
- Short-term decrease in profitability.
- Diversion of management's time and attention.
- Issues arising during transition and integration.
- Dilution in the ownership percentage of holders of the Company's Common Stock.
- Difficulty in estimating the value of the target company.
- Payment of a premium over book and market values that may dilute the Company's tangible book value and earnings per share in the short and long-term.
- Volatility in reported income as goodwill impairment losses could occur irregularly and in varying amounts.
- Inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits.
- Changes in banking or tax laws or regulations.

From time to time, the Company may evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and negotiations may take place and future mergers or acquisitions involving cash, debt, or equity securities may occur at any time. Acquisitions may involve the payment of a premium over book and market values, and therefore, some dilution of the Company's tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, or other projected benefits from an acquisition could have a material adverse effect on the Company's financial condition and results of operations. In addition, from time to time, banking regulators may restrict the Company from making acquisitions. See "History" and "Supervision and Regulation" in Item 1, "Business," of this Form 10-K for additional detail and further discussion of these matters.

Competition for acquisition candidates is intense.

Numerous potential acquirers compete with the Company for acquisition candidates. The Company may not be able to successfully identify and acquire suitable targets, which could slow the Company's growth rate and have a material adverse effect on its ability to compete in its markets.

Failure to comply with the terms of loss share agreements with the FDIC may result in potential losses.

The Company has completed four FDIC-assisted transactions. In three of those transactions, most loans and OREO acquired are covered by FDIC Agreements, under which the FDIC will reimburse the Bank for a portion of the losses and eligible expenses arising from certain assets of the acquired institutions. The FDIC Agreements have specific and detailed compliance, servicing, notification, and reporting requirements. Non-compliance with the terms of the FDIC Agreements could result in the loss of reimbursement on individual loans, large pools of loans, or OREO and could result in material losses that adversely affect the Company's business or financial condition.

The valuations of acquired loans and OREO, including those acquired in FDIC-assisted transactions and the related FDIC indemnification asset, rely on estimates that may be inaccurate.

The Company performs a valuation of acquired loans and OREO acquired. Although management makes various assumptions and judgments about the collectability of the acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans associated with these transactions, its estimates of the fair value of assets acquired could be inaccurate. Valuing these assets using inaccurate assumptions could materially and adversely affect the Company's business, financial condition, and results of operations.

For loans acquired in FDIC-assisted transactions that include FDIC Agreements, the Company records an FDIC indemnification asset that reflects its estimate of the timing and amount of reimbursements for future losses that are anticipated to occur. In determining the size of the FDIC indemnification asset, the Company analyzes the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and non-accruals, local economic conditions, and other pertinent information. Changes in the Company's estimate of the timing of those losses, specifically if those losses are to occur beyond the applicable loss-share periods, may result in impairments of the FDIC indemnification asset, which would have a material adverse effect on the Company's financial condition and results of operations. If the assumptions related to the timing or amount of expected losses are incorrect, there could be a negative impact on the Company's operating results. Increases in the amount of future losses in response to different economic conditions or adverse developments in the acquired loan portfolio may result in increased charge-offs, which would also negatively impact the Company's business, financial condition, and results of operations.

Risks Associated with the Company's Common Stock

An investment in the Company's Common Stock is not an insured deposit.

The Company's Common Stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in the Company's Common Stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this Form 10-K and is subject to the same market forces that affect the price of common stock in any public company. As a result, if you acquire the Company's Common Stock, you could lose some or all of your investment.

The Company's stock price can be volatile.

Stock price volatility may make it more difficult for you to resell your Common Stock when you want and at prices you find attractive. The Company's Common Stock price can fluctuate significantly in response to a variety of factors including:

- Actual or anticipated variations in quarterly results of operations.
- Recommendations by securities analysts.
- Operating and stock price performance of other companies that investors deem comparable to the Company.
- News reports relating to trends, concerns, and other issues in the financial services industry.
- Perceptions in the marketplace regarding the Company and/or its competitors.
- New technology used or services offered by competitors.
- Significant acquisitions or business combinations, strategic partnerships, joint venture, or capital commitments by or involving the Company or its competitors.
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions.
- Changes in government regulations.
- Geopolitical conditions, such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors, and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes, or credit loss trends, could also cause the Company's Common Stock price to decrease regardless of operating results.

The trading volume in the Company's Common Stock is less than that of other larger financial services institutions.
Although the Company's Common Stock is listed for trading on the NASDAQ Stock Market, its trading volume may be less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's Common Stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. During any period of lower trading volume of the Company's Common Stock, significant sales of shares of the Company's Common Stock, or the expectation of these sales could cause the Company's Common Stock price to fall.

The Company's Restated Certificate of Incorporation, Amended and Restated By-laws, and Amended and Restated Rights Agreement, as well as certain banking laws, may have an anti-takeover effect.

Provisions of the Company's Restated Certificate of Incorporation and Amended and Restated By-laws, federal banking laws, including regulatory approval requirements, and the Company's Amended and Restated Rights Plan could make it more difficult for a third party to acquire the Company, even if doing so would be perceived to be beneficial by the Company's stockholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's Common Stock.

The Company may issue additional securities, which could dilute the ownership percentage of holders of the Company's Common Stock.

The Company may issue additional securities to raise additional capital, finance acquisitions, or for other corporate purposes, or in connection with its share-based compensation plans or retirement plans, and, if it does, the ownership percentage of holders of the Company's Common Stock could be diluted, potentially materially.

The Company has not established a minimum dividend payment level, and it cannot ensure its ability to pay dividends in the future.

The Company's fourth quarter 2014 cash dividend was $0.08 per share. The Company has not established a minimum dividend payment level, and the amount of its dividend may fluctuate. All dividends will be made at the discretion of the Board of Directors of First Midwest Bancorp, Inc. (the "Board") and will depend on the Company's earnings, financial condition, and such other factors as the Board may deem relevant from time to time. The Board may, at its discretion, further reduce or eliminate dividends or change its dividend policy in the future.

In addition, the Federal Reserve issued Federal Reserve Supervision and Regulation Letter SR-09-4, which requires bank holding companies to inform and consult with Federal Reserve supervisory staff prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid. Under this regulation, if the Company experiences losses in a series of consecutive quarters, it may be required to inform and consult with the Federal Reserve supervisory staff prior to declaring or paying any dividends. In this event, there can be no assurance that the Company's regulators will approve the payment of such dividends.

Offerings of debt, which would be senior to the Company's Common Stock upon liquidation, and/or preferred equity securities, which may be senior to the Company's Common Stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of the Company's Common Stock.

The Company may attempt to increase capital or raise additional capital by making additional offerings of debt or preferred equity securities, including trust-preferred securities, senior or subordinated notes, and preferred stock. In the event of liquidation, holders of the Company's debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of the Company's available assets prior to the holders of the Company's Common Stock. Additional equity offerings may dilute the holdings of the Company's existing stockholders or reduce the market price of the Company's Common Stock, or both. Holders of the Company's Common Stock are not entitled to preemptive rights or other protections against dilution.

The Board is authorized to issue one or more series of preferred stock from time to time without any action on the part of the Company's stockholders. The Board also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over the Company's Common Stock with respect to dividends or upon the Company's dissolution, winding-up, liquidation, and other terms. If the Company issues preferred stock in the future that has a preference over the Company's Common Stock with respect to the payment of dividends or upon liquidation, or if the Company issues preferred stock with voting rights that dilute the voting power of the Company's Common Stock, the rights of holders of the Company's Common Stock or the market price of the Company's Common Stock could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The executive offices of the Company are located at One Pierce Place, Itasca, Illinois, and are leased from an unaffiliated third party. The Company conducts business through 109 banking locations largely located in various communities throughout the greater Chicago metropolitan area, as well as northwest Indiana, central and western Illinois, and eastern Iowa. The majority, approximately 80%, of the Company's banking locations are owned and 20% are leased.

The Company owns 145 ATMs, most of which are housed at banking locations. Some ATMs are independently located. In addition, the Company owns other real property that, when considered individually or in the aggregate, is not material to the Company's financial position.

The Company believes its facilities in the aggregate are suitable and adequate to operate its banking business. Additional information with respect to premises and equipment is presented in Note 8 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at December 31, 2014. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect any liabilities arising from pending legal matters to have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY,
RELATED STOCKHOLDER MATTERS, AND
ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is traded under the symbol "FMBI" in the NASDAQ Global Select Market tier of the NASDAQ Stock Market. As of December 31, 2014, there were 1,960 stockholders of record, a number that does not include beneficial owners who hold shares in "street name" (or stockholders from previously acquired companies that did not exchange their stock).

	2014				2013			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Market price of Common Stock								
High	$17.99	$17.77	$18.19	$17.83	$18.49	$16.20	$13.87	$13.60
Low	15.01	15.64	15.49	15.36	14.90	13.81	11.57	12.11
Cash dividends declared per common share	0.08	0.08	0.08	0.07	0.07	0.04	0.04	0.01

Payment of future dividends is within the discretion of the Board and will depend on earnings, capital requirements, the operating and financial condition of the Company, and other factors the Board deems relevant from time to time. The Board makes the dividend determination on a quarterly basis. Further discussion of the Company's philosophy regarding the payment of dividends is included in the "Management of Capital" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K.

A discussion regarding the regulatory restrictions applicable to the Bank's ability to pay dividends to the Company is included in the "Supervision and Regulation – Dividends" and "Risk Factors – Risks Associated with the Company's Common Stock" sections in Items 1 and 1A of this Form 10-K.

For a description of the securities authorized for issuance under equity compensation plans, see Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," of this Form 10-K.

Stock Performance Graph

The graph below illustrates the cumulative total return (defined as stock price appreciation assuming the reinvestment of all dividends) to stockholders of the Company's Common Stock compared against a broad-market total return equity index, the NASDAQ Composite, and a published industry total return equity index, the NASDAQ Banks, over a five-year period.

Comparison of Five-Year Cumulative Total Return Among
First Midwest Bancorp, Inc., the NASDAQ Composite, and the NASDAQ Banks [(1)]

	2009	2010	2011	2012	2013	2014
First Midwest Bancorp, Inc.	$100.00	$106.14	$93.72	$116.22	$164.43	$163.45
NASDAQ Composite	100.00	117.61	118.70	139.00	196.83	223.74
NASDAQ Banks	100.00	115.72	104.50	122.51	173.89	182.21

(1) Assumes $100 invested on December 31, 2009 with the reinvestment of all related dividends.

To the extent this Form 10-K is incorporated by reference into any other filing by the Company under the Securities Act or the Exchange Act the foregoing "Stock Performance Graph" will not be deemed incorporated, unless specifically provided otherwise in such filing and shall not otherwise be deemed filed under such Acts.

Issuer Purchases of Equity Securities

The following table summarizes the Company's monthly Common Stock purchases during the fourth quarter of 2014. The Board approved a stock repurchase program on November 27, 2007. Up to 2.5 million shares of the Company's Common Stock may be repurchased, and the total remaining authorization under the program was 2,494,747 shares as of December 31, 2014. The repurchase program has no set expiration or termination date.

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program
October 1 – October 31, 2014	1,519	$16.10	—	2,494,747
November 1 – November 30, 2014	—	—	—	2,494,747
December 1 – December 31, 2014	1,024	16.87	—	2,494,747
Total	2,543	$16.41	—	

(1) Consists of shares acquired pursuant to the Company's share-based compensation plans and not the Company's Board-approved stock repurchase program. Under the terms of the Company's share-based compensation plans, the Company accepts previously owned shares of Common Stock surrendered by option holders upon exercise to cover the exercise price of the stock options or to satisfy tax withholding obligations associated with the vesting of restricted shares.

Unregistered Sales of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Consolidated financial information reflecting a summary of the operating results and financial condition of the Company for each of the five years in the period ended December 31, 2014 is presented in the following table. This summary should be read in conjunction with the consolidated financial statements and accompanying notes included in Item 8, "Financial Statements and Supplementary Data," of this Form 10-K. A more detailed discussion and analysis of the factors affecting the Company's financial condition and operating results is presented in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K.

	As of or for the years ended December 31,				
	2014	2013	2012	2011	2010
Operating Results (Amounts in thousands, except per share data)					
Net income (loss)	$69,306	$79,306	$(21,054)	$36,563	$(9,684)
Net income (loss) applicable to common shares	68,470	78,199	(20,748)	25,437	(19,717)
Per Common Share Data					
Basic earnings (loss) per common share	$0.92	$1.06	$(0.28)	$0.35	$(0.27)
Diluted earnings (loss) per common share	0.92	1.06	(0.28)	0.35	(0.27)
Common dividends declared	0.31	0.16	0.04	0.04	0.04
Book value at year end	14.17	13.34	12.57	12.93	12.40
Market price at year end	17.11	17.53	12.52	10.13	11.52
Performance Ratios					
Return on average common equity	6.56%	8.04%	(2.14)%	2.69%	(2.06)%
Return on average tangible common equity [(1)]	10.29%	11.29%	(3.07)%	3.86%	(3.15)%
Return on average assets	0.80%	0.96%	(0.26)%	0.45%	(0.12)%
Net interest margin – tax-equivalent	3.69%	3.68%	3.86%	4.04%	4.13%
Non-performing loans to total loans [(2)]	1.00%	1.14%	1.80%	3.86%	4.24%
Non-performing assets to total loans plus OREO [(2)]	1.49%	2.13%	2.68%	4.85%	5.25%

	As of or for the years ended December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Highlights (Amounts in thousands)					
Total assets	$9,445,139	$8,253,407	$8,099,839	$7,973,594	$8,138,302
Total loans	6,736,853	5,714,360	5,387,570	5,348,615	5,472,289
Deposits	7,887,758	6,766,101	6,672,255	6,479,175	6,511,476
Senior and subordinated debt	200,869	190,932	214,779	252,153	137,744
Long-term portion of FHLB advances	—	114,550	114,581	75,000	112,500
Stockholders' equity	1,100,775	1,001,442	940,893	962,587	1,112,045
Financial Ratios					
Allowance for credit losses to loans, excluding acquired loans, including covered loans	1.24%	1.52%	1.91%	2.28%	2.65%
Net loan charge-offs to average loans, excluding acquired loans, including covered loans	0.54%	0.55%	3.26%	1.91%	2.70%
Total capital to risk-weighted assets	11.23%	12.39%	11.90%	13.68%	16.27%
Tier 1 capital to risk-weighted assets	10.19%	10.91%	10.28%	11.61%	14.20%
Tier 1 leverage to average assets	9.03%	9.18%	8.40%	9.28%	11.21%

Tangible common equity to tangible assets	8.41 %	9.09 %	8.44 %	8.83 %	8.06 %
Dividend payout ratio	33.70 %	15.09 %	N/M	11.43 %	N/M
Average equity to average assets ratio	12.03 %	11.74 %	11.93 %	13.72 %	14.31 %

N/M – Not meaningful.

(1) See the "Performance Overview" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K for detail regarding the calculation of this performance metric.

(2) Due to the impact of business combination accounting and protection provided by the FDIC Agreements, acquired loans and covered loans and covered OREO are excluded from these metrics to provide for improved comparability to prior periods and better perspective into asset quality trends. For a discussion of acquired and covered loans, see Notes 1 and 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

First Midwest Bancorp, Inc. is a bank holding company headquartered in the Chicago suburb of Itasca, Illinois with operations throughout the greater Chicago metropolitan area as well as northwest Indiana, central and western Illinois, and eastern Iowa. Our principal subsidiary is First Midwest Bank (the "Bank"), which provides a broad range of banking and wealth management services to commercial and industrial, commercial real estate, municipal, and consumer customers through 109 banking locations. 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 Consolidated Statements of Income for the three years ended December 31, 2014 and Consolidated Statements of Financial Condition as of December 31, 2014 and 2013. 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 financial information presented in Item 8 of this Form 10-K.

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, 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 net interest income divided by total average interest-earning assets.
- Noninterest Income – Noninterest income is the income we earn from fee-based revenues, investment in bank-owned life insurance ("BOLI") and 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 two tiers: (i) Tier 1 capital consists of common equity, retained earnings, and qualifying trust-preferred securities, less goodwill and most intangible assets and (ii) Tier 2 capital includes qualifying subordinated debt and the allowance for credit losses, subject to limitations.

A quarterly summary of operations for the years ended December 31, 2014 and 2013 is included in the section titled "Quarterly Earnings" of this Item 7.

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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K 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," or "continue" 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. These risks, uncertainties and assumptions include, among other things, the following:

- Management's ability to reduce and effectively manage interest rate risk and the impact of interest rates in general on the volatility of our net interest income.
- Asset and liability matching risks and liquidity risks.
- Fluctuations in the value of our investment securities.
- The ability to attract and retain senior management experienced in banking and financial services.
- The sufficiency of the allowance for credit losses to absorb the amount of actual losses inherent in the existing loan portfolio.
- The models and assumptions underlying the establishment of the allowance for credit losses and estimation of values of collateral and various financial assets and liabilities may be inadequate.
- Credit risks and risks from concentrations (by geographic area and by industry) within our loan portfolio.
- The effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds, and other financial institutions operating in our markets or elsewhere providing similar services.
- Changes in the economic environment, competition, or other factors that may influence the anticipated growth rate of loans and deposits, the quality of the loan portfolio, and loan and deposit pricing.
- Changes in general economic or industry conditions, nationally or in the communities in which we conduct business.
- Volatility of rate sensitive deposits.
- Our ability to adapt successfully to technological changes to compete effectively in the marketplace.
- Operational risks, including data processing system failures, fraud, or breaches.
- Our ability to successfully pursue acquisition and expansion strategies and integrate any acquired companies.
- The impact of liabilities arising from legal or administrative proceedings, enforcement of bank regulations, and enactment or application of laws or regulations.
- Governmental monetary and fiscal policies and legislative and regulatory changes (including those implementing provisions of the Dodd Frank Act) that may result in the imposition of costs and constraints through higher FDIC insurance premiums, significant fluctuations in market interest rates, increases in capital or liquidity requirements, operational limitations, or compliance costs.
- Changes in federal and state tax laws or interpretations, including changes affecting tax rates, income not subject to tax under existing law and interpretations, income sourcing, or consolidation/combination rules.
- Changes in accounting principles, policies, or guidelines affecting the businesses we conduct.
- Acts of war or terrorism, natural disasters, and other external events.
- Other economic, competitive, governmental, regulatory, and technological factors affecting our operations, products, services, and prices.

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, 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.

NON-GAAP FINANCIAL INFORMATION

The Company's accounting and reporting policies conform to GAAP and general practice within the banking industry. As a supplement to GAAP, the Company provides non-GAAP performance results, which the Company believes are useful because they assist investors in assessing the Company's operating performance. This includes, but is not limited to, earnings per share, excluding acquisition and integration related expenses, total non-interest expense, excluding acquisition and integration related expenses, tax-equivalent net interest income (including its individual components), tax-equivalent net interest margin, the efficiency ratio, tier 1 common capital to risk-weighted assets, tangible common equity to tangible assets, tangible common equity, excluding accumulated other comprehensive loss, to tangible assets, tangible common equity to risk-weighted assets, and return on average tangible common equity. Although intended to enhance investors' understanding of the Company's business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP.

PERFORMANCE OVERVIEW

Acquisitions

On August 8, 2014, the Bank completed the acquisition of the Chicago area banking operations of Banco Popular North America, ("Popular"), doing business as Popular Community Bank. The acquisition included Popular's twelve full-service retail banking offices and its small business and middle market commercial lending activities in the Chicago metropolitan area. On the date of acquisition, the Bank acquired $549 million in loans and $732 million in deposits.

On September 26, 2014, the Bank completed the acquisition of National Machine Tool Financial Corporation ("National Machine Tool"). In business for more than 28 years and a customer of the Bank for more than 15 years, National Machine Tool, now known as First Midwest Equipment Finance Co., provides equipment leasing and financing alternatives to traditional commercial bank financing.

On December 2, 2014, the Company completed the acquisition of the south suburban Chicago-based Great Lakes Financial Resources, Inc. ("Great Lakes"), the holding company for Great Lakes Bank, National Association. As part of the transaction, the Company acquired seven full-service retail banking offices, one drive-up location, $223 million in loans, and $464 million in deposits on the date of acquisition.

For additional detail regarding these acquisitions, see Note 3 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. The conversion and integration of these transactions were substantially complete as of December 31, 2014.

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

	Years ended December 31,		
	2014	2013	2012
Operating Results			
Interest income	$299,864	$287,247	$300,569
Interest expense	23,012	27,115	34,901
Net interest income	276,852	260,132	265,668
Provision for loan and covered loan losses	19,168	16,257	158,052
Noninterest income	126,618	140,883	109,948
Noninterest expense	283,826	256,737	267,500
Income (loss) before income tax expense (benefit)	100,476	128,021	(49,936)
Income tax expense (benefit)	31,170	48,715	(28,882)
Net income (loss)	$69,306	$79,306	$(21,054)
Weighted-average diluted common shares outstanding	74,496	73,994	73,666
Diluted earnings (loss) per common share	$0.92	$1.06	$(0.28)
Performance Ratios			
Return on average common equity	6.56%	8.04%	(2.14)%
Return on average tangible common equity [(1)]	10.29%	11.29%	(3.07)%
Return on average assets	0.80%	0.96%	(0.26)%
Net interest margin - tax equivalent [(2)]	3.69%	3.68%	3.86%
Efficiency ratio [(3)]	64.57%	64.19%	67.14%

(1) Tangible common equity ("TCE") represents common stockholders’ equity less goodwill and identifiable intangible assets. Acquisition and integration related expenses of $13.9 million for the year ended December 31, 2014 are

excluded from the return on average tangible common equity ratio. See the "Management of Capital" section of this Item 7 for the detailed calculation of TCE.

(2) See the section titled "Earnings Performance" of this Item 7 for the calculation of this metric.

(3) The efficiency ratio expresses noninterest expense, excluding other real estate owned ("OREO") expense, as a percentage of tax-equivalent net interest income plus total fee-based revenues, other income, net trading gains, and tax-equivalent adjusted BOLI income. In addition, acquisition and integration related expenses of $13.9 million are excluded from the efficiency ratio for the year ended December 31, 2014.

	As of December 31,			
	2014	2013	$ Change	% Change
Balance Sheet Highlights				
Total assets	$9,445,139	$8,253,407	$1,191,732	14.4
Total loans, excluding covered loans	6,657,418	5,580,005	1,077,413	19.3
Total loans, including covered loans	6,736,853	5,714,360	1,022,493	17.9
Total deposits	7,887,758	6,766,101	1,121,657	16.6
Core deposits	6,616,200	5,558,318	1,057,882	19.0
Loans-to-deposits ratio	85.4 %	84.5 %		
Core deposits to total deposits	83.9 %	82.1 %		

	As of December 31,			
	2014	2013	$ Change	% Change
Asset Quality Highlights [1]				
Non-accrual loans	$58,853	$59,798	$(945)	(1.6)
90 days or more past due loans (still accruing interest)	771	3,708	(2,937)	(79.2)
Total non-performing loans	59,624	63,506	(3,882)	(6.1)
Accruing trouble debt restructuring ("TDRs")	3,704	23,770	(20,066)	(84.4)
OREO	25,779	32,473	(6,694)	(20.6)
Total non-performing assets	$89,107	$119,749	$(30,642)	(25.6)
30-89 days past due loans (still accruing interest)	$13,473	$20,742	$(7,269)	(35.0)
Allowance for Credit Losses				
Allowance for credit losses	74,510	87,121	(12,611)	(14.5)
Allowance for credit losses to loans, excluding acquired loans, including covered loans	1.24 %	1.52 %		
Allowance for credit losses to non-accrual loans, excluding acquired and covered loans	114.33 %	124.69 %		

(1) Due to the impact of business combination accounting and protection provided by the FDIC Agreements, acquired loans and covered loans and covered OREO are excluded from these metrics to provide for improved comparability to prior periods and better perspective into asset quality trends. For a discussion of acquired and covered loans, see Notes 1 and 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. Asset quality, including acquired loans, covered loans, and covered OREO, is included in the "Loan Portfolio and Credit Quality" section below.

Performance Overview for 2014 Compared with 2013

Net income for 2014 was $69.3 million, or $0.92 per share, compared to net income of $79.3 million, or $1.06 per share, for 2013. The reduction in earnings per share was driven primarily by acquisition and integration related expenses of $13.9 million related to the Popular, National Machine Tool, and Great Lakes acquisitions. Excluding these acquisition and integration related expenses, earnings per share was $1.03 for the year ended December 31, 2014. In addition, net income for 2013 was impacted by certain significant transactions including a $34.0 million gain on the sale of an equity investment and a $7.8 million gain on the termination of two FHLB forward commitments, offset in part by a $13.3 million non-deductible write-down of the cash surrender values ("CSV") of certain BOLI policies. Excluding these transactions, 2013 earnings per share was $0.90.

Tax-equivalent net interest margin of 3.69% for 2014 was in line with 2013 despite continued pressure on loan margins and investment portfolio yields as we improved the mix of earning assets and liabilities through organic loan growth and acquisitions, employed certain loan hedging strategies, and prepaid $114.6 million of FHLB advances.

Total noninterest income was $126.6 million for 2014 compared to $140.9 million for 2013. Total fee-based revenues were $111.1 million, increasing 4.5% compared to 2013. Total noninterest income was elevated in 2013 driven primarily by certain significant transactions including a $34.0 million gain on the sale of an equity investment and a $7.8 million gain on the termination of two FHLB forward commitments, offset in part by a $13.3 million non-deductible write-down of the CSV of certain BOLI policies.

Total noninterest expense increased 10.6% compared to 2013, due primarily to $13.9 million in acquisition and integration related expenses and approximately $5.5 million in recurring costs associated with operating the newly acquired locations. The conversion and integration of these transactions was substantially complete as of December 31, 2014, with certain remaining efficiencies to be implemented in the first half of 2015.

A detailed discussion of net interest income and noninterest income and expense is presented in the following section titled "Earnings Performance" of this Item 7.

As of December 31, 2014 our securities portfolio totaled $1.2 billion, rising $56.5 million, or 4.9%, from December 31, 2013. The addition of $219.3 million of securities acquired in the Great Lakes transaction was substantially offset by maturities, calls, and prepayments during 2014. For a detailed discussion of our securities portfolio, see the section titled "Investment Portfolio Management" of this Item 7.

Total loans, excluding covered loans, of $6.7 billion as of December 31, 2014 reflects growth of $1.1 billion, or 19.3%, from December 31, 2013. Excluding loans acquired in the Popular and Great Lakes transactions of $718.3 million, total loans, excluding covered loans, grew $359.2 million, or 6.4%, from December 31, 2013. This growth was driven by solid performance from our legacy sales platform and the continued impact of greater resource investments and expansion into certain sector-based lending areas, such as agri-business, asset-based lending, and healthcare. For a detailed discussion of our loan portfolio, see the section titled "Loan Portfolio and Credit Quality" of this Item 7.

As of December 31, 2014, non-performing assets, excluding acquired and covered loans and covered OREO, decreased by $30.6 million, or 25.6%, from December 31, 2013 and represented 1.49% of total loans plus OREO compared to 2.13% as of December 31, 2013. The continued improvement in non-performing assets and the related credit metrics reflects management's ongoing commitment to credit remediation. See the section titled "Loan Portfolio and Credit Quality" of this Item 7 for additional discussion of non-performing assets.

Total average funding sources of $7.5 billion for 2014 increased $330.2 million from 2013, driven primarily by deposits assumed in the Popular and Great Lakes acquisitions which further strengthened our core deposit base. Growth in average demand deposits of $248.5 million, or 13.2%, from December 31, 2013 led the rise in average core deposits and more than offset the reduction in higher-costing time deposits, borrowed funds, and senior and subordinated debt. For a detailed discussion of our funding sources see the section titled "Funding and Liquidity Management" of this Item 7.

Performance Overview for 2013 Compared with 2012

Net income for 2013 was $79.3 million, or $1.06 per share, compared to a net loss of $21.1 million, or $0.28 per share, for 2012.

Tax-equivalent net interest margin declined 18 basis points to 3.68% for 2013 from 3.86% for 2012. The reduction in margin reflected a 30 basis point decrease in the average yield on interest-earning assets due primarily to a lower yield earned on new and renewing loans as a result of greater customer preference for floating rate loans, as well as the reinvestment of cash flows from the investment portfolio into lower yielding securities. These lower yields were partially offset by a decline in the rates paid for interest-bearing liabilities, including a 2 basis point decline on interest-bearing core deposits, a 28 basis point decline on time deposits, and a 3 basis point decline on senior and subordinated debt.

The provision for loan and covered loan losses was $16.3 million for 2013 compared to $158.1 million for 2012. The higher provision for loan and covered loan losses for the year ended December 31, 2012 resulted from the additional provision of $62.3 million recorded as a result of selling $172.5 million of non-performing and performing potential problem loans and recording charge-offs of $80.3 million.

Total noninterest income for 2013 rose 28.1% compared to 2012, driven primarily by certain balance sheet repositioning activities, which mainly impacted the securities and BOLI portfolios. These activities were completed to take advantage of changing market conditions, strengthen capital, and better position the Company to benefit from a rising interest rate environment. These activities included:

- The sale of our $4.2 million investment in Textura Corporation ("Textura") for $38.2 million, resulting in a gain of $34.0 million. The Company has no other similar investments. We hold a warrant to purchase 20,000 shares of

Textura common stock.

- The termination of two forward commitments with the FHLB to borrow a total of $250 million for a 5-year period beginning in 2014 at a weighted average interest rate of approximately 2.0% resulting in a gain of $7.8 million. This termination was executed to take advantage of a temporary rise in interest rates and an expectation that future liquidity needs could be better managed through maturities of securities, continued growth in our deposit base, and other similar low rate borrowings.

- The voluntary modification of crediting rate terms and the underlying CSV of approximately $100 million of lower yielding BOLI policies, resulting in a $13.3 million write-down. This write-down represents the difference between the book value and the fair value of the underlying investments and was previously being amortized in other noninterest income, offsetting BOLI income and any insurance proceeds received. This action gave the Company the flexibility to reinvest these assets in longer duration securities at higher yields to enhance BOLI income.

As of December 31, 2013, our securities portfolio totaled $1.2 billion, rising 3.4% from December 31, 2012. This growth resulted primarily from the redeployment of cash and cash equivalents into purchases of collateralized mortgage obligations ("CMOs") and other mortgage-backed securities ("MBSs"). These increases were partially offset by maturities and calls of municipal securities.

Total loans, excluding covered loans, of $5.6 billion as of December 31, 2013 reflected growth of $390.3 million, or 7.5%, from December 31, 2012. The loan portfolio benefited from well-balanced corporate loan growth reflecting credits of varying size and diverse geographic locations within our markets.

As of December 31, 2013, non-performing assets, excluding covered loans and covered OREO, declined by 14.5% compared to December 31, 2012. Improvement in non-performing assets and related credit metrics resulted primarily from management's continued focus on credit remediation.

Average funding sources for 2013 increased $156.7 million compared to the year ended December 31, 2012, primarily from growth in core deposits, which more than offset a reduction in higher-costing time deposits. Average senior and subordinated debt decreased $18.4 million from 2012 driven by the full-year impact of the repurchase and retirement of $4.3 million of junior subordinated debentures and $12.0 million of subordinated notes during the fourth quarter of 2012.

EARNINGS PERFORMANCE

Net Interest Income

Net interest income is our primary source of revenue and is impacted by interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities. The accounting policies for the recognition of interest income on loans, securities, and other interest-earning assets are presented in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

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

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the years ended December 31, 2014, 2013, and 2012, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 3 details differences in interest income and expense from prior years and the extent to which any changes are attributable to volume and rate fluctuations.

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

	Years Ended December 31, 2014			2013			2012		
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)
Assets:									
Other interest-earning assets	$543,056	$1,591	0.29	$633,050	$1,819	0.29	$470,069	$1,143	0.24
Securities:									
Trading - taxable	17,964	174	0.97	15,526	161	1.04	15,415	181	1.17
Investment securities - taxable	649,161	14,516	2.24	713,237	12,249	1.72	679,753	12,670	1.86
Investment securities - nontaxable (1)	461,571	25,705	5.57	510,412	28,636	5.61	512,136	31,231	6.10
Total securities	1,128,696	40,395	3.58	1,239,175	41,046	3.31	1,207,304	44,082	3.65
FHLB and Federal Reserve Bank stock	35,622	1,366	3.83	39,593	1,346	3.40	48,400	1,374	2.84
Loans (1)(2)(3)	6,121,326	268,249	4.38	5,498,788	255,333	4.64	5,506,394	267,219	4.85
Total interest-earning assets (1)(2)	7,828,700	311,601	3.98	7,410,606	299,544	4.04	7,232,167	313,818	4.34
Cash and due from banks	120,358			121,564			120,757		
Allowance for loan and covered loan losses	(79,482)			(95,698)			(117,121)		
Other assets	808,136			841,967			873,923		
Total assets	$8,677,712			$8,278,439			$8,109,726		
Liabilities and Stockholders' Equity:									
Savings deposits	$1,222,292	904	0.07	$1,126,561	844	0.07	$1,038,379	1,055	0.10
NOW accounts	1,243,186	673	0.05	1,170,928	676	0.06	1,090,446	747	0.07
Money market deposits	1,392,367	1,784	0.13	1,306,625	1,735	0.13	1,216,173	1,934	0.16
Total interest-bearing core deposits	3,857,845	3,361	0.09	3,604,114	3,255	0.09	3,344,998	3,736	0.11
Time deposits	1,211,882	7,016	0.58	1,306,888	8,646	0.66	1,529,006	14,316	0.94
Total interest-bearing deposits	5,069,727	10,377	0.20	4,911,002	11,901	0.24	4,874,004	18,052	0.37

Borrowed funds	149,559	573	0.38	205,461	1,607	0.78	193,643	2,009	1.04
Senior and subordinated debt	191,776	12,062	6.29	212,896	13,607	6.39	231,273	14,840	6.42
Total interest-bearing liabilities	5,411,062	23,012	0.43	5,329,359	27,115	0.51	5,298,920	34,901	0.66
Demand deposits	2,137,778			1,889,247			1,762,968		
Other liabilities	85,306			87,550			80,075		
Stockholders' equity - common	1,043,566			972,283			967,763		
Total liabilities and stockholders' equity	$8,677,712			$8,278,439			$8,109,726		
Net interest income/margin (1)		$288,589	3.69		$272,429	3.68		$278,917	3.86
Net interest income (GAAP)		$276,852			$260,132			$265,668	
Tax-equivalent adjustment		11,737			12,297			13,249	
Tax-equivalent net interest income		$288,589			$272,429			$278,917	

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

(2) Non-accrual loans, including acquired and covered non-accrual loans, which totaled $66.2 million as of December 31, 2014, $80.7 million as of December 31, 2013, and $98.7 million as of December 31, 2012, are included in loans for purposes of this analysis. Additional detail regarding non-accrual loans is presented in the following section titled "Non-Performing Asset and Performing Potential Problem Loans" of this Item 7.

(3) This item includes covered interest-earning assets consisting of loans acquired through the Company's FDIC-assisted transactions with loss share agreements and the related FDIC indemnification asset. For additional discussion, please see Note 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

2014 Compared to 2013

Total average interest-earning assets were $7.8 billion for 2014, an increase of $418.1 million, or 5.6%, from 2013, driven by solid organic loan growth and loans acquired in the Popular and Great Lakes acquisitions during the second half of 2014. Overall, organic loan growth was funded by cash flows from maturities of investment securities, a reduction in other interest-earning assets, and higher core deposits.

Compared to 2013, total average interest-bearing liabilities rose $81.7 million to $5.4 billion for 2014. Higher levels of interest-bearing core deposits, which were partially driven by acquisition activity, more than offset the decline in time deposits. The decline in borrowed funds from 2013 resulted from the prepayment of $114.6 million of FHLB advances with a weighted-average rate of 1.08% during the second quarter of 2014, which is net of the yield earned on the cash used for the prepayment.

Tax-equivalent net interest income was $288.6 million for 2014 compared to $272.4 million for 2013, an increase of 5.9%. Interest income rose $12.1 million from 2013 due primarily to strong loan growth, which more than offset the decline in loan yields, lower levels of income on covered interest-earning assets, and a decrease in the interest income on investment securities. The decline in interest expense of $4.1 million was driven by growth in lower-costing interest-bearing core deposits and the continued reduction of higher-costing time deposits, borrowed funds, and senior and subordinated debt. Net accretion resulting from the fair value adjustments on acquired assets and assumed liabilities contributed $2.3 million, which offset lower levels of interest earned on covered loans.

Tax-equivalent net interest margin was in line with 2013 despite continued pressure on loan margins and investment portfolio yields as we improved the mix of earning assets and liabilities through organic loan growth and acquisitions, employed certain loan hedging strategies, and prepaid FHLB advances.

2013 Compared to 2012

Average interest-earning assets were $7.4 billion for 2013, an increase of $178.4 million, or 2.5%, from 2012, driven primarily by a rise in other interest-earning assets. Proceeds from bulk loan sales of $172.5 million in original carrying value of non-performing and performing potential problem loans during 2012 drove a significant portion of the increase in average other interest earning assets. Growth in average loans, excluding covered loans, of $102.8 million was offset by decreases of $93.8 million in average covered interest-earning assets.

Average interest-bearing liabilities of $5.3 billion for 2013 were comparable to 2012. Higher levels of interest-bearing core deposits more than offset the decline in time deposits.

Tax-equivalent net interest income was $272.4 million for 2013 compared to $278.9 million for 2012. The $14.3 million reduction in interest income was driven by a decrease in the yield on loans and investment securities. Interest expense declined $7.8 million due to the reduction of higher-costing time deposits and senior and subordinated debt.

Tax-equivalent net interest margin declined 18 basis points to 3.68% for 2013 from 3.86% for 2012. The reduction in margin reflected a 30 basis point decrease in the average yield on interest-earning assets driven by a lower yield earned on new and renewing loans as well as the reinvestment of cash flows from the investment portfolio into lower yielding securities due to the low interest rate environment. In addition, a greater customer preference for floating rate loans during the third and fourth quarters of 2013 contributed to the decrease. The lower yields on interest-earning assets were partially offset by a decline in the rates paid for interest-bearing liabilities, including a 2 basis point decline on interest-bearing core deposits, a 28 basis point decline on time deposits, and a 3 basis point decline on senior and subordinated debt.

Table 3
Changes in Net Interest Income Applicable to Volumes and Interest Rates [1]
(Dollar amounts in thousands)

	2014 compared to 2013			2013 compared to 2012		
	Volume	Rate	Total	Volume	Rate	Total
Other interest-earning assets	$(265)	$37	$(228)	$443	$233	$676
Securities:						
Trading – taxable	23	(10)	13	1	(21)	(20)
Investment securities – taxable	(959)	3,226	2,267	706	(1,127)	(421)
Investment securities – nontaxable [2]	(2,721)	(210)	(2,931)	(105)	(2,490)	(2,595)
Total securities	(3,657)	3,006	(651)	602	(3,638)	(3,036)
FHLB and Federal Reserve Bank stock	(73)	93	20	(250)	222	(28)
Loans [2][3]	22,638	(9,722)	12,916	(3,829)	(8,057)	(11,886)
Total interest income [2]	18,643	(6,586)	12,057	(3,034)	(11,240)	(14,274)
Savings deposits	71	(11)	60	102	(313)	(211)
NOW accounts	39	(42)	(3)	64	(135)	(71)
Money market deposits	105	(56)	49	164	(363)	(199)
Total interest-bearing core deposits	215	(109)	106	330	(811)	(481)
Time deposits	(600)	(1,030)	(1,630)	(1,877)	(3,793)	(5,670)
Total interest-bearing deposits	(385)	(1,139)	(1,524)	(1,547)	(4,604)	(6,151)
Borrowed funds	(359)	(675)	(1,034)	132	(534)	(402)
Senior and subordinated debt	(1,331)	(214)	(1,545)	(1,175)	(58)	(1,233)
Total interest expense	(2,075)	(2,028)	(4,103)	(2,590)	(5,196)	(7,786)
Net interest income [2]	$20,718	$(4,558)	$16,160	$(444)	$(6,044)	$(6,488)

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

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

(3) This item includes covered interest-earning assets consisting of loans acquired through the Company's FDIC-assisted transactions with loss share agreements and the related FDIC indemnification asset. For additional discussion, please see Note 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Noninterest Income
A summary of noninterest income for the three years ended December 31, 2014 is presented in the following table.
Table 4
Noninterest Income Analysis
(Dollar amounts in thousands)

	Years Ended December 31,			% Change	
	2014	2013	2012	2014-2013	2013-2012
Service charges on deposit accounts	$36,910	$36,526	$36,699	1.1	(0.5)
Wealth management fees	26,474	24,185	21,791	9.5	11.0
Card-based fees [(1)]	24,340	21,649	20,852	12.4	3.8
Merchant servicing fees	11,260	10,953	10,806	2.8	1.4
Mortgage banking income	4,011	5,306	2,689	(24.4)	97.3
Other service charges, commissions, and fees	8,086	7,663	4,486	5.5	70.8
Total fee-based revenues	111,081	106,282	97,323	4.5	9.2
Net securities gains (losses) [(2)]	8,097	34,164	(921)	(76.3)	N/M
Gains on sales of properties [(3)]	3,954	—	—	100.0	—
BOLI income (loss)	2,873	(11,844)	1,307	N/M	N/M
Loss on early extinguishment of debt [(3)]	(2,059)	(1,034)	(558)	99.1	85.3
Net trading gains [(3)(4)]	677	3,189	1,627	(78.8)	96.0
Other income [(3)(5)]	1,995	2,297	2,728	(13.1)	(15.8)
Gain on termination of FHLB forward commitments	—	7,829	—	(100.0)	100.0
Gain on bulk loan sales	—	—	5,153	—	(100.0)
Gains on FDIC-assisted transactions [(3)(6)]	—	—	3,289	—	(100.0)
Total noninterest income	$126,618	$140,883	$109,948	(10.1)	28.1

N/M – Not meaningful.

(1) Card-based fees consist of debit and credit card interchange fees for processing transactions as well as various fees on both customer and non-customer automated teller machine ("ATM") and point-of-sale transactions processed through the ATM and point-of-sale networks.

(2) For a discussion of these items, see the section titled "Investment Portfolio Management" of this Item 7.

(3) These items are included in other income in the Consolidated Statements of Income.

(4) Net trading gains result from changes in the fair value of diversified investment securities held in a grantor trust under deferred compensation arrangements and are substantially offset by nonqualified plan expense for each period presented.

(5) Other income consists of various items, including safe deposit box rentals, miscellaneous recoveries, and gains on the sales of various assets.

(6) For a discussion of the 2012 gain on an FDIC-assisted transaction, see Note 3 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

2014 Compared to 2013
Total noninterest income was $126.6 million for the year ended December 31, 2014, decreasing 10.1% from 2013. Total fee-based revenues were $111.1 million, increasing 4.5% compared to 2013. Total noninterest income during 2013 was impacted by certain significant transactions, including a $34.0 million gain on the sale of an equity investment and a $7.8 million gain on the termination of two FHLB forward commitments, offset in part by a $13.3 million write-down of the CSV of certain BOLI policies.
Service charges on deposit accounts were in line with 2013, as charges for services to new customers acquired in the Popular and Great Lakes transactions offset the continued decline in revenue from non-sufficient funds transactions.

Growth in wealth management fees of 9.5% reflect new customer relationships and an overall increase in assets under management to $7.2 billion, a rise of $544.1 million, or 8.1%, from 2013.
The rise in card-based fees mainly reflects higher transaction volumes along with incentives from a renewed vendor contract.
During 2014, we sold $144.9 million of 1-4 family mortgage loans in the secondary market compared to sales of $147.4 million during 2013. Lower market pricing contributed to the decline in mortgage banking income compared to 2013.

Gains realized on the sale of certain equipment leasing contracts and check printing fees drove the increase in other service charges, commissions, and fees, which were partially offset by a decrease in sales of capital market products to commercial clients. The sales of leasing contracts were generated from a new commercial product offering introduced with the acquisition of National Machine Tool in the third quarter of 2014.

Net securities gains were driven by the sale of municipal securities, other investments, and longer-duration corporate bonds, resulting in pre-tax gains of $4.6 million and the sale of a non-accrual trust-preferred collateralized debt obligation ("CDO") at a pre-tax gain of $3.5 million.

During 2014, we completed the disposition of two branch properties at pre-tax gains of $4.0 million as part of multi-year efforts to optimize our retail distribution.

The loss on early extinguishment of debt resulted from the prepayment of $114.6 million in FHLB advances.

2013 Compared to 2012

Total noninterest income of $140.9 million for 2013 rose 28.1% compared to 2012 driven primarily by the $34.0 million gain on the sale of our investment in Textura, and a $7.8 million gain on the termination of two FHLB forward commitments, offset in part by a $13.3 million write-down of the CSV related to the modification of approximately $100 million of certain lower-yielding BOLI policies.

Fee-based revenues increased 9.2% from 2012, resulting from growth in core business activities, specifically wealth management fees, mortgage banking income, and sales of capital market products to commercial clients.

The 11.0% increase in wealth management fees compared to 2012 was driven by new customer relationships and improved market performance. Average trust assets under management increased 17.0% during 2013.

The significant rise in mortgage banking income compared to 2012 resulted from recognizing a full year of mortgage banking activity. During 2013, $147.4 million of mortgage loans were sold compared to $50.3 million in 2012.

Sales of capital market products to commercial clients drove the rise in other service charges, commissions, and fees.

During the fourth quarter of 2013, we repurchased and retired $24.0 million of 6.95% junior subordinated debentures, resulting in a pre-tax loss of $1.0 million.

Noninterest Expense

The following table presents the components of noninterest expense for the three years ended December 31, 2014.

Table 5

Noninterest Expense Analysis

(Dollar amounts in thousands)

	Years Ended December 31,			% Change	
	2014	2013	2012	2014-2013	2013-2012
Salaries and employee benefits:					
Salaries and wages	$115,763	$108,932	$103,245	6.3	5.5
Nonqualified plan expense [(1)]	815	3,699	1,986	(78.0)	86.3
Retirement and other employee benefits	27,245	26,119	25,524	4.3	2.3
Total salaries and employee benefits	143,823	138,750	130,755	3.7	6.1
Net occupancy and equipment expense	35,181	31,832	32,699	10.5	(2.7)
Professional services	23,436	21,922	29,614	6.9	(26.0)
Technology and related costs	12,875	11,335	11,846	13.6	(4.3)
Merchant card expense	9,195	8,780	8,584	4.7	2.3
Advertising and promotions	8,159	7,754	5,073	5.2	52.8
Net OREO expense	7,075	8,547	10,521	(17.2)	(18.8)
FDIC premiums	5,824	6,438	6,926	(9.5)	(7.0)
Cardholder expenses [(2)]	4,251	4,021	3,939	5.7	2.1
Other expenses [(2)]	20,135	15,858	20,838	27.0	(23.9)
Acquisition and integration related expenses	13,872	—	—	100.0	—
Adjusted amortization of FDIC indemnification asset	—	1,500	6,705	(100.0)	(77.6)
Total noninterest expense	$283,826	$256,737	$267,500	10.6	(4.0)

(1) Nonqualified plan expense results from changes in the Company's obligation to participants under deferred compensation agreements and is substantially offset by earnings on related assets, which are reported as net trading gains and included in noninterest income.

(2) These line items are included in other expense in the Consolidated Statements of Income.

2014 Compared to 2013

Excluding acquisition and integration related expenses of $13.9 million and approximately $5.5 million in recurring operating costs of the newly acquired Popular, National Machine Tool, and Great Lakes locations, total noninterest expense for 2014 was $264.5 million, increasing $7.7 million, or 3.0%, from 2013. This increase was primarily due to higher salaries and employee benefits and professional services expenses associated with growth and organizational needs.

Recurring operating costs associated with the Popular, National Machine Tool, and Great Lakes locations were primarily concentrated in salaries and employee benefits, net occupancy and equipment expense, professional services, and other expenses. The conversion and integration of these transactions was substantially complete as of December 31, 2014, with certain remaining efficiencies to be implemented in the first half of 2015.

The increase in salaries and wages from 2013 reflects a rise in certain incentive compensation accruals and commissions due to growth and organizational needs as well as annual salary increases.

Retirement and other employee benefits increased from 2013 due to a rise in profit sharing expenses and higher premiums paid for employee insurance. A reduction in pension expense as a result of changes to the Company’s defined benefit pension plan in 2013 partially offset these increases during 2014.

Professional services expense rose in 2014 due to general costs, such as personnel recruitment and consulting fees, which were driven by growth and organizational needs. These increases were partially offset by lower servicing costs for our covered loan portfolio.

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The 17.2% decline in net OREO expense resulted from net gains on sales of OREO properties in 2014 compared to net losses on sales in 2013, which was partially offset by a $1.6 million valuation adjustment on an OREO property during the fourth quarter of 2014. In addition, lower levels of OREO operating expenses, consistent with the reduction in OREO balances, contributed to the decrease.

Other expenses were lower in 2013 due to a $1.8 million reduction in the reserve for unfunded commitments.

2013 Compared to 2012

Total noninterest expense for 2013 was $256.7 million, decreasing 4.0% from 2012 driven by a decline in net OREO expense, professional services expenses, and lower levels of adjusted amortization of the FDIC indemnification asset, which were partially offset by an increase in total compensation expense and advertising and promotions expense.

Compared to 2012, the increase in total compensation expense was due primarily to higher incentive compensation and commissions and a decrease in deferred salaries related to loan originations.

Professional services expense decreased 26.0% from 2012. This decline was due primarily to a $6.4 million reduction in loan remediation costs including legal expenses, appraisal costs, and real estate taxes, as a result of management's accelerated credit remediation actions that occurred in 2012, including the bulk loan sales. In addition, a decrease in covered loan servicing costs contributed to the variance. Lower levels of personnel recruitment expenses, attorney fees related to an FDIC-assisted acquisition, and various legal proceedings in 2012 also drove the decline in professional service expense from 2012.

Net OREO expense for 2013 declined 18.8% from 2012 primarily from $1.8 million in lower valuation adjustments and a $1.0 million decrease in expenses, partially offset by an increase in losses on sales of OREO.

Lower FDIC premiums reflect a reduced assessment rate due primarily to improved asset quality resulting from the bulk loan sales completed during the fourth quarter of 2012.

The increase in advertising and promotions expense from 2012 was driven by the launch of our "Bank with Momentum" branding campaign during the second quarter of 2013.

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

The decline in other expenses from 2012 reflects a $1.8 million reduction in the reserve for unfunded commitments. In addition, other expenses were elevated in 2012 from valuation adjustments of $2.6 million on a property held-for-sale and a former banking office transferred to OREO.

Income Taxes

Our provision for income taxes includes both federal and state income tax expense (benefit). An analysis of the provision for income taxes for the three years ended December 31, 2014 is detailed in the following table.

Table 6

Income Tax Expense (Benefit) Analysis

(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Income (loss) before income tax expense (benefit)	$100,476	$128,021	$(49,936)
Income tax expense (benefit):			
Federal income tax expense (benefit)	$24,244	$36,316	$(23,728)
State income tax expense (benefit)	6,926	12,399	(5,154)
Total income tax expense (benefit)	$31,170	$48,715	$(28,882)
Effective income tax rate	31.0%	38.1%	57.8%

Federal income tax expense (benefit) and the related effective income tax rate are influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax income (loss) and state income taxes. State income tax expense (benefit) and the related effective income tax rate are driven by the amount of state tax-exempt income in relation to pre-tax income (loss) and state tax rules related to consolidated/combined reporting and sourcing of income and expense.

Income tax expense totaled $31.2 million for the year ended December 31, 2014 compared to $48.7 million for the year ended December 31, 2013 and an income tax benefit of $28.9 million for the year ended December 31, 2012. The decrease in income tax expense from 2013 to 2014 was driven primarily by a decline in income subject to tax at statutory rates. The increase in income tax expense from 2012 to 2013 resulted from a rise in income subject to tax at statutory rates and a non-deductible BOLI modification loss recorded in the third quarter of 2013.
Our accounting policies for the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 15 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

FINANCIAL CONDITION

INVESTMENT PORTFOLIO MANAGEMENT

Securities that we have the positive intent and ability to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premiums and accretion of discounts. Trading securities are carried at fair value with changes in fair value included in other noninterest income. Our trading securities consist of securities held in a grantor trust for our nonqualified deferred compensation plan and are not considered part of the traditional investment portfolio. All other securities are classified as securities available-for-sale and are carried at fair value with unrealized gains and losses, net of related deferred income taxes, recorded in stockholders' equity as a separate component of accumulated other comprehensive loss.
We manage our investment portfolio to maximize the return on invested funds within acceptable risk guidelines, to meet pledging and liquidity requirements, and to adjust balance sheet interest rate sensitivity to mitigate the impact of changes in interest rates on net interest income.
From time to time, we adjust the size and composition of our securities portfolio according to a number of factors, including expected loan growth, anticipated changes in collateralized public funds on account, the interest rate environment, and the related value of various segments of the securities markets.
The following table provides a valuation summary of our investment portfolio for the three years ended December 31, 2014.

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

	As of December 31,								
	2014			2013			2012		
	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Securities Available-for-Sale									
U.S. agency securities	$30,297	$30,431	2.5	$500	$500	—	$508	$508	—
CMOs	538,882	534,156	44.0	490,962	475,768	41.2	397,146	400,383	35.8
MBSs	155,443	159,765	13.1	135,097	136,164	11.8	117,785	122,900	11.0
Municipal securities	414,255	423,820	34.9	457,318	461,393	39.9	495,906	520,043	46.5
CDOs	48,502	33,774	2.8	46,532	18,309	1.6	46,533	12,129	1.1
Corporate debt securities	1,719	1,802	0.1	12,999	14,929	1.3	13,006	15,339	1.4
Equity securities	3,224	3,261	0.3	3,706	5,662	0.5	9,690	11,101	1.0
Total available-for-sale securities	1,192,322	1,187,009	97.7	1,147,114	1,112,725	96.3	1,080,574	1,082,403	96.8
Securities Held-to-Maturity									
	26,555	27,670	2.3	44,322	43,387	3.7	34,295	36,023	3.2

Municipal securities									
Total securities	$1,218,877	$1,214,679	100.0	$1,191,436	$1,156,112	100.0	$1,114,869	$1,118,426	100.0

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Portfolio Composition

As of December 31, 2014, our securities portfolio totaled $1.2 billion, rising $56.5 million, or 4.9%, from December 31, 2013, following a 3.4% increase from December 31, 2012. During the fourth quarter of 2014, we acquired $219.3 million of securities in the Great Lakes transaction which consisted of $31.8 million in U.S. agency securities, $137.7 million in CMOs, $39.7 million in MBSs, $2.8 million in municipal securities, $6.6 million in CDOs, and $690,000 in equity securities. These securities were recorded at fair value as of the acquisition date. In addition to the acquired securities portfolio, the year end balance was impacted by purchases of $28.5 million, maturities, calls, and prepayments of $176.7 million, and sales of $27.8 million.

As of December 31, 2014, approximately 96.7% of our $1.2 billion available-for-sale portfolio was comprised of U.S. agency securities, municipals, CMOs, and other MBSs. The remainder of the portfolio was comprised of eleven CDOs with a fair value of $33.8 million and an aggregate unrealized loss of $14.7 million, and miscellaneous other securities with fair values of $5.1 million.

Investments in municipal securities comprised 35.7%, or $423.8 million, of the total available-for-sale securities portfolio as of December 31, 2014. The majority consists of general obligations of local municipalities in various states. Our municipal securities portfolio has historically experienced very low default rates and provides a predictable cash flow.

Table 8

Securities Effective Duration Analysis

(Dollar amounts in thousands)

	As of December 31,					
	2014			2013		
	Effective Duration [1]	Average Life [2]	Yield to Maturity [3]	Effective Duration [1]	Average Life [2]	Yield to Maturity [3]
Securities Available-for-Sale						
U.S. agency securities	3.32 %	3.72	2.98 %	2.23 %	2.25	0.49 %
CMOs	3.45 %	3.67	1.91 %	4.48 %	4.26	1.86 %
Other MBSs	2.88 %	4.18	2.77 %	3.93 %	4.85	2.45 %
Municipal securities	2.89 %	2.37	5.50 %	5.11 %	3.27	5.53 %
CDOs	N/M	N/M	N/M	N/M	N/M	N/M
Corporate debt securities	0.45 %	0.50	6.72 %	4.86 %	7.18	6.39 %
Equity securities	N/M	N/M	N/M	N/M	N/M	N/M
Total available-for-sale securities	3.16 %	3.26	3.37 %	4.68 %	3.95	3.52 %
Securities Held-to-Maturity						
Municipal securities	5.64 %	7.85	4.60 %	6.50 %	11.84	5.47 %
Total securities	3.21 %	3.37	3.40 %	4.75 %	4.26	3.60 %

N/M – Not meaningful.

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

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

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

Effective Duration

The average life and effective duration of our available-for-sale securities portfolio were both lower than the prior year at 3.26 years and 3.16%, respectively. These decreases, which were partially offset by the impact of securities acquired in the Great Lakes transaction, resulted mainly from maturities and sales of investment securities that were not reinvested in the securities portfolio.

Realized Gains and Losses

Net securities gains of $8.1 million for 2014 resulted from the sale of a non-accrual CDO at a gain of $3.5 million, sales of certain longer-duration corporate bonds at gains of $2.0 million, sales of municipal securities at gains of $468,000, and the sale of certain other investments at gains of $2.1 million. In addition, four CDOs totaling $2.9 million acquired in the Great Lakes transaction were sold during the fourth quarter of 2014. These securities were recorded at fair value at the acquisition date, therefore, no gain or loss was recognized on the sale.

Net securities gains of $34.2 million for 2013 were driven by the sale of our investment in Textura. In addition, net securities gains for the year included OTTI charges of $408,000 on four municipal securities and two CMOs.

Net securities losses were $921,000 for 2012, which included OTTI charges of $3.7 million on two CDOs and several CMOs and net gains of $2.7 million from the sale of $153.7 million in CMOs, municipal securities, and corporate bonds.

Unrealized Gains and Losses

Unrealized gains and losses on securities available-for-sale represent the difference between the aggregate cost and fair value of the portfolio. These amounts are presented in the Consolidated Statements of Comprehensive Income and reported as a separate component of stockholders' equity in accumulated other comprehensive loss on an after-tax basis. This balance sheet component fluctuates as current market interest rates and conditions change and affect the aggregate fair value of the portfolio. Net unrealized losses at December 31, 2014 were $5.3 million compared to $34.4 million at December 31, 2013.

Net unrealized losses in the CMO portfolio totaled $4.7 million at December 31, 2014 compared to $15.2 million at December 31, 2013. CMOs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. We do not believe any individual unrealized loss on these securities as of December 31, 2014 represents OTTI related to credit deterioration. In addition, we do not intend to sell the CMOs with unrealized losses within a short period of time, and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

As of December 31, 2014, net unrealized gains in the municipal securities portfolio totaled $9.6 million compared to $4.1 million as of December 31, 2013. Net unrealized gains on municipal securities include unrealized losses of $1.0 million at December 31, 2014 and $5.6 million at December 31, 2013. Substantially all of these securities carry investment grade ratings with the majority supported by the general revenues of the issuing governmental entity and are supported by third-party bond insurance or other types of credit enhancement. We do not believe the unrealized loss on any of these securities represents an OTTI.

Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The unrealized loss on these securities declined from $28.2 million at December 31, 2013 to $14.9 million at December 31, 2014. An increase in market activity, primarily due to improvement in the underlying issuers and other market conditions, led to the decrease. We do not believe the unrealized losses on the CDOs as of December 31, 2014 represent OTTI related to credit deterioration. In addition, we do not intend to sell the CDOs with unrealized losses within a short period of time, and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Our estimation of fair values for the CDOs is described in Note 22 of "Notes to the Consolidated Financial Statements," in Item 8 of this Form 10-K.

Table 9
Repricing Distribution and Portfolio Yields
(Dollar amounts in thousands)

	As of December 31, 2014											
	One Year or Less			One Year to Five Years			Five Years to Ten Years			After 10 years		
	Amortized Cost	Yield to Maturity (1)		Amortized Cost	Yield to Maturity (1)		Amortized Cost	Yield to Maturity (1)		Amortized Cost	Yield to Maturity (1)	
Securities Available-for-Sale												
U.S. agency securities	$—	—	%	$4,496	2.49	%	$23,825	3.09	%	$1,976	2.80	%
CMOs (2)	179,667	1.97	%	285,350	1.90	%	67,259	1.78	%	6,606	1.78	%
Other MBSs (2)	38,113	2.82	%	81,559	2.80	%	28,161	2.66	%	7,610	2.58	%
Municipal securities (3)	67,900	6.10	%	71,948	6.01	%	190,182	4.88	%	84,225	6.00	%
CDOs	—	—		—	—		—	—		48,502	N/M	
Corporate debt securities (4)	—	—		1,688	6.47	%	—	—		31	20.00	%
Equity securities (4)	—	—		—	—		3,224	N/M		—	N/M	
Total available-for-sale securities	285,680	3.07	%	445,041	2.75	%	312,651	3.83	%	148,950	3.64	%
Securities Held-to-Maturity												
Municipal securities (3)	3,505	5.27	%	8,727	4.61	%	5,404	5.16	%	8,919	4.00	%
Total securities	$289,185	3.10	%	$453,768	2.79	%	$318,055	3.85	%	$157,869	3.66	%

N/M – Not meaningful.

(1) Based on amortized cost.

(2) The repricing distributions and yields to maturity of CMOs and other MBSs are based on estimated expected future cash flows and prepayment assumptions. Actual repricings and yields of the securities may differ from those reflected in the table depending on actual interest rates and prepayment speeds.

(3) Yields on municipal securities are reflected on a tax-equivalent basis, assuming a federal income tax rate of 35%. The maturity date of bonds is based on contractual maturity, unless the bond, based on current market prices, is deemed to have a high probability that the call will be exercised, in which case the call date is used as the maturity date.

(4) Yields on corporate debt and equity securities are reflected on a tax-equivalent basis, assuming a federal income tax rate of 35%. Maturity dates are based on contractual maturity or repricing characteristics.

LOAN PORTFOLIO AND CREDIT QUALITY

Our principal source of revenue is generated by our lending activities and is composed primarily of interest income as well as loan origination and commitment fees (net of related costs). The accounting policies for the recording of loans in the Consolidated Statements of Financial Condition and the recognition and/or deferral of interest income and fees in the Consolidated Statements of Income are included in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Portfolio Composition

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 86.3% of total loans, excluding covered loans, at December 31, 2014. Consistent with our emphasis on relationship banking, the majority of our corporate loans are made to our core, multi-relationship customers. These customers usually maintain deposit relationships and utilize our other banking services, such as cash management or wealth management services. To maximize loan income with an acceptable level of risk, we have certain lending policies and procedures that management reviews on a regular basis. In addition, management receives periodic reporting related to loan production, loan quality, credit concentrations, loan delinquencies, and non-performing and performing potential problem loans to monitor and mitigate potential and current risks in the portfolio. We do not offer any sub-prime products and we have policies to limit our exposure to any single borrower.

Table 10
Loan Portfolio
(Dollar amounts in thousands)

	As of December 31,									
	2014	% of Total	2013	% of Total	2012	% of Total	2011	% of Total	2010	% of Total
Commercial and industrial	$2,253,556	33.9	$1,830,638	32.8	$1,631,474	31.5	$1,458,446	28.7	$1,465,903	28.7
Agricultural	358,249	5.4	321,702	5.8	268,618	5.2	243,776	4.8	227,756	4.5
Commercial real estate:										
Office	494,637	7.4	459,202	8.2	474,717	9.1	444,368	8.7	396,836	7.8
Retail	452,225	6.8	392,576	7.0	368,796	7.1	334,034	6.6	328,751	6.4
Industrial	531,517	8.0	501,907	9.0	489,678	9.4	520,680	10.2	478,026	9.4
Multi-family	564,421	8.4	332,873	6.0	285,481	5.5	288,336	5.7	349,862	6.9
Construction	204,236	3.1	186,197	3.3	186,416	3.6	250,745	4.9	339,162	6.6
Other commercial real estate	887,897	13.3	807,071	14.5	773,121	14.9	888,146	17.4	856,357	16.8
Total commercial real estate	3,134,933	47.0	2,679,826	48.0	2,578,209	49.6	2,726,309	53.5	2,748,994	53.9
Total corporate loans	5,746,738	86.3	4,832,166	86.6	4,478,301	86.3	4,428,531	87.0	4,442,653	87.1
Home equity	543,185	8.2	427,020	7.7	390,033	7.5	416,194	8.2	445,243	8.7
1-4 family mortgages	291,463	4.4	275,992	4.9	282,948	5.5	201,099	4.0	160,890	3.2
Installment	76,032	1.1	44,827	0.8	38,394	0.7	42,289	0.8	51,774	1.0
Total consumer loans	910,680	13.7	747,839	13.4	711,375	13.7	659,582	13.0	657,907	12.9

Total loans, excluding covered loans	6,657,418	100.0	5,580,005	100.0	5,189,676	100.0	5,088,113	100.0	5,100,560	100.0
Covered loans	79,435		134,355		197,894		260,502		371,729	
Total loans	$6,736,853		$5,714,360		$5,387,570		$5,348,615		$5,472,289	

2014 Compared to 2013

Total loans, excluding covered loans, of $6.7 billion as of December 31, 2014 reflects growth of $1.1 billion, or 19.3%, from December 31, 2013. Excluding loans acquired in the Popular and Great Lakes transactions of $718.3 million, total loans, excluding covered loans, grew $359.2 million, or 6.4%, from December 31, 2013. This organic growth was driven primarily by an increase of 17.4% in commercial and industrial loans, 10.8% in agricultural, and 10.6% in multi-family loans. Solid performance from our legacy sales platform concentrated within our commercial and industrial and agricultural loan categories reflects the continued impact of greater resource investments and expansion into certain sector-based lending areas, such as agri-business, asset-based lending, and healthcare.

Consumer loans totaled $910.7 million as of December 31, 2014 and represented 13.7% of loans, excluding covered loans, increasing $162.8 million, or 21.8% from December 31, 2013. Loans acquired in the Popular and Great Lakes transactions contributed $93.5 million of this growth. Excluding acquired loans, consumer loans increased $69.3 million, or 9.3%, which reflects the purchase of $48.7 million of high-quality, shorter duration home equity loans and the sale of $144.9 million of 1-4 family mortgage loans during 2014.

Covered loans decreased $54.9 million, or 40.9%, from December 31, 2013, reflecting the expected decline in this portfolio.

For additional detail regarding acquired loans refer to the section below titled "Acquired Loans" of this Item 7.

2013 Compared to 2012

Total loans, excluding covered loans, of $5.6 billion as of December 31, 2013 reflected growth of $390.3 million, or 7.5%, from December 31, 2012. The loan portfolio benefited from well-balanced corporate loan growth reflecting credits of varying size and diverse geographic locations within our markets and includes an increase in commercial and industrial loans, agricultural loans, multi-family loans, and retail loans.

Consumer loans represented 13.4% of loans, excluding covered loans, and increased $36.5 million. This growth reflects the purchase of $51.9 million of high-quality, shorter duration home equity loans and the sale of $147.4 million of 1-4 family mortgage loans during 2013.

Covered loans decreased $63.5 million, or 32.1%, from December 31, 2012, reflecting the expected decline in this portfolio.

Comparisons of Prior Years (2012, 2011, and 2010)

Total loans of $5.4 billion as of December 31, 2012 grew $39.0 million from December 31, 2011. Excluding covered loans, net charge-offs, loans disposed through bulk loan sales, and loans acquired in an FDIC-assisted transaction, our loan portfolio increased by approximately 6.5% from December 31, 2011. The increase in commercial and industrial loans was driven by the targeted redistribution of the loan portfolio from commercial real estate into this category, significant investments in sales staff, and refocusing current staff away from remediation activities, subsequent to the bulk loan sales. Strong origination efforts primarily contributed to growth in 1-4 family mortgages, in addition to loans acquired in an FDIC-assisted transaction. A decrease in the construction portfolio was driven by efforts to reduce lending exposure to this category. The decrease in covered loans of $62.6 million, or 24.0%, from December 31, 2011 reflects the continued decline in this portfolio.

Total loans of $5.3 billion as of December 31, 2011 declined $123.7 million, or 2.3%, from $5.5 billion as of December 31, 2010. The continued decline in covered loan balances accounted for the majority of this reduction. Total loans, excluding covered loans, as of December 31, 2011 were stable compared to December 31, 2010. The office, retail, industrial, and other commercial real estate portfolios exhibited 6.2% growth during this period, substantially in the form of owner-occupied business relationships. Offsetting this growth, we continued to reduce our exposure to the higher risk construction category during 2011.

Acquired Loans

During the third and fourth quarters of 2014, we acquired loans in the Popular and Great Lakes transactions which contributed to overall loan growth and expanded our market footprint. For a detailed discussion of these transactions, refer to the section titled "Performance Overview" of this Item 7.

The following table summarizes loans by category as of December 31, 2014 between legacy and loans acquired in the Popular and Great Lakes transactions, compared to loans as of December 31, 2013.
Table 11
Legacy and Acquired Loan Portfolio Composition
(Dollar amounts in thousands)

	As of December 31, 2014			As of December 31, 2013	Legacy %
	Legacy	Acquired	Total	Total	Change
Commercial and industrial	$2,148,858	$104,698	$2,253,556	$1,830,638	17.4
Agricultural	356,395	1,854	358,249	321,702	10.8
Commercial real estate:					
Office	389,348	105,289	494,637	459,202	(15.2)
Retail	372,311	79,914	452,225	392,576	(5.2)
Industrial	486,420	45,097	531,517	501,907	(3.1)
Multi-family	367,995	196,426	564,421	332,873	10.6
Construction	196,387	7,849	204,236	186,197	5.5
Other commercial real estate	804,294	83,603	887,897	807,071	(0.3)
Total commercial real estate	2,616,755	518,178	3,134,933	2,679,826	(2.4)
Total corporate loans	5,122,008	624,730	5,746,738	4,832,166	6.0
Home equity	499,088	44,097	543,185	427,020	16.9
1-4 family mortgages	247,359	44,104	291,463	275,992	(10.4)
Installment	70,701	5,331	76,032	44,827	57.7
Total consumer loans	817,148	93,532	910,680	747,839	9.3
Total loans, excluding covered loans	5,939,156	718,262	6,657,418	5,580,005	6.4
Covered loans	79,435	—	79,435	134,355	(40.9)
Total loans	$6,018,591	$718,262	$6,736,853	$5,714,360	5.3

Commercial, Industrial, and Agricultural Loans
Commercial, industrial, and agricultural loans represent 39.3% of total loans, excluding covered loans, and totaled $2.6 billion at December 31, 2014, an increase of $459.5 million, or 21.3% from December 31, 2013. Loans acquired in the Popular and Great Lakes transactions during the third and fourth quarters of 2014 contributed $106.6 million of this growth. Our commercial and industrial loans are a diverse group of loans to middle market businesses generally located in the Chicago metropolitan area with purposes that range from supporting seasonal working capital needs to term financing of equipment. The underwriting for these loans is based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may incorporate a personal guarantee.
Agricultural loans are generally provided to meet seasonal production, equipment, and farm real estate borrowing needs of individual and corporate crop and livestock producers. As part of the underwriting process, the Company examines projected future cash flows, financial statement stability, and the value of the underlying collateral. Seasonal crop production loans are repaid by the liquidation of the financed crop that is typically covered by crop insurance. Equipment and real estate term loans are repaid through cash flows of the farming operation.
Commercial Real Estate Loans
Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. The repayment of commercial real estate loans depends on the successful operation of the property securing the loan or the business conducted on the property securing the loan. This category of loans may be more adversely affected by conditions in the real estate market. Management monitors and evaluates commercial real estate loans

based on cash flow, collateral, geography, and risk rating criteria. The properties securing the loans in our commercial real estate portfolio are diversified between owner-occupied and investor categories and represent varying types across our market footprint.

Construction loans are generally based on estimates of costs and value associated with the completed projects and are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analyses of absorption and lease rates, and financial analyses of the developers and property owners. Sources of repayment may be permanent loans from long-term lenders, sales of developed property, or an interim loan commitment until permanent financing is obtained. Generally, construction loans have a higher risk profile than other real estate loans since repayment is impacted by real estate values, interest rate changes, governmental regulation of real property, demand and supply of alternative real estate, the availability of long-term financing, and changes in general economic conditions.
The following table provides commercial real estate loan detail as of December 31, 2014, 2013, and 2012.
Table 12
Commercial Real Estate Loans
(Dollar amounts in thousands)

	As of December 31,					
	2014	% of Total	2013	% of Total	2012	% of Total
Office, retail, and industrial:						
Office	$494,637	15.8	$459,202	17.1	$474,717	18.4
Retail	452,225	14.4	392,576	14.7	368,796	14.3
Industrial	531,517	17.0	501,907	18.7	489,678	19.0
Total office, retail, and industrial	1,478,379	47.2	1,353,685	50.5	1,333,191	51.7
Multi-family	564,421	18.0	332,873	12.4	285,481	11.1
Construction	204,236	6.5	186,197	7.0	186,416	7.2
Other commercial real estate:						
Rental properties	123,627	3.9	112,887	4.2	121,174	4.7
Service stations and truck stops	84,108	2.7	83,237	3.1	114,521	4.4
Warehouses and storage	128,396	4.1	122,325	4.6	110,367	4.3
Hotels	46,409	1.5	62,451	2.3	74,098	2.9
Restaurants	74,490	2.4	79,809	3.0	80,430	3.1
Automobile dealers	53,221	1.7	37,504	1.4	45,121	1.8
Recreational	48,718	1.5	56,327	2.1	41,058	1.6
Religious	36,427	1.2	32,614	1.2	29,196	1.1
Multi-use properties	191,011	6.1	118,351	4.4	63,120	2.4
Other	101,490	3.2	101,566	3.8	94,036	3.7
Total other commercial real estate	887,897	28.3	807,071	30.1	773,121	30.0
Total commercial real estate	$3,134,933	100.0	$2,679,826	100.0	$2,578,209	100.0
Owner-occupied commercial real estate loans, excluding multi-family and construction loans	$959,635		$933,151		$963,375	
Owner-occupied as a percent of total, excluding multi-family and construction loans	40.6	%	43.2	%	45.7	%

Commercial real estate loans represent 47.1% of total loans, excluding covered loans, and totaled $3.1 billion at December 31, 2014, an increase of $455.1 million, or 17.0% from December 31, 2013. Overall, growth was driven by loans acquired in the Popular and Great Lakes transactions, which totaled $518.2 million at December 31, 2014.
Consumer Loans
Consumer loans represent 13.7% of total loans, excluding covered loans, and totaled $910.7 million at December 31, 2014. Consumer loans are centrally underwritten using a credit scoring model developed by the Fair Isaac Corporation ("FICO"). It uses a risk-based system to determine the probability that a borrower may default on financial obligations

to the lender. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. The home equity category consists mainly of revolving lines of credit secured by junior liens on owner-occupied real estate. Loan-to-value ratios on home equity loans and 1-4 family mortgages are based on the current appraised value of the collateral.

Maturity and Interest Rate Sensitivity of Corporate Loans

The following table summarizes the maturity distribution of our corporate loan portfolio as of December 31, 2014, as well as the interest rate sensitivity of the loans that have maturities in excess of one year. For additional discussion of interest rate sensitivity, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of this Form 10-K.

Table 13

Maturities and Sensitivities of Corporate Loans to Changes in Interest Rates

(Dollar amounts in thousands)

	Maturity Due In			
	One Year or Less	Greater Than One to Five Years	Greater Than Five Years	Total
As of December 31, 2014				
Commercial, industrial, and agricultural	$1,211,466	$1,176,627	$223,712	$2,611,805
Commercial real estate	753,480	2,046,340	335,113	3,134,933
Total corporate loans	$1,964,946	$3,222,967	$558,825	$5,746,738
Loans by interest rate type:				
Fixed interest rates	$702,476	$1,946,905	$270,024	$2,919,405
Floating interest rates	1,262,470	1,276,062	288,801	2,827,333
Total corporate loans	$1,964,946	$3,222,967	$558,825	$5,746,738

As of December 31, 2014, the composition of our corporate loans between fixed and floating interest rates was 50.8% and 49.2%, respectively. As of December 31, 2013, the composition of our corporate loans between fixed and floating interest rates was 53.5% and 46.5%, respectively.

Non-Performing Assets and Performing Potential Problem Loans

The following table presents our loan portfolio by performing and non-performing status. A discussion of our accounting policies for non-accrual loans, TDRs, and loans 90 days or more past due can be found in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 14

Loan Portfolio by Performing/Non-Performing Status

(Dollar amounts in thousands)

	Total Loans	Accruing Current	30-89 Days Past Due	90 Days Past Due	TDRs	Non-accrual
As of December 31, 2014						
Commercial and industrial	$2,253,556	$2,225,507	$4,882	$205	$269	$22,693
Agricultural	358,249	355,955	1,934	—	—	360
Commercial real estate:						
Office	494,637	489,915	939	—	—	3,783
Retail	452,225	446,702	288	76	413	4,746
Industrial	531,517	525,955	979	—	173	4,410
Multi-family	564,421	561,436	1,261	83	887	754
Construction	204,236	197,255	—	—	—	6,981
Other commercial real estate	887,897	875,080	4,976	438	433	6,970
Total commercial real estate	3,134,933	3,096,343	8,443	597	1,906	27,644
Total corporate loans	5,746,738	5,677,805	15,259	802	2,175	50,697
Home equity	543,185	533,738	2,361	145	651	6,290
1-4 family mortgages	291,463	285,531	1,947	166	878	2,941
Installment	76,032	75,423	506	60	—	43
Total consumer loans	910,680	894,692	4,814	371	1,529	9,274
Total loans, excluding covered loans	6,657,418	6,572,497	20,073	1,173	3,704	59,971
Covered loans	79,435	65,682	2,565	5,002	—	6,186
Total loans	$6,736,853	$6,638,179	$22,638	$6,175	$3,704	$66,157
As of December 31, 2013						
Commercial and industrial	$1,830,638	$1,805,516	$6,424	$393	$6,538	$11,767
Agricultural	321,702	321,123	60	—	—	519
Commercial real estate:						
Office	459,202	455,547	1,200	731	—	1,724
Retail	392,576	385,234	939	272	624	5,507
Industrial	501,907	481,766	337	312	9,647	9,845
Multi-family	332,873	329,669	318	—	1,038	1,848
Construction	186,197	179,877	23	—	—	6,297
Other commercial real estate	807,071	789,517	4,817	258	4,326	8,153
Total commercial real estate	2,679,826	2,621,610	7,634	1,573	15,635	33,374
Total corporate loans	4,832,166	4,748,249	14,118	1,966	22,173	45,660
Home equity	427,020	413,912	4,355	1,102	787	6,864
1-4 family mortgages	275,992	267,497	1,939	548	810	5,198
Installment	44,827	42,329	330	92	—	2,076
Total consumer loans	747,839	723,738	6,624	1,742	1,597	14,138
Total loans, excluding covered loans	5,580,005	5,471,987	20,742	3,708	23,770	59,798

Covered loans	134,355	93,100	2,232	18,081	—	20,942
Total loans	$5,714,360	$5,565,087	$22,974	$21,789	$23,770	$80,740

The following table provides a comparison of our non-performing assets and past due loans to prior periods.
Table 15
Non-Performing Assets and Past Due Loans
(Dollar amounts in thousands)

	As of December 31,									
	2014		2013		2012		2011		2010	
Non-performing assets, excluding acquired and covered loans and covered OREO [1]										
Non-accrual loans	$58,853		$59,798		$84,534		$187,325		$211,782	
90 days or more past due loans	771		3,708		8,689		9,227		4,244	
Total non-performing loans	59,624		63,506		93,223		196,552		216,026	
Accruing TDRs	3,704		23,770		6,867		17,864		22,371	
OREO	25,779		32,473		39,953		33,975		31,069	
Total non-performing assets	$89,107		$119,749		$140,043		$248,391		$269,466	
30-89 days past due loans	$13,473		$20,742		$22,666		$27,495		$23,646	
Non-accrual loans to total loans	0.99	%	1.07	%	1.63	%	3.68	%	4.15	%
Non-performing loans to total loans	1.00	%	1.14	%	1.80	%	3.86	%	4.24	%
Non-performing assets to loans plus OREO	1.49	%	2.13	%	2.68	%	4.85	%	5.25	%
Non-performing acquired loans and OREO [1]										
Non-accrual loans	$1,118		$—		$—		$—		$—	
90 days or more past due loans	402		—		—		—		—	
Total non-performing loans	1,520		—		—		—		—	
OREO	1,119		—		—		—		—	
Total non-performing assets	$2,639		$—		$—		$—		$—	
30-89 days past due loans	$6,600		$—		$—		$—		$—	
Non-performing covered loans and covered OREO [1]										
Non-accrual loans	$6,186		$20,942		$14,182		$19,879		$—	
90 days or more past due loans	5,002		18,081		31,447		43,347		84,350	
Total non-performing loans	11,188		39,023		45,629		63,226		84,350	
OREO	8,068		8,863		13,123		23,455		22,370	
Total non-performing assets	$19,256		$47,886		$58,752		$86,681		$106,720	
30-89 days past due loans	$2,565		$2,232		$6,514		$4,232		$18,445	
Total non-performing assets										
Non-accrual loans	$66,157		$80,740		$98,716		$207,204		$211,782	
90 days or more past due loans	6,175		21,789		40,136		52,574		88,594	
Total non-performing loans	72,332		102,529		138,852		259,778		300,376	
Accruing TDRs	3,704		23,770		6,867		17,864		22,371	
OREO	34,966		41,336		53,076		57,430		53,439	
Total non-performing assets	$111,002		$167,635		$198,795		$335,072		$376,186	
30-89 days past due loans	$22,638		$22,974		$29,180		$31,727		$42,091	
Non-accrual loans to total loans	0.98	%	1.41	%	1.83	%	3.87	%	3.87	%
Non-performing loans to total loans	1.07	%	1.79	%	2.58	%	4.86	%	5.49	%
	1.64	%	2.91	%	3.65	%	6.20	%	6.81	%

Non-performing assets to loans plus OREO	
Interest income not recognized in the financial statements related to non-accrual loans for 2014	$3,057

(1) Due to the impact of business combination accounting and protection provided by the FDIC Agreements, acquired loans and covered loans and covered OREO are separated in this table and excluded from these metrics to provide for improved comparability to prior periods and better perspective into asset quality trends. For a discussion of acquired and covered loans, see Notes 1 and 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Non-performing Assets

As of December 31, 2014, non-performing assets, excluding acquired and covered loans and covered OREO, decreased by $30.6 million, or 25.6%, from December 31, 2013. This decrease was driven primarily by the return of three TDRs totaling $20.7 million to performing status, sales of OREO properties, and a decline in 90 days or more past due loans. Non-performing assets, excluding acquired and covered loans and covered OREO, represented 1.49% of total loans plus OREO as of December 31, 2014 compared to 2.13% as of December 31, 2013 and 2.68% as of December 31, 2012. The continued improvement in non-performing assets and the related credit metrics reflects management's ongoing commitment to credit remediation.

Non-performing assets, excluding covered loans and covered OREO, declined 14.5% from December 31, 2012 to December 31, 2013. Improvement in non-performing assets and related credit metrics resulted primarily from management's focus on credit remediation.

The significant decrease in non-performing assets, excluding covered loans and covered OREO, from December 31, 2011 to December 31, 2012 was due mainly to a decline in non-accrual loans, which reflects the aggressive remediation actions taken by management during 2012, including the bulk loan sales.

Non-accrual Loans

Non-accrual loans, excluding covered loans, declined to $58.9 million as of December 31, 2014 from $59.8 million as of December 31, 2013.

The reclassification of two corporate loan relationships totaling $19.3 million from non-accrual to accruing TDR status drove the decline in non-accrual loans from December 31, 2012 to December 31, 2013.

The decrease in non-accrual loans from December 31, 2011 to December 31, 2012 resulted from the bulk loan sales, payments, charge-offs, and transfers to OREO, which more than offset the amount of loans downgraded from performing to non-accrual status during 2012.

TDRs

Loan modifications may be performed at the request of the individual borrower and may include reductions in interest rates, changes in payments, and extensions of maturity dates. We occasionally restructure loans at other than market rates or terms to enable the borrower to work through financial difficulties for a period of time, and these restructures remain classified as TDRs for the remaining terms of the loans. A discussion of our accounting policies for TDRs can be found in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 16

TDRs by Type

(Dollar amounts in thousands)

	As of December 31,					
	2014		2013		2012	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
Commercial and industrial	7	$19,068	10	$8,659	6	$3,064
Agricultural	—	—	—	—	—	—
Commercial real estate:						
Office	—	—	—	—	—	—
Retail	1	413	2	624	—	—
Industrial	1	173	3	9,647	2	2,407
Multi-family	5	1,119	5	1,291	1	150
Construction	—	—	—	—	—	—
Other commercial real estate	5	616	7	4,617	7	9,855
Total commercial real estate loans	12	2,321	17	16,179	10	12,412
Total corporate loans	19	21,389	27	24,838	16	15,476
Home equity	17	1,157	18	1,299	7	274
1-4 family mortgages	10	1,062	14	1,716	16	2,041
Installment	—	—	—	—	—	—
Total consumer loans	27	2,219	32	3,015	23	2,315
Total TDRs	46	$23,608	59	$27,853	39	$17,791
Accruing TDRs	29	$3,704	39	$23,770	19	$6,867
Non-accrual TDRs	17	19,904	20	4,083	20	10,924
Total TDRs	46	$23,608	59	$27,853	39	$17,791
Year-to-date charge-offs on TDRs		$8,457		$1,880		$10,003
Specific reserves related to TDRs		1,765		1,952		2,794

At December 31, 2014, TDRs totaled $23.6 million, decreasing $4.2 million, or 15.2%, from December 31, 2013. The December 31, 2014 total includes $3.7 million in loans that are accruing interest, with the majority restructured at market terms. After a sufficient period of performance under the modified terms, the loans restructured at market rates will be reclassified to performing status.

Accruing TDRs decreased $20.1 million from December 31, 2013 due primarily to the return of three TDRs totaling $20.7 million to performing status during 2014 after sustained payment performance in accordance with their modified terms, which represent market rates at the time of restructuring.

At December 31, 2014, non-accrual TDRs totaled $19.9 million compared to $4.1 million at December 31, 2013. The increase was due to the restructure of one non-accrual credit totaling $15.5 million, net of related charge-offs, during 2014. TDRs are reported as non-accrual if they are not performing in accordance with their modified terms or they have not yet exhibited sufficient performance under their modified terms.

Performing Potential Problem Loans

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

Table 17

Performing Potential Problem Loans

(Dollar amounts in thousands)

	December 31, 2014			December 31, 2013		
	Special Mention [1]	Substandard [2]	Total [3]	Special Mention [1]	Substandard [2]	Total [3]
Commercial and industrial	$84,615	$30,809	$115,424	$23,679	$14,135	$37,814
Agricultural	294	—	294	344	—	344
Commercial real estate:						
Office, retail, and industrial	38,718	32,251	70,969	27,871	23,538	51,409
Multi-family	5,951	3,774	9,725	2,794	499	3,293
Construction	5,776	12,487	18,263	8,309	17,642	25,951
Other commercial real estate	32,225	19,407	51,632	14,567	22,576	37,143
Total commercial real estate	82,670	67,919	150,589	53,541	64,255	117,796
Total performing potential problem loans	167,579	98,728	266,307	77,564	78,390	155,954
Less: acquired performing potential problem loans [4]	10,024	29,751	39,775	—	—	—
Total performing potential problem loans, excluding acquired loans [4]	$157,555	$68,977	$226,532	$77,564	$78,390	$155,954
Performing potential problem loans to corporate loans	2.92 %	1.72 %	4.63 %	1.61 %	1.62 %	3.23 %
Performing potential problem loans to corporate loans, excluding acquired loans [4]	3.08 %	1.35 %	4.42 %	1.61 %	1.62 %	3.23 %

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

(3) Total performing potential problem loans excludes $1.8 million of accruing TDRs as of December 31, 2014 and $2.8 million of accruing TDRs as of December 31, 2013.

(4) Due to the impact of business combination accounting, acquired performing potential problem loans are separated in this table and excluded from these metrics to provide for improved comparability to prior periods and better perspective into trends. For a discussion of acquired loans, see Notes 1 and 6 of "Notes to the Consolidated

Financial Statements" in Item 8 of this Form 10-K.

Performing potential problem loans totaled $266.3 million as of December 31, 2014, compared to $156.0 million as of December 31, 2013. The increase was impacted by the Popular and Great Lakes acquisitions, which added $39.8 million of performing potential problem loans as of December 31, 2014. Acquired loans are recorded at fair value, which incorporates credit risk, at the date of acquisition.

Performing potential problem loans, excluding acquired loans, were 4.42% of corporate loans at December 31, 2014 compared to 3.23% at December 31, 2013. This level reflects a greater proportion of loans classified as special mention compared to December 31, 2013. Special mention loans, excluding acquired loans, increased by $80.0 million from December 31, 2013, driven primarily by the downgrade of five corporate loan relationships totaling $66.3 million for which management has specific monitoring plans.

Loan Sales

The following table summarizes loan sales for the three years ended December 31, 2014.

Table 18

Loan Sales

(Dollar amounts in thousands)

	Proceeds	Book Value	Charge-offs [1]	Net Gains [2]
Loan sales in 2014 by class:				
Commercial and industrial	$650	$650	$—	$—
Office, retail, and industrial	17,100	20,550	(3,450)	—
1-4 family mortgages	148,680	144,909	—	3,771
Total loan sales in 2014	$166,430	$166,109	$(3,450)	$3,771
Loan sales in 2013 by class:				
Commercial and industrial	$469	$1,044	$(575)	$—
Office, retail, and industrial	806	1,791	(985)	—
1-4 family mortgages	152,130	147,413	—	4,717
Total loan sales in 2013	$153,405	$150,248	$(1,560)	$4,717
Loan sales in 2012 by class:				
Commercial and industrial	$19,705	$47,225	$(22,508)	$(5,012)
Agricultural	3,605	8,720	(4,356)	(759)
Commercial real estate:				
Office, retail, and industrial	35,488	49,345	(23,696)	9,839
Multi-family	3,151	4,043	(1,859)	967
Construction	9,074	18,274	(7,540)	(1,660)
Other commercial real estate	26,664	46,838	(21,825)	1,651
Total commercial real estate	74,377	118,500	(54,920)	10,797
Home equity	829	1,561	(773)	41
1-4 family mortgages	52,749	50,484	(90)	2,355
Total consumer loans	53,578	52,045	(863)	2,396
Total loan sales in 2012	$151,265	$226,490	$(82,647)	$7,422

(1) Amount represents charge-offs to the allowance for loan and covered loan losses at the time the loans were identified for sale.

(2) The net gains on the bulk loan sales represent gains realized subsequent to the transfer to held-for-sale and are included as a separate component of noninterest income in the Consolidated Statements of Income. Net gains on mortgage loan sales are included in mortgage banking income in the Consolidated Statements of Income.

We recognized gains of $3.8 million on the sale of $144.9 million of 1-4 family mortgage loans during the year ended December 31, 2014. Additionally, we sold $21.2 million of other non-performing loans and recorded charge-offs of $3.5 million.

During the year ended December 31, 2013, we sold $147.4 million of 1-4 family mortgage loans at gains of $4.7 million and we sold $2.8 million of other non-performing loans and recorded charge-offs of $1.6 million.

During 2012, we identified certain non-performing and performing potential problem loans for accelerated disposition through multiple bulk loan sales and recorded charge-offs of $80.3 million. The bulk loan sales of $172.5 million in original carrying value resulted in proceeds of $94.5 million and a gain of $5.2 million. In addition to the bulk loan sales, we sold $50.3 million of mortgage loans, resulting in gains of $2.3 million.

OREO

OREO consists of properties acquired as the result of borrower defaults on loans. OREO, excluding covered OREO, was $26.9 million at December 31, 2014, a $5.6 million decrease from December 31, 2013. A discussion of our accounting policies for OREO is contained in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 19
OREO Properties by Type
(Dollar amounts in thousands)

	As of December 31,		
	2014	2013	2012
Single-family homes	$2,433	$2,257	$2,054
Land parcels:			
Raw land	1,917	4,037	3,244
Farm land	923	—	207
Commercial lots	9,295	11,649	12,355
Single-family lots	1,279	3,101	4,970
Total land parcels	13,414	18,787	20,776
Multi-family units	758	346	796
Commercial properties	10,293	11,083	16,327
Total OREO, excluding covered OREO	26,898	32,473	39,953
Covered OREO	8,068	8,863	13,123
Total OREO	$34,966	$41,336	$53,076

OREO Activity

A rollforward of OREO balances for the year ended December 31, 2014 and 2013 is presented in the following table.

Table 20
OREO Rollforward
(Dollar amounts in thousands)

	Years Ended December 31,					
	2014			2013		
	OREO	Covered OREO	Total	OREO	Covered OREO	Total
Beginning balance	$32,473	$8,863	$41,336	$39,953	$13,123	$53,076
Transfers from loans	8,145	9,934	18,079	11,545	6,420	17,965
Acquired	1,244	—	1,244	—	—	—
Proceeds from sales	(11,513)	(10,855)	(22,368)	(15,274)	(10,523)	(25,797)
Gains (losses) on sales of OREO	1,051	186	1,237	(1,531)	30	(1,501)
OREO valuation adjustments	(4,502)	(60)	(4,562)	(2,220)	(187)	(2,407)
Ending Balance	$26,898	$8,068	$34,966	$32,473	$8,863	$41,336

Allowance for Credit Losses

Methodology for the Allowance for Credit Losses

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

Acquired loans are recorded at fair value, which incorporates credit risk, at the date of acquisition. No allowance for credit losses is recorded on the acquisition date. As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses will be established as necessary to reflect credit deterioration.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk ratings by regulatory authorities. Management believes that the allowance for credit losses is an appropriate estimate of credit losses inherent in the loan portfolio as of December 31, 2014.

The accounting policy for the allowance for credit losses can be found in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

An allowance for credit losses is established on legacy loans, which consist of loans originated by the Bank, acquired loans, and covered loans. Additional discussion regarding acquired and covered loans can be found in Note 1 and Note 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. The following table provides additional details related to the legacy, covered, and acquired components of the allowance for credit losses and the remaining acquisition adjustment associated with acquired loans for the year ended December 31, 2014.

Table 21

Allowance for Credit Losses and Acquisition Adjustment

(Dollar amounts in thousands)

	Legacy and Covered Loans	Acquired Loans	Total
Year ended December 31, 2014			
Beginning balance	$87,121	$—	$87,121
Net charge-offs	(31,979)	—	(31,979)
Provision for loan and covered loan losses and other expense	19,368	—	19,368
Ending balance	$74,510	$—	$74,510
Total loans	$6,018,591	$718,262	$6,736,853
Remaining acquisition adjustment	N/A	24,737	24,737
Allowance for credit losses as a percent of total loans	1.24%	N/A	1.11%
Remaining acquisition adjustment as a percent of acquired loans	N/A	3.44%	N/A

N/A - Not applicable.

Excluding acquired loans, the total allowance for credit losses to total loans is 1.24%. Accretion of the loan acquisition adjustment into interest income totaled $1.8 million during the year ended December 31, 2014, resulting in a remaining acquisition adjustment as a percent of acquired loans of 3.44%.

Table 22
Allowance for Credit Losses and
Summary of Credit Loss Experience
(Dollar amounts in thousands)

	Years ended December 31, 2014	2013	2012	2011	2010
Change in allowance for credit losses					
Beginning balance	$87,121	$102,812	$121,962	$145,072	$144,808
Loan charge-offs:					
Commercial, industrial, and agricultural	17,424	12,094	64,668	32,750	37,130
Office, retail, and industrial	7,345	4,744	34,968	8,193	10,322
Multi-family	943	1,029	3,361	14,584	2,788
Construction	1,052	1,916	27,811	20,211	63,967
Other commercial real estate	4,834	4,784	36,474	15,396	28,869
Consumer	7,574	9,414	10,910	10,531	10,640
Total loan charge-offs	39,172	33,981	178,192	101,665	153,716
Recoveries of loan charge-offs:					
Commercial, industrial, and agricultural	3,800	3,797	3,393	3,493	5,227
Office, retail, and industrial	497	228	577	79	612
Multi-family	87	584	275	410	363
Construction	166	1,032	451	2,964	770
Other commercial real estate	1,727	1,646	125	508	494
Consumer	729	1,071	784	430	740
Total recoveries of loan charge-offs	7,006	8,358	5,605	7,884	8,206
Net loan charge-offs, excluding covered loan charge-offs	32,166	25,623	172,587	93,781	145,510
Net covered loan (recoveries) charge-offs	(187)	4,575	4,615	9,911	1,575
Net loan and covered loan charge-offs	31,979	30,198	177,202	103,692	147,085
Provision for loan and covered loan losses:					
Provision for loan losses	24,688	11,185	142,364	69,682	145,774
Provision for covered loan losses	(3,643)	5,222	24,945	51,267	27,009
Less: expected reimbursement from the FDIC	(1,877)	(150)	(9,257)	(40,367)	(25,434)
Net provision for covered loan losses	(5,520)	5,072	15,688	10,900	1,575
Total provision for loan and covered loan losses	19,168	16,257	158,052	80,582	147,349
Increase (reduction) in reserve for unfunded commitments [(1)]	200	(1,750)	—	—	—
Total provision for loan and covered loan losses and other expense	19,368	14,507	158,052	80,582	147,349
Ending balance	$74,510	$87,121	$102,812	$121,962	$145,072

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

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	Years ended December 31, 2014	2013	2012	2011	2010
Allowance for credit losses					
Allowance for loan losses	$65,468	$72,946	$87,384	$118,473	$142,572
Allowance for covered loan losses	7,226	12,559	12,062	989	—
Total allowance for loan and covered loan losses	72,694	85,505	99,446	119,462	142,572
Reserve for unfunded commitments	1,816	1,616	3,366	2,500	2,500
Total allowance for credit losses	$74,510	$87,121	$102,812	$121,962	$145,072
Amounts and ratios, excluding acquired loans, including covered loans (1)					
Average loans	$5,882,859	$5,475,110	$5,435,670	$5,421,943	$5,440,752
Net loan charge-offs to average loans	0.54 %	0.55 %	3.26 %	1.91 %	2.70 %
Allowance for credit losses at end of period as a percent of:					
Total loans	1.24 %	1.52 %	1.91 %	2.28 %	2.65 %
Non-accrual loans	114.56 %	107.90 %	104.15 %	58.86 %	68.50 %
Non-performing loans	105.22 %	84.97 %	74.00 %	46.95 %	48.30 %

(1) Due to the impact of business combination accounting, acquired loans are excluded from these metrics to provide for improved comparability to prior periods and better perspective into asset quality trends.

Activity in the Allowance for Credit Losses

The allowance for credit losses was $74.5 million as of December 31, 2014, a decline of $12.6 million from December 31, 2013. The allowance for credit losses represented 1.24% of total loans, excluding acquired loans, including covered loans, at December 31, 2014 compared to 1.52% at December 31, 2013.

The provision for loan and covered loan losses was $19.2 million for 2014 compared to $16.3 million for 2013 and $158.1 million for 2012. The provision for loan and covered loan losses was elevated for the year ended December 31, 2012 due primarily to additional provision of $62.3 million recorded as a result of selling $172.5 million of non-performing and performing potential problem loans and recording charge-offs of $80.3 million.

Excluding acquired loans, including covered loans, net loan charge-offs to average loans declined from 3.26% for 2012, to 0.55% for 2013, and to 0.54% for 2014. The significant improvement since 2012 reflects management's continued efforts to remediate problem credits, which includes the bulk loan sales completed in 2012.

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

Allocation of the Allowance for Credit Losses
Table 23
Allocation of Allowance for Credit Losses
(Dollar amounts in thousands)

	As of December 31,									
	2014	% of Total Loans (1)	2013	% of Total Loans (1)	2012	% of Total Loans (1)	2011	% of Total Loans (1)	2010	% of Total Loans (1)
Commercial, industrial, and agricultural	$29,458	39.3	$30,381	38.6	$36,761	36.7	$46,017	33.5	$49,545	33.2
Commercial real estate:										
Office, retail, and industrial	10,992	22.2	10,405	24.2	11,432	25.6	16,012	25.5	20,758	23.6
Multi-family	2,249	8.4	2,017	6.0	3,575	5.5	5,067	5.7	3,996	6.9
Construction	2,769	3.1	6,712	3.3	10,241	3.6	17,935	4.9	32,624	6.6
Other commercial real estate	8,841	13.3	11,187	14.5	14,699	14.9	21,099	17.4	25,178	16.8
Total commercial real estate	24,851	47.0	30,321	48.0	39,947	49.6	60,113	53.5	82,556	53.9
Consumer	12,975	13.7	13,860	13.4	14,042	13.7	14,843	13.0	12,971	12.9
Total, excluding allowance for covered loan losses	67,284	100.0	74,562	100.0	90,750	100.0	120,973	100.0	145,072	100.0
Covered loans	7,226		12,559		12,062		989		—	
Total allowance for credit losses	$74,510		$87,121		$102,812		$121,962		$145,072	

(1) Percentages represent total loans in each category to total loans, excluding covered loans.

The allowance for credit losses declined by 14.5% from $87.1 million as of December 31, 2013 to $74.5 million as of December 31, 2014, reflecting reductions across most categories. This decrease in the allowance for credit losses reflects the continued improvement in our non-performing loan levels and the related credit metrics, resulting from management's ongoing credit remediation focus. In addition, a decrease in the allowance for covered loans losses contributed to the variance, consistent with the wind-down of the covered loan portfolio.

The reduction in the allowance for credit losses of 15.3% from December 31, 2012 to December 31, 2013 reflects the significant improvement in non-performing loans, performing potential problem loans, and credit metrics driven by management's focus on credit remediation.

During 2012, declines in non-accrual and performing potential problem loans from accelerated credit remediation actions, including the impact of the bulk loan sales, resulted in improved credit metrics and a decline in our estimate of credit losses inherent in the loan portfolio. The allowance for covered loan losses increased $11.1 million from

2011 to reflect the difference between the carrying value and the discounted present value of the expected future cash flows of the covered impaired loans.

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INVESTMENT IN BANK-OWNED LIFE INSURANCE

We previously purchased life insurance policies on the lives of certain directors and officers and are the sole owner and beneficiary of the policies. We invested in these BOLI policies to provide an efficient form of funding for long-term retirement and other employee benefit costs. Therefore, our BOLI policies are intended to be long-term investments to provide funding for long-term liabilities. We record these BOLI policies as a separate line item in the Consolidated Statements of Financial Condition at each policy's respective CSV with changes recorded as a component of noninterest income in the Consolidated Statements of Income. As of December 31, 2014, the CSV of BOLI assets totaled $206.5 million, which includes $10.4 million acquired in the Great Lakes transaction.

As of December 31, 2014, 35.5% of our total BOLI portfolio is invested in general account life insurance distributed among eleven insurance carriers, all of which carry investment grade ratings. This general account life insurance typically includes a feature guaranteeing minimum returns. The remaining 64.5% is in separate account life insurance, which is managed by third party investment advisors under pre-determined investment guidelines. Stable value protection is a feature available for separate account life insurance policies that is designed to protect a policy's CSV from market fluctuations, within limits, on underlying investments. Our entire separate account portfolio has stable value protection purchased from a highly rated financial institution. To the extent fair values on individual contracts fall below 80%, the CSV of the specific contracts may be reduced or the underlying assets may be transferred to short-duration investments, resulting in lower earnings.

For the year ended December 31, 2014, we had BOLI income of $2.9 million compared to a prior year BOLI loss of $11.8 million. During 2013, we voluntarily modified approximately $100 million of certain lower-yielding BOLI policies, which resulted in a $13.3 million write-down of the CSV. This action gave us the flexibility to reinvest these assets in longer duration securities at higher yields to enhance future BOLI income.

GOODWILL

The carrying amount of goodwill was $310.6 million at December 31, 2014 and $264.1 million at December 31, 2013. Goodwill increased by $46.5 million from December 31, 2013 as a result of the Popular, Great Lakes, and National Machine Tool acquisitions completed during the third and fourth quarters of 2014. For additional detail regarding the goodwill impact for each acquisition, see Note 9 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Goodwill is tested annually for impairment or when events or circumstances indicate a need to perform interim tests, as described in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. During 2014, we performed our annual impairment test of goodwill at October 1, 2014 and determined that goodwill was not impaired at that date and there was no indication that goodwill was impaired at December 31, 2014.

DEFERRED TAX ASSETS

Deferred tax assets and liabilities are recognized for the future tax consequences attributed to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. For additional discussion of income taxes, see Notes 1 and 15 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. Income tax expense and benefits recorded due to changes in uncertain tax positions are also described in Note 15.

Table 24
Deferred Tax Assets
(Dollar amounts in thousands)

	As of December 31,			% Change	
	2014	2013	2012	2014-2013	2013-2012
Net deferred tax assets	$91,685	$107,624	$133,605	(14.8)	(19.4)

Management assessed whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. This assessment considered whether in the periods of reversal, the deferred tax assets can be realized through carryback to income in prior years, future reversals of existing deferred tax liabilities, and future taxable income, including taxable income resulting from the application of future tax planning strategies. The assessment also considered positive and negative evidence, including pre-tax income and loss during the current and prior two years, actual performance compared to budget, trends in non-performing assets and performing potential problem loans, the Company's capital position, and any unsettled circumstances that could impact future earnings. Based on this assessment, management determined that it is more likely than not that our deferred tax assets will be fully realized and no valuation allowance is required as of December 31, 2014.

Deferred tax assets decreased in 2014 compared to 2013, resulting primarily from the utilization of federal and state net operating losses.

The decrease in deferred tax assets in 2013 was attributed to utilization of federal net operating losses, which was partially offset by an increase in alternative minimum tax credit carryforwards.

FUNDING AND LIQUIDITY MANAGEMENT

Liquidity measures the ability to meet current and future cash flows as they become due. Our approach to liquidity management is to obtain funding sources at a minimum cost to meet fluctuating deposit, withdrawal, and loan demand needs. Our liquidity policy establishes parameters to maintain flexibility in responding to changes in liquidity needs over a 12-month forward-looking period, including the requirement to formulate a quarterly liquidity compliance plan for review by the Bank's Board of Directors. The compliance plan includes an analysis that measures projected needs to purchase and sell funds. The analysis incorporates a set of projected balance sheet assumptions that are updated quarterly. Based on these assumptions, we determine our total cash liquidity on hand and excess collateral capacity from pledging, unused federal funds purchased lines, and other unused borrowing capacity, such as FHLB advances, resulting in a calculation of our total liquidity capacity. Our total policy-directed liquidity requirement is to have funding sources available to cover 66.7% of non-collateralized, non-FDIC insured, non-maturity deposits. Based on our projections as of December 31, 2014, we expect to have liquidity capacity in excess of policy guidelines for the forward twelve-month period.

The liquidity needs of First Midwest Bancorp, Inc. on an unconsolidated basis (the "Parent Company") consist primarily of operating expenses, debt service payments, and dividend payments to our stockholders, which totaled $54.0 million for the year ended December 31, 2014. The primary source of liquidity for the Parent Company is dividends from subsidiaries. The Parent Company had $47.6 million in junior subordinated debentures, $38.5 million in subordinated notes, $114.8 million in senior notes, and cash and interest-bearing deposits of $43.5 million at December 31, 2014. At the end of 2014, the Parent Company had a $35.0 million short-term, unsecured revolving line of credit with a correspondent bank that we allowed to expire on January 20, 2015. As of December 31, 2014, no amount was outstanding. The Parent Company has the ability to enhance its liquidity position by raising capital or incurring debt.

Total deposits and borrowed funds as of December 31, 2014 are summarized in Notes 10 and 11 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. The following table provides a comparison of average funding sources over the last three years. We believe that average balances, rather than period-end balances, are more meaningful in analyzing funding sources because of the inherent fluctuations that may occur on a monthly basis within most funding categories.

Table 25
Funding Sources - Average Balances
(Dollar amounts in thousands)

	Years Ended December 31,						% Change	
	2014	% of Total	2013	% of Total	2012	% of Total	2014-2013	2013-2012
Demand deposits	$2,137,778	28.3	$1,889,247	26.2	$1,762,968	25.0	13.2	7.2
Savings deposits	1,222,292	16.2	1,126,561	15.6	1,038,379	14.7	8.5	8.5
NOW accounts	1,243,186	16.5	1,170,928	16.2	1,090,446	15.4	6.2	7.4
Money market accounts	1,392,367	18.5	1,306,625	18.1	1,216,173	17.2	6.6	7.4
Core deposits	5,995,623	79.5	5,493,361	76.1	5,107,966	72.3	9.1	7.5
Time deposits	1,195,796	15.8	1,286,700	17.8	1,502,230	21.3	(7.1)	(14.3)
Brokered deposits	16,086	0.2	20,188	0.3	26,776	0.4	(20.3)	(24.6)
Total time deposits	1,211,882	16.0	1,306,888	18.1	1,529,006	21.7	(7.3)	(14.5)
Total deposits	7,207,505	95.5	6,800,249	94.2	6,636,972	94.0	6.0	2.5
Securities sold under agreements to repurchase	106,072	1.4	90,891	1.3	79,924	1.1	16.7	13.7

Federal funds purchased	82	—	5	—	—	—	N/M	100.0
FHLB advances	43,405	0.6	114,565	1.6	113,719	1.6	(62.1)	0.7
Total borrowed funds	149,559	2.0	205,461	2.9	193,643	2.7	(27.2)	6.1
Senior and subordinated debt	191,776	2.5	212,896	2.9	231,273	3.3	(9.9)	(7.9)
Total funding sources	$7,548,840	100.0	$7,218,606	100.0	$7,061,888	100.0	4.6	2.2

N/M – Not meaningful.

Average Funding Sources

Total average funding sources of $7.5 billion for 2014 increased $330.2 million from 2013, due primarily to deposits assumed in the Popular and Great Lakes acquisitions, further strengthening our core deposit base. Growth in average demand deposits of $248.5 million, or 13.2%, from December 31, 2013, led the rise in average core deposits and more than offset the reduction in higher-costing time deposits, borrowed funds, and senior and subordinated debt.

For 2013, the $156.7 million increase in average funding sources from 2012 resulted mainly from a rise in core deposits, which more than offset a reduction in higher-costing time deposits.

Time Deposits

Table 26

Maturities of Time Deposits Greater Than $100,000

(Dollar amounts in thousands)

	Total
Three months or less	$80,613
Greater than three months to six months	81,415
Greater than six months to twelve months	109,789
Greater than twelve months	140,300
Total	$412,117

Borrowed Funds

A discussion of borrowed funds is presented in the next table.

Table 27

Borrowed Funds

(Dollar amounts in thousands)

	2014		2013		2012	
	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %
At period-end:						
Securities sold under agreements to repurchase	$137,994	0.03	$109,792	0.03	$71,403	0.02
Federal funds purchased	—	—	—	—	—	—
FHLB advances	—	—	114,550	1.34	114,581	1.72
Total borrowed funds	$137,994	0.03	$224,342	0.70	$185,984	1.06
Average for the year-to-date period:						
Securities sold under agreements to repurchase	$106,072	0.04	$90,891	0.03	$79,924	0.02
Federal funds purchased	82	—	5	—	—	—
FHLB advances	43,405	1.23	114,565	1.38	113,719	1.76
Total borrowed funds	$149,559	0.38	$205,461	0.78	$193,643	1.04
Maximum amount outstanding at the end of any day during the period:						
Securities sold under agreements to repurchase	$149,067		$110,797		$103,591	
Federal funds purchased	25,000		2,000		—	
FHLB advances	114,550		114,581		114,593	

Average borrowed funds totaled $149.6 million for 2014, decreasing $55.9 million, or 27.2%, from 2013 due to the prepayment of $114.6 million of FHLB advances with a weighted-average rate of 1.33% during the second quarter of 2014. This decline was partially offset by higher levels of securities sold under agreements to repurchase.

We make interchangeable use of repurchase agreements, FHLB advances, and federal funds purchased to supplement deposits. Securities sold under agreements to repurchase generally mature within 1 to 90 days from the transaction date.

Senior and Subordinated Debt

Average senior and subordinated debt decreased $21.1 million, or 9.9%, from 2013 to 2014. This decline resulted from the full-year impact of the repurchase and retirement of $24.0 million of junior subordinated debentures during the fourth quarter of 2013. The addition of $14.4 million of junior subordinated debentures acquired in the Great Lakes transaction during the fourth quarter of 2014 partially offset the decrease. See Note 12 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for additional discussion regarding these transactions. The $18.4 million decline in average senior and subordinated debt from 2012 to 2013 reflects the full-year impact of the repurchase and retirement of $4.3 million of junior subordinated debentures and $12.0 million of subordinated notes during the fourth quarter of 2012.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, OFF-BALANCE SHEET RISK, AND CONTINGENT LIABILITIES

Through our normal course of operations, we enter into certain contractual obligations and other commitments. These obligations generally relate to the funding of operations through deposits or debt issuances, as well as leases for premises and equipment. As a financial services provider, we routinely enter into commitments to extend credit. While contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn. These commitments are subject to the same credit policies and approval process used for our loans.

The following table presents our significant fixed and determinable contractual obligations and significant commitments as of December 31, 2014. Further discussion of the nature of each obligation is included in the referenced note of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 28

Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Items

(Dollar amounts in thousands)

		Payments Due In				
	Note Reference	One Year or Less	Greater Than One to Three Years	Greater Than Three to Five Years	Greater Than Five Years	Total
Core deposits (no stated maturity)	10	$6,616,200	$—	$—	$—	$6,616,200
Time deposits	10	865,149	300,557	105,584	268	1,271,558
Borrowed funds	11	137,994	—	—	—	137,994
Subordinated debt	12	—	153,263	—	47,606	200,869
Operating leases	8	5,071	9,289	5,955	13,031	33,346
Pension liability	16	5,298	10,283	8,409	17,518	41,508
Uncertain tax positions liability	15	N/M	N/M	N/M	N/M	912
Commitments to extend credit	21	N/M	N/M	N/M	N/M	1,982,595
Letters of credit	21	N/M	N/M	N/M	N/M	110,639

N/M – Not meaningful.

MANAGEMENT OF CAPITAL

Capital Measurements

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

The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve for the Bank to be categorized as "well-capitalized." All regulatory mandated ratios for characterization as "well-capitalized" were exceeded as of December 31, 2014 and 2013. See the "Supervision and Regulation" section included in Item 1, "Business," of this Form 10-K for information on our minimum capital requirements.

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

Table 29
Capital Measurements
(Dollar amounts in thousands)

	As of December 31, 2014		2013		Regulatory Minimum For Well-Capitalized		Excess Over Required Minimums at December 31, 2014		
Bank regulatory capital ratios:									
Total capital to risk-weighted assets	12.30	%	13.86	%	10.00	%	23	%	$174,282
Tier 1 capital to risk-weighted assets	11.32	%	12.61	%	6.00	%	89	%	$402,834
Tier 1 leverage to average assets	9.76	%	10.24	%	5.00	%	95	%	$418,334
Company regulatory capital ratios [1]:									
Total capital to risk-weighted assets	11.23	%	12.39	%	N/A		N/A		N/A
Tier 1 capital to risk-weighted assets	10.19	%	10.91	%	N/A		N/A		N/A
Tier 1 leverage to average assets	9.03	%	9.18	%	N/A		N/A		N/A
Company tier 1 common capital to risk-weighted assets [1][2]	9.54	%	10.37	%	N/A		N/A		N/A
Reconciliation of Company capital components to GAAP:									
Total stockholder's equity	$1,100,775		$1,001,442						
Goodwill and other intangible assets	(334,199	)	(276,366	)					
Tangible common equity	766,576		725,076						
Accumulated other comprehensive loss	15,855		26,792						
Tangible common equity, excluding accumulated other comprehensive loss	$782,431		$751,868						
Total assets	$9,445,139		$8,253,407						
Goodwill and other intangible assets	(334,199	)	(276,366	)					
Tangible assets	$9,110,940		$7,977,041						
Risk-weighted assets	$7,879,366		$6,794,666						
Company tangible common equity ratios [1][3]:									
Tangible common equity to tangible assets	8.41	%	9.09	%	N/A		N/A		N/A
Tangible common equity, excluding accumulated other comprehensive loss, to tangible assets	8.59	%	9.43	%	N/A		N/A		N/A
Tangible common equity to risk-weighted assets	9.73	%	10.67	%	N/A		N/A		N/A

N/A - Not applicable.

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

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

(3) Tangible common equity represents common stockholders’ equity less goodwill and identifiable intangible assets. In management’s view, Tier 1 common capital and TCE measures are meaningful to the Company, as well as

analysts and investors, in assessing the Company’s use of equity and in facilitating comparisons with competitors.

The decline in regulatory capital ratios from December 31, 2013 resulted from the addition of risk-weighted and average assets, including goodwill and other intangible assets, related to the Popular and Great Lakes acquisitions. These declines were partially offset by strong earnings, the $38.3 million of common stock issued as consideration for the Great Lakes acquisition, and an increase in allowable deferred tax assets. The Bank's regulatory ratios exceeded all regulatory mandated ratios for characterization as "well-capitalized" as of December 31, 2014.

The Board reviews the Company's capital plan each quarter, considering the current and expected operating environment as well as an evaluation of various capital alternatives. For further details of the regulatory capital requirements and ratios as of December 31, 2014 and 2013 for the Company and the Bank, see Note 19 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Basel III Capital Rules

In July of 2013, the Company's and the Bank's primary federal regulator, the Federal Reserve, published final rules establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules are discussed in the "Supervision and Regulation" section in Item 1, "Business" of this Form 10-K.

Management believes that as of December 31, 2014 the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

Stock Repurchase Programs

Shares repurchased are held as treasury stock and are available for issuance in connection with our Dividend Reinvestment Plan, qualified and nonqualified retirement plans, share-based compensation plans, and other general corporate purposes. We reissued 165,104 treasury shares in 2014 and 125,901 treasury shares in 2013 to fund these plans.

Dividends

The Board declared quarterly cash dividends of $0.01 per common share from 2012 through the first quarter of 2013. The Company increased the dividend to $0.04 per common share during the second quarter of 2013, $0.07 per common share during the fourth quarter of 2013, and approved another increase in the second quarter of 2014 to $0.08 per common share.

QUARTERLY EARNINGS
Table 30
Quarterly Earnings Performance [1]
(Dollar amounts in thousands, except per share data)

	2014				2013			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income	$81,309	$76,862	$72,003	$69,690	$72,120	$72,329	$71,753	$71,045
Interest expense	(5,490)	(5,831)	(5,696)	(5,995)	(6,432)	(6,663)	(6,823)	(7,197)
Net interest income	75,819	71,031	66,307	63,695	65,688	65,666	64,930	63,848
Provision for loan and covered loan losses	(1,659)	(10,727)	(5,341)	(1,441)	—	(4,770)	(5,813)	(5,674)
Fee-based revenues	29,364	29,660	27,008	25,049	26,712	27,804	26,008	25,758
Net securities gains (losses)	(63)	2,570	4,517	1,073	147	33,801	216	—
Other noninterest income	1,767	4,877	(332)	1,128	920	(3,517)	1,217	1,817
Noninterest expense	(84,828)	(70,313)	(65,017)	(63,668)	(64,794)	(64,702)	(62,427)	(64,814)
Income before income tax expense	20,400	27,098	27,142	25,836	28,673	54,282	24,131	20,935
Income tax expense	(5,807)	(8,549)	(8,642)	(8,172)	(9,508)	(24,959)	(7,955)	(6,293)
Net income	$14,593	$18,549	$18,500	$17,664	$19,165	$29,323	$16,176	$14,642
Basic earnings per common share	$0.19	$0.25	$0.25	$0.24	$0.26	$0.39	$0.22	$0.20
Diluted earnings per common share	$0.19	$0.25	$0.25	$0.24	$0.26	$0.39	$0.22	$0.20
Dividends declared per common share	$0.08	$0.08	$0.08	$0.07	$0.07	$0.04	$0.04	$0.01
Return on average common equity	5.35%	6.91%	7.08%	6.97%	7.53%	11.66%	6.66%	6.17%
Return on average assets	0.63%	0.84%	0.88%	0.86%	0.91%	1.38%	0.79%	0.74%
Net interest margin – tax-equivalent	3.76%	3.72%	3.65%	3.61%	3.62%	3.63%	3.70%	3.77%

[1] All ratios are presented on an annualized basis.

Net income for the fourth, third, and second quarters of 2014 was impacted by acquisition and integration related expenses totaling $9.3 million, $3.7 million, and $830,000, respectively. Excluding acquisition and integration related expenses, earnings per share was $0.27 for the fourth quarter of 2014 and $0.28 for the third quarter of 2014. In addition, recurring costs associated with operating the newly acquired Popular, National Machine Tool, and Great Lakes locations of approximately $3.5 million and $2.0 million for the fourth and third quarters of 2014 impacted net income. The conversion and integration of these transactions was substantially complete as of December 31, 2014, with certain remaining efficiencies to be implemented in the first half of 2015.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with GAAP and are consistent with predominant practices in the financial services 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 affect the amounts reported in the financial statements.

The most significant of our accounting policies and estimates are presented in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. Along with the disclosures presented in the other financial statement notes and in this discussion, these policies provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, estimates, assumptions, and judgments management determined that our accounting estimates for the allowance for credit losses, valuation of securities, income taxes, and goodwill and other intangible assets are considered to be our critical accounting estimates.

Allowance for Credit Losses

The determination of the allowance for credit losses is inherently subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, actual loss experience, and consideration of current economic trends and conditions, and other factors, all of which are susceptible to significant change. Credit exposures deemed to be uncollectible are charged-off against the allowance for loan and covered loan losses, while recoveries of amounts previously charged-off are credited to the allowance for loan and covered loan losses. Additions to the allowance for loan and covered loan losses are established through the provision for loan and covered loan losses charged to expense. The amount charged to operating expense depends on a number of factors, including historic loan growth, changes in the composition of the loan portfolio, net charge-off levels, and our assessment of the allowance for loan and covered loan losses. For a full discussion of our methodology for determining the allowance for credit losses, see Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Valuation of Securities

The fair values of securities are based on quoted prices obtained from third party pricing services or dealer market participants where a ready market for such securities exists. In the absence of quoted prices or where a market for the security does not exist, management judgment and estimation is used, which may include modeling-based techniques. The use of different judgments and estimates to determine the fair value of securities could result in a different fair value estimate.

On a quarterly basis, we assess securities with unrealized losses to determine whether OTTI has occurred. In evaluating OTTI, management considers many factors including the severity and duration of the impairment; the financial condition and near-term prospects of the issuer, including external credit ratings and recent downgrades for debt securities; intent to hold the security until its value recovers; and the likelihood that the Company would be required to sell the securities before a recovery in value, which may be at maturity. The term "other-than-temporary" is not intended to indicate that the decline is permanent. It indicates that the prospects for near-term recovery are not necessarily favorable or there is a lack of evidence to support fair values greater than or equal to the carrying value of the investment. Securities for which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value with the write-down recorded as a realized loss and included in net securities gains (losses), but only to the extent the impairment is related to credit deterioration. The amount of the impairment related to other factors is recognized in other comprehensive income (loss) unless management intends to sell the security in a short period of time or believes it is more likely than not that it will be required to sell the security prior to full recovery. The determination of OTTI is subjective and different judgments and assumptions could affect the timing and amount of loss realization. For additional discussion on securities, see Notes 1 and 4 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Income Taxes

We determine our income tax expense based on management's judgments and estimates regarding permanent differences in the treatment of specific items of income and expense for financial statement and income tax purposes. These permanent differences result in an effective tax rate that differs from the federal statutory rate. In addition, we recognize deferred tax assets and liabilities in the Consolidated Statements of Financial Condition based on management's judgment and estimates regarding timing differences in the recognition of income and expenses for financial statement and income tax purposes.

We assess the likelihood that any deferred tax assets will be realized through the reduction or refund of taxes in future periods and establish a valuation allowance for those assets for which recovery is not more likely than not. In making this assessment, management makes judgments and estimates regarding the ability to realize the asset through carryback to taxable income in prior years, the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies. Management believes that it is more likely than not that deferred tax assets included in the accompanying Consolidated Statements of Financial Condition will be fully realized, although there is no guarantee that those assets will be recognizable in future periods.

Management also makes certain interpretations of federal and state income tax laws for which the outcome of the tax position may not be certain. Uncertain tax positions are periodically evaluated and we may establish tax reserves for benefits that may not be realized. For additional discussion of income taxes, see Notes 1 and 15 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired using the acquisition method of accounting. This method requires that all identifiable assets acquired and liabilities assumed in the transaction, both intangible and tangible, be recorded at their estimated fair value upon acquisition. Determining the fair value often involves estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. Goodwill is not amortized, instead, we assess the potential for impairment on an annual basis or more frequently if events and circumstances indicate that goodwill might be impaired.

Other intangible assets represent purchased assets that lack physical substance, but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. The determination of the useful lives over which an intangible asset will be amortized is subjective. Intangible assets are also reviewed at least annually for impairment to determine whether there were any events or circumstances that indicate the recorded amount is not recoverable from projected undiscounted net operating cash flows. For additional discussion of goodwill and other intangible assets, see Notes 1 and 9 of "Notes to the Consolidated financial Statements" in Item 8 of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The disclosures in this item are qualified by Item 1A. Risk Factors and the section captioned "Cautionary Statement Regarding Forward-Looking Statements" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this report, and other cautionary statements set forth elsewhere in this report.

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is our primary market risk and is the result of repricing, basis, and option risk. Repricing risk represents timing mismatches in our ability to alter contractual rates earned on interest-earning assets or paid on interest-bearing liabilities in response to changes in market interest rates. Basis risk refers to the potential for changes in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the spread between the rate earned on a loan or investment and the rate paid to fund that investment. Option risk arises from the "embedded options" present in many financial instruments, such as loan prepayment options or deposit early withdrawal options. These provide customers opportunities to take advantage of directional changes in interest rates and could have an adverse impact on our margin performance.

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

Net Interest Income Sensitivity

The analysis of net interest income sensitivity assesses the magnitude of changes in net interest income over a twelve-month measurement period resulting from immediate changes in interest rates using multiple rate scenarios. These scenarios include, but are not limited to, a flat or unchanged rate environment, immediate increases of 100, 200, and 300 basis points, and an immediate decrease of 100 basis points. Due to the low interest rate environment as of December 31, 2014 and 2013, management determined that an immediate decrease in interest rates greater than 100 basis points was not meaningful for this analysis.

This simulation analysis is based on expected future cash flows and repricing characteristics for balance sheet and off-balance sheet instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. In addition, this sensitivity analysis examines assets and liabilities at the beginning of the measurement period and does not assume any changes from growth or business plans over the next twelve months. Interest-earning assets and interest-bearing liabilities are assumed to re-price based on contractual terms over the twelve-month measurement period assuming an instantaneous parallel shift in interest rates in effect at the beginning of the measurement period. The simulation analysis also incorporates assumptions based on the historical behavior of deposit rates in relation to interest rates. Because these assumptions are inherently uncertain, the simulation analysis cannot definitively measure net interest income or predict the impact of the fluctuation in interest rates on net interest income, but does provide an indication of the Company's sensitivity to changes in interest rates. Actual results may differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

Our balance sheet is asset sensitive based on repricing and maturity characteristics and simulation analysis assumptions. The Bank's current simulation analysis indicates we would benefit from rising interest rates. Interest-earning assets consist of short and long-term products. Excluding non-accrual loans, 49% of the loan portfolio consisted of fixed rate loans and 51% were floating rate loans as of December 31, 2014. Investments, consisting of securities and interest-bearing deposits in other banks, are more heavily weighted toward fixed rate securities at 67% of the total compared to 33% for floating rate interest-bearing deposits in other banks. Fixed rate loans are most sensitive to the 3-5 year portion of the yield curve and the Bank limits its loans with maturities that extend beyond 5 years. The majority of floating rate loans are indexed to the short-term Prime or LIBOR rates. The amount of floating rate loans in the money with interest rate floors was $644.6 million, or 25%, of the floating rate loan portfolio as of December 31, 2014. On the liability side of the balance sheet, 84% of deposits are demand deposits and interest-bearing transactional deposits, which either do not pay interest or the interest rates are expected to rise at a slower pace than short-term interest rates.

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

	Immediate Change in Rates			
	+300	+200	+100	-100
December 31, 2014:				
Dollar change	$42,922	$27,471	$12,707	$(12,748)
Percent change	14.3%	9.2%	4.2%	(4.3)%
December 31, 2013:				
Dollar change	$45,209	$28,307	$11,925	$(11,791)
Percent change	17.3%	10.8%	4.6%	(4.5)%

The sensitivity of estimated net interest income to an instantaneous parallel shift in interest rate changes is reflected as both dollar and percent changes. This table illustrates that an instantaneous 200 basis point rise in interest rates as of December 31, 2014 would increase net interest income $27.5 million, or 9.2%, over the next twelve months compared to no change in interest rates. This same measure was $28.3 million, or 10.8%, as of December 31, 2013.

In rising interest rate scenarios, interest rate risk volatility was less positive at December 31, 2014 compared to December 31, 2013. During 2014, growth in floating rate loans were funded by the rise in core deposits, which are less rate sensitive. Overall, this increase in rate sensitive assets was offset by the prepayment of $114.6 million of FHLB advances at fixed rates and the hedging of $325.0 million of certain corporate variable rate loans using interest rate swaps through which we receive fixed amounts and pay variable amounts. The rise in fixed rate loans, driven primarily by acquisition activity, was offset by the reduction in securities as cash flows from maturities, calls, and prepayments were not reinvested in the portfolio. While net interest income is projected to decline in a decreasing interest rate environment, we believe the risk of a significant decrease in interest rates is minimal.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Responsibility for Financial Statements

To Our Stockholders:

The accompanying consolidated financial statements were prepared by management, which is responsible for the integrity and objectivity of the data presented. In the opinion of management, the financial statements, which necessarily include amounts based on management's estimates and judgments, have been prepared in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and has expressed its unqualified opinion on these financial statements.

The Audit Committee of the Board of Directors, which oversees the Company's financial reporting process on behalf of the Board of Directors, is composed entirely of independent directors (as defined by the listing standards of NASDAQ). The Audit Committee meets periodically with management, the independent accountants, and the internal auditors to review matters relating to the Company's financial statements, compliance with legal and regulatory requirements relating to financial reporting and disclosure, annual financial statement audit, engagement of independent accountants, internal audit function, and system of internal controls. The internal auditors and the independent accountants periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

/s/ MICHAEL L. SCUDDER	/s/ PAUL F. CLEMENS
Michael L. Scudder	Paul F. Clemens
President and	Executive Vice President and
Chief Executive Officer	Chief Financial Officer

March 2, 2015

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders of First Midwest Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of First Midwest Bancorp, Inc. (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Chicago, Illinois
March 2, 2015

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

	As of December 31, 2014	2013
Assets		
Cash and due from banks	$117,315	$110,417
Interest-bearing deposits in other banks	488,947	476,824
Trading securities, at fair value	17,460	17,317
Securities available-for-sale, at fair value	1,187,009	1,112,725
Securities held-to-maturity, at amortized cost (fair value 2014 – $27,670; 2013 – $43,387)	26,555	44,322
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost	37,558	35,161
Loans, excluding covered loans	6,657,418	5,580,005
Covered loans	79,435	134,355
Allowance for loan and covered loan losses	(72,694)	(85,505)
Net loans	6,664,159	5,628,855
Other real estate owned ("OREO"), excluding covered OREO	26,898	32,473
Covered OREO	8,068	8,863
Federal Deposit Insurance Corporation ("FDIC") indemnification asset	8,452	16,585
Premises, furniture, and equipment, net	131,109	120,204
Investment in bank-owned life insurance ("BOLI")	206,498	193,167
Goodwill and other intangible assets	334,199	276,366
Accrued interest receivable and other assets	190,912	180,128
Total assets	$9,445,139	$8,253,407
Liabilities		
Noninterest-bearing deposits	$2,301,757	$1,911,602
Interest-bearing deposits	5,586,001	4,854,499
Total deposits	7,887,758	6,766,101
Borrowed funds	137,994	224,342
Senior and subordinated debt	200,869	190,932
Accrued interest payable and other liabilities	117,743	70,590
Total liabilities	8,344,364	7,251,965
Stockholders' Equity		
Common stock	882	858
Additional paid-in capital	449,798	414,293
Retained earnings	899,516	853,740
Accumulated other comprehensive loss, net of tax	(15,855)	(26,792)
Treasury stock, at cost	(233,566)	(240,657)
Total stockholders' equity	1,100,775	1,001,442
Total liabilities and stockholders' equity	$9,445,139	$8,253,407

	December 31, 2014		December 31, 2013	
	Preferred Shares	Common Shares	Preferred Shares	Common Shares

Par value	$—	$0.01	$—	$0.01
Shares authorized	1,000	150,000	1,000	100,000
Shares issued	—	88,228	—	85,787
Shares outstanding	—	77,695	—	75,071
Treasury shares	—	10,533	—	10,716

See accompanying notes to the consolidated financial statements.

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

	Years Ended December 31,		
	2014	2013	2012
Interest Income			
Loans, excluding covered loans	$256,842	$239,224	$248,752
Covered loans	8,659	13,804	15,873
Investment securities – taxable	14,516	12,249	12,670
Investment securities – tax-exempt	16,716	18,644	20,253
Other short-term investments	3,131	3,326	3,021
Total interest income	299,864	287,247	300,569
Interest Expense			
Deposits	10,377	11,901	18,052
Borrowed funds	573	1,607	2,009
Senior and subordinated debt	12,062	13,607	14,840
Total interest expense	23,012	27,115	34,901
Net interest income	276,852	260,132	265,668
Provision for loan and covered loan losses	19,168	16,257	158,052
Net interest income after provision for loan and covered loan losses	257,684	243,875	107,616
Noninterest Income			
Service charges on deposit accounts	36,910	36,526	36,699
Wealth management fees	26,474	24,185	21,791
Card-based fees	24,340	21,649	20,852
Merchant servicing fees	11,260	10,953	10,806
Mortgage banking income	4,011	5,306	2,689
Other service charges, commissions, and fees	8,086	7,663	4,486
Net securities gains (losses)	8,097	34,164	(921)
BOLI income (loss)	2,873	(11,844)	1,307
Other income	4,567	4,452	7,086
Gain on termination of FHLB forward commitments	—	7,829	—
Gain on bulk loan sales	—	—	5,153
Total noninterest income	126,618	140,883	109,948
Noninterest Expense			
Salaries and wages	116,578	112,631	105,231
Retirement and other employee benefits	27,245	26,119	25,524
Net occupancy and equipment expense	35,181	31,832	32,699
Professional services	23,436	21,922	29,614
Technology and related costs	12,875	11,335	11,846
Merchant card expense	9,195	8,780	8,584
Advertising and promotions	8,159	7,754	5,073
Net OREO expense	7,075	8,547	10,521
FDIC premiums	5,824	6,438	6,926
Other expenses	24,386	19,879	24,777
Acquisition and integration related expenses	13,872	—	—
Adjusted amortization of FDIC indemnification asset	—	1,500	6,705
Total noninterest expense	283,826	256,737	267,500
Income (loss) before income tax expense (benefit)	100,476	128,021	(49,936)

Income tax expense (benefit)	31,170	48,715	(28,882)
Net income (loss)	$69,306	$79,306	$(21,054)
Per Common Share Data			
Basic earnings (loss) per common share	$0.92	$1.06	$(0.28)
Diluted earnings (loss) per common share	0.92	1.06	(0.28)
Weighted-average common shares outstanding	74,484	73,984	73,665
Weighted-average diluted common shares outstanding	74,496	73,994	73,666

See accompanying notes to the consolidated financial statements.

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

	Years Ended December 31,		
	2014	2013	2012
Net income (loss)	$69,306	$79,306	$(21,054)
Securities available-for-sale			
Unrealized holding gains (losses):			
Before tax	37,173	(2,054)	1,513
Tax effect	(14,918)	711	(588)
Net of tax	22,255	(1,343)	925
Reclassification of net gains (losses) included in net income (loss):			
Before tax	8,097	34,164	(921)
Tax effect	(3,311)	(13,973)	377
Net of tax	4,786	20,191	(544)
Net unrealized holding gains (losses)	17,469	(21,534)	1,469
Derivative instruments			
Unrealized holding losses:			
Before tax	(1,930)	—	—
Tax effect	792	—	—
Net of tax	(1,138)	—	—
Unrecognized net pension costs			
Unrealized holding (losses) gains:			
Before tax	(9,127)	17,600	(6,520)
Tax effect	3,733	(7,198)	2,667
Net of tax	(5,394)	10,402	(3,853)
Total other comprehensive income (loss)	10,937	(11,132)	(2,384)
Total comprehensive income (loss)	$80,243	$68,174	$(23,438)

	Accumulated Unrealized (Loss) Gain on Securities Available-for-Sale	Accumulated Unrealized Loss on Derivative Instruments	Unrecognized Net Pension Costs	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2011	$(354)	$—	$(12,922)	$(13,276)
Other comprehensive income (loss)	1,469	—	(3,853)	(2,384)
Balance at December 31, 2012	1,115	—	(16,775)	(15,660)
Other comprehensive (loss) income	(21,534)	—	10,402	(11,132)
Balance at December 31, 2013	(20,419)	—	(6,373)	(26,792)
Other comprehensive income (loss)	17,469	(1,138)	(5,394)	10,937
Balance at December 31, 2014	$(2,950)	$(1,138)	$(11,767)	$(15,855)

See accompanying notes to the consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2011	74,435	$ 858	$ 428,001	$ 810,487	$ (13,276)	$ (263,483)	$ 962,587
Comprehensive loss	—	—	—	(21,054)	(2,384)	—	(23,438)
Common dividends declared ($0.04 per common share)	—	—	—	(2,980)	—	—	(2,980)
Share-based compensation expense	—	—	6,004	—	—	—	6,004
Restricted stock activity	408	—	(15,604)	—	—	14,284	(1,320)
Treasury stock issued to benefit plans	(3)	—	(83)	—	—	123	40
Balance at December 31, 2012	74,840	858	418,318	786,453	(15,660)	(249,076)	940,893
Comprehensive income (loss)	—	—	—	79,306	(11,132)	—	68,174
Common dividends declared ($0.16 per common share)	—	—	—	(12,019)	—	—	(12,019)
Share-based compensation expense	—	—	5,903	—	—	—	5,903
Restricted stock activity	234	—	(9,814)	—	—	8,276	(1,538)
Treasury stock issued to benefit plans	(3)	—	(114)	—	—	143	29
Balance at December 31, 2013	75,071	858	414,293	853,740	(26,792)	(240,657)	1,001,442
Comprehensive income	—	—	—	69,306	10,937	—	80,243
Common dividends declared ($0.31 per common share)	—	—	—	(23,530)	—	—	(23,530)
Common stock issued, net of issuance costs	2,441	24	38,276	—	—	—	38,300
Share-based compensation expense	—	—	5,926	—	—	—	5,926
Restricted stock activity	176	—	(8,560)	—	—	6,585	(1,975)
Treasury stock issued to benefit plans	7	—	(137)	—	—	506	369
Balance at December 31, 2014	77,695	$ 882	$ 449,798	$ 899,516	$ (15,855)	$ (233,566)	$ 1,100,775

See accompanying notes to the consolidated financial statements.

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

	Years Ended December 31,		
	2014	2013	2012
Operating Activities			
Net income (loss)	$69,306	$79,306	$(21,054)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan and covered loan losses	19,168	16,257	158,052
Depreciation of premises, furniture, and equipment	12,224	11,038	10,874
Net amortization of premium on securities	8,218	9,174	22,433
Net securities (gains) losses	(8,097)	(34,164)	921
Gains on loan sales	(3,771)	(4,717)	(7,422)
Gain on termination of FHLB forward commitments	—	(7,829)	—
Gain on FDIC-assisted transaction	—	—	(3,289)
Net losses on early extinguishment of debt	2,059	1,034	558
Net losses on sales and valuation adjustments of OREO	3,325	3,908	4,886
Net (gains) losses on sales and valuation adjustments of premises, furniture, and equipment	(3,277)	(79)	2,695
BOLI (income) loss	(2,873)	11,844	(1,307)
Net pension (income) cost	(959)	2,169	2,813
Share-based compensation expense	5,926	5,903	6,004
Tax (expense) benefit related to share-based compensation	(106)	(10)	170
Net decrease (increase) in net deferred tax assets	8,851	33,467	(29,279)
Amortization of other intangible assets	2,889	3,278	3,372
Originations of mortgage loans held-for-sale	(97,535)	(40,681)	—
Proceeds from sales of mortgage loans held-for-sale	96,006	37,788	—
Net (increase) decrease in trading securities	(143)	(3,155)	307
Net (increase) decrease in accrued interest receivable and other assets	(10,651)	30,696	10,117
Net increase (decrease) in accrued interest payable and other liabilities	22,367	(21,859)	8,973
Net cash provided by operating activities	122,927	133,368	169,824
Investing Activities			
Proceeds from maturities, repayments, and calls of securities available-for-sale	172,001	219,458	362,481
Proceeds from sales of securities available-for-sale	27,805	78,636	153,668
Purchases of securities available-for-sale	(25,856)	(335,442)	(588,429)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	4,675	7,043	66,215
Purchases of securities held-to-maturity	(2,638)	(17,070)	(48,999)
Net (purchases) redemption of FHLB stock	(427)	12,071	11,918
Proceeds from bulk loan sales	—	—	94,470
Net increase in loans	(276,637)	(351,616)	(272,618)
Premiums paid for BOLI, net of claims	(85)	1,394	1,137
Proceeds from sales of OREO	22,368	25,797	50,566
Proceeds from sales of premises, furniture, and equipment	3,906	1,463	6,768
Purchases of premises, furniture, and equipment	(14,085)	(11,030)	(8,764)
Cash received from acquisitions, net of cash paid	200,645	—	—
Cash received in FDIC-assisted transactions	—	—	26,980

Net cash provided by (used in) investing activities	111,672	(369,296)	(144,607)
Financing Activities			
Net (decrease) increase in deposit accounts	(73,244)	93,846	120,362
Net (decrease) increase in borrowed funds	(1,288)	38,358	(29,343)
Payments for the retirement of subordinated debt	—	(24,094)	(37,033)
(Payment for) proceeds from the termination of FHLB advances and forward commitments	(116,609)	7,829	—
Cash dividends paid	(22,568)	(7,508)	(2,977)
Restricted stock activity	(2,781)	(1,607)	(1,469)
Excess tax benefit (expense) related to share-based compensation	912	79	(21)
Net cash (used in) provided by financing activities	(215,578)	106,903	49,519
Net increase (decrease) in cash and cash equivalents	19,021	(129,025)	74,736
Cash and cash equivalents at beginning of year	587,241	716,266	641,530
Cash and cash equivalents at end of year	$606,262	$587,241	$716,266

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

	Years Ended December 31,		
	2014	2013	2012
Supplemental Disclosures of Cash Flow Information:			
Income taxes paid (refunded)	$16,375	$4,945	$(6,845)
Interest paid to depositors and creditors	23,088	27,599	36,036
Dividends declared, but unpaid	6,222	5,260	749
Common stock issued for acquisitions, net of issuance costs	38,300	—	—
Non-cash transfers of loans to OREO	18,079	17,965	47,628
Non-cash transfers of loans held-for-investment to loans held-for-sale	71,272	1,925	93,714
Non-cash transfers of loans held-for-sale to loans held-for-investment	—	—	1,957
Non-cash transfer of an investment from other assets to securities available-for-sale	—	2,787	—
Non-cash transfers of premises, furniture, and equipment to OREO	—	—	1,833

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – First Midwest Bancorp, Inc. (the "Company") is a bank holding company that was incorporated in Delaware in 1982 and began operations on March 31, 1983. The Company is headquartered in Itasca, Illinois and has operations located primarily throughout the greater Chicago metropolitan area, as well as central and western Illinois, eastern Iowa, and northwestern Indiana. The Company operates three wholly owned subsidiaries: First Midwest Bank (the "Bank"), Catalyst Asset Holdings, LLC ("Catalyst"), and Parasol Investment Management, LLC ("Parasol"). The Bank conducts the majority of the Company's operations. Catalyst manages a portion of the Company's non-performing assets. Parasol serves in an advisory capacity to certain wealth management accounts with the Bank.

The Company is engaged in commercial and retail banking and offers a comprehensive selection of financial products and services, including lending, depository, wealth management, and other related financial services tailored to the needs of its individual, business, institutional, and governmental customers.

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.

Basis of Presentation – The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practice within the banking industry. 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.

In the third quarter of 2014, the Bank acquired assets and assumed liabilities in two separate transactions. The fair values assigned to these assets and liabilities were preliminary and subject to refinement after the acquisition date as new information related to acquisition date fair values became available. During the fourth quarter of 2014, the Bank obtained specific information relating to the acquisition date fair values of certain assets which required a retrospective adjustment. These adjustments were recognized as if they had happened as of the acquisition date in accordance with accounting guidance applicable to business combinations. See Note 3, "Acquisitions" for additional discussion related to these fair value adjustments.

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.

Segment Disclosures – The Company has one reportable segment. The Company's chief operating decision maker evaluates the operations of the Company using consolidated information for purposes of allocating resources and assessing performance. Therefore, segment disclosures are not required.

The following is a summary of the Company's significant accounting policies.

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 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 Consolidated Statements of Income from the effective date of the acquisition.

Cash and Cash Equivalents – For purposes of the Consolidated Statements of Cash Flows, management defines cash and cash equivalents to include cash and due from banks, interest-bearing deposits in other banks, and other short-term investments, if any, such as federal funds sold and securities purchased under agreements to resell.

Securities – Securities are classified as held-to-maturity, trading, or available-for-sale at the time of purchase.

Securities Held-to-Maturity – Securities classified as held-to-maturity are securities for which management has the positive intent and ability to hold to maturity. These securities are stated at cost and adjusted for amortization of premiums and accretion of discounts over the estimated lives of the securities using the effective interest method.

Trading Securities – The Company's trading securities consist of diversified investment securities held in a grantor trust under deferred compensation arrangements in which plan participants may direct amounts earned to be invested in securities other than Company stock. The accounts of the grantor trust are consolidated with the accounts of the Company in its consolidated financial statements. Trading securities are reported at fair value. Net trading gains (losses) represent changes in the fair value of the trading securities portfolio and are included in other noninterest income in the Consolidated Statements of Income. The corresponding deferred compensation obligation is also reported at fair value with unrealized gains and losses recognized as a component of compensation expense. Other than the securities held in the grantor trust, the Company does not carry any securities for trading purposes.

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

The historical cost of debt securities is adjusted for amortization of premiums and accretion of discounts over the estimated life of the security using the effective interest method. Amortization of premiums and accretion of discounts are included in interest income.

Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in net securities gains (losses) in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. On a quarterly basis, the Company individually assesses securities with unrealized losses to determine whether there were any events or circumstances indicating that an other-than-temporary impairment ("OTTI") has occurred. In evaluating OTTI, the Company considers many factors, including (i) the severity and duration of the impairment, (ii) the financial condition and near-term prospects of the issuer, including external credit ratings and recent downgrades for debt securities, (iii) its intent to hold the security until its value recovers, and (iv) the likelihood that it will be required to sell the security before a recovery in value, which may be at maturity. If management intends to sell the security or believes it is more likely than not that it will be required to sell the security prior to full recovery, an OTTI charge will be recognized through income as a realized loss and included in net securities gains (losses) in the Consolidated Statements of Income. If management does not expect to sell the security or believes it is not more likely than not that it will be required to sell the security prior to full recovery, the OTTI is separated into the amount related to credit deterioration, which is recognized through income as a realized loss, and the amount resulting from other factors, which is recognized in other comprehensive income (loss).

FHLB and FRB Stock – The Company, as a member of the FHLB and FRB, is required to maintain an investment in the capital stock of the FHLB and FRB. No ready market exists for these stocks, and they have no quoted market values. The stock is redeemable at par by the FRB and FHLB and is, therefore, carried at cost and periodically evaluated for impairment.

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

Acquired and Covered Loans – Covered loans consist of loans acquired by the Company in FDIC-assisted transactions, the majority of 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. Acquired loans consist of all other loans that were acquired in business combinations that are not covered by FDIC Agreements. No allowance for credit losses is recorded on acquired and covered loans at the acquisition date since business combination accounting requires that they are recorded at fair value.

Acquired and covered loans are separated into (i) non-purchased credit impaired ("Non-PCI") and (ii) purchased credit impaired ("PCI") loans. Non-PCI loans include loans that did not have evidence of credit deterioration since origination at the acquisition date. PCI loans include loans that had evidence of credit deterioration since origination and for which it was probable at acquisition that the Company would not collect all contractually required principal and interest payments. Evidence of credit deterioration was evaluated using various indicators, such as past due and non-accrual status. Other key considerations included past performance of the institutions' credit underwriting standards, completeness and accuracy of credit files, maintenance of risk ratings, and age of appraisals. Leases and revolving loans do not qualify to be accounted for as PCI loans.

The acquisition adjustment related to Non-PCI loans is amortized into interest income over the contractual life of the related loans. As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses will be established as necessary to reflect credit deterioration since the acquisition date.

PCI loans are accounted for prospectively based on estimates of expected future cash flows. To estimate the fair value, the Company generally aggregates purchased consumer loans and certain smaller balance commercial loans into pools of loans with common risk characteristics, such as delinquency status, credit score, and internal risk rating. 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 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 and covered loan losses or providing an allowance for loan and covered loan losses.

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

Non-accrual Loans – Generally, corporate loans are placed on non-accrual status (i) when either principal or interest payments become 90 days or more past due unless the credit is sufficiently collateralized and in the process of renewal or collection or (ii) when an individual analysis of a borrower’s creditworthiness warrants a downgrade to non-accrual regardless of past due status. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. After the loan is placed on non-accrual, 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 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 both some level of past performance and the future capacity to perform under the modified terms. Generally, six months of consecutive payment performance under the restructured terms is required before a TDR is returned to accrual status. However, the period could vary depending on the individual facts and circumstances of the loan. An evaluation of the borrower’s current creditworthiness is used to assess the borrower’s capacity to repay the loan under the modified terms. This evaluation includes an estimate of expected future cash flows, evidence of strong financial position, and estimates of the value of collateral, if applicable. For TDRs to be removed from TDR status in the calendar year after the restructuring, the loans must (i) have an interest rate and terms that reflect market conditions at the time of restructuring, and (ii) be in compliance with the modified terms. If the loan was restructured at below market rates and

terms, it continues to be separately reported as restructured until it is paid in full or charged-off.
Impaired Loans – Impaired loans consist of corporate non-accrual loans and TDRs.
A loan is considered impaired when it is probable that the Company will not collect all contractual principal and interest. With the exception of accruing TDRs, impaired loans are classified as non-accrual and are exclusive of smaller homogeneous loans, such as home equity, 1-4 family mortgages, and installment loans. Impaired loans with balances under a specified threshold are not individually evaluated for impairment. For all other impaired loans, impairment is measured by comparing the estimated value of the loan to the recorded book value. The value of collateral-dependent loans is based on the fair value of the underlying collateral, less costs to sell. The value of other loans is measured using the present value of expected future cash flows discounted at the loan's initial effective interest rate.

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

Loans deemed to be uncollectible are charged-off against the allowance for loan and covered loan losses, while recoveries of amounts previously charged-off are credited to the allowance for loan and covered loan losses. Additions to the allowance for loan and covered loan losses are charged to expense through the provision for loan and covered 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 and covered 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) and allowance based on other internal and external qualitative factors.

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

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

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

Allowance for Covered Loan Losses – The Company’s allowance for covered loan losses reflects the difference between the carrying value and the discounted expected future cash flows of the 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 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.

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

The establishment of the allowance for credit losses involves a high degree of judgment given the difficulty of assessing the factors impacting loan repayment and estimating the timing and amount of losses. While management utilizes its best judgment and information available, the adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk classifications by regulatory authorities.

OREO – OREO consists of properties acquired through foreclosure in partial or total satisfaction of defaulted loans. At initial transfer into OREO, properties are recorded at fair value, less estimated selling costs. Subsequently, OREO is carried at the lower of the cost basis or fair value, less estimated selling costs. OREO also includes excess properties that the Company no longer intends to utilize. Those properties are transferred to OREO at the lower of their historical cost, less accumulated depreciation, or fair value, which represents the current appraised value of the properties, less selling costs. OREO write-downs occurring at the transfer date are charged against the allowance for loan and covered loan losses. Subsequent to the initial transfer, the carrying values of OREO may be adjusted to reflect reductions in value resulting from new appraisals, new list prices, changes in market conditions, or changes in disposition strategies. These valuation adjustments, along with expenses related to maintenance of the properties, are included in net OREO expense in the Consolidated Statements of Income.

FDIC Indemnification Asset – The majority of loans and OREO acquired through FDIC-assisted transactions are covered by 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 indemnification period. The FDIC indemnification asset represents the present value of expected future reimbursements from the FDIC. Since the indemnified items are covered loans and covered OREO, which are initially measured at fair value, the FDIC indemnification asset is also initially measured at fair value by discounting the expected future cash flows to be received from the FDIC. These expected future cash flows are estimated by multiplying estimated losses on covered PCI loans and covered OREO by the reimbursement rates in the FDIC Agreements.

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

Depreciable Assets – Premises, furniture, and equipment are stated at cost, less accumulated depreciation. Depreciation expense is determined by the straight-line method over the estimated useful lives of the assets. Useful lives range from 3 to 10 years for furniture and equipment and 25 to 40 years for premises. Leasehold improvements are amortized over the shorter of the life of the asset or the lease term. Gains on dispositions are included in other noninterest income, and losses on dispositions are included in other noninterest expense in the Consolidated Statements of Income. Maintenance and repairs are charged to operating expenses as incurred, while improvements that extend the useful life of assets are capitalized and depreciated over the estimated remaining life.

Long-lived depreciable assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the undiscounted expected future cash flows of a long-lived asset are less than its carrying value. In that event, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis. Impairment losses are recorded in other noninterest expense in the Consolidated Statements of Income.

BOLI – BOLI represents life insurance policies on the lives of certain Company directors and officers for which the Company is the sole owner and beneficiary. These policies are recorded as an asset in the Consolidated Statements of Financial Condition at their cash surrender value ("CSV") or the current amount that could be realized if settled. The change in CSV and insurance proceeds received are included as a component of noninterest income in the Consolidated Statements of Income.

Goodwill and Other Intangible Assets – Goodwill represents the excess of the purchase price of the acquisition over the fair value of the net tangible and intangible assets acquired using the acquisition method of accounting. Goodwill is not amortized. Instead, impairment testing is conducted annually or more often if events or circumstances between annual tests indicate that there may be impairment.

Impairment testing is performed using a two-step quantitative approach. In the first step, management compares its estimate of the fair value of a reporting unit, which is based on a discounted cash flow analysis, with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step is not required. If necessary, the second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined by assigning the value of a reporting unit to all of the assets and liabilities of that unit, including any other identifiable intangible assets. An impairment loss is recognized if the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill.

Other intangible assets represent purchased assets that lack physical substance, but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Identified intangible assets that have a finite useful life are amortized over that life in a manner that reflects the estimated decline in the economic value of the identified intangible asset. All of the Company's other intangible assets have finite lives and are amortized over varying periods not exceeding 13 years.

Intangible assets are reviewed at least annually to determine whether there were any events or circumstances that indicate the recorded amount is not recoverable from projected undiscounted net operating cash flows. If the projected undiscounted net operating cash flows are less than the carrying amount, a loss is recognized to reduce the carrying amount to fair value and the amortization period may also be reduced. Unamortized intangible assets associated with disposed assets are included in the determination of the gain or loss on the sale of the disposed assets.

Wealth Management – Assets held in a fiduciary or agency capacity for customers are not included in the consolidated financial statements as they are not assets of the Company or its subsidiaries. Fee income is recognized on an accrual basis and is included as a component of noninterest income in the Consolidated Statements of Income.
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.
Comprehensive Income (Loss) – Comprehensive income (loss) is the total of reported net income (loss) and other comprehensive income (loss) ("OCI"). OCI includes all other revenues, expenses, gains, and losses that are not reported in net income under GAAP. The Company includes the following items, net of tax, in other comprehensive income (loss) in the Consolidated Statements of Comprehensive Income: (i) changes in unrealized gains or losses on securities available-for-sale, (ii) changes in the fair value of derivatives designated as cash flow hedges, and (iii) changes in unrecognized net pension costs related to the Company's pension plan.
Treasury Stock – Treasury stock acquired is recorded at cost and is carried as a reduction of stockholders' equity in the Consolidated Statements of Financial Condition. Treasury stock issued is valued based on the "last in, first out" inventory method. The difference between the consideration received on issuance and the carrying value is charged or credited to additional paid-in capital.
Share-Based Compensation – The Company recognizes share-based compensation expense based on the estimated fair value of the award at the grant or modification date over the period during which an employee is required to provide service in exchange for such award. Share-based compensation expense is included in salaries and wages in the Consolidated Statements of Income.
Income Taxes – The Company files U.S. federal income tax returns and state income tax returns in various states. The provision for income taxes is based on income in the consolidated financial statements, rather than amounts reported on the Company's income tax return.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established for any deferred tax asset for which recovery or settlement is not more likely than not. The effect of a change in tax rates on deferred tax assets and liabilities is recognized as income or expense in the period that includes the enactment date.

Earnings per Common Share ("EPS") – EPS is computed using the two-class method. Basic EPS is computed by dividing net income (loss) applicable to common shares by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Participating securities include non-vested restricted stock awards and restricted stock units, which contain nonforfeitable rights to dividends or dividend equivalents. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Guidance

Income Taxes: In January of 2014, the Financial Accounting Standards Board ("FASB") issued guidance that requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date or, if the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of this guidance on January 1, 2014 did not materially impact the Company's financial condition, results of operations, or liquidity.

Recently Issued Accounting Guidance

Receivables - Troubled Debt Restructurings by Creditors: In January of 2014, the FASB issued guidance to clarify when an in substance repossession or foreclosure occurs and an entity is considered to have received physical possession of the residential real estate property such that a loan receivable should be derecognized and the real estate property recognized. Additionally, the guidance requires interim and annual disclosure of the amount of foreclosed residential real estate property held by the entity and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The guidance is effective for annual and interim periods beginning after December 15, 2014 and can be applied retrospectively or prospectively. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

Reporting Discontinued Operations: In April of 2014, the FASB issued guidance that requires an entity to report a disposal of a component of an entity or a group of components of an entity in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component of an entity or group of components of an entity (i) meets the criteria to be classified as held for sale, (ii) is disposed of by sale, or (iii) is disposed of other than by sale. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2014, and must be applied prospectively. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2016, and must be applied either retrospectively or using the modified retrospective approach. Management is evaluating the new guidance, but does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

Transfers and Servicing: In June of 2014, the FASB issued guidance that requires repurchase-to-maturity transactions to be accounted for as secured borrowings. The guidance also requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. If the derecognition criteria are met as outlined in the guidance, the initial transfer will generally be accounted for as a sale and the repurchase agreement will generally be accounted for as a secured borrowing. The guidance is effective for annual and interim reporting periods beginning after December 15, 2014. Management is evaluating the new guidance, but does

not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.
Receivables - Troubled Debt Restructurings by Creditors: In August of 2014, the FASB issued guidance that requires an entity to derecognize a mortgage loan and recognize a separate other receivable upon foreclosure if (i) the loan has a government guarantee that is not separable from the loan before foreclosure, (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on that guarantee, and the creditor has the ability to recover under that claim, and (iii) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The separate other receivable is to be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The guidance is effective for annual and interim reporting periods beginning after December

15, 2014. Management is evaluating the new guidance, but does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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

3. ACQUISITIONS

2014 Acquisitions

Popular Community Bank

On August 8, 2014, the Bank completed the acquisition of the Chicago area banking operations of Banco Popular North America ("Popular"), doing business as Popular Community Bank, which is a subsidiary of Popular, Inc. The acquisition included Popular’s twelve full-service retail banking offices and its small business and middle market commercial lending activities in the Chicago metropolitan area at a purchase price of $19.0 million paid in cash. The Company recorded goodwill of $32.2 million associated with the acquisition.

The assets acquired and liabilities assumed, both intangible and tangible, were recorded at their estimated fair values as of the August 8, 2014 acquisition date and have been accounted for under the acquisition method of accounting. During the fourth quarter of 2014, the Company identified differences in the book and tax basis of certain categories of intangibles which required a retrospective adjustment of $4.7 million to reduce goodwill and increase deferred tax assets, a component of other assets. Other retrospective adjustments may be deemed necessary as the Company continues to finalize the fair values of loans and intangible assets and liabilities. As a result, the fair value adjustments associated with these accounts and goodwill are preliminary and may change.

Great Lakes Financial Resources, Inc.

On December 2, 2014, the Company completed the acquisition of the south suburban Chicago-based Great Lakes Financial Resources, Inc. ("Great Lakes"), the holding company for Great Lakes Bank, National Association. The Company acquired all assets and assumed all liabilities of Great Lakes, which included seven full-service retail banking offices and one drive-up location, at a purchase price of approximately $55.8 million. Consideration consisted of $38.3 million in Company common stock and $17.5 million in cash. The Company recorded goodwill of $10.3 million associated with the acquisition.

The assets acquired and liabilities assumed, both intangible and tangible, were recorded at their estimated fair values as of the December 2, 2014 acquisition date and have been accounted for under the acquisition method of accounting. The Company is finalizing the fair values of the assets and liabilities acquired. As a result, the fair value adjustments associated with these accounts and goodwill are preliminary and may change.

The following table presents the assets acquired and liabilities assumed, net of the fair value adjustments, in the Popular and Great Lakes transactions as of the acquisition date.
Acquisition Activity
(Dollar amounts in thousands)

	Popular August 8, 2014	Great Lakes December 2, 2014
Assets		
Cash and due from banks and interest-bearing deposits in other banks	$161,276	$78,609
Securities available-for-sale	—	219,279
FHLB and FRB stock	—	1,970
Loans	549,386	223,169
OREO	—	1,244
Investment in BOLI	—	10,373
Goodwill	32,181	10,339
Other intangible assets	8,003	6,192
Premises, furniture, and equipment	4,647	5,011
Accrued interest receivable and other assets	6,574	10,059
Total assets	$762,067	$566,245
Liabilities		
Deposits:		
Noninterest-bearing deposits	$163,299	$110,885
Interest-bearing deposits	568,573	353,424
Total deposits	731,872	464,309
Intangible liabilities	10,631	—
Borrowed funds	—	29,490
Senior and subordinated debt	—	9,809
Accrued interest payable and other liabilities	564	6,887
Total liabilities	743,067	510,495
Consideration Paid		
Common stock (2,440,754 shares issued at $15.737 per share), net of $110,000 in issuance costs	—	38,300
Cash paid	19,000	17,450
Total consideration paid	19,000	55,750
	$762,067	$566,245

National Machine Tool Financial Corporation

On September 26, 2014, the Bank completed the acquisition of National Machine Tool Financial Corporation ("National Machine Tool"), now known as First Midwest Equipment Finance Co., which provides equipment leasing and commercial financing alternatives to traditional bank financing. On the date of acquisition, the Bank acquired approximately $5.9 million in assets, excluding goodwill, which primarily consisted of direct financing leases, lease loans, and other assets, at a purchase price of $3.1 million paid in cash. Goodwill recorded as a result of the acquisition totaled $4.0 million.

The assets acquired and liabilities assumed, both intangible and tangible, were recorded at their estimated fair values as of the September 26, 2014 acquisition date and have been accounted for under the acquisition method of accounting. During the fourth quarter of 2014, the Company obtained specific information relating to the acquisition date fair value of certain acquired assets which required a retrospective adjustment of $572,000 to increase goodwill and reduce other assets. Other retrospective adjustments may be deemed necessary as the Company continues to finalize the fair values of assets and liabilities acquired. As a result, the fair value adjustments associated with these accounts and goodwill are preliminary and may change.

Expenses related to the acquisition and integration of the Popular, Great Lakes, and National Machine Tool transactions totaled $13.9 million during the year ended December 31, 2014, and are reported as a separate component within noninterest expense.

These acquisitions were not considered material to the Company’s financial statements; therefore, pro forma financial data and related disclosures are not included.

2012 Acquisition

On August 3, 2012, the Company acquired substantially all of the assets of the former Waukegan Savings Bank in an FDIC-assisted transaction generating a pre-tax gain of $3.3 million. The $46.3 million of acquired loans are not subject to FDIC Agreements. The transaction also included $72.7 million in deposits, which were comprised of $41.5 million in core deposits and $31.2 million in time deposits. As a result of the transaction, the Company recorded $781,000 in core deposit intangibles.

4. SECURITIES

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 December 31,							
	2014				2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale								
U.S. agency securities	$30,297	$144	$(10)	$30,431	$500	$—	$—	$500
Collateralized mortgage obligations ("CMOs")	538,882	2,256	(6,982)	534,156	490,962	1,427	(16,621)	475,768
Other mortgage-backed securities ("MBSs")	155,443	4,632	(310)	159,765	135,097	3,349	(2,282)	136,164
Municipal securities	414,255	10,583	(1,018)	423,820	457,318	9,673	(5,598)	461,393
Trust preferred collateralized debt obligations ("CDOs")	48,502	152	(14,880)	33,774	46,532	—	(28,223)	18,309
Corporate debt securities	1,719	83	—	1,802	12,999	1,930	—	14,929
Equity securities	3,224	72	(35)	3,261	3,706	2,046	(90)	5,662
Total available-for-sale securities	$1,192,322	$17,922	$(23,235)	$1,187,009	$1,147,114	$18,425	$(52,814)	$1,112,725
Securities Held-to-Maturity								
Municipal securities	$26,555	$1,115	$—	$27,670	$44,322	$—	$(935)	$43,387
Trading Securities				$17,460				$17,317

Remaining Contractual Maturity of Securities
(Dollar amounts in thousands)

	As of December 31, 2014			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$67,900	$67,221	$3,504	$3,651
After one year to five years	78,132	77,351	8,727	9,093

After five years to ten years	214,007	211,868	5,404	5,631
After ten years	134,734	133,387	8,920	9,295
Securities that do not have a single contractual maturity date	697,549	697,182	—	—
Total	$1,192,322	$1,187,009	$26,555	$27,670

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 $779.4 million at December 31, 2014 and $755.3 million at December 31, 2013. No securities held-to-maturity were pledged as of December 31, 2014 or 2013.

Excluding securities issued or backed by the U.S. government and its agencies and U.S. government-sponsored enterprises, there were no investments in securities from one issuer that exceeded 10% of total stockholders' equity as of December 31, 2014 or 2013.

The following table presents net realized gains (losses) on securities.

Securities Gains (Losses)

(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Gains (losses) on sales of securities:			
Gross realized gains	$8,188	$34,572	$3,045
Gross realized losses	(63)	—	(297)
Net realized gains on sales of securities	8,125	34,572	2,748
Non-cash impairment charges:			
OTTI	(28)	(408)	(3,728)
Portion of OTTI recognized in other comprehensive income (loss)	—	—	59
Net non-cash impairment charges	(28)	(408)	(3,669)
Net realized gains (losses)	$8,097	$34,164	$(921)
Net trading gains [1]	$677	$3,189	$1,627
Net non-cash impairment charges:			
CMOs	$28	$6	$1,443
Municipal securities	—	402	—
CDOs	—	—	2,226
Total	$28	$408	$3,669

(1) All net trading gains relate to trading securities still held as of December 31, 2014, 2013, and 2012 and are included in other income in the Consolidated Statements of Income.

Net gains realized on securities sales for the years ended December 31, 2014, 2013, and 2012 were $8.1 million, $34.6 million, and $2.7 million, respectively. During 2014, net securities gains consisted of the sale of a non-accrual CDO at a gain of $3.5 million, sales of corporate bonds at gains of $2.0 million, sales of municipal securities at gains of $468,000, and sales of certain other investments at gains of $2.1 million. In addition, four CDOs totaling $2.9 million acquired in the Great Lakes transaction were sold during the fourth quarter of 2014. These securities were recorded at fair value at the acquisition date, therefore, no gain or loss was recognized on the sale. During 2013, the Company sold its investment in an equity security which resulted in a $34.0 million gain.

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 (loss).

The following table presents a rollforward of life-to-date OTTI recognized in earnings related to all available-for-sale securities held by the Company for the years ended December 31, 2014, 2013, and 2012. The majority of the beginning and ending balance of OTTI relates to CDOs currently held by the Company.

Changes in OTTI Recognized in Earnings
(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Beginning balance	$32,422	$38,803	$36,525
OTTI included in earnings [(1)]:			
Losses on securities that previously had OTTI	28	—	2,278
Losses on securities that did not previously have OTTI	—	408	1,391
Reduction for securities sales [(2)]	(8,570)	(6,789)	(1,391)
Ending balance	$23,880	$32,422	$38,803

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

(2) During the year ended December 31, 2014, one CDO with a carrying value of $1.3 million was sold. In addition, one CDO with a carrying value of zero was sold during the year ended December 31, 2013. These CDOs had OTTI of $8.6 million and $6.8 million, respectively, that were previously recognized in earnings.

The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of December 31, 2014 and 2013.

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

		Less Than 12 Months		Greater Than 12 Months		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of December 31, 2014							
U.S. agency securities	1	$1,943	$10	$—	$—	$1,943	$10
CMOs	87	61,321	559	284,327	6,423	345,648	6,982
Other MBSs	11	1,113	1	39,043	309	40,156	310
Municipal securities	91	1,317	9	53,987	1,009	55,304	1,018
CDOs	4	—	—	22,791	14,880	22,791	14,880
Equity securities	1	—	—	2,270	35	2,270	35
Total	195	$65,694	$579	$402,418	$22,656	$468,112	$23,235
As of December 31, 2013							
CMOs	67	$338,064	$14,288	$57,269	$2,333	$395,333	$16,621
Other MBSs	19	57,311	2,281	356	1	57,667	2,282
Municipal securities	154	65,370	3,245	27,565	2,353	92,935	5,598
CDOs	6	—	—	18,309	28,223	18,309	28,223
Equity securities	1	2,168	90	—	—	2,168	90
Total	247	$462,913	$19,904	$103,499	$32,910	$566,412	$52,814

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 individual unrealized loss as of December 31, 2014 represents an OTTI related to credit deterioration. The unrealized losses associated with these securities are not believed to be attributed to credit quality, but rather to changes in interest rates and temporary market movements. In addition, the Company does not intend to sell the securities with unrealized losses, and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

The unrealized losses on CDOs as of December 31, 2014 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 within a short period of time, 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, all of which are pooled. For a detailed discussion of the CDO valuation methodology, see Note 22, "Fair Value."

5. LOANS

Loans Held-for-Investment

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

Loan Portfolio
(Dollar amounts in thousands)

	As of December 31,	
	2014	2013
Commercial and industrial	$2,253,556	$1,830,638
Agricultural	358,249	321,702
Commercial real estate:		
Office, retail, and industrial	1,478,379	1,353,685
Multi-family	564,421	332,873
Construction	204,236	186,197
Other commercial real estate	887,897	807,071
Total commercial real estate	3,134,933	2,679,826
Total corporate loans	5,746,738	4,832,166
Home equity	543,185	427,020
1-4 family mortgages	291,463	275,992
Installment	76,032	44,827
Total consumer loans	910,680	747,839
Total loans, excluding covered loans	6,657,418	5,580,005
Covered loans (1)	79,435	134,355
Total loans	$6,736,853	$5,714,360
Deferred loan fees included in total loans	$3,922	$4,656
Overdrawn demand deposits included in total loans	3,438	5,047

(1) For information on covered loans, see Note 6, "Acquired and Covered Loans."

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.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate its business. As part of the underwriting process, the Company examines current and expected future cash flows to determine the ability of the borrower to repay its obligation. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of the borrower may not be as expected, and the collateral securing these loans may fluctuate in value due to economic or other factors. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may incorporate a personal guarantee. Some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans substantially depend on the ability of the borrower to collect amounts due from its customers.

Agricultural loans are generally provided to meet seasonal production, equipment, and farm real estate borrowing needs of individual and corporate crop and livestock producers. As part of the underwriting process, the Company examines expected future cash flows, financial statement stability, and the value of the underlying collateral. Seasonal crop production loans are repaid by the liquidation of the financed crop that is typically covered by crop insurance.

Equipment and real estate term loans are repaid through cash flows of the farming operation.
Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. The repayment of commercial real estate loans depends on the successful operation of the property securing the loan or the business conducted on the property securing the loan. This category of loans may be more adversely affected by conditions in the real estate

market. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography, and risk rating criteria. The mix of properties securing the loans in our commercial real estate portfolio are further classified into owner-occupied and investor categories and are diverse in terms of type and geographic location within the Company's markets.

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

Consumer loans are centrally underwritten using a credit scoring model developed by the Fair Isaac Corporation ("FICO"). It uses a risk-based system to determine the probability that a borrower may default on financial obligations to the lender. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. The home equity category consists mainly of revolving lines of credit secured by junior liens on owner-occupied real estate. Loan-to-value ratios on home equity loans and 1-4 family mortgages are based on the current appraised value of the collateral.

The carrying value of loans that were pledged to secure liabilities as of December 31, 2014 and 2013 are presented below.

Carrying Value of Loans Pledged
(Dollar amounts in thousands)

	As of December 31	
	2014	2013
Loans pledged to secure:		
FHLB advances	$1,952,736	$1,632,069
FRB's Discount Window Primary Credit Program	845,974	766,870
Total	$2,798,710	$2,398,939

Loan Sales

The following table presents loan sales for the years ended December 31, 2014, 2013, and 2012.

Loan Sales
(Dollar amounts in thousands)

	Proceeds	Book Value	Charge-offs (1)	Net Gains (2)
Loan sales in 2014				
Mortgage loans	$148,680	$144,909	$—	$3,771
Non-performing loans	17,750	21,200	(3,450)	—
Total loan sales in 2014	$166,430	$166,109	$(3,450)	$3,771
Loan sales in 2013				
Mortgage loans	$152,130	$147,413	$—	$4,717
Non-performing loans	1,275	2,835	(1,560)	—
Total loan sales in 2013	$153,405	$150,248	$(1,560)	$4,717
Loan sales in 2012				
Bulk loan sales	$94,470	$169,577	$(80,260)	$5,153
Mortgage loans	52,595	50,326	—	2,269
Non-performing loans	4,200	6,587	(2,387)	—
Total loan sales in 2012	$151,265	$226,490	$(82,647)	$7,422

(1) Amount represents charge-offs to the allowance for loan and covered loan losses at the time the loans were identified for sale.

(2) The net gains on the bulk loan sales represent gains realized subsequent to the transfer to held-for-sale and are included as a separate component of noninterest income in the Consolidated Statements of Income. Net gains on mortgage loan sales are included in mortgage banking income in the Consolidated Statements of Income.

Mortgage Loan Sales
During the year ended December 31, 2014, a gain of $3.8 million was recognized on the sale of $144.9 million of mortgage loans, of which $92.5 million were originated with the intent to sell. For the year ended December 31, 2013, the Company sold $147.4 million of mortgage loans, resulting in a gain of $4.7 million. The Company retained servicing responsibilities on the majority of mortgages sold and collects servicing fees equal to a percentage of the outstanding principal balance of the loans being serviced. The Company also retained limited recourse for credit losses on the sold loans. A description of the recourse obligation is presented in Note 21, "Commitments, Guarantees, and Contingent Liabilities."
Bulk Loan Sales
During the third quarter of 2012, the Company identified certain non-performing and performing potential problem loans for accelerated disposition through bulk loan sales and transferred them into the held-for-sale category at the lower of the recorded investment or the estimated fair value, which resulted in charge-offs of $80.3 million and a provision for loan and covered loan losses of $62.3 million. The fair value was determined by the estimated bid price of the potential sale. The bulk loan sales were completed in the fourth quarter of 2012, and net gains realized on the sales are included as a separate component of noninterest income in the Consolidated Statements of Income.
6. ACQUIRED AND COVERED LOANS
Acquired loans consist primarily of loans that were acquired in business combinations that are not covered by the FDIC Agreements. These loans are included in loans, excluding covered loans, in the Consolidated Statements of Financial Condition. Covered loans consist of loans acquired by the Company in multiple FDIC-assisted transactions. Most loans and OREO acquired in those transactions are covered by the FDIC Agreements. The significant accounting policies related to acquired and covered loans, which are classified as PCI and Non-PCI, and the related FDIC indemnification asset are presented in Note 1, "Summary of Significant Accounting Policies."
Effective January 1, 2015, the losses on non-residential mortgage loans and OREO related to one FDIC-assisted transaction will no longer be covered under the FDIC Agreements. These non-residential loans and OREO totaled $10.1 million at December 31, 2014. The losses on residential mortgage loans and OREO will continue to be covered under the FDIC Agreements through December 31, 2019. Losses related to non-residential mortgage loans and OREO in two other FDIC-assisted transactions will no longer be covered under the FDIC Agreements effective on July 1, 2015 and October 1, 2015, and residential mortgage loans and OREO will continue to be covered through June 30, 2020 and September 30, 2020.
The following table presents PCI and Non-PCI loans as of December 31, 2014 and 2013.
Acquired and Covered Loans
(Dollar amounts in thousands)

	As of December 31,					
	2014			2013		
	PCI	Non-PCI	Total	PCI	Non-PCI	Total
Acquired loans	$28,712	$714,836	$743,548	$15,608	$17,024	$32,632
Covered loans	54,682	24,753	79,435	103,525	30,830	134,355
Total acquired and covered loans	$83,394	$739,589	$822,983	$119,133	$47,854	$166,987

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 December 31, 2014, 2013, and 2012.

A rollforward of the carrying value of the FDIC indemnification asset for the years ended December 31, 2014, 2013, and 2012 is presented in the following table.

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

	Years Ended December 31,		
	2014	2013	2012
Beginning balance	$16,585	$37,051	$65,609
Amortization	(3,315)	(2,984)	(14,098)
Change in expected reimbursements from the FDIC for changes in expected credit losses	(481)	(1,242)	3,338
Payments received from the FDIC	(4,337)	(16,240)	(17,798)
Ending balance	$8,452	$16,585	$37,051

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

Changes in Accretable Yield
(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Beginning balance	$36,792	$51,498	$52,147
Additions	3,517	—	7,224
Accretion	(12,535)	(15,016)	(20,632)
Other [1]	470	310	12,759
Ending balance	$28,244	$36,792	$51,498

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

7. PAST DUE LOANS, ALLOWANCE FOR CREDIT LOSSES, IMPAIRED LOANS, AND TDRS
Past Due and Non-accrual Loans
The following table presents an aging analysis of the Company's past due loans as of December 31, 2014 and 2013. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (the majority of which are past due) and loans 90 days or more past due and still accruing interest, as of each balance sheet date.
Aging Analysis of Past Due Loans and Non-Performing Loans by Class
(Dollar amounts in thousands)

	Aging Analysis (Accruing and Non-accrual)					Non-performing Loans	
	Current	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	Non-accrual Loans	90 Days Past Due Loans, Still Accruing Interest
As of December 31, 2014							
Commercial and industrial	$2,230,947	$19,505	$3,104	$22,609	$2,253,556	$22,693	$205
Agricultural	355,982	1,934	333	2,267	358,249	360	—
Commercial real estate:							
Office, retail, and industrial	1,463,724	2,340	12,315	14,655	1,478,379	12,939	76
Multi-family	562,625	1,261	535	1,796	564,421	754	83
Construction	197,255	—	6,981	6,981	204,236	6,981	—
Other commercial real estate	876,609	5,412	5,876	11,288	887,897	6,970	438
Total commercial real estate	3,100,213	9,013	25,707	34,720	3,134,933	27,644	597
Total corporate loans	5,687,142	30,452	29,144	59,596	5,746,738	50,697	802
Home equity	535,587	3,216	4,382	7,598	543,185	6,290	145
1-4 family mortgages	287,892	2,246	1,325	3,571	291,463	2,941	166
Installment	75,428	506	98	604	76,032	43	60
Total consumer loans	898,907	5,968	5,805	11,773	910,680	9,274	371
Total loans, excluding covered loans	6,586,049	36,420	34,949	71,369	6,657,418	59,971	1,173
Covered loans	66,331	2,714	10,390	13,104	79,435	6,186	5,002
Total loans	$6,652,380	$39,134	$45,339	$84,473	$6,736,853	$66,157	$6,175
As of December 31, 2013							
Commercial and industrial	$1,814,660	$6,872	$9,106	$15,978	$1,830,638	$11,767	$393
Agricultural	321,156	134	412	546	321,702	519	—
Commercial real estate:							
Office, retail, and industrial	1,335,027	2,620	16,038	18,658	1,353,685	17,076	1,315
Multi-family	330,960	318	1,595	1,913	332,873	1,848	—
Construction	180,083	23	6,091	6,114	186,197	6,297	—
Other commercial real estate	795,462	5,365	6,244	11,609	807,071	8,153	258
Total commercial real estate	2,641,532	8,326	29,968	38,294	2,679,826	33,374	1,573

Total corporate loans	4,777,348	15,332	39,486	54,818	4,832,166	45,660	1,966
Home equity	415,791	4,830	6,399	11,229	427,020	6,864	1,102
1-4 family mortgages	268,912	2,046	5,034	7,080	275,992	5,198	548
Installment	42,350	330	2,147	2,477	44,827	2,076	92
Total consumer loans	727,053	7,206	13,580	20,786	747,839	14,138	1,742
Total loans, excluding covered loans	5,504,401	22,538	53,066	75,604	5,580,005	59,798	3,708
Covered loans	94,211	2,232	37,912	40,144	134,355	20,942	18,081
Total loans	$5,598,612	$24,770	$90,978	$115,748	$5,714,360	$80,740	$21,789

Allowance for Credit Losses

The Company maintains an allowance for credit losses at a level deemed adequate by management to absorb probable losses inherent in the loan portfolio. 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 years ended December 31, 2014, 2013, and 2012 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	Covered Loans	Reserve for Unfunded Commitments	Total Allowance
As of December 31, 2014									
Beginning balance	$ 30,381	$ 10,405	$ 2,017	$ 6,316	$ 10,817	$ 13,010	$ 12,559	$ 1,616	$ 87,121
Charge-offs	(17,424)	(7,345)	(943)	(1,052)	(4,834)	(7,574)	(1,012)	—	(40,184)
Recoveries	3,800	497	87	166	1,727	729	1,199	—	8,205
Net charge-offs	(13,624)	(6,848)	(856)	(886)	(3,107)	(6,845)	187	—	(31,979)
Provision for loan and covered loan losses and other	12,701	7,435	1,088	(3,133)	617	5,980	(5,520)	200	19,368
Ending Balance	$ 29,458	$ 10,992	$ 2,249	$ 2,297	$ 8,327	$ 12,145	$ 7,226	$ 1,816	$ 74,510
As of December 31, 2013									
Beginning balance	$ 36,761	$ 11,432	$ 3,575	$ 9,223	$ 13,531	$ 12,862	$ 12,062	$ 3,366	$ 102,812
Charge-offs	(12,094)	(4,744)	(1,029)	(1,916)	(4,784)	(9,414)	(4,599)	—	(38,580)
Recoveries	3,797	228	584	1,032	1,646	1,071	24	—	8,382
Net charge-offs	(8,297)	(4,516)	(445)	(884)	(3,138)	(8,343)	(4,575)	—	(30,198)
Provision for loan and covered loan losses and other	1,917	3,489	(1,113)	(2,023)	424	8,491	5,072	(1,750)	14,507
Ending balance	$ 30,381	$ 10,405	$ 2,017	$ 6,316	$ 10,817	$ 13,010	$ 12,559	$ 1,616	$ 87,121
As of December 31, 2012									
Beginning balance	$ 46,017	$ 16,012	$ 5,067	$ 17,795	$ 19,451	$ 14,131	$ 989	$ 2,500	$ 121,962
Charge-offs	(64,668)	(34,968)	(3,361)	(27,811)	(36,474)	(10,910)	(4,615)	—	(182,807)
Recoveries	3,393	577	275	451	125	784	—	—	5,605
Net charge-offs	(61,275)	(34,391)	(3,086)	(27,360)	(36,349)	(10,126)	(4,615)	—	(177,202)

Provision for loan and covered loan losses and other	52,019	29,811	1,594	18,788	30,429	8,857	15,688	866	158,052
Ending balance	$ 36,761	$ 11,432	$ 3,575	$ 9,223	$ 13,531	$ 12,862	$ 12,062	$ 3,366	$ 102,812

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The table below provides a breakdown of loans and the related allowance for credit losses by portfolio segment.
Loans and Related Allowance for Credit Losses by Portfolio Segment
(Dollar amounts in thousands)

	Loans				Allowance for Credit Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total
As of December 31, 2014								
Commercial, industrial, and agricultural	$19,796	$2,588,141	$3,868	$2,611,805	$2,249	$ 27,209	$—	$29,458
Commercial real estate:								
Office, retail, and industrial	12,332	1,458,918	7,129	1,478,379	271	10,721	—	10,992
Multi-family	939	561,400	2,082	564,421	—	2,249	—	2,249
Construction	6,671	195,094	2,471	204,236	—	2,297	—	2,297
Other commercial real estate	3,266	880,087	4,544	887,897	11	8,316	—	8,327
Total commercial real estate	23,208	3,095,499	16,226	3,134,933	282	23,583	—	23,865
Total corporate loans	43,004	5,683,640	20,094	5,746,738	2,531	50,792	—	53,323
Consumer	—	902,062	8,618	910,680	—	11,822	323	12,145
Total loans, excluding covered loans	43,004	6,585,702	28,712	6,657,418	2,531	62,614	323	65,468
Covered loans	—	24,753	54,682	79,435	—	488	6,738	7,226
Reserve for unfunded commitments	—	—	—	—	—	1,816	—	1,816
Total loans	$43,004	$6,610,455	$83,394	$6,736,853	$2,531	$ 64,918	$7,061	$74,510
As of December 31, 2013								
Commercial, industrial, and agricultural	$13,178	$2,137,440	$1,722	$2,152,340	$4,046	$ 26,335	$—	$30,381
Commercial real estate:								
Office, retail, and industrial	26,348	1,327,337	—	1,353,685	214	10,191	—	10,405
Multi-family	1,296	331,445	132	332,873	18	1,999	—	2,017
Construction	5,712	180,485	—	186,197	178	6,138	—	6,316
Other commercial real estate	9,298	793,703	4,070	807,071	704	10,113	—	10,817
Total commercial real estate	42,654	2,632,970	4,202	2,679,826	1,114	28,441	—	29,555
Total corporate loans	55,832	4,770,410	5,924	4,832,166	5,160	54,776	—	59,936
Consumer	—	738,155	9,684	747,839	—	13,010	—	13,010

Total loans, excluding covered loans	55,832	5,508,565	15,608	5,580,005	5,160	67,786	—	72,946
Covered loans	—	30,830	103,525	134,355	—	702	11,857	12,559
Reserve for unfunded commitments	—	—	—	—	—	1,616	—	1,616
Total loans	$55,832	$5,539,395	$119,133	$5,714,360	$5,160	$ 70,104	$11,857	$87,121

Loans Individually Evaluated for Impairment

The following table presents loans individually evaluated for impairment by class of loan as of December 31, 2014 and 2013. PCI loans are excluded from this disclosure.

Impaired Loans Individually Evaluated by Class

(Dollar amounts in thousands)

	As of December 31, 2014				2013			
	Recorded Investment In Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve	Recorded Investment In Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial and industrial	$666	$19,130	$35,457	$2,249	$10,047	$3,131	$25,887	$4,046
Agricultural	—	—	—	—	—	—	—	—
Commercial real estate:								
Office, retail, and industrial	9,623	2,709	18,340	271	23,872	2,476	35,868	214
Multi-family	939	—	1,024	—	1,098	198	1,621	18
Construction	6,671	—	7,731	—	4,586	1,126	10,037	178
Other commercial real estate	2,752	514	4,490	11	7,553	1,745	11,335	704
Total commercial real estate	19,985	3,223	31,585	282	37,109	5,545	58,861	1,114
Total impaired loans individually evaluated for impairment	$20,651	$22,353	$67,042	$2,531	$47,156	$8,676	$84,748	$5,160

The following table presents the average recorded investment and interest income recognized on impaired loans by class for the years ended December 31, 2014, 2013, and 2012. PCI loans are excluded from this disclosure.

Average Recorded Investment and Interest Income Recognized on Impaired Loans by Class

(Dollar amounts in thousands)

	Years Ended December 31, 2014		2013		2012	
	Average Recorded Balance	Interest Income Recognized (1)	Average Recorded Balance	Interest Income Recognized (1)	Average Recorded Balance	Interest Income Recognized (1)
Commercial and industrial	$16,137	$371	$20,925	$205	$45,101	$94
Agricultural	—	—	—	—	1,138	—
Commercial real estate:						
Office, retail, and industrial	19,003	245	24,802	18	32,439	2
Multi-family	1,245	5	1,116	8	6,226	—
Construction	5,764	—	5,932	—	31,202	1
Other commercial real estate	6,014	138	13,141	31	35,715	38
Total commercial real estate	32,026	388	44,991	57	105,582	41

Total impaired loans	$48,163	$759	$65,916	$262	$151,821	$135

(1) Recorded using the cash basis of accounting.

Credit Quality Indicators

Corporate loans and commitments are assessed for credit risk and assigned ratings based on various characteristics, such as the borrower's cash flow, leverage, and collateral. Ratings for commercial credits are reviewed periodically. The following tables present credit quality indicators by class for corporate and consumer loans, excluding covered loans, as of December 31, 2014 and 2013.

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

	Pass	Special Mention [1][4]	Substandard [2][4]	Non-Accrual [3]	Total
As of December 31, 2014					
Commercial and industrial	$2,115,170	$84,615	$31,078	$22,693	$2,253,556
Agricultural	357,595	294	—	360	358,249
Commercial real estate:					
Office, retail, and industrial	1,393,885	38,891	32,664	12,939	1,478,379
Multi-family	553,255	6,363	4,049	754	564,421
Construction	178,992	5,776	12,487	6,981	204,236
Other commercial real estate	829,003	32,517	19,407	6,970	887,897
Total commercial real estate	2,955,135	83,547	68,607	27,644	3,134,933
Total corporate loans	$5,427,900	$168,456	$99,685	$50,697	$5,746,738
As of December 31, 2013					
Commercial and industrial	$1,780,194	$23,806	$14,871	$11,767	$1,830,638
Agricultural	320,839	344	—	519	321,702
Commercial real estate:					
Office, retail, and industrial	1,284,394	28,677	23,538	17,076	1,353,685
Multi-family	326,901	3,214	910	1,848	332,873
Construction	153,949	8,309	17,642	6,297	186,197
Other commercial real estate	761,465	14,877	22,576	8,153	807,071
Total commercial real estate	2,526,709	55,077	64,666	33,374	2,679,826
Total corporate loans	$4,627,742	$79,227	$79,537	$45,660	$4,832,166

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

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

(4) Total special mention and substandard loans includes accruing TDRs of $1.8 million as of December 31, 2014 and $2.8 million as of December 31, 2013.

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

	Performing	Non-accrual	Total
As of December 31, 2014			
Home equity	$536,895	$6,290	$543,185
1-4 family mortgages	288,522	2,941	291,463
Installment	75,989	43	76,032
Total consumer loans	$901,406	$9,274	$910,680
As of December 31, 2013			
Home equity	$420,156	$6,864	$427,020
1-4 family mortgages	270,794	5,198	275,992
Installment	42,751	2,076	44,827
Total consumer loans	$733,701	$14,138	$747,839

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 December 31, 2014 and 2013. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for TDRs.

TDRs by Class
(Dollar amounts in thousands)

	As of December 31,					
	2014			2013		
	Accruing	Non-accrual [(1)]	Total	Accruing	Non-accrual [(1)]	Total
Commercial and industrial	$269	$18,799	$19,068	$6,538	$2,121	$8,659
Agricultural	—	—	—	—	—	—
Commercial real estate:						
Office, retail, and industrial	586	—	586	10,271	—	10,271
Multi-family	887	232	1,119	1,038	253	1,291
Construction	—	—	—	—	—	—
Other commercial real estate	433	183	616	4,326	291	4,617
Total commercial real estate	1,906	415	2,321	15,635	544	16,179
Total corporate loans	2,175	19,214	21,389	22,173	2,665	24,838
Home equity	651	506	1,157	787	512	1,299
1-4 family mortgages	878	184	1,062	810	906	1,716
Installment	—	—	—	—	—	—
Total consumer loans	1,529	690	2,219	1,597	1,418	3,015
Total loans	$3,704	$19,904	$23,608	$23,770	$4,083	$27,853

(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 $1.8 million in specific reserves related to TDRs as of December 31, 2014, and there were $2.0 million in specific reserves related to TDRs as of December 31, 2013.

The following table presents a summary of loans that were restructured during the years ended December 31, 2014, 2013, and 2012.
Loans Restructured During the Period
(Dollar amounts in thousands)

	Number of Loans	Pre-Modification Recorded Investment	Funds Disbursed	Interest and Escrow Capitalized	Charge-offs	Post-Modification Recorded Investment
Year Ended December 31, 2014						
Commercial and industrial	7	$ 23,852	$—	$—	$—	$ 23,852
Office, retail, and industrial	1	417	—	—	—	417
Multi-family	1	275	—	—	—	275
Home equity	1	75	—	—	—	75
Total TDRs restructured during the period	10	$ 24,619	$—	$—	$—	$ 24,619
Year Ended December 31, 2013						
Commercial and industrial	7	$ 14,439	$—	$2	$—	$ 14,441
Office, retail, and industrial	6	2,275	30	—	—	2,305
Multi-family	5	1,274	—	57	—	1,331
Construction	2	508	—	—	—	508
Other commercial real estate	5	526	—	—	—	526
Home equity	13	1,189	—	—	—	1,189
1-4 family mortgages	1	132	—	4	—	136
Total TDRs restructured during the period	39	$ 20,343	$ 30	$63	$—	$ 20,436
Year Ended December 31, 2012						
Commercial and industrial	5	$ 3,277	$—	$—	$ 170	$ 3,107
Office, retail, and industrial	2	2,416	—	—	—	2,416
Other commercial real estate	5	1,070	—	—	125	945
Home equity	1	19	—	—	—	19
1-4 family mortgages	4	563	—	4	—	567
Total TDRs restructured during the period	17	$ 7,345	$—	$4	$ 295	$ 7,054

Accruing TDRs that do not perform in accordance with their modified terms are transferred to non-accrual. The following table presents TDRs that had payment defaults during the years ended December 31, 2014, 2013, and 2012 where the default occurred within twelve months of the restructure date.
TDRs That Defaulted Within Twelve Months of the Restructured Date
(Dollar amounts in thousands)

	Years Ended December 31,					
	2014		2013		2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	2	$ 125	1	$ 350	—	$—
Office, retail, and industrial	—	—	—	—	2	837
Other commercial real estate	—	—	3	354	2	717
Home equity	1	77	—	—	—	—
1-4 family mortgages	—	—	—	—	1	62

Total	3	$ 202	4	$ 704	5	$ 1,616

A rollforward of the carrying value of TDRs for the years ended December 31, 2014, 2013, and 2012 is presented in the following table.

TDR Rollforward
(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Accruing			
Beginning balance	$23,770	$6,867	$17,864
Additions	804	4,847	2,504
Net payments	(1,440)	(723)	(205)
Returned to performing status	(20,656)	(5,529)	(16,619)
Net transfers from non-accrual	1,226	18,308	3,323
Ending balance	3,704	23,770	6,867
Non-accrual			
Beginning balance	4,083	10,924	29,842
Additions	23,815	15,589	4,550
Net advances (payments)	1,991	(1,359)	(1,761)
Charge-offs	(8,457)	(1,880)	(10,003)
Transfers to OREO	(302)	(77)	(6,778)
Loans sold	—	(806)	(1,603)
Net transfers to accruing	(1,226)	(18,308)	(3,323)
Ending balance	19,904	4,083	10,924
Total TDRs	$23,608	$27,853	$17,791

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. TDRs that were returned to performing status totaled $20.7 million, $5.5 million and $16.6 million for the years ended December 31, 2014, 2013, and 2012, respectively. 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 $666,000 and $180,000 in commitments to lend additional funds to borrowers with TDRs as of December 31, 2014 and 2013, respectively.

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 December 31,	
	2014	2013
Land	$51,104	$48,590
Premises	148,963	139,336
Furniture and equipment	85,489	81,002
Total cost	285,556	268,928
Accumulated depreciation	(156,473)	(152,751)
Net book value of premises, furniture, and equipment	129,083	116,177
Assets held-for-sale	2,026	4,027
Total premises, furniture, and equipment	$131,109	$120,204

Depreciation on premises, furniture, and equipment totaled $12.2 million in 2014, $11.0 million in 2013, and $10.9 million in 2012.
Operating Leases
As of December 31, 2014, the Company was obligated to utilize certain premises and equipment under certain non-cancelable operating leases, which expire at various dates through the year ended December 31, 2030. 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 December 31, 2014.
Future Minimum Operating Lease Payments
(Dollar amounts in thousands)

	Total
Year ending December 31,	
2015	$5,071
2016	4,697
2017	4,592
2018	3,873
2019	2,082
2020 and thereafter	13,031
Total minimum lease payments	$33,346

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

The following table presents the remaining scheduled accretion of the intangible liability by year.
Scheduled Accretion of Operating Lease Intangible
(Dollar amounts in thousands)

	Total
Year ending December 31,	
2015	$1,144
2016	1,144
2017	1,144
2018	900
2019	651
2020 and thereafter	5,195
Total accretion	$10,178

The following table presents net operating lease expense for the years ended December 31, 2014, 2013, and 2012.
Net Operating Lease Expense
(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Lease expense charged to operations [1]	$4,216	$3,123	$3,379
Rental income from premises leased to others [2]	541	531	931
Net operating lease expense	$3,675	$2,592	$2,448

(1) Includes amounts paid under short-term cancelable leases and included in net occupancy and equipment expense in the Consolidated Statements of Income. As of December 31, 2014, lease expense is net of $453,000 in accretion related to the intangible liability.
(2) Included as a reduction to net occupancy and equipment expense in the Consolidated Statements of Income.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's annual goodwill impairment test was performed as of October 1, 2014. It was determined that no impairment existed as of that date. Goodwill is tested for impairment at the reporting unit level. All of our goodwill is allocated to First Midwest Bancorp, Inc., which is the Company's only applicable reporting unit for purposes of testing goodwill impairment. For a discussion of the accounting policies for goodwill and other intangible assets, see Note 1, "Summary of Significant Accounting Policies."
The following table presents changes in the carrying amount of goodwill for the years ended December 31, 2014, 2013, and 2012.
Changes in the Carrying Amount of Goodwill
(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Beginning balance	$264,062	$265,477	$265,477
Acquisitions	46,527	—	—
Sale of equity method investment	—	(1,415)	—
Ending balance	$310,589	$264,062	$265,477

During the year ended December 31, 2014, the increase in goodwill resulted from the Popular, Great Lakes, and National Machine Tool acquisitions. See Note 3, "Acquisitions," for additional detail regarding these transactions.
The Company's other intangible assets are core deposit intangibles, which are being amortized over their estimated useful lives. The Company's annual impairment testing was performed as of November 30, 2014 by comparing the carrying value of other intangible assets with our anticipated discounted expected future cash flows, and it was determined that no impairment existed as of that date.

Other Intangible Assets
(Dollar amounts in thousands)

	Years Ended December 31,								
	2014			2013			2012		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Beginning balance	$33,775	$ 21,471	$12,304	$33,775	$ 18,193	$15,582	$34,318	$ 16,145	$18,173
Additions	14,195	—	14,195	—	—	—	781	—	781
Amortization expense	—	2,889	(2,889)	—	3,278	(3,278)	—	3,372	(3,372)
Fully amortized assets	—	—	—	—	—	—	(1,324)	(1,324)	—
Ending balance	$47,970	$ 24,360	$23,610	$33,775	$ 21,471	$12,304	$33,775	$ 18,193	$15,582
Weighted-average remaining life (in years)			8.0			5.9			6.4
Estimated remaining useful lives (in years)			0.3 to 10.3			0.2 to 11.3			0.7 to 12.3

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

	Total
Year ending December 31,	
2015	$3,920
2016	3,843
2017	3,063
2018	2,138
2019	2,073
2020 and thereafter	8,573
Total	$23,610

10. DEPOSITS

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

Summary of Deposits
(Dollar amounts in thousands)

	As of December 31,	
	2014	2013
Demand deposits	$2,301,757	$1,911,602
Savings deposits	1,391,444	1,135,155
NOW accounts	1,413,973	1,220,693
Money market deposits	1,509,026	1,290,868
Time deposits less than $100,000	859,441	820,925
Time deposits greater than $100,000	412,117	386,858
Total deposits	$7,887,758	$6,766,101

The following table provides maturity information related to the Company's time deposits.
Scheduled Maturities of Time Deposits
(Dollar amounts in thousands)

	Total
Year ending December 31,	
2015	$865,149
2016	211,496
2017	89,061
2018	38,623
2019	66,961
2020 and thereafter	268
Total	$1,271,558

11. BORROWED FUNDS

The following table summarizes the Company's borrowed funds by funding source.
Summary of Borrowed Funds
(Dollar amounts in thousands)

	As of December 31,	
	2014	2013
Securities sold under agreements to repurchase	$137,994	$109,792
FHLB advances	—	114,550
Total borrowed funds	$137,994	$224,342

Securities sold under agreements to repurchase are treated as financings and the obligations to repurchase securities sold are included as a liability in the Consolidated Statements of Financial Condition. Repurchase agreements are secured by the Treasury and U.S. agency securities and are held in third party pledge accounts, if required. The securities underlying the agreements remain in the respective asset accounts. As of December 31, 2014, the Company did not have amounts at risk under repurchase agreements with any individual counterparty or group of counterparties that exceeded 10% of stockholders' equity.

The Bank is a member of the FHLB and has access to term financing from the FHLB. These advances are secured by designated assets that may include qualifying residential and multi-family mortgages, home equity loans, and municipal and mortgage-backed securities. During 2014, the Company prepaid $114.6 million of FHLB advances. This transaction resulted in a $2.1 million pre-tax loss on the early extinguishment of debt and is included in other noninterest income in the Consolidated Statements of Income. At December 31, 2013, FHLB advances totaled $114.6 million with a weighted average interest rate of 1.34%.

The following table presents short-term credit lines available for use, for which the Company did not have an outstanding balance as of December 31, 2014 and 2013.
Short-Term Credit Lines Available for Use
(Dollar amounts in thousands)

	As of December 31,	
	2014	2013
Available federal funds lines	$685,500	$681,100
FRBs Discount Window Primary Credit Program	675,507	632,498
Correspondent bank line of credit	35,000	—

None of the Company's borrowings have any related compensating balance requirements that restrict the use of Company assets. At December 31, 2014, the Company had a $35.0 million short-term, unsecured revolving line of credit with a correspondent bank that it allowed to expire on January 20, 2015.

12. SENIOR AND SUBORDINATED DEBT

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

Senior and Subordinated Debt
(Dollar amounts in thousands)

		As of December 31,	
	Interest Rate	2014	2013
Senior notes due in 2016	5.875%	$114,768	$114,645
Subordinated notes due in 2016	5.850%	38,495	38,491
Junior subordinated debentures:			
First Midwest Capital Trust I ("FMCT") due in 2033	6.950%	37,797	37,796
Great Lakes Statutory Trust II ("GLST II") due in 2035	3 month LIBOR + 1.400%	4,202	—
Great Lakes Statutory Trust III ("GLST III") due in 2037	3 month LIBOR + 1.700%	5,607	—
Total junior subordinated debentures		47,606	37,796
Total senior and subordinated debt		$200,869	$190,932

Junior Subordinated Debentures

FMCT is a Delaware statutory business trust that was formed in 2003. During the fourth quarter of 2014, the Company acquired two Delaware statutory business trusts, GLST II and GLST III, in the Great Lakes transaction. These trusts were established for the purpose of issuing trust-preferred securities and lending the proceeds to the Company in return for junior subordinated debentures of the Company. The Company guarantees payments of distributions on the trust-preferred securities and payments on redemption of the trust-preferred securities on a limited basis. The statutory trusts qualify as variable interest entities for which the Company is not the primary beneficiary. Consequently, the accounts of those entities are not consolidated in the Company's financial statements.

Debt Retirement

The Company repurchased and retired $24.0 million of junior subordinated debentures at a premium of 3.5% during 2013. This transaction resulted in the recognition of a pre-tax loss of $1.0 million and is included in other noninterest income in the Consolidated Statements of Income.

13. MATERIAL TRANSACTIONS AFFECTING STOCKHOLDERS' EQUITY

Issued Common Stock

On December 2, 2014, the Company issued 2,440,754 shares of its $0.01 par value common stock at a price of $15.737 as part of the consideration in the Great Lakes acquisition. Additional information regarding the acquisition is presented in Note 3, "Acquisitions."

Authorized Common Stock

On May 21, 2014, the stockholders of the Company approved an amendment to the Company's Restated Certificate of Incorporation. The amendment increased the Company's authorized common stock by 50,000,000 shares. Following this amendment, the Company is now authorized to issue a total of 151,000,000 shares, including 1,000,000 shares of Preferred Stock, without a par value, and 150,000,000 shares of Common Stock, $0.01 par value per share.

Quarterly Dividend on Common Shares

The Board of Directors of First Midwest Bancorp, Inc. ("the Board") declared quarterly stock dividends of $0.01 per share from 2012 through the first quarter of 2013. The Company increased the quarterly dividend to $0.04 per share during the second quarter of 2013, to $0.07 per share during the fourth quarter of 2013, and to $0.08 per share during the second quarter of 2014.

There were no additional material transactions that affected stockholders' equity during the three years ended December 31, 2014.

14. EARNINGS PER COMMON SHARE

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

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

	Years Ended December 31,		
	2014	2013	2012
Net income (loss)	$69,306	$79,306	$(21,054)
Net (income) loss applicable to non-vested restricted shares	(836)	(1,107)	306
Net income (loss) applicable to common shares	$68,470	$78,199	$(20,748)
Weighted-average common shares outstanding:			
Weighted-average common shares outstanding (basic)	74,484	73,984	73,665
Dilutive effect of common stock equivalents	12	10	1
Weighted-average diluted common shares outstanding	74,496	73,994	73,666
Basic earnings (loss) per common share	$0.92	$1.06	$(0.28)
Diluted earnings (loss) per common share	0.92	1.06	(0.28)
Anti-dilutive shares not included in the computation of diluted earnings per common share (1)	1,198	1,462	1,759

(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.

15. INCOME TAXES

Components of Income Tax Expense (Benefit)
(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Current income tax expense:			
Federal	$16,343	$4,744	$—
State	(1,388)	10,504	1
Total	14,955	15,248	1
Deferred income tax expense (benefit):			
Federal	7,901	31,572	(23,728)
State	8,314	1,895	(5,155)
Total	16,215	33,467	(28,883)
Total income expense (benefit)	$31,170	$48,715	$(28,882)

Federal income tax expense (benefit) and the related effective income tax rate are influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax income (loss) and state income taxes. State income tax expense (benefit) and the related effective income tax rate are driven by the amount of state tax-exempt income in relation to pre-tax income (loss) and state tax rules for consolidated/combined reporting and sourcing of income and expense.

Income tax expense totaled $31.2 million for the year ended December 31, 2014 compared to income tax expense of $48.7 million for the year ended December 31, 2013 and an income tax benefit of $28.9 million for the year ended December 31, 2012. The decrease in income tax expense in 2014 was driven primarily by a decrease in income subject to tax at statutory rates. The increase in income tax expense from 2012 to 2013 was the result of an increase in income subject to tax at statutory rates and to a non-deductible BOLI modification loss recorded in 2013.

Differences between the amounts reported in the consolidated financial statements and the tax basis of assets and liabilities result in temporary differences for which deferred tax assets and liabilities were recorded.

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Deferred Tax Assets and Liabilities
(Dollar amounts in thousands)

	As of December 31,	
	2014	2013
Deferred tax assets:		
Alternative minimum tax ("AMT") and other credit carryforwards	$29,007	$19,184
Federal net operating loss ("NOL") carryforwards	—	14,579
Allowance for credit losses	26,078	30,492
Unrealized losses on securities	18,527	21,374
OREO	3,480	6,541
State NOL carryforwards	11,917	15,859
Other	18,390	19,049
Total deferred tax assets	107,399	127,078
Deferred tax liabilities:		
Purchase accounting adjustments and intangibles	(11,181)	(16,977)
Accrued retirement benefits	(6,732)	(7,095)
Depreciation	(845)	(2,111)
Cancellation of indebtedness income	(4,272)	(5,340)
Other	(3,978)	(6,313)
Total deferred tax liabilities	(27,008)	(37,836)
Deferred tax valuation allowance	—	—
Net deferred tax assets	80,391	89,242
Tax effect of adjustments related to other comprehensive income (loss)	11,294	18,382
Net deferred tax assets including adjustments	$91,685	$107,624
Net operating loss carryforwards available to offset future taxable income:		
Federal gross NOL carryforwards, begin to expire in 2032	$—	$41,654
Illinois gross NOL carryforwards, begin to expire in 2021	232,834	290,076
Indiana gross NOL carryforwards, begin to expire in 2022	17,192	16,112
Alternative minimum tax credits	25,739	16,090
Other credits, begin to expire in 2028	3,268	3,094

Included in the net deferred tax assets balance at December 31, 2014 are $7.4 million of net deferred tax assets acquired from the Popular, National Machine Tool, and Great Lakes transactions.

Net deferred tax assets are included in other assets in the accompanying Consolidated Statements of Financial Condition. Management believes that it is more likely than not that net deferred tax assets will be fully realized and no valuation allowance is required.

Components of Effective Tax Rate

	Years Ended December 31,		
	2014	2013	2012
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
Tax-exempt income, net of interest expense disallowance	(7.5)%	(6.2)%	16.8 %
State income tax, net of federal income tax effect	4.5 %	6.4 %	7.0 %
Net other	(1.0)%	2.9 %	(1.0)%
Effective tax rate	31.0 %	38.1 %	57.8 %

The change in effective tax rate from the year ended December 31, 2013 to the year ended December 31, 2014 was the result of a decrease in income subject to tax at statutory rates. The change in effective tax rate from the year ended December 31, 2012 to the year ended December 31, 2013 was the result of an increase in income subject to tax at statutory rates and a non-deductible BOLI modification loss recorded in 2013.

As of December 31, 2014, 2013, and 2012, the Company's retained earnings included an appropriation for an acquired thrift's tax bad debt reserves of approximately $2.5 million for which no provision for federal or state income taxes has been made. If, in the future, this portion of retained earnings were distributed as a result of the liquidation of the Company or its subsidiaries, federal and state income taxes would be imposed at the then applicable rates.

Uncertainty in Income Taxes

The Company files a U.S. federal income tax return and state income tax returns in various states. In 2012, the Internal Revenue Service completed audits of the Company's 2006-2010 federal income tax returns and Illinois completed audits of the Company's 2008-2009 Illinois income tax returns. No significant adjustments were proposed in these audits.

Federal income tax returns filed by the Company are no longer subject to examination by federal income tax authorities for years prior to 2011. The Company is no longer subject to examination by Illinois, Indiana, Iowa and Wisconsin tax authorities for years prior to 2011.

Rollforward of Unrecognized Tax Benefits

(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Beginning balance	$279	$—	$368
Additions for tax positions relating to the current year	635	279	—
Reductions for tax positions relating to prior years	(2)	—	—
Reductions for settlements with taxing authorities	—	—	(368)
Ending balance	$912	$279	$—
Interest and penalties not included above [1]:			
Interest (benefit) expense, net of tax effect, and penalties	$4	$—	$(52)
Accrued interest and penalties, net of tax effect, at end of year	4	—	—

[1] Included in income tax expense (benefit) in the Consolidated Statements of Income.

The Company does not anticipate that the amount of uncertain tax positions will significantly increase or decrease in the next 12 months. Included in the balance at December 31, 2014 and 2013 are tax positions totaling $597,000 and $181,000, respectively, that would favorably affect the Company's effective tax rate if recognized in future periods.

16. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Company has a defined contribution retirement savings plan (the "Profit Sharing Plan") that covers qualified employees who meet certain eligibility requirements. During 2014, the Profit Sharing Plan was amended to give qualified employees the option to increase contributions from 45% (15% for certain highly compensated employees) to 100% (including certain highly compensated employees) of their pre-tax base salary through salary deductions under Section 401(k) of the Internal Revenue Code. At the employees' direction, employee contributions are invested among a variety of investment alternatives. The amendment also increased the Company’s matching contribution from a maximum of 2% to 4% of the eligible employee's compensation. In addition, pursuant to the amendment, the Company makes certain automatic and transition contributions. On an annual basis, the Company automatically contributes 2% of the employee's eligible compensation regardless of voluntary contributions made by the employee. Transition contributions of up to 4% will be made through December 31, 2015 for certain employees who were active participants in the defined benefit retirement plan (the "Pension Plan"), which was frozen in 2013. The amendment did not change the discretionary profit sharing component of the Profit Sharing Plan, which permits the Company to distribute up to 15% of the employee's compensation. The Company's matching and transition contributions vest immediately, while the automatic and discretionary components vest over six years.

Profit Sharing Plan
(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	2013	2012
Profit sharing expense [1]	$6,354	$2,914	$2,532
Company dividends received by the Profit Sharing Plan	$428	$159	$71
Company shares held by the Profit Sharing Plan at the end of the year:			
Number of shares	1,364,558	1,426,708	1,743,085
Fair value	$23,348	$25,010	$21,823

[1] Included in retirement and other employee benefits in the Consolidated Statements of Income.

Pension Plan

The Company sponsors the Pension Plan which provides for retirement benefits based on years of service and compensation levels of the participants. The Pension Plan covers employees who met certain eligibility requirements and were hired before April 1, 2007, the date it was amended to eliminate new enrollment of new participants. During 2013, the Board of Directors approved an amendment to freeze benefit accruals under the Pension Plan effective on January 1, 2014. Based on December 31, 2013 actuarial assumptions, the amendment decreased the pension obligation by $9.9 million and increased other comprehensive income (loss) by $5.9 million, after tax. These actions reduced 2013 pension expense by approximately $1.0 million.

Actuarially determined pension costs are charged to current operations and included in retirement and other employee benefits in the Consolidated Statements of Income. The Company's funding policy is to contribute amounts to the Pension Plan that are sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 plus additional amounts as the Company deems appropriate.

Pension Plan Cost and Obligations
(Dollar amounts in thousands)