

FIRST MIDWEST BANCORP INC  
Form 10-Q  
July 31, 2015

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

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FORM 10-Q  
(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2015

or

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

Commission File Number 0-10967

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(Exact name of registrant as specified in its charter)

Delaware

36-3161078

(State or other jurisdiction of incorporation or  
organization)

(IRS Employer Identification No.)

One Pierce Place, Suite 1500

Itasca, Illinois 60143-9768

(Address of principal executive offices) (zip code)

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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(Do not check if a smaller reporting company)

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

As of July 30, 2015, there were 77,969,134 shares of common stock, \$.01 par value, outstanding.

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

## ITEM 1. FINANCIAL STATEMENTS

## FIRST MIDWEST BANCORP, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Amounts in thousands, except per share data)

|                                                                                 | June 30,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|---------------------------------------------------------------------------------|---------------------------------|----------------------|
| Assets                                                                          |                                 |                      |
| Cash and due from banks                                                         | \$135,546                       | \$117,315            |
| Interest-bearing deposits in other banks                                        | 811,287                         | 488,947              |
| Trading securities, at fair value                                               | 18,172                          | 17,460               |
| Securities available-for-sale, at fair value                                    | 1,142,407                       | 1,187,009            |
| Securities held-to-maturity, at amortized cost                                  | 24,292                          | 26,555               |
| Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost | 38,748                          | 37,558               |
| Loans, excluding covered loans                                                  | 6,792,268                       | 6,657,418            |
| Covered loans                                                                   | 57,917                          | 79,435               |
| Allowance for loan and covered loan losses                                      | (71,463)                        | (72,694)             |
| Net loans                                                                       | 6,778,722                       | 6,664,159            |
| Other real estate owned ("OREO"), excluding covered OREO                        | 24,471                          | 26,898               |
| Covered OREO                                                                    | 3,759                           | 8,068                |
| Federal Deposit Insurance Corporation ("FDIC") indemnification asset            | 7,335                           | 8,452                |
| Premises, furniture, and equipment, net                                         | 128,621                         | 131,109              |
| Investment in bank-owned life insurance ("BOLI")                                | 207,814                         | 206,498              |
| Goodwill and other intangible assets                                            | 332,223                         | 334,199              |
| Accrued interest receivable and other assets                                    | 209,630                         | 190,912              |
| Total assets                                                                    | \$9,863,027                     | \$9,445,139          |
| Liabilities                                                                     |                                 |                      |
| Noninterest-bearing deposits                                                    | \$2,508,316                     | \$2,301,757          |
| Interest-bearing deposits                                                       | 5,704,355                       | 5,586,001            |
| Total deposits                                                                  | 8,212,671                       | 7,887,758            |
| Borrowed funds                                                                  | 189,036                         | 137,994              |
| Senior and subordinated debt                                                    | 201,039                         | 200,869              |
| Accrued interest payable and other liabilities                                  | 135,324                         | 117,743              |
| Total liabilities                                                               | 8,738,070                       | 8,344,364            |
| Stockholders' Equity                                                            |                                 |                      |
| Common stock                                                                    | 882                             | 882                  |
| Additional paid-in capital                                                      | 443,558                         | 449,798              |
| Retained earnings                                                               | 927,939                         | 899,516              |
| Accumulated other comprehensive loss, net of tax                                | (21,232)                        | (15,855)             |
| Treasury stock, at cost                                                         | (226,190)                       | (233,566)            |
| Total stockholders' equity                                                      | 1,124,957                       | 1,100,775            |
| Total liabilities and stockholders' equity                                      | \$9,863,027                     | \$9,445,139          |

|                     | June 30, 2015<br>(Unaudited) |                  | December 31, 2014   |                  |
|---------------------|------------------------------|------------------|---------------------|------------------|
|                     | Preferred<br>Shares          | Common<br>Shares | Preferred<br>Shares | Common<br>Shares |
| Par value per share | \$—                          | \$0.01           | \$—                 | \$0.01           |

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|                    |       |         |       |         |
|--------------------|-------|---------|-------|---------|
| Shares authorized  | 1,000 | 150,000 | 1,000 | 150,000 |
| Shares issued      | —     | 88,228  | —     | 88,228  |
| Shares outstanding | —     | 77,961  | —     | 77,695  |
| Treasury shares    | —     | 10,267  | —     | 10,533  |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

|                                                                      | Quarters Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|----------------------------------------------------------------------|----------------------------|----------|------------------------------|-----------|
|                                                                      | 2015                       | 2014     | 2015                         | 2014      |
| Interest Income                                                      |                            |          |                              |           |
| Loans                                                                | \$75,820                   | \$63,239 | \$149,217                    | \$124,179 |
| Investment securities                                                | 7,823                      | 8,019    | 16,116                       | 16,024    |
| Other short-term investments                                         | 913                        | 745      | 1,692                        | 1,490     |
| Total interest income                                                | 84,556                     | 72,003   | 167,025                      | 141,693   |
| Interest Expense                                                     |                            |          |                              |           |
| Deposits                                                             | 2,402                      | 2,511    | 4,927                        | 5,108     |
| Borrowed funds                                                       | 118                        | 169      | 136                          | 552       |
| Senior and subordinated debt                                         | 3,134                      | 3,016    | 6,278                        | 6,031     |
| Total interest expense                                               | 5,654                      | 5,696    | 11,341                       | 11,691    |
| Net interest income                                                  | 78,902                     | 66,307   | 155,684                      | 130,002   |
| Provision for loan and covered loan losses                           | 6,000                      | 5,341    | 12,552                       | 6,782     |
| Net interest income after provision for loan and covered loan losses | 72,902                     | 60,966   | 143,132                      | 123,220   |
| Noninterest Income                                                   |                            |          |                              |           |
| Service charges on deposit accounts                                  | 9,886                      | 8,973    | 19,157                       | 16,993    |
| Wealth management fees                                               | 7,433                      | 6,552    | 14,447                       | 13,009    |
| Card-based fees                                                      | 6,953                      | 5,969    | 13,355                       | 11,304    |
| Mortgage banking income                                              | 1,439                      | 959      | 2,562                        | 2,074     |
| Other service charges, commissions, and fees                         | 5,862                      | 4,555    | 10,693                       | 8,677     |
| Net securities gains                                                 | 515                        | 4,517    | 1,027                        | 5,590     |
| Other income                                                         | 1,900                      | 1,727    | 3,848                        | 2,855     |
| Loss on early extinguishment of debt                                 | —                          | (2,059)  | —                            | (2,059)   |
| Total noninterest income                                             | 33,988                     | 31,193   | 65,089                       | 58,443    |
| Noninterest Expense                                                  |                            |          |                              |           |
| Salaries and employee benefits                                       | 40,294                     | 34,561   | 81,010                       | 68,052    |
| Net occupancy and equipment expense                                  | 9,622                      | 7,672    | 20,058                       | 17,063    |
| Professional services                                                | 5,322                      | 5,691    | 10,431                       | 11,080    |
| Technology and related costs                                         | 3,527                      | 3,104    | 7,214                        | 6,178     |
| Net OREO expense                                                     | 1,861                      | 1,569    | 3,065                        | 3,125     |
| Other expenses                                                       | 12,825                     | 11,590   | 24,330                       | 22,357    |
| Acquisition and integration related expenses                         | —                          | 830      | —                            | 830       |
| Total noninterest expense                                            | 73,451                     | 65,017   | 146,108                      | 128,685   |
| Income before income tax expense                                     | 33,439                     | 27,142   | 62,113                       | 52,978    |
| Income tax expense                                                   | 10,865                     | 8,642    | 19,657                       | 16,814    |
| Net income                                                           | \$22,574                   | \$18,500 | \$42,456                     | \$36,164  |
| Per Common Share Data                                                |                            |          |                              |           |
| Basic earnings per common share                                      | \$0.29                     | \$0.25   | \$0.55                       | \$0.48    |
| Diluted earnings per common share                                    | \$0.29                     | \$0.25   | \$0.55                       | \$0.48    |
| Dividends declared per common share                                  | \$0.09                     | \$0.08   | \$0.18                       | \$0.15    |
| Weighted-average common shares outstanding                           | 77,089                     | 74,322   | 77,004                       | 74,235    |
| Weighted-average diluted common shares outstanding                   | 77,101                     | 74,333   | 77,016                       | 74,247    |

See accompanying notes to the unaudited condensed consolidated financial statements.

## FIRST MIDWEST BANCORP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollar amounts in thousands)

(Unaudited)

|                                                       | Quarters Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|-------------------------------------------------------|----------------------------|-----------|------------------------------|-----------|
|                                                       | 2015                       | 2014      | 2015                         | 2014      |
| Net income                                            | \$22,574                   | \$18,500  | \$42,456                     | \$36,164  |
| Securities available-for-sale                         |                            |           |                              |           |
| Unrealized holding (losses) gains:                    |                            |           |                              |           |
| Before tax                                            | (11,690)                   | ) 12,031  | (5,378)                      | ) 24,721  |
| Tax effect                                            | 4,670                      | (4,743)   | ) 2,142                      | (9,779)   |
| Net of tax                                            | (7,020)                    | ) 7,288   | (3,236)                      | ) 14,942  |
| Reclassification of net gains included in net income: |                            |           |                              |           |
| Before tax                                            | 515                        | 4,517     | 1,027                        | 5,590     |
| Tax effect                                            | (211)                      | ) (1,847) | ) (420)                      | ) (2,286) |
| Net of tax                                            | 304                        | 2,670     | 607                          | 3,304     |
| Net unrealized holding (losses) gains                 | (7,324)                    | ) 4,618   | (3,843)                      | ) 11,638  |
| Derivative instruments                                |                            |           |                              |           |
| Unrealized holding losses:                            |                            |           |                              |           |
| Before tax                                            | (1,831)                    | ) (198)   | ) (2,550)                    | ) (198)   |
| Tax effect                                            | 728                        | 81        | 1,016                        | 81        |
| Net of tax                                            | (1,103)                    | ) (117)   | ) (1,534)                    | ) (117)   |
| Total other comprehensive (loss) income               | (8,427)                    | ) 4,501   | (5,377)                      | ) 11,521  |
| Total comprehensive income                            | \$14,147                   | \$23,001  | \$37,079                     | \$47,685  |

|                                   | Accumulated<br>Unrealized<br>Gain (Loss)<br>on Securities<br>Available-<br>for-Sale | Accumulated<br>Unrealized<br>Loss on<br>Derivative<br>Instruments | Unrecognized<br>Net Pension<br>Costs | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|-----------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------|--------------------------------------|--------------------------------------------------------|
| Balance at December 31, 2013      | \$ (20,419)                                                                         | ) \$ —                                                            | \$ (6,373)                           | ) \$ (26,792)                                          |
| Other comprehensive income (loss) | 11,638                                                                              | (117)                                                             | ) —                                  | 11,521                                                 |
| Balance at June 30, 2014          | \$ (8,781)                                                                          | ) \$ (117)                                                        | ) \$ (6,373)                         | ) \$ (15,271)                                          |
| Balance at December 31, 2014      | \$ (2,950)                                                                          | ) \$ (1,138)                                                      | ) \$ (11,767)                        | ) \$ (15,855)                                          |
| Other comprehensive loss          | (3,843)                                                                             | ) (1,534)                                                         | ) —                                  | (5,377)                                                |
| Balance at June 30, 2015          | \$ (6,793)                                                                          | ) \$ (2,672)                                                      | ) \$ (11,767)                        | ) \$ (21,232)                                          |

See accompanying notes to the unaudited condensed consolidated financial statements.

## FIRST MIDWEST BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in thousands, except per share data)

(Unaudited)

|                                        | Common<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total       |
|----------------------------------------|---------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------|-------------------|-------------|
| Balance at December 31, 2013           | 75,071                          | \$858           | \$414,293                        | \$853,740            | \$(26,792 )                                   | \$(240,657)       | \$1,001,442 |
| Comprehensive income                   | —                               | —               | —                                | 36,164               | 11,521                                        | —                 | 47,685      |
| Common dividends declared              | —                               | —               | —                                | (11,297 )            | —                                             | —                 | (11,297 )   |
| (\$0.15 per common share)              |                                 |                 |                                  |                      |                                               |                   |             |
| Share-based compensation expense       | —                               | —               | 3,226                            | —                    | —                                             | —                 | 3,226       |
| Restricted stock activity              | 194                             | —               | (9,501 )                         | —                    | —                                             | 7,625             | (1,876 )    |
| Treasury stock issued to benefit plans | 8                               | —               | (123 )                           | —                    | —                                             | 381               | 258         |
| Balance at June 30, 2014               | 75,273                          | \$858           | \$407,895                        | \$878,607            | \$(15,271 )                                   | \$(232,651)       | \$1,039,438 |
| Balance at December 31, 2014           | 77,695                          | \$882           | \$449,798                        | \$899,516            | \$(15,855 )                                   | \$(233,566)       | \$1,100,775 |
| Comprehensive income                   | —                               | —               | —                                | 42,456               | (5,377 )                                      | —                 | 37,079      |
| Common dividends declared              | —                               | —               | —                                | (14,033 )            | —                                             | —                 | (14,033 )   |
| (\$0.18 per common share)              |                                 |                 |                                  |                      |                                               |                   |             |
| Share-based compensation expense       | —                               | —               | 3,487                            | —                    | —                                             | —                 | 3,487       |
| Restricted stock activity              | 268                             | —               | (9,663 )                         | —                    | —                                             | 7,207             | (2,456 )    |
| Treasury stock issued to benefit plans | (2 )                            | —               | (64 )                            | —                    | —                                             | 169               | 105         |
| Balance at June 30, 2015               | 77,961                          | \$882           | \$443,558                        | \$927,939            | \$(21,232 )                                   | \$(226,190)       | \$1,124,957 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

|                                                                                  | Six Months Ended<br>June 30, |           |
|----------------------------------------------------------------------------------|------------------------------|-----------|
|                                                                                  | 2015                         | 2014      |
| Net cash provided by operating activities                                        | \$63,720                     | \$56,405  |
| Investing Activities                                                             |                              |           |
| Proceeds from maturities, repayments, and calls of securities available-for-sale | 148,842                      | 82,779    |
| Proceeds from sales of securities available-for-sale                             | 47,320                       | 12,838    |
| Purchases of securities available-for-sale                                       | (159,252)                    | (11,115)  |
| Proceeds from maturities, repayments, and calls of securities held-to-maturity   | 3,447                        | 3,151     |
| Purchases of securities held-to-maturity                                         | (1,184)                      | (1,030)   |
| Net purchases of FHLB stock                                                      | (1,190)                      | (427)     |
| Net increase in loans                                                            | (129,297)                    | (251,586) |
| Premiums paid for BOLI, net of claims                                            | 1,021                        | (72)      |
| Proceeds from sales of OREO                                                      | 10,584                       | 9,160     |
| Proceeds from sales of premises, furniture, and equipment                        | 195                          | 158       |
| Purchases of premises, furniture, and equipment                                  | (4,386)                      | (4,074)   |
| Net cash used in investing activities                                            | (83,900)                     | (160,218) |
| Financing Activities                                                             |                              |           |
| Net increase in deposit accounts                                                 | 324,913                      | 129,149   |
| Net increase (decrease) in borrowed funds                                        | 51,042                       | (5,591)   |
| Payment for the termination of FHLB advances                                     | —                            | (116,609) |
| Cash dividends paid                                                              | (13,232)                     | (10,530)  |
| Restricted stock activity                                                        | (2,766)                      | (2,699)   |
| Excess tax benefit related to share-based compensation                           | 794                          | 825       |
| Net cash provided by (used in) financing activities                              | 360,751                      | (5,455)   |
| Net increase (decrease) in cash and cash equivalents                             | 340,571                      | (109,268) |
| Cash and cash equivalents at beginning of period                                 | 606,262                      | 587,241   |
| Cash and cash equivalents at end of period                                       | \$946,833                    | \$477,973 |
| Supplemental Disclosures of Cash Flow Information:                               |                              |           |
| Income taxes paid                                                                | \$7,953                      | \$4,734   |
| Interest paid to depositors and creditors                                        | 11,476                       | 11,927    |
| Dividends declared, but unpaid                                                   | 7,023                        | 6,027     |
| Non-cash transfers of loans to OREO                                              | 4,657                        | 9,339     |
| Non-cash transfer of loans held-for-investment to loans held-for-sale            | 14,948                       | 64,881    |

See accompanying notes to the unaudited condensed consolidated financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** – The accompanying unaudited condensed consolidated interim financial statements of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, were prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and reflect all adjustments that management deems necessary for the fair presentation of the financial position and results of operations for the periods presented. The results of operations for the quarter and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry. The accompanying interim financial statements do not include certain information and note disclosures required by GAAP for complete annual financial statements. Therefore, these financial statements should be read in conjunction with the Company's 2014 Annual Report on Form 10-K ("2014 10-K"). The Company uses the accrual basis of accounting for financial reporting purposes. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

**Principles of Consolidation** – The accompanying condensed 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 condensed consolidated financial statements.

**Use of Estimates** – The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed 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.

The accounting policies related to business combinations, loans, the allowance for credit losses, the FDIC indemnification asset, and derivative financial instruments are presented below. For a summary of all other significant accounting policies, see Note 1, "Summary of Significant Accounting Policies," in the Company's 2014 10-K.

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

**Loans** – Loans held-for-investment are loans that the Company intends to hold until they are paid in full and are carried at the principal amount outstanding, including certain net deferred loan origination fees. 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 during the coverage period. Acquired loans consist of all other loans that were acquired in business combinations that are not covered by FDIC Agreements. Covered loans are reported separately in the financial statements and acquired loans are included within loans held-for-investment.

Acquired and covered loans are separated into (i) non-purchased credit impaired ("Non-PCI") and (ii) purchased credit impaired ("PCI") loans. Non-PCI loans include loans that did not have evidence of credit deterioration since origination at the acquisition date. PCI loans include loans that had evidence of credit deterioration since origination

and for which it was probable at acquisition that the Company would not collect all contractually required principal and interest payments. Evidence of credit deterioration was evaluated using various indicators, such as past due and non-accrual status. 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 and are accounted for as Non-PCI loans.

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

PCI loans are accounted for based on estimates of expected future cash flows. To estimate the fair value, the Company generally aggregates purchased consumer loans and certain smaller balance commercial loans into pools of loans with common risk characteristics, such as delinquency status, credit score, and internal risk ratings. The fair values of larger balance commercial loans are estimated on an individual basis. Expected future cash flows in excess of the fair value of loans at the purchase date ("accretable yield") are recorded as interest income over the life of the loans if the timing and amount of the expected future cash flows can be reasonably estimated. The non-accretable yield represents the difference between contractually required payments and the expected future cash flows determined at acquisition. Subsequent increases in expected future cash flows are offset against the allowance for credit losses to the extent an allowance has been established or otherwise recognized as interest income prospectively. The present value of any decreases in expected future cash flows is recognized by recording a charge-off through the allowance for loan 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 future cash flow estimates are classified as non-accrual loans, and interest income is not recognized on those loans until the timing and amount of the expected future cash flows can be reasonably determined.

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

The Company does not accrue interest on a TDR unless it believes collection of all principal and interest under the modified terms is reasonably assured. For a TDR to begin accruing interest, the borrower must demonstrate some level of past performance and the future capacity to perform under the modified terms. Generally, six months of consecutive payment performance under the restructured terms is required before a TDR is returned to accrual status. However, the period could vary depending on the individual facts and circumstances of the loan. An evaluation of the borrower's current creditworthiness is used to assess the borrower's capacity to repay the loan under the modified terms. This evaluation includes an estimate of expected future cash flows, evidence of strong financial position, and estimates of the value of collateral, if applicable. For TDRs to be removed from TDR status in the calendar year after the restructuring, the loans must (i) have an interest rate and terms that reflect market conditions at the time of

restructuring, and (ii) be in compliance with the modified terms. If the loan was restructured at below market rates and terms, it continues to be separately reported as restructured until it is paid in full or charged-off.

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

**Allowance for Credit Losses** – The allowance for credit losses is comprised of the allowance for loan losses, 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) an allowance based on other internal and external qualitative factors.

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

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

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

The allowance for loan losses also consists of an allowance on acquired Non-PCI and PCI loans. No allowance for loan losses is recorded on acquired loans at the acquisition date. An allowance for credit losses will be established as necessary to reflect credit deterioration since the acquisition date. The Non-PCI allowance is based on management's evaluation of the acquired Non-PCI loan portfolio giving consideration to the current portfolio balance including the remaining acquisition adjustments, maturity dates, and overall credit quality. The allowance on acquired PCI loans is determined in the same manner as the allowance for covered loan losses, which is discussed below. Acquired loans that have renewed subsequent to the respective acquisition dates are no longer classified as acquired loans. Instead, they are included with our general loan population and allocated an allowance based on a loss migration analysis.

**Allowance for Covered Loan Losses** – The allowance for covered loan losses consists of an allowance on covered Non-PCI and PCI loans. The allowance for covered Non-PCI loans is calculated in the same manner as the general reserve component based on a loss migration analysis as discussed above. The covered PCI allowance 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 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.

**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 future expected 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.

**Derivative Financial Instruments** – To provide derivative products to customers and in the ordinary course of business, the Company enters into derivative transactions as part of its overall interest rate risk management strategy to minimize significant unplanned fluctuations in earnings and expected future cash flows caused by interest rate volatility. All derivative instruments are recorded at fair value as either other assets or other liabilities in the Consolidated Statements of Financial Condition. Subsequent changes in a derivative's fair value are recognized in earnings unless specific hedge accounting criteria are met.

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

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

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

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

### Adopted Accounting Pronouncements

**Receivables - Troubled Debt Restructurings by Creditors:** In January of 2014, the Financial Accounting Standards Board ("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. The adoption of this guidance on January 1, 2015 did not 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. The adoption of this guidance on January 1, 2015 did not materially impact the Company's financial condition, results of operations, or liquidity.

### Accounting Pronouncements Pending Adoption

**Revenue from Contracts with Customers:** In May of 2014, the FASB issued guidance that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance was initially 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. In July of 2015, the FASB affirmed its proposal to defer the effective date for this guidance by one year. The deferral causes the guidance to be effective for annual and interim reporting periods beginning on or after December 15, 2017. Early adoption is permitted, but not before the original effective date. 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 annual and interim periods beginning after December 15, 2016. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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

### 3. 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. The fair value adjustments associated with this transaction were finalized during the second quarter of 2015 and there were no retrospective adjustments.

#### 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.

#### 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. 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.

## 4. SECURITIES

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

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

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

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

## Securities Portfolio

(Dollar amounts in thousands)

|                                                          | As of June 30, 2015 |                |                      |               | As of December 31, 2014 |                |                      |               |
|----------------------------------------------------------|---------------------|----------------|----------------------|---------------|-------------------------|----------------|----------------------|---------------|
|                                                          | Amortized<br>Cost   | Gross<br>Gains | Unrealized<br>Losses | Fair<br>Value | Amortized<br>Cost       | Gross<br>Gains | Unrealized<br>Losses | Fair<br>Value |
| Securities Available-for-Sale                            |                     |                |                      |               |                         |                |                      |               |
| U.S. agency securities                                   | \$20,312            | \$172          | \$—                  | \$20,484      | \$30,297                | \$144          | \$(10)               | \$30,431      |
| Collateralized mortgage obligations ("CMOs")             | 525,357             | 2,328          | (6,110)              | 521,575       | 538,882                 | 2,256          | (6,982)              | 534,156       |
| Other mortgage-backed securities ("MBSs")                | 179,436             | 3,198          | (791)                | 181,843       | 155,443                 | 4,632          | (310)                | 159,765       |
| Municipal securities                                     | 377,381             | 7,319          | (1,712)              | 382,988       | 414,255                 | 10,583         | (1,018)              | 423,820       |
| Trust preferred collateralized debt obligations ("CDOs") | 48,231              | 77             | (16,304)             | 32,004        | 48,502                  | 152            | (14,880)             | 33,774        |
| Corporate debt securities                                | 31                  | 49             | —                    | 80            | 1,719                   | 83             | —                    | 1,802         |
| Equity securities                                        | 3,377               | 100            | (44)                 | 3,433         | 3,224                   | 72             | (35)                 | 3,261         |
| Total available-for-sale securities                      | \$1,154,125         | \$13,243       | \$(24,961)           | \$1,142,407   | \$1,192,322             | \$17,922       | \$(23,235)           | \$1,187,009   |
| Securities Held-to-Maturity                              |                     |                |                      |               |                         |                |                      |               |
| Municipal securities                                     | \$24,292            | \$253          | \$—                  | \$24,545      | \$26,555                | \$1,115        | \$—                  | \$27,670      |
| Trading Securities                                       |                     |                |                      | \$18,172      |                         |                |                      | \$17,460      |

## Remaining Contractual Maturity of Securities

(Dollar amounts in thousands)

|                               | As of June 30, 2015 |               |                   |               |
|-------------------------------|---------------------|---------------|-------------------|---------------|
|                               | Available-for-Sale  |               | Held-to-Maturity  |               |
|                               | Amortized<br>Cost   | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| One year or less              | \$114,934           | \$112,254     | \$2,330           | \$2,354       |
| After one year to five years  | 104,940             | 102,493       | 8,497             | 8,585         |
| After five years to ten years | 177,819             | 173,672       | 4,947             | 4,999         |
| After ten years               | 48,262              | 47,137        | 8,518             | 8,607         |

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|                                                                |             |             |          |          |
|----------------------------------------------------------------|-------------|-------------|----------|----------|
| Securities that do not have a single contractual maturity date | 708,170     | 706,851     | —        | —        |
| Total                                                          | \$1,154,125 | \$1,142,407 | \$24,292 | \$24,545 |

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 \$959.8 million at June 30, 2015 and \$779.4 million at December 31, 2014. No securities held-to-maturity were pledged as of June 30, 2015 or December 31, 2014.

Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in net securities gains in the Condensed Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. During the quarters and six months ended June 30, 2015 and 2014 there were no material gross trading gains (losses). The following table presents net realized gains on available-for-sale securities for the quarters and six months ended June 30, 2015 and 2014.

Available-for-Sale Securities Gains (Losses)

(Dollar amounts in thousands)

|                                                     | Quarters Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |   |
|-----------------------------------------------------|----------------------------|---------|------------------------------|---------|---|
|                                                     | 2015                       | 2014    | 2015                         | 2014    |   |
| Gains (losses) on sales of securities:              |                            |         |                              |         |   |
| Gross realized gains                                | \$515                      | \$4,517 | \$1,165                      | \$5,618 |   |
| Gross realized losses                               | —                          | —       | (138                         | ) —     |   |
| Net realized gains on sales of securities           | 515                        | 4,517   | 1,027                        | 5,618   |   |
| Non-cash impairment charges:                        |                            |         |                              |         |   |
| Other-than-temporary securities impairment ("OTTI") | —                          | —       | —                            | (28     | ) |
| Net realized gains                                  | \$515                      | \$4,517 | \$1,027                      | \$5,590 |   |

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

The following table presents a rollforward of life-to-date OTTI recognized in earnings related to all available-for-sale securities held by the Company for the quarters and six months ended June 30, 2015 and 2014. The majority of the beginning and ending balance of OTTI relates to CDOs currently held by the Company.

Changes in OTTI Recognized in Earnings

(Dollar amounts in thousands)

|                                                  | Quarters Ended |          | Six Months Ended |          |
|--------------------------------------------------|----------------|----------|------------------|----------|
|                                                  | June 30,       |          | June 30,         |          |
|                                                  | 2015           | 2014     | 2015             | 2014     |
| Beginning balance                                | \$23,709       | \$32,450 | \$23,880         | \$32,422 |
| OTTI included in earnings <sup>(1)</sup> :       |                |          |                  |          |
| Losses on securities that previously had OTTI    | —              | —        | —                | 28       |
| Reduction for sales of securities <sup>(2)</sup> | —              | (8,570   | ) (171           | ) (8,570 |
| Ending balance                                   | \$23,709       | \$23,880 | \$23,709         | \$23,880 |

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

During the six months ended June 30, 2015, the Company sold one CMO with a carrying value of \$1.3 million that had OTTI of \$171,000 that was previously recognized in earnings. The Company sold one CDO with a carrying value of \$1.3 million during the second quarter of 2014 that had OTTI of \$8.6 million that was 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 June 30, 2015 and December 31, 2014.

Securities in an Unrealized Loss Position

(Dollar amounts in thousands)

|                         | Number of Securities | Less Than 12 Months<br>Fair Value | Unrealized Losses | Greater Than 12 Months<br>Fair Value | Unrealized Losses | Total<br>Fair Value | Unrealized Losses |
|-------------------------|----------------------|-----------------------------------|-------------------|--------------------------------------|-------------------|---------------------|-------------------|
| As of June 30, 2015     |                      |                                   |                   |                                      |                   |                     |                   |
| CMOs                    | 74                   | \$82,431                          | \$778             | \$233,676                            | \$5,332           | \$316,107           | \$6,110           |
| MBSs                    | 20                   | 56,341                            | 316               | 34,405                               | 475               | 90,746              | 791               |
| Municipal securities    | 155                  | 21,714                            | 328               | 56,520                               | 1,384             | 78,234              | 1,712             |
| CDOs                    | 7                    | 1,077                             | 170               | 28,413                               | 16,134            | 29,490              | 16,304            |
| Equity securities       | 1                    | —                                 | —                 | 2,286                                | 44                | 2,286               | 44                |
| Total                   | 257                  | \$161,563                         | \$1,592           | \$355,300                            | \$23,369          | \$516,863           | \$24,961          |
| 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             |
| 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          |

Substantially all of the Company's CMOs and other MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. Municipal securities are issued by municipal authorities, and the majority are supported by third party insurance or some other form of credit enhancement. Management does not believe any of these securities with unrealized losses as of June 30, 2015 represent OTTI related to credit deterioration. These unrealized losses are attributed to changes in interest rates and temporary market movements. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

The unrealized losses on CDOs as of June 30, 2015 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 12, "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<br>June 30,<br>2015 | December 31,<br>2014 |
|---------------------------------------------------|---------------------------|----------------------|
| Commercial and industrial                         | \$2,366,056               | \$2,253,556          |
| Agricultural                                      | 377,410                   | 358,249              |
| Commercial real estate:                           |                           |                      |
| Office, retail, and industrial                    | 1,432,502                 | 1,478,379            |
| Multi-family                                      | 557,947                   | 564,421              |
| Construction                                      | 190,970                   | 204,236              |
| Other commercial real estate                      | 871,119                   | 887,897              |
| Total commercial real estate                      | 3,052,538                 | 3,134,933            |
| Total corporate loans                             | 5,796,004                 | 5,746,738            |
| Home equity                                       | 599,320                   | 543,185              |
| 1-4 family mortgages                              | 283,562                   | 291,463              |
| Installment                                       | 113,382                   | 76,032               |
| Total consumer loans                              | 996,264                   | 910,680              |
| Total loans, excluding covered loans              | 6,792,268                 | 6,657,418            |
| Covered loans <sup>(1)</sup>                      | 57,917                    | 79,435               |
| Total loans                                       | \$6,850,185               | \$6,736,853          |
| Deferred loan fees included in total loans        | \$4,360                   | \$3,922              |
| Overdrawn demand deposits included in total loans | 2,841                     | 3,438                |

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

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

It is the Company's policy to review each prospective credit to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state lending laws, the Company's lending standards, and credit monitoring and remediation procedures. A discussion of risk characteristics relevant to each portfolio segment is presented in Note 5, "Loans" to the Consolidated Financial Statements in the Company's 2014 10-K.

## Loan Sales

The table below summarizes the Company's loan sales for the quarters and six months ended June 30, 2015 and 2014.

## Loan Sales

(Dollar amounts in thousands)

|                                            | Quarters Ended<br>June 30, |        | Six Months Ended<br>June 30, |         |
|--------------------------------------------|----------------------------|--------|------------------------------|---------|
|                                            | 2015                       | 2014   | 2015                         | 2014    |
| Corporate loans                            |                            |        |                              |         |
| Proceeds from sales                        | \$—                        | \$—    | \$945                        | \$650   |
| Less book value of loans sold              | —                          | —      | 945                          | 650     |
| Net gains on sales of corporate loans      | —                          | —      | —                            | —       |
| 1-4 family mortgage loans                  |                            |        |                              |         |
| Proceeds from sales                        | 53,445                     | 33,038 | 89,027                       | 84,938  |
| Less book value of loans sold:             |                            |        |                              |         |
| Loans originated with intent to sell       | 37,001                     | 20,477 | 71,497                       | 35,935  |
| Loans held-for-investment                  | 14,948                     | 11,713 | 14,948                       | 47,082  |
| Total book value of loans sold             | 51,949                     | 32,190 | 86,445                       | 83,017  |
| Net gains on sales of 1-4 family mortgages | 1,496                      | 848    | 2,582                        | 1,921   |
| Total net gains on loan sales              | \$1,496                    | \$848  | \$2,582                      | \$1,921 |

The Company retained servicing responsibilities for a portion of the 1-4 family mortgage loans sold and collects servicing fees equal to a percentage of the outstanding principal balance. The Company also retained limited recourse for credit losses on the sold loans. A description of the recourse obligation is presented in Note 11, "Commitments, Guarantees, and Contingent Liabilities."

## 6. ACQUIRED AND COVERED LOANS

The significant accounting policies related to acquired and covered loans, which are classified as PCI and Non-PCI, and the related FDIC indemnification asset are presented in Note 1, "Summary of Significant Accounting Policies." The following table presents acquired and covered PCI and Non-PCI loans as of June 30, 2015 and December 31, 2014.

Acquired and Covered Loans  
(Dollar amounts in thousands)

|                                  | As of June 30, 2015 |           |           | As of December 31, 2014 |           |           |
|----------------------------------|---------------------|-----------|-----------|-------------------------|-----------|-----------|
|                                  | PCI                 | Non-PCI   | Total     | PCI                     | Non-PCI   | Total     |
| Acquired loans                   | \$30,895            | \$583,505 | \$614,400 | \$28,712                | \$714,836 | \$743,548 |
| Covered loans                    | 35,116              | 22,801    | 57,917    | 54,682                  | 24,753    | 79,435    |
| Total acquired and covered loans | \$66,011            | \$606,306 | \$672,317 | \$83,394                | \$739,589 | \$822,983 |

Acquired loans that are renewed are no longer classified as acquired loans. These loans totaled \$54.8 million at June 30, 2015.

In connection with the FDIC Agreements, the Company recorded an indemnification asset. To maintain eligibility for the loss share reimbursement, the Company is required to follow certain servicing procedures as specified in the FDIC Agreements. The Company was in compliance with those requirements as of June 30, 2015 and December 31, 2014. Rollforwards of the carrying value of the FDIC indemnification asset for the quarters and six months ended June 30, 2015 and 2014 are presented in the following table.

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

|                                                     | Quarters Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|-----------------------------------------------------|----------------------------|----------|------------------------------|----------|
|                                                     | 2015                       | 2014     | 2015                         | 2014     |
| Beginning balance                                   | \$8,540                    | \$15,537 | \$8,452                      | \$16,585 |
| Amortization                                        | (395)                      | (818)    | (853)                        | (2,134)  |
| Change in expected reimbursements from the FDIC for | 786                        | (629)    | 1,720                        | 532      |
| changes in expected credit losses                   |                            |          |                              |          |
| Payments received from the FDIC                     | (1,596)                    | (3,814)  | (1,984)                      | (4,707)  |
| Ending balance                                      | \$7,335                    | \$10,276 | \$7,335                      | \$10,276 |

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

Changes in Accretable Yield  
(Dollar amounts in thousands)

|                      | Quarters Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|----------------------|----------------------------|----------|------------------------------|----------|
|                      | 2015                       | 2014     | 2015                         | 2014     |
| Beginning balances   | \$26,420                   | \$32,010 | \$28,244                     | \$36,792 |
| Accretion            | (4,335)                    | (3,421)  | (6,998)                      | (6,931)  |
| Other <sup>(1)</sup> | (1,427)                    | 6,563    | (588)                        | 5,291    |
| Ending balance       | \$20,658                   | \$35,152 | \$20,658                     | \$35,152 |

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

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

## Past Due and Non-accrual Loans

The following table presents an aging analysis of the Company's past due loans as of June 30, 2015 and December 31, 2014. 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 June 30, 2015                  |                                           |                     |                          |                |             |                      |                                                 |
| Commercial and industrial            | \$2,352,035                               | \$5,545             | \$8,476                  | \$14,021       | \$2,366,056 | \$11,100             | \$264                                           |
| Agricultural                         | 376,880                                   | 239                 | 291                      | 530            | 377,410     | 317                  | —                                               |
| Commercial real estate:              |                                           |                     |                          |                |             |                      |                                                 |
| Office, retail, and industrial       | 1,408,893                                 | 12,875              | 10,734                   | 23,609         | 1,432,502   | 12,599               | 797                                             |
| Multi-family                         | 552,285                                   | 4,718               | 944                      | 5,662          | 557,947     | 1,287                | 475                                             |
| Construction                         | 186,871                                   | —                   | 4,099                    | 4,099          | 190,970     | 4,940                | —                                               |
| Other commercial real estate         | 861,674                                   | 4,190               | 5,255                    | 9,445          | 871,119     | 5,513                | 646                                             |
| Total commercial real estate         | 3,009,723                                 | 21,783              | 21,032                   | 42,815         | 3,052,538   | 24,339               | 1,918                                           |
| Total corporate loans                | 5,738,638                                 | 27,567              | 29,799                   | 57,366         | 5,796,004   | 35,756               | 2,182                                           |
| Home equity                          | 592,731                                   | 3,269               | 3,320                    | 6,589          | 599,320     | 5,242                | 250                                             |
| 1-4 family mortgages                 | 279,706                                   | 1,810               | 2,046                    | 3,856          | 283,562     | 4,011                | 220                                             |
| Installment                          | 112,728                                   | 562                 | 92                       | 654            | 113,382     | —                    | 92                                              |
| Total consumer loans                 | 985,165                                   | 5,641               | 5,458                    | 11,099         | 996,264     | 9,253                | 562                                             |
| Total loans, excluding covered loans | 6,723,803                                 | 33,208              | 35,257                   | 68,465         | 6,792,268   | 45,009               | 2,744                                           |
| Covered loans                        | 53,185                                    | 465                 | 4,267                    | 4,732          | 57,917      | 3,712                | 1,233                                           |
| Total loans                          | \$6,776,988                               | \$33,673            | \$39,524                 | \$73,197       | \$6,850,185 | \$48,721             | \$3,977                                         |
| 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                                             |

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|                                      |             |          |          |          |             |          |         |
|--------------------------------------|-------------|----------|----------|----------|-------------|----------|---------|
| 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 |

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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 quarters and six months ended June 30, 2015 and 2014 is presented in the table below.

Allowance for Credit Losses by Portfolio Segment

(Dollar amounts in thousands)

|                                                      | Commercial<br>Industrial,<br>and<br>Agricultural | Office,<br>Retail,<br>and<br>Industrial | Multi-<br>Family | Construction | Other<br>Commercial<br>Real<br>Estate | Consumer  | Covered<br>Loans | Reserve<br>for<br>Unfunded<br>Commitments | Total<br>Allowance |
|------------------------------------------------------|--------------------------------------------------|-----------------------------------------|------------------|--------------|---------------------------------------|-----------|------------------|-------------------------------------------|--------------------|
| Quarter ended June 30, 2015                          |                                                  |                                         |                  |              |                                       |           |                  |                                           |                    |
| Beginning balance                                    | \$ 32,096                                        | \$ 10,831                               | \$ 2,355         | \$ 2,076     | \$ 6,298                              | \$ 11,655 | \$ 5,679         | \$ 1,816                                  | \$ 72,806          |
| Charge-offs                                          | (4,127 )                                         | (1,894 )                                | (469 )           | (15 )        | (527 )                                | (751 )    | (323 )           | —                                         | (8,106 )           |
| Recoveries                                           | 854                                              | 32                                      | 3                | 203          | 1,130                                 | 319       | 38               | —                                         | 2,579              |
| Net charge-offs                                      | (3,273 )                                         | (1,862 )                                | (466 )           | 188          | 603                                   | (432 )    | (285 )           | —                                         | (5,527 )           |
| Provision for loan and covered loan losses and other | 4,906                                            | 2,376                                   | 562              | (374 )       | (534 )                                | (403 )    | (533 )           | —                                         | 6,000              |
| Ending balance                                       | \$ 33,729                                        | \$ 11,345                               | \$ 2,451         | \$ 1,890     | \$ 6,367                              | \$ 10,820 | \$ 4,861         | \$ 1,816                                  | \$ 73,279          |
| Quarter ended June 30, 2014                          |                                                  |                                         |                  |              |                                       |           |                  |                                           |                    |
| Beginning balance                                    | \$ 27,292                                        | \$ 13,106                               | \$ 1,968         | \$ 5,656     | \$ 9,236                              | \$ 11,945 | \$ 11,429        | \$ 1,616                                  | \$ 82,248          |
| Charge-offs                                          | (2,099 )                                         | (3,511 )                                | (267 )           | (234 )       | (561 )                                | (1,828 )  | (279 )           | —                                         | (8,779 )           |
| Recoveries                                           | 259                                              | 290                                     | 2                | 2            | 89                                    | 213       | 277              | —                                         | 1,132              |
| Net charge-offs                                      | (1,840 )                                         | (3,221 )                                | (265 )           | (232 )       | (472 )                                | (1,615 )  | (2 )             | —                                         | (7,647 )           |
| Provision for loan and covered loan losses and other | 3,742                                            | 1,946                                   | 345              | (539 )       | (179 )                                | 2,110     | (2,084 )         | —                                         | 5,341              |
| Ending balance                                       | \$ 29,194                                        | \$ 11,831                               | \$ 2,048         | \$ 4,885     | \$ 8,585                              | \$ 12,440 | \$ 9,343         | \$ 1,616                                  | \$ 79,942          |
| Six months ended June 30, 2015                       |                                                  |                                         |                  |              |                                       |           |                  |                                           |                    |
| Beginning balance                                    | \$ 29,458                                        | \$ 10,992                               | \$ 2,249         | \$ 2,297     | \$ 8,327                              | \$ 12,145 | \$ 7,226         | \$ 1,816                                  | \$ 74,510          |
| Charge-offs                                          | (11,576 )                                        | (2,050 )                                | (497 )           | (15 )        | (1,844 )                              | (1,551 )  | (626 )           | —                                         | (18,159 )          |
| Recoveries                                           | 1,646                                            | 354                                     | 7                | 220          | 1,396                                 | 640       | 113              | —                                         | 4,376              |
| Net charge-offs                                      | (9,930 )                                         | (1,696 )                                | (490 )           | 205          | (448 )                                | (911 )    | (513 )           | —                                         | (13,783 )          |
| Provision for loan and covered loan losses and other | 14,201                                           | 2,049                                   | 692              | (612 )       | (1,512 )                              | (414 )    | (1,852 )         | —                                         | 12,552             |
| Ending balance                                       | \$ 33,729                                        | \$ 11,345                               | \$ 2,451         | \$ 1,890     | \$ 6,367                              | \$ 10,820 | \$ 4,861         | \$ 1,816                                  | \$ 73,279          |

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Six months ended June 30, 2014

|                                                      |           |           |          |          |           |           |           |          |           |
|------------------------------------------------------|-----------|-----------|----------|----------|-----------|-----------|-----------|----------|-----------|
| Beginning balance                                    | \$ 30,381 | \$ 10,405 | \$ 2,017 | \$ 6,316 | \$ 10,817 | \$ 13,010 | \$ 12,559 | \$ 1,616 | \$ 87,121 |
| Charge-offs                                          | (5,779 )  | (4,594 )  | (357 )   | (895 )   | (2,332 )  | (3,856 )  | (524 )    | —        | (18,337 ) |
| Recoveries                                           | 2,419     | 348       | 3        | 160      | 233       | 351       | 862       | —        | 4,376     |
| Net charge-offs                                      | (3,360 )  | (4,246 )  | (354 )   | (735 )   | (2,099 )  | (3,505 )  | 338       | —        | (13,961 ) |
| Provision for loan and covered loan losses and other | 2,173     | 5,672     | 385      | (696 )   | (133 )    | 2,935     | (3,554 )  | —        | 6,782     |
| Ending balance                                       | \$ 29,194 | \$ 11,831 | \$ 2,048 | \$ 4,885 | \$ 8,585  | \$ 12,440 | \$ 9,343  | \$ 1,616 | \$ 79,942 |

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The table below provides a breakdown of loans and the related allowance for credit losses by portfolio segment as of June 30, 2015 and December 31, 2014.

Loans and Related Allowance for Credit Losses by Portfolio Segment

(Dollar amounts in thousands)

|                                                                              | Loans                                          |                                                | PCI      | Total       | Allowance for Credit Losses                    |                                                |         |          |
|------------------------------------------------------------------------------|------------------------------------------------|------------------------------------------------|----------|-------------|------------------------------------------------|------------------------------------------------|---------|----------|
|                                                                              | Individually<br>Evaluated<br>for<br>Impairment | Collectively<br>Evaluated<br>for<br>Impairment |          |             | Individually<br>Evaluated<br>for<br>Impairment | Collectively<br>Evaluated<br>for<br>Impairment | PCI     | Total    |
| As of June 30, 2015                                                          |                                                |                                                |          |             |                                                |                                                |         |          |
| Commercial,<br>industrial, and<br>agricultural<br>Commercial real<br>estate: | \$8,455                                        | \$2,731,593                                    | \$3,418  | \$2,743,466 | \$1,886                                        | \$31,588                                       | \$255   | \$33,729 |
| Office, retail, and<br>industrial                                            | 11,705                                         | 1,415,680                                      | 5,117    | 1,432,502   | 505                                            | 10,840                                         | —       | 11,345   |
| Multi-family                                                                 | 1,048                                          | 554,500                                        | 2,399    | 557,947     | —                                              | 2,445                                          | 6       | 2,451    |
| Construction                                                                 | 4,118                                          | 183,094                                        | 3,758    | 190,970     | 6                                              | 1,590                                          | 294     | 1,890    |
| Other commercial real<br>estate                                              | 2,907                                          | 861,863                                        | 6,349    | 871,119     | 56                                             | 6,064                                          | 247     | 6,367    |
| Total commercial real<br>estate                                              | 19,778                                         | 3,015,137                                      | 17,623   | 3,052,538   | 567                                            | 20,939                                         | 547     | 22,053   |
| Total corporate loans                                                        | 28,233                                         | 5,746,730                                      | 21,041   | 5,796,004   | 2,453                                          | 52,527                                         | 802     | 55,782   |
| Consumer                                                                     | —                                              | 986,410                                        | 9,854    | 996,264     | —                                              | 10,693                                         | 127     | 10,820   |
| Total loans, excluding<br>covered loans                                      | 28,233                                         | 6,733,140                                      | 30,895   | 6,792,268   | 2,453                                          | 63,220                                         | 929     | 66,602   |
| Covered loans                                                                | —                                              | 22,801                                         | 35,116   | 57,917      | —                                              | 352                                            | 4,509   | 4,861    |
| Reserve for unfunded<br>commitments                                          | —                                              | —                                              | —        | —           | —                                              | 1,816                                          | —       | 1,816    |
| Total loans                                                                  | \$28,233                                       | \$6,755,941                                    | \$66,011 | \$6,850,185 | \$2,453                                        | \$65,388                                       | \$5,438 | \$73,279 |
| As of December 31,<br>2014                                                   |                                                |                                                |          |             |                                                |                                                |         |          |
| Commercial,<br>industrial, and<br>agricultural<br>Commercial real<br>estate: | \$19,796                                       | \$2,588,141                                    | \$3,868  | \$2,611,805 | \$2,249                                        | \$27,209                                       | \$—     | \$29,458 |
| Office, retail, and<br>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<br>estate                                              | 3,266                                          | 880,087                                        | 4,544    | 887,897     | 11                                             | 8,316                                          | —       | 8,327    |
| Total commercial real<br>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<br>covered loans                                      | 43,004                                         | 6,585,702                                      | 28,712   | 6,657,418   | 2,531                                          | 62,614                                         | 323     | 65,468   |

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|                                  |          |             |          |             |         |           |         |          |
|----------------------------------|----------|-------------|----------|-------------|---------|-----------|---------|----------|
| 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 |

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## Loans Individually Evaluated for Impairment

The following table presents loans individually evaluated for impairment by class of loan as of June 30, 2015 and December 31, 2014. PCI loans are excluded from this disclosure.

## Impaired Loans Individually Evaluated by Class

(Dollar amounts in thousands)

|                                                            | As of June 30, 2015                              |                                        |                                |                     | As of December 31, 2014                          |                                        |                                |                     |
|------------------------------------------------------------|--------------------------------------------------|----------------------------------------|--------------------------------|---------------------|--------------------------------------------------|----------------------------------------|--------------------------------|---------------------|
|                                                            | Recorded Investment                              |                                        |                                |                     | Recorded Investment                              |                                        |                                |                     |
|                                                            | In<br>Loans<br>with<br>No<br>Specific<br>Reserve | Loans<br>with<br>a Specific<br>Reserve | Unpaid<br>Principal<br>Balance | Specific<br>Reserve | In<br>Loans<br>with<br>No<br>Specific<br>Reserve | Loans<br>with<br>a Specific<br>Reserve | Unpaid<br>Principal<br>Balance | Specific<br>Reserve |
| Commercial and industrial                                  | \$1,930                                          | \$6,525                                | \$15,529                       | \$1,886             | \$666                                            | \$19,130                               | \$35,457                       | \$2,249             |
| Agricultural                                               | —                                                | —                                      | —                              | —                   | —                                                | —                                      | —                              | —                   |
| Commercial real estate:                                    |                                                  |                                        |                                |                     |                                                  |                                        |                                |                     |
| Office, retail, and industrial                             | 10,197                                           | 1,508                                  | 19,211                         | 505                 | 9,623                                            | 2,709                                  | 18,340                         | 271                 |
| Multi-family                                               | 1,048                                            | —                                      | 1,263                          | —                   | 939                                              | —                                      | 1,024                          | —                   |
| Construction                                               | 4,084                                            | 34                                     | 4,746                          | 6                   | 6,671                                            | —                                      | 7,731                          | —                   |
| Other commercial real estate                               | 2,600                                            | 307                                    | 3,194                          | 56                  | 2,752                                            | 514                                    | 4,490                          | 11                  |
| Total commercial real estate                               | 17,929                                           | 1,849                                  | 28,414                         | 567                 | 19,985                                           | 3,223                                  | 31,585                         | 282                 |
| Total impaired loans individually evaluated for impairment | \$19,859                                         | \$8,374                                | \$43,943                       | \$2,453             | \$20,651                                         | \$22,353                               | \$67,042                       | \$2,531             |

The following table presents the average recorded investment and interest income recognized on impaired loans by class for the quarters and six months ended June 30, 2015 and 2014. PCI loans are excluded from this disclosure.

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

(Dollar amounts in thousands)

|                                | Quarters Ended June 30, |                           | 2014     |                           |
|--------------------------------|-------------------------|---------------------------|----------|---------------------------|
|                                | 2015                    | Interest                  | Average  | Interest                  |
|                                | Average                 | Income                    | Recorded | Income                    |
|                                | Recorded                | Recognized <sup>(1)</sup> | Balance  | Recognized <sup>(1)</sup> |
|                                | Balance                 |                           |          |                           |
| Commercial and industrial      | \$9,277                 | \$6                       | \$14,581 | \$29                      |
| Agricultural                   | —                       | —                         | —        | —                         |
| Commercial real estate:        |                         |                           |          |                           |
| Office, retail, and industrial | 11,188                  | 4                         | 20,098   | 6                         |
| Multi-family                   | 866                     | 1                         | 1,424    | 2                         |
| Construction                   | 5,395                   | —                         | 4,788    | —                         |
| Other commercial real estate   | 2,822                   | 8                         | 6,393    | 107                       |
| Total commercial real estate   | 20,271                  | 13                        | 32,703   | 115                       |
| Total impaired loans           | \$29,548                | \$19                      | \$47,284 | \$144                     |

  

|                                | Six Months Ended June 30, |                           | 2014       |                           |
|--------------------------------|---------------------------|---------------------------|------------|---------------------------|
|                                | 2015                      | Interest                  | Average    | Interest                  |
|                                | Average                   | Income                    | Recorded   | Income                    |
|                                | Recorded                  | Recognized <sup>(1)</sup> | Investment | Recognized <sup>(1)</sup> |
|                                | Investment                |                           |            |                           |
| Commercial and industrial      | \$12,783                  | \$76                      | \$14,113   | \$147                     |
| Agricultural                   | —                         | —                         | —          | —                         |
| Commercial real estate:        |                           |                           |            |                           |
| Office, retail, and industrial | 11,570                    | 33                        | 22,181     | 147                       |
| Multi-family                   | 890                       | 1                         | 1,381      | 2                         |
| Construction                   | 5,820                     | —                         | 5,096      | —                         |
| Other commercial real estate   | 2,970                     | 19                        | 7,361      | 115                       |
| Total commercial real estate   | 21,250                    | 53                        | 36,019     | 264                       |
| Total impaired loans           | \$34,033                  | \$129                     | \$50,132   | \$411                     |

<sup>(1)</sup> 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 June 30, 2015 and December 31, 2014.

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

(Dollar amounts in thousands)

|                                | Pass        | Special<br>Mention <sup>(1)</sup> <sup>(4)</sup> | Substandard <sup>(2)</sup><br><sup>(4)</sup> | Non-accrual <sup>(3)</sup> | Total       |
|--------------------------------|-------------|--------------------------------------------------|----------------------------------------------|----------------------------|-------------|
| As of June 30, 2015            |             |                                                  |                                              |                            |             |
| Commercial and industrial      | \$2,252,735 | \$62,191                                         | \$40,030                                     | \$11,100                   | \$2,366,056 |
| Agricultural                   | 371,699     | 5,142                                            | 252                                          | 317                        | 377,410     |
| Commercial real estate:        |             |                                                  |                                              |                            |             |
| Office, retail, and industrial | 1,358,289   | 24,424                                           | 37,190                                       | 12,599                     | 1,432,502   |
| Multi-family                   | 548,076     | 4,333                                            | 4,251                                        | 1,287                      | 557,947     |
| Construction                   | 170,767     | 5,038                                            | 10,225                                       | 4,940                      | 190,970     |
| Other commercial real estate   | 827,237     | 29,760                                           | 8,609                                        | 5,513                      | 871,119     |
| Total commercial real estate   | 2,904,369   | 63,555                                           | 60,275                                       | 24,339                     | 3,052,538   |
| Total corporate loans          | \$5,528,803 | \$130,888                                        | \$100,557                                    | \$35,756                   | \$5,796,004 |
| 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 |

(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 \$1.3 million as of June 30, 2015 and \$1.8 million as of December 31, 2014.

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

|                         | Performing | Non-accrual | Total     |
|-------------------------|------------|-------------|-----------|
| As of June 30, 2015     |            |             |           |
| Home equity             | \$594,078  | \$5,242     | \$599,320 |
| 1-4 family mortgages    | 279,551    | 4,011       | 283,562   |
| Installment             | 113,382    | —           | 113,382   |
| Total consumer loans    | \$987,011  | \$9,253     | \$996,264 |
| 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 |

TDRs

TDRs are generally performed at the request of the individual borrower and may include forgiveness of principal, reduction in interest rates, changes in payments, and maturity date extensions. The table below presents TDRs by class as of June 30, 2015 and December 31, 2014. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for TDRs.

TDRs by Class

(Dollar amounts in thousands)

|                                | As of June 30, 2015 |                            |         | As of December 31, 2014 |                            |          |
|--------------------------------|---------------------|----------------------------|---------|-------------------------|----------------------------|----------|
|                                | Accruing            | Non-accrual <sup>(1)</sup> | Total   | Accruing                | Non-accrual <sup>(1)</sup> | Total    |
| Commercial and industrial      | \$299               | \$1,077                    | \$1,376 | \$269                   | \$18,799                   | \$19,068 |
| Agricultural                   | —                   | —                          | —       | —                       | —                          | —        |
| Commercial real estate:        |                     |                            |         |                         |                            |          |
| Office, retail, and industrial | 558                 | —                          | 558     | 586                     | —                          | 586      |
| Multi-family                   | 605                 | 195                        | 800     | 887                     | 232                        | 1,119    |
| Construction                   | —                   | —                          | —       | —                       | —                          | —        |
| Other commercial real estate   | 350                 | —                          | 350     | 433                     | 183                        | 616      |
| Total commercial real estate   | 1,513               | 195                        | 1,708   | 1,906                   | 415                        | 2,321    |
| Total corporate loans          | 1,812               | 1,272                      | 3,084   | 2,175                   | 19,214                     | 21,389   |
| Home equity                    | 390                 | 692                        | 1,082   | 651                     | 506                        | 1,157    |
| 1-4 family mortgages           | 865                 | 106                        | 971     | 878                     | 184                        | 1,062    |
| Installment                    | —                   | —                          | —       | —                       | —                          | —        |
| Total consumer loans           | 1,255               | 798                        | 2,053   | 1,529                   | 690                        | 2,219    |
| Total loans                    | \$3,067             | \$2,070                    | \$5,137 | \$3,704                 | \$19,904                   | \$23,608 |

<sup>(1)</sup> 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 \$781,000 in specific reserves related to TDRs as of June 30, 2015 and there were \$1.8 million in specific reserves related to TDRs as of December 31, 2014. During the quarters and six months ended June 30, 2015 and 2014 there were no material loans restructured.

Accruing TDRs that do not perform in accordance with their modified terms are transferred to non-accrual. No material loans defaulted within twelve months of the restructure date during the quarters and six months ended June 30, 2015 and 2014.

A rollforward of the carrying value of TDRs for the quarters and six months ended June 30, 2015 and 2014 is presented in the following table.

TDR Rollforward

(Dollar amounts in thousands)

|                                | Quarters Ended<br>June 30, |         | Six Months Ended<br>June 30, |           |
|--------------------------------|----------------------------|---------|------------------------------|-----------|
|                                | 2015                       | 2014    | 2015                         | 2014      |
| Accruing                       |                            |         |                              |           |
| Beginning balance              | \$3,581                    | \$6,301 | \$3,704                      | \$23,770  |
| Additions                      | —                          | 75      | —                            | 75        |
| Net payments received          | (349)                      | ) (650) | ) (391)                      | ) (1,110) |
| Returned to performing status  | —                          | —       | —                            | (18,821)  |
| Net transfers from non-accrual | (165)                      | ) (29)  | ) (246)                      | ) 1,783   |
| Ending balance                 | 3,067                      | 5,697   | 3,067                        | 5,697     |
| Non-accrual                    |                            |         |                              |           |
| Beginning balance              | 1,996                      | 1,920   | 19,904                       | 4,083     |
| Net payments received          | (55)                       | ) (23)  | ) (15,454)                   | ) (157)   |
| Charge-offs                    | (36)                       | ) (152) | ) (2,626)                    | ) (186)   |
| Transfers to OREO              | —                          | (74)    | ) —                          | (257)     |
| Net transfers to accruing      | 165                        | 29      | 246                          | (1,783)   |
| Ending balance                 | 2,070                      | 1,700   | 2,070                        | 1,700     |
| Total TDRs                     | \$5,137                    | \$7,397 | \$5,137                      | \$7,397   |

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

There were no material commitments to lend additional funds to borrowers with TDRs as of June 30, 2015 and there were \$666,000 in commitments as of December 31, 2014.

## 8. EARNINGS PER COMMON SHARE

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

## Basic and Diluted Earnings per Common Share

(Amounts in thousands, except per share data)

|                                                                                                          | Quarters Ended |          | Six Months Ended |          |
|----------------------------------------------------------------------------------------------------------|----------------|----------|------------------|----------|
|                                                                                                          | June 30,       |          | June 30,         |          |
|                                                                                                          | 2015           | 2014     | 2015             | 2014     |
| Net income                                                                                               | \$22,574       | \$18,500 | \$42,456         | \$36,164 |
| Net income applicable to non-vested restricted shares                                                    | (249)          | (230)    | (477)            | (455)    |
| Net income applicable to common shares                                                                   | \$22,325       | \$18,270 | \$41,979         | \$35,709 |
| Weighted-average common shares outstanding:                                                              |                |          |                  |          |
| Weighted-average common shares outstanding (basic)                                                       | 77,089         | 74,322   | 77,004           | 74,235   |
| Dilutive effect of common stock equivalents                                                              | 12             | 11       | 12               | 12       |
| Weighted-average diluted common shares outstanding                                                       | 77,101         | 74,333   | 77,016           | 74,247   |
| Basic earnings per common share ("EPS")                                                                  | \$0.29         | \$0.25   | \$0.55           | \$0.48   |
| Diluted EPS                                                                                              | \$0.29         | \$0.25   | \$0.55           | \$0.48   |
| Anti-dilutive shares not included in the computation of diluted earnings per common share <sup>(1)</sup> | 768            | 1,177    | 857              | 1,246    |

(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.

## 9. INCOME TAXES

The following table presents income tax expense and the effective income tax rate for the quarters and six months ended June 30, 2015 and 2014.

## Income Tax Expense

(Dollar amounts in thousands)

|                                  | Quarters Ended |          | Six Months Ended |          |
|----------------------------------|----------------|----------|------------------|----------|
|                                  | June 30,       |          | June 30,         |          |
|                                  | 2015           | 2014     | 2015             | 2014     |
| Income before income tax expense | \$33,439       | \$27,142 | \$62,113         | \$52,978 |
| Income tax expense:              |                |          |                  |          |
| Federal income tax expense       | \$8,844        | \$6,727  | \$15,920         | \$13,005 |
| State income tax expense         | 2,021          | 1,915    | 3,737            | 3,809    |
| Total income tax expense         | \$10,865       | \$8,642  | \$19,657         | \$16,814 |
| Effective income tax rate        | 32.5           | % 31.8   | % 31.6           | % 31.7   |

Federal income tax expense and the related effective income tax rate are influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax income and state income taxes. State income tax expense and the related effective tax rate are driven by the amount of state tax-exempt income in relation to pre-tax income and state tax rules for consolidated/combined reporting and sourcing of income and expense. The increase in total income tax expense resulted primarily from higher levels of income subject to tax at statutory rates, partly offset by decreases in state statutory rates.

The Company's accounting policies for the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Note 1, "Summary of Significant Accounting Policies" and Note 15, "Income Taxes" to the Consolidated Financial Statements in the Company's 2014 10-K.



## 10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In the ordinary course of business, the Company enters into derivative transactions as part of its overall interest rate risk management strategy. The significant accounting policies related to derivative instruments and hedging activities are presented in Note 1, "Summary of Significant Accounting Policies."

## Fair Value Hedges

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

## Fair Value Hedges

(Dollar amounts in thousands)

|                                                                              | As of         |                   |
|------------------------------------------------------------------------------|---------------|-------------------|
|                                                                              | June 30, 2015 | December 31, 2014 |
| Gross notional amount outstanding                                            | \$12,212      | \$12,793          |
| Derivative liability fair value                                              | (870)         | (1,032)           |
| Weighted-average interest rate received                                      | 2.10          | % 2.07            |
| Weighted-average interest rate paid                                          | 6.36          | % 6.37            |
| Weighted-average maturity (in years)                                         | 2.46          | 2.95              |
| Fair value of assets needed to settle derivative transactions <sup>(1)</sup> | \$893         | \$1,057           |

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

Hedge ineffectiveness is recognized in other noninterest income in the Condensed Consolidated Statements of Income. For the quarters and six months ended June 30, 2015 and 2014, gains or losses related to fair value hedge ineffectiveness were not material.

## Cash Flow Hedges

As of June 30, 2015, the Company hedged \$710.0 million of certain corporate variable rate loans using interest rate swaps through which the Company receives fixed amounts and pays variable amounts. The Company also hedged \$510.0 million of borrowed funds using forward starting interest rate swaps through which the Company receives variable amounts and pays fixed amounts. These transactions allow the Company to add stability to net interest income and manage its exposure to interest rate movements. The forward starting interest rate swaps begin at various dates between June 2015 and March 2018, of which \$62.5 million began during the quarter ended June 30, 2015, and mature between June 2019 and March 2020. These derivative contracts are designated as cash flow hedges.

## Cash Flow Hedges

(Dollar amounts in thousands)

|                                         | As of         |                   |
|-----------------------------------------|---------------|-------------------|
|                                         | June 30, 2015 | December 31, 2014 |
| Gross notional amount outstanding       | \$1,220,000   | \$650,000         |
| Derivative asset fair value             | 3,668         | 1,166             |
| Derivative liability fair value         | (8,148)       | (3,096)           |
| Weighted-average interest rate received | 1.56          | % 1.63            |
| Weighted-average interest rate paid     | 0.18          | % 0.16            |
| Weighted-average maturity (in years)    | 4.41          | 4.52              |

The effective portion of gains or losses on cash flow hedges is recorded in accumulated other comprehensive loss on an after-tax basis and is subsequently reclassified to interest income or expense in the period that the forecasted hedge impacts earnings. Hedge effectiveness is determined using a regression analysis at the inception of the hedge relationship and on an ongoing basis. For the quarter and six months ended June 30, 2015, there were no material gains or losses related to cash flow hedge ineffectiveness. As of June 30, 2015, the Company estimates that \$6.0 million will be reclassified from accumulated other comprehensive income as an increase to interest income over the next twelve months.



## Other Derivative Instruments

The Company also enters into derivative transactions with its commercial customers and simultaneously enters into an offsetting interest rate derivative transaction with a third party. This transaction allows the Company's customers to effectively convert a variable rate loan into a fixed rate loan. Due to the offsetting nature of these transactions, the Company does not apply hedge accounting treatment. Transaction fees related to commercial customer derivative instruments of \$818,000 and \$1.5 million were recorded in noninterest income for the quarter and six months ended June 30, 2015, respectively. There were \$258,000 and \$462,000 of transaction fees recorded for the quarter and six months ended June 30, 2014, respectively.

## Other Derivative Instruments

(Dollar amounts in thousands)

|                                                                              | As of<br>June 30, 2015 | December 31, 2014 |
|------------------------------------------------------------------------------|------------------------|-------------------|
| Gross notional amount outstanding                                            | \$612,834              | \$527,893         |
| Derivative asset fair value                                                  | 7,673                  | 7,852             |
| Derivative liability fair value                                              | (7,673)                | ) (7,852          |
| Fair value of assets needed to settle derivative transactions <sup>(1)</sup> | 8,065                  | 8,130             |

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

The Company's derivative portfolio also includes other derivative instruments that do not receive hedge accounting treatment, consisting of commitments to originate 1-4 family mortgage loans and foreign exchange contracts. In addition, the Company occasionally enters into risk participation agreements with counterparty banks to transfer or assume a portion of the credit risk related to customer transactions. The amounts of these instruments were not material for any periods presented. The Company had no other derivative instruments as of June 30, 2015 or December 31, 2014. The Company does not enter into derivative transactions for purely speculative purposes.

## Credit Risk

Derivative instruments are inherently subject to credit risk, which represents the Company's risk of loss when the counterparty to a derivative contract fails to perform according to the terms of the agreement. Credit risk is managed by limiting and collateralizing the aggregate amount of net unrealized losses by transaction, monitoring the size and the maturity structure of the derivatives, and applying uniform credit standards. Company policy establishes limits on credit exposure to any single counterparty. In addition, the Company established bilateral collateral agreements with derivative counterparties that provide for exchanges of marketable securities or cash to collateralize either party's net losses above a stated minimum threshold. At June 30, 2015 and December 31, 2014, these collateral agreements covered 100% of the fair value of the Company's outstanding fair value hedges. Derivative assets and liabilities are presented gross, rather than net, of pledged collateral amounts.

Certain derivative instruments are subject to master netting agreements with counterparties. The Company records these transactions at their gross fair values and does not offset derivative assets and liabilities in the Consolidated Statements of Financial Condition. The following table presents the fair value of the Company's derivatives and offsetting positions as of June 30, 2015 and December 31, 2014.

Fair Value of Offsetting Derivatives

(Dollar amounts in thousands)

|                                                                                           | As of June 30, 2015 |             | As of December 31, 2014 |             |
|-------------------------------------------------------------------------------------------|---------------------|-------------|-------------------------|-------------|
|                                                                                           | Assets              | Liabilities | Assets                  | Liabilities |
| Gross amounts recognized                                                                  | \$11,341            | \$16,691    | \$9,018                 | \$11,980    |
| Less: amounts offset in the Consolidated Statements of Financial Condition                | —                   | —           | —                       | —           |
| Net amount presented in the Consolidated Statements of Financial Condition <sup>(1)</sup> | 11,341              | 16,691      | 9,018                   | 11,980      |
| Gross amounts not offset in the Consolidated Statements of Financial Condition:           |                     |             |                         |             |
| Offsetting derivative positions                                                           | (3,752              | ) (3,752    | ) (1,195                | ) (1,195    |
| Cash collateral pledged                                                                   | —                   | (12,939     | ) —                     | (10,785     |
| Net credit exposure                                                                       | \$7,589             | \$—         | \$7,823                 | \$—         |

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

As of June 30, 2015 and December 31, 2014, the Company's derivative instruments generally contained provisions that require the Company's debt to remain above a certain credit rating by each of the major credit rating agencies or that the Company maintain certain capital levels. If the Company's debt were to fall below that credit rating or the Company's capital were to fall below the required levels, it would be in violation of those provisions, and the counterparties to the derivative instruments could terminate the swap transaction and demand cash settlement of the derivative instrument in an amount equal to the derivative liability fair value. As of June 30, 2015 and December 31, 2014 the Company was not in violation of these provisions.

## 11. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

## Credit Commitments and Guarantees

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

## Contractual or Notional Amounts of Financial Instruments

(Dollar amounts in thousands)

|                                                      | As of<br>June 30,<br>2015 | December 31,<br>2014 |
|------------------------------------------------------|---------------------------|----------------------|
| Commitments to extend credit:                        |                           |                      |
| Commercial, industrial, and agricultural             | \$1,247,779               | \$1,299,683          |
| Commercial real estate                               | 202,601                   | 170,573              |
| Home equity                                          | 332,378                   | 317,783              |
| Other commitments <sup>(1)</sup>                     | 200,193                   | 194,556              |
| Total commitments to extend credit                   | \$1,982,951               | \$1,982,595          |
| Standby letters of credit                            | \$108,227                 | \$110,639            |
| Recourse on assets sold:                             |                           |                      |
| Unpaid principal balance of loans sold               | \$201,654                 | \$185,910            |
| Carrying value of recourse obligation <sup>(2)</sup> | 157                       | 155                  |

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

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

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

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

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

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

As a result of the sale of certain 1-4 family mortgage loans, the Company is contractually obligated to repurchase any non-performing loans or loans that do not meet underwriting requirements at recorded value. In accordance with the sales agreements, there is no limitation to the maximum potential future payments or expiration of the Company's recourse obligation. There were no material loan repurchases during the quarters and six months ended June 30, 2015 and 2014.

## Legal Proceedings

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at June 30, 2015. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect that any liabilities arising from pending legal matters

will have a material adverse effect on the Company's financial position, results of operations, or cash flows.

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## 12. FAIR VALUE

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

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

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

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

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

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

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

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

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

## Recurring Fair Value Measurements

(Dollar amounts in thousands)

|                                          | As of June 30, 2015 |           |         | As of December 31, 2014 |           |         |
|------------------------------------------|---------------------|-----------|---------|-------------------------|-----------|---------|
|                                          | Level 1             | Level 2   | Level 3 | Level 1                 | Level 2   | Level 3 |
| Assets:                                  |                     |           |         |                         |           |         |
| Trading securities:                      |                     |           |         |                         |           |         |
| Money market funds                       | \$1,595             | \$—       | \$—     | \$1,725                 | \$—       | \$—     |
| Mutual funds                             | 16,577              | —         | —       | 15,735                  | —         | —       |
| Total trading securities                 | 18,172              | —         | —       | 17,460                  | —         | —       |
| Securities available-for-sale:           |                     |           |         |                         |           |         |
| U.S. agency securities                   | —                   | 20,484    | —       | —                       | 30,431    | —       |
| CMOs                                     | —                   | 521,575   | —       | —                       | 534,156   | —       |
| MBSs                                     | —                   | 181,843   | —       | —                       | 159,765   | —       |
| Municipal securities                     | —                   | 382,988   | —       | —                       | 423,820   | —       |
| CDOs                                     | —                   | —         | 32,004  | —                       | —         | 33,774  |
| Corporate debt securities                | —                   | 80        | —       | —                       | 1,802     | —       |
| Equity securities                        | —                   | 3,433     | —       | —                       | 3,261     | —       |
| Total available-for-sale securities      | —                   | 1,110,403 | 32,004  | —                       | 1,153,235 | 33,774  |
| Mortgage servicing rights <sup>(1)</sup> | —                   | —         | 1,820   | —                       | —         | 1,728   |
| Derivative assets <sup>(1)</sup>         | —                   | 11,341    | —       | —                       | 9,018     | —       |
| Liabilities:                             |                     |           |         |                         |           |         |
| Derivative liabilities <sup>(2)</sup>    | \$—                 | \$16,691  | \$—     | \$—                     | \$11,980  | \$—     |

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

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

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

## Trading Securities

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

## Securities Available-for-Sale

The Company's available-for-sale securities are primarily fixed income instruments that are not quoted on an exchange, but may be traded in active markets. The fair values are based on quoted prices in active markets or market prices for similar securities obtained from external pricing services or dealer market participants and are classified in level 2 of the fair value hierarchy. Quarterly, the Company evaluates the methodologies used by its external pricing services to estimate the fair value of these securities to determine whether the valuations represent an exit price in the Company's principal markets.

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



The following table presents the ranges of significant, unobservable inputs calculated using the weighted average of the Issuers used by the Company as of June 30, 2015.

Significant Unobservable Inputs Used in the Valuation of CDOs

|                              | As of June 30,<br>2015 |
|------------------------------|------------------------|
| Probability of prepayment    | 0.8% - 15.3%           |
| Probability of default       | 18.6% - 54.8%          |
| Loss given default           | 88.3% - 97.0%          |
| Probability of deferral cure | 12.5% - 63.1%          |

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

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

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

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

A rollforward of the carrying value of CDOs for the quarters and six months ended June 30, 2015 and 2014 is presented in the following table.

Rollforward of the Carrying Value of CDOs

(Dollar amounts in thousands)

|                                                   | Quarters Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---------------------------------------------------|----------------------------|----------|------------------------------|----------|
|                                                   | 2015                       | 2014     | 2015                         | 2014     |
| Beginning balance                                 | \$33,928                   | \$21,666 | \$33,774                     | \$18,309 |
| Change in other comprehensive loss <sup>(1)</sup> | (1,798)                    | ) (1,721 | ) (1,498                     | ) 1,636  |
| Paydowns                                          | (126)                      | ) (1,509 | ) (272                       | ) (1,509 |
| Ending balance                                    | \$32,004                   | \$18,436 | \$32,004                     | \$18,436 |

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

Mortgage Servicing Rights

The Company services loans for others totaling \$232.5 million as of June 30, 2015 and \$220.4 million as of December 31, 2014. These loans are owned by third parties and are not included in the Consolidated Statements of Financial Condition. The Company determines the fair value of mortgage servicing rights by estimating the present value of expected future cash flows associated with the mortgage loans being serviced and classifies them in level 3 of the fair value hierarchy. Additional information regarding the Company's mortgage servicing rights can be found in Note 22, "Fair Value," to the Consolidated Financial Statements in the Company's 2014 10-K.

Derivative Assets and Derivative Liabilities

The Company enters into interest rate swaps and derivative transactions with commercial customers. These derivative transactions are executed in the dealer market, and pricing is based on market quotes obtained from the counterparties. The market quotes were developed using market observable inputs, which primarily include LIBOR. Therefore, derivatives are classified in level 2 of the



fair value hierarchy. For its derivative assets and liabilities, the Company also considers non-performance risk, including the likelihood of default by itself and its counterparties, when evaluating whether the market quotes from the counterparty are representative of an exit price.

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

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

#### Non-Recurring Fair Value Measurements

(Dollar amounts in thousands)

|                                                    | As of June 30, 2015 |         |          | As of December 31, 2014 |         |          |
|----------------------------------------------------|---------------------|---------|----------|-------------------------|---------|----------|
|                                                    | Level 1             | Level 2 | Level 3  | Level 1                 | Level 2 | Level 3  |
| Collateral-dependent impaired loans <sup>(1)</sup> | \$—                 | \$—     | \$11,881 | \$—                     | \$—     | \$23,799 |
| OREO <sup>(2)</sup>                                | —                   | —       | 8,010    | —                       | —       | 22,760   |
| Loans held-for-sale <sup>(3)</sup>                 | —                   | —       | 16,144   | —                       | —       | 9,459    |
| Assets held-for-sale <sup>(4)</sup>                | —                   | —       | 2,026    | —                       | —       | 2,026    |

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

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

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

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

#### Collateral-Dependent Impaired Loans

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

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

#### OREO

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

#### Loans Held-for-Sale

As of June 30, 2015, loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell. These loans were recorded in the held-for-sale category at the contract price and, accordingly, are classified in level 3 of the fair value hierarchy. As of December 31, 2014, loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell, and a commercial real estate loan.

#### Assets Held-for-Sale

Assets held-for-sale consists of former branches that are no longer in operation and are being actively marketed. These branches were transferred into the held-for-sale category at the lower of their fair value as determined by a current appraisal or their recorded investment. Based on these valuation methods, they are classified in level 3 of the fair value hierarchy.



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

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

## Fair Value Measurements of Other Financial Instruments

(Dollar amounts in thousands)

|                                          |                                  | As of<br>June 30, 2015 |             | December 31, 2014  |             |
|------------------------------------------|----------------------------------|------------------------|-------------|--------------------|-------------|
|                                          | Fair Value<br>Hierarchy<br>Level | Carrying<br>Amount     | Fair Value  | Carrying<br>Amount | Fair Value  |
| Assets:                                  |                                  |                        |             |                    |             |
| Cash and due from banks                  | 1                                | \$135,546              | \$135,546   | \$117,315          | \$117,315   |
| Interest-bearing deposits in other banks | 2                                | 811,287                | 811,287     | 488,947            | 488,947     |
| Securities held-to-maturity              | 2                                | 24,292                 | 24,545      | 26,555             | 27,670      |
| FHLB and FRB stock                       | 2                                | 38,748                 | 38,748      | 37,558             | 37,558      |
| Net loans                                | 3                                | 6,778,722              | 6,645,824   | 6,664,159          | 6,532,622   |
| FDIC indemnification asset               | 3                                | 7,335                  | 1,663       | 8,452              | 3,626       |
| Investment in BOLI                       | 3                                | 207,814                | 207,814     | 206,498            | 206,498     |
| Accrued interest receivable              | 3                                | 26,073                 | 26,073      | 27,506             | 27,506      |
| Other interest-earning assets            | 3                                | 2,810                  | 2,872       | 3,799              | 3,904       |
| Liabilities:                             |                                  |                        |             |                    |             |
| Deposits                                 | 2                                | \$8,212,671            | \$8,206,907 | \$7,887,758        | \$7,879,413 |
| Borrowed funds                           | 2                                | 189,036                | 189,011     | 137,994            | 137,994     |
| Senior and subordinated debt             | 1                                | 201,039                | 207,356     | 200,869            | 209,035     |
| Accrued interest payable                 | 2                                | 2,189                  | 2,189       | 2,324              | 2,324       |

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

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

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

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

**Net Loans** - Net loans includes loans held-for-investment, acquired loans, covered loans, and the allowance for loan and covered loan losses. The fair value of loans is estimated using the present value of the expected future cash flows of the remaining maturities of the loans. Prepayment assumptions that consider the Company's historical experience and current economic and lending conditions were included. The discount rate was based on the LIBOR yield curve with adjustments for liquidity and credit risk inherent in the loans.

The fair value of the covered loan portfolio is determined by discounting the expected future cash flows at a market interest rate, which is derived from LIBOR swap rates over the life of those loans. The expected future cash flows are derived from the contractual terms of the covered loans, net of any projected credit losses. For valuation purposes, these loans are placed into groups with similar characteristics and risk factors, where appropriate. The timing and amount of credit losses for each group are estimated using historical default and loss experience, current collateral valuations, borrower credit scores, and internal risk ratings. For individually significant loans or credit relationships, the estimated fair value is determined by a specific loan level review utilizing appraised values for collateral and projections of the timing and amount of expected future cash flows.



**FDIC Indemnification Asset** - The fair value of the FDIC indemnification asset is calculated by discounting the expected future cash flows to be received from the FDIC. The expected future cash flows are estimated by multiplying anticipated losses on covered loans and covered OREO by the reimbursement rates in the FDIC Agreements.

**Investment in BOLI** - The fair value of BOLI approximates the carrying amount as both are based on each policy's respective cash surrender value ("CSV"), which is the amount the Company would receive from liquidation of these investments. The CSV is derived from monthly reports provided by the managing brokers and is determined using the Company's initial insurance premium and earnings of the underlying assets, offset by management fees.

**Other Interest-Earning Assets** - The fair value of other interest-earning assets is estimated using the present value of the expected future cash flows of the remaining maturities of the assets.

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

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

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

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

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

### INTRODUCTION

First Midwest Bancorp, Inc. is a bank holding company headquartered in the Chicago suburb of Itasca, Illinois. Our principal subsidiary, First Midwest Bank (the "Bank"), and other affiliates provide a full range of business, middle-market and retail banking as well as wealth management services through over 100 locations in metropolitan Chicago, northwest Indiana, central and western Illinois, and eastern Iowa. We are committed to meeting the financial needs of the people and businesses in the communities where we live and work by providing customized banking solutions, quality products, and innovative services that fulfill those financial needs.

The following discussion and analysis is intended to address the significant factors affecting our Condensed Consolidated Statements of Income for the quarters and six months ended June 30, 2015 and 2014 and Consolidated Statements of Financial Condition as of June 30, 2015 and December 31, 2014. When we use the terms "First Midwest," the "Company," "we," "us," and "our," we mean First Midwest Bancorp, Inc. and its consolidated subsidiaries. When we use the term "Bank," we are referring to our wholly owned banking subsidiary, First Midwest Bank. Management's discussion and analysis should be read in conjunction with the consolidated financial statements, accompanying notes thereto, and other information presented in Item 1 of this Form 10-Q, as well as in our 2014 Annual Report on Form 10-K ("2014 10-K"). The results of operations for the quarter and six months ended June 30, 2015 are not necessarily indicative of future results.

Our results of operations are affected by various factors, many of which are beyond our control, including interest rates, local and national economic conditions, business spending, consumer confidence, certain seasonal factors, 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 tax-equivalent net interest income divided by total average interest-earning assets.

• **Noninterest Income** - Noninterest income is the income we earn from fee-based revenues, investment in bank-owned life insurance ("BOLI") 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 tiers: (i) Common Equity Tier 1 capital ("CET1"), which consists of common equity and retained earnings, less goodwill and other intangible assets and a portion of disallowed deferred tax assets, (ii) Tier 1 capital, which consists of CET1 and qualifying trust preferred securities and the remaining portion of disallowed deferred tax assets, and (iii) Tier 2 capital, which includes qualifying subordinated debt and the allowance for credit losses, subject to limitations.

Unless otherwise stated, all earnings per common share data included in this section and throughout the remainder of this discussion are presented on a diluted basis.

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q may contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of words such as "may," "might," "will," "would," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "probable," "potential," "possible," "target," 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. For a discussion of these risks, uncertainties and assumptions, you should refer to the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and in our 2014 10-K, as well as our subsequent filings made with the Securities and Exchange Commission ("SEC"). However, these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

#### NON-GAAP FINANCIAL INFORMATION

The Company's accounting and reporting policies conform to U.S. generally accepted accounting principles ("GAAP") and general practice within the banking industry. As a supplement to GAAP, the Company provides non-GAAP performance results, which the Company believes are useful because they assist investors in assessing the Company's operating performance. These include, but are not limited to, earnings per share, 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.

#### CRITICAL ACCOUNTING ESTIMATES

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

For additional information regarding critical accounting estimates, see the "Summary of Significant Accounting Policies," presented in Note 1 to the Consolidated Financial Statements and the section titled "Critical Accounting Estimates" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2014 10-K. There have been no significant changes in the Company's application of critical accounting estimates related to the allowance for credit losses, valuation of securities, income taxes, and goodwill and other intangible assets since December 31, 2014.

## PERFORMANCE OVERVIEW

Table 1

## Selected Financial Data

(Dollar and share amounts in thousands, except per share data)

|                                                         | Quarters Ended |          | Six Months Ended |           |   |
|---------------------------------------------------------|----------------|----------|------------------|-----------|---|
|                                                         | June 30,       |          | June 30,         |           |   |
|                                                         | 2015           | 2014     | 2015             | 2014      |   |
| Operating Results                                       |                |          |                  |           |   |
| Interest income                                         | \$84,556       | \$72,003 | \$167,025        | \$141,693 |   |
| Interest expense                                        | 5,654          | 5,696    | 11,341           | 11,691    |   |
| Net interest income                                     | 78,902         | 66,307   | 155,684          | 130,002   |   |
| Provision for loan and covered loan losses              | 6,000          | 5,341    | 12,552           | 6,782     |   |
| Noninterest income                                      | 33,988         | 31,193   | 65,089           | 58,443    |   |
| Noninterest expense                                     | 73,451         | 65,017   | 146,108          | 128,685   |   |
| Income before income tax expense                        | 33,439         | 27,142   | 62,113           | 52,978    |   |
| Income tax expense                                      | 10,865         | 8,642    | 19,657           | 16,814    |   |
| Net income                                              | \$22,574       | \$18,500 | \$42,456         | \$36,164  |   |
| Weighted-average diluted common shares outstanding      | 77,101         | 74,333   | 77,016           | 74,247    |   |
| Diluted earnings per common share                       | \$0.29         | \$0.25   | \$0.55           | \$0.48    |   |
| Performance Ratios <sup>(1)</sup>                       |                |          |                  |           |   |
| Return on average common equity                         | 7.97           | % 7.08   | % 7.56           | % 7.03    | % |
| Return on average tangible common equity <sup>(2)</sup> | 11.62          | % 9.85   | % 11.07          | % 9.84    | % |
| Return on average assets                                | 0.94           | % 0.88   | % 0.90           | % 0.87    | % |
| Tax-equivalent net interest margin                      | 3.76           | % 3.65   | % 3.77           | % 3.63    | % |
| Efficiency ratio <sup>(3)</sup>                         | 61.70          | % 63.60  | % 63.05          | % 65.09   | % |

<sup>(1)</sup> All ratios are presented on an annualized basis.

Return on average tangible common equity expresses net income available to common stockholders excluding intangibles amortization expense, net of tax, as a percentage of tangible common equity.

<sup>(2)</sup> Intangibles amortization expense, net of tax, totaled \$587,000 and \$1.2 million for the quarter and six months ended June 30, 2015, respectively, and \$386,000 and \$843,000 for the same periods in 2014. Tangible common equity represents average stockholders' equity less goodwill and average intangible assets.

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, and tax-equivalent <sup>(3)</sup> adjusted BOLI income. BOLI income totaled \$1.5 million and \$2.3 million for the quarter and six months ended June 30, 2015, respectively, and \$773,000 and \$1.3 million for the same periods in 2014. In addition, acquisition and integration related expenses of \$830,000 are excluded from the efficiency ratio for the second quarter of 2014.

|                                      | As of         |                   | June 30, 2015 |                               |
|--------------------------------------|---------------|-------------------|---------------|-------------------------------|
|                                      | June 30, 2015 | December 31, 2014 | June 30, 2014 | Change from December 31, 2014 |
| <b>Balance Sheet Highlights</b>      |               |                   |               |                               |
| Total assets                         | \$9,863,027   | \$9,445,139       | \$8,305,247   | \$417,888                     |
| Total loans, excluding covered loans | 6,792,268     | 6,657,418         | 5,843,457     | 134,850                       |
| Total loans, including covered loans | 6,850,185     | 6,736,853         | 5,948,324     | 113,332                       |
| Total deposits                       | 8,212,671     | 7,887,758         | 6,895,250     | 324,913                       |

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|                                 |           |           |           |         |           |
|---------------------------------|-----------|-----------|-----------|---------|-----------|
| Core deposits                   | 7,022,779 | 6,616,200 | 5,748,699 | 406,579 | 1,274,080 |
| Loans-to-deposits ratio         | 83.4      | % 85.4    | % 86.3    | %       |           |
| Core deposits to total deposits | 85.5      | % 83.9    | % 83.4    | %       |           |

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|                                                                    | As of            |                      |                  | June 30, 2015<br>Change from |                  |
|--------------------------------------------------------------------|------------------|----------------------|------------------|------------------------------|------------------|
|                                                                    | June 30,<br>2015 | December 31,<br>2014 | June 30,<br>2014 | December 31,<br>2014         | June 30,<br>2014 |
| Asset Quality Highlights <sup>(1)</sup>                            |                  |                      |                  |                              |                  |
| Non-accrual loans                                                  | \$45,009         | \$59,971             | \$66,728         | \$(14,962 )                  | \$(21,719 )      |
| 90 days or more past due loans<br>(still accruing interest)        | 2,744            | 1,173                | 3,533            | 1,571                        | (789 )           |
| Total non-performing loans                                         | 47,753           | 61,144               | 70,261           | (13,391 )                    | (22,508 )        |
| Accruing troubled debt<br>restructurings ("TDRs")                  | 3,067            | 3,704                | 5,697            | (637 )                       | (2,630 )         |
| OREO                                                               | 24,471           | 26,898               | 30,331           | (2,427 )                     | (5,860 )         |
| Total non-performing assets                                        | \$75,291         | \$91,746             | \$106,289        | \$(16,455 )                  | \$(30,998 )      |
| 30-89 days past due loans<br>(still accruing interest)             | \$28,625         | \$20,073             | \$24,167         | \$8,552                      | \$4,458          |
| Allowance for Credit Losses                                        |                  |                      |                  |                              |                  |
| Allowance for credit losses                                        | \$73,279         | \$74,510             | \$79,942         | \$(1,231 )                   | \$(6,663 )       |
| Allowance for credit losses to<br>total loans <sup>(2)</sup>       | 1.07             | % 1.11               | % 1.34           | %                            |                  |
| Allowance for credit losses to<br>non-accrual loans <sup>(1)</sup> | 152.01           | % 112.19             | % 105.80         | %                            |                  |

- (1) These amounts and ratios exclude covered loans and covered OREO. For a discussion of covered loans, see Note 1 and Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q. Acquired loans are recorded at fair value as of the acquisition date with no allowance for credit losses being established. Included within total loans are loans acquired during 2014, which totaled \$587.0 million at June 30, 2015 and \$718.3 million at December 31, 2014. These loans have an allowance for loan loss of \$821,000 that was established during the second quarter of 2015. In addition, there is a remaining acquisition adjustment of \$17.5 million at June 30, 2015 and \$24.7 million at December 31, 2014. This acquisition adjustment represents the difference between the contractual loan balances and the carrying value of these loans.
- (2)

Net income for the second quarter of 2015 was \$22.6 million, or \$0.29 per share, compared to \$18.5 million, or \$0.25 per share, for the second quarter of 2014. For the first six months of 2014, net income was \$42.5 million, or \$0.55 per share, compared to \$36.2 million, or \$0.48 per share, for the same period in 2014.

The increase in net income for the second quarter and first six months of 2015 compared to the same periods in 2014 reflects the benefit of the acquisitions completed during the second half of 2014, organic loan growth, and increases in fee-based revenues across all categories, partially offset by higher provisioning for credit losses. A discussion of net interest income, noninterest income, and noninterest expense is presented in the following section titled "Earnings Performance."

Total loans, excluding covered loans, of \$6.8 billion grew 4.1% on an annualized basis from December 31, 2014. This growth was concentrated within our commercial and industrial and agricultural loan categories and reflects the continued expansion into certain sector-based lending areas such as asset-based lending, healthcare, and leasing. Non-performing assets, excluding covered loans and covered OREO, decreased by \$16.5 million, or 17.9%, from December 31, 2014 and \$31.0 million, or 29.2%, from June 30, 2014, due primarily to lower levels of non-accrual loans. See the "Loan Portfolio and Credit Quality" section below for further discussion of our loan portfolio, non-accrual loans, 90 days or more past due loans, TDRs, and OREO.

## EARNINGS PERFORMANCE

### Net Interest Income

Net interest income is our primary source of revenue and is impacted by interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities. The accounting policies for the recognition of interest income on loans, securities, and other interest-earning assets are presented in Note 1 to the Consolidated Financial Statements of our 2014 10-K.

Our accounting and reporting policies conform to GAAP and general practices within the banking industry. For purposes of this discussion, both net interest income and net interest margin have been adjusted to a fully tax-equivalent basis to more appropriately compare the returns on certain tax-exempt loans and securities to those on taxable interest-earning assets. 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 at the bottom of Tables 2 and 3.

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the quarters ended June 30, 2015 and 2014, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 2 also details differences in interest income and expense from the prior quarter and the extent to which any changes are attributable to volume and rate fluctuations. Table 3 presents this same information for the six months ended June 30, 2015 and 2014.

Table 2

## Net Interest Income and Margin Analysis

(Dollar amounts in thousands)

|                                                                | Quarters Ended June 30,<br>2015 |          |                       | 2014               |          |                       | Attribution of Change<br>in Net Interest Income <sup>(1)</sup> |                |          |
|----------------------------------------------------------------|---------------------------------|----------|-----------------------|--------------------|----------|-----------------------|----------------------------------------------------------------|----------------|----------|
|                                                                | Average<br>Balance              | Interest | Yield/<br>Rate<br>(%) | Average<br>Balance | Interest | Yield/<br>Rate<br>(%) | Volume                                                         | Yield/<br>Rate | Total    |
| Assets:                                                        |                                 |          |                       |                    |          |                       |                                                                |                |          |
| Other interest-earning assets                                  | \$669,556                       | \$516    | 0.31                  | \$532,900          | \$369    | 0.28                  | \$102                                                          | \$45           | \$147    |
| Securities <sup>(2)</sup>                                      | 1,177,516                       | 9,792    | 3.33                  | 1,131,114          | 10,284   | 3.64                  | 456                                                            | (948 )         | (492 )   |
| Federal Home Loan Bank ("FHLB") and Federal Reserve Bank stock | 38,748                          | 368      | 3.80                  | 35,517             | 348      | 3.92                  | 30                                                             | (10 )          | 20       |
| Loans <sup>(2)(3)</sup>                                        | 6,815,781                       | 76,573   | 4.51                  | 5,902,953          | 63,901   | 4.34                  | 9,938                                                          | 2,734          | 12,672   |
| Total interest-earning assets <sup>(2)</sup>                   | 8,701,601                       | 87,249   | 4.02                  | 7,602,484          | 74,902   | 3.95                  | 10,526                                                         | 1,821          | 12,347   |
| Cash and due from banks                                        | 133,180                         |          |                       | 117,108            |          |                       |                                                                |                |          |
| Allowance for loan and covered loan losses                     | (73,865 )                       |          |                       | (79,071 )          |          |                       |                                                                |                |          |
| Other assets                                                   | 881,613                         |          |                       | 776,148            |          |                       |                                                                |                |          |
| Total assets                                                   | \$9,642,529                     |          |                       | \$8,416,669        |          |                       |                                                                |                |          |
| Liabilities and Stockholders' Equity:                          |                                 |          |                       |                    |          |                       |                                                                |                |          |
| Savings deposits                                               | \$1,470,441                     | 262      | 0.07                  | \$1,189,722        | 203      | 0.07                  | 50                                                             | 9              | 59       |
| NOW accounts                                                   | 1,379,508                       | 164      | 0.05                  | 1,196,712          | 152      | 0.05                  | 21                                                             | (9 )           | 12       |
| Money market deposits                                          | 1,557,219                       | 470      | 0.12                  | 1,334,700          | 365      | 0.11                  | 65                                                             | 40             | 105      |
| Time deposits                                                  | 1,216,371                       | 1,506    | 0.50                  | 1,168,898          | 1,791    | 0.61                  | 77                                                             | (362 )         | (285 )   |
| Borrowed funds                                                 | 140,002                         | 118      | 0.34                  | 164,605            | 169      | 0.41                  | (23 )                                                          | (28 )          | (51 )    |
| Senior and subordinated debt                                   | 200,999                         | 3,134    | 6.25                  | 190,981            | 3,016    | 6.33                  | 155                                                            | (37 )          | 118      |
| Total interest-bearing liabilities                             | 5,964,540                       | 5,654    | 0.38                  | 5,245,618          | 5,696    | 0.44                  | 345                                                            | (387 )         | (42 )    |
| Demand deposits                                                | 2,437,742                       |          |                       | 2,069,781          |          |                       |                                                                |                |          |
| Total funding sources                                          | 8,402,282                       |          |                       | 7,315,399          |          |                       |                                                                |                |          |
| Other liabilities                                              | 116,717                         |          |                       | 66,681             |          |                       |                                                                |                |          |
| Stockholders' equity - common                                  | 1,123,530                       |          |                       | 1,034,589          |          |                       |                                                                |                |          |
| Total liabilities and stockholders' equity                     | \$9,642,529                     |          |                       | \$8,416,669        |          |                       |                                                                |                |          |
| Net interest income/margin <sup>(2)</sup>                      |                                 | 81,595   | 3.76                  |                    | 69,206   | 3.65                  | \$10,181                                                       | \$2,208        | \$12,389 |
| Tax-equivalent adjustment                                      |                                 | (2,693 ) |                       |                    | (2,899 ) |                       |                                                                |                |          |
|                                                                |                                 | \$78,902 |                       |                    | \$66,307 |                       |                                                                |                |          |

Net interest income  
(GAAP)

- (1) For purposes of this table, changes which are not due solely to volume changes or rate changes are allocated to these categories on the basis of the percentage relationship of each to the sum of the two.
- (2) Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%. This item includes loans acquired through the Company's Federal Deposit Insurance Corporation
- (3) ("FDIC")-assisted transactions subject to loss sharing agreements ("covered loans") and the related FDIC indemnification asset. For additional discussion, see Note 1 and Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

Table 3

## Net Interest Income and Margin Analysis

(Dollar amounts in thousands)

|                                              | Six Months Ended June 30,<br>2015 |           |                       | 2014               |           |                       | Attribution of Change<br>in Net Interest Income <sup>(1)</sup> |                |          |
|----------------------------------------------|-----------------------------------|-----------|-----------------------|--------------------|-----------|-----------------------|----------------------------------------------------------------|----------------|----------|
|                                              | Average<br>Balance                | Interest  | Yield/<br>Rate<br>(%) | Average<br>Balance | Interest  | Yield/<br>Rate<br>(%) | Volume                                                         | Yield/<br>Rate | Total    |
| Assets:                                      |                                   |           |                       |                    |           |                       |                                                                |                |          |
| Other interest-earning assets                | \$596,302                         | \$914     | 0.31                  | \$535,007          | \$751     | 0.28                  | \$90                                                           | \$73           | \$163    |
| Securities <sup>(2)</sup>                    | 1,197,704                         | 20,203    | 3.37                  | 1,158,044          | 20,714    | 3.58                  | 775                                                            | (1,286 )       | (511 )   |
| FHLB and Federal Reserve                     | 38,287                            | 725       | 3.79                  | 35,341             | 683       | 3.87                  | 56                                                             | (14 )          | 42       |
| Bank stock                                   |                                   |           |                       |                    |           |                       |                                                                |                |          |
| Loans <sup>(2)(3)</sup>                      | 6,778,298                         | 150,759   | 4.49                  | 5,813,203          | 125,420   | 4.35                  | 20,851                                                         | 4,488          | 25,339   |
| Total interest-earning assets <sup>(2)</sup> | 8,610,591                         | 172,601   | 4.04                  | 7,541,595          | 147,568   | 3.94                  | 21,772                                                         | 3,261          | 25,033   |
| Cash and due from banks                      | 128,978                           |           |                       | 114,319            |           |                       |                                                                |                |          |
| Allowance for loan and covered loan losses   | (73,676 )                         |           |                       | (82,878 )          |           |                       |                                                                |                |          |
| Other assets                                 | 886,741                           |           |                       | 776,913            |           |                       |                                                                |                |          |
| Total assets                                 | \$9,552,634                       |           |                       | \$8,349,949        |           |                       |                                                                |                |          |
| Liabilities and Stockholders' Equity:        |                                   |           |                       |                    |           |                       |                                                                |                |          |
| Savings deposits                             | \$1,448,615                       | 530       | 0.07                  | \$1,174,765        | 405       | 0.07                  | 99                                                             | 26             | 125      |
| NOW accounts                                 | 1,372,540                         | 334       | 0.05                  | 1,189,047          | 322       | 0.05                  | 35                                                             | (23 )          | 12       |
| Money market deposits                        | 1,539,588                         | 959       | 0.13                  | 1,323,412          | 785       | 0.12                  | 133                                                            | 41             | 174      |
| Time deposits                                | 1,241,328                         | 3,104     | 0.50                  | 1,182,598          | 3,596     | 0.61                  | 191                                                            | (683 )         | (492 )   |
| Borrowed funds                               | 133,821                           | 136       | 0.20                  | 193,388            | 552       | 0.58                  | (135 )                                                         | (281 )         | (416 )   |
| Senior and subordinated debt                 | 200,955                           | 6,278     | 6.30                  | 190,965            | 6,031     | 6.37                  | 311                                                            | (64 )          | 247      |
| Total interest-bearing liabilities           | 5,936,847                         | 11,341    | 0.39                  | 5,254,175          | 11,691    | 0.45                  | 634                                                            | (984 )         | (350 )   |
| Demand deposits                              | 2,375,432                         |           |                       | 1,999,426          |           |                       |                                                                |                |          |
| Total funding sources                        | 8,312,279                         |           |                       | 7,253,601          |           |                       |                                                                |                |          |
| Other liabilities                            | 121,185                           |           |                       | 71,299             |           |                       |                                                                |                |          |
| Stockholders' equity - common                | 1,119,170                         |           |                       | 1,025,049          |           |                       |                                                                |                |          |
| Total liabilities and stockholders' equity   | \$9,552,634                       |           |                       | \$8,349,949        |           |                       |                                                                |                |          |
| Net interest income/margin <sup>(2)</sup>    |                                   | 161,260   | 3.77                  |                    | 135,877   | 3.63                  | \$21,138                                                       | \$4,245        | \$25,383 |
| Tax-equivalent adjustment                    |                                   | (5,576 )  |                       |                    | (5,875 )  |                       |                                                                |                |          |
| Net interest income (GAAP)                   |                                   | \$155,684 |                       |                    | \$130,002 |                       |                                                                |                |          |

- (1) For purposes of this table, changes which are not due solely to volume changes or rate changes are allocated to these categories on the basis of the percentage relationship of each to the sum of the two.
- (2) Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%. This item includes loans acquired through the Company's FDIC-assisted transactions subject to loss sharing
- (3) agreements ("covered loans") and the related FDIC indemnification asset. For additional discussion, see Note 1 and Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.
- Total average interest-earning assets and total average funding sources for each of the second quarter and first six months of 2015 increased \$1.1 billion compared to the same periods in 2014, reflecting the impact of acquisitions completed during the second half of 2014 and organic loan growth over the course of the year.
- Tax-equivalent net interest margin for the second quarter and first six months of 2015 was 3.76% and 3.77%, respectively, increasing 11 basis points from the second quarter of 2014 and 14 basis points from the first six months of 2014. Compared to both prior periods presented, growth in the tax-equivalent net interest margin resulted primarily from acquired loan accretion income related to the 2014 acquisitions and interest rate swaps, partially offset by the continued shift in the loan mix to floating rate loans. Excluding the acquired loan accretion related to the 2014 acquisitions, tax-equivalent net interest income would have been 3.59%

and 3.63% for the second quarter and first six months of 2015, respectively. In addition, the tax-equivalent net interest margin for the second quarter and first six months of 2014 was positively impacted by higher levels of income on covered interest-earning assets.

Compared to the second quarter and first six months of 2014, tax-equivalent net interest income increased by \$12.6 million and \$25.7 million, respectively. These increases were due primarily to the acquisitions completed in 2014, organic loan growth, and the prepayment of FHLB advances during the second quarter of 2014. Acquired loan accretion income related to the 2014 acquisitions contributed \$3.6 million and \$5.9 million to net interest income for the second quarter and first six months of 2015, respectively. This acquired loan accretion income includes accelerated accretion on purchased credit impaired ("PCI") loans of \$1.7 million for the second quarter and first six months of 2015.

#### Noninterest Income

A summary of noninterest income for the quarters and six months ended June 30, 2015 and 2014 are presented in the following table.

Table 4

#### Noninterest Income Analysis

(Dollar amounts in thousands)

|                                              | Quarters Ended<br>June 30, |          |          | Six Months Ended<br>June 30, |          |          |
|----------------------------------------------|----------------------------|----------|----------|------------------------------|----------|----------|
|                                              | 2015                       | 2014     | % Change | 2015                         | 2014     | % Change |
| Service charges on deposit accounts          | \$9,886                    | \$8,973  | 10.2     | \$19,157                     | \$16,993 | 12.7     |
| Wealth management fees                       | 7,433                      | 6,552    | 13.4     | 14,447                       | 13,009   | 11.1     |
| Card-based fees <sup>(1)</sup>               | 6,953                      | 5,969    | 16.5     | 13,355                       | 11,304   | 18.1     |
| Merchant servicing fees <sup>(2)</sup>       | 2,938                      | 2,916    | 0.8      | 5,603                        | 5,625    | (0.4 )   |
| Mortgage banking income                      | 1,439                      | 959      | 50.1     | 2,562                        | 2,074    | 23.5     |
| Other service charges, commissions, and fees | 2,924                      | 1,639    | 78.4     | 5,090                        | 3,052    | 66.8     |
| Total fee-based revenues                     | 31,573                     | 27,008   | 16.9     | 60,214                       | 52,057   | 15.7     |
| Net securities gains                         | 515                        | 4,517    | (88.6 )  | 1,027                        | 5,590    | (81.6 )  |
| Other income <sup>(3)</sup>                  | 1,900                      | 1,727    | 10.0     | 3,848                        | 2,855    | 34.8     |
| Loss on early extinguishment of debt         | —                          | (2,059 ) | (100.0 ) | —                            | (2,059 ) | (100.0 ) |
| Total noninterest income                     | \$33,988                   | \$31,193 | 9.0      | \$65,089                     | \$58,443 | 11.4     |

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

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

<sup>(2)</sup> Merchant servicing fees are included in other service charges, commissions, and fees in the Condensed Consolidated Statements of Income.

<sup>(3)</sup> Other income consists of various items, including BOLI income, safe deposit box rentals, miscellaneous recoveries, and gains on the sales of various assets.

Total fee-based revenues increased 16.9% and 15.7% from the second quarter and first six months of 2014, respectively, reflecting growth across most categories. The increase in service charges on deposit accounts and card-based fees compared to both prior periods presented resulted from growth in treasury management services, higher transaction volumes, and services provided to customers acquired in the acquisitions completed during the second half of 2014.

Compared to both prior periods, continued sales of fiduciary and investment advisory services to new and existing customers drove the increases in wealth management fees and the overall increase in assets under management to \$7.5 billion as of June 30, 2015, a rise of \$266.9 million, or 3.7%, from June 30, 2014.

During the quarter and six months ended June 30, 2015 we sold \$51.9 million and \$86.4 million, respectively, of 1-4 family mortgage loans in the secondary market compared to sales of \$32.2 million and \$83.0 million for the same periods in 2014.

Fee income generated by sales of capital market products to commercial clients and gains realized on the sale of leasing equipment contracts contributed to the increase in other service charges, commissions, and fees compared to both prior periods.

Total noninterest income for the second quarter and first six months of 2015 grew 9.0% and 11.4%, respectively, from the same periods in 2014. Net securities gains of \$4.5 million and \$5.6 million for the second quarter and first six months of 2014, respectively, were elevated compared to the same periods in 2015 due to the sales of certain securities. The loss on early extinguishment of debt resulted from the prepayment of \$114.6 million in FHLB advances during the second quarter of 2014.

## Noninterest Expense

A summary of noninterest expense for the quarters and six months ended June 30, 2015 and 2014 are presented in the following table.

Table 5

## Noninterest Expense Analysis

(Dollar amounts in thousands)

|                                              | Quarters Ended<br>June 30, |          |             | Six Months Ended<br>June 30, |           |             |
|----------------------------------------------|----------------------------|----------|-------------|------------------------------|-----------|-------------|
|                                              | 2015                       | 2014     | %<br>Change | 2015                         | 2014      | %<br>Change |
| Salaries and employee benefits:              |                            |          |             |                              |           |             |
| Salaries and wages                           | \$33,096                   | \$28,403 | 16.5        | \$65,890                     | \$55,786  | 18.1        |
| Retirement and other employee benefits       | 7,198                      | 6,158    | 16.9        | 15,120                       | 12,266    | 23.3        |
| Total salaries and employee benefits         | 40,294                     | 34,561   | 16.6        | 81,010                       | 68,052    | 19.0        |
| Net occupancy and equipment expense          | 9,622                      | 7,672    | 25.4        | 20,058                       | 17,063    | 17.6        |
| Professional services                        | 5,322                      | 5,691    | (6.5 )      | 10,431                       | 11,080    | (5.9 )      |
| Technology and related costs                 | 3,527                      | 3,104    | 13.6        | 7,214                        | 6,178     | 16.8        |
| Merchant card expense <sup>(1)</sup>         | 2,472                      | 2,383    | 3.7         | 4,669                        | 4,596     | 1.6         |
| Advertising and promotions <sup>(1)</sup>    | 2,344                      | 2,306    | 1.6         | 3,567                        | 3,919     | (9.0 )      |
| Net OREO expense                             | 1,861                      | 1,569    | 18.6        | 3,065                        | 3,125     | (1.9 )      |
| Cardholder expenses <sup>(1)</sup>           | 1,292                      | 1,081    | 19.5        | 2,560                        | 2,095     | 22.2        |
| Other expenses <sup>(1)</sup>                | 6,717                      | 5,820    | 15.4        | 13,534                       | 11,747    | 15.2        |
| Acquisition and integration related expenses | —                          | 830      | (100.0 )    | —                            | 830       | (100.0 )    |
| Total noninterest expense                    | \$73,451                   | \$65,017 | 13.0        | \$146,108                    | \$128,685 | 13.5        |
| Efficiency ratio <sup>(2)</sup>              | 62                         | % 64     | %           | 63                           | % 65      | %           |

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

The efficiency ratio expresses noninterest expense, excluding OREO expense, as a percentage of tax-equivalent net interest income plus total fee-based revenues, other income, and tax-equivalent adjusted BOLI income. BOLI

<sup>(2)</sup> income totaled \$1.5 million and \$2.3 million for the quarter and six months ended June 30, 2015, respectively, and \$773,000 and \$1.3 million for the same periods in 2014. In addition, acquisition and integration related expenses of \$830,000 are excluded from the efficiency ratio for the second quarter of 2014.

The efficiency ratio improved to 62% and 63% for the second quarter and first six months of 2015, respectively, from 64% and 65% for the same periods in 2014. The rise in total noninterest expense compared to both prior periods presented was impacted by operating costs of the 21 banking locations acquired during the second half of 2014, of which four have been closed. These costs primarily occurred within salaries and employee benefits, net occupancy and equipment expense, technology and related costs, and other expenses.

The decrease in professional services was driven by lower levels of loan remediation expenses and covered loan portfolio servicing costs compared to both prior periods presented.

Almost half of the other expenses category consists of FDIC premiums and other intangible amortization expenses. Compared to the second quarter and first six months of 2014, the increase resulted primarily from other intangible amortization and other miscellaneous operating expenses related to the 2014 acquisitions.



## Income Taxes

Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes is detailed in the following table.

Table 6

## Income Tax Expense Analysis

(Dollar amounts in thousands)

|                                  | Quarters Ended |          | Six Months Ended |          |   |
|----------------------------------|----------------|----------|------------------|----------|---|
|                                  | June 30,       |          | June 30,         |          |   |
|                                  | 2015           | 2014     | 2015             | 2014     |   |
| Income before income tax expense | \$33,439       | \$27,142 | \$62,113         | \$52,978 |   |
| Income tax expense:              |                |          |                  |          |   |
| Federal income tax expense       | \$8,844        | \$6,727  | \$15,920         | \$13,005 |   |
| State income tax expense         | 2,021          | 1,915    | 3,737            | 3,809    |   |
| Total income tax expense         | \$10,865       | \$8,642  | \$19,657         | \$16,814 |   |
| Effective income tax rate        | 32.5           | % 31.8   | % 31.6           | % 31.7   | % |

Federal income tax expense and the related effective income tax rate are influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax income and state income taxes. State income tax expense and the related effective tax rate are driven by the amount of state tax-exempt income in relation to pre-tax income and state tax rules related to consolidated/combined reporting and sourcing of income and expense. The increase in total income tax expense for the quarter and six months ended June 30, 2015 compared to the same periods in 2014 resulted primarily from higher levels of income subject to tax at statutory rates, partly offset by decreases in state statutory rates.

Our accounting policies for the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 15 to the Consolidated Financial Statements of our 2014 10-K.

## FINANCIAL CONDITION

## Investment Portfolio Management

Securities that we have the intent and ability to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premiums and accretion of discounts. Trading securities are carried at fair value 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 based on a number of factors, including expected loan growth, anticipated changes in collateralized public funds on account, the interest rate environment, and the related value of various segments of the securities markets. The following table provides a valuation summary of our investment portfolio.

Table 7

## Investment Portfolio Valuation Summary

(Dollar amounts in thousands)

|                                                          | As of June 30, 2015 |                                        |             |               | As of December 31, 2014 |                                        |             |               |
|----------------------------------------------------------|---------------------|----------------------------------------|-------------|---------------|-------------------------|----------------------------------------|-------------|---------------|
|                                                          | Amortized<br>Cost   | Net<br>Unrealized<br>Gains<br>(Losses) | Fair Value  | % of<br>Total | Amortized<br>Cost       | Net<br>Unrealized<br>Gains<br>(Losses) | Fair Value  | % of<br>Total |
| <b>Securities Available-for-Sale</b>                     |                     |                                        |             |               |                         |                                        |             |               |
| U.S. agency securities                                   | \$20,312            | \$172                                  | \$20,484    | 1.8           | \$30,297                | \$134                                  | \$30,431    | 2.5           |
| Collateralized mortgage obligations ("CMOs")             | 525,357             | (3,782 )                               | 521,575     | 44.7          | 538,882                 | (4,726 )                               | 534,156     | 44.0          |
| Other mortgage-backed securities ("MBSs")                | 179,436             | 2,407                                  | 181,843     | 15.6          | 155,443                 | 4,322                                  | 159,765     | 13.1          |
| Municipal securities                                     | 377,381             | 5,607                                  | 382,988     | 32.8          | 414,255                 | 9,565                                  | 423,820     | 34.9          |
| Trust preferred collateralized debt obligations ("CDOs") | 48,231              | (16,227 )                              | 32,004      | 2.7           | 48,502                  | (14,728 )                              | 33,774      | 2.8           |
| Corporate debt securities                                | 31                  | 49                                     | 80          | —             | 1,719                   | 83                                     | 1,802       | 0.1           |
| Equity securities                                        | 3,377               | 56                                     | 3,433       | 0.3           | 3,224                   | 37                                     | 3,261       | 0.3           |
| Total available-for-sale securities                      | 1,154,125           | (11,718 )                              | 1,142,407   | 97.9          | 1,192,322               | (5,313 )                               | 1,187,009   | 97.7          |
| <b>Securities Held-to-Maturity</b>                       |                     |                                        |             |               |                         |                                        |             |               |
| Municipal securities                                     | 24,292              | 253                                    | 24,545      | 2.1           | 26,555                  | 1,115                                  | 27,670      | 2.3           |
| Total securities                                         | \$1,178,417         | \$(11,465 )                            | \$1,166,952 | 100.0         | \$1,218,877             | \$(4,198 )                             | \$1,214,679 | 100.0         |

## Portfolio Composition

As of June 30, 2015, our available-for-sale securities portfolio decreased 3.8% compared to December 31, 2014. The reduction in U.S. agency securities, CMOs, and municipal securities from December 31, 2014 resulted from sales of \$46.3 million and maturities, calls, and prepayments of \$148.8 million, offset by purchases of \$159.3 million. For additional detail regarding sales of securities see the "Securities Gains and Losses" section below.

Approximately 97% of our available-for-sale securities portfolio is comprised of U.S. agency securities, CMOs, other MBSs, and municipal securities. The remainder of the portfolio consists of eleven CDOs with a total fair value of \$32.0 million and miscellaneous other securities with a total fair value of \$3.5 million.

Investments in municipal securities comprised 33.5% of the total available-for-sale securities portfolio at June 30, 2015. 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 June 30, 2015                  |                                |                                     |   | As of December 31, 2014              |                                |                                     |   |
|-------------------------------------|--------------------------------------|--------------------------------|-------------------------------------|---|--------------------------------------|--------------------------------|-------------------------------------|---|
|                                     | Effective<br>Duration <sup>(1)</sup> | Average<br>Life <sup>(2)</sup> | Yield to<br>Maturity <sup>(3)</sup> |   | Effective<br>Duration <sup>(1)</sup> | Average<br>Life <sup>(2)</sup> | Yield to<br>Maturity <sup>(3)</sup> |   |
| Securities Available-for-Sale       |                                      |                                |                                     |   |                                      |                                |                                     |   |
| U.S. agency securities              | 2.96                                 | % 3.63                         | 2.93                                | % | 3.32                                 | % 3.72                         | 2.98                                | % |
| CMOs                                | 3.66                                 | % 3.79                         | 1.86                                | % | 3.45                                 | % 3.67                         | 1.91                                | % |
| MBSs                                | 3.69                                 | % 4.58                         | 2.49                                | % | 2.88                                 | % 4.18                         | 2.77                                | % |
| Municipal securities                | 3.02                                 | % 2.54                         | 5.25                                | % | 2.89                                 | % 2.37                         | 5.50                                | % |
| CDOs                                | N/M                                  | N/M                            | N/M                                 |   | N/M                                  | N/M                            | N/M                                 |   |
| Corporate debt securities           | N/M                                  | N/M                            | N/M                                 |   | 0.45                                 | % 0.50                         | 6.72                                | % |
| Equity securities                   | N/M                                  | N/M                            | N/M                                 |   | N/M                                  | N/M                            | N/M                                 |   |
| Total available-for-sale securities | 3.43                                 | % 3.49                         | 3.14                                | % | 3.16                                 | % 3.26                         | 3.37                                | % |
| Securities Held-to-Maturity         |                                      |                                |                                     |   |                                      |                                |                                     |   |
| Municipal securities                | 5.70                                 | % 8.09                         | 4.51                                | % | 5.64                                 | % 7.85                         | 4.60                                | % |
| Total securities                    | 3.48                                 | % 3.59                         | 3.17                                | % | 3.21                                 | % 3.37                         | 3.40                                | % |

N/M - Not meaningful.

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

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

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

#### Effective Duration

The average life and effective duration of our available-for-sale securities portfolio as of June 30, 2015 were both higher than December 31, 2014 at 3.49 years and 3.43%, respectively. These increases resulted mainly from slower prepayment speeds, reflecting the rise in interest rates, combined with purchases of CMOs and MBSs during the second quarter of 2015. In addition, \$1.7 million of corporate debt securities matured during the second quarter of 2015 and the proceeds were reinvested into other types of securities.

#### Securities Gains and Losses

Net securities gains for the second quarter and first six months of 2015 were \$515,000 and \$1.0 million, respectively. During the second quarter of 2015, sales consisted of MBS securities with carrying values that totaled \$10.6 million. Net securities gains for the first six months of 2015 also consisted of certain CMOs, MBSs, and municipal security sales with carrying values of \$46.3 million. No impairment charges were recognized during the second quarter and first six months of 2015.

Net securities gains for the second quarter and first six months of 2014 were \$4.5 million and \$5.6 million, respectively. During the first six months of 2014, we sold a non-accrual CDO with a carrying value of \$1.3 million at a gain of \$3.5 million and other investments at gains totaling \$2.1 million.

#### Unrealized Gains and Losses

Unrealized gains and losses on securities available-for-sale represent the difference between the aggregate cost and fair value of the portfolio. These amounts are presented in the Consolidated Statements of Comprehensive Income and reported as a separate component of stockholders' equity in accumulated other comprehensive loss on an after-tax basis. This balance sheet component will fluctuate as current market interest rates and conditions change and affect the aggregate fair value of the portfolio. Net unrealized losses were \$11.7 million as of June 30, 2015 compared to \$5.3

million as of December 31, 2014.

Net unrealized losses in the CMO portfolio totaled \$3.8 million at June 30, 2015 compared to \$4.7 million as of December 31, 2014. Net unrealized losses on CMOs include unrealized losses of \$6.1 million as of June 30, 2015. CMOs are either backed by

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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 June 30, 2015 represents an other-than-temporary securities impairment ("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 June 30, 2015, net unrealized gains in the municipal securities portfolio totaled \$5.6 million compared to \$9.6 million as of December 31, 2014. Net unrealized gains on municipal securities include unrealized losses of \$1.7 million and \$1.0 million as of June 30, 2015 and December 31, 2014, respectively. 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 OTTI.

Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The net unrealized losses on these securities were \$16.2 million as of June 30, 2015 and \$14.7 million as of December 31, 2014. We do not believe the unrealized losses on the CDOs as of June 30, 2015 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 12 of "Notes to the Condensed Consolidated Financial Statements," in Part I, Item 1 of this Form 10-Q.

#### LOAN PORTFOLIO AND CREDIT QUALITY

##### Portfolio Composition

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 85.3% of total loans, excluding covered loans, at June 30, 2015. Consistent with our emphasis on relationship banking, the majority of our corporate loans are made to our core, multi-relationship customers. The customers usually maintain deposit relationships and utilize our other banking services, such as cash management or wealth management services. To maximize loan income within an acceptable level of risk, we have certain lending policies and procedures that management reviews on a regular basis. In addition, management receives periodic reporting related to loan production, loan quality, credit concentrations, loan delinquencies, and non-performing and 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 9

## Loan Portfolio

(Dollar amounts in thousands)

|                                      | As of<br>June 30, 2015 | % of<br>Total | As of<br>December 31,<br>2014 | % of<br>Total | Annualized %<br>Change |
|--------------------------------------|------------------------|---------------|-------------------------------|---------------|------------------------|
| Commercial and industrial            | \$2,366,056            | 34.8          | \$2,253,556                   | 33.9          | 10.0                   |
| Agricultural                         | 377,410                | 5.6           | 358,249                       | 5.4           | 10.7                   |
| Commercial real estate:              |                        |               |                               |               |                        |
| Office                               | 488,863                | 7.2           | 494,637                       | 7.4           | (2.3 )                 |
| Retail                               | 432,880                | 6.4           | 452,225                       | 6.8           | (8.6 )                 |
| Industrial                           | 510,759                | 7.5           | 531,517                       | 8.0           | (7.8 )                 |
| Multi-family                         | 557,947                | 8.2           | 564,421                       | 8.4           | (2.3 )                 |
| Construction                         | 190,970                | 2.8           | 204,236                       | 3.1           | (13.0 )                |
| Other commercial real estate         | 871,119                | 12.8          | 887,897                       | 13.3          | (3.8 )                 |
| Total commercial real estate         | 3,052,538              | 44.9          | 3,134,933                     | 47.0          | (5.3 )                 |
| Total corporate loans                | 5,796,004              | 85.3          | 5,746,738                     | 86.3          | 1.7                    |
| Home equity                          | 599,320                | 8.8           | 543,185                       | 8.2           | 20.7                   |
| 1-4 family mortgages                 | 283,562                | 4.2           | 291,463                       | 4.4           | (5.4 )                 |
| Installment                          | 113,382                | 1.7           | 76,032                        | 1.1           | 98.2                   |
| Total consumer loans                 | 996,264                | 14.7          | 910,680                       | 13.7          | 18.8                   |
| Total loans, excluding covered loans | 6,792,268              | 100.0         | 6,657,418                     | 100.0         | 4.1                    |
| Covered loans                        | 57,917                 |               | 79,435                        |               | (54.2 )                |
| Total loans                          | \$6,850,185            |               | \$6,736,853                   |               | 3.4                    |

Total loans, excluding covered loans, of \$6.8 billion grew 4.1% on an annualized basis from December 31, 2014.

Loan growth was concentrated within our commercial and industrial and agricultural loan categories and reflects the continued expansion into certain sector-based lending areas such as asset-based lending, healthcare, and leasing. The rise in consumer loans reflects the purchase of \$55.1 million of high quality, shorter-duration, floating rate home equity loans during the first quarter of 2015 and targeted sales efforts in our installment portfolio.

## Commercial, Industrial, and Agricultural Loans

Commercial, industrial, and agricultural loans represent 40.4% of total loans, excluding covered loans, and totaled \$2.7 billion at June 30, 2015, an increase of \$131.7 million, or 10.1% on an annualized basis, from December 31, 2014. Our commercial and industrial loans are a diverse group of loans generally located in the Chicago metropolitan area with purposes that range from supporting seasonal working capital needs to term financing of equipment. 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 values associated with the completed projects and are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analyses of absorption and lease rates, and financial analyses of the developers and property owners. Sources of repayment may be permanent 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 presents commercial real estate loan detail as of June 30, 2015 and December 31, 2014.

Table 10

Commercial Real Estate Loans

(Dollar amounts in thousands)

|                                      | As of<br>June 30, 2015 | % of<br>Total | As of<br>December 31,<br>2014 | % of<br>Total |
|--------------------------------------|------------------------|---------------|-------------------------------|---------------|
| Office, retail, and industrial:      |                        |               |                               |               |
| Office                               | \$488,863              | 16.0          | \$494,637                     | 15.8          |
| Retail                               | 432,880                | 14.2          | 452,225                       | 14.4          |
| Industrial                           | 510,759                | 16.7          | 531,517                       | 17.0          |
| Total office, retail, and industrial | 1,432,502              | 46.9          | 1,478,379                     | 47.2          |
| Multi-family                         | 557,947                | 18.3          | 564,421                       | 18.0          |
| Construction                         | 190,970                | 6.3           | 204,236                       | 6.5           |
| Other commercial real estate:        |                        |               |                               |               |
| Rental properties                    | 113,905                | 3.7           | 123,627                       | 3.9           |
| Service stations and truck stops     | 80,451                 | 2.6           | 84,108                        | 2.7           |
| Warehouses and storage               | 125,144                | 4.1           | 128,396                       | 4.1           |
| Hotels                               | 41,617                 | 1.4           | 46,409                        | 1.5           |
| Restaurants                          | 74,884                 | 2.4           | 74,490                        | 2.4           |
| Automobile dealers                   | 52,817                 | 1.7           | 53,221                        | 1.7           |
| Recreational                         | 47,492                 | 1.6           | 48,718                        | 1.5           |
| Religious                            | 41,668                 | 1.4           | 36,427                        | 1.2           |
| Multi-use properties                 | 187,872                | 6.2           | 191,011                       | 6.1           |
| Other                                | 105,269                | 3.4           | 101,490                       | 3.2           |
| Total other commercial real estate   | 871,119                | 28.5          | 887,897                       | 28.3          |
| Total commercial real estate         | \$3,052,538            | 100.0         | \$3,134,933                   | 100.0         |

Commercial real estate loans represent 44.9% of total loans, excluding covered loans, and totaled \$3.1 billion at June 30, 2015, decreasing 5.3% on an annualized basis from December 31, 2014. Owner-occupied commercial real estate loans represent approximately 40% of total commercial real estate loans, excluding multi-family and construction loans, at June 30, 2015 and December 31, 2014.

Consumer Loans

Consumer loans represent 14.7% of total loans, excluding covered loans, and totaled \$996.3 million at June 30, 2015, an increase of \$85.6 million from 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.



## 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 Condensed Consolidated Financial Statements" in Part 1, Item 1 of this Form 10-Q.

Table 11

## Loan Portfolio by Performing/Non-performing Status

(Dollar amounts in thousands)

|                                      | Total<br>Loans | Current     | Accruing<br>30-89 Days<br>Past Due | 90 Days<br>Past Due | TDRs    | Non-accrual |
|--------------------------------------|----------------|-------------|------------------------------------|---------------------|---------|-------------|
| As of June 30, 2015                  |                |             |                                    |                     |         |             |
| Commercial and industrial            | \$2,366,056    | \$2,349,611 | \$4,782                            | \$264               | \$299   | \$11,100    |
| Agricultural                         | 377,410        | 376,854     | 239                                | —                   | —       | 317         |
| Commercial real estate:              |                |             |                                    |                     |         |             |
| Office                               | 488,863        | 483,182     | 1,840                              | 708                 | —       | 3,133       |
| Retail                               | 432,880        | 420,554     | 8,345                              | 89                  | 389     | 3,503       |
| Industrial                           | 510,759        | 503,827     | 800                                | —                   | 169     | 5,963       |
| Multi-family                         | 557,947        | 551,388     | 4,192                              | 475                 | 605     | 1,287       |
| Construction                         | 190,970        | 186,030     | —                                  | —                   | —       | 4,940       |
| Other commercial real estate         | 871,119        | 860,693     | 3,917                              | 646                 | 350     | 5,513       |
| Total commercial real estate         | 3,052,538      | 3,005,674   | 19,094                             | 1,918               | 1,513   | 24,339      |
| Total corporate loans                | 5,796,004      | 5,732,139   | 24,115                             | 2,182               | 1,812   | 35,756      |
| Home equity                          | 599,320        | 590,897     | 2,541                              | 250                 | 390     | 5,242       |
| 1-4 family mortgages                 | 283,562        | 277,059     | 1,407                              | 220                 | 865     | 4,011       |
| Installment                          | 113,382        | 112,728     | 562                                | 92                  | —       | —           |
| Total consumer loans                 | 996,264        | 980,684     | 4,510                              | 562                 | 1,255   | 9,253       |
| Total loans, excluding covered loans | 6,792,268      | 6,712,823   | 28,625                             | 2,744               | 3,067   | 45,009      |
| Covered loans                        | 57,917         | 52,740      | 232                                | 1,233               | —       | 3,712       |
| Total loans                          | \$6,850,185    | \$6,765,563 | \$28,857                           | \$3,977             | \$3,067 | \$48,721    |
| 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    |



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

Table 12

Non-performing Assets and Past Due Loans

(Dollar amounts in thousands)

|                                                                 | As of<br>June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 | June 30,<br>2014 |  |   |
|-----------------------------------------------------------------|---------------------------|-------------------|----------------------|-----------------------|------------------|--|---|
| Non-performing assets, excluding covered loans and covered OREO |                           |                   |                      |                       |                  |  |   |
| Non-accrual loans                                               | \$45,009                  | \$48,077          | \$59,971             | \$64,528              | \$66,728         |  |   |
| 90 days or more past due loans                                  | 2,744                     | 3,564             | 1,173                | 6,062                 | 3,533            |  |   |
| Total non-performing loans                                      | 47,753                    | 51,641            | 61,144               | 70,590                | 70,261           |  |   |
| Accruing TDRs                                                   | 3,067                     | 3,581             | 3,704                | 5,449                 | 5,697            |  |   |
| OREO                                                            | 24,471                    | 26,042            | 26,898               | 29,165                | 30,331           |  |   |
| Total non-performing assets                                     | \$75,291                  | \$81,264          | \$91,746             | \$105,204             | \$106,289        |  |   |
| 30-89 days past due loans                                       | \$28,625                  | \$18,631          | \$20,073             | \$17,321              | \$24,167         |  |   |
| Non-accrual loans to total loans                                | 0.66                      | % 0.71            | % 0.90               | % 1.00                | % 1.14           |  | % |
| Non-performing loans to total loans                             | 0.70                      | % 0.77            | % 0.92               | % 1.10                | % 1.20           |  | % |
| Non-performing assets to loans plus OREO                        | 1.10                      | % 1.20            | % 1.37               | % 1.63                | % 1.81           |  | % |
| Non-performing covered loans and covered OREO <sup>(1)</sup>    |                           |                   |                      |                       |                  |  |   |
| Non-accrual loans                                               | \$3,712                   | \$4,570           | \$6,186              | \$10,905              | \$13,060         |  |   |
| 90 days or more past due loans                                  | 1,233                     | 6,390             | 5,002                | 7,031                 | 8,464            |  |   |
| Total non-performing loans                                      | 4,945                     | 10,960            | 11,188               | 17,936                | 21,524           |  |   |
| OREO                                                            | 3,759                     | 7,309             | 8,068                | 9,277                 | 9,825            |  |   |
| Total non-performing assets                                     | \$8,704                   | \$18,269          | \$19,256             | \$27,213              | \$31,349         |  |   |
| 30-89 days past due loans                                       | \$232                     | \$481             | \$2,565              | \$802                 | \$6,286          |  |   |
| Total non-performing assets                                     |                           |                   |                      |                       |                  |  |   |
| Non-accrual loans                                               | \$48,721                  | \$52,647          | \$66,157             | \$75,433              | \$79,788         |  |   |
| 90 days or more past due loans                                  | 3,977                     | 9,954             | 6,175                | 13,093                | 11,997           |  |   |
| Total non-performing loans                                      | 52,698                    | 62,601            | 72,332               | 88,526                | 91,785           |  |   |
| Accruing TDRs                                                   | 3,067                     | 3,581             | 3,704                | 5,449                 | 5,697            |  |   |
| OREO                                                            | 28,230                    | 33,351            | 34,966               | 38,442                | 40,156           |  |   |
| Total non-performing assets                                     | \$83,995                  | \$99,533          | \$111,002            | \$132,417             | \$137,638        |  |   |
| 30-89 days past due loans                                       | \$28,857                  | \$19,112          | \$22,638             | \$18,123              | \$30,453         |  |   |
| Non-accrual loans to total loans                                | 0.71                      | % 0.77            | % 0.98               | % 1.16                | % 1.34           |  | % |
| Non-performing loans to total loans                             | 0.77                      | % 0.92            | % 1.07               | % 1.36                | % 1.54           |  | % |
| Non-performing assets to loans plus OREO                        | 1.22                      | % 1.46            | % 1.64               | % 2.02                | % 2.30           |  | % |

Covered loans and covered OREO are covered by FDIC Agreements that substantially mitigate the risk of loss.

Past due covered loans in the tables above are determined by borrower performance compared to contractual terms,

<sup>(1)</sup> but are generally considered accruing loans since they continue to perform in accordance with our expectations of cash flows. For a discussion of covered loans, see Note 1 and Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

Total non-performing assets, excluding covered loans and covered OREO, decreased by \$16.5 million, or 17.9%, from December 31, 2014 and \$31.0 million, or 29.2%, from June 30, 2014, due mainly to lower levels of non-accrual loans.

The improvement in non-accrual loans compared to December 31, 2014 related primarily to the final resolution of a large commercial loan relationship originally identified in the third quarter of 2014, for which a specific reserve was then established.

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## TDRs

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

Table 13

## TDRs by Type

(Dollar amounts in thousands)

|                                   | As of<br>June 30, 2015 |         | December 31, 2014  |          | June 30, 2014      |         |
|-----------------------------------|------------------------|---------|--------------------|----------|--------------------|---------|
|                                   | Number<br>of Loans     | Amount  | Number<br>of Loans | Amount   | Number<br>of Loans | Amount  |
| Commercial and industrial         | 5                      | \$1,376 | 7                  | \$19,068 | 5                  | \$3,001 |
| Commercial real estate:           |                        |         |                    |          |                    |         |
| Retail                            | 1                      | 389     | 1                  | 413      | —                  | —       |
| Industrial                        | 1                      | 169     | 1                  | 173      | 1                  | 178     |
| Multi-family                      | 3                      | 800     | 5                  | 1,119    | 4                  | 862     |
| Other commercial real estate      | 3                      | 350     | 5                  | 616      | 6                  | 636     |
| Total commercial real estate      | 8                      | 1,708   | 12                 | 2,321    | 11                 | 1,676   |
| Total corporate loans             | 13                     | 3,084   | 19                 | 21,389   | 16                 | 4,677   |
| Home equity                       | 16                     | 1,082   | 17                 | 1,157    | 19                 | 1,353   |
| 1-4 family mortgages              | 9                      | 971     | 10                 | 1,062    | 11                 | 1,367   |
| Total consumer loans              | 25                     | 2,053   | 27                 | 2,219    | 30                 | 2,720   |
| Total TDRs                        | 38                     | \$5,137 | 46                 | \$23,608 | 46                 | \$7,397 |
| Accruing TDRs                     | 23                     | \$3,067 | 29                 | \$3,704  | 31                 | \$5,697 |
| Non-accrual TDRs                  | 15                     | 2,070   | 17                 | 19,904   | 15                 | 1,700   |
| Total TDRs                        | 38                     | \$5,137 | 46                 | \$23,608 | 46                 | \$7,397 |
| Year-to-date charge-offs on TDRs  |                        | \$2,626 |                    | \$8,457  |                    | \$152   |
| Specific reserves related to TDRs |                        | 781     |                    | 1,765    |                    | —       |

TDRs totaled \$5.1 million at June 30, 2015, decreasing \$18.5 million from December 31, 2014. Accruing TDRs were \$3.1 million at June 30, 2015 compared to \$3.7 million at December 31, 2014.

Non-accrual TDRs declined \$17.8 million from December 31, 2014, which was driven primarily by the final resolution of a large commercial loan relationship originally identified in the third quarter of 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 their contractual terms, but we have concerns about the ability of the borrower to continue to comply with loan terms due to the borrower's operating or financial difficulties.

Table 14

## Performing Potential Problem Loans

(Dollar amounts in thousands)

|                                             | As of June 30, 2015               |                            |                      | As of December 31, 2014           |                            |                      |
|---------------------------------------------|-----------------------------------|----------------------------|----------------------|-----------------------------------|----------------------------|----------------------|
|                                             | Special<br>Mention <sup>(1)</sup> | Substandard <sup>(2)</sup> | Total <sup>(3)</sup> | Special<br>Mention <sup>(1)</sup> | Substandard <sup>(2)</sup> | Total <sup>(3)</sup> |
| Commercial and industrial                   | \$62,191                          | \$39,731                   | \$101,922            | \$84,615                          | \$30,809                   | \$115,424            |
| Agricultural                                | 5,142                             | 252                        | 5,394                | 294                               | —                          | 294                  |
| Commercial real estate:                     |                                   |                            |                      |                                   |                            |                      |
| Office, retail, and industrial              | 24,255                            | 36,801                     | 61,056               | 38,718                            | 32,251                     | 70,969               |
| Multi-family                                | 3,925                             | 4,251                      | 8,176                | 5,951                             | 3,774                      | 9,725                |
| Construction                                | 5,038                             | 10,225                     | 15,263               | 5,776                             | 12,487                     | 18,263               |
| Other commercial real estate                | 29,760                            | 8,609                      | 38,369               | 32,225                            | 19,407                     | 51,632               |
| Total commercial real estate                | 62,978                            | 59,886                     | 122,864              | 82,670                            | 67,919                     | 150,589              |
| Total performing potential<br>problem loans | \$130,311                         | \$99,869                   | \$230,180            | \$167,579                         | \$98,728                   | \$266,307            |

(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 accruing TDRs of \$1.3 million as of June 30, 2015 and \$1.8 million as of December 31, 2014.

Performing potential problem loans totaled \$230.2 million as of June 30, 2015, down \$36.1 million, or 13.6%, from December 31, 2014, with improvement across the majority of corporate loan categories.

## OREO

OREO consists of properties acquired as the result of borrower defaults on loans. OREO was \$28.2 million at June 30, 2015, decreasing \$6.7 million, or 19.3%, from December 31, 2014.

Table 15

## OREO by Type

(Dollar amounts in thousands)

|                                    | As of<br>June 30, 2015 | December 31, 2014 | June 30, 2014 |
|------------------------------------|------------------------|-------------------|---------------|
| Single-family homes                | \$2,887                | \$2,433           | \$1,982       |
| Land parcels:                      |                        |                   |               |
| Raw land                           | 1,586                  | 1,917             | 3,843         |
| Farm land                          | —                      | 923               | —             |
| Commercial lots                    | 8,857                  | 9,295             | 11,485        |
| Single-family lots                 | 1,080                  | 1,279             | 1,634         |
| Total land parcels                 | 11,523                 | 13,414            | 16,962        |
| Multi-family units                 | 689                    | 758               | 868           |
| Commercial properties              | 9,372                  | 10,293            | 10,519        |
| Total OREO, excluding covered OREO | 24,471                 | 26,898            | 30,331        |
| Covered OREO                       | 3,759                  | 8,068             | 9,825         |

|            |          |          |          |
|------------|----------|----------|----------|
| Total OREO | \$28,230 | \$34,966 | \$40,156 |
|------------|----------|----------|----------|

## OREO Activity

A rollforward of OREO balances for the quarters and six months ended June 30, 2015 and 2014 are presented in the following table.

Table 16

## OREO Rollforward

(Dollar amounts in thousands)

|                            | Quarters Ended June 30,<br>2015 |                 |          | 2014     |                 |          |
|----------------------------|---------------------------------|-----------------|----------|----------|-----------------|----------|
|                            | OREO                            | Covered<br>OREO | Total    | OREO     | Covered<br>OREO | Total    |
| Beginning balance          | \$26,042                        | \$7,309         | \$33,351 | \$30,026 | \$7,355         | \$37,381 |
| Transfers from loans       | 1,892                           | 1,727           | 3,619    | 2,300    | 4,477           | 6,777    |
| Proceeds from sales        | (2,557)                         | (5,319)         | (7,876)  | (1,218)  | (2,077)         | (3,295)  |
| Gains on sales of OREO     | 333                             | 115             | 448      | 143      | 98              | 241      |
| OREO valuation adjustments | (1,239)                         | (73)            | (1,312)  | (920)    | (28)            | (948)    |
| Ending balance             | \$24,471                        | \$3,759         | \$28,230 | \$30,331 | \$9,825         | \$40,156 |

  

|                            | Six Months Ended June 30,<br>2015 |                 |          | 2014     |                 |          |
|----------------------------|-----------------------------------|-----------------|----------|----------|-----------------|----------|
|                            | OREO                              | Covered<br>OREO | Total    | OREO     | Covered<br>OREO | Total    |
| Beginning balance          | \$26,898                          | \$8,068         | \$34,966 | \$32,473 | \$8,863         | \$41,336 |
| Transfers from loans       | 2,867                             | 1,790           | 4,657    | 3,002    | 6,337           | 9,339    |
| Proceeds from sales        | (4,451)                           | (6,133)         | (10,584) | (3,697)  | (5,463)         | (9,160)  |
| Gains on sales of OREO     | 1,028                             | 213             | 1,241    | 607      | 100             | 707      |
| OREO valuation adjustments | (1,871)                           | (179)           | (2,050)  | (2,054)  | (12)            | (2,066)  |
| Ending balance             | \$24,471                          | \$3,759         | \$28,230 | \$30,331 | \$9,825         | \$40,156 |

#### 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. In addition, certain acquired loans that have renewed subsequent to their respective acquisition dates are no longer classified as acquired loans. Instead, they are included with our loan population that is allocated an allowance in accordance with our allowance for loan losses methodology.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk ratings by regulatory authorities. Management believes that the allowance for credit losses is an appropriate estimate of credit losses inherent in the loan portfolio as of June 30, 2015.

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

An allowance for credit losses is established on loans originated by the Bank, acquired loans, and covered loans. Additional discussion regarding acquired and covered loans is discussed in Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q. The following table provides additional details related to loans, including covered loans, and acquired loan components of the allowance for credit losses and the remaining acquisition adjustment associated with acquired loans for the quarter ended June 30, 2015.

Table 17

## Allowance for Credit Losses and Acquisition Adjustment

(Dollar amounts in thousands)

|                                                    | Loans and Covered<br>Loans, Excluding<br>Acquired Loans | Acquired Loans <sup>(1)</sup> | Total       |   |
|----------------------------------------------------|---------------------------------------------------------|-------------------------------|-------------|---|
| Six months ended June 30, 2015                     |                                                         |                               |             |   |
| Beginning balance                                  | \$74,510                                                | \$—                           | \$74,510    |   |
| Net charge-offs                                    | (13,783)                                                | —                             | (13,783)    | ) |
| Provision for loan and covered loan losses         | 11,731                                                  | 821                           | 12,552      |   |
| Ending balance                                     | \$72,458                                                | \$821                         | \$73,279    |   |
| As of June 30, 2015                                |                                                         |                               |             |   |
| Total loans                                        | \$6,263,170                                             | \$587,015                     | \$6,850,185 |   |
| Remaining acquisition adjustment <sup>(2)</sup>    | N/A                                                     | 17,538                        | 17,538      |   |
| Allowance for credit losses to total loans         | 1.16                                                    | % 0.14                        | % 1.07      | % |
| Remaining acquisition adjustment to acquired loans | N/A                                                     | 2.99                          | % N/A       |   |
| As of December 31, 2014                            |                                                         |                               |             |   |
| Total loans                                        | \$6,018,591                                             | \$718,262                     | \$6,736,853 |   |
| Remaining acquisition adjustment <sup>(2)</sup>    | N/A                                                     | 24,737                        | 24,737      |   |
| Allowance for credit losses to total loans         | 1.24                                                    | % N/A                         | 1.11        | % |
| Remaining acquisition adjustment to acquired loans | N/A                                                     | 3.44                          | % N/A       |   |
| N/A - Not applicable.                              |                                                         |                               |             |   |

<sup>(1)</sup> These amounts and ratios relate to the loans acquired in the acquisitions completed during 2014.

The remaining acquisition adjustment consists of \$7.2 million and \$10.3 million relating to PCI and non-purchased

<sup>(2)</sup> credit impaired ("Non-PCI") loans, respectively, as of June 30, 2015, and \$11.2 million and \$13.5 million relating to PCI and Non-PCI loans, respectively, as of December 31, 2014.

Excluding acquired loans, the total allowance for credit losses to total loans is 1.16% as of June 30, 2015. The acquisition adjustment decreased \$7.2 million during the first six months of 2015, of which \$5.9 million accreted into interest income, resulting in a remaining acquisition adjustment as a percent of acquired loans of 2.99%. Acquired loans that are renewed at market terms are no longer classified as acquired loans. These loans totaled \$54.8 million as of June 30, 2015 and are included in loans and covered loans, excluding acquired loans, in the table above and allocated an allowance in accordance with our allowance for loan losses methodology. During the second quarter of 2015, an allowance of \$821,000 was established on loans acquired during 2014.

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

|                                                             | Quarters Ended   |                   |                      |                          |                  |
|-------------------------------------------------------------|------------------|-------------------|----------------------|--------------------------|------------------|
|                                                             | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September<br>30,<br>2014 | June 30,<br>2014 |
| Change in allowance for credit losses                       |                  |                   |                      |                          |                  |
| Beginning balance                                           | \$72,806         | \$74,510          | \$74,722             | \$79,942                 | \$82,248         |
| Loan charge-offs:                                           |                  |                   |                      |                          |                  |
| Commercial, industrial, and agricultural                    | 4,127            | 7,449             | 1,882                | 9,763                    | 2,099            |
| Office, retail, and industrial                              | 1,894            | 156               | 237                  | 2,514                    | 3,511            |
| Multi-family                                                | 469              | 28                | 560                  | 26                       | 267              |
| Construction                                                | 15               | —                 | —                    | 157                      | 234              |
| Other commercial real estate                                | 527              | 1,317             | 1,139                | 1,363                    | 561              |
| Consumer                                                    | 751              | 800               | 569                  | 3,148                    | 1,829            |
| Total loan charge-offs                                      | 7,783            | 9,750             | 4,387                | 16,971                   | 8,501            |
| Recoveries of loan charge-offs:                             |                  |                   |                      |                          |                  |
| Commercial, industrial, and agricultural                    | 854              | 792               | 665                  | 716                      | 259              |
| Office, retail, and industrial                              | 32               | 322               | 94                   | 55                       | 290              |
| Multi-family                                                | 3                | 4                 | 84                   | —                        | 2                |
| Construction                                                | 203              | 17                | 6                    | —                        | 2                |
| Other commercial real estate                                | 1,130            | 266               | 1,386                | 108                      | 89               |
| Consumer                                                    | 319              | 321               | 227                  | 150                      | 214              |
| Total recoveries of loan charge-offs                        | 2,541            | 1,722             | 2,462                | 1,029                    | 856              |
| Net loan charge-offs, excluding covered loan charge-offs    | 5,242            | 8,028             | 1,925                | 15,942                   | 7,645            |
| Net covered loan charge-offs                                | 285              | 228               | 146                  | 5                        | 2                |
| Net loan and covered loan charge-offs                       | 5,527            | 8,256             | 2,071                | 15,947                   | 7,647            |
| Provision for loan and covered loan losses:                 |                  |                   |                      |                          |                  |
| Provision for loan losses                                   | 6,533            | 7,871             | 2,936                | 11,416                   | 7,425            |
| Provision for covered loan losses                           | (533)            | (1,319)           | (1,277)              | (689)                    | (2,084)          |
| Total provision for loan and covered loan losses            | 6,000            | 6,552             | 1,659                | 10,727                   | 5,341            |
| Increase in reserve for unfunded commitments <sup>(1)</sup> | —                | —                 | 200                  | —                        | —                |
| Total provision for loan and covered loan losses            | 6,000            | 6,552             | 1,859                | 10,727                   | 5,341            |
| Ending balance                                              | \$73,279         | \$72,806          | \$74,510             | \$74,722                 | \$79,942         |

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

|                                                                    | Quarters Ended   |                   |                      |                       |                  |   |
|--------------------------------------------------------------------|------------------|-------------------|----------------------|-----------------------|------------------|---|
|                                                                    | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 | June 30,<br>2014 |   |
| Allowance for credit losses                                        |                  |                   |                      |                       |                  |   |
| Allowance for loan losses                                          | \$66,602         | \$65,311          | \$65,468             | \$64,457              | \$68,983         |   |
| Allowance for covered loan losses                                  | 4,861            | 5,679             | 7,226                | 8,649                 | 9,343            |   |
| Total allowance for loan and covered loan losses                   | 71,463           | 70,990            | 72,694               | 73,106                | 78,326           |   |
| Reserve for unfunded commitments                                   | 1,816            | 1,816             | 1,816                | 1,616                 | 1,616            |   |
| Total allowance for credit losses                                  | \$73,279         | \$72,806          | \$74,510             | \$74,722              | \$79,942         |   |
| Allowance for credit losses and net charge-off ratios              |                  |                   |                      |                       |                  |   |
| Allowance for credit losses to loans <sup>(1)</sup>                | 1.07             | % 1.07            | % 1.11               | % 1.15                | % 1.34           | % |
| Allowance for credit losses to non-accrual loans <sup>(2)</sup>    | 152.01           | % 139.62          | % 112.19             | % 102.39              | % 105.80         | % |
| Allowance for credit losses to non-performing loans <sup>(2)</sup> | 143.27           | % 129.99          | % 110.04             | % 93.60               | % 100.48         | % |
| Average loans                                                      | \$6,808,219      | \$6,731,939       | \$6,537,251          | \$6,293,313           | \$5,891,127      |   |
| Net loan charge-offs to average loans, annualized                  | 0.33             | % 0.50            | % 0.13               | % 1.01                | % 0.52           | % |

- Acquired loans are recorded at fair value as of the acquisition date with no allowance for credit losses being established. Included within total loans are loans acquired during 2014 which totaled \$587.0 million at June 30, 2015, \$660.9 million at March 31, 2015, \$718.3 million at December 31, 2014, and \$533.2 million at September 30, 2014. These loans have an allowance for loan loss of \$821,000 that was established during the second quarter of 2015. In addition, there is a remaining acquisition adjustment of \$17.5 million at June 30, 2015, \$22.4 million at March 31, 2015, \$24.7 million at December 31, 2014, and \$13.6 million at September 30, 2014. This acquisition adjustment represents the difference between the contractual loan balances and the carrying value of these loans.
- (2) These amounts and ratios exclude covered loans and covered OREO. For a discussion of covered loans, see Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

#### Activity in the Allowance for Credit Losses

The allowance for credit losses was \$73.3 million as of June 30, 2015, a decline of \$1.2 million from December 31, 2014, and represents 1.07% of total loans compared to 1.11% at December 31, 2014. The allowance for credit losses includes a provision of \$12.6 million and net loan charge-offs of \$13.8 million for the six months ended June 30, 2015.

## FUNDING AND LIQUIDITY MANAGEMENT

The following table provides a comparison of average funding sources for the quarters ended June 30, 2015, December 31, 2014, and June 30, 2014. We believe that average balances, rather than period-end balances, are more meaningful in analyzing funding sources because of the normal fluctuations that may occur on a daily or monthly basis within funding categories.

Table 19

## Funding Sources – Average Balances

(Dollar amounts in thousands)

|                                                 | Quarters Ended   |                      |                  | June 30, 2015<br>% Change From      |                  |          |
|-------------------------------------------------|------------------|----------------------|------------------|-------------------------------------|------------------|----------|
|                                                 | June 30,<br>2015 | December 31,<br>2014 | June 30,<br>2014 | December 31,<br>2014 <sup>(1)</sup> | June 30,<br>2014 |          |
| Demand deposits                                 | \$2,437,742      | \$2,339,298          | \$2,069,781      | 8.5                                 | %                | 17.8 %   |
| Savings deposits                                | 1,470,441        | 1,306,388            | 1,189,722        | 25.3                                | %                | 23.6 %   |
| NOW accounts                                    | 1,379,508        | 1,331,360            | 1,196,712        | 7.3                                 | %                | 15.3 %   |
| Money market accounts                           | 1,557,219        | 1,506,643            | 1,334,700        | 6.8                                 | %                | 16.7 %   |
| Core deposits                                   | 6,844,910        | 6,483,689            | 5,790,915        | 11.2                                | %                | 18.2 %   |
| Time deposits                                   | 1,200,257        | 1,239,257            | 1,152,816        | (6.3)                               | )%               | 4.1 %    |
| Brokered deposits                               | 16,114           | 16,098               | 16,082           | 0.2                                 | %                | 0.2 %    |
| Total time deposits                             | 1,216,371        | 1,255,355            | 1,168,898        | (6.3)                               | )%               | 4.1 %    |
| Total deposits                                  | 8,061,281        | 7,739,044            | 6,959,813        | 8.4                                 | %                | 15.8 %   |
| Securities sold under agreements to repurchase  | 119,398          | 110,832              | 104,183          | 15.6                                | %                | 14.6 %   |
| FHLB advances                                   | 20,604           | 381                  | 60,422           | N/A                                 | (65.9            | )%       |
| Total borrowed funds                            | 140,002          | 111,213              | 164,605          | 52.2                                | %                | (14.9 %) |
| Senior and subordinated debt                    | 200,999          | 194,137              | 190,981          | 7.1                                 | %                | 5.2 %    |
| Total funding sources                           | \$8,402,282      | \$8,044,394          | \$7,315,399      | 9.0                                 | %                | 14.9 %   |
| Average interest rate paid on borrowed funds    | 0.34             | % 0.04               | % 0.41           | %                                   |                  |          |
| Weighted-average maturity of FHLB advances      | 2.1 months       | N/A                  | N/A              |                                     |                  |          |
| Weighted-average interest rate of FHLB advances | 0.21             | % N/A                | N/A              |                                     |                  |          |

N/A - Not applicable.

<sup>(1)</sup> Ratios are presented on an annualized basis.

Total average funding sources for the second quarter of 2015 increased 9.0% on an annualized basis compared to the fourth quarter of 2014 and 14.9% compared to the second quarter of 2014. The addition of \$62.5 million of FHLB advances contributed to the increase in average borrowed funds compared to the fourth quarter of 2014. The rise in average core deposits compared to the fourth quarter of 2014 resulted primarily from the seasonal increase in average municipal deposits. The increase in average core deposits compared to the second quarter of 2014 was due primarily to deposits assumed in the acquisitions completed during the second half of 2014.

Table 20

## Borrowed Funds

(Dollar amounts in thousands)

|                                                                     | As of June 30, 2015 |                           | As of June 30, 2014 |                           |
|---------------------------------------------------------------------|---------------------|---------------------------|---------------------|---------------------------|
|                                                                     | Amount              | Weighted-Average Rate (%) | Amount              | Weighted-Average Rate (%) |
| At period-end:                                                      |                     |                           |                     |                           |
| Securities sold under agreements to repurchase                      | \$ 126,536          | 0.06                      | \$ 104,201          | 0.03                      |
| FHLB advances                                                       | 62,500              | 0.32                      | —                   | —                         |
| Total borrowed funds                                                | \$ 189,036          | 0.15                      | \$ 104,201          | 0.03                      |
| Average for the year-to-date period:                                |                     |                           |                     |                           |
| Securities sold under agreements to repurchase                      | \$ 123,462          | 0.06                      | \$ 106,053          | 0.03                      |
| Federal funds purchased                                             | —                   | —                         | —                   | —                         |
| FHLB advances                                                       | 10,359              | 1.95                      | 87,335              | 1.24                      |
| Total borrowed funds                                                | \$ 133,821          | 0.20                      | \$ 193,388          | 0.58                      |
| Maximum amount outstanding at the end of any day during the period: |                     |                           |                     |                           |
| Securities sold under agreements to repurchase                      | \$ 142,545          |                           | \$ 117,584          |                           |
| Federal funds purchased                                             | —                   |                           | —                   |                           |
| FHLB advances                                                       | 62,500              |                           | 114,551             |                           |

Average borrowed funds totaled \$133.8 million for the first six months of 2015 declining \$59.6 million, or 30.8%, compared to the same period in 2014. This decrease was due primarily to the prepayment of \$114.6 million of FHLB advances during the second quarter of 2014, which was partially offset by the addition of \$62.5 million of advances during the second quarter of 2015.

Securities sold under agreements to repurchase generally mature within 1 to 90 days from the transaction date.

## MANAGEMENT OF CAPITAL

### Capital Measurements

A strong capital structure is required under applicable banking regulations and is crucial in maintaining investor confidence, accessing capital markets, and enabling us to take advantage of future growth opportunities. Our capital policy requires that the Company and the Bank maintain capital ratios in excess of the minimum regulatory guidelines. It serves as an internal discipline in analyzing business risks and internal growth opportunities and sets targeted levels of return on equity. Under regulatory capital adequacy guidelines, the Company and the Bank are subject to various capital requirements set and administered by the federal banking agencies. On January 1, 2015, the Company and the Bank became subject to final rules establishing a new comprehensive capital framework for U.S. banking organizations published by the Federal Reserve and known as the Basel III Capital Rules. The Basel III Capital Rules are discussed in the "Supervision and Regulation" section in Item 1, "Business" in the Company's 2014 10-K.

The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve for the Bank to be categorized as "well-capitalized." The information presented subsequent to December 31, 2014 is based on the Basel III Capital Rules and the information for prior periods is based on the prior capital rules in effect through December 31, 2014. 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 to be considered "well-capitalized," which is the highest capital category established. All regulatory mandated ratios for characterization as "well-capitalized" were exceeded as of June 30, 2015 and December 31, 2014.

The tangible common equity ratios presented in the table below are capital adequacy metrics used and relied on by investors and industry analysts; however, they are non-GAAP financial measures. 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 21  
Capital Measurements  
(Dollar amounts in thousands)

|                                                                                            | As of         |                   | As of June 30, 2015                     |                               |   |            |
|--------------------------------------------------------------------------------------------|---------------|-------------------|-----------------------------------------|-------------------------------|---|------------|
|                                                                                            | June 30, 2015 | December 31, 2014 | Regulatory Minimum For Well-Capitalized | Excess Over Required Minimums |   |            |
| Bank regulatory capital ratios <sup>(1)</sup> :                                            |               |                   |                                         |                               |   |            |
| Total capital to risk-weighted assets                                                      | 11.39         | % 12.30           | % 10.00                                 | % 14                          | % | \$ 111,452 |
| Tier 1 capital to risk-weighted assets                                                     | 10.48         | % 11.32           | % 8.00                                  | % 31                          | % | \$ 198,367 |
| Tier 1 common capital to risk-weighted assets                                              | 10.48         | % N/A             | 6.50                                    | % 61                          | % | \$ 318,504 |
| Tier 1 leverage to average assets                                                          | 9.12          | % 9.76            | % 5.00                                  | % 82                          | % | \$ 379,151 |
| Company regulatory capital ratios <sup>(1)</sup> :                                         |               |                   |                                         |                               |   |            |
| Total capital to risk-weighted assets                                                      | 11.37         | % 11.23           | % N/A                                   | N/A                           |   | N/A        |
| Tier 1 capital to risk-weighted assets                                                     | 10.49         | % 10.19           | % N/A                                   | N/A                           |   | N/A        |
| Tier 1 common capital to risk-weighted assets                                              | 9.93          | % N/A             | N/A                                     | N/A                           |   | N/A        |
| Tier 1 leverage to average assets                                                          | 9.34          | % 9.03            | % N/A                                   | N/A                           |   | N/A        |
| Reconciliation of Company capital components to GAAP:                                      |               |                   |                                         |                               |   |            |
| Total stockholders' equity                                                                 | \$1,124,957   | \$1,100,775       |                                         |                               |   |            |
| Goodwill and other intangible assets                                                       | (332,223)     | (334,199)         | )                                       |                               |   |            |
| Tangible common equity                                                                     | 792,734       | 766,576           |                                         |                               |   |            |
| Accumulated other comprehensive loss                                                       | 21,232        | 15,855            |                                         |                               |   |            |
| Tangible common equity, excluding accumulated other comprehensive loss                     | \$813,966     | \$782,431         |                                         |                               |   |            |
| Total assets                                                                               | \$9,863,027   | \$9,445,139       |                                         |                               |   |            |
| Goodwill and other intangible assets                                                       | (332,223)     | (334,199)         | )                                       |                               |   |            |
| Tangible assets                                                                            | \$9,530,804   | \$9,110,940       |                                         |                               |   |            |
| Risk-weighted assets                                                                       | \$8,296,679   | \$7,879,366       |                                         |                               |   |            |
| Company tangible common equity ratios <sup>(2)(3)</sup> :                                  |               |                   |                                         |                               |   |            |
| Tangible common equity to tangible assets                                                  | 8.32          | % 8.41            | % N/A                                   | N/A                           |   | N/A        |
| Tangible common equity, excluding accumulated other comprehensive loss, to tangible assets | 8.54          | % 8.59            | % N/A                                   | N/A                           |   | N/A        |
| Tangible common equity to risk-weighted assets                                             | 9.55          | % 9.73            | % N/A                                   | N/A                           |   | N/A        |

N/A - Not applicable.

Basel III Capital Rules became effective for the Bank and the Company on January 1, 2015. These rules revise the risk-based capital requirements and introduce a new capital measure, Tier 1 common capital to risk-weighted assets. As a result, ratios subsequent to December 31, 2014 are computed using the new rules and prior periods presented are reported using the regulatory guidance applicable at that time.

<sup>(2)</sup> Ratios are not subject to formal Federal Reserve regulatory guidance.

Tangible common equity represents common stockholders' equity less goodwill and identifiable intangible assets.

- (3) In management's view, Tier 1 common capital and tangible common equity 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 Company's capital ratios increased from December 31, 2014, driven primarily by growth in retained earnings, net of dividends paid, and an increase in allowable deferred tax assets. The Bank's regulatory capital ratios decreased from December 31, 2014 due primarily to dividends paid to the Company during the first six months of 2015.

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

Dividends

The Board of Directors approved a quarterly cash dividend of \$0.09 per common share during the second quarter of 2015, which follows a dividend increase from \$0.08 to \$0.09 per common share during the first quarter of 2015.

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

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is our primary market risk and is the result of repricing, basis, and option risk. A description and analysis of our interest rate risk management policies is included in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in our 2014 10-K.

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

#### Net Interest Income Sensitivity

The analysis of net interest income sensitivity assesses the magnitude of changes in net interest income over a twelve-month measurement period resulting from immediate changes in interest rates using multiple rate scenarios. These scenarios include, but are not limited to, a flat or unchanged rate environment, immediate increases of 100, 200, and 300 basis points, and an immediate decrease of 100 basis points. Due to the low interest rate environment as of June 30, 2015 and December 31, 2014, management determined that an immediate decrease in interest rates greater than 100 basis points was not meaningful for this analysis.

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

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

Interest-earning assets consist of short and long-term products. Excluding non-accrual loans and the impact of interest rate swaps, 46% of the loan portfolio consisted of fixed rate loans and 54% were floating rate loans as of June 30, 2015. See Note 10 of "Notes to Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q for additional detail regarding interest rate swaps. Investments, consisting of securities and interest-bearing deposits in other banks, are more heavily weighted toward fixed rate securities at 60% of the total compared to 40% 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 with active interest rate floors was \$544.5 million, or 15%, of the floating rate loan portfolio as of June 30, 2015, compared to \$644.6 million, or 19%, of the floating rate loan portfolio as of December 31, 2014. On the liability side of the balance sheet, 86% of deposits are demand deposits or interest-bearing core deposits, which either do not pay interest or the interest rates are expected to rise at a slower pace than short-term interest rates.



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

|                         | Immediate Change in Rates |          |          |             |
|-------------------------|---------------------------|----------|----------|-------------|
|                         | +300                      | +200     | +100     | -100        |
| As of June 30, 2015     |                           |          |          |             |
| Dollar change           | \$50,627                  | \$35,063 | \$16,016 | \$(14,787 ) |
| Percent change          | 16.8                      | % 11.6   | % 5.3    | % (4.9 )%   |
| As of December 31, 2014 |                           |          |          |             |
| Dollar change           | \$42,922                  | \$27,471 | \$12,707 | \$(12,748 ) |
| Percent change          | 14.3                      | % 9.2    | % 4.2    | % (4.3 )%   |

The sensitivity of estimated net interest income to an instantaneous parallel shift in interest rates is reflected as both dollar and percentage changes. This table illustrates that an instantaneous 200 basis point rise in interest rates as of June 30, 2015 would increase net interest income by \$35.1 million, or 11.6%, over the next twelve months compared to no change in interest rates. This same measure was \$27.5 million, or 9.2%, as of December 31, 2014.

In rising interest rate scenarios, interest rate risk volatility was more positive at June 30, 2015 compared to December 31, 2014. During the six months ended June 30, 2015, floating rate loan balances increased and fixed rate loans and securities decreased. Growth in floating rate loan balances were funded by a rise in core deposits, which are less rate sensitive. Overall, the increase in rate sensitive assets was driven by a rise in other short term interest-earning assets from a seasonal increase in municipal deposits. In addition, the increase in rate sensitive assets was also impacted by the hedging of certain corporate variable rate loans using interest rate swaps (through which we receive fixed amounts and pay variable amounts), which was mostly offset by the hedging of certain forward starting interest rate swaps (through which the Company receives variable amounts and pays fixed amounts). While net interest income is projected to decline in a decreasing interest rate environment, we believe the risk of a significant and sustained decrease in interest rates is minimal.

#### ITEM 4. CONTROLS AND PROCEDURES

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

#### PART II. OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at June 30, 2015. 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 financial condition, results of operations, or cash flows.

##### ITEM 1A. RISK FACTORS

The Company provided a discussion of certain risks and uncertainties faced by the Company in its Annual Report on Form 10-K for 2014. However, these factors may not be the only risks or uncertainties the Company faces.



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

The following table summarizes the Company's monthly Common Stock purchases during the second quarter of 2015. 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 June 30, 2015. The repurchase program has no set expiration or termination date.

## Issuer Purchases of Equity Securities

|                          | Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | Average<br>Price<br>Paid per<br>Share | Total Number<br>of Shares<br>Purchased as<br>Part of a<br>Publicly<br>Announced<br>Plan or<br>Program | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plan or<br>Program |
|--------------------------|----------------------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| April 1 – April 30, 2015 | 375                                                      | \$17.46                               | —                                                                                                     | 2,494,747                                                                                         |
| May 1 – May 31, 2015     | 2,444                                                    | 17.51                                 | —                                                                                                     | 2,494,747                                                                                         |
| June 1 – June 30, 2015   | 411                                                      | 18.11                                 | —                                                                                                     | 2,494,747                                                                                         |
| Total                    | 3,230                                                    | \$17.58                               | —                                                                                                     |                                                                                                   |

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

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

ITEM 6. EXHIBITS

| Exhibit<br>Number   | Description of Documents                                                                                                                                                                                                                                                      |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                 | Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.                                                   |
| 3.2                 | Certificate of Amendment of Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2014.                       |
| 3.3                 | Amended and Restated By-Laws of the Company is incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2012.                                                            |
| 11                  | Statement re: Computation of Per Share Earnings - The computation of basic and diluted earnings per common share is included in Note 8 of the Company's Notes to the Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS" of this document. |
| 15                  | Acknowledgement of Independent Registered Public Accounting Firm.                                                                                                                                                                                                             |
| 31.1                | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                            |
| 31.2                | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                            |
| 32.1 <sup>(1)</sup> | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                            |
| 32.2 <sup>(1)</sup> | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                            |
| 99                  | Review Report of Independent Registered Public Accounting Firm.                                                                                                                                                                                                               |
| 101                 | Interactive Data File.                                                                                                                                                                                                                                                        |

<sup>(1)</sup> Furnished, not filed.

SIGNATURES

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

First Midwest Bancorp, Inc.

/s/ PAUL F. CLEMENS

Paul F. Clemens

Executive Vice President and Chief Financial Officer\*

Date: July 31, 2015

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