FIRST MIDWEST BANCORP INC
Form 10-Q
May 10, 2017

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

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FORM 10-Q
(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2017

or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number 0-10967

_____

(Exact name of registrant as specified in its charter)

Delaware	36-3161078
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One Pierce Place, Suite 1500
Itasca, Illinois 60143-1254
(Address of principal executive offices) (zip code)

_____

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

_____

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. [ ]

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

As of May 5, 2017, there were 112,345,301 shares of common stock, $.01 par value, outstanding.

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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)

	March 31, 2017	December 31, 2016
Assets	(Unaudited)	
Cash and due from banks	$174,268	$155,055
Interest-bearing deposits in other banks	74,892	107,093
Trading securities, at fair value	19,130	17,920
Securities available-for-sale, at fair value	1,937,124	1,919,450
Securities held-to-maturity, at amortized cost	17,742	22,291
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost	46,306	59,131
Loans	10,054,370	8,254,145
Allowance for loan losses	(88,163)	(86,083)
Net loans	9,966,207	8,168,062
Other real estate owned ("OREO")	29,140	26,083
Premises, furniture, and equipment, net	140,653	82,577
Investment in bank-owned life insurance ("BOLI")	276,960	219,746
Goodwill and other intangible assets	754,621	366,876
Accrued interest receivable and other assets	336,428	278,271
Total assets	$13,773,471	$11,422,555
Liabilities		
Noninterest-bearing deposits	$3,492,987	$2,766,748
Interest-bearing deposits	7,463,554	6,061,855
Total deposits	10,956,541	8,828,603
Borrowed funds	547,923	879,008
Senior and subordinated debt	194,745	194,603
Accrued interest payable and other liabilities	269,529	263,261
Total liabilities	11,968,738	10,165,475
Stockholders' Equity		
Common stock	1,123	913
Additional paid-in capital	1,022,417	498,937
Retained earnings	1,030,403	1,016,674
Accumulated other comprehensive loss, net of tax	(40,264)	(40,910)
Treasury stock, at cost	(208,946)	(218,534)
Total stockholders' equity	1,804,733	1,257,080

Total liabilities and stockholders' equity	$13,773,471	$11,422,555

	March 31, 2017 (Unaudited)		December 31, 2016	
	Preferred Shares	Common Shares	Preferred Shares	Common Shares
Par value	$ —	$ 0.01	$ —	$ 0.01
Shares authorized	1,000	150,000	1,000	150,000
Shares issued	—	112,343	—	91,284
Shares outstanding	—	102,757	—	81,325
Treasury shares	—	9,586	—	9,959

See accompanying unaudited notes to the condensed consolidated financial statements.

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

	Quarters Ended March 31,	
	2017	2016
Interest Income		
Loans	$112,365	$78,455
Investment securities	10,484	8,558
Other short-term investments	850	535
Total interest income	123,699	87,548
Interest Expense		
Deposits	3,209	2,385
Borrowed funds	2,194	1,316
Senior and subordinated debt	3,099	3,133
Total interest expense	8,502	6,834
Net interest income	115,197	80,714
Provision for loan losses	4,918	7,593
Net interest income after provision for loan losses	110,279	73,121
Noninterest Income		
Service charges on deposit accounts	11,365	9,473
Wealth management fees	9,660	7,559
Card-based fees	8,116	6,718
Mortgage banking income	1,888	1,368
Capital market products income	1,376	3,215
Other service charges, commissions, and fees	5,442	5,261
Net securities gains	—	887
Other income	2,104	1,445
Total noninterest income	39,951	35,926
Noninterest Expense		
Salaries and employee benefits	55,772	44,594
Net occupancy and equipment expense	12,325	9,697
Professional services	8,463	5,920
Technology and related costs	4,433	3,701
Net OREO expense	1,700	664
Other expenses	15,384	12,993
Acquisition and integration related expenses	18,565	5,020
Total noninterest expense	116,642	82,589
Income before income tax expense	33,588	26,458
Income tax expense	10,733	8,496
Net income	$22,855	$17,962
Per Common Share Data		
Basic earnings per common share	$0.23	$0.23
Diluted earnings per common share	$0.23	$0.23
Dividends declared per common share	$0.09	$0.09
Weighted-average common shares outstanding	100,411	77,980
Weighted-average diluted common shares outstanding	100,432	77,992

See accompanying unaudited notes to the condensed consolidated financial statements.

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

	Quarters Ended March 31,	
	2017	2016
Net income	$22,855	$17,962
Securities Available-for-Sale		
Unrealized holding gains:		
Before tax	3,298	18,873
Tax effect	(1,321)	(7,546)
Net of tax	1,977	11,327
Reclassification of net gains included in net income:		
Before tax	—	887
Tax effect	—	(355)
Net of tax	—	532
Net unrealized holding gains	1,977	10,795
Derivative Instruments		
Unrealized holding gains:		
Before tax	(2,220)	4,275
Tax effect	889	(1,722)
Net of tax	(1,331)	2,553
Total other comprehensive income	646	13,348
Total comprehensive income	$23,501	$31,310

	Accumulated Unrealized Gain (Loss) on Securities Available-for-Sale	Accumulated Unrealized Gain (Loss) on Derivative Instruments	Unrecognized Net Pension Costs	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2015	$ (10,271)	$ (2,468)	$ (15,650)	$ (28,389)
Other comprehensive income	10,795	2,553	—	13,348
Balance at March 31, 2016	$ 524	$ 85	$ (15,650)	$ (15,041)
Balance at December 31, 2016	$ (22,645)	$ (1,176)	$ (17,089)	$ (40,910)
Other comprehensive income	1,977	(1,331)	—	646
Balance at March 31, 2017	$ (20,668)	$ (2,507)	$ (17,089)	$ (40,264)

See accompanying unaudited notes to the condensed consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2015	77,952	$ 882	$446,672	$953,516	$ (28,389)	$(226,413)	$1,146,268
Net income	—	—	—	17,962	—	—	17,962
Other comprehensive income	—	—	—	—	13,348	—	13,348
Common dividends declared ($0.09 per common share)	—	—	—	(7,228)	—	—	(7,228)
Acquisition, net of issuance costs	3,042	31	54,865	—	—	—	54,896
Common stock issued	4	—	59	—	—	—	59
Restricted stock activity	303	—	(10,282)	—	—	7,736	(2,546)
Treasury stock issued to benefit plans	(3)	—	—	—	—	(33)	(33)
Share-based compensation expense	—	—	1,839	—	—	—	1,839
Balance at March 31, 2016	81,298	$ 913	$493,153	$964,250	$ (15,041)	$(218,710)	$1,224,565
Balance at December 31, 2016	81,325	$ 913	$498,937	$1,016,674	$ (40,910)	$(218,534)	$1,257,080
Net income	—	—	—	22,855	—	—	22,855
Other comprehensive income	—	—	—	—	646	—	646
Common dividends declared ($0.09 per common share)	—	—	—	(9,126)	—	—	(9,126)
Acquisitions, net of issuance costs	21,078	210	533,322	—	—	558	534,090
Common stock issued	2	—	53	—	—	—	53
Restricted stock activity	355	—	(12,860)	—	—	9,108	(3,752)
Treasury stock issued to benefit plans	(3)	—	—	—	—	(78)	(78)
Share-based compensation expense	—	—	2,965	—	—	—	2,965
Balance at March 31, 2017	102,757	$ 1,123	$1,022,417	$1,030,403	$ (40,264)	$(208,946)	$1,804,733

See accompanying unaudited notes to the condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2017	2016
Net cash provided by operating activities	$8,201	$10,232
Investing Activities		
Proceeds from maturities, repayments, and calls of securities available-for-sale	80,060	68,235
Proceeds from sales of securities available-for-sale	210,154	31,453
Purchases of securities available-for-sale	(94,766)	(276,265)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	4,549	3,973
Purchases of securities held-to-maturity	—	(8)
Purchases (sales) of FHLB stock	16,072	(61)
Net increase in loans	(43,771)	(268,179)
Proceeds from claims on BOLI, net of premiums paid	(24)	(22)
Proceeds from sales of OREO	5,364	1,640
Proceeds from sales of premises, furniture, and equipment	404	675
Purchases of premises, furniture, and equipment	(2,891)	(2,921)
Net cash received from acquisitions	41,717	57,347
Net cash provided by (used in) investing activities	216,868	(384,133)
Financing Activities		
Net increase in deposit accounts	104,064	88,159
Net (decrease) increase in borrowed funds	(331,085)	219,899
Cash dividends paid	(7,206)	(6,885)
Restricted stock activity	(3,830)	(2,113)
Net cash (used in) provided by financing activities	(238,057)	299,060
Net decrease in cash and cash equivalents	(12,988)	(74,841)
Cash and cash equivalents at beginning of period	262,148	381,202
Cash and cash equivalents at end of period	$249,160	$306,361
Supplemental Disclosures of Cash Flow Information:		
Income taxes (refunded) paid	$(1,259)	$2,421
Interest paid to depositors and creditors	9,354	3,563
Dividends declared, but unpaid	9,163	7,593
Stock issued for acquisitions, net of issuance costs	534,090	54,896
Non-cash transfers of loans to OREO	683	942
Non-cash transfers of loans held-for-investment to loans held-for-sale	13,136	25,125

See accompanying unaudited notes to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying unaudited condensed consolidated interim financial statements ("consolidated financial statements") of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, were prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and reflect all adjustments that management deems necessary for the fair presentation of the financial position and results of operations for the periods presented. The results of operations for the quarter ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry. The accompanying consolidated financial statements do not include certain information and note disclosures required by GAAP for complete annual financial statements. Therefore, these financial statements should be read in conjunction with the Company's 2016 Annual Report on Form 10-K ("2016 10-K"). The Company uses the accrual basis of accounting for financial reporting purposes. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

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

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

The accounting policies related to business combinations, loans, the allowance for credit losses, and derivative financial instruments are presented below. For a summary of all other significant accounting policies, see Note 1, "Summary of Significant Accounting Policies," in the Company's 2016 10-K.

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

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

Acquired and Covered Loans – Covered loans consists of loans acquired by the Company in Federal Deposit Insurance Corporation ("FDIC")-assisted transactions, which are covered by loss share agreements with the FDIC (the "FDIC Agreements"), under which the FDIC reimburses the Company for the majority of the losses and eligible expenses related to these assets during the coverage period. Acquired loans consist of all other loans that were acquired in business combinations that are not covered by the FDIC Agreements. During 2015, certain covered loans were no longer covered under the FDIC Agreements, and are included in acquired loans and no longer classified as covered loans. Covered loans and acquired loans are included within loans held-for-investment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

renewed subsequent to the respective acquisition dates are no longer classified as acquired loans. Instead, they are included in the general loan population and allocated an allowance based on a loss migration analysis.

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

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

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

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

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

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

For fair value hedges, changes in the fair value of the derivative instruments, as well as changes in the fair value of the hedged item, are recognized in earnings. For cash flow hedges, the effective portion of the change in fair value of the derivative instrument is reported as a component of accumulated other comprehensive loss and is reclassified to earnings when the hedged transaction is reflected in earnings.

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

Contingent Put and Call Options in Debt Instruments: In March of 2016, the Financial Accounting Standards Board ("FASB") issued final guidance clarifying the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. Entities are required to apply the guidance to existing debt instruments (or hybrid financial instruments that are determined to have a debt host) using a modified retrospective transition method as of the period of adoption. The adoption of this guidance on January 1, 2017 did not impact the Company's financial condition, results of operations, or liquidity.

Equity Method Accounting: In March of 2016, the FASB issued final guidance to simplify the equity method of accounting. The guidance eliminates the requirement to retrospectively apply equity method accounting in previous periods when an investor initially obtains significant influence over an investee. This guidance is effective for annual and interim periods beginning after December 15, 2016. The adoption of this guidance on January 1, 2017 did not impact the Company's financial condition, results of operations, or liquidity.

Accounting for Employee Share-based Payments: In March of 2016, the FASB issued guidance to simplify the accounting for employee share-based payment transactions. The guidance requires entities to recognize the income tax effects of awards in the income statement when the awards vest or are settled. In addition, the guidance allows entities to repurchase more of an employee's shares than it can under current guidance for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The adoption of this guidance on January 1, 2017 resulted in a $638,000 tax benefit recorded in the Company's results of operations. The Company elected to estimate forfeitures, which is consistent with the Company's practice before the adoption of this guidance.

Accounting Pronouncements Pending Adoption

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

The guidance was initially effective for annual and interim reporting periods beginning on or after December 15, 2016 but was deferred to December 15, 2017, and must be applied either retrospectively or using the modified retrospective approach. Early adoption is permitted, but not before the original effective date. The Company's revenue is comprised of net interest income on financial assets and liabilities, which are excluded from the scope of this guidance, and noninterest income. The Company expects that this guidance will change how revenue from certain revenue streams is recognized within wealth management fees but does not expect these changes to have a significant impact on the Company's financial condition, results of operations, or liquidity. The Company continues to evaluate the impact of this guidance on other components of noninterest income. The Company will adopt this guidance on January 1, 2018, with a cumulative effect adjustment to opening retained earnings, if an adjustment is deemed to be significant.

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

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

addition, this guidance clarifies criteria for the determination of whether a contract is or contains a lease. This guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. During 2016, the Company entered into a sale-leaseback transaction that resulted in a deferred gain of $82.5 million, with $79.5 million remaining as of March 31, 2017. Upon adoption of this guidance, the remaining deferred gain will be recognized immediately as a cumulative-effect adjustment to equity. For additional discussion of the sale-leaseback transaction, see note 8

"Premises, Furniture, and Equipment." Management is evaluating the new guidance and the additional impact to the Company's financial condition, results of operations, or liquidity.

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

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

Income Taxes: In October of 2016, the FASB issued guidance that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

Clarifying the Definition of a Business: In January of 2017, the FASB issued guidance that clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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

Presentation of Defined Benefit Retirement Plan Costs: In March of 2017, the FASB issued guidance that changes how employers that sponsor defined pension and or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Other components of net periodic benefit cost will be presented separately from the line item(s) that includes the service cost. This guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

Premium Amortization on Purchased Callable Debt Securities: In March of 2017, the FASB issued guidance that shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. This guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

3. ACQUISITIONS

Completed Acquisitions

Standard Bancshares, Inc.

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

Premier Asset Management LLC

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

NI Bancshares Corporation

On March 8, 2016, the Company completed the acquisition of NI Bancshares Corporation ("NI Bancshares"), the holding company for The National Bank & Trust Company of Sycamore. As part of the acquisition, the Company acquired all assets and assumed all liabilities of NI Bancshares, which included ten banking offices in northern Illinois and over $700.0 million in trust assets under management. The merger consideration was a combination of Company common stock and cash, at a purchase price of $70.1 million. Goodwill of $22.2 million associated with the acquisition was recorded by the Company.

During the first quarter of 2017, the Company finalized the fair value adjustments associated with the NI Bancshares transaction, which required a measurement period adjustment of $423,000 to increase goodwill. This adjustment was recognized in the current period in accordance with accounting guidance applicable to business combinations.

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

Acquisition Activity

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

	Standard January 6, 2017	NI Bancshares March 8, 2016
Assets		
Cash and due from banks and interest-bearing deposits in other banks	$102,149	$ 72,533
Securities available-for-sale	214,107	125,843
Securities held-to-maturity	—	1,864
FHLB and FRB stock	3,247	1,549
Loans	1,769,709	396,181
OREO	8,427	2,863
Investment in BOLI	55,629	8,384
Goodwill	339,298	22,174
Other intangible assets	31,072	10,408
Premises, furniture, and equipment	59,163	19,636
Accrued interest receivable and other assets	56,077	16,453
Total assets	$2,638,878	$ 677,888
Liabilities		
Noninterest-bearing deposits	$675,354	$ 130,909
Interest-bearing deposits	1,348,520	464,012
Total deposits	2,023,874	594,921
Borrowed funds	—	2,416
Intangible liabilities	—	230
Accrued interest payable and other liabilities	34,289	10,239
Total liabilities	2,058,163	607,806
Consideration Paid		
Common stock (2017 - 21,057,085 shares issued at $25.34 per share, 2016 - 3,042,494 shares issued at $18.059 per share), net of issuance costs	533,590	54,896
Cash paid	47,125	15,186
Total consideration paid	580,715	70,082
	$2,638,878	$ 677,888

Expenses related to the acquisition and integration of the transactions above totaled $18.6 million and $5.0 million during the quarters ended March 31, 2017 and 2016, respectively, and are reported as a separate component within noninterest expense in the Condensed Consolidated Statements of Income. The acquisition of Standard was considered material to the Company's financial statements; therefore, pro forma financial data and related disclosures are included in the following tables.

The unaudited pro forma combined results of operations for the quarters ended March 31, 2017 and 2016 are presented as if the Standard acquisition had occurred on January 1, 2016, the first day of the Company's 2016 fiscal year. The unaudited pro forma combined results of operations are presented for illustrative purposes only and do not necessarily indicate the financial results of the combined companies had the companies actually been combined at the beginning of the period presented. Fair value adjustments included in the following table are preliminary and may be revised. The unaudited pro forma results of operations also does not consider any potential impacts of potential revenue enhancements, anticipated cost savings and expense efficiencies, or asset dispositions, among other factors. Acquisition and integration related expenses directly attributable to the Standard acquisition have been excluded from the following table and are estimated to total $27.0 million, of which $17.5 million was expensed during the quarter ended March 31, 2017.

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

	Quarters Ended March 31,	
	2017	2016
Total revenues [1]	$156,757	$143,345
Net income	32,734	22,950

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

Acquired loans are recorded at fair value, which incorporates credit risk, at the date of acquisition. No allowance for credit losses is recorded on the acquisition date. Acquired loans are separated into (i) non-PCI and (ii) PCI loans. Non-PCI loans include loans that did not have evidence of credit deterioration since origination at the acquisition date. PCI loans include loans that had evidence of credit deterioration since origination and for which it was probable at acquisition that the Company would not collect all contractually required principal and interest payments. PCI loans are accounted for based on estimates of expected future cash flows. Expected future cash flows in excess of the fair value of loans at the purchase date ("accretable yield") are recorded as interest income over the life of the loans if the timing and amount of the expected future cash flows can be reasonably estimated. The non-accretable yield represents the difference between contractually required payments and the expected future cash flows determined at acquisition. For additional discussion regarding significant accounting policies on acquired loans see Note 1, "Summary of Significant Accounting Policies."

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

Standard Acquired Loans
(Dollar amounts in thousands)

	January 6, 2017	
	PCI Loans	Non-PCI Loans
Fair value	$123,643	$1,646,066
Contractually required principal and interest payments	208,586	1,940,459
Best estimate of contractual cash flows not expected to be collected [1]	57,626	100,918
Best estimate of contractual cash flows expected to be collected	150,960	1,839,541

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

4. SECURITIES

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

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

Securities Portfolio

(Dollar amounts in thousands)

	As of March 31, 2017				As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale								
U.S. treasury securities	$48,574	$23	$(81)	$48,516	$48,581	$26	$(66)	$48,541
U.S. agency securities	180,894	518	(382)	181,030	183,528	519	(410)	183,637
Collateralized mortgage obligations ("CMOs")	1,066,439	1,039	(16,114)	1,051,364	1,064,130	969	(17,653)	1,047,446
Other mortgage-backed securities ("MBSs")	357,473	1,230	(5,737)	352,966	337,139	1,395	(5,879)	332,655
Municipal securities	263,606	2,092	(2,988)	262,710	273,319	1,245	(3,718)	270,846
Trust-preferred collateralized debt obligations ("CDOs")	47,728	260	(14,552)	33,436	47,681	261	(14,682)	33,260
Equity securities	7,246	148	(292)	7,102	3,206	147	(288)	3,065
Total securities available-for-sale	$1,971,960	$5,310	$(40,146)	$1,937,124	$1,957,584	$4,562	$(42,696)	$1,919,450
Securities Held-to-Maturity								
Municipal securities	$17,742	$—	$(2,624)	$15,118	$22,291	$—	$(4,079)	$18,212
Trading Securities				$19,130				$17,920

Remaining Contractual Maturity of Securities

(Dollar amounts in thousands)

	As of March 31, 2017			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$90,123	$87,605	$1,926	$1,641
After one year to five years	399,483	388,321	6,834	5,823
After five years to ten years	3,470	3,373	2,975	2,535
After ten years	47,726	46,393	6,007	5,119
Securities that do not have a single contractual maturity date	1,431,158	1,411,432	—	—
Total	$1,971,960	$1,937,124	$17,742	$15,118

The carrying value of securities available-for-sale that were pledged to secure deposits or for other purposes as permitted or required by law totaled $1.1 billion for both March 31, 2017 and December 31, 2016. No securities held-to-maturity were pledged as of March 31, 2017 or December 31, 2016.

During the quarters ended March 31, 2017 and 2016 there were no material gross trading gains/(losses). The following table presents net realized gains on securities available-for-sale for the quarters ended March 31, 2017 and 2016.

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

	Quarters Ended March 31,
	2017 2016
Gains on sales of securities:	
Gross realized gains	$— $930
Gross realized losses	— (43)
Net realized gains on sales of securities	— 887
Non-cash impairment charges:	
Other-than-temporary securities impairment ("OTTI")	— —
Net realized gains	$— $887

There were no net securities gains recognized during the first quarter of 2017. Securities of $214.1 million were acquired in the Standard transaction during the first quarter of 2017, of which $210.2 million were sold shortly after the acquisition and resulted in no gains or losses as they were recorded at fair value upon acquisition.

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

The following table presents a rollforward of life-to-date OTTI recognized in earnings related to all securities available-for-sale held by the Company for the quarters ended March 31, 2017 and 2016. 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 March 31,	
	2017	2016
Beginning balance	$23,345	$23,709
OTTI included in earnings [(1)]:		
Reduction for sales of securities	—	—
Ending balance	$23,345	$23,709

[(1)] Included in net securities gains in the Condensed Consolidated Statements of Income.

The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of March 31, 2017 and December 31, 2016.

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

		Less Than 12 Months		12 Months or Longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of March 31, 2017							
Securities Available-for-Sale							
U.S. treasury securities	17	$35,481	$75	$3,995	$ 6	$39,476	$ 81
U.S. agency securities	30	70,426	358	6,928	24	77,354	382
CMOs	196	781,003	12,259	128,464	3,855	909,467	16,114
MBSs	73	290,278	5,180	17,013	557	307,291	5,737
Municipal securities	272	94,694	2,371	21,520	617	116,214	2,988
CDOs	7	—	—	30,762	14,552	30,762	14,552
Equity securities	2	—	—	6,687	292	6,687	292
Total	597	$1,271,882	$20,243	$215,369	$ 19,903	$1,487,251	$ 40,146
Securities Held-to-Maturity							
Municipal securities	13	$—	$—	$15,118	$ 2,624	$15,118	$ 2,624
As of December 31, 2016							
Securities Available-for-Sale							
U.S. treasury securities	16	$33,505	$61	$3,995	$ 5	$37,500	$ 66
U.S. agency securities	28	62,064	364	11,814	46	73,878	410
CMOs	194	523,233	10,309	411,758	7,344	934,991	17,653
MBSs	68	221,174	4,726	77,780	1,154	298,954	5,880
Municipal securities	380	133,957	3,059	29,280	659	163,237	3,718
CDOs	7	—	—	30,592	14,682	30,592	14,682
Equity securities	2	404	201	2,319	86	2,723	287
Total	695	$974,337	$18,720	$567,538	$ 23,976	$1,541,875	$ 42,696
Securities Held-to-Maturity							
Municipal securities	14	$—	$—	$18,212	$ 4,079	$18,212	$ 4,079

Substantially all of the Company's CMOs and other MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. Municipal securities are issued by municipal authorities, and the majority are supported by third party insurance or some other form of credit enhancement. Management does not believe any of these securities with unrealized losses as of March 31, 2017 represent OTTI related to credit deterioration. These unrealized losses are attributed to changes in interest rates and temporary market movements. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

The unrealized losses on CDOs as of March 31, 2017 reflect changes in market activity for these securities. Management does not believe these unrealized losses represent OTTI related to credit deterioration. In addition, the Company does not intend to sell the CDOs with unrealized losses and the Company does not believe it is more likely than not that it will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Significant judgment is required to calculate the fair value of the CDOs. For a detailed discussion of the CDO valuation methodology, see Note 14, "Fair Value."

5. LOANS

Loans Held-for-Investment

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

Loan Portfolio

(Dollar amounts in thousands)

	As of March 31, 2017	December 31, 2016
Commercial and industrial	$3,370,780	$ 2,827,658
Agricultural	422,784	389,496
Commercial real estate:		
Office, retail, and industrial	1,988,979	1,581,967
Multi-family	671,710	614,052
Construction	568,460	451,540
Other commercial real estate	1,357,781	979,528
Total commercial real estate	4,586,930	3,627,087
Total corporate loans	8,380,494	6,844,241
Home equity	880,667	747,983
1-4 family mortgages	540,148	423,922
Installment	253,061	237,999
Total consumer loans	1,673,876	1,409,904
Total loans	$10,054,370	$ 8,254,145
Deferred loan fees included in total loans	$4,429	$ 3,838
Overdrawn demand deposits included in total loans	6,303	7,836

The increase in total loans for the quarter ended March 31, 2017 includes loans acquired in the Standard acquisition. For additional disclosure related to the Standard transaction, see note 3, "Acquisitions."

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

It is the Company's policy to review each prospective credit to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state lending laws, the Company's lending standards, and credit monitoring and remediation procedures. A discussion of risk characteristics relevant to each portfolio segment is presented in Note 5, "Loans" to the Consolidated Financial Statements in the Company's 2016 10-K.

Loan Sales

The following table presents loan sales for the quarters ended March 31, 2017 and 2016.

Loan Sales

(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2017	2016
Corporate loan sales		
Proceeds from sales	$15,368	$9,588
Less book value of loans sold	15,117	9,130
Net gains on corporate loan sales [1]	$251	$458
1-4 family mortgage loan sales		
Proceeds from sales	$55,761	$39,507
Less book value of loans sold	54,598	38,680
Net gains on 1-4 family mortgage loan sales [2]	1,163	827
Total net gains on loan sales	$1,414	$1,285

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

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

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

6. ACQUIRED AND COVERED LOANS

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

The following table presents the carrying amount of acquired and covered PCI and non-PCI loans as of March 31, 2017 and December 31, 2016.

Acquired and Covered Loans [1]

(Dollar amounts in thousands)

	As of March 31, 2017			As of December 31, 2016		
	PCI	Non-PCI	Total	PCI	Non-PCI	Total
Acquired loans	$169,961	$2,101,985	$2,271,946	$53,772	$613,339	$667,111
Covered loans	7,746	14,712	22,458	7,895	15,379	23,274
Total acquired and covered loans	$177,707	$2,116,697	$2,294,404	$61,667	$628,718	$690,385

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

The outstanding balance of PCI loans was $251.2 million and $84.8 million as of March 31, 2017 and December 31, 2016, respectively.

The increase in acquired loans for the quarter ended March 31, 2017 includes loans acquired in the Standard acquisition. For additional disclosure related to the Standard transaction, see note 3, "Acquisitions."

Acquired non-PCI loans that are renewed are no longer classified as acquired loans. These loans totaled $170.9 million and $117.6 million as of March 31, 2017 and December 31, 2016, respectively.

In connection with the FDIC Agreements, the Company recorded an indemnification asset. To maintain eligibility for the loss share reimbursement, the Company is required to follow certain servicing procedures as specified in the FDIC Agreements. The Company was in compliance with those requirements as of March 31, 2017 and December 31, 2016. Rollforwards of the carrying value of the FDIC indemnification asset for the quarters ended March 31, 2017 and 2016 are presented in the following table.

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

	Quarters Ended March 31,	
	2017	2016
Beginning balance	$4,522	$3,903
Amortization	(302)	(280)
Change in expected reimbursements from the FDIC for changes in expected credit losses	(328)	216
Net payments to the FDIC	328	1,841
Ending balance	$4,220	$5,680

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

Changes in Accretable Yield
(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2017	2016
Beginning balances	$19,385	$24,912
Additions	27,316	3,981
Accretion	(3,955)	(1,546)
Other [1]	(1,497)	(89)
Ending balance	$41,249	$27,258

[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.

Total accretion on acquired and covered PCI and non-PCI loans for March 31, 2017 and 2016 was $11.3 million and $2.4 million, respectively.

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 March 31, 2017 and December 31, 2016. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (the majority of which are past due) and loans 90 days or more past due and still accruing interest, as of each balance sheet date.

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

(Dollar amounts in thousands)

	Aging Analysis (Accruing and Non-accrual)					Non-performing Loans	
	Current [1]	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	Non-accrual [2]	90 Days or More Past Due, Still Accruing Interest
As of March 31, 2017							
Commercial and industrial	$3,359,919	$7,165	$3,696	$10,861	$3,370,780	$21,514	$ 1,251
Agricultural	420,692	1,434	658	2,092	422,784	1,283	—
Commercial real estate:							
Office, retail, and industrial	1,971,050	1,281	16,648	17,929	1,988,979	19,505	52
Multi-family	666,914	4,782	14	4,796	671,710	163	14
Construction	565,710	2,556	194	2,750	568,460	198	—
Other commercial real estate	1,352,633	3,563	1,585	5,148	1,357,781	3,858	1
Total commercial real estate	4,556,307	12,182	18,441	30,623	4,586,930	23,724	67
Total corporate loans	8,336,918	20,781	22,795	43,576	8,380,494	46,521	1,318
Home equity	874,810	3,045	2,812	5,857	880,667	4,799	864
1-4 family mortgages	538,177	1,254	717	1,971	540,148	2,974	41
Installment	250,952	1,699	410	2,109	253,061	—	410
Total consumer loans	1,663,939	5,998	3,939	9,937	1,673,876	7,773	1,315
Total loans	$10,000,857	$26,779	$26,734	$53,513	$10,054,370	$54,294	$ 2,633
As of December 31, 2016							
Commercial and industrial	$2,816,442	$6,426	$4,790	$11,216	$2,827,658	$29,938	$ 374
Agricultural	388,596	—	900	900	389,496	181	736
Commercial real estate:							
Office, retail, and industrial	1,564,007	5,327	12,633	17,960	1,581,967	17,277	1,129
Multi-family	612,446	858	748	1,606	614,052	311	604
Construction	450,927	332	281	613	451,540	286	—
Other commercial real estate	974,575	1,307	3,646	4,953	979,528	2,892	1,526
Total commercial real estate	3,601,955	7,824	17,308	25,132	3,627,087	20,766	3,259
Total corporate loans	6,806,993	14,250	22,998	37,248	6,844,241	50,885	4,369
Home equity	740,919	4,545	2,519	7,064	747,983	5,465	109
1-4 family mortgages	420,264	2,652	1,006	3,658	423,922	2,939	272
Installment	236,264	1,476	259	1,735	237,999	—	259
Total consumer loans	1,397,447	8,673	3,784	12,457	1,409,904	8,404	640
Total loans	$8,204,440	$22,923	$26,782	$49,705	$8,254,145	$59,289	$ 5,009

[1] PCI loans with an accretable yield are considered current.

(2) Includes PCI loans of $387,000 and $682,000 as of March 31, 2017 and December 31, 2016, respectively, which no longer have an accretable yield as estimates of expected future cash flows have decreased since the acquisition due to credit deterioration.

Allowance for Credit Losses

The Company maintains an allowance for credit losses at a level deemed adequate by management to absorb estimated losses inherent in the existing loan portfolio. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for the allowance for credit losses. A rollforward of the allowance for credit losses by portfolio segment for the quarters ended March 31, 2017 and 2016 is presented in the table below.

Allowance for Credit Losses by Portfolio Segment

(Dollar amounts in thousands)

	Commercial, Industrial, and Agricultural	Office, Retail, and Industrial	Multi-family	Construction	Other Commercial Real Estate	Consumer	Reserve for Unfunded Commitments	Total Allowance for Credit Losses
Quarter ended March 31, 2017								
Beginning balance	$ 40,709	$17,595	$3,261	$ 3,444	$ 7,739	$13,335	$ 1,000	$87,083
Charge-offs	(4,074)	(127)	—	(5)	(408)	(1,664)	—	(6,278)
Recoveries	1,666	975	28	227	101	443	—	3,440
Net charge-offs	(2,408)	848	28	222	(307)	(1,221)	—	(2,838)
Provision for loan losses and other	3,485	(742)	(429)	444	(510)	2,670	—	4,918
Ending balance	$ 41,786	$17,701	$2,860	$ 4,110	$ 6,922	$14,784	$ 1,000	$89,163
Quarter ended March 31, 2016								
Beginning balance	$ 37,074	$13,124	$2,469	$ 1,440	$ 6,109	$13,414	$ 1,225	$74,855
Charge-offs	(1,898)	(524)	(204)	(126)	(1,445)	(992)	—	(5,189)
Recoveries	502	103	25	15	151	320	—	1,116
Net charge-offs	(1,396)	(421)	(179)	(111)	(1,294)	(672)	—	(4,073)
Provision for loan losses and other	2,058	1,717	257	1,104	1,773	684	—	7,593
Ending balance	$ 37,736	$14,420	$2,547	$ 2,433	$ 6,588	$13,426	$ 1,225	$78,375

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

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

	Loans				Allowance for Credit Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total
As of March 31, 2017								
Commercial, industrial, and agricultural	$18,167	$3,745,009	$30,388	$3,793,564	$109	$ 41,133	$544	$41,786
Commercial real estate:								
Office, retail, and industrial	13,442	1,956,042	19,495	1,988,979	31	16,200	1,470	17,701
Multi-family	396	656,769	14,545	671,710	—	2,784	76	2,860
Construction	—	548,280	20,180	568,460	—	3,946	164	4,110
Other commercial real estate	2,493	1,286,300	68,988	1,357,781	18	5,832	1,072	6,922
Total commercial real estate	16,331	4,447,391	123,208	4,586,930	49	28,762	2,782	31,593
Total corporate loans	34,498	8,192,400	153,596	8,380,494	158	69,895	3,326	73,379
Consumer	—	1,649,765	24,111	1,673,876	—	13,550	1,234	14,784
Reserve for unfunded commitments	—	—	—	—	—	1,000	—	1,000
Total loans	$34,498	$9,842,165	$177,707	$10,054,370	$158	$ 84,445	$4,560	$89,163
As of December 31, 2016								
Commercial, industrial, and agricultural	$24,645	$3,189,327	$3,182	$3,217,154	$507	$ 39,554	$648	$40,709
Commercial real estate:								
Office, retail, and industrial	16,287	1,553,234	12,446	1,581,967	—	16,148	1,448	17,596
Multi-family	398	601,429	12,225	614,052	—	3,059	202	3,261
Construction	34	447,058	4,448	451,540	—	3,280	164	3,444
Other commercial real estate	1,286	965,900	12,342	979,528	18	6,613	1,108	7,739
Total commercial real estate	18,005	3,567,621	41,461	3,627,087	18	29,100	2,922	32,040
Total corporate loans	42,650	6,756,948	44,643	6,844,241	525	68,654	3,569	72,748
Consumer	—	1,392,880	17,024	1,409,904	—	12,210	1,125	13,335
Reserve for unfunded commitments	—	—	—	—	—	1,000	—	1,000
Total loans	$42,650	$8,149,828	$61,667	$8,254,145	$525	$ 81,864	$4,694	$87,083

Loans Individually Evaluated for Impairment

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

Impaired Loans Individually Evaluated by Class

(Dollar amounts in thousands)

	As of March 31, 2017				As of December 31, 2016			
	Recorded Investment In				Recorded Investment In			
	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial and industrial	$16,781	$ 272	$25,299	$ 109	$11,579	$13,066	$29,514	$ 507
Agricultural	1,114	—	1,817	—	—	—	—	—
Commercial real estate:								
Office, retail, and industrial	12,732	710	17,723	31	16,287	—	21,057	—
Multi-family	396	—	596	—	398	—	398	—
Construction	—	—	315	—	34	—	34	—
Other commercial real estate	2,258	235	4,550	18	1,016	270	2,141	18
Total commercial real estate	16,500	945	25,001	49	17,735	270	23,630	18
Total impaired loans individually evaluated for impairment	$33,281	$ 1,217	$50,300	$ 158	$29,314	$13,336	$53,144	$ 525

The following table presents the average recorded investment and interest income recognized on impaired loans by class for the quarters ended March 31, 2017 and 2016. PCI loans are excluded from this disclosure.

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

(Dollar amounts in thousands)

	Quarters Ended March 31,			
	2017		2016	
	Average Recorded Investment	Interest Income Recognized[1]	Average Recorded Investment	Interest Income Recognized[1]
Commercial and industrial	$20,849	$ 214	$2,794	$ 38
Agricultural	557	—	—	—
Commercial real estate:				
Office, retail, and industrial	14,865	93	7,923	48
Multi-family	397	28	601	1
Construction	17	136	106	—
Other commercial real estate	1,890	12	3,819	19
Total commercial real estate	17,169	269	12,449	68
Total impaired loans	$38,575	$ 483	$15,243	$ 106

[1] Recorded using the cash basis of accounting.

Credit Quality Indicators

Corporate loans and commitments are assessed for credit risk and assigned ratings based on various characteristics, such as the borrower's cash flow, leverage, and collateral. Ratings for commercial credits are reviewed periodically. The following tables present credit quality indicators by class for corporate and consumer loans, as of March 31, 2017 and December 31, 2016.

Corporate Credit Quality Indicators by Class

(Dollar amounts in thousands)

	Pass	Special Mention (1) (4)	Substandard (2) (4)	Non-accrual (3)	Total
As of March 31, 2017					
Commercial and industrial	$3,134,827	$113,944	$ 100,495	$ 21,514	$3,370,780
Agricultural	405,354	9,873	6,274	1,283	422,784
Commercial real estate:					
Office, retail, and industrial	1,887,699	39,545	42,230	19,505	1,988,979
Multi-family	665,313	4,336	1,898	163	671,710
Construction	542,862	8,927	16,473	198	568,460
Other commercial real estate	1,312,347	21,599	19,977	3,858	1,357,781
Total commercial real estate	4,408,221	74,407	80,578	23,724	4,586,930
Total corporate loans	$7,948,402	$198,224	$ 187,347	$ 46,521	$8,380,494
As of December 31, 2016					
Commercial and industrial	$2,638,833	$92,340	$ 66,547	$ 29,938	$2,827,658
Agricultural	366,382	17,039	5,894	181	389,496
Commercial real estate:					
Office, retail, and industrial	1,491,030	34,007	39,513	17,277	1,581,827
Multi-family	607,324	4,370	2,029	311	614,034
Construction	438,946	111	12,197	286	451,540
Other commercial real estate	951,115	11,808	13,544	2,892	979,359
Total commercial real estate	3,488,415	50,296	67,283	20,766	3,626,760
Total corporate loans	$6,493,630	$159,675	$ 139,724	$ 50,885	$6,843,914

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

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

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

(4) Total special mention and substandard loans includes accruing TDRs of $674,000 as of March 31, 2017 and $834,000 as of December 31, 2016.

Consumer Credit Quality Indicators by Class

(Dollar amounts in thousands)

	Performing	Non-accrual	Total
As of March 31, 2017			
Home equity	$875,868	$ 4,799	$880,667
1-4 family mortgages	537,174	2,974	540,148
Installment	253,061	—	253,061
Total consumer loans	$1,666,103	$ 7,773	$1,673,876
As of December 31, 2016			
Home equity	$727,618	$ 4,986	$732,604

1-4 family mortgages	413,415	2,939	416,354
Installment	237,999	—	237,999
Total consumer loans	$1,379,032	$ 7,925	$1,386,957

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

TDRs by Class

(Dollar amounts in thousands)

	As of March 31, 2017			As of December 31, 2016		
	Accruing	Non-accrual [1]	Total	Accruing	Non-accrual [1]	Total
Commercial and industrial	$278	$ 922	$1,200	$281	$ 150	$431
Agricultural	—	—	—	—	—	—
Commercial real estate:						
Office, retail, and industrial	—	864	864	155	4,733	4,888
Multi-family	582	163	745	586	168	754
Construction	—	—	—	—	—	—
Other commercial real estate	263	—	263	268	48	316
Total commercial real estate	845	1,027	1,872	1,009	4,949	5,958
Total corporate loans	1,123	1,949	3,072	1,290	5,099	6,389
Home equity	172	795	967	177	820	997
1-4 family mortgages	817	368	1,185	824	378	1,202
Installment	—	—	—	—	—	—
Total consumer loans	989	1,163	2,152	1,001	1,198	2,199
Total loans	$2,112	$ 3,112	$5,224	$2,291	$ 6,297	$8,588

[1] These TDRs are included in non-accrual loans in the preceding tables.

TDRs are included in the calculation of the allowance for credit losses in the same manner as impaired loans. There were $32,000 in specific reserves related to TDRs as of March 31, 2017 and there were no specific reserves related to TDRs as of December 31, 2016.

Accruing TDRs that do not perform in accordance with their modified terms are transferred to non-accrual. There were no material TDRs that defaulted within twelve months of the restructure date during the quarters ended March 31, 2017 and 2016.

A rollforward of the carrying value of TDRs for the quarters ended March 31, 2017 and 2016 is presented in the following table.

TDR Rollforward
(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2017	2016
Accruing		
Beginning balance	$2,291	$2,743
Additions	922	—
Net payments received	(24)	(41)
Net transfers to non-accrual	(1,077)	—
Ending balance	2,112	2,702
Non-accrual		
Beginning balance	6,297	2,324
Net payments received	(4,150)	(56)
Charge-offs	(112)	—
Net transfers from accruing	1,077	—
Ending balance	3,112	2,268
Total TDRs	$5,224	$4,970

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 March 31, 2017 and December 31, 2016.

8. PREMISES, FURNITURE, AND EQUIPMENT

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

Premises, Furniture, and Equipment
(Dollar amounts in thousands)

	As of	
	March 31, 2017	December 31, 2016
Land	$29,942	$ 18,304
Premises	138,748	94,369
Furniture and equipment	133,618	105,859
Total cost	302,308	218,532
Accumulated depreciation	(178,801)	(140,030)
Net book value of premises, furniture, and equipment	123,507	78,502
Assets held-for-sale	17,146	4,075
Total premises, furniture, and equipment	$140,653	$ 82,577

During 2016, First Midwest Bank (the "Bank") completed a sale-leaseback transaction, whereby the Bank sold to a third party for an aggregate cash purchase price of $150.3 million, 55 properties with book values totaling $58.8 million, owned and operated by the Bank as branches. Upon the sale of the branches the Bank concurrently entered into triple net lease agreements with certain affiliates of the third party for each of the branches sold. Subject to the right of the Bank to terminate certain of the lease agreements at the end of the eleventh year, the lease agreements have initial terms of 14 years. Each lease agreement provides the Bank with five consecutive renewal options of five years each. The sale-leaseback transaction resulted in a pre-tax gain of $88.0 million, net of transaction related expenses, with $79.5 million of deferred pre-tax gains remaining as of March 31, 2017.

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

Depreciation on premises, furniture, and equipment totaled $3.5 million and $3.2 million for the quarters ended March 31, 2017 and 2016, respectively.

Operating Leases

As of March 31, 2017, the Company was obligated to utilize certain premises and equipment under certain non-cancelable operating leases, which expire at various dates through the year ending December 31, 2033. Many of these leases contain renewal options and certain leases provide options to purchase the leased property during or at the expiration of the lease period at specific prices. Some leases contain escalation clauses calling for rentals to be adjusted for increased real estate taxes and other operating expenses or proportionately adjusted for increases in consumer or other price indices. The following summary reflects the future minimum payments by year required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of March 31, 2017.

Future Minimum Operating Lease Payments
(Dollar amounts in thousands)

	Total
One year or less	$18,809
After one year to two years	16,591
After two years to three years	16,800
After three years to four years	16,276
After four years to five years	16,190
After five years	124,340
Total minimum lease payments	$209,006

As of March 31, 2017, deferred pre-tax gains of $79.5 million related to the sale-lease back transaction will be accreted as a reduction to lease expense in other expenses on the Condensed Consolidated Statements of Income on a straight-line basis over the initial terms of the leases.

The Company assumed certain operating leases related to various branches in previous acquisitions. An intangible liability is recorded when the cash flows of a lease exceeds its fair market value. This intangible liability will be accreted into income as a reduction to net occupancy and equipment expense using the straight-line method over the initial term of each lease, which expire between 2018 and 2030. The intangible liability is included in accrued interest and other liabilities in the Consolidated Statements of Financial Condition.

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

Scheduled Accretion of Operating Lease Intangible
(Dollar amounts in thousands)

	Total
One year or less	$1,180
After one year to two years	829
After two years to three years	658
After three years to four years	648
After four years to five years	648
After five years	3,835
Total accretion	$7,798

The following table presents net operating lease expense for the quarters ended March 31, 2017 and 2016.

Net Operating Lease Expense
(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2017	2016
Lease expense charged to operations	$4,559	$1,727
Accretion of operating lease intangible [1]	(295)	(286)
Accretion of deferred gain on sale-leaseback transaction [1]	(1,473)	—
Rental income from premises leased to others [1]	(181)	(158)
Net operating lease expense	$2,610	$1,283

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

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's annual goodwill impairment test was performed as of October 1, 2016. It was determined that no impairment existed as of that date or as of March 31, 2017. For a discussion of the accounting policies for goodwill and other intangible assets, see Note 1, "Summary of Significant Accounting Policies" to the Consolidated Financial Statements in the Company's 2016 10-K.

The following table presents changes in the carrying amount of goodwill for the quarters ended March 31, 2017 and 2016.

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

	Quarters Ended March 31,	
	2017	2016
Beginning balance	$340,879	$319,007
Acquisitions	350,693	20,761
Ending balance	$691,572	$339,768

The increase in goodwill for the quarter ended March 31, 2017 resulted from the Standard and Premier acquisitions and measurement period adjustments related to finalizing the fair values of the assets acquired and liabilities assumed in the NI Bancshares acquisition. During the quarter ended March 31, 2016, the increase in goodwill resulted from the NI Bancshares acquisition.

The Company's other intangible assets are core deposit intangibles and trust department customer relationship intangibles, which are being amortized over their estimated useful lives. Other intangible assets are subject to impairment testing when events or circumstances indicate that its carrying amount may not be recoverable. The increase in other intangible assets for the quarter ended March 31, 2017 resulted from the Standard and Premier acquisitions. The increase in other intangible assets for the quarter ended March 31, 2016 resulted from the NI Bancshares acquisition. During the quarters ended March 31, 2017 and March 31, 2016 there were no events or circumstances to indicate impairment.

Other Intangible Assets

(Dollar amounts in thousands)

	Three Months Ended March 31,					
	2017			2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Beginning balance	$58,959	$ 32,962	$25,997	$48,550	$ 28,280	$20,270
Additions	39,017	—	39,017	10,925	—	10,925
Amortization expense	—	1,965	(1,965)	—	985	(985)
Ending balance	$97,976	$ 34,927	$63,049	$59,475	$ 29,265	$30,210

Scheduled Amortization of Other Intangible Assets

(Dollar amounts in thousands)

	Total
Year Ending March 31, 2017	
2018	$7,702
2019	7,108
2020	7,064
2021	7,009
2022	6,922
2023 and thereafter	27,244
Total	$63,049

10. DEPOSITS

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

Summary of Deposits

(Dollar amounts in thousands)

	As of	
	March 31, 2017	December 31, 2016
Demand deposits	$3,492,987	$ 2,766,748
Savings deposits	2,073,518	1,615,833
NOW accounts	1,876,215	1,675,421
Money market deposits	1,972,566	1,577,316
Time deposits less than $100,000	918,092	755,558
Time deposits greater than $100,000	623,163	437,727
Total deposits	$10,956,541	$ 8,828,603

The increase in total deposits for the quarter ended March 31, 2017 includes deposits assumed in the Standard acquisition. For additional disclosure related to the Standard transaction, see note 3, "Acquisitions."

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11. EARNINGS PER COMMON SHARE

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

Basic and Diluted EPS

(Amounts in thousands, except per share data)

	Quarters Ended March 31,	
	2017	2016
Net income	$22,855	$17,962
Net income applicable to non-vested restricted shares	(234)	(212)
Net income applicable to common shares	$22,621	$17,750
Weighted-average common shares outstanding:		
Weighted-average common shares outstanding (basic)	100,411	77,980
Dilutive effect of common stock equivalents	21	12
Weighted-average diluted common shares outstanding	100,432	77,992
Basic EPS	$0.23	$0.23
Diluted EPS	$0.23	$0.23
Anti-dilutive shares not included in the computation of diluted EPS [1]	343	608

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

12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Fair Value Hedges

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

Fair Value Hedges

(Dollar amounts in thousands)

	As of	
	March 31, 2017	December 31, 2016
Gross notional amount outstanding	$5,833	$ 5,958
Derivative liability fair value	(226)	(282)
Weighted-average interest rate received	2.83%	2.63%
Weighted-average interest rate paid	5.96%	5.96%
Weighted-average maturity (in years)	1.60	1.84
Fair value of derivative [1]	$240	$ 296

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

Hedge ineffectiveness is recognized in other noninterest income in the Condensed Consolidated Statements of Income. For the quarters ended March 31, 2017 and 2016, gains or losses related to fair value hedge ineffectiveness were not material.

Cash Flow Hedges

As of March 31, 2017, the Company hedged $980.0 million of certain corporate variable rate loans using interest rate swaps through which the Company receives fixed amounts and pays variable amounts. The Company also hedged $980.0 million of borrowed funds using forward starting interest rate swaps through which the Company receives

variable amounts and pays fixed amounts. These transactions allow the Company to add stability to net interest income and manage its exposure to interest rate

movements. Forward starting interest rate swaps totaling $415.0 million began on various dates between June of 2015 and February of 2017, and mature between June of 2019 and February of 2020. The remaining forward starting interest rate swaps begin at various dates between February of 2018 and February of 2020 and mature between February of 2020 and April of 2022. These derivative contracts are designated as cash flow hedges.

Cash Flow Hedges

(Dollar amounts in thousands)

	As of March 31, 2017		December 31, 2016	
Gross notional amount outstanding	$1,960,000		$1,470,000	
Derivative asset fair value	4,078		5,402	
Derivative liability fair value	(8,286)		(7,390)	
Weighted-average interest rate received	1.42	%	1.37	%
Weighted-average interest rate paid	1.23	%	1.11	%
Weighted-average maturity (in years)	3.00		2.83	

The effective portion of gains or losses on cash flow hedges is recorded in accumulated other comprehensive loss on an after-tax basis and is subsequently reclassified to interest income or expense in the period that the forecasted hedged item impacts earnings. Hedge effectiveness is determined using a regression analysis at the inception of the hedge relationship and on an ongoing basis. For the quarters ended March 31, 2017 and 2016, there were no material gains or losses related to cash flow hedge ineffectiveness. As of March 31, 2017, the Company estimates that $7.6 million will be reclassified from accumulated other comprehensive loss as an increase to interest income over the next twelve months.

Other Derivative Instruments

The Company also enters into derivative transactions through capital market products with its commercial customers and simultaneously enters into an offsetting interest rate derivative transaction with third-parties. This transaction allows the Company's customers to effectively convert a variable rate loan into a fixed rate loan. Due to the offsetting nature of these transactions, the Company does not apply hedge accounting treatment. The Company's credit exposure on these derivative transactions results primarily from counterparty credit risk. The credit valuation adjustment ("CVA") is a fair value adjustment to the derivative to account for this risk. As of March 31, 2017 and December 31, 2016, the Company's credit exposure was fully secured by the underlying collateral on customer loans and mitigated through netting arrangements with third parties, therefore, no CVA was recorded. Capital market products income related to commercial customer derivative instruments of $1.4 million and $3.2 million were recorded in noninterest income for the quarters ended March 31, 2017 and 2016, respectively.

Other Derivative Instruments

(Dollar amounts in thousands)

	As of March 31, 2017	December 31, 2016
Gross notional amount outstanding	$2,100,325	$1,656,612
Derivative asset fair value	15,722	13,478
Derivative liability fair value	(15,722)	(13,478)
Fair value of derivative [1]	16,340	13,753

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

The Company occasionally enters into risk participation agreements with counterparty banks to transfer or assume a portion of the credit risk related to customer transactions. The amounts of these instruments were not material for any periods presented. The Company had no other derivative instruments as of March 31, 2017 and December 31, 2016. The Company does not enter into derivative transactions for purely speculative purposes.

Credit Risk

Derivative instruments are inherently subject to credit risk, which represents the Company's risk of loss when the counterparty to a derivative contract fails to perform according to the terms of the agreement. Credit risk is managed by limiting and collateralizing the aggregate amount of net unrealized losses by transaction, monitoring the size and the maturity structure of the derivatives, and applying uniform credit standards. Company policy establishes limits on credit exposure to any single counterparty. In addition, the Company established bilateral collateral agreements with derivative counterparties that provide for exchanges of marketable

securities or cash to collateralize either party's net losses above a stated minimum threshold. As of March 31, 2017 and December 31, 2016, these collateral agreements covered 100% of the fair value of the Company's outstanding fair value hedges. Derivative assets and liabilities are presented gross, rather than net, of pledged collateral amounts. 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 March 31, 2017 and December 31, 2016.

Fair Value of Offsetting Derivatives
(Dollar amounts in thousands)

	As of March 31, 2017		As of December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Gross amounts recognized	$19,800	$24,234	$18,880	$21,150
Less: amounts offset in the Consolidated Statements of Financial Condition	—	—	—	—
Net amount presented in the Consolidated Statements of Financial Condition [(1)]	19,800	24,234	18,880	21,150
Gross amounts not offset in the Consolidated Statements of Financial Condition:				
Offsetting derivative positions	(11,293)	(11,293)	(10,889)	(10,889)
Cash collateral pledged	—	(12,941)	—	(10,261)
Net credit exposure	$8,507	$—	$7,991	$—

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

As of March 31, 2017 and December 31, 2016, the Company's derivative instruments generally contained provisions that require the Company's debt to remain above a certain credit rating by each of the major credit rating agencies or that the Company maintain certain capital levels. If the Company's debt were to fall below that credit rating or the Company's capital were to fall below the required levels, it would be in violation of those provisions, and the counterparties to the derivative instruments could terminate the swap transaction and demand cash settlement of the derivative instrument in an amount equal to the derivative liability fair value. As of March 31, 2017 and December 31, 2016 the Company was in compliance with these provisions.

13. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Commitments and Guarantees

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

Contractual or Notional Amounts of Financial Instruments

(Dollar amounts in thousands)

	As of March 31, 2017	December 31, 2016
Commitments to extend credit:		
Commercial, industrial, and agricultural	$1,737,410	$ 1,522,152
Commercial real estate	427,425	397,423
Home equity	486,880	426,384
Other commitments [1]	250,123	214,943
Total commitments to extend credit	$2,901,838	$ 2,560,902
Letters of credit	$146,632	$ 100,430
Recourse on assets sold:		
Unpaid principal balance of loans sold	$185,101	$ 187,158
Carrying value of recourse obligation [2]	150	142

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

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

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

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

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

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

As a result of the sale of certain 1-4 family mortgage loans, the Company is contractually obligated to repurchase any non-performing loans or loans that do not meet underwriting requirements at recorded value. In accordance with the sales agreements, there is no limitation to the maximum potential future payments or expiration of the Company's recourse obligation. There were no material loan repurchases during the quarters ended March 31, 2017 and 2016.

Legal Proceedings

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at March 31, 2017. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect that any liabilities arising from pending

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

14. FAIR VALUE

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

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

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

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs require significant management judgment or estimation, some of which use model-based techniques and may be internally developed.

Assets and liabilities are assigned to a level within the fair value hierarchy based on the lowest level of significant input used to measure fair value. Assets and liabilities may change levels within the fair value hierarchy due to market conditions or other circumstances. Those transfers are recognized on the date of the event that prompted the transfer. There were no transfers of assets or liabilities required to be measured at fair value on a recurring basis 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 March 31, 2017			As of December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Trading securities:						
Money market funds	$1,768	$—	$—	$1,645	$—	$—
Mutual funds	17,362	—	—	16,275	—	—
Total trading securities	19,130	—	—	17,920	—	—
Securities available-for-sale:						
U.S. treasury securities	48,516	—	—	48,541	—	—
U.S. agency securities	—	181,030	—	—	183,637	—
CMOs	—	1,051,364	—	—	1,047,446	—
MBSs	—	352,966	—	—	332,655	—
Municipal securities	—	262,710	—	—	270,846	—
CDOs	—	—	33,436	—	—	33,260
Equity securities	—	7,102	—	—	3,065	—
Total securities available-for-sale	48,516	1,855,172	33,436	48,541	1,837,649	33,260
Mortgage servicing rights ("MSRs") [1]	—	—	6,245			6,120
Derivative assets [1]	—	19,800	—	—	18,880	—
Liabilities:						
Derivative liabilities [2]	$—	$ 24,234	$—	$—	$ 21,150	$—

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

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

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

Trading Securities

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

Securities Available-for-Sale

The Company's securities available-for-sale are primarily fixed income instruments that are not quoted on an exchange, but may be traded in active markets. The fair values for these securities are based on quoted prices in active markets or market prices for similar securities obtained from external pricing services or dealer market participants and are classified in level 2 of the fair value hierarchy. The fair value of U.S. treasury securities is based on quoted market prices in active exchange markets and is classified in level 1 of the fair value hierarchy. Quarterly, the Company evaluates the methodologies used by its external pricing services to estimate the fair value of these securities to determine whether the valuations represent an exit price in the Company's principal markets.

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

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

Significant Unobservable Inputs Used in the Valuation of CDOs

	As of	
	March 31, 2017	December 31, 2016
Probability of prepayment	0.0 % - 10.9%	0.0 % - 10.9%
Probability of default	16.6% - 44.1%	16.7% - 46.8%
Loss given default	93.3% - 99.1%	93.3% - 98.9%
Probability of deferral cure	0.0 % - 100.0%	7.6 % - 100.0%

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

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

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

Management monitors the valuation results of each CDO on a 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 ended March 31, 2017 and 2016 is presented in the following table.

Carrying Value of CDOs

(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2017	2016
Beginning balance	$33,260	$31,529
Change in other comprehensive income [1]	129	(786)
Other	47	14
Ending balance	$33,436	$30,757

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

MSRs

The Company services loans for others totaling $632.7 million as of March 31, 2017 and $640.5 million as of December 31, 2016. These loans are owned by third parties and are not included in the Consolidated Statements of Financial Condition. The Company determines the fair value of MSRs by estimating the present value of expected future cash flows associated with the mortgage loans being serviced and classifies them in level 3 of the fair value hierarchy. The following table presents the ranges of significant, unobservable inputs used by the Company to determine the fair value of MSRs as of March 31, 2017.

Significant Unobservable Inputs Used in the Valuation of MSRs

	As of March 31, 2017		December 31, 2016	
Prepayment speed	7.7%	-25.5%	7.7%	-22.8%
Maturity (months)	10	-102	12	-103
Discount rate	9.5%	-13.0%	9.5%	-13.0%

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

A rollforward of the carrying value of MSRs for the quarters ended March 31, 2017 and 2016 is presented in the following table.

Carrying Value of MSRs

(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2017	2016
Beginning balance	$6,120	$1,853
Additions from acquisition	—	3,092
New MSRs	156	185
Total gains (losses) included in earnings [1]:		
Changes in valuation inputs and assumptions	172	(40)
Other changes in fair value [2]	(203)	(68)
Ending balance	$6,245	$5,022
Contractual servicing fees earned [1]	$395	$183

[1] Included in mortgage banking income in the Condensed Consolidated Statements of Income and related to assets held as of March 31, 2017 and 2016.

[2] Primarily represents changes in expected future cash flows due to payoffs and paydowns.

Derivative Assets and Derivative Liabilities

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

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 March 31, 2017			As of December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Collateral-dependent impaired loans [1]	$—	$—	$11,528	$—	$—	$22,019
OREO [2]	—	—	780	—	—	8,624
Loans held-for-sale [3]	—	—	9,144	—	—	10,484
Assets held-for-sale [4]	—	—	17,146	—	—	4,075

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

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

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

[4] Included in premises, furniture, and equipment in the Consolidated Statements of Financial Condition.

Collateral-Dependent Impaired Loans

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

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

OREO

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

Loans Held-for-Sale

As of March 31, 2017, loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell and three corporate loans. These loans were recorded in the held-for-sale category at the contract price and, accordingly, are classified in level 3 of the fair value hierarchy. As of December 31, 2016, loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell, and a corporate loan.

Assets Held-for-Sale

Assets held-for-sale as of March 31, 2017 and December 31, 2016 consists of former branches that are no longer in operation and parcels of land previously purchased for expansion. These properties are being actively marketed and were transferred into the held-for-sale category at their fair value as determined by current appraisals. Based on these valuation methods, they are classified in level 3 of the fair value hierarchy.

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 March 31, 2017		December 31, 2016	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and due from banks	1	$174,268	$174,268	$155,055	$155,055
Interest-bearing deposits in other banks	2	74,892	74,892	107,093	107,093
Securities held-to-maturity	2	17,742	15,118	22,291	18,212
FHLB and FRB stock	2	46,306	46,306	59,131	59,131
Loans	3	9,970,427	9,712,763	8,172,584	7,973,845
Investment in BOLI	3	276,960	276,960	219,746	219,746
Accrued interest receivable	3	39,868	39,868	34,384	34,384
Other interest-earning assets	3	635	635	834	834
Liabilities:					
Deposits	2	$10,956,541	$10,945,331	$8,828,603	$8,820,572
Borrowed funds	2	547,923	547,923	879,008	879,008
Senior and subordinated debt	2	194,745	202,522	194,603	197,888
Accrued interest payable	2	2,564	2,564	3,416	3,416

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

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

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

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

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

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

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

Deposits - The fair values disclosed for demand deposits, savings deposits, NOW accounts, and money market deposits are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair value for fixed-rate time deposits

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was estimated using the expected future cash flows discounted based on the LIBOR yield curve, plus or minus the spread associated with current pricing.

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

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

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

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

INTRODUCTION

First Midwest Bancorp, Inc. is a bank holding company headquartered in the Chicago suburb of Itasca, Illinois with operations throughout the Chicago metropolitan area as well as northwest Indiana, central and western Illinois, and eastern Iowa through over 130 locations. Our principal subsidiary is First Midwest Bank, which provides a broad range of commercial, retail, treasury, and wealth management products and services to commercial and industrial, commercial real estate, municipal, and consumer customers. We are committed to meeting the financial needs of the people and businesses in the communities where we live and work by providing customized banking solutions, quality products, and innovative services that fulfill those financial needs.

The following discussion and analysis is intended to address the significant factors affecting our Condensed Consolidated Statements of Income for the quarters ended March 31, 2017 and 2016 and Consolidated Statements of Financial Condition as of March 31, 2017 and December 31, 2016. When we use the terms "First Midwest," the "Company," "we," "us," and "our," we mean First Midwest Bancorp, Inc. and its consolidated subsidiaries. When we use the term "Bank," we are referring to our wholly-owned banking subsidiary, First Midwest Bank. Management's discussion and analysis should be read in conjunction with the consolidated financial statements, accompanying notes thereto, and other information presented in Item 1 of this Quarterly Report on Form 10-Q ("Form 10-Q"), as well as in our 2016 Annual Report on Form 10-K ("2016 10-K"). The results of operations for the quarter ended March 31, 2017 are not necessarily indicative of future results.

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

- Net Interest Income - Net interest income, our primary source of revenue, equals the difference between interest income and fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities.
- Net Interest Margin - Net interest margin equals tax-equivalent net interest income divided by total average interest-earning assets.
- Noninterest Income - Noninterest income is the income we earn from fee-based revenues, other income, and non-operating revenues.
- Noninterest Expense - Noninterest expense is the expense we incur to operate the Company, which includes salaries and employee benefits, net occupancy and equipment, professional services, and other costs.
- Asset Quality - Asset quality represents an estimation of the quality of our loan portfolio, including an assessment of the credit risk related to existing and potential loss exposure, and can be evaluated using a number of quantitative measures, such as non-performing loans to total loans.
- Regulatory Capital - Our regulatory capital is classified in one of the following tiers: (i) Common Equity Tier 1 capital ("CET1"), which consists of common equity and retained earnings, less goodwill and other intangible assets and a portion of disallowed deferred tax assets, (ii) Tier 1 capital, which consists of CET1 and qualifying trust-preferred securities and the remaining portion of disallowed deferred tax assets, and (iii) Tier 2 capital, which includes qualifying subordinated debt and the allowance for credit losses, subject to limitations.

Some of these metrics may be presented on a non-U.S. generally accepted accounting principles ("non-GAAP") basis. For detail on our non-GAAP metrics, see the discussion in the section titled "Non-GAAP Financial Information and Reconciliations." Unless otherwise stated, all earnings per common share data included in this section and throughout the remainder of this discussion are presented on a fully diluted basis.

As of March 31, 2016, both the Company and the Bank first exceeded $10.0 billion in total assets. As of March 31, 2017, the Company and the Bank each had total assets of approximately $13.8 billion. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and its implementing regulations impose various additional requirements on bank holding companies and banks with $10.0 billion or more in total consolidated assets. As a general matter, the Company and the Bank are not immediately subject to these additional requirements when they exceed $10 billion in assets; instead, the Company and the Bank will be subject to these various requirements

over various dates. For a discussion of the impact that the Dodd-Frank Act and its implementing regulations will have on the Company and the Bank now that they have each exceeded $10.0 billion in total consolidated assets, see the "Supervision and Regulation" section in Item 1, "Business" and Item 1A, "Risk Factors" in the Company's 2016 10-K, as well as our subsequent filings made with the Securities and Exchange Commission ("SEC").

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements may be deemed to include, among other things, statements relating to our future financial performance, the performance of our loan or securities portfolio, the expected amount of future credit reserves or charge-offs, corporate strategies or objectives, anticipated trends in our business, regulatory developments, acquisition transactions, including estimated synergies, cost savings and financial benefits of pending or consummated transactions, and growth strategies, including possible future acquisitions. These statements are subject to certain risks, uncertainties and assumptions. For a discussion of these risks, uncertainties, and assumptions, you should refer to the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and in our 2016 10-K, as well as our subsequent filings made with the SEC. However, these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

CRITICAL ACCOUNTING ESTIMATES

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

For additional information regarding critical accounting estimates, see the "Summary of Significant Accounting Policies," presented in Note 1 to the Consolidated Financial Statements and the section titled "Critical Accounting Estimates" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2016 10-K. There have been no 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, 2016.

SIGNIFICANT RECENT EVENTS

Acquisitions

Standard Bancshares, Inc.

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

Premier Asset Management LLC

On February 28, 2017, the Company completed its acquisition of Premier Asset Management LLC ("Premier"), a registered investment advisor based in Chicago, Illinois. At the close of the acquisition, the Company acquired approximately $550.0 million of trust assets under management. With this acquisition, the assets the Company collectively manages on behalf of its clients increased to nearly $10.0 billion.

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

	Quarters Ended March 31,			
	2017		2016	
Operating Results				
Interest income	$123,699		$87,548	
Interest expense	8,502		6,834	
Net interest income	115,197		80,714	
Provision for loan losses	4,918		7,593	
Noninterest income	39,951		35,926	
Noninterest expense	116,642		82,589	
Income before income tax expense	33,588		26,458	
Income tax expense	10,733		8,496	
Net income	$22,855		$17,962	
Weighted-average diluted common shares outstanding	100,432		77,992	
Diluted earnings per common share	$0.23		$0.23	
Diluted earnings per common share, excluding certain significant transactions [1][2]	$0.34		$0.27	
Performance Ratios				
Return on average common equity [3]	5.20	%	6.06	%
Return on average tangible common equity [3]	9.53	%	8.87	%
Return on average tangible common equity, excluding certain significant transactions [1] [2] [3]	13.99	%	10.32	%
Return on average assets [3]	0.68	%	0.72	%
Return on average assets, excluding certain significant transactions [1] [2] [3]	1.01	%	0.84	%
Tax-equivalent net interest margin [2][3][4]	3.89	%	3.66	%
Efficiency ratio [2]	60.98	%	64.82	%

(1) Certain significant transactions include acquisition and integration related expenses associated with completed and pending acquisitions.
(2) This item is a non-GAAP financial measure. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."
(3) These ratios are presented on an annualized basis.
(4) See the section of this Item 2 titled "Earnings Performance" below for additional discussion and calculation of this financial measure.

	As of			March 31, 2017 Change From	
	March 31, 2017	December 31, 2016	March 31, 2016	December 31, 2016	March 31, 2016
Balance Sheet Highlights					
Total assets	$13,773,471	$11,422,555	$10,728,922	$2,350,916	$3,044,549
Total loans	10,054,370	8,254,145	7,822,555	1,800,225	2,231,815
Total deposits	10,956,541	8,828,603	8,780,818	2,127,938	2,175,723
Core deposits	9,415,286	7,635,318	7,493,696	1,779,968	1,921,590
Loans to deposits	91.8 %	93.5 %	89.1 %		
Core deposits to total deposits	85.9 %	86.5 %	85.3 %		
Asset Quality Highlights					
Non-accrual loans	$54,294	$59,289	$31,890	$(4,995)	$22,404
90 days or more past due loans, still accruing interest [1]	2,633	5,009	5,835	(2,376)	(3,202)
Total non-performing loans	56,927	64,298	37,725	(7,371)	19,202
Accruing troubled debt restructurings ("TDRs")	2,112	2,291	2,702	(179)	(590)
Other real estate owned ("OREO")	29,140	26,083	29,649	3,057	(509)
Total non-performing assets	$88,179	$92,672	$70,076	$(4,493)	$18,103
30-89 days past due loans [1]	$23,641	$21,043	$30,142	$2,598	$(6,501)
Non-performing assets to loans plus OREO [2]	0.87 %	1.12 %	0.89 %		
Allowance for Credit Losses					
Allowance for credit losses	$89,163	$87,083	$78,375	$2,080	$10,788
Allowance for credit losses to total loans [3]	0.89 %	1.06 %	1.00 %		
Allowance for credit losses to total loans, excluding acquired loans	1.11 %	1.11 %	1.11 %		
Allowance for credit losses to non-accrual loans [3]	164.22 %	146.88 %	245.77 %		

(1) Purchased credit impaired ("PCI") loans with an accretable yield are considered current and are not included in past due loan totals.

(2) Excluding the impact of loans and OREO acquired in the Standard transaction, non-performing assets to total loans plus OREO was 0.95% at March 31, 2017.

(3) This ratio includes acquired loans that are recorded at fair value through an acquisition adjustment, which incorporates credit risk as of the acquisition date with no allowance for credit losses being established at that time. As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses is established as necessary to reflect credit deterioration. A discussion of the allowance for acquired loan losses and the related acquisition adjustment is presented in the section titled "Loan Portfolio and Credit Quality."

Net income for the first quarter 2017 was $22.9 million, or $0.23 per share, compared to $18.0 million, or $0.23 per share, for the first quarter of 2016. Performance for both periods was impacted by certain significant transactions which include acquisition and integration related pre-tax expenses of $18.6 million and $5.0 million for the first quarters of 2017 and 2016, respectively. Excluding these transactions, earnings per share was $0.34 for the first quarter of 2017 compared to $0.27 for the same period in 2016. The increase in net income and earnings per share, excluding certain significant transactions, reflects the benefit of the Standard acquisition completed in the first quarter of 2017 and the NI Bancshares Corporation ("NI Bancshares") acquisition completed late in the first quarter of 2016, organic loan growth, increases in fee-based revenues, and lower provision for loan losses, which were partially offset

by higher noninterest expense. A discussion of net interest income, noninterest income, and noninterest expense is presented in the following section titled "Earnings Performance."

Total loans of $10.1 billion grew by $1.8 billion, or 21.8%, from December 31, 2016. This growth was driven primarily by the acquisition of Standard, which represents $1.7 billion of loans at March 31, 2017.

Non-performing assets to loans plus OREO was 0.87% at March 31, 2017, down from 1.12% at December 31, 2016. See the following "Loan Portfolio and Credit Quality" section 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 included in our 2016 10-K.

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

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the quarters ended March 31, 2017 and 2016, 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 2
Net Interest Income and Margin Analysis
(Dollar amounts in thousands)

	Quarters Ended March 31,						Attribution of Change in Net Interest Income		
	2017			2016					
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Volume	Yield/ Rate	Total
Assets									
Other interest-earning assets	$215,915	$441	0.83	$241,645	$342	0.57	$(31)	$130	$99
Securities [1]	2,021,157	11,535	2.28	1,495,462	9,998	2.67	2,634	(1,097)	1,537
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock	54,219	368	2.71	39,773	159	1.60	72	137	209
Loans [1][2]	9,920,513	113,409	4.64	7,346,035	79,356	4.34	29,323	4,730	34,053
Total interest-earning assets [1][2]	12,211,804	125,753	4.17	9,122,915	89,855	3.96	31,998	3,900	35,898
Cash and due from banks	176,953			133,268					
Allowance for loan losses	(89,065)			(75,654)					
Other assets	1,373,433			876,316					
Total assets	$13,673,125			$10,056,845					
Liabilities and Stockholders' Equity									
Savings deposits	$2,029,631	400	0.08	$1,575,174	283	0.07	85	32	117
NOW accounts	1,916,816	478	0.10	1,448,666	200	0.06	80	198	278
Money market deposits	1,890,703	619	0.13	1,583,898	465	0.12	96	58	154
Time deposits	1,515,597	1,712	0.46	1,183,463	1,437	0.49	403	(128)	275
Borrowed funds	734,091	2,194	1.21	303,232	1,316	1.75	1,128	(250)	878
Senior and subordinated debt	194,677	3,099	6.46	201,253	3,133	6.26	(112)	78	(34)
Total interest-bearing liabilities	8,281,515	8,502	0.42	6,295,686	6,834	0.44	1,680	(12)	1,668
Demand deposits	3,355,674			2,463,017					
Total funding sources	11,637,189			8,758,703					
Other liabilities	272,398			119,554					
Stockholders' equity - common	1,763,538			1,178,588					
Total liabilities and stockholders' equity	$13,673,125			$10,056,845					
Tax-equivalent net interest income/margin [1]		117,251	3.89		83,021	3.66	$30,318	$3,912	$34,230
Tax-equivalent adjustment		(2,054)			(2,307)				
		$115,197			$80,714				

Net interest income (GAAP)				
Impact of acquired loan accretion [1]	$11,345	0.38	$2,423	0.11
Tax-equivalent net interest margin, excluding the impact of acquired loan accretion [1]	105,906	3.51	80,598	3.55

(1) Interest income and yields on tax-exempt securities and loans are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%. The corresponding income tax impact related to tax-exempt items is recorded in income tax expense. These adjustments have no impact on net income. For further details on the calculation of tax-equivalent net interest income and margin, net interest income and margin (GAAP), and tax-equivalent net interest margin, excluding the impact of acquired loan accretion, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

(2) Non-accrual loans, which totaled $54.3 million as of March 31, 2017 and $31.9 million as of March 31, 2016, are included in loans for purposes of this analysis. Additional detail regarding non-accrual loans is presented in the following section of this Item 2 titled "Non-performing Assets and Corporate Performing Potential Problem Loans."

Net interest income increased by 42.7% compared to the first quarter of 2016. The rise in net interest income resulted primarily from the acquisition of interest-earning assets and acquired loan accretion from the Standard transaction early in the first quarter

of 2017. Higher interest rates combined with increased levels of interest-earning assets from securities purchases and loan growth also contributed to the increase in net interest income.

Acquired loan accretion contributed $11.3 million and $2.4 million to net interest income for the first quarters of 2017 and 2016, respectively.

Tax-equivalent net interest margin for the current quarter was 3.89%, increasing by 23 basis points from the first quarter of 2016. The rise in tax-equivalent net interest margin was impacted by a 27 basis point increase in acquired loan accretion, due primarily to the Standard transaction. In addition, the impact of adding a greater mix of higher-yielding fixed-rate loans acquired from Standard contributed to the increase, which was more than offset by growth in the securities portfolio and the continued shift of loan originations and mix to lower-yielding floating rate loans.

For the first quarter of 2017, total average interest-earning assets rose $3.1 billion from the first quarter of 2016. The increase resulted from interest-earning assets acquired in the Standard transaction early in the first quarter of 2017. In addition, the rise in average interest-earning assets was impacted by organic loan growth, security purchases, and interest-earning assets acquired in the NI Bancshares transaction late in the first quarter of 2016.

Average funding sources increased by $2.9 billion from the first quarter of 2016. The increase was impacted by deposits acquired in the Standard transaction early in the first quarter of 2017. Deposits acquired in the NI Bancshares transaction late in the first quarter of 2016 and the addition of FHLB advances during the second half of 2016 also contributed to the rise in average funding sources.

Noninterest Income

A summary of noninterest income for the quarters ended March 31, 2017 and 2016 is presented in the following table.

Table 3

Noninterest Income Analysis

(Dollar amounts in thousands)

	Quarters Ended March 31,		
	2017	2016	% Change
Service charges on deposit accounts	$11,365	$9,473	20.0
Wealth management fees	9,660	7,559	27.8
Card-based fees [1]	8,116	6,718	20.8
Merchant servicing fees [2]	3,135	3,028	3.5
Mortgage banking income	1,888	1,368	38.0
Capital market products income	1,376	3,215	(57.2)
Other service charges, commissions, and fees	2,307	2,233	3.3
Total fee-based revenues	37,847	33,594	12.7
Net securities gains [3]	—	887	(100.0)
Other income [4]	2,104	1,445	45.6
Total noninterest income	$39,951	$35,926	11.2

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

(2) Merchant servicing fees are included in other service charges, commissions, and fees in the Condensed Consolidated Statements of Income. The related merchant card expense is included in noninterest expense for each period presented.

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

(4) Other income consists of various items, including bank-owned life insurance ("BOLI") income, safe deposit box rentals, miscellaneous recoveries, and gains on the sales of various assets.

Total fee-based revenues of $37.8 million grew by 12.7% compared to the first quarter of 2016 resulting primarily from services provided to customers acquired in the Standard transaction and the full-quarter impact of services

provided to customers acquired in the NI Bancshares transaction late in the first quarter of 2016.
Mortgage banking income resulted from sales of $54.6 million of 1-4 family mortgage loans in the secondary market during the first quarter of 2017, up from sales of $38.7 million for the first quarter of 2016.

The decline in capital market products income from the first quarter of 2016 was consistent with loan production during the first quarter of 2017.

Noninterest Expense

A summary of noninterest expense for the quarters ended March 31, 2017 and 2016 is presented in the following table.

Table 4

Noninterest Expense Analysis

(Dollar amounts in thousands)

	Quarters Ended March 31,		
	2017	2016	% Change
Salaries and employee benefits:			
Salaries and wages	$44,890	$36,296	23.7
Retirement and other employee benefits	10,882	8,298	31.1
Total salaries and employee benefits	55,772	44,594	25.1
Net occupancy and equipment expense	12,325	9,697	27.1
Professional services	8,463	5,920	43.0
Technology and related costs	4,433	3,701	19.8
Merchant card expense [1]	2,585	2,598	(0.5)
Advertising and promotions	1,066	1,589	(32.9)
Cardholder expenses	1,764	1,359	29.8
Net OREO expense	1,700	664	156.0
Other expenses	9,969	7,447	33.9
Acquisition and integration related expenses	18,565	5,020	269.8
Total noninterest expense	$116,642	$82,589	41.2

[1] The related merchant servicing fees are included in noninterest income for each period presented.

Total noninterest expense increased by 41.2% compared to the first quarter of 2016, which was impacted by certain significant transactions including acquisition and integration related expenses associated with completed and pending acquisitions. Excluding these certain significant transactions, total noninterest expense increased by 26.4% from the first quarter of 2016.

Compared to the first quarter of 2016, approximately half of the increase in total noninterest expense, excluding certain significant transactions, resulted from operating costs associated with the Standard transaction and the full quarter impact of the NI Bancshares transaction. Compensation costs associated with merit increases, investments in additional talent to support growth, and higher loan remediation expenses also contributed to the rise in salaries and employee benefits and professional services compared to the first quarter of 2016.

The decrease in advertising and promotions expense compared to the first quarter of 2016 resulted from the timing of certain advertising costs.

Net OREO expense increased from the first quarter of 2016 due to higher valuation adjustments and a rise in expenses related to the resolution of certain properties.

Acquisition and integration related expenses resulted from the acquisition of Standard and Premier during the first quarter of 2017 and NI Bancshares during the first quarter of 2016. These expenses fluctuate based on the size and timing of each transaction.

Income Taxes

Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes for the quarters ended March 31, 2017 and 2016 is detailed in the following table.

Table 5

Income Tax Expense Analysis

(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2017	2016
Income before income tax expense	$33,588	$26,458
Income tax expense:		
Federal income tax expense	$8,895	$7,101
State income tax expense	1,838	1,395
Total income tax expense	$10,733	$8,496
Effective income tax rate	32.0 %	32.1 %

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 ended March 31, 2017 compared to the same period in 2016 resulted primarily from higher levels of income subject to tax at statutory rates, offset in part by tax benefits of $638,000 related to the implementation of Financial Accounting Standards Board ("FASB") guidance on employee share-based payments.

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 2016 10-K.

FINANCIAL CONDITION

Investment Portfolio Management

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

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

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

Table 6

Investment Portfolio

(Dollar amounts in thousands)

	As of March 31, 2017				As of December 31, 2016			
	Amortized Cost	Net Unrealized Gains (Losses)	Fair Value	% of Total	Amortized Cost	Net Unrealized Gains (Losses)	Fair Value	% of Total
Securities Available-for-Sale								
	$48,574	$(58)	$48,516	2.5	$48,581	$(40)	$48,541	2.5

U.S. treasury securities								
U.S. agency securities	180,894	136	181,030	9.3	183,528	109	183,637	9.6
Collateralized mortgage obligations ("CMOs")	1,066,439	(15,075)	1,051,364	54.3	1,064,130	(16,684)	1,047,446	54.6
Other mortgage-backed securities ("MBSs")	357,473	(4,507)	352,966	18.2	337,139	(4,484)	332,655	17.3
Municipal securities	263,606	(896)	262,710	13.6	273,319	(2,473)	270,846	14.1
Trust-preferred collateralized debt obligations ("CDOs")	47,728	(14,292)	33,436	1.7	47,681	(14,421)	33,260	1.7
Equity securities	7,246	(144)	7,102	0.4	3,206	(141)	3,065	0.2
Total securities available-for-sale	$1,971,960	$(34,836)	$1,937,124	100.0	$1,957,584	$(38,134)	$1,919,450	100.0
Securities Held-to-Maturity								
Municipal securities	$17,742	$(2,624)	$15,118		$22,291	$(4,079)	$18,212	

Portfolio Composition

As of March 31, 2017, our securities available-for-sale portfolio totaled $1.9 billion, rising $17.7 million, or 0.9%, from December 31, 2016.

Approximately 98% of our securities available-for-sale portfolio is comprised of U.S. treasury securities, U.S. agency securities, CMOs, MBSs, and municipal securities. The remainder consists of eleven CDOs with a fair value of $33.4 million and miscellaneous other securities with a fair value of $7.1 million.

Investments in municipal securities comprised $262.7 million, or 13.6%, of the total securities available-for-sale portfolio at March 31, 2017. 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 7

Securities Effective Duration Analysis

	As of March 31, 2017			As of December 31, 2016		
	Effective Duration (1)	Average Life (2)	Yield to Maturity (3)	Effective Duration (1)	Average Life (2)	Yield to Maturity (3)
Securities Available-for-Sale						
U.S. treasury securities	1.15 %	1.17	1.00 %	1.39 %	1.42	0.99 %
U.S. agency securities	2.50 %	3.79	1.65 %	2.65 %	3.89	1.55 %
CMOs	3.69 %	4.43	1.94 %	3.76 %	4.49	1.88 %
MBSs	4.05 %	5.37	2.13 %	4.15 %	5.62	2.07 %
Municipal securities	4.10 %	2.34	3.76 %	4.17 %	2.51	3.85 %
CDOs	N/M	N/M	N/M	N/M	N/M	N/M
Equity securities	N/M	N/M	N/M	N/M	N/M	N/M
Total securities available-for-sale	3.63 %	4.17	2.17 %	3.72 %	4.27	2.14 %
Securities Held-to-Maturity						
Municipal securities	5.96 %	8.14	4.38 %	6.47 %	9.08	3.98 %

N/M - Not meaningful.

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

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

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

Effective Duration

The average life and effective duration of our securities available-for-sale portfolio was 4.17 years and 3.63%, respectively, as of March 31, 2017, consistent with 4.27 years and 3.72% as of December 31, 2016.

Realized Gains and Losses

There were no net securities gains or impairment charges recognized during the first quarter of 2017. Of the $214.1 million of securities acquired in the Standard transaction during the first quarter of 2017, $210.2 million were sold shortly after the acquisition date and resulted in no gains or losses as they were recorded at fair value upon acquisition. Net securities gains for the first quarter of 2016 were $887,000 on securities with carrying values of $30.6 million. No impairment charges were recognized during the first quarter of 2016.

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. As of March 31, 2017, net unrealized losses totaled $34.8 million compared to net unrealized losses of $38.1 million as of December 31, 2016.

Net unrealized losses in the CMO portfolio totaled $15.1 million as of March 31, 2017 compared to $16.7 million as of December 31, 2016. CMOs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. We do not believe any individual unrealized loss on these securities as of March 31, 2017 represents other-than-temporary securities impairment ("OTTI") related to credit deterioration. In addition, we do not intend to sell the CMOs with unrealized losses and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The net unrealized losses on these securities were $14.3 million as of March 31, 2017 and $14.4 million as of December 31, 2016. We do not believe the unrealized losses on the CDOs as of March 31, 2017 represent OTTI related to credit deterioration. In addition, we do not intend to sell the CDOs with unrealized losses and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Our estimation of fair values for the CDOs is described in Note 14 of "Notes to the Condensed Consolidated Financial Statements," in Part I, Item 1 of this Form 10-Q.

LOAN PORTFOLIO AND CREDIT QUALITY

Portfolio Composition

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 83.3% of total loans at March 31, 2017. Consistent with our emphasis on relationship banking, the majority of our corporate loans are made to our core, multi-relationship customers. The customers usually maintain deposit relationships and utilize our other banking services, such as treasury or wealth management services.

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

Table 8

Loan Portfolio

(Dollar amounts in thousands)

	As of March 31, 2017						
	Legacy	Acquired [1]	Total	% of Total Loans	As of December 31, 2016	% of Total Loans	% Change
Commercial and industrial	$2,855,259	$515,521	$3,370,780	33.5	$2,827,658	34.3	19.2
Agricultural	394,855	27,929	422,784	4.2	389,496	4.7	8.5
Commercial real estate:							
Office, retail, and industrial	1,542,831	446,148	1,988,979	19.8	1,581,967	19.2	25.7
Multi-family	634,500	37,210	671,710	6.7	614,052	7.4	9.4
Construction	453,001	115,459	568,460	5.6	451,540	5.4	25.9
Other commercial real estate	967,763	390,018	1,357,781	13.5	979,528	11.9	38.6
Total commercial real estate	3,598,095	988,835	4,586,930	45.6	3,627,087	43.9	26.5
Total corporate loans	6,848,209	1,532,285	8,380,494	83.3	6,844,241	82.9	22.4
Home equity	783,910	96,757	880,667	8.8	747,983	9.1	17.7
1-4 family mortgages	451,488	88,660	540,148	5.4	423,922	5.1	27.4
Installment	251,406	1,655	253,061	2.5	237,999	2.9	6.3
Total consumer loans	1,486,804	187,072	1,673,876	16.7	1,409,904	17.1	18.7
Total loans	$8,335,013	$1,719,357	$10,054,370	100.0	$8,254,145	100.0	21.8

[1] Amounts represent loans acquired in the Standard transaction, which was completed in the first quarter of 2017.

Total loans of $10.1 billion grew by 21.8% from December 31, 2016. Excluding loans acquired in the Standard transaction that totaled $1.7 billion, total loans grew modestly from December 31, 2016. The addition of shorter-duration, floating rate home equity loans and the expansion of mortgage and installment loans drove the

increase compared to December 31, 2016.

Commercial, Industrial, and Agricultural Loans

Commercial, industrial, and agricultural loans represent 37.7% of total loans, and totaled $3.8 billion at March 31, 2017, an increase of $576.4 million, or 17.9%, from December 31, 2016. Loans acquired in the Standard transaction during the first quarter of 2017 contributed $543.5 million to the increase. Our commercial and industrial loans are a diverse group of loans generally located in the Chicago metropolitan area with purposes that range from supporting seasonal working capital needs to term financing of equipment. Our commercial and industrial portfolio does not have significant direct exposure to the oil and gas industry. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory. The underlying collateral securing commercial and industrial loans may fluctuate in value due to the success of the business or economic conditions. For loans secured by accounts receivable, the availability of funds for repayment and economic conditions may impact the cash flow of the borrower. Accordingly, the underwriting for these loans is based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower and may incorporate a personal guarantee.

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

Commercial Real Estate Loans

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

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

The following table presents commercial real estate loan detail as of March 31, 2017 and December 31, 2016.

Table 9

Commercial Real Estate Loans

(Dollar amounts in thousands)

	As of March 31, 2017	% of Total	As of December 31, 2016	% of Total
Office, retail, and industrial:				
Office	$863,810	18.8	$ 599,572	16.5
Retail	463,837	10.1	412,614	11.4
Industrial	661,332	14.4	569,781	15.7
Total office, retail, and industrial	1,988,979	43.3	1,581,967	43.6
Multi-family	671,710	14.6	614,052	16.9
Construction	568,460	12.4	451,540	12.4
Other commercial real estate:				
Multi-use properties	304,269	6.6	236,430	6.5
Rental properties	215,776	4.7	159,134	4.4
Warehouses and storage	160,994	3.5	136,853	3.8
Restaurants	116,765	2.5	63,067	1.7
Hotels	89,891	2.0	41,780	1.2
Automobile dealers	86,108	1.9	53,671	1.5
Recreational	86,099	1.9	58,390	1.6
Service stations and truck stops	67,099	1.6	51,403	1.4
Religious	37,617	0.8	38,319	1.1
Other	193,163	4.2	140,481	3.9
Total other commercial real estate	1,357,781	29.7	979,528	27.1
Total commercial real estate	$4,586,930	100.0	$ 3,627,087	100.0

Commercial real estate loans represent 45.6% of total loans, and totaled $4.6 billion at March 31, 2017, increasing by $959.8 million, or 26.5%, from December 31, 2016. Loans acquired in the Standard transaction during the first quarter of 2017 contributed $988.8 million to the increase, which more than offset lower loan production that was impacted by seasonality.

The mix of properties securing the loans in our commercial real estate portfolio is balanced between owner-occupied and investor categories and is diverse in terms of type and geographic location, generally within the Company's markets. Approximately 44% of the commercial real estate portfolio is owner-occupied as of March 31, 2017. Using outstanding loan balances, non-owner occupied commercial real estate loans to total capital was 221% and construction loans to total capital was 37% as of March 31, 2017. Non-owner-occupied (investor) commercial real estate is calculated in accordance with federal banking agency guidelines and includes construction, multi-family, non-farm non-residential property, and commercial real estate not secured by real estate loans.

Consumer Loans

Consumer loans represent 16.7% of total loans, and totaled $1.7 billion at March 31, 2017, an increase of $264.0 million, or 18.7%, from December 31, 2016. Loans acquired in the Standard transaction during the first quarter of 2017 contributed $187.1 million to the increase. Consumer loans are centrally underwritten using a credit scoring model developed by the Fair Isaac Corporation ("FICO"), which employs a risk-based system to determine the probability a borrower may default. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. The home equity category consists mainly of revolving lines of credit secured by junior liens on owner-occupied real estate. Loan-to-value ratios on home equity loans and 1-4 family mortgages are based on the current appraised value of the collateral. Repayment for these loans is dependent on the borrower's continued financial stability, and is more likely to be impacted by adverse personal circumstances.

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Non-performing Assets and Corporate Performing Potential Problem Loans

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

Table 10

Loan Portfolio by Performing/Non-Performing Status

(Dollar amounts in thousands)

	Accruing					
	PCI [1]	Current	30-89 Days Past Due	90 Days Past Due	Non-accrual [2]	Total Loans
As of March 31, 2017						
Commercial and industrial	$20,841	$3,320,057	$7,117	$1,251	$ 21,514	$3,370,780
Agricultural	9,282	411,395	824	—	1,283	422,784
Commercial real estate:						
Office, retail, and industrial	19,495	1,949,084	843	52	19,505	1,988,979
Multi-family	14,545	652,206	4,782	14	163	671,710
Construction	20,176	545,530	2,556	—	198	568,460
Other commercial real estate	68,869	1,283,117	1,936	1	3,858	1,357,781
Total commercial real estate	123,085	4,429,937	10,117	67	23,724	4,586,930
Total corporate loans	153,208	8,161,389	18,058	1,318	46,521	8,380,494
Home equity	3,018	869,265	2,721	864	4,799	880,667
1-4 family mortgages	19,759	516,211	1,163	41	2,974	540,148
Installment	1,334	249,618	1,699	410	—	253,061
Total consumer loans	24,111	1,635,094	5,583	1,315	7,773	1,673,876
Total loans	$177,319	$9,796,483	$23,641	$2,633	$ 54,294	$10,054,370
As of December 31, 2016						
Commercial and industrial	$2,167	$2,788,891	$6,288	$374	$ 29,938	$2,827,658
Agricultural	512	388,067	—	736	181	389,496
Commercial real estate:						
Office, retail, and industrial	12,398	1,546,078	5,085	1,129	17,277	1,581,967
Multi-family	12,225	600,054	858	604	311	614,052
Construction	4,442	446,480	332	—	286	451,540
Other commercial real estate	12,219	961,709	1,182	1,526	2,892	979,528
Total commercial real estate	41,284	3,554,321	7,457	3,259	20,766	3,627,087
Total corporate loans	43,963	6,731,279	13,745	4,369	50,885	6,844,241
Home equity	615	738,213	3,581	109	5,465	747,983
1-4 family mortgages	14,949	403,521	2,241	272	2,939	423,922
Installment	1,459	234,805	1,476	259	—	237,999
Total consumer loans	17,023	1,376,539	7,298	640	8,404	1,409,904
Total loans	$60,986	$8,107,818	$21,043	$5,009	$ 59,289	$8,254,145

[1] PCI loans with an accretable yield are considered current.

[2] Includes PCI loans of $387,000 and $682,000 as of March 31, 2017 and December 31, 2016, respectively, which no longer have an accretable yield as estimates of expected future cash flows have decreased since the acquisition due to credit deterioration.

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

Table 11

Non-Performing Assets and Past Due Loans

(Dollar amounts in thousands)

	As of March 31, 2017		December 31, 2016		September 30, 2016		June 30, 2016		March 31, 2016	
Non-accrual loans	$54,294		$ 59,289		$ 44,289		$37,312		$31,890	
90 days or more past due loans, still accruing interest [1]	2,633		5,009		4,318		5,406		5,835	
Total non-performing loans	56,927		64,298		48,607		42,718		37,725	
Accruing TDRs	2,112		2,291		2,368		2,491		2,702	
OREO	29,140		26,083		28,049		29,990		29,649	
Total non-performing assets	$88,179		$ 92,672		$ 79,024		$75,199		$70,076	
30-89 days past due loans [1]	$23,641		$ 21,043		$ 26,140		$23,380		$30,142	
Non-accrual loans to total loans [2]	0.54	%	0.72	%	0.54	%	0.47	%	0.41	%
Non-performing loans to total loans [2]	0.57	%	0.78	%	0.59	%	0.54	%	0.48	%
Non-performing assets to total loans plus OREO [2]	0.87	%	1.12	%	0.96	%	0.94	%	0.89	%

[1] PCI loans with an accretable yield are considered current and not included in past due loan totals.

[2] Excluding the impact of loans and OREO acquired in the Standard transaction, non-accrual loans to total loans, non-performing loans to total loans, and non-performing assets to total loans plus OREO were 0.65%, 0.68%, and 0.95%, respectively, at March 31, 2017.

Total non-performing assets represented 0.87% of total loans and OREO at March 31, 2017, down from 1.12% at December 31, 2016. Included in non-performing assets as of March 31, 2017 was $8.4 million of OREO acquired in the Standard transaction.

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 restructured loans remain classified as TDRs for the remaining term of these loans.

Table 12

TDRs by Type

(Dollar amounts in thousands)

	As of March 31, 2017		December 31, 2016		March 31, 2016	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
Commercial and industrial	4	$ 1,200	3	$ 431	5	$ 1,309
Commercial real estate:						
Office, retail, and industrial	2	864	3	4,888	1	162
Multi-family	3	745	3	754	3	774
Other commercial real estate	2	263	3	316	3	334
Total commercial real estate	7	1,872	9	5,958	7	1,270
Total corporate loans	11	3,072	12	6,389	12	2,579
Home equity	16	967	16	997	16	1,135
1-4 family mortgages	11	1,185	11	1,202	11	1,256
Total consumer loans	27	2,152	27	2,199	27	2,391
Total TDRs	38	$ 5,224	39	$ 8,588	39	$ 4,970
Accruing TDRs	17	$ 2,112	18	$ 2,291	22	$ 2,702
Non-accrual TDRs	21	3,112	21	6,297	17	2,268
Total TDRs	38	$ 5,224	39	$ 8,588	39	$ 4,970
Year-to-date charge-offs on TDRs		$ 112		$ 1,492		$ —
Specific reserves related to TDRs		32		—		729

As of March 31, 2017, TDRs totaled $5.2 million, decreasing by $3.4 million, or 39.2%, from December 31, 2016. This decrease resulted primarily from the final resolution of a non-accrual commercial loan relationship during the first quarter of 2017.

Corporate Performing Potential Problem Loans

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

Table 13

Corporate Performing Potential Problem Loans

(Dollar amounts in thousands)

	As of March 31, 2017			As of December 31, 2016		
	Special Mention [1]	Substandard [2]	Total [3]	Special Mention [1]	Substandard [2]	Total [3]
Commercial and industrial	$113,944	$100,217	$214,161	$92,340	$66,266	$158,606
Agricultural	9,873	6,274	16,147	17,039	5,894	22,933
Commercial real estate:						
Office, retail, and industrial	39,545	42,230	81,775	33,852	39,513	73,365
Multi-family	3,940	1,898	5,838	3,972	2,029	6,001
Construction	8,927	16,473	25,400	111	12,197	12,308
Other commercial real estate	21,599	19,977	41,576	11,808	13,544	25,352
Total commercial real estate	74,011	80,578	154,589	49,743	67,283	117,026
Total corporate performing potential problem loans [4]	$197,828	$187,069	$384,897	$159,122	$139,443	$298,565
Corporate performing potential problem loans to corporate loans	2.36 %	2.23 %	4.59 %	2.33 %	2.04 %	4.36 %
Corporate PCI performing potential problem loans included in the totals above	$15,754	$39,885	$55,639	$1,868	$13,598	$15,466

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

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

(3) Total corporate performing potential problem loans excludes accruing TDRs of $674,000 as of March 31, 2017 and $834,000 as of December 31, 2016.

(4) Includes corporate PCI performing potential problem loans.

Corporate performing potential problem loans were 4.6% of corporate loans at March 31, 2017, higher than 4.4% at December 31, 2016. This increase was impacted by the Standard acquisition, which added $43.6 million of corporate performing potential problem loans that were designated as PCI.

OREO

OREO consists of properties acquired as the result of borrower defaults on loans. OREO was $29.1 million at March 31, 2017, increasing by $3.1 million, or 11.7%, from December 31, 2016. As of March 31, 2017, total OREO includes $8.4 million acquired in the Standard transaction.

Table 14

OREO by Type

(Dollar amounts in thousands)

	As of March 31, 2017	December 31, 2016	March 31, 2016
Single-family homes	$1,768	$ 2,595	$ 3,597
Land parcels:			
Raw land	1,025	1,464	1,689
Commercial lots	10,638	8,176	9,163
Single-family lots	2,232	947	1,289
Total land parcels	13,895	10,587	12,141
Multi-family units	272	48	116
Commercial properties	13,205	12,853	13,795
Total OREO	$29,140	$ 26,083	$ 29,649

OREO Activity

A rollforward of OREO balances for the quarters ended March 31, 2017 and 2016 is presented in the following table.

Table 15

OREO Rollforward

(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2017	2016
Beginning balance	$26,083	$27,782
Transfers from loans	683	942
Acquisitions	8,427	2,863
Proceeds from sales	(5,364)	(1,640)
Losses on sales of OREO	(156)	(161)
OREO valuation adjustments	(533)	(137)
Ending balance	$29,140	$29,649

Allowance for Credit Losses

Methodology for the Allowance for Credit Losses

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

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk ratings by regulatory authorities. Management believes that the allowance for credit losses is an appropriate estimate of credit losses inherent in the loan portfolio as of March 31, 2017.

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

An allowance for credit losses is established on loans originated by the Bank, acquired loans, and covered loans. Additional discussion regarding acquired and covered loans can be found in Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q. The following table provides additional details related to acquired loans, the allowance for credit losses as related to acquired loans, and the remaining acquisition adjustment associated with acquired loans as of March 31, 2017 and December 31, 2016.

Table 16

Allowance for Credit Losses and Acquisition Adjustment

(Dollar amounts in thousands)

	Loans, Excluding Acquired Loans	Acquired Loans [1]	Total
Quarter ended March 31, 2017			
Beginning balance	$84,217	$2,866	$87,083
Net charge-offs	(2,725)	(113)	(2,838)
Provision for loan losses and other expense	4,957	(39)	4,918
Ending balance	$86,449	$2,714	$89,163
As of March 31, 2017			
Total loans	$7,813,950	$2,240,420	$10,054,370
Remaining acquisition adjustment [2]	N/A	98,882	98,882
Allowance for credit losses to total loans	1.11%	0.12%	0.89%
Remaining acquisition adjustment to acquired loans	N/A	4.41%	N/A
As of December 31, 2016			
Total loans	$7,620,100	$634,045	$8,254,145
Remaining acquisition adjustment [2]	N/A	22,574	22,574
Allowance for credit losses to total loans	1.11%	0.45%	1.06%
Remaining acquisition adjustment to acquired loans	N/A	3.56%	N/A

N/A - Not applicable.

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

(2) The remaining acquisition adjustment consists of $55.2 million and $43.7 million relating to PCI and non-purchased credit impaired ("Non-PCI") loans, respectively, as of March 31, 2017, and $10.8 million and $11.8 million relating to PCI and Non-PCI loans, respectively, as of December 31, 2016.

Excluding acquired loans, the allowance for credit losses to total loans was 1.11% as of March 31, 2017. The acquisition adjustment increased by $76.3 million during the first quarter of 2017, driven primarily by the Standard transaction. This was partially offset by acquired loan accretion which is included in interest income, resulting in a remaining acquisition adjustment as a percent of acquired loans of 4.41%. Acquired loans that are renewed are no longer classified as acquired loans. These loans totaled $170.9 million and $117.6 million as of March 31, 2017 and December 31, 2016, respectively, and are included in loans, excluding acquired loans, in the table above and allocated an allowance in accordance with our allowance for loan losses methodology. In addition, there is an allowance for credit losses of $2.7 million on acquired loans.

Table 17
Allowance for Credit Losses
and Summary of Credit Loss Experience
(Dollar amounts in thousands)

	Quarters Ended				
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Change in allowance for credit losses					
Beginning balance	$87,083	$ 86,308	$ 81,505	$78,375	$ 74,855
Loan charge-offs:					
Commercial, industrial, and agricultural	4,074	4,298	1,760	2,026	1,898
Office, retail, and industrial	127	349	2,193	1,641	524
Multi-family	—	19	—	84	204
Construction	5	—	—	8	126
Other commercial real estate	408	99	509	879	1,445
Consumer	1,664	1,256	1,488	1,495	992
Total loan charge-offs	6,278	6,021	5,950	6,133	5,189
Recoveries of loan charge-offs:					
Commercial, industrial, and agricultural	1,666	758	615	576	502
Office, retail, and industrial	975	184	42	8	103
Multi-family	28	2	69	1	25
Construction	227	12	9	20	15
Other commercial real estate	101	210	94	69	151
Consumer	443	323	326	329	320
Total recoveries of loan charge-offs	3,440	1,489	1,155	1,003	1,116
Net loan charge-offs	2,838	4,532	4,795	5,130	4,073
Provision for loan losses	4,918	5,307	9,998	8,085	7,593
(Decrease) increase in reserve for unfunded commitments [1]	—	—	(400)	175	—
Total provision for loan losses and other expense	4,918	5,307	9,598	8,260	7,593
Ending balance	$89,163	$ 87,083	$ 86,308	$81,505	$ 78,375

[1] Included in other noninterest income in the Condensed Consolidated Statements of Income.

	Quarters Ended				
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Allowance for credit losses					
Allowance for loan losses	$88,163	$86,083	$85,308	$80,105	$77,150
Reserve for unfunded commitments	1,000	1,000	1,000	1,400	1,225
Total allowance for credit losses	$89,163	$87,083	$86,308	$81,505	$78,375
Allowance for credit losses to loans [1]	0.89 %	1.06 %	1.06 %	1.02 %	1.00 %
Allowance for credit losses to loans, excluding acquired loans	1.11 %	1.11 %	1.13 %	1.11 %	1.11 %
Allowance for credit losses to non-accrual loans	164.22 %	146.88 %	194.87 %	218.44 %	245.77 %
Allowance for credit losses to non-performing loans	156.63 %	135.44 %	177.56 %	190.80 %	207.75 %
Average loans	$9,916,281	$8,171,953	$8,062,035	$7,878,544	$7,341,331
Net loan charge-offs to average loans, annualized [2]	0.12 %	0.22 %	0.24 %	0.26 %	0.22 %

(1) This ratio includes acquired loans that are recorded at fair value through an acquisition adjustment, which incorporates credit risk as of the acquisition date with no allowance for credit losses being established at that time. As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses is established as necessary to reflect credit deterioration. See the Allowance for Credit Losses and Acquisition Adjustment table above for further discussion of the allowance for acquired loan losses and the related acquisition adjustment.

(2) Excluding the impact of loans acquired in the Standard transaction, net loan charge-offs to average loans, annualized, was 0.14% at March 31, 2017.

Activity in the Allowance for Credit Losses

The allowance for credit losses was $89.2 million as of March 31, 2017, an increase of $2.1 million from December 31, 2016, and represents 0.89% of total loans compared to 1.06% at December 31, 2016.

The provision for loan losses was $4.9 million for the quarter ended March 31, 2017, decreasing from $5.3 million and $7.6 million for the quarters ended December 31, 2016 and March 31, 2016, respectively. The decrease compared to both prior periods resulted primarily from lower levels of charge-offs. In addition, greater loan production resulted in higher provision for the first quarter of 2016.

Total net loan charge-offs to average loans for the first quarter of 2017 was 12 basis points, or $2.8 million, decreasing from 22 basis points for the fourth quarter of 2016 and first quarter of 2016, respectively. Net loan charge-offs for the first quarter of 2017 include $3.4 million in recoveries, which relate primarily to three corporate loan relationships that were charged-off in prior periods.

FUNDING AND LIQUIDITY MANAGEMENT

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

Table 18

Funding Sources - Average Balances

(Dollar amounts in thousands)

	Quarters Ended			March 31, 2017 % Change From	
	March 31, 2017	December 31, 2016	March 31, 2016	December 31, 2016	March 31, 2016

Demand deposits	$3,355,674		$2,803,016		$2,463,017		19.7	%	36.2	%
Savings deposits	2,029,631		1,633,010		1,575,174		24.3	%	28.9	%
NOW accounts	1,916,816		1,715,228		1,448,666		11.8	%	32.3	%
Money market accounts	1,890,703		1,623,392		1,583,898		16.5	%	19.4	%
Core deposits	9,192,824		7,774,646		7,070,755		18.2	%	30.0	%
Time deposits	1,473,882		1,196,243		1,165,434		23.2	%	26.5	%
Brokered deposits	41,715		16,805		18,029		148.2	%	131.4	%
Total time deposits	1,515,597		1,213,048		1,183,463		24.9	%	28.1	%
Total deposits	10,708,421		8,987,694		8,254,218		19.1	%	29.7	%
Securities sold under agreements to repurchase	126,202		122,866		142,939		2.7	%	(11.7	)%
FHLB advances	607,889		495,109		159,687		22.8	%	280.7	%
Other borrowings	—		—		606		N/M		(100.0	)%
Total borrowed funds	734,091		617,975		303,232		18.8	%	142.1	%
Senior and subordinated debt	194,677		259,531		201,253		(25.0	)%	(3.3	)%
Total funding sources	$11,637,189		$9,865,200		$8,758,703		18.0	%	32.9	%
Average interest rate paid on borrowed funds	1.21	%	1.10	%	1.75	%				
Weighted-average maturity of FHLB advances	1.3 months		0.9 months		1.3 months					
Weighted-average interest rate of FHLB advances	0.74	%	0.60	%	0.50	%				

N/M - Not meaningful.

Total average funding sources for the first quarter of 2017 increased by $1.8 billion, or 18.0%, compared to the fourth quarter of 2016 and $2.9 billion, or 32.9%, compared to the first quarter of 2016. The rise in average core deposits compared to both prior periods resulted from $1.7 billion in core deposits assumed in the Standard transaction, which contributed $1.5 billion to average core deposits in the first quarter of 2017. In addition, compared to the first quarter of 2016, the rise in average core deposits was impacted by organic growth and $443.1 million in core deposits assumed in the NI Bancshares transaction completed late in the first quarter of 2016. The addition of FHLB advances during the second half of 2016 also contributed to the rise in average funding sources compared to the first quarter of 2016.

Table 19
Borrowed Funds
(Dollar amounts in thousands)

	As of March 31, 2017		As of March 31, 2016	
	Amount	Weighted-Average Rate (%)	Amount	Weighted-Average Rate (%)
At period-end:				
Securities sold under agreements to repurchase	$132,923	0.06	$122,511	0.06
FHLB advances	415,000	0.74	262,500	0.50
Other borrowings	—	—	2,400	3.50
Total borrowed funds	$547,923	0.58	$387,411	0.38
Average for the year-to-date period:				
Securities sold under agreements to repurchase	$126,202	0.05	$142,939	0.14
FHLB advances	607,889	1.45	159,687	3.17
Other borrowings	—	—	606	3.98
Total borrowed funds	$734,091	1.21	$303,232	1.75
Maximum amount outstanding at the end of any day during the period:				
Securities sold under agreements to repurchase	$140,764		$174,266	
FHLB advances	940,000		262,500	
Other borrowings	—		2,400	

Average borrowed funds totaled $734.1 million for the first quarter of 2017, increasing by $430.9 million compared to the first quarter of 2016. This increase was due primarily to higher levels of FHLB advances during the first quarter of 2017. The weighted-average rate on FHLB advances for both periods presented was impacted by the hedging of $415.0 million and $262.5 million in FHLB advances as of March 31, 2017 and 2016, respectively, using interest rate swaps through which the Company receives variable amounts and pays fixed amounts. The weighted-average interest rate paid on these interest rate swaps was 2.17% and 2.13% for the first quarters of 2017 and 2016, respectively. For a detailed discussion of interest rate swaps, see Note 12 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

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

MANAGEMENT OF CAPITAL

Capital Measurements

A strong capital structure is required under applicable banking regulations and is crucial in maintaining investor confidence, accessing capital markets, and enabling us to take advantage of future growth opportunities. Our capital policy requires that the Company and the Bank maintain capital ratios in excess of the minimum regulatory guidelines. It serves as an internal discipline in analyzing business risks and internal growth opportunities and sets targeted levels of return on equity. Under regulatory capital adequacy guidelines, the Company and the Bank are subject to various capital requirements set and administered by the federal banking agencies. On January 1, 2015, the Company and the Bank became subject to the Basel III Capital rules, a new comprehensive capital framework for U.S. banking organizations published by the Federal Reserve. These rules are discussed in the "Supervision and Regulation" section in Item 1, "Business" in the Company's 2016 10-K. In addition, financial institutions, such as the Company and the Bank, with average total consolidated assets greater than $10 billion are required by the Dodd-Frank Act to conduct an annual company-run stress test of capital. The Company and the Bank will be subject to these stress test requirements starting with the July 31, 2017 and 2018 reporting dates, respectively.

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

mandated ratios for characterization as "well-capitalized" were exceeded as of March 31, 2017 and December 31, 2016.

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

Table 20

Capital Measurements

(Dollar amounts in thousands)

	As of		As of March 31, 2017		
	March 31, 2017	December 31, 2016	Regulatory Minimum For Well-Capitalized	Excess Over Required Minimums	
Bank regulatory capital ratios					
Total capital to risk-weighted assets	10.63%	10.73 %	10.00%	6 %	$74,727
Tier 1 capital to risk-weighted assets	9.88 %	9.83 %	8.00 %	23 %	$221,134
Common equity Tier 1 to risk-weighted assets	9.88 %	9.83 %	6.50 %	52 %	$397,811
Tier 1 capital to average assets	9.72 %	8.76 %	5.00 %	94 %	$564,686
Company regulatory capital ratios					
Total capital to risk-weighted assets	11.48%	12.23 %	N/A	N/A	N/A
Tier 1 capital to risk-weighted assets	9.53 %	9.90 %	N/A	N/A	N/A
Common equity Tier 1 to risk-weighted assets	9.11 %	9.39 %	N/A	N/A	N/A
Tier 1 capital to average assets	8.89 %	8.99 %	N/A	N/A	N/A
Company tangible common equity ratios [1][2]					
Tangible common equity to tangible assets	8.07 %	8.05 %	N/A	N/A	N/A
Tangible common equity, excluding accumulated other comprehensive loss, to tangible assets	8.38 %	8.42 %	N/A	N/A	N/A
Tangible common equity to risk-weighted assets	8.68 %	8.88 %	N/A	N/A	N/A

N/A - Not applicable.

[1] Ratios are not subject to formal Federal Reserve regulatory guidance.

[2] Tangible common equity ratios are non-GAAP financial measures. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

Overall, the Company's regulatory capital ratios decreased compared to December 31, 2016 due primarily to the Standard and Premier acquisitions.

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 first quarter of 2017, which is consistent with the fourth quarter of 2016.

NON-GAAP FINANCIAL INFORMATION AND RECONCILIATIONS

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

The Company presents EPS, the efficiency ratio, return on average assets, and return on average tangible common equity, all excluding certain significant transactions. Certain significant transactions include acquisition and integration expenses for all periods presented. Management believes excluding these transactions from EPS, the efficiency ratio, return on average assets, and return on average tangible common equity are useful in assessing the Company's underlying operational performance since these transactions do not pertain to its core business operations and their exclusion facilitates better comparability between periods. Management believes that excluding acquisition and integration related expenses from these metrics is useful to the Company, as well as analysts and investors, since these expenses can vary significantly based on the size, type, and structure of each acquisition. Additionally, management believes excluding these transactions from these metrics enhances comparability for peer comparison purposes.

The tax-equivalent adjustment to net interest income and net interest margin recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 35% tax rate. Management believes that it is standard practice in the banking industry to present net interest income and net interest margin on a fully tax-equivalent basis and that it enhances comparability for peer comparison purposes. In addition, management believes that the tax-equivalent net interest margin, excluding the impact of acquired loan accretion, enhances comparability for peer comparison purposes and is useful to the Company, as well as analysts and investors, since acquired loan accretion income may fluctuate significantly based on the size of each acquisition.

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

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

Non-GAAP Reconciliations
(Amounts in thousands, except per share data)

	Quarters Ended March 31,	
	2017	2016
Earnings Per Share		
Net income	$22,855	$17,962
Net income applicable to non-vested restricted shares	(234)	(212)
Net income applicable to common shares	22,621	17,750
Acquisition and integration related expenses	18,565	5,020
Tax effect of acquisition and integration related expenses	(7,426)	(2,008)
Net income applicable to common shares, excluding certain significant transactions [1]	$33,760	$20,762
Weighted-average common shares outstanding:		
Weighted-average common shares outstanding (basic)	100,411	77,980
Dilutive effect of common stock equivalents	21	12
Weighted-average diluted common shares outstanding	100,432	77,992
Basic EPS	$0.23	$0.23
Diluted EPS	$0.23	$0.23
Diluted EPS, excluding certain significant transactions [1]	$0.34	$0.27
Tax-Equivalent Net Interest Income		
Net interest income	$115,197	$80,714
Tax-equivalent adjustment	2,054	2,307
Tax-equivalent net interest income [2]	117,251	83,021
Less: acquired loan accretion	(11,345)	(2,423)
Tax-equivalent net interest income, excluding the impact of acquired loan accretion	$105,906	$80,598
Average interest-earning assets	12,211,804	9,122,915
Net interest margin (GAAP)	3.83%	3.56%
Tax-equivalent net interest margin	3.89%	3.66%
Tax-equivalent net interest margin, excluding the impact of acquired loan accretion	3.51%	3.55%
Efficiency Ratio Calculation		
Noninterest expense	$116,642	$82,589
Less:		
Net OREO expense	(1,700)	(664)
Acquisition and integration related expenses	(18,565)	(5,020)
Total	$96,377	$76,905
Tax-equivalent net interest income [2]	$117,251	$83,021
Fee-based revenues	37,847	33,594
Add:		
Other income, excluding BOLI income	844	579
BOLI income	1,260	866
Tax-equivalent adjustment of BOLI income	840	577
Total	$158,042	$118,637
Efficiency ratio	60.98%	64.82%

	Quarters Ended March 31,					
	2017			2016		
Return on Average Common and Tangible Common Equity						
Net income applicable to common shares	$	22,621		$	17,750	
Intangibles amortization	1,965			985		
Tax effect of intangibles amortization	(786		)	(394		)
Net income applicable to common shares, excluding intangibles amortization	23,800			18,341		
Acquisition and integration related expenses	18,565			5,020		
Tax effect of acquisition and integration related expenses	(7,426		)	(2,008		)
Net income applicable to common shares, excluding intangibles amortization and certain significant transactions [1]	$	34,939		$	21,353	
Average stockholders' common equity	$	1,763,538		$	1,178,588	
Less: average intangible assets	(750,589		)	(346,549		)
Average tangible common equity	$	1,012,949		$	832,039	
Return on average common equity [3]	5.20		%	6.06		%
Return on average tangible common equity [3]	9.53		%	8.87		%
Return on average tangible common equity, excluding certain significant transactions [1] [3]	13.99		%	10.32		%
Return on Average Assets						
Net income	$	22,855		$	17,962	

Acquisition and integration related expenses	18,565			5,020		
Tax effect of acquisition and integration related expenses	(7,426		)	(2,008		)
Net income, excluding certain significant transactions [1]	$	33,994		$	20,974	
Average assets	$	13,673,125		$	10,056,845	
Return on average assets [3]	0.68		%	0.72		%
Return on average assets, excluding certain significant transactions [1] [3]	1.01		%	0.84		%

	As of March 31, 2017		December 31, 2016	
Tangible Common Equity				
Stockholders' equity	$1,804,733		$1,257,080	
Less: goodwill and other intangible assets	(754,621	)	(366,876	)
Tangible common equity	1,050,112		890,204	
Less: accumulated other comprehensive income ("AOCI")	40,264		40,910	
Tangible common equity, excluding AOCI	$1,090,376		$931,114	
Total assets	$13,773,471		$11,422,555	
Less: goodwill and other intangible assets	(754,621	)	(366,876	)
Tangible assets	$13,018,850		$11,055,679	
Risk-weighted assets	$12,095,592		$10,019,434	
Tangible common equity to tangible assets	8.07	%	8.05	%
Tangible common equity, excluding AOCI, to tangible assets	8.38	%	8.42	%
Tangible common equity to risk-weighted assets	8.68	%	8.88	%

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

(2) Presented on a tax-equivalent basis, which reflects federal and state tax benefits.

(3) Annualized based on the actual number of days for each period presented.

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 2016 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 March 31, 2017 and December 31, 2016, management determined that an immediate decrease in interest rates greater than 100 basis points was not meaningful for this analysis.

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

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

Interest-earning assets consist of short and long-term products. Excluding non-accrual loans, and including the impact of hedging certain corporate variable rate loans using interest rate swaps through which the Company receives fixed amounts and pays variable amounts, 51% of the loan portfolio consisted of fixed rate loans and 49% were floating rate loans as of March 31, 2017, compared to 48% and 52%, respectively, as of December 31, 2016.

As of March 31, 2017, investments, consisting of securities and interest-bearing deposits in other banks, are more heavily weighted toward fixed rate securities at 96% of the total compared to 4% for floating rate interest-bearing deposits in other banks. This compares to investments comprising 95% of fixed rate securities and 5% of floating rate interest-bearing deposits in other banks as of December 31, 2016. 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 $156.9 million, or 3%, of the floating rate loan portfolio as of March 31, 2017, compared to $271.5 million, or 5%, of the floating rate loan portfolio as of December 31, 2016. On the liability side of the balance sheet, 86% of deposits as of both March 31, 2017 and December 31, 2016 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.

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

	Immediate Change in Rates			
	+300	+200	+100	-100
As of March 31, 2017				
Dollar change	$61,936	$36,938	$19,311	$(40,624)
Percent change	14.0 %	8.3 %	4.4 %	(9.2)%
As of December 31, 2016				
Dollar change	$44,092	$25,412	$12,763	$(26,013)
Percent change	12.3 %	7.1 %	3.6 %	(7.2)%

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 March 31, 2017 would increase net interest income by $36.9 million, or 8.3%, over the next twelve months compared to no change in interest rates. This same measure was $25.4 million, or 7.1%, as of December 31, 2016.

Overall, positive interest rate risk volatility as of March 31, 2017 increased compared to December 31, 2016. This increase was driven primarily by a reduction in short-term FHLB advances, resulting from the sale of securities acquired in the Standard transaction.

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 March 31, 2017. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect that any liabilities arising from pending legal matters will have a material adverse effect on the Company's financial 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 2016 Form 10-K. 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 first quarter of 2017. The Board approved a stock repurchase program on November 27, 2007. Up to 2.5 million shares of the Company's Common Stock may be repurchased, and the total remaining authorization under the program was 2,487,947 shares as of March 31, 2017. The repurchase program has no set expiration or termination date.

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program
January 1 - January 31, 2017	—	$ —	—	2,487,947
February 1 - February 28, 2017	119,740	24.54	—	2,487,947
March 1 - March 31, 2017	131	23.12	—	2,487,947
Total	119,871	$ 24.54	—	

(1) Consists of shares acquired pursuant to the Company's share-based compensation plans and not the Company's Board-approved stock repurchase program. Under the terms of the Company's share-based compensation plans, the Company accepts previously owned shares of Common Stock surrendered 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 Number	Description of Documents
11	Statement re: Computation of Per Share Earnings - The computation of basic and diluted earnings per common share is included in Note 11 of the Company's Notes to the Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS" of this document.
15	Acknowledgement of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 (1)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 (1)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99	Review Report of Independent Registered Public Accounting Firm.
101	Interactive Data File.

(1) Furnished, not filed.

SIGNATURES

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

First Midwest Bancorp, Inc.

/s/ PATRICK S. BARRETT
Patrick S. Barrett
Executive Vice President and Chief Financial Officer*

Date: May 10, 2017

* Duly authorized to sign on behalf of the registrant.