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

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

FORM 10-Q
(Mark One)

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

or

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

Commission File Number 0-10967

(Exact name of registrant as specified in its charter)

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

One Pierce Place, Suite 1500
Itasca, Illinois 60143-9768
(Address of principal executive offices) (zip code)

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

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]

(Do not check if a smaller reporting company)

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

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

FIRST MIDWEST BANCORP, INC.
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PART I. FINANCIAL INFORMATION (Unaudited)
ITEM 1. FINANCIAL STATEMENTS
FIRST MIDWEST BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Amounts in thousands, except per share data)

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

	June 30, 2015 (Unaudited)		December 31, 2014	
	Preferred Shares	Common Shares	Preferred Shares	Common Shares
Par value per share	$—	$0.01	$—	$0.01

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

and for which it was probable at acquisition that the Company would not collect all contractually required principal and interest payments. Evidence of credit deterioration was evaluated using various indicators, such as past due and non-accrual status. Other key considerations included past performance of the institutions' credit underwriting standards, completeness and accuracy of credit files, maintenance of risk ratings, and age of appraisals. Leases and revolving loans do not qualify to be accounted for as PCI loans and are accounted for as Non-PCI loans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Allowance for Covered Loan Losses – The allowance for covered loan losses consists of an allowance on covered Non-PCI and PCI loans. The allowance for covered Non-PCI loans is calculated in the same manner as the general reserve component based on a loss migration analysis as discussed above. The covered PCI allowance reflects the difference between the carrying value and the discounted expected future cash flows of the covered PCI loans. On a periodic basis, the adequacy of this allowance is determined through a re-estimation of expected future cash flows on all the outstanding covered PCI loans using either a probability of default/loss given default ("PD/LGD") methodology or a specific review methodology. The PD/LGD model is a loss model that estimates expected future

cash flows using a probability of default curve and loss given default estimates.

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

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

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

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

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

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

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

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

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

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

2. RECENT ACCOUNTING PRONOUNCEMENTS
Adopted Accounting Pronouncements
Receivables - Troubled Debt Restructurings by Creditors: In January of 2014, the Financial Accounting Standards Board ("FASB") issued guidance to clarify when an in substance repossession or foreclosure occurs and an entity is considered to have received physical possession of the residential real estate property such that a loan receivable should be derecognized and the real estate property recognized. Additionally, the guidance requires interim and annual disclosure of the amount of foreclosed residential real estate property held by the entity and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The guidance is effective for annual and interim periods beginning after December 15, 2014. The adoption of this guidance on January 1, 2015 did not materially impact the Company's financial condition, results of operations, or liquidity.
Receivables - Troubled Debt Restructurings by Creditors: In August of 2014, the FASB issued guidance that requires an entity to derecognize a mortgage loan and recognize a separate other receivable upon foreclosure if (i) the loan has a government guarantee that is not separable from the loan before foreclosure, (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on that guarantee, and the creditor has the ability to recover under that claim, and (iii) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The separate other receivable is to be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The guidance is effective for annual and interim reporting periods beginning after December 15, 2014. The adoption of this guidance on January 1, 2015 did not materially impact the Company's financial condition, results of operations, or liquidity.
Accounting Pronouncements Pending Adoption
Revenue from Contracts with Customers: In May of 2014, the FASB issued guidance that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance was initially effective for annual and interim reporting periods beginning on or after December 15, 2016, and must be applied either retrospectively or using the modified retrospective approach. In July of 2015, the FASB affirmed its proposal to defer the effective date for this guidance by one year. The deferral causes the guidance to be effective for annual and interim reporting periods beginning on or after December 15, 2017. Early adoption is permitted, but not before the original effective date. Management is evaluating the new guidance, but does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.
Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern: In August of 2014, the FASB issued guidance that requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The guidance is effective for annual and interim periods beginning after December 15, 2016. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.
Simplifying the Presentation of Debt Issuance Costs: In April of 2015, the FASB issued guidance to clarify the presentation of debt issuance costs within the balance sheet. Additionally, the guidance requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. The guidance is effective for annual and interim periods beginning after December 15, 2015. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

3. ACQUISITIONS

Popular Community Bank

On August 8, 2014, the Bank completed the acquisition of the Chicago area banking operations of Banco Popular North America ("Popular"), doing business as Popular Community Bank, which is a subsidiary of Popular, Inc. The acquisition included Popular's twelve full-service retail banking offices and its small business and middle market commercial lending activities in the Chicago metropolitan area at a purchase price of $19.0 million paid in cash. The Company recorded goodwill of $32.2 million associated with the acquisition. The assets acquired and liabilities assumed, both intangible and tangible, were recorded at their estimated fair values as of the August 8, 2014 acquisition date and have been accounted for under the acquisition method of accounting. The fair value adjustments associated with this transaction were finalized during the second quarter of 2015 and there were no retrospective adjustments.

Great Lakes Financial Resources, Inc.

On December 2, 2014, the Company completed the acquisition of the south suburban Chicago-based Great Lakes Financial Resources, Inc. ("Great Lakes"), the holding company for Great Lakes Bank, National Association. The Company acquired all assets and assumed all liabilities of Great Lakes, which included seven full-service retail banking offices and one drive-up location, at a purchase price of approximately $55.8 million. Consideration consisted of $38.3 million in Company common stock and $17.5 million in cash. The Company recorded goodwill of $10.3 million associated with the acquisition. The assets acquired and liabilities assumed, both intangible and tangible, were recorded at their estimated fair values as of the December 2, 2014 acquisition date and have been accounted for under the acquisition method of accounting. The Company is finalizing the fair values of the assets and liabilities acquired. As a result, the fair value adjustments associated with these accounts and goodwill are preliminary and may change.

National Machine Tool Financial Corporation

On September 26, 2014, the Bank completed the acquisition of National Machine Tool Financial Corporation ("National Machine Tool"), now known as First Midwest Equipment Finance Co., which provides equipment leasing and commercial financing alternatives to traditional bank financing. On the date of acquisition, the Bank acquired approximately $5.9 million in assets, excluding goodwill, which primarily consisted of direct financing leases, lease loans, and other assets, at a purchase price of $3.1 million paid in cash. Goodwill recorded as a result of the acquisition totaled $4.0 million. The assets acquired and liabilities assumed, both intangible and tangible, were recorded at their estimated fair values as of the September 26, 2014 acquisition date and have been accounted for under the acquisition method of accounting. The Company is finalizing the fair values of the assets and liabilities acquired. As a result, the fair value adjustments associated with these accounts and goodwill are preliminary and may change.

4. SECURITIES

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

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

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

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

Securities Portfolio
(Dollar amounts in thousands)

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

Remaining Contractual Maturity of Securities
(Dollar amounts in thousands)

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

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

The carrying value of securities available-for-sale that were pledged to secure deposits or for other purposes as permitted or required by law totaled $959.8 million at June 30, 2015 and $779.4 million at December 31, 2014. No securities held-to-maturity were pledged as of June 30, 2015 or December 31, 2014.

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

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

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

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

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

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

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

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

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

The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of June 30, 2015 and December 31, 2014.

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

		Less Than 12 Months		Greater Than 12 Months		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of June 30, 2015							
CMOs	74	$82,431	$778	$233,676	$5,332	$316,107	$6,110
MBSs	20	56,341	316	34,405	475	90,746	791
Municipal securities	155	21,714	328	56,520	1,384	78,234	1,712
CDOs	7	1,077	170	28,413	16,134	29,490	16,304
Equity securities	1	—	—	2,286	44	2,286	44
Total	257	$161,563	$1,592	$355,300	$23,369	$516,863	$24,961
As of December 31, 2014							
U.S. agency securities	1	$1,943	$10	$—	$—	$1,943	$10
CMOs	87	61,321	559	284,327	6,423	345,648	6,982
MBSs	11	1,113	1	39,043	309	40,156	310
Municipal securities	91	1,317	9	53,987	1,009	55,304	1,018
CDOs	4	—	—	22,791	14,880	22,791	14,880
Equity securities	1	—	—	2,270	35	2,270	35
Total	195	$65,694	$579	$402,418	$22,656	$468,112	$23,235

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

The unrealized losses on CDOs as of June 30, 2015 reflect changes in market activity for these securities. Management does not believe these unrealized losses represent OTTI related to credit deterioration. In addition, the Company does not intend to sell the CDOs with unrealized losses within a short period of time, and the Company does not believe it is more likely than not that it will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Significant judgment is required to calculate the fair value of the CDOs, all of which are pooled. For a detailed discussion of the CDO valuation methodology, see Note 12, "Fair Value."

5. LOANS

Loans Held-for-Investment

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

Loan Portfolio
(Dollar amounts in thousands)

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

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

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

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

Loan Sales

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

Loan Sales
(Dollar amounts in thousands)

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

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

6. ACQUIRED AND COVERED LOANS

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

Acquired and Covered Loans
(Dollar amounts in thousands)

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

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

In connection with the FDIC Agreements, the Company recorded an indemnification asset. To maintain eligibility for the loss share reimbursement, the Company is required to follow certain servicing procedures as specified in the FDIC Agreements. The Company was in compliance with those requirements as of June 30, 2015 and December 31, 2014.

Rollforwards of the carrying value of the FDIC indemnification asset for the quarters and six months ended June 30, 2015 and 2014 are presented in the following table.

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

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

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

Changes in Accretable Yield
(Dollar amounts in thousands)

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

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

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

Past Due and Non-accrual Loans

The following table presents an aging analysis of the Company's past due loans as of June 30, 2015 and December 31, 2014. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (the majority of which are past due) and loans 90 days or more past due and still accruing interest, as of each balance sheet date.

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

(Dollar amounts in thousands)

	Aging Analysis (Accruing and Non-accrual)					Non-performing Loans	
	Current	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	Non-accrual Loans	90 Days Past Due Loans, Still Accruing Interest
As of June 30, 2015							
Commercial and industrial	$2,352,035	$5,545	$8,476	$14,021	$2,366,056	$11,100	$264
Agricultural	376,880	239	291	530	377,410	317	—
Commercial real estate:							
Office, retail, and industrial	1,408,893	12,875	10,734	23,609	1,432,502	12,599	797
Multi-family	552,285	4,718	944	5,662	557,947	1,287	475
Construction	186,871	—	4,099	4,099	190,970	4,940	—
Other commercial real estate	861,674	4,190	5,255	9,445	871,119	5,513	646
Total commercial real estate	3,009,723	21,783	21,032	42,815	3,052,538	24,339	1,918
Total corporate loans	5,738,638	27,567	29,799	57,366	5,796,004	35,756	2,182
Home equity	592,731	3,269	3,320	6,589	599,320	5,242	250
1-4 family mortgages	279,706	1,810	2,046	3,856	283,562	4,011	220
Installment	112,728	562	92	654	113,382	—	92
Total consumer loans	985,165	5,641	5,458	11,099	996,264	9,253	562
Total loans, excluding covered loans	6,723,803	33,208	35,257	68,465	6,792,268	45,009	2,744
Covered loans	53,185	465	4,267	4,732	57,917	3,712	1,233
Total loans	$6,776,988	$33,673	$39,524	$73,197	$6,850,185	$48,721	$3,977
As of December 31, 2014							
Commercial and industrial	$2,230,947	$19,505	$3,104	$22,609	$2,253,556	$22,693	$205
Agricultural	355,982	1,934	333	2,267	358,249	360	—
Commercial real estate:							
Office, retail, and industrial	1,463,724	2,340	12,315	14,655	1,478,379	12,939	76
Multi-family	562,625	1,261	535	1,796	564,421	754	83
Construction	197,255	—	6,981	6,981	204,236	6,981	—
Other commercial real estate	876,609	5,412	5,876	11,288	887,897	6,970	438
Total commercial real estate	3,100,213	9,013	25,707	34,720	3,134,933	27,644	597
Total corporate loans	5,687,142	30,452	29,144	59,596	5,746,738	50,697	802
Home equity	535,587	3,216	4,382	7,598	543,185	6,290	145

1-4 family mortgages	287,892	2,246	1,325	3,571	291,463	2,941	166
Installment	75,428	506	98	604	76,032	43	60
Total consumer loans	898,907	5,968	5,805	11,773	910,680	9,274	371
Total loans, excluding covered loans	6,586,049	36,420	34,949	71,369	6,657,418	59,971	1,173
Covered loans	66,331	2,714	10,390	13,104	79,435	6,186	5,002
Total loans	$6,652,380	$39,134	$45,339	$84,473	$6,736,853	$66,157	$6,175

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Allowance for Credit Losses

The Company maintains an allowance for credit losses at a level deemed adequate by management to absorb probable losses inherent in the loan portfolio. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for the allowance for credit losses. A rollforward of the allowance for credit losses by portfolio segment for the quarters and six months ended June 30, 2015 and 2014 is presented in the table below.

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

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

Six months ended June 30, 2014									
Beginning balance	$ 30,381	$ 10,405	$ 2,017	$ 6,316	$ 10,817	$ 13,010	$ 12,559	$ 1,616	$ 87,121
Charge-offs	(5,779)	(4,594)	(357)	(895)	(2,332)	(3,856)	(524)	—	(18,337)
Recoveries	2,419	348	3	160	233	351	862	—	4,376
Net charge-offs	(3,360)	(4,246)	(354)	(735)	(2,099)	(3,505)	338	—	(13,961)
Provision for loan and covered loan losses and other	2,173	5,672	385	(696)	(133)	2,935	(3,554)	—	6,782
Ending balance	$ 29,194	$ 11,831	$ 2,048	$ 4,885	$ 8,585	$ 12,440	$ 9,343	$ 1,616	$ 79,942

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

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

	Loans				Allowance for Credit Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total
As of June 30, 2015								
Commercial, industrial, and agricultural	$8,455	$2,731,593	$3,418	$2,743,466	$1,886	$ 31,588	$255	$33,729
Commercial real estate:								
Office, retail, and industrial	11,705	1,415,680	5,117	1,432,502	505	10,840	—	11,345
Multi-family	1,048	554,500	2,399	557,947	—	2,445	6	2,451
Construction	4,118	183,094	3,758	190,970	6	1,590	294	1,890
Other commercial real estate	2,907	861,863	6,349	871,119	56	6,064	247	6,367
Total commercial real estate	19,778	3,015,137	17,623	3,052,538	567	20,939	547	22,053
Total corporate loans	28,233	5,746,730	21,041	5,796,004	2,453	52,527	802	55,782
Consumer	—	986,410	9,854	996,264	—	10,693	127	10,820
Total loans, excluding covered loans	28,233	6,733,140	30,895	6,792,268	2,453	63,220	929	66,602
Covered loans	—	22,801	35,116	57,917	—	352	4,509	4,861
Reserve for unfunded commitments	—	—	—	—	—	1,816	—	1,816
Total loans	$28,233	$6,755,941	$66,011	$6,850,185	$2,453	$ 65,388	$5,438	$73,279
As of December 31, 2014								
Commercial, industrial, and agricultural	$19,796	$2,588,141	$3,868	$2,611,805	$2,249	$ 27,209	$—	$29,458
Commercial real estate:								
Office, retail, and industrial	12,332	1,458,918	7,129	1,478,379	271	10,721	—	10,992
Multi-family	939	561,400	2,082	564,421	—	2,249	—	2,249
Construction	6,671	195,094	2,471	204,236	—	2,297	—	2,297
Other commercial real estate	3,266	880,087	4,544	887,897	11	8,316	—	8,327
Total commercial real estate	23,208	3,095,499	16,226	3,134,933	282	23,583	—	23,865
Total corporate loans	43,004	5,683,640	20,094	5,746,738	2,531	50,792	—	53,323
Consumer	—	902,062	8,618	910,680	—	11,822	323	12,145
Total loans, excluding covered loans	43,004	6,585,702	28,712	6,657,418	2,531	62,614	323	65,468

Covered loans	—	24,753	54,682	79,435	—	488	6,738	7,226
Reserve for unfunded commitments	—	—	—	—	—	1,816	—	1,816
Total loans	$43,004	$6,610,455	$83,394	$6,736,853	$2,531	$ 64,918	$7,061	$74,510

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Loans Individually Evaluated for Impairment

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

Impaired Loans Individually Evaluated by Class

(Dollar amounts in thousands)

	As of June 30, 2015				As of December 31, 2014			
	Recorded Investment 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	$1,930	$6,525	$15,529	$1,886	$666	$19,130	$35,457	$2,249
Agricultural	—	—	—	—	—	—	—	—
Commercial real estate:								
Office, retail, and industrial	10,197	1,508	19,211	505	9,623	2,709	18,340	271
Multi-family	1,048	—	1,263	—	939	—	1,024	—
Construction	4,084	34	4,746	6	6,671	—	7,731	—
Other commercial real estate	2,600	307	3,194	56	2,752	514	4,490	11
Total commercial real estate	17,929	1,849	28,414	567	19,985	3,223	31,585	282
Total impaired loans individually evaluated for impairment	$19,859	$8,374	$43,943	$2,453	$20,651	$22,353	$67,042	$2,531

The following table presents the average recorded investment and interest income recognized on impaired loans by class for the quarters and six months ended June 30, 2015 and 2014. PCI loans are excluded from this disclosure.
Average Recorded Investment and Interest Income Recognized on Impaired Loans by Class
(Dollar amounts in thousands)

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

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

[1] Recorded using the cash basis of accounting.

Credit Quality Indicators

Corporate loans and commitments are assessed for credit risk and assigned ratings based on various characteristics, such as the borrower's cash flow, leverage, and collateral. Ratings for commercial credits are reviewed periodically. The following tables present credit quality indicators by class for corporate and consumer loans, excluding covered loans, as of June 30, 2015 and December 31, 2014.

Corporate Credit Quality Indicators by Class, Excluding Covered Loans

(Dollar amounts in thousands

	Pass	Special Mention [1] [4]	Substandard [2] [4]	Non-accrual [3]	Total
As of June 30, 2015					
Commercial and industrial	$2,252,735	$62,191	$40,030	$11,100	$2,366,056
Agricultural	371,699	5,142	252	317	377,410
Commercial real estate:					
Office, retail, and industrial	1,358,289	24,424	37,190	12,599	1,432,502
Multi-family	548,076	4,333	4,251	1,287	557,947
Construction	170,767	5,038	10,225	4,940	190,970
Other commercial real estate	827,237	29,760	8,609	5,513	871,119
Total commercial real estate	2,904,369	63,555	60,275	24,339	3,052,538
Total corporate loans	$5,528,803	$130,888	$100,557	$35,756	$5,796,004
As of December 31, 2014					
Commercial and industrial	$2,115,170	$84,615	$31,078	$22,693	$2,253,556
Agricultural	357,595	294	—	360	358,249
Commercial real estate:					
Office, retail, and industrial	1,393,885	38,891	32,664	12,939	1,478,379
Multi-family	553,255	6,363	4,049	754	564,421
Construction	178,992	5,776	12,487	6,981	204,236
Other commercial real estate	829,003	32,517	19,407	6,970	887,897
Total commercial real estate	2,955,135	83,547	68,607	27,644	3,134,933
Total corporate loans	$5,427,900	$168,456	$99,685	$50,697	$5,746,738

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

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

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

(4) Total special mention and substandard loans includes accruing TDRs of $1.3 million as of June 30, 2015 and $1.8 million as of December 31, 2014.

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

	Performing	Non-accrual	Total
As of June 30, 2015			
Home equity	$594,078	$5,242	$599,320
1-4 family mortgages	279,551	4,011	283,562
Installment	113,382	—	113,382
Total consumer loans	$987,011	$9,253	$996,264
As of December 31, 2014			
Home equity	$536,895	$6,290	$543,185
1-4 family mortgages	288,522	2,941	291,463
Installment	75,989	43	76,032
Total consumer loans	$901,406	$9,274	$910,680

TDRs

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

TDRs by Class
(Dollar amounts in thousands)

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

[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 $781,000 in specific reserves related to TDRs as of June 30, 2015 and there were $1.8 million in specific reserves related to TDRs as of December 31, 2014. During the quarters and six months ended June 30, 2015 and 2014 there were no material loans restructured.

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

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

TDR Rollforward
(Dollar amounts in thousands)

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

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

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

8. EARNINGS PER COMMON SHARE

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

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

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

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

9. INCOME TAXES

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

Income Tax Expense
(Dollar amounts in thousands)

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

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

The increase in total income tax expense resulted primarily from higher levels of income subject to tax at statutory rates, partly offset by decreases in state statutory rates.

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

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Fair Value Hedges

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

Fair Value Hedges
(Dollar amounts in thousands)

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

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

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

Cash Flow Hedges

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

Cash Flow Hedges
(Dollar amounts in thousands)

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

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

Other Derivative Instruments

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

Other Derivative Instruments
(Dollar amounts in thousands)

	As of	
	June 30, 2015	December 31, 2014
Gross notional amount outstanding	$612,834	$527,893
Derivative asset fair value	7,673	7,852
Derivative liability fair value	(7,673)	(7,852)
Fair value of assets needed to settle derivative transactions [(1)]	8,065	8,130

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

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

Credit Risk

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

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

Fair Value of Offsetting Derivatives
(Dollar amounts in thousands)

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

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

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

11. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Commitments and Guarantees

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

Contractual or Notional Amounts of Financial Instruments
(Dollar amounts in thousands)

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

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

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

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

Legal Proceedings

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

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

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12. FAIR VALUE

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

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

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

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

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

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

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

Recurring Fair Value Measurements
(Dollar amounts in thousands)

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

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

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

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

Significant Unobservable Inputs Used in the Valuation of CDOs

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

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

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

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

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

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

Rollforward of the Carrying Value of CDOs
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Beginning balance	$33,928	$21,666	$33,774	$18,309
Change in other comprehensive loss [(1)]	(1,798)	(1,721)	(1,498)	1,636
Paydowns	(126)	(1,509)	(272)	(1,509)
Ending balance	$32,004	$18,436	$32,004	$18,436

(1) Included in unrealized holding gains in the Consolidated Statements of Comprehensive Income.

Mortgage Servicing Rights

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

Derivative Assets and Derivative Liabilities

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

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

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

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

Non-Recurring Fair Value Measurements
(Dollar amounts in thousands)

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

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

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

(3) Included in other assets in the Consolidated Statements of Financial Condition.

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

Collateral-Dependent Impaired Loans

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

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

OREO

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

Loans Held-for-Sale

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

Assets Held-for-Sale

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

Financial Instruments Not Required to be Measured at Fair Value

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

Fair Value Measurements of Other Financial Instruments
(Dollar amounts in thousands)

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

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

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

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

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

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

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

FDIC Indemnification Asset - The fair value of the FDIC indemnification asset is calculated by discounting the expected future cash flows to be received from the FDIC. The expected future cash flows are estimated by multiplying anticipated losses on covered loans and covered OREO by the reimbursement rates in the FDIC Agreements.
Investment in BOLI - The fair value of BOLI approximates the carrying amount as both are based on each policy's respective cash surrender value ("CSV"), which is the amount the Company would receive from liquidation of these investments. The CSV is derived from monthly reports provided by the managing brokers and is determined using the Company's initial insurance premium and earnings of the underlying assets, offset by management fees.
Other Interest-Earning Assets - The fair value of other interest-earning assets is estimated using the present value of the expected future cash flows of the remaining maturities of the assets.
Deposits - The fair values disclosed for demand deposits, savings deposits, NOW accounts, and money market deposits are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair value for fixed-rate time deposits was estimated using the expected future cash flows discounted based on the LIBOR yield curve, plus or minus the spread associated with current pricing.
Borrowed Funds - The fair value of FHLB advances is estimated by discounting the agreements based on maturities using the rates currently offered for FHLB advances of similar remaining maturities adjusted for prepayment penalties that would be incurred if the borrowings were paid off on the measurement date. The carrying amounts of securities sold under agreements to repurchase approximate their fair value due to their short-term nature.
Senior and Subordinated Debt - The fair value of senior and subordinated debt is determined using quoted market prices.
Commitments to Extend Credit and Letters of Credit - The Company estimated the fair value of lending commitments outstanding to be immaterial based on (i) the limited interest rate exposure of the commitments outstanding due to their variable nature, (ii) the short-term nature of the commitment periods, (iii) termination clauses provided in the agreements, and (iv) the market rate of fees charged.

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

INTRODUCTION

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

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

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q may contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of words such as "may," "might," "will," "would," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "probable," "potential," "possible," "target," or "continue" and words of similar import. Forward-looking statements are not historical facts but instead express only management's beliefs regarding future results or events, many of which, by their nature, are inherently uncertain and outside of management's control. It is possible that actual results and events may differ, possibly materially, from the anticipated results or events indicated in these forward-looking statements. Forward-looking statements are not guarantees of future performance,

and we caution you not to place undue reliance on these statements. Forward-looking statements are made only as of the date of this report, and we undertake no obligation to update any forward-looking statements contained in this report to reflect new information or events or conditions after the date hereof.

Forward-looking statements may be deemed to include, among other things, statements relating to our future financial performance, the performance of our loan or securities portfolio, the expected amount of future credit reserves or charge-offs, corporate strategies or objectives, anticipated trends in our business, regulatory developments, acquisition transactions, including estimated synergies,

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cost savings and financial benefits of pending or consummated transactions, and growth strategies, including possible future acquisitions. These statements are subject to certain risks, uncertainties and assumptions. For a discussion of these risks, uncertainties and assumptions, you should refer to the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and in our 2014 10-K, as well as our subsequent filings made with the Securities and Exchange Commission ("SEC"). However, these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

NON-GAAP FINANCIAL INFORMATION

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

(2) Return on average tangible common equity expresses net income available to common stockholders excluding intangibles amortization expense, net of tax, as a percentage of tangible common equity. Intangibles amortization expense, net of tax, totaled $587,000 and $1.2 million for the quarter and six months ended June 30, 2015, respectively, and $386,000 and $843,000 for the same periods in 2014. Tangible common equity represents average stockholders' equity less goodwill and average intangible assets.

(3) The efficiency ratio expresses noninterest expense, excluding other real estate owned ("OREO") expense, as a percentage of tax-equivalent net interest income plus total fee-based revenues, other income, and tax-equivalent adjusted BOLI income. BOLI income totaled $1.5 million and $2.3 million for the quarter and six months ended June 30, 2015, respectively, and $773,000 and $1.3 million for the same periods in 2014. In addition, acquisition and integration related expenses of $830,000 are excluded from the efficiency ratio for the second quarter of 2014.

	As of			June 30, 2015 Change from	
	June 30, 2015	December 31, 2014	June 30, 2014	December 31, 2014	June 30, 2014
Balance Sheet Highlights					
Total assets	$9,863,027	$9,445,139	$8,305,247	$417,888	$1,557,780
Total loans, excluding covered loans	6,792,268	6,657,418	5,843,457	134,850	948,811
Total loans, including covered loans	6,850,185	6,736,853	5,948,324	113,332	901,861
Total deposits	8,212,671	7,887,758	6,895,250	324,913	1,317,421

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

	As of			June 30, 2015 Change from	
	June 30, 2015	December 31, 2014	June 30, 2014	December 31, 2014	June 30, 2014
Asset Quality Highlights [1]					
Non-accrual loans	$45,009	$59,971	$66,728	$(14,962)	$(21,719)
90 days or more past due loans (still accruing interest)	2,744	1,173	3,533	1,571	(789)
Total non-performing loans	47,753	61,144	70,261	(13,391)	(22,508)
Accruing troubled debt restructurings ("TDRs")	3,067	3,704	5,697	(637)	(2,630)
OREO	24,471	26,898	30,331	(2,427)	(5,860)
Total non-performing assets	$75,291	$91,746			