FIRST MIDWEST BANCORP INC
Form 10-K
February 23, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 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 (State or other jurisdiction of incorporation or organization)	36-3161078 (IRS Employer Identification No.)

One Pierce Place, Suite 1500
Itasca, Illinois 60143-1254
(Address of principal executive offices) (zip code)
Registrant's telephone number, including area code: (630) 875-7450
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $0.01 Par Value	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ].
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X].
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ].
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X].
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2015, determined using a per share closing price on that date of $18.97, as quoted on the NASDAQ Stock Market, was $1,422,176,518.

As of February 18, 2016, there were 78,325,825 shares of common stock, $0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2016 Annual Stockholders' Meeting are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

First Midwest Bancorp, Inc.

First Midwest Bancorp, Inc. (the "Company," "we," "us," or "our") is a Delaware corporation incorporated in 1982 and headquartered in the Chicago suburb of Itasca, Illinois. The Company is one of Illinois' largest independent publicly-traded banking companies, with assets of $9.7 billion as of December 31, 2015, and is registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Company's common stock, $0.01 par value per share ("Common Stock"), is listed on the NASDAQ Stock Market and trades under the symbol "FMBI."

In 1983, the Company became a bank holding company through the simultaneous acquisition of over 20 affiliated financial institutions. Our principal subsidiary, First Midwest Bank (the "Bank"), is an Illinois state-chartered bank and provides a broad range of banking, treasury, and wealth management products and services, to commercial and industrial, commercial real estate, municipal, and consumer customers. The Bank operates primarily throughout the Chicago metropolitan area as well as northwest Indiana, central and western Illinois, and eastern Iowa through 107 banking locations.

The Company maintains a philosophy that focuses on helping its customers achieve financial success through its long-standing commitment to delivering highly-personalized service. The Company has grown and expanded its market footprint by opening new locations, growing existing locations, enhancing its internet and mobile capabilities, and acquiring financial institutions, branches, and non-banking organizations. As of December 31, 2015, the Company and its subsidiaries employed a total of 1,790 full-time equivalent employees.

Subsidiaries

The Company is responsible for the overall conduct, direction, and performance of its subsidiaries. In addition, the Company provides various services to its subsidiaries, establishes policies and procedures, and provides other resources as needed, including capital. As of December 31, 2015, the following were the Company's primary subsidiaries:

First Midwest Bank

The Bank, through its predecessors, has provided banking services for over 75 years and offers a variety of financial products and services, that are designed to meet the financial needs of the customers and communities it serves. As of December 31, 2015, the Bank had total assets of $9.6 billion, total loans of $7.2 billion, and total deposits of $8.2 billion.

The Bank operates the following wholly owned subsidiaries:

- First Midwest Equipment Finance Co. ("FMEF"), an Illinois corporation providing equipment leasing and commercial financing alternatives to traditional bank financing.
- First Midwest Securities Management, LLC, a Delaware limited liability company managing investment securities.
- Synergy Property Holdings, LLC, an Illinois limited liability company managing the majority of the Bank's Other Real Estate Owned ("OREO") properties.
- First Midwest Holdings, Inc., a Delaware corporation managing investment securities, principally municipal obligations, and providing corporate management services to its wholly owned subsidiary, FMB Investments Ltd., a Bermuda corporation. FMB Investments Ltd. manages investment securities.

Catalyst Asset Holdings, LLC

Catalyst Asset Holdings, LLC ("Catalyst"), an Illinois limited liability company, manages certain non-performing assets of the Company. Catalyst has one wholly owned subsidiary, Restoration Asset Management, LLC ("Restoration"), an Illinois limited liability company that manages Catalyst's OREO properties.

Parasol Investment Management, LLC

Parasol Investment Management, LLC ("Parasol"), a Delaware limited liability company, is a registered investment advisor under the Investment Advisors Act of 1940. Parasol provides wealth management services to the Bank's wealth management division and to individual and institutional customers.

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

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

FMCT, GLST II, and GLST III qualify as variable interest entities for which the Company is not the primary beneficiary. Consequently, the accounts of those entities are not consolidated in the Company's financial statements. However, the combined $50.7 million in trust-preferred securities held by the three trusts as of December 31, 2015 are included in Tier 1 capital of the Company for regulatory capital purposes.

Segments

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

Our Business

The Bank has been in the business of commercial and retail banking for over 75 years, namely attracting deposits, making loans, and providing treasury and wealth management services. The Bank operates in the most active and diverse markets in Illinois, including the metropolitan Chicago market and central and western Illinois. The Bank's other market areas are located primarily in northwestern Indiana and eastern Iowa. These areas include urban, suburban, and rural markets, as well as a diversified mix of industry groups.

No individual or single group of related accounts is considered material in relation to the assets or deposits of the Bank or in relation to the overall business of the Company. The Bank does not engage in any sub-prime lending, nor does it engage in investment banking activities.

Deposit and Retail Services

The Bank offers a full range of deposit products and services, including checking, NOW, money market, and savings accounts and various types of short-term and long-term certificates of deposit. These products are tailored to our primary market area at competitive rates. In addition to these products, the Bank offers debit and automated teller machine ("ATM") cards, credit cards, internet and mobile banking, telephone banking, and financial education services.

Commercial and Consumer Lending

The Bank originates commercial and industrial, agricultural, commercial real estate, and consumer loans, primarily to businesses and residents in the Bank's market areas. In addition to originating loans, the Bank offers capital market products to commercial customers as risk management solutions, which include derivatives and interest rate risk products. The Bank's largest category of lending is commercial real estate, followed by commercial and industrial. For detailed information regarding the Company's loan portfolio, see the "Loan Portfolio and Credit Quality" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K.

Commercial and Industrial and Agricultural Loans

The Bank provides commercial and industrial loans to middle market businesses generally located in the Chicago metropolitan area. Our broad range of financing products includes working capital loans and lines of credit; accounts receivable financing; inventory and equipment financing; and select sector-based lending such as leasing, healthcare, asset-based lending, structured finance, and syndications. The Bank provides agricultural loans to meet seasonal production, equipment, and farm real estate borrowing needs of individual and corporate crop and livestock producers.

Commercial Real Estate Loans

The Bank provides a wide array of financing products to developers, investors, and other real estate professionals which include funding for the construction, purchase, refinance, or improvement of commercial real estate properties. The mix of properties securing the loans in the Bank's commercial real estate portfolio are balanced between owner-occupied and investor categories and are diverse in terms of type and geographic location, generally within the

Bank's markets.

Consumer Loans

Consumer loan products include mortgages, home equity lines and loans, personal loans, specialty loans, and auto loans. These products are generally provided to the residents who live and work within the Bank's market areas.

Treasury Management

Our treasury management products and services provide commercial customers the ability to manage cash flow. These products include receivable services such as ACH collections, lockbox, remote deposit capture, and financial electronic data interchange; payables and payroll services, such as wire transfer, account reconciliation, controlled disbursement, direct deposit, and positive pay; information reporting services; liquidity management; corporate credit cards; fraud prevention; and merchant services.

Wealth Management

Our wealth management group provides investment management services, fiduciary and executor services, financial planning solutions, employee benefit plans, and private banking services to our institutional and individual customers, including corporate and public retirement plans, foundations and endowments, high net worth individuals, and multi-employer trust funds. These services are provided through Parasol, the Company's registered investment advisor, and credentialed investment, legal, tax, and wealth management professionals who identify opportunities and provide services tailored to our customers' goals and objectives.

Growth and Acquisitions

In the normal course of business, the Company explores potential opportunities for expansion in our core markets and adjacent areas through organic growth and the acquisition of banking and non-banking organizations. As a matter of policy, the Company generally does not comment on any dialogue or negotiations with potential targets or possible acquisitions until a definitive acquisition agreement is signed. The Company's ability to engage in certain merger or acquisition transactions depends on the bank regulators' views at the time as to the capital levels, quality of management, and overall condition of the Company, in addition to their assessment of a variety of other factors. The Company has announced and successfully completed a number of acquisitions, which include the following recent transactions:

During 2015, the Company completed the acquisition of Peoples Bancorp, Inc. ("Peoples") and its wholly owned banking subsidiary, The Peoples' Bank of Arlington Heights. In addition, the Company entered into a definitive agreement to acquire NI Bancshares Corporation ("NI Bancshares"), the holding company for The National Bank & Trust Company of Sycamore. The acquisition is expected to close late in the first quarter of 2016, subject to approval by the stockholders of NI Bancshares and customary closing conditions.

During 2014, the Bank completed the acquisitions of the Chicago area banking operations of Banco Popular North America ("Popular"), doing business as Popular Community Bank, the south suburban Chicago-based Great Lakes Financial Resources, Inc. ("Great Lakes"), the holding company for Great Lakes Bank, National Association, and the equipment lessor National Machine Tool Financial Corporation ("National Machine Tool"), now known as FMEF.

Additional detail regarding these recent acquisitions is contained in Note 3 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Competition

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

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

In providing investment advisory services, the Bank also competes with retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial institutions for wealth management customers.

Competition is generally based on the variety of products and services offered to customers and the performance of funds under management. The Company's main competitors are financial service providers both within and outside of the geographic areas in which the Bank maintains offices.

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

Intellectual Property

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

Supervision and Regulation

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

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

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

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

Bank Holding Company Act of 1956

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

The BHC Act, the Bank Merger Act, and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the Federal Reserve for the direct or indirect acquisition by a bank holding company of more than 5.0% of the voting shares of a commercial bank or its holding company. Under the Bank Merger Act, the prior approval of the Federal Reserve or other appropriate bank regulatory authority is required for a member bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's managerial and financial resources, the applicant's performance record under the Community Reinvestment Act of 1977, as amended (the "CRA"), fair housing laws and other consumer compliance laws, and the effectiveness of the banks in combating money laundering activities.

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

Transactions with Affiliates

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

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

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

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

Source of Strength

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

Community Reinvestment Act of 1977

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practices. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low-income and moderate-income individuals and communities. Federal regulators conduct CRA examinations on a regular basis to assess the performance of financial institutions and assign one of four ratings to the institution's record of meeting the credit needs of its community. Banking regulators take into account CRA ratings when considering approval of a proposed transaction. As of its last examination report issued in March of 2015, the Bank received a rating of "outstanding," the highest rating available.

Gramm-Leach-Bliley Act of 1999

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

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

Bank Secrecy Act and USA PATRIOT Act

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

Office of Foreign Assets Control Regulation

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

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

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

Consumer Financial Protection

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

The powers of the CFPB currently include:

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

- Examination authority (limited to assessing compliance with federal consumer financial laws) over depository institutions with assets under $10 billion, such as the Bank. Specifically, a CFPB examiner may be included on a sampling basis in the examinations performed by the institution's primary regulator.

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

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

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

Interchange Fees

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

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

Capital Requirements

The Company and the Bank are each required to comply with applicable capital adequacy standards established by the Federal Reserve. The current risk-based capital standards applicable to the Company and the Bank, parts of which are currently in the process of being phased-in, are based on the final capital framework for strengthening international standards, known as Basel III, of the Basel Committee on Banking Supervision (the "Basel Committee") released in December of 2010. Prior to January 1, 2015, the risk-based capital standards applicable to the Company and the Bank were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee. In July of 2013, the federal bank regulators approved final rules (the "Basel III Capital Rules") implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act.

The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank, compared to the prior U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues impacting the numerator in banks' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues impacting the denominator in regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. In addition, the Basel III Capital Rules implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period).

The Basel III Capital Rules (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) narrowly define CET1 by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments compared to existing regulations. Bank holding companies with less than $15 billion in consolidated assets as of December 31, 2009, such as the Company, are permitted to include trust-preferred securities in Additional Tier 1 Capital. This treatment is permanently grandfathered as Tier 1 capital even if the Company should ever exceed $15 billion in consolidated assets due to organic growth. Should the Company exceed $15 billion in consolidated assets as the result of a merger or acquisition, then the Tier 1 treatment of its outstanding trust-preferred securities will be phased out, but those securities will be treated as Tier 2 capital. As of December 31, 2015, the Company had $50.7 million of trust-preferred securities included in Tier 1 capital.

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

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

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

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

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

Management believes that as of December 31, 2015, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

Liquidity Requirements

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

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

Prompt Corrective Action

The Federal Deposit Insurance Act, as amended ("FDIA"), requires the federal banking agencies to take "prompt corrective action" for depository institutions that do not meet the minimum capital requirements. The FDIA includes the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend on how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total risk-based capital ratio, the Tier 1 risk-based capital ratio, the CET1 capital ratio, and the leverage ratio.

A bank will be:

- "Well capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a CET1 capital ratio of 6.5% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure.
- "Adequately capitalized" if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a CET1 capital ratio of 4.5% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized."
- "Undercapitalized" if the institution has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a CET1 capital ratio of less than 4.5%, or a leverage ratio of less than 4.0%.
- "Significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a CET1 capital ratio of less than 3.0% or a leverage ratio of less than 3.0%.
- "Critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating for certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes. As of December 31, 2015, the Bank was "well capitalized" based on its ratios as defined above.

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

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

Volcker Rule

The so-called "Volcker Rule" issued under the Dodd-Frank Act, which became effective in July of 2015, restricts the ability of the Company and its subsidiaries, including the Bank, to sponsor or invest in private funds or to engage in certain types of proprietary trading. The Company generally does not engage in the businesses prohibited by the

Volcker Rule; therefore, the Volcker Rule does not have a material effect on the operations of the Company and its subsidiaries.

Illinois Banking Law

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

Dividends

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

Since the Company is a legal entity, separate and distinct from the Bank, its dividends to stockholders are not subject to the bank dividend guidelines discussed above. However, the Company is subject to other regulatory policies and requirements related to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve and the IDFPR are authorized to determine that the payment of dividends by the Company would be an unsafe or unsound practice and to prohibit payment under certain circumstances related to the financial condition of a bank or bank holding company. The Federal Reserve has taken the position that dividends that would create pressure or undermine the safety and soundness of a subsidiary bank are inappropriate. Additionally, it is Federal Reserve policy that bank holding companies generally should pay dividends or common stock only out of net income available to common shareholders over the past year and only if the prospective rate of earnings retention appears consistent with the organization's current and expected future capital needs, asset quality and overall financial condition.

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

FDIC Insurance Premiums

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

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

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

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

In October of 2015, the FDIC proposed a surcharge on the quarterly assessments of insured depository institutions with total consolidated assets of $10 billion or more. If imposed, this would result in increased costs for the Bank should it surpass $10 billion in assets. Because of the uncertainty as to the outcome of the FDIC's proposals, we cannot provide any assurance as to the ultimate impact of any surcharges on the amount of deposit insurance expense reported in future periods.

Employee Incentive Compensation

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

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

Cybersecurity

In March of 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption, and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If the Company fails to observe the regulatory guidance, it could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, the Company relies on electronic communications and information systems to conduct its operations and store sensitive data. The Company employs an in-depth approach that leverages people, processes, and technology to manage and maintain cybersecurity controls. In addition, the Company employs a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of the Company's defensive measures, the threat from cyber attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date the Company has not experienced a significant compromise, significant data loss, or any material financial losses related to cybersecurity attacks, its systems and those of its customers and third-party service providers are under constant threat and it is possible that the Company could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of internet and mobile banking and other technology-based products and services, by the Company and its customers. See Item 1A, "Risk Factors" for further discussion related to cybersecurity risks.

Future Legislation and Regulation

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

AVAILABLE INFORMATION

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

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

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

Our Corporate Secretary can be contacted by writing to First Midwest Bancorp, Inc., One Pierce Place, Suite 1500, Itasca, Illinois 60143, attention: Corporate Secretary. The Company's Investor Relations Department can be contacted by telephone at (630) 875-7533 or by e-mail at investor.relations@firstmidwest.com.

ITEM 1A. RISK FACTORS

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

Risks Related to the Company's Business

Interest Rate and Credit Risks

The Company is subject to interest rate risk.

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

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

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

The Company is subject to lending risk.

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

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

As of December 31, 2015, the Company's loan portfolio, excluding covered loans, consisted of 83.9% of corporate loans, the majority of which were secured by commercial real estate, and 16.1% of consumer loans. The deterioration of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan and covered loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's business, financial condition, and results of operations. See "Loan Portfolio and Credit Quality" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K for further discussion related to corporate and consumer loans.

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

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

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

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

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

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

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

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

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

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

Funding Risks

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

The Company is a bank holding company, and its operations are primarily conducted by the Bank, which is subject to significant federal and state regulation. Cash available to pay dividends to stockholders of the Company is derived primarily from dividends received from the Bank. The Company's ability to receive dividends or loans from its subsidiaries is restricted by law. Dividend payments by the Bank to the Company in the future will require generation of future earnings by the Bank and could require regulatory approval if the proposed dividend is in excess of prescribed guidelines. Further, the Company's right to participate in the assets of the Bank upon its liquidation, reorganization, or otherwise will be subject to the claims of the Bank's creditors, including depositors, which will take priority except to the extent the Company may be a creditor with a recognized claim. As of December 31, 2015, the Company's subsidiaries had deposits and other liabilities of $8.5 billion.

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

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

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

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

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

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

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

The Company's current credit ratings are as follows:

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

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

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

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

Operational Risks

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

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

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

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

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

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

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The Company's accounting estimates and risk management processes rely on analytical and forecasting models.
The processes the Company uses to estimate its loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the Company's financial condition and results of operations, depend on the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models the Company uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses resulting from changes in market interest rates or other market measures. If the models the Company uses for estimating its loan losses are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models the Company uses to measure the fair value of financial instruments are inadequate, the fair value of these financial instruments may fluctuate unexpectedly or may not accurately reflect what the Company could realize on the sale or settlement. Any failure in the Company's analytical or forecasting models could have a material adverse effect on the Corporation's business, financial condition, and results of operations.
The Company may not be able to attract and retain skilled people.
The Company's success depends on its ability to attract and retain skilled people. Competition for the best people in most activities in which the Company engages can be intense, and the Company may not be able to hire people or retain them.
The unexpected loss of services of certain of the Company's skilled personnel could have a material adverse impact on the Company's business because of their skills, knowledge of the Company's market, years of industry experience, customer relationships, and the difficulty of promptly finding qualified replacement personnel.
Loss of key employees may disrupt relationships with certain customers.
The Company's customer relationships are critical to the success of its business, and loss of key employees with significant customer relationships may lead to the loss of business if the customers follow that employee to a competitor. While the Company believes its relationships with its key personnel are strong, it cannot guarantee that all of its key personnel will remain with the organization, which could result in the loss of some of its customers and could have an adverse impact on the Company's business, financial condition, and results of operations.
The Company's information systems may experience an interruption or breach in security.
The Company relies heavily on internal and outsourced digital technologies, communications, and information systems to conduct its business. As the Company's reliance on technology systems increases, the potential risks of technology-related operation interruptions in the Company's customer relationship management, general ledger, deposit, loan, or other systems or the occurrence of cyber incidents also increases. Cyber incidents can result from deliberate attacks or unintentional events including, among other things, (i) gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing potentially debilitating operational disruptions; (ii) causing denial-of-service attacks on websites; or (iii) intelligence gathering and social engineering aimed at obtaining information. The occurrence of operational interruption, cyber incident, or a deficiency in the cyber security of the Company's technology systems (internal or outsourced) could negatively impact the Company's financial condition or results of operations.
The Company has policies and procedures expressly designed to prevent or limit the effect of a failure, interruption, or security breach of its systems and maintains cyber security insurance. Significant interruptions to the Company's business from technology issues could result in expensive remediation efforts and distraction of management. The Company invests in security and controls to prevent and mitigate incidents. Although the Company has not experienced any material losses related to a technology-related operational interruption or cyber-attack, there can be no assurance that such failures, interruptions, or security breaches will not occur in the future or, if they do occur, that the impact will not be substantial.
The occurrence of any failures, interruptions, or security breaches of the Company's technology systems could damage the Company's reputation, result in a loss of customer business, result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of proprietary information, subject the Company to additional regulatory

scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's business, financial condition, and results of operations, as well as its reputation or stock price. As cyber threats continue to evolve, the Company expects it will be required to spend significant resources on an ongoing basis to continue to modify and enhance its protective measures and to investigate and remediate any information security vulnerabilities.

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

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

The Company continually encounters technological change.

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

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

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

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

The Company's securities available-for-sale are carried at fair value. Accounting standards require the Company to disclose these securities according to a fair value hierarchy. Approximately 1% of the Company's securities available-for-sale were categorized in level 1 of the fair value hierarchy. Over 96% of the Company's securities available-for-sale were categorized in level 2 of the fair value hierarchy and the remaining securities were categorized as level 3. See Note 22 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for a detailed description of the fair value hierarchies.

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

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

Consequently, the ultimate sales price for any of these securities could vary significantly from the recorded fair value as of December 31, 2015, especially if the security is sold during a period of illiquidity or market disruption or as part of a large block of securities under a forced transaction. Any resulting write-downs of the fair value of the Company's securities available-for-sale would reduce earnings in the period in which it is recorded and could have a material adverse effect on the Company's business, financial condition, and results of operations.

The value of the Company's goodwill and other intangible assets may decline in the future.
As of December 31, 2015, the Company had $339.3 million of goodwill and other intangible assets. If the Company's stock price declines and remains low for an extended period of time, the Company could be required to write off all or a portion of its goodwill. The Company's stock price is subject to market conditions that can be impacted by forces outside of the control of management, such as a perceived weakness in financial institutions in general, and may not be a direct result of the Company's performance. In addition, a significant decline in the Company's expected future cash flows, a significant adverse change in the business climate, or slower growth rates may necessitate taking future charges related to the impairment of the Company's goodwill and other intangible assets. A write-down of goodwill and other intangible assets would reduce earnings in the period in which it is recorded and could have a material adverse effect on the Company's business, financial condition, and results of operations.
External Risks
The Company operates in a highly competitive industry and market area.
The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. These competitors primarily include national, regional, and community banks within the markets in which the Company operates. The Company also faces competition from many other types of financial institutions, including savings and loan associations, credit unions, personal loan and finance companies, retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory, and technological changes; further illiquidity in the credit markets; and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of an FHC, which can offer virtually any type of financial service, including banking, securities underwriting, insurance, and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services, traditionally provided by banks, such as automatic funds transfer and automatic payment systems. Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures. Due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services, as well as better pricing for those products and services, than the Company can offer.
The Company's ability to compete successfully depends on a number of factors, including:
- Developing, maintaining, and building long-term customer relationships.
- Expanding the Company's market position.
- Offering products and services, at prices and with the features that meet customers' needs and demands.
- Introducing new products and services.
- Maintaining a satisfactory level of customer service.
- Anticipating and adjusting to changes in industry and general economic trends.
- Continued development and support of internet-based services.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability. This, in turn, could have a material adverse effect on the Company's business, financial condition, and results of operations.
The Company's business may be adversely affected by conditions in the financial markets and economic conditions generally.
The Company's financial performance depends to a large extent on the business environment in the suburban metropolitan Chicago market, the states of Illinois, Indiana, and Iowa, and the U.S. as a whole. In particular, the business environment impacts the ability of borrowers to pay interest on and repay principal of outstanding loans as well as the value of collateral securing those loans. A favorable business environment is generally characterized by economic growth, low unemployment, efficient capital markets, low inflation, high business and investor confidence, strong business earnings, and other factors. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Legal/Compliance Risks

The Company and the Bank are subject to extensive government regulation and supervision.

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

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

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

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

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

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

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

The Company and the Bank will be subject to heightened regulatory requirements if they exceed $10 billion in total consolidated assets.

As of December 31, 2015, the Company and the Bank had approximately $9.7 billion in total consolidated assets. The Company and the Bank may exceed $10 billion in total consolidated assets in the future if they continue to grow. Any additional acquisitions could significantly accelerate the time when the Company and the Bank exceed this threshold. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total consolidated assets, including compliance with portions of the Federal Reserve's enhanced prudential oversight requirements and annual stress testing requirements. In addition, banks with $10 billion or more in total consolidated assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might impact the Company's and the Bank's businesses.

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 8 of this Form 10-K.

Risks Related to Acquisition Activity

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

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

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

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

Competition for acquisition candidates is intense.

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

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

The Company has completed four FDIC-assisted transactions. In three of those transactions, residential mortgage loans and OREO continue to be covered by FDIC Agreements, under which the FDIC will reimburse the Bank for a portion of the losses and eligible expenses arising from certain assets of the acquired institutions. The FDIC Agreements have specific and detailed compliance, servicing, notification, and reporting requirements.

Non-compliance with the terms of the FDIC Agreements could result in the loss of reimbursement on individual loans, large pools of loans, or OREO and could result in material losses that adversely affect the Company's business or financial condition.

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

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

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

Risks Associated with the Company's Common Stock

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

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

The Company's stock price can be volatile.

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

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

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

The trading volume in the Company's Common Stock is less than that of other, larger financial services institutions.
Although the Company's Common Stock is listed for trading on the NASDAQ Stock Market, its trading volume may be less than that of other, larger financial services institutions. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's Common Stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. During any period of lower trading volume of the Company's Common Stock, significant sales of shares of the Company's Common Stock, or the expectation of these sales could cause the Company's Common Stock price to fall.
The Company's Restated Certificate of Incorporation and Amended and Restated By-laws, as well as certain banking laws, may have an anti-takeover effect.
Provisions of the Company's Restated Certificate of Incorporation and Amended and Restated By-laws and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the Company, even if doing so would be perceived to be beneficial by the Company's stockholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's Common Stock.
The Company may issue additional securities, which could dilute the ownership percentage of holders of the Company's Common Stock.
The Company may issue additional securities to raise additional capital, finance acquisitions, or for other corporate purposes, or in connection with its share-based compensation plans or retirement plans, and, if it does, the ownership percentage of holders of the Company's Common Stock could be diluted, potentially materially.
The Company has not established a minimum dividend payment level, and it cannot ensure its ability to pay dividends in the future.
The Company's fourth quarter 2015 cash dividend was $0.09 per share. The Company has not established a minimum dividend payment level, and the amount of its dividend may fluctuate. All dividends will be made at the discretion of the Company's Board of Directors (the "Board") and will depend on the Company's earnings, financial condition, and such other factors as the Board may deem relevant from time to time. The Board may, at its discretion, further reduce or eliminate dividends or change its dividend policy in the future.
In addition, the Federal Reserve issued Federal Reserve Supervision and Regulation Letter SR-09-4, which requires bank holding companies to inform and consult with Federal Reserve supervisory staff prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid. Under this regulation, if the Company experiences losses in a series of consecutive quarters, it may be required to inform and consult with the Federal Reserve supervisory staff prior to declaring or paying any dividends. In this event, there can be no assurance that the Company's regulators will approve the payment of such dividends.
Offerings of debt, which would be senior to the Company's Common Stock upon liquidation, and/or preferred equity securities, which may be senior to the Company's Common Stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of the Company's Common Stock.
The Company may attempt to increase capital or raise additional capital by making additional offerings of debt or preferred equity securities, including trust-preferred securities, senior or subordinated notes, and preferred stock. In the event of liquidation, holders of the Company's debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of the Company's available assets prior to the holders of the Company's Common Stock. Additional equity offerings may dilute the holdings of the Company's existing stockholders or reduce the market price of the Company's Common Stock, or both. Holders of the Company's Common Stock are not entitled to preemptive rights or other protections against dilution.
The Board is authorized to issue one or more series of preferred stock from time to time without any action on the part of the Company's stockholders. The Board also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over the Company's Common Stock with respect to dividends or upon the Company's dissolution, winding-up, liquidation, and other terms. If the Company issues preferred stock in the future that has a preference over the

Company's Common Stock with respect to the payment of dividends or upon liquidation, or if the Company issues preferred stock with voting rights that dilute the voting power of the Company's Common Stock, the rights of holders of the Company's Common Stock or the market price of the Company's Common Stock could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The executive offices of the Company are located at One Pierce Place, Itasca, Illinois, and are leased from an unaffiliated third party. The Company conducts business through 107 banking locations largely located in various communities throughout the greater Chicago metropolitan area, as well as northwest Indiana, central and western Illinois, and eastern Iowa. The majority, approximately 80%, of the Company's banking locations are owned and 20% are leased.

The Company owns 138 ATMs, most of which are housed at banking locations. Some ATMs are independently located. In addition, the Company owns other real property that, when considered individually or in the aggregate, is not material to the Company's financial position.

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

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries as of December 31, 2015. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect any liabilities arising from pending legal matters to have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

The Company's Common Stock is traded under the symbol "FMBI" in the NASDAQ Global Select Market tier of the NASDAQ Stock Market. As of December 31, 2015, there were 2,031 stockholders of record, a number that does not include beneficial owners who hold shares in "street name" (or stockholders from previously acquired companies that did not exchange their stock).

	2015				2014			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Market price of Common Stock								
High	$19.81	$19.52	$19.53	$17.84	$17.99	$17.77	$18.19	$17.83
Low	16.56	16.72	16.89	15.34	15.01	15.64	15.49	15.36
Cash dividends declared per common share	0.09	0.09	0.09	0.09	0.08	0.08	0.08	0.07

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

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

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

Stock Performance Graph

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

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

	2010	2011	2012	2013	2014	2015
First Midwest Bancorp, Inc.	$100.00	$88.30	$109.50	$154.92	$154.00	$169.22
NASDAQ Composite	100.00	100.53	116.92	166.19	188.78	199.95
NASDAQ Banks	100.00	90.68	104.29	147.41	153.18	166.77

(1) Assumes $100 invested on December 31, 2010 with the reinvestment of all related dividends.

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

Issuer Purchases of Equity Securities

The following table summarizes the Company's monthly Common Stock purchases during the fourth quarter of 2015. The Board approved a stock repurchase program on November 27, 2007. Up to 2.5 million shares of the Company's Common Stock may be repurchased, and the total remaining authorization under the program was 2,487,947 shares as of December 31, 2015. The repurchase program has no set expiration or termination date.

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program
October 1 – October 31, 2015	1,095	$17.47	—	2,487,947
November 1 – November 30, 2015	—	—	—	2,487,947
December 1 – December 31, 2015	985	18.55	—	2,487,947
Total	2,080	$17.98	—	

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

Unregistered Sales of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Consolidated financial information reflecting a summary of the operating results and financial condition of the Company for each of the five years in the period ended December 31, 2015 is presented in the following table. This summary should be read in conjunction with the consolidated financial statements and accompanying notes included in Item 8, "Financial Statements and Supplementary Data," of this Form 10-K. A more detailed discussion and analysis of the factors affecting the Company's financial condition and operating results is presented in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K.

	As of or for the years ended December 31,				
	2015	2014	2013	2012	2011
Operating Results (Amounts in thousands, except per share data)					
Net income (loss)	$82,064	$69,306	$79,306	$(21,054)	$36,563
Net income (loss) applicable to common shares	81,182	68,470	78,199	(20,748)	25,437
Per Common Share Data					
Basic earnings (loss) per common share	$1.05	$0.92	$1.06	$(0.28)	$0.35
Diluted earnings (loss) per common share	1.05	0.92	1.06	(0.28)	0.35
Common dividends declared	0.36	0.31	0.16	0.04	0.04
Book value at year end	14.70	14.17	13.34	12.57	12.93
Market price at year end	18.43	17.11	17.53	12.52	10.13
Performance Ratios					
Return on average common equity	7.17%	6.56%	8.04%	(2.14)%	2.69%
Return on average tangible common equity [(1)]	10.44%	9.32%	11.29%	(3.07)%	3.86%
Return on average assets	0.85%	0.80%	0.96%	(0.26)%	0.45%
Tax-equivalent net interest margin	3.68%	3.69%	3.68%	3.86%	4.04%
Non-performing loans to total loans [(2)]	0.45%	0.92%	1.14%	1.80%	3.86%
Non-performing assets to total loans plus OREO [(2)]	0.86%	1.37%	2.13%	2.68%	4.85%

	As of or for the years ended December 31,				
	2015	2014	2013	2012	2011
Balance Sheet Highlights (Amounts in thousands)					
Total assets	$9,732,676	$9,445,139	$8,253,407	$8,099,839	$7,973,594
Total loans	7,161,715	6,736,853	5,714,360	5,387,570	5,348,615
Deposits	8,097,738	7,887,758	6,766,101	6,672,255	6,479,175
Senior and subordinated debt	201,208	200,869	190,932	214,779	252,153
Long-term portion of Federal Home Loan Bank ("FHLB") advances	—	—	114,550	114,581	75,000
Stockholders' equity	1,146,268	1,100,775	1,001,442	940,893	962,587
Financial Ratios					
Allowance for credit losses to total loans	1.05%	1.11%	1.52%	1.91%	2.28%
Net loan charge-offs to average loans	0.29%	0.52%	0.55%	3.26%	1.91%
Total capital to risk-weighted assets [(3)]	11.15%	11.23%	12.39%	11.90%	13.68%
Tier 1 capital to risk-weighted assets [(3)]	10.28%	10.19%	10.91%	10.28%	11.61%
Tier 1 common capital to risk-weighted assets [(3)]	9.73%	N/M	N/M	N/M	N/M
Tier 1 leverage to average assets [(3)]	9.40%	9.03%	9.18%	8.40%	9.28%

Tangible common equity to tangible assets	8.59 %	8.41 %	9.09 %	8.44 %	8.83 %
Dividend payout ratio	34.29 %	33.70 %	15.09 %	N/M	11.43 %
Average equity to average assets ratio	11.67 %	12.03 %	11.74 %	11.93 %	13.72 %

N/M – Not meaningful.

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

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

(3) Basel III Capital Rules, which became effective for the Company on January 1, 2015, revised the risk-based capital requirements and introduced a new capital measure, Tier 1 common capital to risk-weighted assets. As a result, ratios as of December 31, 2015 are computed using the new rules and ratios as of December 31, 2014 and before are computed using the regulatory guidance applicable at that time.

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

INTRODUCTION

First Midwest Bancorp, Inc. is a bank holding company headquartered in the Chicago suburb of Itasca, Illinois with operations throughout the Chicago metropolitan area as well as northwest Indiana, central and western Illinois, and eastern Iowa through 107 banking locations. Our principal subsidiary is First Midwest Bank, which provides a broad range of banking, treasury, and wealth management products and services to commercial and industrial, commercial real estate, municipal, and consumer customers. We are committed to meeting the financial needs of the people and businesses in the communities where we live and work by providing customized banking solutions, quality products, and innovative services that fulfill those financial needs.

The following discussion and analysis is intended to address the significant factors affecting our Consolidated Statements of Income for the three years ended December 31, 2015 and Consolidated Statements of Financial Condition as of December 31, 2015 and 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 financial information presented in Item 8 of this Form 10-K.

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

- Net Interest Income – Net interest income, our primary source of revenue, equals the difference between interest income and fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities.
- Net Interest Margin – Net interest margin equals 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) 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.

A quarterly summary of operations for the years ended December 31, 2015 and 2014 is included in the section of this Item 7 titled "Quarterly Earnings."

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K may contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of words such as "may," "might," "will," "would," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "probable," "potential," "possible," "target," "continue," "look forward," "assume," and words of similar import. Forward-looking statements are not historical facts but instead express only management's beliefs regarding future results or events, many of which, by their nature, are inherently uncertain and outside of management's control.

It is possible that actual results and events may differ, possibly materially, from the anticipated results or events indicated in these forward-looking statements. Forward-looking statements are not guarantees of future performance, and we caution you not to place undue reliance on these statements. Forward-looking statements are made only as of the date of this report, and we undertake no obligation to update any forward-looking statements contained in this report to reflect new information or events or conditions after the date hereof.

Forward-looking statements may be deemed to include, among other things, statements relating to our future financial performance, the performance of our loan or securities portfolio, the expected amount of future credit reserves or charge-offs, corporate strategies or objectives, anticipated trends in our business, regulatory developments, acquisition transactions, including estimated synergies, cost savings and financial benefits of pending or consummated transactions, including First Midwest's proposed acquisition of NI Bancshares, and growth strategies, including possible future acquisitions. These statements are subject to certain risks, uncertainties, and assumptions. These risks, uncertainties, and assumptions include, among other things, the following:

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

For a further discussion of these risks, uncertainties and assumptions, you should refer to the section entitled "Risk Factors" in Item 1A in this report, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our subsequent filings made with the SEC. However, these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

NON-GAAP FINANCIAL INFORMATION

The Company's accounting and reporting policies conform to U.S. 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, excluding property valuation adjustments and/or acquisition and integration related expenses, total non-interest expense, excluding property valuation adjustments and/or acquisition and integration related expenses, tax-equivalent net interest income (including its individual components), tax-equivalent net interest margin, the efficiency ratio, tangible common equity to tangible assets, tangible common equity, excluding accumulated other comprehensive loss, to tangible assets, tangible common equity to risk-weighted assets, and return on average tangible common equity. Although intended to enhance investors' understanding of the Company's business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP.

PERFORMANCE OVERVIEW

Acquisitions

On November 12, 2015, the Company entered into a definitive agreement to acquire NI Bancshares, the holding company for The National Bank & Trust Company of Syamore. As part of the acquisition, the Company will acquire ten banking offices in northern Illinois, approximately $415 million in loans, $600 million in deposits, and over $700 million in trust assets under management. The Company received approval for this acquisition from the Federal Reserve and the Illinois Department of Professional Regulation in January of 2016. The acquisition is expected to close and the operating systems converted late in the first quarter of 2016, subject to approval by the stockholders of NI Bancshares and customary closing conditions.

On December 3, 2015, the Company completed the Peoples acquisition. As part of the acquisition, the Company acquired two banking offices in Arlington Heights, Illinois, $53.9 million in loans, and $91.8 million in deposits. The conversion of operating systems concluded on December 7, 2015.

On August 8, 2014, the Bank completed the Popular acquisition which included twelve full-service retail banking offices and Popular's small business and middle market commercial lending activities in the Chicago metropolitan area. The Bank acquired $549.4 million in loans and $731.9 million in deposits. The conversion of operating systems concluded on August 11, 2014.

On December 2, 2014, the Company completed the Great Lakes acquisition. As part of the transaction, the Company acquired seven full-service retail banking offices, one drive-up location, $223.2 million in loans, and $464.3 million in deposits. The conversion of operating systems concluded on December 8, 2014.

On September 26, 2014, the Bank completed the acquisition of National Machine Tool, now known as FMEF, which provides equipment leasing and commercial financing alternatives to traditional bank financing.

For additional detail regarding these acquisitions, see Note 3 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Strategic Branch Initiatives

On January 15, 2016, the Company announced strategic branch initiatives to enhance its customer experience, branch network, and operating efficiency. Based on the Company's ongoing analysis of its existing distribution network as well as customer preference and usage patterns, the Company will open a full service branch in the attractive Naperville, Illinois and downtown Chicago markets during the first quarter of 2016, consolidate four existing branches into nearby operating locations, and sell twelve closed branches and seven parcels of land previously purchased for expansion.

The orderly execution of these plans over the near term will result in an annual pre-tax reduction of ongoing operating costs of approximately $3.6 million, 60% of which the Company expects to realize in 2016. In furtherance of these initiatives, First Midwest recorded a pre-tax, non-cash valuation adjustment of $8.6 million, or $0.07 per share after tax, as of December 31, 2015 for those properties designated for sale.

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

	Years ended December 31,		
	2015	2014	2013
Operating Results			
Interest income	$335,984	$299,864	$287,247
Interest expense	24,386	23,012	27,115
Net interest income	311,598	276,852	260,132
Provision for loan and covered loan losses	21,152	19,168	16,257
Noninterest income	136,581	126,618	140,883
Noninterest expense	307,216	283,826	256,737
Income before income tax expense	119,811	100,476	128,021
Income tax expense	37,747	31,170	48,715
Net income	$82,064	$69,306	$79,306
Weighted-average diluted common shares outstanding	77,072	74,496	73,994
Diluted earnings per common share	$1.05	$0.92	$1.06
Performance Ratios			
Return on average common equity	7.17 %	6.56 %	8.04 %
Return on average tangible common equity [(1)]	10.44 %	9.32 %	11.29 %
Return on average assets	0.85 %	0.80 %	0.96 %
Tax-equivalent net interest margin [(2)]	3.68 %	3.69 %	3.68 %
Efficiency ratio [(3)]	63.61 %	64.57 %	64.19 %

(1) 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 ("TCE"). Intangibles amortization expense, net of tax, totaled $2.4 million, $1.7 million, and $2.0 million for the years ended December 31, 2015, 2014, and 2013, respectively. TCE represents common stockholders' equity less average goodwill and average identifiable intangible assets. See the "Management of Capital" section of this Item 7 for the detailed calculation of TCE.

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

(3) The efficiency ratio expresses noninterest expense, excluding OREO expense, as a percentage of tax-equivalent net interest income plus total fee-based revenues, other income, and tax-equivalent adjusted BOLI income. In addition, property valuation adjustments of $8.6 million and acquisition and integration related expenses of $1.4 million are excluded from the efficiency ratio for 2015. For 2014, acquisition and integration related expenses of $13.9 million are excluded from the efficiency ratio.

	As of December 31,			
	2015	2014	$ Change	% Change
Balance Sheet Highlights				
Total assets	$9,732,676	$9,445,139	$287,537	3.0
Total loans, excluding covered loans	7,130,940	6,657,418	473,522	7.1
Total loans, including covered loans	7,161,715	6,736,853	424,862	6.3
Total deposits	8,097,738	7,887,758	209,980	2.7
Core deposits	6,944,272	6,616,200	328,072	5.0
Loans-to-deposits	88.4 %	85.4 %		
Core deposits to total deposits	85.8 %	83.9 %		

	As of December 31,			
	2015	2014	$ Change	% Change
Asset Quality Highlights [1]				
Non-accrual loans	$28,875	$59,971	$(31,096)	(51.9)
90 days or more past due loans (still accruing interest)	2,883	1,173	1,710	145.8
Total non-performing loans	31,758	61,144	(29,386)	(48.1)
Accruing trouble debt restructurings ("TDRs")	2,743	3,704	(961)	(25.9)
OREO	27,349	26,898	451	1.7
Total non-performing assets	$61,850	$91,746	$(29,896)	(32.6)
30-89 days past due loans (still accruing interest)	$16,329	$20,073	$(3,744)	(18.7)
Non-performing assets to loans plus OREO	0.86%	1.37%		
Allowance for Credit Losses				
Allowance for credit losses	$74,855	$74,510	$345	0.5
Allowance for credit losses to total loans [2]	1.05%	1.11%		
Allowance for credit losses to non-accrual loans [1]	253.57%	112.19%		

(1) These amounts and ratios exclude loans and OREO acquired through the Company's FDIC-assisted transactions subject to loss sharing agreements ("covered loans" and "covered OREO"). For a discussion of covered loans, see Notes 1 and 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. Asset quality, including covered loans and covered OREO, is included in the section of this Item 7 titled "Loan Portfolio and Credit Quality" below.

(2) Acquired loans are recorded at fair value as of the acquisition date with no allowance for credit losses being established. Included within total loans are acquired loans, which totaled $542.2 million and $718.3 million as of December 31, 2015 and 2014, respectively. These loans have an allowance for loan loss of $1.6 million as of December 31, 2015. In addition, there is a remaining acquisition adjustment of $17.7 million and $24.7 million as of December 31, 2015 and 2014, respectively. This acquisition adjustment represents the difference between the contractual loan balances and the carrying value of these loans.

Performance Overview for 2015 Compared with 2014

Net income for 2015 was $82.1 million, or $1.05 per share, compared to net income of $69.3 million, or $0.92 per share, for 2014. Financial results for 2015 and 2014 were impacted by property valuation adjustments related to strategic branch initiatives and acquisition and integration related expenses associated with completed and pending transactions. Earnings per share was $1.13 for 2015, excluding the valuation adjustments and acquisition and integration related expenses, and $1.03 for 2014, excluding acquisition and integration related expenses. The increase in net income and earnings per share reflects the benefit of the acquisitions completed during the second half of 2014, loan growth, increases in fee-based revenues, improved credit quality, and controlled expenses.

Tax-equivalent net interest margin was 3.68% for 2015 compared to 3.69% for 2014 despite the continued shift in the loan mix to floating rate loans, a rise in other interest-earning assets, and lower accretion on covered loans, which was offset by greater accretion on acquired loans related to the 2014 acquisitions and interest rate swaps.

Total noninterest income was $136.6 million for 2015 compared to $126.6 million for 2014. Total fee-based revenues increased 14.6% for 2015 compared to 2014, driven mainly by services provided to customers added in the 2014 acquisitions and continued growth in wealth management fees, mortgage banking income, and capital market products.

Total noninterest expense was $307.2 million for 2015, increasing 8.2% compared to 2014. Excluding property valuation adjustments from 2015 and acquisition and integration related expenses from 2015 and 2014, total noninterest expense was $297.2 million for 2015, increasing by $27.3 million, or 10.1%, from 2014. This increase is primarily the result of operating costs of the locations acquired in 2014.

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

As of December 31, 2015 our securities available-for-sale portfolio totaled $1.3 billion, rising $119.6 million, or 10.1%, from December 31, 2014. Current year growth reflects the redeployment of cash and cash equivalents into purchases of certain securities as well as $41.5 million in securities acquired in the Peoples acquisition. For a detailed discussion of our securities portfolio, see the section of this Item 7 titled "Investment Portfolio Management" below.

Total loans, excluding covered loans, of $7.1 billion as of December 31, 2015 reflects growth of $473.5 million, or 7.1%, from December 31, 2014. This growth was driven primarily by strong sales production of the corporate lending teams and growth in consumer loans. The Peoples acquisition completed in the fourth quarter of 2015 contributed $53.9 million in loans. Corporate loan growth primarily reflects the continued expansion into select sector-based lending areas such as leasing, healthcare, asset-based lending, and structured finance. The increase in consumer loans was driven by the addition of home equity loans, growth in 1-4 family mortgage loans, and expansion of the Company's web-based installment program.

As of December 31, 2015, non-performing assets, excluding covered loans and covered OREO, decreased by $29.9 million, or 32.6%, from December 31, 2014. Non-performing assets, excluding covered loans and covered OREO, represented 0.86% of total loans plus OREO as of December 31, 2015 compared to 1.37% as of December 31, 2014 and 2.13% as of December 31, 2013.

For a detailed discussion of our loan portfolio and credit quality, see the section of this Item 7 titled "Loan Portfolio and Credit Quality" below.

Total average funding sources of $8.4 billion for 2015 increased $899.4 million from 2014, due primarily to the full year impact of deposits assumed in the Popular and Great Lakes acquisitions. Growth in average demand deposits of $341.3 million, or 16.0%, from 2014, led the rise in average core deposits. For a detailed discussion of our funding sources see the section of this Item 7 titled "Funding and Liquidity Management" below.

Performance Overview for 2014 Compared with 2013

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

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

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

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

As of December 31, 2014, our securities available-for-sale portfolio totaled $1.2 billion, rising 6.7% from December 31, 2013. The addition of $219.3 million of securities acquired in the Great Lakes transaction was substantially offset by maturities, calls, and prepayments during 2014.

Total loans, excluding covered loans, of $6.7 billion as of December 31, 2014 reflected growth of $1.1 billion, or 19.3%, from December 31, 2013. Excluding loans acquired in the Popular and Great Lakes transactions of $718.3 million, total loans, excluding covered loans, grew $359.2 million, or 6.4%, from December 31, 2013. This growth was driven by solid performance from our legacy sales platform and the continued impact of greater resource investments and expansion into certain sector-based lending areas, such as agri-business, asset-based lending, and healthcare.

As of December 31, 2014, non-performing assets, excluding covered loans and covered OREO, declined by 23.4% compared to December 31, 2013. The continued improvement in non-performing assets and the related credit metrics reflects management's ongoing commitment to credit remediation.

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

EARNINGS PERFORMANCE

Net Interest Income

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

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

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the years ended December 31, 2015, 2014, and 2013, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 3 details differences in interest income and expense from prior years and the extent to which any changes are attributable to volume and rate fluctuations.

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

	Years Ended December 31, 2015			2014			2013		
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)
Assets:									
Other interest-earning assets	$650,450	$2,089	0.32	$543,056	$1,591	0.29	$633,050	$1,819	0.29
Securities:									
Trading - taxable	17,941	184	1.03	17,964	174	0.97	15,526	161	1.04
Investment securities - taxable	795,281	18,082	2.27	649,161	14,516	2.24	713,237	12,249	1.72
Investment securities - nontaxable [(1)]	399,471	21,351	5.34	461,571	25,705	5.57	510,412	28,636	5.61
Total securities	1,212,693	39,617	3.27	1,128,696	40,395	3.58	1,239,175	41,046	3.31
FHLB and Federal Reserve Bank stock	38,564	1,465	3.80	35,622	1,366	3.83	39,593	1,346	3.40
Loans [(1)(2)(3)]	6,865,157	303,492	4.42	6,121,326	268,249	4.38	5,498,788	255,333	4.64
Total interest-earning assets [(1)(2)]	8,766,864	346,663	3.95	7,828,700	311,601	3.98	7,410,606	299,544	4.04
Cash and due from banks	130,525			120,358			121,564		
Allowance for loan and covered loan losses	(74,028)			(79,482)			(95,698)		
Other assets	878,690			808,136			841,967		
Total assets	$9,702,051			$8,677,712			$8,278,439		
Liabilities and Stockholders' Equity:									
Savings deposits	$1,463,168	1,073	0.07	$1,222,292	904	0.07	$1,126,561	844	0.07
NOW accounts	1,390,616	691	0.05	1,243,186	673	0.05	1,170,928	676	0.06
Money market deposits	1,561,432	1,920	0.12	1,392,367	1,784	0.13	1,306,625	1,735	0.13
Total interest-bearing core deposits	4,415,216	3,684	0.08	3,857,845	3,361	0.09	3,604,114	3,255	0.09
Time deposits	1,201,848	5,843	0.49	1,211,882	7,016	0.58	1,306,888	8,646	0.66
Total interest-bearing	5,617,064	9,527	0.17	5,069,727	10,377	0.20	4,911,002	11,901	0.24

deposits									
Borrowed funds	151,032	2,314	1.53	149,559	573	0.38	205,461	1,607	0.78
Senior and subordinated debt	201,041	12,545	6.24	191,776	12,062	6.29	212,896	13,607	6.39
Total interest-bearing liabilities	5,969,137	24,386	0.41	5,411,062	23,012	0.43	5,329,359	27,115	0.51
Demand deposits	2,479,072			2,137,778			1,889,247		
Other liabilities	121,784			85,306			87,550		
Stockholders' equity - common	1,132,058			1,043,566			972,283		
Total liabilities and stockholders' equity	$9,702,051			$8,677,712			$8,278,439		
Tax-equivalent net interest income/margin (1)		322,277	3.68		288,589	3.69		272,429	3.68
Tax-equivalent adjustment		(10,679)			(11,737)			(12,297)	
Net interest income (GAAP)		$311,598			$276,852			$260,132	

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

(2) Non-accrual loans, including covered loans, which totaled $29.4 million as of December 31, 2015, $66.2 million as of December 31, 2014, and $80.7 million as of December 31, 2013, are included in loans for purposes of this analysis. Additional detail regarding non-accrual loans is presented in the following section of this Item 7 titled "Non-Performing Asset and Performing Potential Problem Loans."

(3) This item includes covered loans and the related FDIC indemnification asset. For additional discussion, see Notes 1 and 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

2015 Compared to 2014

Total average interest-earning assets were $8.8 billion for 2015, an increase of $938.2 million, or 12.0%, from 2014, which reflects loan growth, the full impact of the acquisitions completed during the second half of 2014, and the Peoples acquisition completed during the fourth quarter of 2015.

Compared to 2014, total average interest-bearing liabilities increased by $558.1 million, or 10.3%, during 2015. Growth in core deposits and the increase in senior and subordinated debt was due primarily to acquisition activity.

Tax-equivalent net interest margin was 3.68% for 2015, decreasing one basis point from 2014. The decline was due primarily to a rise in other interest-earning assets, lower accretion on covered loans, and the continued shift in the loan mix to floating rate loans, which was substantially offset by greater accretion on acquired loans and interest rate swaps.

Tax-equivalent net interest income was $322.3 million for 2015 compared to $288.6 million for 2014, an increase of 11.7%. This increase was driven primarily by the 2014 acquisitions and organic loan growth. Acquired loan accretion related to the 2014 acquisitions contributed $9.0 million and $1.9 million to net interest income for 2015 and 2014, respectively. This acquired loan accretion includes accelerated accretion on purchased credit impaired ("PCI") loans of $2.6 million for 2015. There was no accelerated acquired loan accretion in 2014.

2014 Compared to 2013

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

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

Tax-equivalent net interest margin was 3.69%, increasing one basis point from 2013 despite continued pressure on loan margins and investment portfolio yields as we improved the mix of earning assets and liabilities through organic loan growth and acquisitions, employed certain loan hedging strategies, and prepaid FHLB advances.

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

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

	2015 compared to 2014			2014 compared to 2013		
	Volume	Rate	Total	Volume	Rate	Total
Other interest-earning assets	$335	$163	$498	$(265)	$37	$(228)
Securities:						
Trading – taxable	—	10	10	23	(10)	13
Investment securities – taxable	3,318	248	3,566	(959)	3,226	2,267
Investment securities – nontaxable [2]	(3,351)	(1,003)	(4,354)	(2,721)	(210)	(2,931)
Total securities	(33)	(745)	(778)	(3,657)	3,006	(651)
FHLB and Federal Reserve Bank stock	112	(13)	99	(73)	93	20
Loans [2][3]	31,929	3,314	35,243	22,638	(9,722)	12,916
Total interest income [2]	32,343	2,719	35,062	18,643	(6,586)	12,057
Savings deposits	177	(8)	169	71	(11)	60
NOW accounts	58	(40)	18	39	(42)	(3)
Money market deposits	204	(68)	136	105	(56)	49
Total interest-bearing core deposits	439	(116)	323	215	(109)	106
Time deposits	(58)	(1,115)	(1,173)	(600)	(1,030)	(1,630)
Total interest-bearing deposits	381	(1,231)	(850)	(385)	(1,139)	(1,524)
Borrowed funds	6	1,735	1,741	(359)	(675)	(1,034)
Senior and subordinated debt	577	(94)	483	(1,331)	(214)	(1,545)
Total interest expense	964	410	1,374	(2,075)	(2,028)	(4,103)
Net interest income [2]	$31,379	$2,309	$33,688	$20,718	$(4,558)	$16,160

(1) For purposes of this table, changes which are not due solely to volume changes or rate changes are allocated to each category on the basis of the percentage relationship of each to the sum of the two.
(2) Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%.
(3) This item includes covered loans and the related FDIC indemnification asset. For additional discussion, see Notes 1 and 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Noninterest Income

A summary of noninterest income for the three years ended December 31, 2015 is presented in the following table.

Table 4

Noninterest Income Analysis

(Dollar amounts in thousands)

	Years Ended December 31,			% Change	
	2015	2014	2013	2015-2014	2014-2013
Service charges on deposit accounts	$39,979	$36,910	$36,526	8.3	1.1
Wealth management fees	29,162	26,474	24,185	10.2	9.5
Card-based fees (1)	26,984	24,340	21,649	10.9	12.4
Merchant servicing fees	11,739	11,260	10,953	4.3	2.8
Mortgage banking income	5,741	4,011	5,306	43.1	(24.4)
Other service charges, commissions, and fees	13,654	8,086	7,663	68.9	5.5
Total fee-based revenues	127,259	111,081	106,282	14.6	4.5
BOLI income (loss)	4,185	2,873	(11,844)	45.7	N/M
Net securities gains (2)	2,373	8,097	34,164	(70.7)	(76.3)
Other income (3)(4)	2,472	2,672	5,486	(7.5)	(51.3)
Gains on sales of properties (3)	292	3,954	—	(92.6)	N/M
Loss on early extinguishment of debt (3)	—	(2,059)	(1,034)	N/M	99.1
Gain on termination of FHLB forward commitments	—	—	7,829	—	N/M
Total noninterest income	$136,581	$126,618	$140,883	7.9	(10.1)

N/M – Not meaningful.

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

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

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

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

2015 Compared to 2014

Total noninterest income was $136.6 million for 2015, increasing 7.9% from 2014. Total fee-based revenues were $127.3 million, rising 14.6% compared to 2014, reflecting growth across all categories.

Service charges on deposit accounts and card-based fees increased by 8.3% and 10.9%, respectively, resulting from growth in treasury management services, higher transaction volumes, and services provided to customers added in the 2014 acquisitions.

Growth in wealth management fees of 10.2% reflects continued sales of fiduciary and investment advisory services to new and existing customers and an overall increase in assets under management to $7.5 billion, a rise of $206.9 million, or 2.9%, from 2014.

The increase in mortgage banking income during 2015 was due primarily to sales of $180.0 million of 1-4 family mortgage loans in the secondary market compared to sales of $144.9 million during 2014.

During 2015, fee income generated from sales of capital market products to commercial clients and sales of lease contracts drove the increase in other service charges, commissions, and fees. Gains on sales of lease contracts generated by FMEF totaled $1.6 million during 2015, compared to $327,000 during 2014. In addition, the Company has retained leases within the loan portfolio of $104.4 million as of December 31, 2015, up from $23.0 million as of December 31, 2014.

The rise in BOLI income from 2014 was impacted by policies acquired in the 2014 acquisitions and the redeployment of certain investments into higher yielding funds.

We completed the disposition of one branch property at a pre-tax gain of $292,000 during 2015 and two branch properties for a total pre-tax gain of $4.0 million during 2014.

The loss on early extinguishment of debt resulted from the prepayment of $114.6 million in FHLB advances during 2014.

2014 Compared to 2013

Total noninterest income was $126.6 million for 2014, decreasing 10.1% from 2013. Total fee-based revenues were $111.1 million, increasing 4.5% compared to 2013. Total noninterest income during 2013 included a $34.0 million gain on the sale of an equity investment and a $7.8 million gain on the termination of two FHLB forward commitments, offset in part by a $13.3 million write-down of the cash surrender value of certain BOLI policies.

Service charges on deposit accounts were in line with 2013, as charges for services to new customers acquired in the Popular and Great Lakes transactions offset the continued decline in revenue from non-sufficient funds transactions.

Growth in wealth management fees reflects new customer relationships and an overall increase in assets under management.

The rise in card-based fees mainly reflects higher transaction volumes along with incentives from a renewed vendor contract.

During 2014, we sold $144.9 million of 1-4 family mortgage loans in the secondary market compared to sales of $147.4 million during 2013. Lower market pricing contributed to the decline in mortgage banking income compared to 2013.

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

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

Noninterest Expense

A summary of noninterest expense for the three years ended December 31, 2015 is presented in the following table.

Table 5

Noninterest Expense Analysis

(Dollar amounts in thousands)

	Years Ended December 31,			% Change	
	2015	2014	2013	2015-2014	2014-2013
Salaries and employee benefits:					
Salaries and wages	$133,739	$116,578	$112,631	14.7	3.5
Retirement and other employee benefits	31,852	27,245	26,119	16.9	4.3
Total salaries and employee benefits	165,591	143,823	138,750	15.1	3.7
Net occupancy and equipment expense	38,720	35,181	31,832	10.1	10.5
Professional services	22,720	23,436	21,922	(3.1)	6.9
Technology and related costs	14,581	12,875	11,335	13.3	13.6
Merchant card expense	9,886	9,195	8,780	7.5	4.7
Advertising and promotions	7,606	8,159	7,754	(6.8)	5.2
FDIC premiums	6,017	5,824	6,438	3.3	(9.5)
Net OREO expense	5,281	7,075	8,547	(25.4)	(17.2)
Cardholder expenses	5,243	4,251	4,021	23.3	5.7
Other expenses [(1)]	21,601	20,135	15,858	7.3	27.0
Property valuation adjustments	8,581	—	—	N/M	—
Acquisition and integration related expenses	1,389	13,872	—	(90.0)	N/M
Adjusted amortization of FDIC indemnification asset [(1)]	—	—	1,500	—	N/M
Total noninterest expense	$307,216	$283,826	$256,737	8.2	10.6

N/M – Not meaningful.

(1) These items are included in other expenses in the Consolidated Statements of Income.

2015 Compared to 2014

Excluding property valuation adjustments and acquisition and integration related expenses, total noninterest expense was $297.2 million for 2015, increasing by $27.3 million, or 10.1%, from 2014. This year-over-year increase was substantially due to the full year impact of staffing, occupancy, and processing costs related to the 2014 acquisitions, which included 21 additional locations, of which four have been closed. These costs occurred primarily within salaries and employee benefits, net occupancy and equipment expense, technology and related costs, cardholder expenses, and other expenses.

Apart from the increase due to the 2014 acquisitions, salaries and employee benefits increased from 2014 due to adding talent to expand the Company's sales efforts and support organizational growth. The expense related to the Company's defined benefit retirement plan for 2015 increased by $1.6 million from 2014 reflecting lower earnings on assets and higher lump sum distributions.

The reduction in professional services compared to 2014 was driven primarily by lower legal and loan remediation expenses and lower costs to service the Company's covered loan portfolio, partially offset by talent recruitment costs.

Net OREO expense decreased 25.4% compared to 2014, due primarily to lower valuation adjustments on OREO properties.

During the fourth quarter of 2015, property valuation adjustments of $8.6 million were recognized on twelve closed branches and seven parcels of land as part of the Company's strategic branch initiatives.

2014 Compared to 2013

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

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

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

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

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

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

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

Income Taxes
Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes is detailed in the following table.
Table 6
Income Tax Expense Analysis
(Dollar amounts in thousands)

	Years Ended December 31,		
	2015	2014	2013
Income before income tax expense	$119,811	$100,476	$128,021
Income tax expense:			
Federal income tax expense	$30,572	$24,244	$36,316
State income tax expense	7,175	6,926	12,399
Total income tax expense	$37,747	$31,170	$48,715
Effective income tax rate	31.5 %	31.0 %	38.1 %

Federal income tax expense and the related effective income tax rate are influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax income as well as state income taxes. State income tax expense and the related effective income tax rate are driven by both the amount of state tax-exempt income in relation to pre-tax income and state tax rules related to consolidated/combined reporting and sourcing of income and expense.
The increases in income tax expense and the effective tax rate from 2014 to 2015 were due primarily to a rise in income subject to tax at statutory rates, partially offset by decreases in state statutory rates. The decrease in income tax expense and the effective tax rate from 2013 to 2014 resulted primarily from a decline in income subject to tax at statutory rates.
Our accounting policies for the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 15 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.
FINANCIAL CONDITION
Investment Portfolio Management
Securities that we have the intent and ability to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premiums and accretion of discounts. Trading securities are carried at fair value and consist of securities held in a grantor trust for our nonqualified deferred compensation plan and are not considered part of the traditional investment portfolio. All other securities are classified as securities available-for-sale and are carried at fair value with unrealized gains and losses, net of related deferred income taxes, recorded in stockholders' equity as a separate component of accumulated other comprehensive loss.
We manage our investment portfolio to maximize the return on invested funds within acceptable risk guidelines, to meet pledging and liquidity requirements, and to adjust balance sheet interest rate sensitivity to mitigate the impact of changes in interest rates on net interest income.
From time to time, we adjust the size and composition of our securities portfolio based on a number of factors, including expected loan growth, anticipated changes in collateralized public funds on account, the interest rate environment, and the related value of various segments of the securities markets. The following table provides a summary of our investment portfolio.

Table 7
Investment Portfolio
(Dollar amounts in thousands)

	As of December 31,								
	2015			2014			2013		
	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Securities Available-for-Sale									
U.S. treasury securities	$17,000	$16,980	1.3	$—	$—	—	$—	$—	—
U.S. agency securities	86,461	86,643	6.6	30,297	30,431	2.6	500	500	—
Collateralized mortgage obligations ("CMOs")	695,198	687,185	52.6	538,882	534,156	45.0	490,962	475,768	42.8
Other Mortgage-backed securities ("MBSs")	152,481	153,530	11.8	155,443	159,765	13.4	135,097	136,164	12.2
Municipal securities	321,437	327,570	25.1	414,255	423,820	35.7	457,318	461,393	41.5
Trust preferred collateralized debt obligations ("CDOs")	48,287	31,529	2.4	48,502	33,774	2.8	46,532	18,309	1.7
Corporate debt securities	—	—	—	1,719	1,802	0.2	12,999	14,929	1.3
Equity securities	3,282	3,199	0.2	3,224	3,261	0.3	3,706	5,662	0.5
Total securities available-for-sale	$1,324,146	$1,306,636	100.0	$1,192,322	$1,187,009	100.0	$1,147,114	$1,112,725	100.0
Securities Held-to-Maturity									
Municipal securities	$23,152	$20,054		$26,555	$27,670		$44,322	$43,387	

Portfolio Composition

As of December 31, 2015, our securities available-for-sale portfolio totaled $1.3 billion, rising $119.6 million, or 10.1%, from December 31, 2014, following a 6.7% increase from December 31, 2013. Current year growth reflects purchases of $509.5 million in U.S. treasury securities, U.S. agency securities, CMOs, MBSs, and municipal securities and $41.5 million in securities acquired in the Peoples acquisition, which were partially offset by $322.8 million of maturities, calls, and repayments, sales of $93.9 million, and net amortization.

Approximately 97% of our $1.3 billion available-for-sale portfolio as of December 31, 2015 consisted of U.S. treasury securities, U.S. agency securities, CMOs, MBSs, and municipal securities. The remainder of the portfolio was comprised of eleven CDOs with a fair value of $31.5 million and miscellaneous other securities with fair values of $3.2 million.

Investments in municipal securities comprised $327.6 million, or 25.1%, of the total securities available-for-sale portfolio as of December 31, 2015. The majority consists of general obligations of local municipalities in various states. Our municipal securities portfolio has historically experienced very low default rates and provides a predictable cash flow.

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Table 8
Securities Effective Duration Analysis
(Dollar amounts in thousands)

	As of December 31,					
	2015			2014		
	Effective Duration (1)	Average Life (2)	Yield to Maturity (3)	Effective Duration (1)	Average Life (2)	Yield to Maturity (3)
Securities Available-for-Sale						
U.S. treasury securities	2.30 %	2.38	1.16 %	— %	—	— %
U.S. agency securities	2.78 %	3.79	1.78 %	3.32 %	3.72	2.98 %
CMOs	3.61 %	3.99	1.94 %	3.45 %	3.67	1.91 %
MBSs	3.48 %	4.42	2.60 %	2.88 %	4.18	2.77 %
Municipal securities	3.08 %	3.02	4.80 %	2.89 %	2.37	5.50 %
CDOs	N/M	N/M	N/M	N/M	N/M	N/M
Corporate debt securities	—	—	—	0.45 %	0.50	6.72 %
Equity securities	N/M	N/M	N/M	N/M	N/M	N/M
Total securities available-for-sale	3.39 %	3.76	2.72 %	3.16 %	3.26	3.37 %
Securities Held-to-Maturity						
Municipal securities	5.66 %	7.86	4.44 %	5.64 %	7.85	4.60 %

N/M – Not meaningful.

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

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

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

Effective Duration

The average life and effective duration of our securities available-for-sale portfolio were both higher than the prior year at 3.76 years and 3.39%, respectively. These increases resulted primarily from the redeployment of cash and cash equivalents into purchases of various longer-term securities.

Realized Gains and Losses

Net securities gains of $2.4 million for 2015 resulted from the sale of MBSs at gains of $1.9 million, and sales of CMOs, municipal securities, and other investments at net gains of $521,000.

For 2014, net securities gains of $8.1 million consisted of the sale of municipal securities, other investments, and longer-duration corporate bonds at gains totaling $4.6 million and a non-accrual CDO at a gain of $3.5 million. In addition, four CDOs totaling $2.9 million acquired in the Great Lakes transaction were sold during the fourth quarter of 2014. These securities were recorded at fair value at the acquisition date, with no gain or loss recognized on the sale.

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

Unrealized Gains and Losses

Unrealized gains and losses on securities available-for-sale represent the difference between the aggregate cost and fair value of the portfolio. These amounts are presented in the Consolidated Statements of Comprehensive Income and reported as a separate component of stockholders' equity in accumulated other comprehensive loss on an after-tax basis. This balance sheet component fluctuates as current market interest rates and conditions change and affect the aggregate fair value of the portfolio. Net unrealized losses as of December 31, 2015 were $17.5 million compared to $5.3 million as of December 31, 2014. For additional discussion of unrealized gains and losses on securities available-for-sale, see Note 4 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Net unrealized losses in the CMO portfolio totaled $8.0 million as of December 31, 2015 compared to $4.7 million as of December 31, 2014. The MBS portfolio had net unrealized gains of $1.0 million as of December 31, 2015 compared to $4.3 million as of December 31, 2014, which included unrealized losses of $871,000 and $310,000 for the same periods, respectively. CMOs and MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. We do not believe any individual unrealized loss on these securities as of December 31, 2015 represents OTTI related to credit deterioration. In addition, we do not intend to sell the CMOs and MBSs with unrealized losses within a short period of time, and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

As of December 31, 2015, net unrealized gains in the municipal securities portfolio totaled $6.1 million compared to $9.6 million as of December 31, 2014. Net unrealized gains on municipal securities include unrealized losses of $310,000 as of December 31, 2015 and $1.0 million as of December 31, 2014. Substantially all of these securities carry investment grade ratings with the majority supported by the general revenues of the issuing governmental entity and are supported by third-party bond insurance or other types of credit enhancement. We do not believe the unrealized loss on any of these securities represents OTTI.

Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The net unrealized losses on these securities were $16.8 million as of December 31, 2015 and $14.7 million as of December 31, 2014. We do not believe the unrealized losses on the CDOs as of December 31, 2015 represent OTTI related to credit deterioration. In addition, we do not intend to sell the CDOs with unrealized losses within a short period of time, and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Our estimation of fair values for the CDOs is described in Note 22 of "Notes to the Consolidated Financial Statements," in Item 8 of this Form 10-K.

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

	As of December 31, 2015							
	One Year or Less		One Year to Five Years		Five Years to Ten Years		After 10 years	
	Amortized Cost	Yield to Maturity (1)	Amortized Cost	Yield to Maturity (1)	Amortized Cost	Yield to Maturity (1)	Amortized Cost	Yield to Maturity (1)
Securities Available-for-Sale								
U.S. treasury securities	$1,995	1.10 %	$13,996	1.11 %	$1,009	1.99 %	$—	— %
U.S. agency securities	1,497	1.20 %	29,227	1.91 %	55,737	1.72 %	—	— %
CMOs (2)	109,160	1.96 %	334,983	1.93 %	234,408	1.94 %	16,647	1.97 %
MBSs (2)	22,679	2.36 %	75,950	2.23 %	53,852	3.24 %	—	— %
Municipal securities (3)	91,709	4.81 %	228,946	4.79 %	782	5.29 %	—	— %
CDOs	—	— %	—	— %	—	— %	48,287	N/M
Equity securities (4)	—	— %	—	— %	3,282	N/M	—	— %
Total available-for-sale securities	$227,040	3.14 %	$683,102	2.90 %	$349,070	2.09 %	$64,934	0.51 %
Securities Held-to-Maturity								
Municipal securities (3)	$2,092	4.38 %	$8,809	4.44 %	$4,184	5.55 %	$8,067	3.87 %

N/M – Not meaningful.

(1) Based on amortized cost.

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

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

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

LOAN PORTFOLIO AND CREDIT QUALITY

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

Portfolio Composition

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 83.9% of total loans, excluding covered loans, as of December 31, 2015. Consistent with our emphasis on relationship banking, the majority of our corporate loans are made to our core, multi-relationship customers. The customers usually maintain deposit relationships and utilize our other banking services, such as treasury and wealth management services.

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

Table 10

Loan Portfolio

(Dollar amounts in thousands)

	As of December 31,									
	2015	% of Total	2014	% of Total	2013	% of Total	2012	% of Total	2011	% of Total
Commercial and industrial	$2,524,726	35.4	$2,253,556	33.9	$1,830,638	32.8	$1,631,474	31.5	$1,458,446	28.7
Agricultural	387,440	5.4	358,249	5.4	321,702	5.8	268,618	5.2	243,776	4.8
Commercial real estate:										
Office	479,374	6.7	494,637	7.4	459,202	8.2	474,717	9.1	444,368	8.7
Retail	434,241	6.1	452,225	6.8	392,576	7.0	368,796	7.1	334,034	6.6
Industrial	481,839	6.8	531,517	8.0	501,907	9.0	489,678	9.4	520,680	10.2
Multi-family	528,324	7.4	564,421	8.4	332,873	6.0	285,481	5.5	288,336	5.7
Construction	216,882	3.0	204,236	3.1	186,197	3.3	186,416	3.6	250,745	4.9
Other commercial real estate	931,190	13.1	887,897	13.3	807,071	14.5	773,121	14.9	888,146	17.4
Total commercial real estate	3,071,850	43.1	3,134,933	47.0	2,679,826	48.0	2,578,209	49.6	2,726,309	53.5
Total corporate loans	5,984,016	83.9	5,746,738	86.3	4,832,166	86.6	4,478,301	86.3	4,428,531	87.0
Home equity	653,468	9.2	543,185	8.2	427,020	7.7	390,033	7.5	416,194	8.2
1-4 family mortgages	355,854	5.0	291,463	4.4	275,992	4.9	282,948	5.5	201,099	4.0
Installment	137,602	1.9	76,032	1.1	44,827	0.8	38,394	0.7	42,289	0.8
Total consumer loans	1,146,924	16.1	910,680	13.7	747,839	13.4	711,375	13.7	659,582	13.0
	7,130,940	100.0	6,657,418	100.0	5,580,005	100.0	5,189,676	100.0	5,088,113	100.0

Total loans, excluding covered loans					
Covered loans	30,775	79,435	134,355	197,894	260,502
Total loans	$7,161,715	$6,736,853	$5,714,360	$5,387,570	$5,348,615

2015 Compared to 2014

Total loans, excluding covered loans, of $7.1 billion as of December 31, 2015 reflects growth of $473.5 million, or 7.1%, from December 31, 2014. This growth was driven primarily by strong sales production of the corporate lending teams and growth in consumer loans. In addition, the Peoples acquisition completed in the fourth quarter of 2015 contributed $53.9 million in loans.

Growth in corporate loans was concentrated within our commercial and industrial loan category. The increase in commercial and industrial loans primarily reflects the continued expansion into select sector-based lending areas such as leasing, healthcare, asset-based lending, and structured finance. The overall decline in commercial real estate loans from December 31, 2014 resulted from the decision of certain customers to opportunistically sell their commercial businesses and investment real estate properties or use excess liquidity to payoff long-term debt. These decreases more than offset organic commercial real estate growth.

Consumer loans totaled $1.1 billion as of December 31, 2015 and represented 16.1% of total loans, excluding covered loans, increasing $236.2 million, or 25.9% from December 31, 2014. This growth reflects the addition of $156.4 million of shorter-duration, floating rate home equity loans, growth in 1-4 family mortgages, and the expansion of the Company's web-based installment programs.

Covered loans decreased $48.7 million, or 61.3%, from December 31, 2014, as non-residential mortgage loans related to three FDIC-assisted transactions were no longer covered under the FDIC Agreements during 2015. These loans, which totaled $21.0 million as of December 31, 2015, are included in loans, excluding covered loans, and are no longer classified as covered loans.

2014 Compared to 2013

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

Consumer loans totaled $910.7 million as of December 31, 2014 and increased by $162.8 million, or 21.8%, from December 31, 2013. Loans acquired in the Popular and Great Lakes transactions contributed $93.5 million of this growth. Excluding acquired loans, consumer loans increased $69.3 million, or 9.3%, which reflects the addition of $48.7 million of shorter-duration home equity loans.

Covered loans decreased $54.9 million, or 40.9%, from December 31, 2013, reflecting normal paydowns and maturities in this portfolio.

Comparisons of Prior Years (2013, 2012, and 2011)

Total loans, excluding covered loans, of $5.6 billion as of December 31, 2013 reflected growth of $390.3 million, or 7.5%, from December 31, 2012. The loan portfolio benefited from well-balanced corporate loan growth reflecting credits of varying size and diverse geographic locations within our markets and includes an increase in commercial and industrial loans, agricultural loans, multi-family loans, and retail loans. Consumer loans increased by $36.5 million from December 31, 2012 and included the addition of home equity loans. Covered loans decreased $63.5 million, or 32.1%, from December 31, 2012, reflecting the continued and expected decline in this portfolio.

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

Commercial, Industrial, and Agricultural Loans

Commercial, industrial, and agricultural loans represent 40.8% of total loans, excluding covered loans, and totaled $2.9 billion as of December 31, 2015, an increase of $300.4 million, or 11.5%, from December 31, 2014. Our commercial and industrial loans are a diverse group of loans generally located in the Chicago metropolitan area with purposes that range from supporting seasonal working capital needs to term financing of equipment. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory. The underlying collateral securing commercial and industrial loans may fluctuate in value due to the success of the business or economic conditions. For loans secured by accounts receivable, the availability of funds for repayment and economic conditions may impact the cash flow of the borrower. Accordingly, the underwriting for these loans is based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower and may incorporate a personal guarantee.

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

Commercial Real Estate Loans

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

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

The following table provides commercial real estate loan detail as of December 31, 2015, 2014, and 2013.

Table 11
Commercial Real Estate Loans
(Dollar amounts in thousands)

	As of December 31,					
	2015	% of Total	2014	% of Total	2013	% of Total
Office, retail, and industrial:						
Office	$479,374	15.6	$494,637	15.8	$459,202	17.1
Retail	434,241	14.1	452,225	14.4	392,576	14.7
Industrial	481,839	15.7	531,517	17.0	501,907	18.7
Total office, retail, and industrial	1,395,454	45.4	1,478,379	47.2	1,353,685	50.5
Multi-family	528,324	17.2	564,421	18.0	332,873	12.4
Construction	216,882	7.1	204,236	6.5	186,197	7.0
Other commercial real estate:						
Multi-use properties	202,225	6.6	191,011	6.1	118,351	4.4
Warehouses and storage	137,223	4.5	128,396	4.1	122,325	4.6
Rental properties	131,374	4.3	123,627	3.9	112,887	4.2
Service stations and truck stops	78,459	2.6	84,108	2.7	83,237	3.1
Restaurants	78,017	2.5	74,490	2.4	79,809	3.0
Recreational	57,967	1.9	48,718	1.5	56,327	2.1
Automobile dealers	50,580	1.6	53,221	1.7	37,504	1.4
Hotels	46,889	1.5	46,409	1.5	62,451	2.3
Religious	38,307	1.2	36,427	1.2	32,614	1.2
Other	110,149	3.6	101,490	3.2	101,566	3.8
Total other commercial real estate	931,190	30.3	887,897	28.3	807,071	30.1
Total commercial real estate	$3,071,850	100.0	$3,134,933	100.0	$2,679,826	100.0

Commercial real estate loans represent 43.1% and 47.0% of total loans, excluding covered loans, as of December 31, 2015 and 2014, respectively, and totaled $3.1 billion at both period ends. Owner-occupied commercial real estate loans represent approximately 40% of total commercial real estate loans, excluding multi-family and construction loans, as of December 31, 2015 and 2014.

Consumer Loans

Consumer loans represent 16.1% of total loans, excluding covered loans, and totaled $1.1 billion as of December 31, 2015. Consumer loans are centrally underwritten using a credit scoring model developed by the Fair Isaac Corporation ("FICO"), which employs a risk-based system to determine the probability a borrower may default. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. The home equity category consists mainly of revolving lines of credit secured by junior liens on owner-occupied real estate. Loan-to-value ratios on home equity loans and 1-4 family mortgages are based on the current appraised value of the collateral. Repayment for these loans is dependent on the borrower's continued financial stability, and are more likely to be impacted by adverse personal circumstances.

Maturity and Interest Rate Sensitivity of Corporate Loans

The following table summarizes the maturity distribution of our corporate loan portfolio as of December 31, 2015, as well as the interest rate sensitivity of the loans that have maturities in excess of one year. For additional discussion of interest rate sensitivity, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of this Form 10-K.

Table 12

Maturities and Sensitivities of Corporate Loans to Changes in Interest Rates

(Dollar amounts in thousands)

	Maturity Due In			
	One Year or Less	Greater Than One to Five Years	Greater Than Five Years	Total
As of December 31, 2015				
Commercial, industrial, and agricultural	$1,258,249	$1,351,106	$302,811	$2,912,166
Commercial real estate	610,763	2,132,521	328,566	3,071,850
Total corporate loans	$1,869,012	$3,483,627	$631,377	$5,984,016
Loans by interest rate type:				
Fixed interest rates	$688,385	$1,771,863	$216,276	$2,676,524
Floating interest rates	1,180,627	1,711,764	415,101	3,307,492
Total corporate loans	$1,869,012	$3,483,627	$631,377	$5,984,016

As of December 31, 2015, the composition of our corporate loans between fixed and floating interest rates was 45% and 55%, respectively. As of December 31, 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. Including the impact of these interest rate swaps, 57% of the loan portfolio consisted of fixed rate loans and 43% were floating rate loans as of December 31, 2015. See Note 20 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for detail regarding interest rate swaps.

Non-Performing Assets and Performing Potential Problem Loans
The following table presents our loan portfolio by performing and non-performing status. A discussion of our accounting policies for non-accrual loans, TDRs, and loans 90 days or more past due can be found in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.
Table 13
Loan Portfolio by Performing/Non-Performing Status
(Dollar amounts in thousands)

		Accruing				
	Total Loans	Current	30-89 Days Past Due	90 Days Past Due	TDRs	Non-accrual
As of December 31, 2015						
Commercial and industrial	$2,524,726	$2,513,648	$4,340	$857	$294	$5,587
Agricultural	387,440	387,085	—	—	—	355
Commercial real estate:						
Office	479,374	474,401	2,382	4	—	2,587
Retail	434,241	431,377	70	—	—	2,794
Industrial	481,839	479,986	195	—	164	1,494
Multi-family	528,324	525,841	541	548	598	796
Construction	216,882	215,977	—	—	—	905
Other commercial real estate	931,190	921,235	3,343	661	340	5,611
Total commercial real estate	3,071,850	3,048,817	6,531	1,213	1,102	14,187
Total corporate loans	5,984,016	5,949,550	10,871	2,070	1,396	20,129
Home equity	653,468	644,996	2,452	216	494	5,310
1-4 family mortgages	355,854	348,784	2,273	528	853	3,416
Installment	137,602	136,780	733	69	—	20
Total consumer loans	1,146,924	1,130,560	5,458	813	1,347	8,746
Total loans, excluding covered loans	7,130,940	7,080,110	16,329	2,883	2,743	28,875
Covered loans	30,775	29,670	376	174	—	555
Total loans	$7,161,715	$7,109,780	$16,705	$3,057	$2,743	$29,430
As of December 31, 2014						
Commercial and industrial	$2,253,556	$2,225,507	$4,882	$205	$269	$22,693
Agricultural	358,249	355,955	1,934	—	—	360
Commercial real estate:						
Office	494,637	489,915	939	—	—	3,783
Retail	452,225	446,702	288	76	413	4,746
Industrial	531,517	525,955	979	—	173	4,410
Multi-family	564,421	561,436	1,261	83	887	754
Construction	204,236	197,255	—	—	—	6,981
Other commercial real estate	887,897	875,080	4,976	438	433	6,970
Total commercial real estate	3,134,933	3,096,343	8,443	597	1,906	27,644
Total corporate loans	5,746,738	5,677,805	15,259	802	2,175	50,697
Home equity	543,185	533,738	2,361	145	651	6,290
1-4 family mortgages	291,463	285,531	1,947	166	878	2,941
Installment	76,032	75,423	506	60	—	43
Total consumer loans	910,680	894,692	4,814	371	1,529	9,274
Total loans, excluding covered loans	6,657,418	6,572,497	20,073	1,173	3,704	59,971

Covered loans	79,435	65,682	2,565	5,002	—	6,186
Total loans	$6,736,853	$6,638,179	$22,638	$6,175	$3,704	$66,157

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

Table 14
Non-Performing Assets and Past Due Loans
(Dollar amounts in thousands)

	As of December 31,				
	2015	2014	2013	2012	2011
Non-performing assets, excluding covered loans and covered OREO					
Non-accrual loans	$28,875	$59,971	$59,798	$84,534	$187,325
90 days or more past due loans	2,883	1,173	3,708	8,689	9,227
Total non-performing loans	31,758	61,144	63,506	93,223	196,552
Accruing TDRs	2,743	3,704	23,770	6,867	17,864
OREO	27,349	26,898	32,473	39,953	33,975
Total non-performing assets	$61,850	$91,746	$119,749	$140,043	$248,391
30-89 days past due loans	$16,329	$20,073	$20,742	$22,666	$27,495
Non-accrual loans to total loans	0.40 %	0.90 %	1.07 %	1.63 %	3.68 %
Non-performing loans to total loans	0.45 %	0.92 %	1.14 %	1.80 %	3.86 %
Non-performing assets to loans plus OREO	0.86 %	1.37 %	2.13 %	2.68 %	4.85 %
Non-performing covered loans and covered OREO [(1)]					
Non-accrual loans	$555	$6,186	$20,942	$14,182	$19,879
90 days or more past due loans	174	5,002	18,081	31,447	43,347
Total non-performing loans	729	11,188	39,023	45,629	63,226
OREO	433	8,068	8,863	13,123	23,455
Total non-performing assets	$1,162	$19,256	$47,886	$58,752	$86,681
30-89 days past due loans	$376	$2,565	$2,232	$6,514	$4,232
Total non-performing assets					
Non-accrual loans	$29,430	$66,157	$80,740	$98,716	$207,204
90 days or more past due loans	3,057	6,175	21,789	40,136	52,574
Total non-performing loans	32,487	72,332	102,529	138,852	259,778
Accruing TDRs	2,743	3,704	23,770	6,867	17,864
OREO	27,782	34,966	41,336	53,076	57,430
Total non-performing assets	$63,012	$111,002	$167,635	$198,795	$335,072
30-89 days past due loans	$16,705	$22,638	$22,974	$29,180	$31,727
Non-accrual loans to total loans	0.41 %	0.98 %	1.41 %	1.83 %	3.87 %
Non-performing loans to total loans	0.45 %	1.07 %	1.79 %	2.58 %	4.86 %
Non-performing assets to loans plus OREO	0.88 %	1.64 %	2.91 %	3.65 %	6.20 %
Interest income not recognized in the financial statements related to non-accrual loans for 2015					$3,086

(1) Due to the impact of protection provided by the FDIC Agreements that substantially mitigate the risk of loss, covered loans and covered OREO are separated in this table and excluded from these metrics. Past due covered loans in the tables above are determined by borrower performance compared to contractual terms, but are generally considered accruing loans since they continue to perform in accordance with our

expectations of cash flows. For a discussion of covered loans, see Notes 1 and 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Non-performing Assets

As of December 31, 2015, non-performing assets, excluding covered loans and covered OREO, decreased by $29.9 million, or 32.6%, from December 31, 2014, due mainly to lower levels of non-accrual loans. Non-performing assets, excluding covered loans and covered OREO, to total loans plus OREO improved to 0.86% as of December 31, 2015 compared to 1.37% as of December 31, 2014 and 2.13% as of December 31, 2013. The continued improvement in non-performing assets and the related credit metrics reflects management's ongoing commitment to credit remediation.

Non-performing assets, excluding covered loans and covered OREO, decreased by $28.0 million, or 23.4%, from December 31, 2013 to December 31, 2014. This decrease was driven primarily by the return of three TDRs totaling $20.7 million to performing status, sales of OREO properties, and a decline in 90 days or more past due loans.
As of December 31, 2013, non-performing assets, excluding covered loans and covered OREO, declined 14.5% from December 31, 2012. Improvement in non-performing assets and related credit metrics resulted primarily from management's focus on credit remediation.
The significant decrease in non-performing assets, excluding covered loans and covered OREO, from December 31, 2011 to December 31, 2012 was due mainly to a decline in non-accrual loans, which reflects the aggressive remediation actions taken by management during 2012, including bulk loan sales.
Non-accrual Loans
Non-accrual loans, excluding covered loans, declined to $28.9 million as of December 31, 2015 from $60.0 million as of December 31, 2014. The improvement in non-accrual loans related primarily to the final resolution of a large commercial loan relationship originally identified in the second half of 2014, for which a specific reserve was then established. In addition, the transfer of various non-accrual corporate relationships to OREO during 2015 contributed to the decrease.
Non-accrual loans, excluding covered loans, were consistent as of December 31, 2014 compared to December 31, 2013.
The reclassification of two corporate loan relationships totaling $19.3 million from non-accrual to accruing TDR status drove the decline in non-accrual loans from December 31, 2012 to December 31, 2013.
The decrease in non-accrual loans from December 31, 2011 to December 31, 2012 resulted from bulk loan sales, payments, charge-offs, and transfers to OREO, which more than offset the amount of loans downgraded from performing to non-accrual status during 2012.

TDRs

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

Table 15
TDRs by Type
(Dollar amounts in thousands)

	As of December 31,					
	2015		2014		2013	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
Commercial and industrial	5	$1,344	7	$19,068	10	$8,659
Commercial real estate:						
Retail	—	—	1	413	2	624
Industrial	1	164	1	173	3	9,647
Multi-family	3	784	5	1,119	5	1,291
Other commercial real estate	3	340	5	616	7	4,617
Total commercial real estate loans	7	1,288	12	2,321	17	16,179
Total corporate loans	12	2,632	19	21,389	27	24,838
Home equity	17	1,161	17	1,157	18	1,299
1-4 family mortgages	11	1,274	10	1,062	14	1,716
Total consumer loans	28	2,435	27	2,219	32	3,015
Total TDRs	40	$5,067	46	$23,608	59	$27,853
Accruing TDRs	23	$2,743	29	$3,704	39	$23,770
Non-accrual TDRs	17	2,324	17	19,904	20	4,083
Total TDRs	40	$5,067	46	$23,608	59	$27,853
Year-to-date charge-offs on TDRs		$2,687		$8,457		$1,880
Specific reserves related to TDRs		758		1,765		1,952

As of December 31, 2015, TDRs totaled $5.1 million, decreasing $18.5 million, or 78.5%, from December 31, 2014. The December 31, 2015 total includes $2.7 million in loans that are accruing interest, with the majority restructured at market terms. After a sufficient period of performance under the modified terms, the loans restructured at market rates will be reclassified to performing status.

The decline in accruing TDRs from December 31, 2014 resulted primarily from payoffs.

As of December 31, 2015, non-accrual TDRs totaled $2.3 million compared to $19.9 million as of December 31, 2014. The decrease was driven primarily by the final resolution of a large commercial loan relationship originally identified in the second half of 2014. TDRs are reported as non-accrual if they are not performing in accordance with their modified terms or they have not yet exhibited sufficient performance under their modified terms.

Performing Potential Problem Loans

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

Table 16

Performing Potential Problem Loans

(Dollar amounts in thousands)

	December 31, 2015			December 31, 2014		
	Special Mention (1)	Substandard (2)	Total (3)	Special Mention (1)	Substandard (2)	Total (3)
Commercial and industrial	$86,263	$52,590	$138,853	$84,615	$30,809	$115,424
Agricultural	—	5,562	5,562	294	—	294
Commercial real estate:						
Office, retail, and industrial	32,463	35,788	68,251	38,718	32,251	70,969
Multi-family	5,742	3,970	9,712	5,951	3,774	9,725
Construction	4,678	9,803	14,481	5,776	12,487	18,263
Other commercial real estate	13,179	13,654	26,833	32,225	19,407	51,632
Total commercial real estate	56,062	63,215	119,277	82,670	67,919	150,589
Total performing potential problem loans	$142,325	$121,367	$263,692	$167,579	$98,728	$266,307
Performing potential problem loans to corporate loans	2.38 %	2.03 %	4.41 %	2.92 %	1.72 %	4.63 %

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

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

(3) Total performing potential problem loans excludes $862,000 of accruing TDRs as of December 31, 2015 and $1.8 million of accruing TDRs as of December 31, 2014.

Performing potential problem loans totaled $263.7 million, or 4.41% of corporate loans, as of December 31, 2015, compared to $266.3 million, or 4.63% of corporate loans, as of December 31, 2014.

OREO

OREO consists of properties acquired as the result of borrower defaults on loans. OREO, excluding covered OREO, was $27.3 million as of December 31, 2015, compared to $26.9 million as of December 31, 2014. A discussion of our accounting policies for OREO is contained in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 17
OREO Properties by Type
(Dollar amounts in thousands)

	As of December 31,		
	2015	2014	2013
Single-family homes	$3,532	$2,433	$2,257
Land parcels:			
Raw land	1,464	1,917	4,037
Farm land	—	923	—
Commercial lots	9,207	9,295	11,649
Single-family lots	1,719	1,279	3,101
Total land parcels	12,390	13,414	18,787
Multi-family units	426	758	346
Commercial properties	11,001	10,293	11,083
Total OREO, excluding covered OREO	27,349	26,898	32,473
Covered OREO	433	8,068	8,863
Total OREO	$27,782	$34,966	$41,336

OREO Activity

A rollforward of OREO balances for the years ended December 31, 2015 and 2014 is presented in the following table.

Table 18
OREO Rollforward
(Dollar amounts in thousands)

	Years Ended December 31,					
	2015			2014		
	OREO	Covered OREO	Total	OREO	Covered OREO	Total
Beginning balance	$26,898	$8,068	$34,966	$32,473	$8,863	$41,336
Transfers from loans	12,703	801	13,504	8,145	9,934	18,079
Acquired	515	—	515	1,244	—	1,244
Proceeds from sales	(10,173)	(8,399)	(18,572)	(11,513)	(10,855)	(22,368)
Gains on sales of OREO	1,105	211	1,316	1,051	186	1,237
OREO valuation adjustments	(3,699)	(248)	(3,947)	(4,502)	(60)	(4,562)
Ending Balance	$27,349	$433	$27,782	$26,898	$8,068	$34,966

Allowance for Credit Losses

Methodology for the Allowance for Credit Losses

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

Acquired loans are recorded at fair value, which incorporates credit risk, at the date of acquisition. No allowance for credit losses is recorded on the acquisition date. As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses is established as necessary to reflect credit deterioration. In addition, certain acquired loans that have renewed subsequent to their respective acquisition dates are no longer classified as acquired loans. Instead, they are included with our loan population that is allocated an allowance in accordance with our allowance for loan losses methodology.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk ratings by regulatory authorities. Management believes that the allowance for credit losses is an appropriate estimate of credit losses inherent in the loan portfolio as of December 31, 2015.

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

An allowance for credit losses is established on loans originated by the Bank, acquired loans, and covered loans. Additional discussion regarding acquired and covered loans can be found in Notes 1 and 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. The following table provides additional details related to acquired loans, the allowance for credit losses as related to acquired loans and the remaining acquisition adjustment associated with acquired loans as of and for the years ended December 31, 2015 and 2014.

Table 19
Allowance for Credit Losses and Acquisition Adjustment
(Dollar amounts in thousands)

	Loans and Covered Loans, Excluding Acquired Loans	Acquired Loans [1]	Total
Year Ended December 31, 2015			
Beginning balance	$74,510	$—	$74,510
Net charge-offs	(19,981)	(235)	(20,216)
Provision for loan and covered loan losses	18,739	1,822	20,561
Ending balance	$73,268	$1,587	$74,855
As of December 31, 2015			
Total loans	$6,619,539	$542,176	$7,161,715
Remaining acquisition adjustment [2]	N/A	17,676	17,676
Allowance for credit losses to total loans	1.11%	0.29%	1.05%
Remaining acquisition adjustment to acquired loans	N/A	3.26%	N/A
Year Ended December 31, 2014			
Beginning balance	$87,121	$—	$87,121
Net charge-offs	(31,979)	—	(31,979)
Provision for loan and covered loan losses	19,368	—	19,368
Ending balance	$74,510	$—	$74,510
As of December 31, 2014			
Total loans	$6,018,591	$718,262	$6,736,853
Remaining acquisition adjustment [2]	N/A	24,737	24,737
Allowance for credit losses to total loans	1.24%	N/A	1.11%
Remaining acquisition adjustment to acquired loans	N/A	3.44%	N/A

N/A - Not applicable.

(1) These amounts and ratios relate to the loans acquired in the acquisitions completed during 2014 and 2015.

(2) The remaining acquisition adjustment consists of $8.5 million and $9.2 million relating to PCI and non-purchased credit impaired ("Non-PCI") loans, respectively, as of December 31, 2015, and $11.2 million and $13.5 million relating to PCI and Non-PCI loans, respectively, as of December 31, 2014.

Excluding acquired loans, the allowance for credit losses to total loans was 1.11% as of December 31, 2015. The acquisition adjustment declined by $7.1 million during the year ended December 31, 2015, due primarily to $9.0 million accreted into interest income, partially offset by a $3.3 million acquisition adjustment related to the Peoples transaction recorded in the fourth quarter of 2015. This activity resulted in a remaining acquisition adjustment as a percent of acquired loans of 3.26% as of December 31, 2015. Acquired loans that are renewed at market terms are no longer classified as acquired loans. These loans totaled $61.6 million as of December 31, 2015 and are included in loans and covered loans, excluding acquired loans, in the table above and allocated an allowance in accordance with our allowance for loan losses methodology. In addition, during the year ended December 31, 2015, an allowance of $1.6 million was established on acquired loans.

Table 20
Allowance for Credit Losses and
Summary of Credit Loss Experience
(Dollar amounts in thousands)

	Years ended December 31,				
	2015	2014	2013	2012	2011
Change in allowance for credit losses					
Beginning balance	$74,510	$87,121	$102,812	$121,962	$145,072
Loan charge-offs:					
Commercial, industrial, and agricultural	15,885	17,424	12,094	64,668	32,750
Office, retail, and industrial	2,887	7,345	4,744	34,968	8,193
Multi-family	545	943	1,029	3,361	14,584
Construction	136	1,052	1,916	27,811	20,211
Other commercial real estate	2,643	4,834	4,784	36,474	15,396
Consumer	4,187	7,574	9,414	10,910	10,531
Total loan charge-offs	26,283	39,172	33,981	178,192	101,665
Recoveries of loan charge-offs:					
Commercial, industrial, and agricultural	2,573	3,800	3,797	3,393	3,493
Office, retail, and industrial	467	497	228	577	79
Multi-family	15	87	584	275	410
Construction	350	166	1,032	451	2,964
Other commercial real estate	1,993	1,727	1,646	125	508
Consumer	1,183	729	1,071	784	430
Total recoveries of loan charge-offs	6,581	7,006	8,358	5,605	7,884
Net loan charge-offs, excluding covered loan charge-offs	19,702	32,166	25,623	172,587	93,781
Net covered loan charge-offs (recoveries)	514	(187)	4,575	4,615	9,911
Net loan and covered loan charge-offs	20,216	31,979	30,198	177,202	103,692
Provision for loan and covered loan losses:					
Provision for loan losses	26,226	24,688	11,185	142,364	69,682
Provision for covered loan losses	(5,074)	(5,520)	5,072	15,688	10,900
Total provision for loan and covered loan losses	21,152	19,168	16,257	158,052	80,582
(Decrease) increase in reserve for unfunded commitments [(1)]	(591)	200	(1,750)	—	—
Total provision for loan and covered loan losses and other expense	20,561	19,368	14,507	158,052	80,582
Ending balance	$74,855	$74,510	$87,121	$102,812	$121,962

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

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	Years ended December 31, 2015		2014		2013		2012		2011	
Allowance for credit losses										
Allowance for loan losses	$71,992		$65,468		$72,946		$87,384		$118,473	
Allowance for covered loan losses	1,638		7,226		12,559		12,062		989	
Total allowance for loan and covered loan losses	73,630		72,694		85,505		99,446		119,462	
Reserve for unfunded commitments	1,225		1,816		1,616		3,366		2,500	
Total allowance for credit losses	$74,855		$74,510		$87,121		$102,812		$121,962	
Allowance for credit losses to loans [1]	1.05	%	1.11	%	1.52	%	1.91	%	2.28	%
Allowance for credit losses to non-accrual loans [2]	253.57	%	112.19	%	124.69	%	107.35	%	64.58	%
Allowance for credit losses to non-performing loans [2]	230.55	%	110.04	%	117.41	%	97.35	%	61.55	%
Average loans	$6,858,193		$6,109,928		$5,475,110		$5,435,670		$5,421,943	
Net loan charge-offs to average loans	0.29	%	0.52	%	0.55	%	3.26	%	1.91	%

(1) Acquired loans are recorded at fair value as of the acquisition date with no allowance for credit losses being established. Included within total loans are acquired loans which totaled $542.2 million as of December 31, 2015 and $718.3 million as of December 31, 2014. These loans have an allowance for loan loss of $1.6 million as of December 31, 2015. In addition, there was a remaining acquisition adjustment of $17.7 million as of December 31, 2015 and $24.7 million as of December 31, 2014. This acquisition adjustment represents the difference between the contractual loan balances and the carrying value of these loans.

(2) These amounts and ratios exclude covered loans. For a discussion of covered loans, see Note 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Activity in the Allowance for Credit Losses

The allowance for credit losses was $74.9 million as of December 31, 2015, consistent with December 31, 2014, and represented 1.05% of total loans compared to 1.11% as of December 31, 2014.

The provision for loan and covered loan losses was $21.2 million for 2015 compared to $19.2 million for 2014 and $16.3 million for 2013. The provision for loan and covered loan losses of $158.1 million for 2012 was elevated due to additional provision recorded as a result of bulk loan sales completed in 2012. The decrease in covered provision of $5.1 million during 2015 and $5.5 million during 2014 resulted from the continued decline in the portfolio. In addition, the reclassification of covered loans due to the conclusion of the FDIC Agreements related to non-residential mortgage loans impacted the covered provision during 2015.

Net loan charge-offs to average loans declined to 0.29% for 2015 compared to 0.52% for 2014. The significant improvement since 2012 reflects management's continued efforts to remediate problem credits.

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

Allocation of the Allowance for Credit Losses
Table 21
Allocation of Allowance for Credit Losses
(Dollar amounts in thousands)

	As of December 31,									
	2015	% of Total Loans (1)	2014	% of Total Loans (1)	2013	% of Total Loans (1)	2012	% of Total Loans (1)	2011	% of Total Loans (1)
Commercial, industrial, and agricultural	$37,074	40.8	$29,458	39.3	$30,381	38.6	$36,761	36.7	$46,017	33.5
Commercial real estate:										
Office, retail, and industrial	13,116	19.6	10,992	22.2	10,405	24.2	11,432	25.6	16,012	25.5
Multi-family	2,462	7.4	2,249	8.4	2,017	6.0	3,575	5.5	5,067	5.7
Construction	1,533	3.0	2,769	3.1	6,712	3.3	10,241	3.6	17,935	4.9
Other commercial real estate	6,661	13.1	8,841	13.3	11,187	14.5	14,699	14.9	21,099	17.4
Total commercial real estate	23,772	43.1	24,851	47.0	30,321	48.0	39,947	49.6	60,113	53.5
Consumer	12,371	16.1	12,975	13.7	13,860	13.4	14,042	13.7	14,843	13.0
Total, excluding allowance for covered loan losses	73,217	100.0	67,284	100.0	74,562	100.0	90,750	100.0	120,973	100.0
Covered loans	1,638		7,226		12,559		12,062		989	
Total allowance for credit losses	$74,855		$74,510		$87,121		$102,812		$121,962	

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

The allowance for credit losses remained consistent from $74.5 million as of December 31, 2014 compared to $74.9 million as of December 31, 2015. This stability in the allowance for credit losses reflects the sustained improvement in our non-performing loan levels and the related credit metrics. The decline in the allowance for covered loan losses from 2014 was driven by the continued decline in the portfolio and the reclassification of covered loans due to the conclusion of the FDIC Agreements related to non-residential mortgage loans.

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

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

management's focus on credit remediation.
During 2012, declines in non-accrual and performing potential problem loans from accelerated credit remediation actions, including the impact of bulk loan sales, resulted in improved credit metrics and a decline in our estimate of credit losses inherent in the loan portfolio. The allowance for covered loan losses increased $11.1 million from 2011 to reflect the difference between the carrying value and the discounted present value of the expected future cash flows of covered loans.

INVESTMENT IN BANK-OWNED LIFE INSURANCE

We previously purchased life insurance policies on the lives of certain directors and officers and are the sole owner and beneficiary of the policies. We invested in these BOLI policies to provide an efficient form of funding for long-term retirement and other employee benefit costs. Therefore, our BOLI policies are intended to be long-term investments to provide funding for long-term liabilities. We record these BOLI policies as a separate line item in the Consolidated Statements of Financial Condition at each policy's respective CSV with changes recorded as a component of noninterest income in the Consolidated Statements of Income. As of December 31, 2015, the CSV of BOLI assets totaled $209.6 million. Income and proceeds for BOLI policies are not subject to income taxation.

As of December 31, 2015, 36.0% of our total BOLI portfolio is invested in general account life insurance distributed among eleven insurance carriers, all of which carry investment grade ratings. This general account life insurance typically includes a feature guaranteeing minimum returns. The remaining 64.0% is in separate account life insurance, which is managed by third party investment advisors under pre-determined investment guidelines. Stable value protection is a feature available for separate account life insurance policies that is designed to protect a policy's CSV from market fluctuations, within limits, on underlying investments. Our entire separate account portfolio has stable value protection purchased from a highly rated financial institution. To the extent fair values on individual contracts fall below 80%, the CSV of the specific contracts may be reduced or the underlying assets may be transferred to short-duration investments, resulting in lower earnings.

For the year ended December 31, 2015, we had BOLI income of $4.2 million compared to prior year BOLI income of $2.9 million.

GOODWILL

The carrying amount of goodwill was $319.0 million as of December 31, 2015 and $310.6 million as of December 31, 2014. Goodwill increased by $8.4 million from December 31, 2014, which consisted of $7.5 million related to the Peoples acquisition and a $874,000 measurement period adjustment related to finalizing the fair values of the assets acquired and liabilities assumed in the Great Lakes acquisition. For additional detail regarding goodwill, see Note 9 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Goodwill is tested annually for impairment or when events or circumstances indicate a need to perform interim tests, as described in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. During 2015, we performed our annual impairment test of goodwill at October 1, 2015 and determined that goodwill was not impaired at that date and there was no indication that goodwill was impaired as of December 31, 2015.

DEFERRED TAX ASSETS

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

Table 22
Deferred Tax Assets
(Dollar amounts in thousands)

	As of December 31,			% Change	
	2015	2014	2013	2015-2014	2014-2013
Net deferred tax assets	$86,693	$91,685	$107,624	(5.4)	(14.8)

Management assessed whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. This assessment considered whether, in the periods of reversal, the deferred tax assets can be realized through carryback to income in prior years, future reversals of existing deferred tax liabilities, and future taxable income, including taxable income resulting from the application of future tax planning strategies. The assessment also considered positive and negative evidence, including pre-tax income during the current and prior two years, actual performance compared to budget, trends in non-performing assets and performing potential problem loans, the Company's capital position, and any unsettled circumstances that could impact future earnings. Based on this

assessment, management determined that it is more likely than not that our deferred tax assets will be fully realized and no valuation allowance is required as of December 31, 2015.
Deferred tax assets decreased in 2015 and 2014 due primarily to the utilization of state net operating losses and a decrease in alternative minimum tax credit carryforwards.

FUNDING AND LIQUIDITY MANAGEMENT

Liquidity measures the ability to meet current and future cash flows as they become due. Our approach to liquidity management is to obtain funding sources at a minimum cost to meet fluctuating deposit, withdrawal, and loan demand needs. Our liquidity policy establishes parameters to maintain flexibility in responding to changes in liquidity needs over a 12-month forward-looking period, including the requirement to formulate a quarterly liquidity compliance plan for review by the Bank's Board of Directors. The compliance plan includes an analysis that measures projected needs to purchase and sell funds. The analysis incorporates a set of projected balance sheet assumptions that are updated quarterly. Based on these assumptions, we determine our total cash liquidity on hand and excess collateral capacity from pledging, unused federal funds purchased lines, and other unused borrowing capacity, such as FHLB advances, resulting in a calculation of our total liquidity capacity. Our total policy-directed liquidity requirement is to have funding sources available to cover 66.7% of non-collateralized, non-FDIC insured, non-maturity deposits. Based on our projections as of December 31, 2015, we expect to have liquidity capacity in excess of policy guidelines for the forward twelve-month period.

The liquidity needs of First Midwest Bancorp, Inc. on an unconsolidated basis (the "Parent Company") consist primarily of operating expenses, debt service payments, and dividend payments to our stockholders, which totaled $61.2 million for the year ended December 31, 2015. The primary source of liquidity for the Parent Company is dividends from subsidiaries. The Parent Company had $47.8 million in junior subordinated debentures, $38.5 million in subordinated notes, $114.9 million in senior notes, and cash and interest-bearing deposits of $119.7 million as of December 31, 2015. The Parent Company has the ability to enhance its liquidity position by raising capital or incurring debt.

Total deposits and borrowed funds as of December 31, 2015 are summarized in Notes 10 and 11 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. The following table provides a comparison of average funding sources over the last three years. We believe that average balances, rather than period-end balances, are more meaningful in analyzing funding sources because of the normal fluctuations that may occur on a daily or monthly basis within funding categories.

Table 23
Funding Sources - Average Balances
(Dollar amounts in thousands)

	Years Ended December 31,						% Change	
	2015	% of Total	2014	% of Total	2013	% of Total	2015-2014	2014-2013
Demand deposits	$2,479,072	29.3	$2,137,778	28.3	$1,889,247	26.2	16.0	13.2
Savings deposits	1,463,168	17.3	1,222,292	16.2	1,126,561	15.6	19.7	8.5
NOW accounts	1,390,616	16.5	1,243,186	16.5	1,170,928	16.2	11.9	6.2
Money market accounts	1,561,432	18.5	1,392,367	18.5	1,306,625	18.1	12.1	6.6
Core deposits	6,894,288	81.6	5,995,623	79.5	5,493,361	76.1	15.0	9.1
Time deposits	1,185,730	14.0	1,195,796	15.8	1,286,700	17.8	(0.8)	(7.1)
Brokered deposits	16,118	0.2	16,086	0.2	20,188	0.3	0.2	(20.3)
Total time deposits	1,201,848	14.2	1,211,882	16.0	1,306,888	18.1	(0.8)	(7.3)
Total deposits	8,096,136	95.8	7,207,505	95.5	6,800,249	94.2	12.3	6.0
Securities sold under agreements to repurchase	118,838	1.4	106,072	1.4	90,891	1.3	12.0	16.7
Federal funds purchased	18	—	82	—	5	—	(78.0)	N/M
FHLB advances	32,176	0.4	43,405	0.6	114,565	1.6	(25.9)	(62.1)
Total borrowed funds	151,032	1.8	149,559	2.0	205,461	2.9	1.0	(27.2)

Senior and subordinated debt	201,041	2.4	191,776	2.5	212,896	2.9	4.8	(9.9	)
Total funding sources	$8,448,209	100.0	$7,548,840	100.0	$7,218,606	100.0	11.9	4.6	

N/M – Not meaningful.

Average Funding Sources

Total average funding sources of $8.4 billion for 2015 increased by $899.4 million, or 11.9%, from 2014, due primarily to the full year impact of the deposits assumed in the Popular and Great Lakes acquisitions. These acquisitions further strengthened our core deposit base.

For 2014, the $330.2 million increase in total average funding sources from 2013 resulted mainly from deposits assumed in the Popular and Great Lakes acquisitions, which more than offset the reduction in higher costing time deposits, borrowed funds, and senior and subordinated debt.

Time Deposits

Table 24

Maturities of Time Deposits Greater Than $100,000

(Dollar amounts in thousands)

	Total
Three months or less	$85,893
Greater than three months to six months	68,378
Greater than six months to twelve months	107,858
Greater than twelve months	136,761
Total	$398,890

Borrowed Funds

Table 25

Borrowed Funds

(Dollar amounts in thousands)

	2015		2014		2013	
	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %
At period-end:						
Securities sold under agreements to repurchase	$155,196	0.17	$137,994	0.05	$109,792	0.03
Federal funds purchased	—	—	—	—	—	—
FHLB advances	9,900	0.40	—	—	114,550	1.34
Total borrowed funds	$165,096	0.18	$137,994	0.03	$224,342	0.70
Average for the year-to-date period:						
Securities sold under agreements to repurchase	$118,838	0.07	$106,072	0.04	$90,891	0.03
Federal funds purchased	18	—	82	—	5	—
FHLB advances	32,176	6.93	43,405	1.23	114,565	1.38
Total borrowed funds	$151,032	1.53	$149,559	0.38	$205,461	0.78
Maximum amount outstanding at the end of any day during the period:						
Securities sold under agreements to repurchase	$163,982		$149,067		$110,797	
Federal funds purchased	1,300		25,000		2,000	
FHLB advances	62,500		114,550		114,581	

Average borrowed funds of $151.0 million for 2015 was consistent with 2014. The increase in the weighted-average rate on average FHLB advances for the year-to-date period was impacted by $200.0 million of off-balance sheet interest rate swaps which began in the second half of 2015 at a rate of 2.17%. For a detailed discussion of interest rate swaps, see Note 20 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Average borrowed funds totaled $149.6 million for 2014, decreasing $55.9 million, or 27.2%, from 2013 due to the prepayment of $114.6 million of FHLB advances with a weighted-average rate of 1.33% during the second quarter of 2014. This decline was partially offset by higher levels of securities sold under agreements to repurchase.
We make interchangeable use of repurchase agreements, FHLB advances, and federal funds purchased to supplement deposits. Securities sold under agreements to repurchase generally mature within 1 to 90 days from the transaction date.

Senior and Subordinated Debt

Average senior and subordinated debt increased $9.3 million, or 4.8%, from 2014 to 2015. This increase resulted from the full year impact of $14.4 million of junior subordinated debentures acquired in the Great Lakes transaction during the fourth quarter of 2014.
Average senior and subordinated debt decreased $21.1 million, or 9.9%, from 2013 to 2014. This decline resulted from the full-year impact of the repurchase and retirement of $24.0 million of junior subordinated debentures during the fourth quarter of 2013, partially offset by the addition of $14.4 million of junior subordinated debentures acquired in the Great Lakes transaction during the fourth quarter of 2014. See Note 12 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for additional discussion regarding these transactions.

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

Through our normal course of operations, we enter into certain contractual obligations and other commitments. These obligations generally relate to the funding of operations through deposits or debt issuances, as well as leases for premises and equipment. As a financial services provider, we routinely enter into commitments to extend credit. While contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn. These commitments are subject to the same credit policies and approval process used for our loans.
The following table presents our significant fixed and determinable contractual obligations and significant commitments as of December 31, 2015. Further discussion of the nature of each obligation is included in the referenced note of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 26
Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Items
(Dollar amounts in thousands)

		Payments Due In				
	Note Reference	One Year or Less	Greater Than One to Three Years	Greater Than Three to Five Years	Greater Than Five Years	Total
Core deposits (no stated maturity)	10	$6,944,272	$—	$—	$—	$6,944,272
Time deposits	10	754,417	233,373	165,420	256	1,153,466
Borrowed funds	11	165,096	—	—	—	165,096
Subordinated debt	12	153,390	—	—	47,818	201,208
Operating leases	8	5,119	8,947	4,220	11,287	29,573
Pension liability	16	11,175	12,807	9,779	19,363	53,124
Uncertain tax positions liability	15	N/M	N/M	N/M	N/M	1,408
Commitments to extend credit	21	N/M	N/M	N/M	N/M	2,224,541
Letters of credit	21	N/M	N/M	N/M	N/M	100,610

N/M – Not meaningful.

MANAGEMENT OF CAPITAL

Capital Measurements

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

The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve for the Bank to be categorized as "well-capitalized." The information presented as of December 31, 2015 is based on the Basel III Capital Rules, and the information presented as of December 31, 2014 is based on the prior capital rules in effect at that time. We manage our capital ratios for both the Company and the Bank to consistently maintain these measurements in excess of the Federal Reserve's minimum levels to be considered "well-capitalized," which is the highest capital category established. All regulatory mandated ratios for characterization as "well-capitalized" were exceeded as of December 31, 2015 and December 31, 2014.

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

Table 27
Capital Measurements
(Dollar amounts in thousands)

	As of December 31,				As of December 31, 2015				
	2015		2014		Regulatory Minimum For Well-Capitalized		Excess Over Required Minimums		
Bank regulatory capital ratios [1]:									
Total capital to risk-weighted assets	11.02	%	12.30	%	10.00	%	10	%	$86,193
Tier 1 capital to risk-weighted assets	10.13	%	11.32	%	8.00	%	27	%	$179,942
Tier 1 common capital to risk-weighted assets	10.13	%	N/A		6.50	%	56	%	$306,389
Tier 1 leverage to average assets	9.09	%	9.76	%	5.00	%	82	%	$384,385
Company regulatory capital ratios [1] [2]:									
Total capital to risk-weighted assets	11.15	%	11.23	%	N/A		N/A		N/A
Tier 1 capital to risk-weighted assets	10.28	%	10.19	%	N/A		N/A		N/A
Tier 1 common capital to risk-weighted assets	9.73	%	N/A		N/A		N/A		N/A
Tier 1 leverage to average assets	9.40	%	9.03	%	N/A		N/A		N/A
Reconciliation of Company capital components to GAAP:									
Total stockholder's equity	$1,146,268		$1,100,775						
Goodwill and other intangible assets	(339,277	)	(334,199	)					
Tangible common equity	806,991		766,576						
Accumulated other comprehensive loss	28,389		15,855						
Tangible common equity, excluding accumulated other comprehensive loss	$835,380		$782,431						
Total assets	$9,732,676		$9,445,139						
Goodwill and other intangible assets	(339,277	)	(334,199	)					
Tangible assets	$9,393,399		$9,110,940						
Risk-weighted assets	$8,687,864		$7,876,754						
Company tangible common equity ratios [2][3]:									
Tangible common equity to tangible assets	8.59	%	8.41	%	N/A		N/A		N/A
Tangible common equity, excluding accumulated other comprehensive loss, to tangible assets	8.89	%	8.59	%	N/A		N/A		N/A
Tangible common equity to risk-weighted assets	9.29	%	9.73	%	N/A		N/A		N/A

N/A - Not applicable.

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

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

(3) TCE represents common stockholders' equity less goodwill and identifiable intangible assets. In management's view, TCE measures are meaningful to the Company, as well as analysts and investors, in assessing the Company's use of equity and in facilitating comparisons with competitors.

The Company's tier 1 capital ratios rose from December 31, 2014 due to strong earnings and an increase in allowable deferred tax assets, partially offset by a 10.3% increase in risk-weighted assets and a 6.9% increase in average assets. These factors, combined with a decline in subordinated debt qualifying for capital treatment, caused an eight basis point drop in the Company's total capital ratio. The Bank's regulatory ratios exceeded all regulatory mandated ratios for characterization as "well-capitalized" as of December 31, 2015. The year-over-year decline in the Bank's ratios reflect significant growth in risk-weighted assets and the pass through of $127.0 million of dividends to the Company.
The Board reviews the Company's capital plan each quarter, considering the current and expected operating environment as well as an evaluation of various capital alternatives. For further details of the regulatory capital requirements and ratios as of December 31, 2015 and 2014 for the Company and the Bank, see Note 19 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Stock Repurchase Programs

Shares repurchased are held as treasury stock and are available for issuance in connection with our qualified and nonqualified retirement plans, share-based compensation plans, and other general corporate purposes. We reissued 154,125 treasury shares in 2015 and 165,104 treasury shares in 2014 to fund these plans.

Dividends

The Company's Board declared stock dividends of $0.01 per share for the first quarter of 2013 and $0.04 per share for the second quarter of 2013 and the third quarter of 2013. The Company increased the quarterly dividend to $0.07 per share for the fourth quarter of 2013 and the first quarter of 2014, and to $0.08 per share for each of the quarters from the second quarter of 2014 through the fourth quarter of 2014. The Company increased the quarterly dividend to $0.09 per share for each of the quarters from the first quarter of 2015 through the fourth quarter of 2015.

QUARTERLY EARNINGS
Table 28
Quarterly Earnings Performance [1]
(Dollar amounts in thousands, except per share data)

	2015				2014			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income	$84,667	$84,292	$84,556	$82,469	$81,309	$76,862	$72,003	$69,690
Interest expense	(6,655)	(6,390)	(5,654)	(5,687)	(5,490)	(5,831)	(5,696)	(5,995)
Net interest income	78,012	77,902	78,902	76,782	75,819	71,031	66,307	63,695
Provision for loan and covered loan losses	(4,500)	(4,100)	(6,000)	(6,552)	(1,659)	(10,727)	(5,341)	(1,441)
Fee-based revenues	33,927	33,118	31,573	28,641	29,364	29,660	27,008	25,049
Net securities gains (losses)	822	524	515	512	(63)	2,570	4,517	1,073
Other noninterest income	1,729	1,372	1,900	1,948	1,767	4,877	(332)	1,128
Noninterest expense	(86,743)	(74,365)	(73,451)	(72,657)	(84,828)	(70,313)	(65,017)	(63,668)
Income before income tax expense	23,247	34,451	33,439	28,674	20,400	27,098	27,142	25,836
Income tax expense	(6,923)	(11,167)	(10,865)	(8,792)	(5,807)	(8,549)	(8,642)	(8,172)
Net income	$16,324	$23,284	$22,574	$19,882	$14,593	$18,549	$18,500	$17,664
Basic earnings per common share	$0.21	$0.30	$0.29	$0.26	$0.19	$0.25	$0.25	$0.24
Diluted earnings per common share	$0.21	$0.30	$0.29	$0.26	$0.19	$0.25	$0.25	$0.24
Dividends declared per common share	$0.09	$0.09	$0.09	$0.09	$0.08	$0.08	$0.08	$0.07
Return on average common equity	5.55%	8.06%	7.97%	7.15%	5.35%	6.91%	7.08%	6.97%
Return on average assets	0.66%	0.94%	0.94%	0.85%	0.63%	0.84%	0.88%	0.86%
Net interest margin – tax-equivalent	3.59%	3.58%	3.76%	3.79%	3.76%	3.72%	3.65%	3.61%

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

Net income for the fourth quarter of 2015 was impacted by valuation adjustments related to strategic branch initiatives of $8.6 million and acquisition and integration expenses of $1.4 million. Net income for the fourth, third, and second quarters of 2014 were impacted by acquisition and integration related expenses totaling $9.3 million, $3.7 million, and $830,000, respectively. Excluding the valuation adjustments and acquisition and integration related expenses, earnings per share was $0.29 for the fourth quarter of 2015. Earnings per share, excluding acquisition and integration related expenses, was $0.27, $0.28, and $0.25 for the fourth, third, and second quarters of 2014, respectively.

CRITICAL ACCOUNTING ESTIMATES

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

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

Allowance for Credit Losses

The determination of the allowance for credit losses is inherently subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, actual loss experience, and consideration of current economic trends and conditions, and other factors, all of which are susceptible to significant change. Credit exposures deemed to be uncollectible are charged-off against the allowance for loan and covered loan losses, while recoveries of amounts previously charged-off are credited to the allowance for loan and covered loan losses. Additions to the allowance for loan and covered loan losses are established through the provision for loan and covered loan losses charged to expense. The amount charged to operating expense depends on a number of factors, including historic loan growth, changes in the composition of the loan portfolio, net charge-off levels, and our assessment of the allowance for loan and covered loan losses. For additional discussion of the allowance for credit losses, see Notes 1 and 7 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Valuation of Securities

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

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

Income Taxes

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

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

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

Goodwill and Other Intangible Assets
Goodwill represents the excess of purchase price over the fair value of net assets acquired using the acquisition method of accounting. This method requires that all identifiable assets acquired and liabilities assumed in the transaction, both intangible and tangible, be recorded at their estimated fair value upon acquisition. Determining the fair value often involves estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. Goodwill is not amortized, instead, we assess the potential for impairment on an annual basis or more frequently if events and circumstances indicate that goodwill might be impaired.
Other intangible assets represent purchased assets that lack physical substance, but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. The determination of the useful lives over which an intangible asset will be amortized is subjective. Intangible assets are reviewed for impairment annually or more frequently when events or circumstances indicate that the carrying amount may not be recoverable. For additional discussion of goodwill and other intangible assets, see Notes 1 and 9 of "Notes to the Consolidated financial Statements" in Item 8 of this Form 10-K.
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
The disclosures in this item are qualified by Item 1A "Risk Factors" and the section captioned "Cautionary Statement Regarding Forward-Looking Statements" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this report, and other cautionary statements set forth elsewhere in this report.
Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is our primary market risk and is the result of repricing, basis, and option risk. Repricing risk represents timing mismatches in our ability to alter contractual rates earned on interest-earning assets or paid on interest-bearing liabilities in response to changes in market interest rates. Basis risk refers to the potential for changes in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the spread between the rate earned on a loan or investment and the rate paid to fund that investment. Option risk arises from the "embedded options" present in many financial instruments, such as loan prepayment options or deposit early withdrawal options. These provide customers opportunities to take advantage of directional changes in interest rates and could have an adverse impact on our margin performance.
We seek to achieve consistent growth in net interest income and net income while managing volatility that arises from shifts in interest rates. The Bank's Asset Liability Committee ("ALCO") oversees financial risk management by developing programs to measure and manage interest rate risks within authorized limits set by the Bank's Board of Directors. ALCO also approves the Bank's asset and liability management policies, oversees the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviews the Bank's interest rate sensitivity position. Management uses net interest income simulation modeling to analyze and capture exposure of earnings to changes in interest rates.
Net Interest Income Sensitivity
The analysis of net interest income sensitivity assesses the magnitude of changes in net interest income over a twelve-month measurement period resulting from immediate changes in interest rates using multiple rate scenarios. These scenarios include, but are not limited to, a flat or unchanged rate environment, immediate increases of 100, 200, and 300 basis points, and an immediate decrease of 100 basis points. Due to the low interest rate environment as of December 31, 2015 and 2014, management determined that an immediate decrease in interest rates greater than 100 basis points was not meaningful for this analysis.
This simulation analysis is based on expected future cash flows and repricing characteristics for balance sheet and off-balance sheet instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. In addition, this sensitivity analysis examines assets and liabilities at the beginning of the measurement period and does not assume any changes from growth or business plans over the next twelve months. Interest-earning assets and interest-bearing liabilities are assumed to re-price based on contractual terms over the twelve-month measurement period assuming an instantaneous parallel shift in interest rates

in effect at the beginning of the measurement period. The simulation analysis also incorporates assumptions based on the historical behavior of deposit rates in relation to interest rates. Because these assumptions are inherently uncertain, the simulation analysis cannot definitively measure net interest income or predict the impact of the fluctuation in interest rates on net interest income, but does provide an indication of the Company's sensitivity to changes in interest rates. Actual results may differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

Our balance sheet is asset sensitive based on repricing and maturity characteristics and simulation analysis assumptions. The Bank's current simulation analysis indicates we would benefit from rising interest rates. Interest-earning assets consist of short and long-term products. Excluding non-accrual loans, 54% of the loan portfolio consisted of fixed rate loans and 46% were floating rate loans as of December 31, 2015 compared to 49% and 51%, respectively, as of December 31, 2014. See Note 20 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for additional detail regarding interest rate swaps. As of December 31, 2015, investments, consisting of securities and interest-bearing deposits in other banks, are more heavily weighted toward fixed rate securities at 84% of the total compared to 16% for floating rate interest-bearing deposits in other banks. This compares to investments comprising 67% of fixed rate securities and 33% of floating rate interest-bearing deposits in other banks as of December 31, 2014. Fixed rate loans are most sensitive to the 3-5 year portion of the yield curve and the Bank limits its loans with maturities that extend beyond 5 years. The majority of floating rate loans are indexed to the short-term Prime or LIBOR rates. The amount of floating rate loans with active interest rate floors was $374.5 million, or 10%, of the floating rate loan portfolio as of December 31, 2015 compared to $644.6 million, or 25%, as of December 31, 2014. On the liability side of the balance sheet, 86% and 84% of deposits as of December 31, 2015 and 2014, respectively, are demand deposits or interest-bearing core deposits, which either do not pay interest or the interest rates are expected to rise at a slower pace than short-term interest rates.

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

	Immediate Change in Rates			
	+300	+200	+100	-100
December 31, 2015:				
Dollar change	$46,556	$28,038	$19,420	$(18,421)
Percent change	14.8%	8.9%	6.2%	(5.9)%
December 31, 2014:				
Dollar change	$42,922	$27,471	$12,707	$(12,748)
Percent change	14.3%	9.2%	4.2%	(4.3)%

The sensitivity of estimated net interest income to an instantaneous parallel shift in interest rates is reflected as both dollar and percent changes. This table illustrates that an instantaneous 200 basis point rise in interest rates as of December 31, 2015 would increase net interest income by $28.0 million, or 8.9%, over the next twelve months compared to no change in interest rates. This same measure was $27.5 million, or 9.2%, as of December 31, 2014. Overall, interest rate risk volatility as of December 31, 2015 was consistent compared to December 31, 2014, varying by rate scenario due to different assumptions in the rate sensitivity on interest-bearing deposit accounts. While floating rate loan balances increased, this rise in rate sensitive assets was mostly offset by the funding of loans with interest-bearing deposits in other banks, a decline in time deposits which are less rate sensitive, and the net impact of interest rate swaps. While net interest income is projected to decline in a decreasing interest rate environment, we believe the risk of a significant and sustained decrease in interest rates is minimal.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Responsibility for Financial Statements

To Our Stockholders:

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

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

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

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

February 23, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of First Midwest Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of First Midwest Bancorp, Inc. (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Chicago, Illinois
February 23, 2016

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

	As of December 31, 2015	2014
Assets		
Cash and due from banks	$114,587	$117,315
Interest-bearing deposits in other banks	266,615	488,947
Trading securities, at fair value	16,894	17,460
Securities available-for-sale, at fair value	1,306,636	1,187,009
Securities held-to-maturity, at amortized cost (fair value 2015 – $20,054; 2014 – $27,670)	23,152	26,555
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost	39,306	37,558
Loans, excluding covered loans	7,130,940	6,657,418
Covered loans	30,775	79,435
Allowance for loan and covered loan losses	(73,630)	(72,694)
Net loans	7,088,085	6,664,159
Other real estate owned ("OREO"), excluding covered OREO	27,349	26,898
Covered OREO	433	8,068
Federal Deposit Insurance Corporation ("FDIC") indemnification asset	3,903	8,452
Premises, furniture, and equipment, net	122,278	131,109
Investment in bank-owned life insurance ("BOLI")	209,601	206,498
Goodwill and other intangible assets	339,277	334,199
Accrued interest receivable and other assets	174,560	190,912
Total assets	$9,732,676	$9,445,139
Liabilities		
Noninterest-bearing deposits	$2,414,454	$2,301,757
Interest-bearing deposits	5,683,284	5,586,001
Total deposits	8,097,738	7,887,758
Borrowed funds	165,096	137,994
Senior and subordinated debt	201,208	200,869
Accrued interest payable and other liabilities	122,366	117,743
Total liabilities	8,586,408	8,344,364
Stockholders' Equity		
Common stock	882	882
Additional paid-in capital	446,672	449,798
Retained earnings	953,516	899,516
Accumulated other comprehensive loss, net of tax	(28,389)	(15,855)
Treasury stock, at cost	(226,413)	(233,566)
Total stockholders' equity	1,146,268	1,100,775
Total liabilities and stockholders' equity	$9,732,676	$9,445,139

	December 31, 2015 Preferred Shares	Common Shares	December 31, 2014 Preferred Shares	Common Shares
Par value	$—	$0.01	$—	$0.01
Shares authorized	1,000	150,000	1,000	150,000

Shares issued	—	88,228	—	88,228
Shares outstanding	—	77,952	—	77,695
Treasury shares	—	10,276	—	10,533

See accompanying notes to the consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
Interest Income			
Loans, excluding covered loans	$297,823	$256,842	$239,224
Covered loans	2,480	8,659	13,804
Investment securities – taxable	18,082	14,516	12,249
Investment securities – tax-exempt	13,861	16,716	18,644
Other short-term investments	3,738	3,131	3,326
Total interest income	335,984	299,864	287,247
Interest Expense			
Deposits	9,527	10,377	11,901
Borrowed funds	2,314	573	1,607
Senior and subordinated debt	12,545	12,062	13,607
Total interest expense	24,386	23,012	27,115
Net interest income	311,598	276,852	260,132
Provision for loan and covered loan losses	21,152	19,168	16,257
Net interest income after provision for loan and covered loan losses	290,446	257,684	243,875
Noninterest Income			
Service charges on deposit accounts	39,979	36,910	36,526
Wealth management fees	29,162	26,474	24,185
Card-based fees	26,984	24,340	21,649
Merchant servicing fees	11,739	11,260	10,953
Mortgage banking income	5,741	4,011	5,306
Other service charges, commissions, and fees	13,654	8,086	7,663
BOLI income (loss)	4,185	2,873	(11,844)
Net securities gains	2,373	8,097	34,164
Other income	2,764	4,567	4,452
Gain on termination of FHLB forward commitments	—	—	7,829
Total noninterest income	136,581	126,618	140,883
Noninterest Expense			
Salaries and wages	133,739	116,578	112,631
Retirement and other employee benefits	31,852	27,245	26,119
Net occupancy and equipment expense	38,720	35,181	31,832
Professional services	22,720	23,436	21,922
Technology and related costs	14,581	12,875	11,335
Merchant card expense	9,886	9,195	8,780
Advertising and promotions	7,606	8,159	7,754
FDIC premiums	6,017	5,824	6,438
Net OREO expense	5,281	7,075	8,547
Cardholder expense	5,243	4,251	4,021
Other expenses	21,601	20,135	17,358
Property valuation adjustments	8,581	—	—
Acquisition and integration related expenses	1,389	13,872	—
Total noninterest expense	307,216	283,826	256,737
Income before income tax expense	119,811	100,476	128,021

Income tax expense	37,747	31,170	48,715
Net income	$82,064	$69,306	$79,306
Per Common Share Data			
Basic earnings per common share	$1.05	$0.92	$1.06
Diluted earnings per common share	1.05	0.92	1.06
Weighted-average common shares outstanding	77,059	74,484	73,984
Weighted-average diluted common shares outstanding	77,072	74,496	73,994

See accompanying notes to the consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
Net income	$82,064	$69,306	$79,306
Securities available-for-sale			
Unrealized holding (losses) gains:			
Before tax	(9,824)	37,173	(2,054)
Tax effect	3,906	(14,918)	711
Net of tax	(5,918)	22,255	(1,343)
Less: reclassification of net gains included in net income:			
Before tax	2,373	8,097	34,164
Tax effect	(970)	(3,311)	(13,973)
Net of tax	1,403	4,786	20,191
Net unrealized holding (losses) gains	(7,321)	17,469	(21,534)
Derivative instruments			
Unrealized holding losses:			
Before tax	(2,233)	(1,930)	—
Tax effect	903	792	—
Net of tax	(1,330)	(1,138)	—
Unrecognized net pension costs			
Unrealized holding (losses) gains:			
Before tax	(6,570)	(9,127)	17,600
Tax effect	2,687	3,733	(7,198)
Net of tax	(3,883)	(5,394)	10,402
Total other comprehensive (loss) income	(12,534)	10,937	(11,132)
Total comprehensive income	$69,530	$80,243	$68,174

	Accumulated Unrealized 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, 2012	$1,115	$—	$(16,775)	$(15,660)
Other comprehensive (loss) income	(21,534)	—	10,402	(11,132)
Balance at December 31, 2013	(20,419)	—	(6,373)	(26,792)
Other comprehensive income (loss)	17,469	(1,138)	(5,394)	10,937
Balance at December 31, 2014	(2,950)	(1,138)	(11,767)	(15,855)
Other comprehensive loss	(7,321)	(1,330)	(3,883)	(12,534)
Balance at December 31, 2015	$(10,271)	$(2,468)	$(15,650)	$(28,389)

See accompanying notes to the consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2012	74,840	$ 858	$ 418,318	$ 786,453	$ (15,660)	$ (249,076)	$ 940,893
Net income	—	—	—	79,306	—	—	79,306
Other comprehensive loss	—	—	—	—	(11,132)	—	(11,132)
Common dividends declared ($0.16 per common share)	—	—	—	(12,019)	—	—	(12,019)
Share-based compensation expense	—	—	5,903	—	—	—	5,903
Restricted stock activity	234	—	(9,814)	—	—	8,276	(1,538)
Treasury stock issued to benefit plans	(3)	—	(114)	—	—	143	29
Balance at December 31, 2013	75,071	858	414,293	853,740	(26,792)	(240,657)	1,001,442
Net income	—	—	—	69,306	—	—	69,306
Other comprehensive income	—	—	—	—	10,937	—	10,937
Common dividends declared ($0.31 per common share)	—	—	—	(23,530)	—	—	(23,530)
Common stock issued, net of issuance costs	2,441	24	38,276	—	—	—	38,300
Share-based compensation expense	—	—	5,926	—	—	—	5,926
Restricted stock activity	176	—	(8,560)	—	—	6,585	(1,975)
Treasury stock issued to benefit plans	7	—	(137)	—	—	506	369
Balance at December 31, 2014	77,695	882	449,798	899,516	(15,855)	(233,566)	1,100,775
Net income	—	—	—	82,064	—	—	82,064
Other comprehensive loss	—	—	—	—	(12,534)	—	(12,534)
Common dividends declared ($0.36 per common share)	—	—	—	(28,064)	—	—	(28,064)
Purchase of treasury stock	(7)	—	—	—	—	(120)	(120)
Share-based compensation expense	—	—	7,242	—	—	—	7,242
Restricted stock activity	267	—	(10,236)	—	—	6,940	(3,296)
Treasury stock issued to benefit plans	(3)	—	(132)	—	—	333	201
Balance at December 31, 2015	77,952	$ 882	$ 446,672	$ 953,516	$ (28,389)	$ (226,413)	$ 1,146,268

See accompanying notes to the consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
Operating Activities			
Net income	$82,064	$69,306	$79,306
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and covered loan losses	21,152	19,168	16,257
Depreciation of premises, furniture, and equipment	13,367	12,224	11,038
Net amortization of premium on securities	4,849	8,218	9,174
Net securities gains	(2,373)	(8,097)	(34,164)
Gains on 1-4 family mortgage loan sales	(5,291)	(3,771)	(4,717)
Gain on termination of FHLB forward commitments	—	—	(7,829)
Net losses on early extinguishment of debt	—	2,059	1,034
Net losses on sales and valuation adjustments of OREO	2,631	3,325	3,908
Amortization of the FDIC indemnification asset	1,461	3,315	2,984
Net losses (gains) on sales and valuation adjustments of premises, furniture, and equipment	7,718	(3,277)	(79)
BOLI (income) loss	(4,185)	(2,873)	11,844
Net pension cost (income)	622	(959)	2,169
Share-based compensation expense	7,242	5,926	5,903
Tax expense related to share-based compensation	(1,200)	(106)	(10)
Provision for deferred income tax expense	16,897	16,215	33,467
Amortization of other intangible assets	3,920	2,889	3,278
Originations of mortgage loans held-for-sale	(158,699)	(97,535)	(40,681)
Proceeds from sales of mortgage loans held-for-sale	158,791	96,006	37,788
Net decrease (increase) in trading securities	566	(143)	(3,155)
Net decrease (increase) in accrued interest receivable and other assets	10,023	(18,015)	30,696
Net (decrease) increase in accrued interest payable and other liabilities	(1,042)	22,367	(21,859)
Net cash provided by operating activities	158,513	126,242	136,352
Investing Activities			
Proceeds from maturities, repayments, and calls of securities available-for-sale	322,764	172,001	219,458
Proceeds from sales of securities available-for-sale	93,909	27,805	78,636
Purchases of securities available-for-sale	(509,481)	(25,856)	(335,442)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	4,645	4,675	7,043
Purchases of securities held-to-maturity	(1,242)	(2,638)	(17,070)
Net (purchases) redemption of FHLB stock	(1,190)	(427)	12,071
Net increase in loans	(401,363)	(279,952)	(354,600)
Proceeds from claims on BOLI, net of premiums paid	1,082	(85)	1,394
Proceeds from sales of OREO	18,572	22,368	25,797
Proceeds from sales of premises, furniture, and equipment	1,230	3,906	1,463
Purchases of premises, furniture, and equipment	(11,269)	(14,085)	(11,030)
Net cash (paid for) received from acquisitions	(16,047)	200,645	—
Net cash (used in) provided by investing activities	(498,390)	108,357	(372,280)
Financing Activities			

Net increase (decrease) in deposit accounts	118,167	(73,244)	93,846
Net increase (decrease) in borrowed funds	25,902	(1,288)	38,358
Purchase of treasury stock	(120)	—	—
Payments for the retirement of subordinated debt	—	—	(24,094)
(Payment for) proceeds from the termination of FHLB advances and forward commitments	—	(116,609)	7,829
Cash dividends paid	(27,036)	(22,568)	(7,508)
Restricted stock activity	(2,890)	(2,781)	(1,607)
Excess tax benefit related to share-based compensation	794	912	79
Net cash provided by (used in) financing activities	114,817	(215,578)	106,903
Net (decrease) increase in cash and cash equivalents	(225,060)	19,021	(129,025)
Cash and cash equivalents at beginning of year	606,262	587,241	716,266
Cash and cash equivalents at end of year	$381,202	$606,262	$587,241

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

	Years Ended December 31,		
	2015	2014	2013
Supplemental Disclosures of Cash Flow Information:			
Income taxes paid	$25,022	$16,375	$4,945
Interest paid to depositors and creditors	24,535	23,088	27,599
Dividends declared, but unpaid	7,250	6,222	5,260
Common stock issued for acquisitions, net of issuance costs	—	38,300	—
Non-cash transfers of loans to OREO	13,504	18,079	17,965
Non-cash transfers of loans held-for-investment to loans held-for-sale	28,540	71,272	1,925
Non-cash transfer of an investment from other assets to securities available-for-sale	—	—	2,787

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Company is engaged in commercial and retail banking and offers a broad range of banking, treasury, and wealth management products and services, tailored to the needs of its commercial and industrial, commercial real estate, municipal, and consumer customers.

Basis of Presentation – The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry. The Company uses the accrual basis of accounting for financial reporting purposes. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

For the year ended December 31, 2014, the Bank acquired assets and assumed liabilities of Great Lakes Bank, National Association. The fair values assigned to these assets and liabilities were preliminary and subject to refinement after the acquisition date as new information related to acquisition date fair values became available. During the year ended December 31, 2015, the Bank obtained specific information relating to the acquisition date fair values of certain assets, which required measurement period adjustments. These adjustments were recognized in the current period in accordance with the early adoption of accounting guidance applicable to business combinations. See Note 3, "Acquisitions" for additional discussion related to these fair value adjustments.

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

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

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

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

Business Combinations – Business combinations are accounted for under the acquisition method of accounting. Assets acquired and liabilities assumed are recorded at their estimated fair values as of the date of acquisition, with any excess of the purchase price of the acquisition over the fair value of the 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 Consolidated Statements of Income from the effective date of the acquisition.

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

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

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

Trading Securities – The Company's trading securities consist of diversified investment securities held in a grantor trust under deferred compensation arrangements in which plan participants may direct amounts earned to be invested in securities other than Company stock. The accounts of the grantor trust are consolidated with the accounts of the Company in its consolidated financial statements. Trading securities are reported at fair value. Other than the securities held in the grantor trust, the Company does not carry any securities for trading purposes.
Securities Available-for-Sale – All other securities are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses, net of related deferred income taxes, recorded in stockholders' equity as a separate component of accumulated other comprehensive loss.
The historical cost of debt securities is adjusted for amortization of premiums and accretion of discounts over the estimated life of the security using the effective interest method. Amortization of premiums and accretion of discounts are included in interest income.
Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in net securities gains in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. On a quarterly basis, the Company individually assesses securities with unrealized losses to determine whether there were any events or circumstances indicating that an other-than-temporary impairment ("OTTI") has occurred. In evaluating OTTI, the Company considers many factors, including (i) the severity and duration of the impairment, (ii) the financial condition and near-term prospects of the issuer, including external credit ratings and recent downgrades for debt securities, (iii) its intent to hold the security until its value recovers, and (iv) the likelihood that it will be required to sell the security before a recovery in value, which may be at maturity. If management intends to sell the security or believes it is more likely than not that it will be required to sell the security prior to full recovery, an OTTI charge will be recognized through income as a realized loss and included in net securities gains in the Consolidated Statements of Income. If management does not expect to sell the security or believes it is not more likely than not that it will be required to sell the security prior to full recovery, the OTTI is separated into the amount related to credit deterioration, which is recognized through income as a realized loss, and the amount resulting from other factors, which is recognized in other comprehensive (loss) income.
FHLB and FRB Stock – The Company, as a member of the FHLB and FRB, is required to maintain an investment in the capital stock of the FHLB and FRB. No ready market exists for these stocks, and they have no quoted market values. The stock is redeemable at par by the FRB and FHLB and is, therefore, carried at cost and periodically evaluated for impairment.
Loans – Loans held-for-investment are loans that the Company intends to hold until they are paid in full and are carried at the principal amount outstanding, including certain net deferred loan origination fees. Interest income on loans is accrued based on principal amounts outstanding. Loan origination fees, commitment fees, and certain direct loan origination costs are deferred, and the net amount is amortized as a yield adjustment over the contractual life of the related loans or commitments and included in interest income. Fees related to standby letters of credit are amortized into fee income over the contractual life of the commitment. Other credit-related fees are recognized as fee income when earned. Loans held-for-sale are carried at the lower of aggregate cost or fair value and included in other assets in the Consolidated Statements of Financial Condition.
Acquired and Covered Loans – Covered loans consist of loans acquired by the Company in FDIC-assisted transactions, the majority of which are covered by loss share agreements with the FDIC (the "FDIC Agreements"), under which the FDIC reimburses the Company for the majority of the losses and eligible expenses related to these assets 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. 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 generally discontinued at the time the loan is 90 days past due unless the credit is sufficiently collateralized and in the process of renewal or collection.

Non-accrual Loans – Generally, corporate loans are placed on non-accrual status (i) when either principal or interest payments become 90 days or more past due unless the credit is sufficiently collateralized and in the process of renewal or collection or (ii) when an individual analysis of a borrower's creditworthiness warrants a downgrade to non-accrual regardless of past due status. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. After the loan is placed on non-accrual, 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 a TDR 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 is established as necessary to reflect credit deterioration since the acquisition date. The acquired Non-PCI allowance is based on management's evaluation of the acquired Non-PCI loan portfolio giving consideration to the current portfolio balance including the remaining acquisition adjustments, maturity dates, and overall credit quality. The allowance on acquired PCI loans is determined in the same manner as the allowance for covered loan losses, which is discussed below.

Acquired Non-PCI 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 outstanding covered PCI loans using either a probability of default/loss given default ("PD/LGD") methodology or a specific review methodology. The PD/LGD model is a loss model that estimates expected future cash flows using a probability of default curve and loss given default estimates.

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

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

OREO – OREO consists of properties acquired through foreclosure in partial or total satisfaction of defaulted loans. At initial transfer into OREO, properties are recorded at fair value, less estimated selling costs. Subsequently, OREO is carried at the lower of the cost basis or fair value, less estimated selling costs. OREO write-downs occurring at the transfer date are charged against the allowance for loan and covered loan losses, establishing a new cost basis. Subsequent to the initial transfer, the carrying values of OREO may be adjusted through a valuation allowance to reflect reductions in value resulting from new appraisals, new list prices, changes in market conditions, or changes in disposition strategies. Increases in value can be recognized through a reduction in the valuation allowance, but may not exceed the established cost basis. These valuation adjustments, along with expenses related to maintenance of the properties, are included in net OREO expense in the Consolidated Statements of Income.

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

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

Depreciable Assets – Premises, furniture, and equipment are stated at cost, less accumulated depreciation. Depreciation expense is determined by the straight-line method over the estimated useful lives of the assets. Useful lives range from 3 to 10 years for furniture and equipment and 25 to 40 years for premises. Leasehold improvements are amortized over the shorter of the life of the asset or the lease term. Gains on dispositions are included in other noninterest income and losses on dispositions are included in other noninterest expense in the Consolidated Statements of Income. Maintenance and repairs are charged to operating expenses as incurred, while improvements that extend the useful life of assets are capitalized and depreciated over the estimated remaining life. Certain assets, such as buildings and land, that the Company intends to sell and meets held-for-sale criteria are transferred into the held-for-sale category at the lower of their fair value, as determined by a current appraisal, or their recorded investment.

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

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

Goodwill and Other Intangible Assets – Goodwill represents the excess of the purchase price of the acquisition over the fair value of the net tangible and intangible assets acquired using the acquisition method of accounting. Goodwill is not amortized. Instead, impairment testing is conducted annually as of October 1 or more often if events or circumstances between annual tests indicate that there may be impairment.

Impairment testing is performed using either a qualitative or quantitative approach at the reporting unit level. All of the Company's goodwill is allocated to First Midwest Bancorp, Inc., which is the Company's only applicable reporting unit for purposes of testing goodwill for impairment. The Company performs impairment testing using a qualitative approach to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Qualitative factors include, but are not limited to, macroeconomic conditions, industry and market specific conditions and trends, the Company's financial performance, market capitalization, stock price, and Company-specific events relevant to the assessment. If the assessment of qualitative factors indicates that it is not more likely than not that an impairment exists, no further testing is performed; otherwise, the Company would proceed with a quantitative two-step goodwill impairment test. In the first step, the Company compares its estimate of the fair value of the reporting unit, which is based on a discounted cash flow analysis, with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step is not required. If necessary, the second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined by assigning the value of the reporting unit to all of the assets and liabilities of that unit, including any other identifiable intangible assets. An impairment loss is recognized if the carrying amount of the reporting unit goodwill exceeds the implied fair value of goodwill.

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

Wealth Management – Assets held in a fiduciary or agency capacity for customers are not included in the consolidated financial statements as they are not assets of the Company or its subsidiaries. Fee income is recognized on an accrual basis and is included as a component of noninterest income in the Consolidated Statements of Income.

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

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

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

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

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

Comprehensive Income – Comprehensive income is the total of reported net income and other comprehensive (loss) income which includes all other revenues, expenses, gains, and losses that are not reported in net income under GAAP. The Company includes the following items, net of tax, in other comprehensive (loss) income in the Consolidated Statements of Comprehensive Income: (i) changes in unrealized gains or losses on securities available-for-sale, (ii) changes in the fair value of derivatives designated as cash flow hedges, and (iii) changes in unrecognized net pension costs related to the Company's pension plan.

Treasury Stock – Treasury stock acquired is recorded at cost and is carried as a reduction of stockholders' equity in the Consolidated Statements of Financial Condition. Treasury stock issued is valued based on the "last in, first out" inventory method. The difference between the consideration received on issuance and the carrying value is charged or credited to additional paid-in capital.

Share-Based Compensation – The Company recognizes share-based compensation expense based on the estimated fair value of the award at the grant or modification date over the period during which an employee is required to provide service in exchange for such award. Share-based compensation expense is included in salaries and wages in the Consolidated Statements of Income.

Income Taxes – The Company files United States ("U.S.") federal income tax returns and state income tax returns in various states. The provision for income taxes is based on income in the consolidated financial statements, rather than amounts reported on the Company's income tax return.

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

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

Adopted Accounting 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 is 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.

Simplifying the Accounting for Measurement-Period Adjustments: In September of 2015, the FASB issued guidance to simplify the recognition of measurement-period adjustments related to a business combination. This guidance eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the reporting period in which the adjustment amounts are determined. In addition, the effect of the adjustments on the income statement must be calculated as if the accounting had been completed at the acquisition date. The guidance is effective for annual and interim periods beginning after December 15, 2015 and early adoption of this guidance is permitted. The Company elected to early adopt this guidance during the fourth quarter of 2015, which did not materially impact the Company's financial condition, results of operations, or liquidity.

Accounting Pronouncements Pending Adoption

Amendments to Consolidation Analysis: In February of 2015, the FASB issued guidance that updates current accounting for the consolidation of certain legal entities. This guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, affects the consolidation analysis of reporting entities that are involved with VIEs, and provides certain exceptions from consolidation guidance for certain reporting entities. This 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.

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. In August of 2015, the FASB issued guidance that defers the effective date by one year. The deferral causes the guidance to be effective for annual and interim reporting periods beginning on or after December 15, 2017, and must be applied either retrospectively or using the modified retrospective approach. Early adoption is permitted, but not before the original effective date. 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.

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

3. ACQUISITIONS

Pending Acquisitions

The National Bank & Trust Company of Sycamore

On November 12, 2015, the Company entered into a definitive agreement to acquire NI Bancshares Corporation ("NI Bancshares"), the holding company for The National Bank & Trust Company of Sycamore. As part of the acquisition, the Company will acquire ten banking offices in northern Illinois, $415 million in loans, $600 million in deposits, and over $700 million in trust assets under management. The merger consideration will be a combination of Company common stock and cash, with an overall transaction value of $70 million. The Company received approval for this acquisition from the Federal Reserve on January 5, 2016 and the Illinois Department of Financial and Professional Regulation on January 15, 2016. The acquisition is expected to close and operating systems converted late in the first quarter of 2016, subject to approval by the stockholders of NI Bancshares and customary closing conditions.

Completed Acquisitions

The Peoples' Bank of Arlington Heights

On December 3, 2015, the Company completed the acquisition of Peoples Bancorp, Inc. ("Peoples") and its wholly owned banking subsidiary, The Peoples' Bank of Arlington Heights. With the acquisition, the Company acquired all assets and assumed all liabilities of Peoples, which included two banking offices in Arlington Heights, Illinois, at a purchase price of $16.8 million paid in cash. The Company recorded goodwill of $7.5 million associated with the acquisition. 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.

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 fair value adjustments associated with this transaction were finalized during the second quarter of 2015 and there were no measurement period adjustments during 2015.

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 $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.

During the fourth quarter of 2015, the Company finalized the fair value adjustments associated with the Great Lakes transaction, which required a measurement period adjustment of $933,000 and $523,000 to decrease loans and premises, furniture, and equipment, respectively, $582,000 to increase accrued interest receivable and other assets for the related deferred tax asset, and $874,000 to increase goodwill. These adjustments were recognized in the current period in accordance with the early adoption of revised accounting guidance applicable to business combinations.

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

Acquisition Activity
(Dollar amounts in thousands)

	Peoples December 3, 2015	Popular August 8, 2014	Great Lakes December 2, 2014
Assets			
Cash and due from banks and interest-bearing deposits in other banks	$781	$161,276	$78,609
Securities available-for-sale	41,492	—	219,279
FHLB and FRB stock	558	—	1,970
Loans	53,917	549,386	223,169
OREO	515	—	1,244
Investment in BOLI	—	—	10,373
Goodwill	7,544	32,181	10,339
Other intangible assets	580	8,003	6,192
Premises, furniture, and equipment	2,215	4,647	5,011
Accrued interest receivable and other assets	2,911	6,574	10,059
Total assets	$110,513	$762,067	$566,245
Liabilities			
Noninterest-bearing deposits	$15,869	$163,299	$110,885
Interest-bearing deposits	75,944	568,573	353,424
Total deposits	91,813	731,872	464,309
Intangible liabilities	—	10,631	—
Borrowed funds	1,200	—	29,490
Senior and subordinated debt	—	—	9,809
Accrued interest payable and other liabilities	672	564	6,887
Total liabilities	93,685	743,067	510,495
Consideration Paid			
Common stock (2014 - 2,440,754 shares issued at $15.737 per share), net of $110,000 in issuance costs	—	—	38,300
Cash paid	16,828	19,000	17,450
Total consideration paid	16,828	19,000	55,750

	$110,513	$762,067	$566,245

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National Machine Tool Financial Corporation

On September 26, 2014, the Bank completed the acquisition of National Machine Tool Financial Corporation, now known as First Midwest Equipment Finance Co. ("FMEF"), 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 fair value adjustments associated with this transaction were finalized during the third quarter of 2015 and required no measurement period adjustments during 2015.

Expenses related to the acquisition and integration of the transactions above totaled $1.4 million and $13.9 million during the years ended December 31, 2015 and 2014, respectively, and are reported as a separate component within noninterest expense in the Consolidated Statements of Income.

4. SECURITIES

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

Securities Portfolio

(Dollar amounts in thousands)

	As of December 31,			
	2015			2014
	Amortized Cost	Gross Unrealized	Fair Value	Amortized Cost