

2016 ANNUAL REPORT

FIRST MIDWEST BANCORP, INC.



FIRST MIDWEST BANCORP, INC.

COMPANY PROFILE

First Midwest Bancorp, Inc. is a relationship-focused financial institution headquartered in the Chicago suburb of Itasca, Illinois. We are one of Illinois' largest independent publicly-traded bank holding companies.

Our principal subsidiary, First Midwest Bank, and other affiliates provide a broad range of commercial, equipment leasing, retail, treasury, wealth management, trust and private banking products and services to commercial and industrial, commercial real estate, municipal, and consumer clients. We do so through more than 130 locations in metropolitan Chicago, northwest Indiana, central and western Illinois, and eastern Iowa. Our service areas include a mixture of urban, suburban, and rural markets that contain a diversified mix of industry groups, including manufacturing, health care, pharmaceutical, higher education, wholesale and retail trade, service, and agriculture.

First Midwest Bank has approximately \$14 billion in assets and an additional \$9.5 billion in wealth management assets under management. We are committed to meeting the financial needs of the people and businesses in the communities where we live and work. We seek to be our clients' most trusted financial partner and to help our clients achieve financial success.

ADDITIONAL INFORMATION

Visit the Investor Relations section of our website, www.FirstMidwest.com/InvestorRelations, for stock and dividend information, quarterly earnings and news releases, online annual reports, links to SEC filings, and other Company information.

To Our Stockholders,

The year just ended was one of tremendous achievement and transformation for First Midwest. Our accomplishments in 2016 greatly enhanced our position as a premier, regionally-based commercial bank, helping us assemble the expertise and resources to best serve our clients and stockholders not only today but well into the future. The First Midwest of today enters 2017 as a \$14 billion regional bank — 40% larger than we started 2016 — with over 2,300 colleagues working hard to meet the financial needs of over 300,000 clients through a broad-based, robust distribution network. Of equal importance, the relationship and trust that we have with our clients remains unchanged and, at our core, continues to differentiate us in what remains an intensely competitive environment.

Looking back, we began 2016 with \$9.7 billion in total assets, fully expecting to grow beyond \$10 billion over the course of 2016. We did so amid continuing economic uncertainty and with a hope for higher interest rates and improved operating conditions. At the same time, we fully recognized that growth beyond the threshold of \$10 billion would be accompanied by greater regulatory oversight, expectations and costs. Importantly, we were neither intimidated by these challenges nor were we willing to constrain our efforts to serve the needs of our clients. Over the preceding years, we had worked diligently to prepare ourselves for this eventuality, building the infrastructure to grow and meet these responsibilities and higher expectations. This preparation fueled the confidence in our capacity to grow, take advantage of new business opportunities and maximize the expanded products and services that would accompany the efficiencies of scale that come with size. This was done all with the promise to you — our stockholders — of improved long-term performance and returns.

Our performance in 2016 can best be summarized as “we did what we said we were going to do.” Our earnings, away from certain significant transactions that were largely driven by our growth and organizational investments, improved 11.5%. Contributing to our performance were strong organic growth from our loan and fee-based businesses and tightly controlled expenses, as well as the underlying momentum from our first quarter acquisition of National Bank & Trust (NB&T). At the same time, continued investment over the course of 2016 in our commercial, consumer and wealth business lines, combined with our acquisition of Standard Bank & Trust (Standard) on January 6, 2017, add to 2017 momentum and our drive to produce stronger, consistent returns.

This momentum, together with a considerably more optimistic post-election outlook, have provided our stockholders with significantly improved valuations and a stable dividend. We are very proud to report that the total return provided to our stockholders was a robust 39% and



Michael L. Scudder
President and Chief Executive Officer
First Midwest Bancorp, Inc.

52% over the last year and three years, respectively. We are also proud to note that during 2016 we paid our 136th consecutive quarterly dividend to our stockholders — a tribute to the long-term strength and stability of First Midwest.

2016 PERFORMANCE

2016 reflected balanced execution across all business lines and, impressively, was achieved against a backdrop of substantial growth. For the year, we earned \$92.3 million, or \$1.14 per share, an improvement of 9% over 2015. 2016's performance included integration and organizational costs attendant to acquisitions totaling \$8.6 million after tax, or \$0.11 per share.

Our performance benefited from consistent sales success across our major business lines as well as through the acquisition of NB&T in March 2016. As a result, we were able to grow our loan portfolio by 15%, increase our average core deposits by 11%, and improve our fee-based business revenues by 14%. Our multi-year efforts to build and strengthen our sales and support teams, while simultaneously broadening and diversifying our business revenues, are at the core of this performance. By leveraging these efforts, we generated greater, more diverse revenue and improved our operating efficiency to 62.6%, a level nearly 100 basis points better than 2015.

2016's performance is a credit to our colleagues, their hard work and their focus. Our achievements during the year, even more impressive against a backdrop of accelerated growth, reflect their engagement and commitment, highlighted by:

- **Our ability to add \$3.3 billion in total assets and \$1 billion in trust assets under management through the acquisitions of NB&T and Standard, greatly strengthening our market position in metro Chicago.**

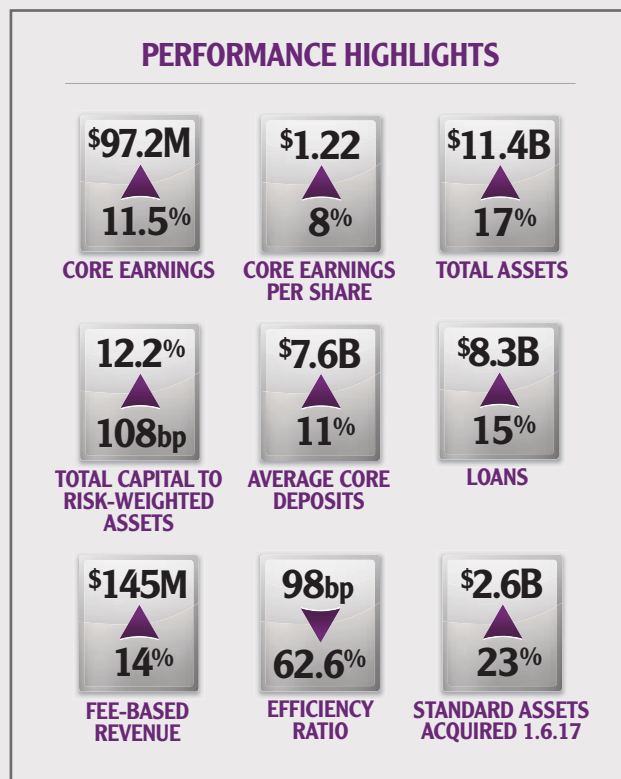
Collectively, having served their respective markets for well over 70 years, NB&T and Standard combine to greatly enhance our position as a market leader in metro Chicago, add leadership and depth to our business teams, and efficiently increase our distribution network to over 130 locations.

- **Robust and diverse, organic loan growth.**

Away from acquisition-related growth, loans outstanding increased 11%, largely on the strength of production across our middle market, commercial real estate and specialty lending segments.

- **A strong and growing, core deposit base.**

Core transactional deposits averaged \$7.6 billion for the year, a level 11% higher than 2015, and now constitute 86% of overall deposits. The strength of this lower cost source of funding serves as a competitive advantage for us as we prepare for an expected transition to a higher rate environment.



■ An improved, more flexible capital mix and foundation.

We issued \$150 million in subordinated debt, repaying a similar amount of senior notes at the same cost and increasing our regulatory ratio of total capital to risk-weighted assets to 12.2%, a level more than 100 basis points higher than 2015.

We elected to diversify our ownership of 55 branches, entering into a sale-leaseback for a purchase price of \$150.3 million while retaining the ability to terminate the leases after as little as 11 years. While earnings neutral in the short-term, we enhanced our longer term capital flexibility to respond to opportunities for growth as well as the impact of evolving consumer preferences on our distribution network and needs.

■ Significant investment in our leadership.

Responsive to both the expansion of our business as well as the natural transition as incumbents retire, we have invested in and welcomed a number of new executive and senior level leaders to our company across our commercial, technology and operations, risk and financial teams. The underlying transitions were smooth, affording the opportunity to add talent with new perspectives and experience of operating in larger, more diverse businesses.

LOOKING TO OUR FUTURE

What sets First Midwest apart from our competitors is our collective, ongoing drive to meet the financial needs of our commercial, consumer and wealth clients to help them achieve success. Because of that belief, our priorities for 2017 remain centered on strengthening and building our team of colleagues while continuing to position ourselves to grow and diversify our revenues, all within a balanced risk posture. Different, perhaps, from years past is that we enter 2017 — 40% larger than we began 2016 — having already added significant business momentum and the resources to best serve our clients and stockholders not only today but well into the future. The successful execution of strategies and actions previously undertaken creates significant momentum across our business, all amid growing optimism for improved operating conditions and a transition to higher rates. As a result, our strategic priorities in 2017 remain largely unchanged, with our focus early in the year appropriately weighted toward execution and integration.

Looking ahead, much of our industry will continue to be challenged by the operating pressures that will result from economic transition, regulatory expectations and advancing technology. At the same time, our expectation is that our culture, performance and experience provide us with a competitive advantage in an environment where we will likely

What sets First Midwest apart from our competitors is our collective, ongoing drive to meet the financial needs of our commercial, consumer and wealth clients to help them achieve success.

see continued opportunities to expand our business. As we navigate these currents, we will do so while maintaining our strategic focus and building for our future — and a reluctance to pursue short-term performance to the detriment of long-term reward.

BOARD DEVELOPMENTS

The accomplishments of 2016 are in part the result of the effective governance and oversight by our board of directors. We were very pleased to add to that strength during the year, welcoming to our board two new directors, Kathryn J. Hayley, chief executive officer of Rosewood Advisory Services and former executive vice president of UnitedHealth Group, Inc., and Frank B. Modruson, president of Modruson & Associates and former partner and chief information officer of Accenture plc. Their experience and deep background in an array of businesses have served us well already. We look forward to even larger contributions as they become fully acclimated to First Midwest.

In May of 2016 we said farewell to John Sterling who retired from our board after completing nearly 20 years of service to First Midwest. Additionally, after 10 years on our board, we want to acknowledge and thank John Chlebowski for his outstanding efforts as he will not stand for re-election at our 2017 Annual Meeting. Their contributions to our board have been meaningful and greatly valued. We want to again take this opportunity to thank them for their loyal and dedicated service and wish them the very best.

IN CLOSING

As we look to 2017 and beyond, our expectations remain high. We accomplished in 2016 what we set out to do and, as a result, are very excited about what lies ahead. We have built a strong organization that is equipped with the talent to continue to improve performance, while at the same time continue to grow and expand our company.

First Midwest is larger and stronger, and is well-positioned to produce strong organic growth as well as capitalize on new business opportunities. As we do so, we will remain disciplined and guided by common sense — focusing on opportunities that align with our culture and business priorities. All of which will strengthen the value of our franchise and inure to the long-term benefit of you, our stockholders.

Thank you for your continued support and investment!



Michael L. Scudder

President and Chief Executive Officer
First Midwest Bancorp, Inc.

BOARD OF DIRECTORS - FIRST MIDWEST BANCORP, INC.

Robert P. O'Meara ⁽⁴⁾

Chairman of the Board
First Midwest Bancorp, Inc.

Barbara A. Boigegrain ^(2, 3)

General Secretary and
Chief Executive Officer
Wespath Benefits and Investments
*(Pension, Health and Welfare Benefit
Trustee and Administrator)*

Thomas L. Brown

Vice President and Chief Financial Officer
RLI Corp.
(Specialty Insurance Company)

John F. Chlebowski, Jr. ⁽¹⁾

Former President and
Chief Executive Officer
Lakeshore Operating Partners, LLC
(Bulk Liquid Distribution Firm)

Brother James Gaffney, FSC ^(3, 4)

President Emeritus
Lewis University
(Catholic and Lasallian University)

Phupinder S. Gill ⁽¹⁾

Former Chief Executive Officer
CME Group Inc.
*(Global Derivatives Marketplace
and Exchange)*

Kathryn J. Hayley

Chief Executive Officer
Rosewood Advisory Services, LLC
Former Executive Vice President
UnitedHealth Group, Inc.
(Diversified Healthcare Company)

Peter J. Henseler ^(2, 3)

President
Wise Consulting Group Inc.
Former Vice Chairman
TOMY International
*(Toys and Infant Products Designer
and Marketer)*

Patrick J. McDonnell ^(1, 4)

President and Chief Executive Officer
The McDonnell Company LLC
Former Partner and
Director of Global Assurance
PricewaterhouseCoopers LLP
(Accounting Firm)

Frank B. Modruson

President
Modruson & Associates, LLC
Former Partner and
Chief Information Officer
Accenture plc
(Professional Services Firm)

Ellen A. Rudnick ^(2, 3)

Senior Advisor and Adjunct
Professor of Entrepreneurship
University of Chicago
Booth School of Business
(Private University)

Mark G. Sander

Senior Executive Vice President
and Chief Operating Officer
First Midwest Bancorp, Inc.

Michael L. Scudder ⁽⁴⁾

President and Chief Executive Officer
First Midwest Bancorp, Inc.

Michael J. Small ⁽¹⁾

President and Chief Executive Officer
Gogo, Inc.
(Airborne Communications Service Provider)

Stephen C. Van Arsdell

Former Senior Partner,
Chairman and Chief Executive Officer
Deloitte & Touche LLP
(Accounting Firm)

J. Stephen Vanderwoude ^(2, 3, 4)

Former Chairman and
Chief Executive Officer
Madison River Communications Corp.
*(Operator of Rural Telephone
Companies)*

BOARD COMMITTEES

(1) Audit Committee

(2) Compensation Committee

(3) Nominating & Corporate Governance Committee

(4) Advisory Committee

EXECUTIVE MANAGEMENT GROUP - FIRST MIDWEST BANCORP, INC.

Michael L. Scudder

President and
Chief Executive Officer

Mark G. Sander

Senior Executive Vice President
and Chief Operating Officer

Patrick S. Barrett

Executive Vice President and
Chief Financial Officer

Jo Ann Boylan

Executive Vice President and
Chief Information and Operations Officer

Nicholas J. Chulos

Executive Vice President, Corporate
Secretary and General Counsel

Michelle Y. Hoskins

Executive Vice President and
Chief Human Resources Officer

James P. Hotchkiss

Executive Vice President
and Treasurer

Jeff C. Newcom

Executive Vice President and
Chief Risk Officer

EXECUTIVE MANAGEMENT GROUP - FIRST MIDWEST BANK

Michael L. Scudder

Chairman of the Board and
Chief Executive Officer

Mark G. Sander

Vice Chairman of the Board
and President

Patrick S. Barrett

Executive Vice President and
Chief Financial Officer

Jo Ann Boylan

Executive Vice President and
Chief Information and Operations Officer

Nicholas J. Chulos

Executive Vice President, Corporate
Secretary and Chief Legal Officer

Robert P. Diedrich

Executive Vice President and
Director of Wealth Management

Michelle Y. Hoskins

Executive Vice President and
Chief Human Resources Officer

James P. Hotchkiss

Executive Vice President and Treasurer

Michael W. Jamieson

Executive Vice President and
Director of Commercial Banking

Jeff C. Newcom

Executive Vice President and
Chief Risk Officer

Thomas M. Prame

Executive Vice President and Director of
Strategic Planning and Consumer Banking

Michael C. Spittler

Executive Vice President and
Chief Credit Officer

Angela L. Putnam

Senior Vice President and
Chief Accounting Officer

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-K

(Mark One)

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2016
- or
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 0-10967



First Midwest Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

One Pierce Place, Suite 1500
Itasca, Illinois 60143-1254
(Address of principal executive offices) (zip code)
Registrant's telephone number, including area code: **(630) 875-7463**
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 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 .

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

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

Indicate by check mark 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. .

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2016, determined using a per share closing price on that date of \$17.56, as quoted on the NASDAQ Stock Market, was \$1,377,487,826.

As of February 24, 2017, there were 102,611,121 shares of common stock, \$0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2017 Annual Stockholders' Meeting are incorporated by reference into Part III.

FIRST MIDWEST BANCORP, INC.

FORM 10-K

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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 bank holding companies, with assets of \$11.4 billion as of December 31, 2016, 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 commercial, retail, 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 117 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, 2016, the Company and its subsidiaries employed a total of 1,882 full-time equivalent employees.

On January 6, 2017, the Company completed the acquisition of Standard Bancshares, Inc. ("Standard"), the holding company for Standard Bank and Trust Company, adding approximately \$2.6 billion of assets. The acquisition is described more fully elsewhere in this Form 10-K.

Subsidiaries

The Company is responsible for the overall conduct, direction, and performance of its subsidiaries. In addition, the Company provides various services to its subsidiaries, establishes policies and procedures, and provides other resources as needed, including capital. As of December 31, 2016, 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, 2016, the Bank had total assets of \$11.3 billion, total loans of \$8.3 billion, and total deposits of \$9.0 billion.

The Bank operates the following wholly-owned subsidiaries:

- First Midwest Equipment Finance Co. ("FMEF"), an Illinois corporation providing equipment loans and leases 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.
- Plank Road, LLC, an Illinois limited liability company acquired during 2016 that manages certain of the Bank's 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, 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.

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, 2016 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, 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 include northwestern Indiana and eastern Iowa. These areas encompass urban, suburban, and rural markets, and contain 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 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.

Corporate 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, which include derivatives and interest rate risk mitigation 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 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, other real estate professionals, and owners of various businesses, 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 Automated Clearing House ("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 to institutional and individual customers, including corporate and public retirement plans, foundations and endowments, high net worth individuals, and multi-employer trust funds. Services include fiduciary and executor services, financial planning solutions, employee benefit plans, and private banking services. These services are provided through 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:

On January 6, 2017, the Company completed the acquisition of Standard, the holding company for Standard Bank and Trust Company.

During 2016, the Company completed the acquisition of NI Bancshares Corporation ("NI Bancshares"), the holding company for The National Bank & Trust Company of Sycamore.

During 2015, the Company completed the acquisition of Peoples Bancorp, Inc. ("Peoples"), the holding company for The Peoples Bank of Arlington Heights.

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 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, credit 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 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. Recent political developments, including the change in administration in the U.S., have added additional uncertainty to the implementation, scope and timing of these regulatory reforms. 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 or when the holding company may not be inclined to provide it. 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 merger or acquisition. As of its last examination report issued in March of 2015, the Bank received a rating

of "outstanding," the highest rating available. The Bank has received an overall "outstanding" rating in each of its CRA performance evaluations since 1998.

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 U.S.

Some of the Dodd-Frank Act's provisions, which are described in more detail below, 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. Some 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.

Enhanced Prudential Standards

The Dodd-Frank Act directed the Federal Reserve to monitor emerging risks to financial stability and enact enhanced supervision and prudential standards applicable to bank holding companies with total consolidated assets of \$50 billion or more and non-bank covered companies designated as systemically important by the Financial Stability Oversight Council (often referred to as systemically important financial institutions). The Dodd-Frank Act mandates that certain regulatory requirements applicable to systemically important financial institutions be more stringent than those applicable to other financial institutions.

In February of 2014, the Federal Reserve adopted rules to implement certain of these enhanced prudential standards. These rules require publicly traded bank holding companies with \$10 billion or more in total consolidated assets to establish risk committees and require bank holding companies with \$50 billion or more in total consolidated assets to comply with enhanced liquidity and overall risk management standards. The Company is currently in the process of establishing a risk committee in accordance with this requirement.

Consumer Financial Protection

The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB") as a new and independent unit within the Federal Reserve.

The powers of the CFPB currently include primary enforcement and exclusive supervision authority for federal consumer financial laws over insured depository institutions with assets of \$10 billion or more, such as the Bank, and their affiliates. This includes the right to obtain information about an institution's activities and compliance systems and procedures and to detect and assess risks to consumers and markets.

The 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. Consumer 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.

In addition, state authorities are responsible for monitoring the Company's compliance with all state consumer laws. Failure to comply with these federal and state requirements could have serious legal and reputational consequences for the Company and the Bank, 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. Interchange fees, or "swipe" fees, are charges that merchants pay to card-issuing banks, such as the Bank, for processing electronic payment 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. The Company will be subject to the interchange fee limitations beginning July 1, 2017.

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, 2016, 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 Basel I 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, 2016, 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. In the second quarter of 2016, the federal banking agencies issued a proposed rule that would implement the NSFR for certain U.S. banking organizations. The proposed rule would require certain U.S. banking organizations to ensure they have access to stable funding over a one-year time horizon and has an effective date of January 1, 2018. The proposed rule would not apply to U.S. banking organizations with less than \$50 billion in total consolidated assets such as the Company and the Bank.

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, 2016, 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 on 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.

In October of 2012, as required by the Dodd-Frank Act, the Federal Reserve published final rules regarding company-run stress testing. The rules require institutions, such as the Company and the Bank, with average total consolidated assets greater than \$10 billion to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the Federal Reserve. The company-run stress tests are conducted using data as of December 31 of the preceding calendar year and scenarios published by the Federal Reserve. Stress test results must be reported to the Federal Reserve by July 31 with public disclosure of summary stress test results under the severely adverse scenario between October 15 and October 31. Our capital ratios reflected in the stress test calculations are an important factor considered by the Federal Reserve in evaluating the capital adequacy of the Company and the Bank and whether the appropriateness of any proposed payments of dividends or stock repurchases may be an unsafe or unsound practice. The Company and the Bank will be subject to these stress test requirements starting with the July 31, 2018 reporting date.

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.

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 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. In August of 2016, the FDIC announced that the DIF reserve ratio had surpassed 1.15% as of June 30, 2016. As a result, beginning in the third quarter of 2016, the range of initial assessment ranges for all institutions were adjusted downward such that the initial base deposit insurance assessment rate ranges from 3 to 30 basis points on an annualized basis. After the effect of potential base-rate adjustments, the total base assessment rate could range from 1.5 to 40 basis points on an annualized basis. In March of 2016, the FDIC adopted a final rule increasing the reserve ratio for the DIF to 1.35% of total insured deposits. The rule imposes a surcharge on the assessments of depository institutions with \$10 billion or more in assets, including the Bank, beginning in the third quarter of 2016 and continuing through the earlier of the quarter that the reserve ratio first reaches or exceeds 1.35% and December 31, 2018.

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.

During the second quarter of 2016, as required by the Dodd-Frank Act, the federal bank regulatory agencies and the SEC proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least \$1 billion in total assets (including the Company and the Bank). The proposed rules would establish general qualitative requirements applicable to all covered entities, which would include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation, (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss, (iii) establishing requirements for performance measures to appropriately balance risk and reward, (iv) requiring board of director oversight of incentive arrangements, and (v) mandating appropriate record-keeping. Under the proposed rule, larger financial institutions with total consolidated assets of at least \$50 billion would also be subject to additional requirements applicable to such institutions' "senior executive officers" and "significant risk-takers." These additional requirements would not be applicable to the Company or the Bank, each of which currently have less than \$50 billion in total consolidated assets. If the rules are adopted in the form proposed, they may restrict our flexibility with respect to the manner in which we structure compensation and adversely affect our ability to compete for talent.

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, 2016, the Company's loan portfolio consisted of 82.9% of corporate loans, the majority of which were secured by commercial real estate, and 16.8% 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 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 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, 2016, the Company's subsidiaries had deposits and other liabilities of \$10.0 billion.

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

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

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

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

net interest income and could have a material adverse effect on the Company's business, financial condition, and results of operations.

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

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

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

The Company's current credit ratings are as follows:

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

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

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

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

Operational Risks

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

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

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

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

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

Management regularly reviews and updates the Company's loan underwriting and monitoring process, internal controls, disclosure controls and procedures, compliance controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based on certain assumptions and can provide only reasonable, not absolute,

assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, financial condition, and results of operations.

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

The processes the Company uses to estimate its loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the Company's financial condition and results of operations, depend on the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the 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 Company'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 effect 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. In addition, the scope and content of the federal banking agencies' policies on incentive compensation, as well as changes to those policies, could adversely affect the ability of the Company to hire, retain and motivate its key 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, including due to cyber-attacks.

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 unintentional events or from deliberate attacks 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. Cyber-attacks can originate from a variety of sources and the techniques used are increasingly sophisticated. 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 is regularly the target of attempted cyber-attacks, and must continuously monitor and develop our systems and controls to prevent and mitigate these and other 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. In addition, the necessary process of updating technology can itself lead to disruptions in availability or functioning of our systems. 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 3% of the Company's securities available-for-sale were categorized in level 1 of the fair value hierarchy. Over 95% 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, 2016, 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, 2016, the Company had \$366.9 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 loans, automatic funds transfer and automatic payment systems. In particular, the activity and prominence of so-called marketplace lenders and other technological financial services companies have grown significantly over recent years and are expected to continue growing. 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. While business growth across a wide range of industries and regions in the U.S. has gradually recovered, 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 over the past decade 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. 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. While the change in administration in the U.S. may ultimately roll back or modify certain of the regulations adopted pursuant to the Dodd-Frank Act, uncertainty about the timing and scope of any such changes as well as the cost of complying with a new regulatory regime, may negatively impact our businesses, at least in the short-term, even if the long-term impact of any such changes are positive for our businesses. 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 and its implementing regulations impose various additional requirements on bank holding companies with \$10 billion or more in total consolidated assets, such as the Company, 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, such as the Bank, 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 it might otherwise be required, which may cause the Company to incur compliance-related costs before it might otherwise be required. 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 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.

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 2016 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 117 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. Approximately 75% of the Company's banking locations are leased and 25% are owned.

The Company owns 151 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 regarding 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, 2016. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect that any liabilities arising from pending legal matters will have a material adverse effect on the Company's 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, 2016, there were 1,985 stockholders of record, a number that does not include beneficial owners who hold shares in "street name" (or stockholders from previously acquired companies that had not yet exchanged their stock).

	2016				2015			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Market price of Common Stock								
High.	\$ 25.56	\$ 19.90	\$ 18.85	\$ 18.59	\$ 19.81	\$ 19.52	\$ 19.53	\$ 17.84
Low	18.75	16.68	15.86	14.56	16.56	16.72	16.89	15.34
Cash dividends declared per common share.	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09

Payment of future dividends is within the discretion of the Board and will depend on the Company's earnings, capital requirements, financial condition, and such other factors as the Board may deem 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.

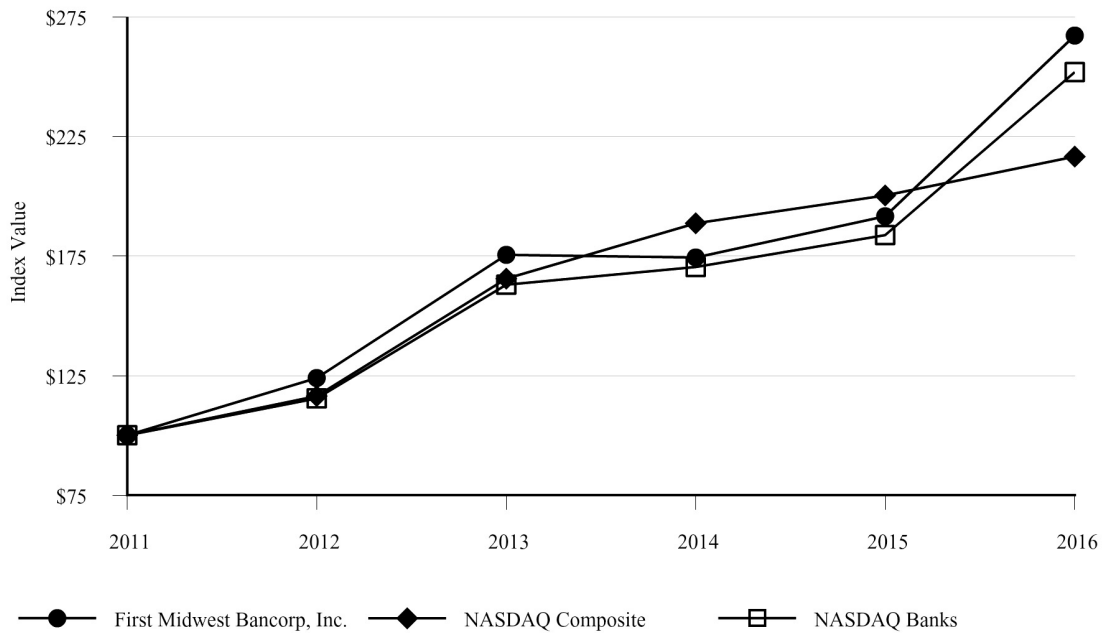
A discussion regarding the regulatory restrictions applicable to the Bank's ability to pay dividends to the Company is included in the "Business – Supervision and Regulation – Dividends" and "Risk Factors – Risks Associated with the Company's Common Stock" sections in Items 1 and 1A, respectively, of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



	2011	2012	2013	2014	2015	2016
First Midwest Bancorp, Inc. . . .	\$ 100.00	\$ 124.01	\$ 175.44	\$ 174.40	\$ 191.64	\$ 267.20
NASDAQ Composite	100.00	116.41	165.47	188.69	200.32	216.54
NASDAQ Banks	100.00	115.47	163.03	170.37	183.74	251.93

⁽¹⁾ Assumes \$100 invested on December 31, 2011 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 2016. The Board approved a stock repurchase program on November 27, 2007. Up to 2,500,000 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, 2016. 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, 2016	—	\$ —	—	2,487,947
November 1 – November 30, 2016	909	20.99	—	2,487,947
December 1 – December 31, 2016	1,601	25.19	—	2,487,947
Total	<u>2,510</u>	<u>\$ 23.67</u>	<u>—</u>	

⁽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, 2016 is presented in the following table. This summary should be read in conjunction with the consolidated financial statements, and accompanying notes thereto, and other financial information 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,				
	2016	2015	2014	2013	2012
Operating Results (Amounts in thousands, except per share data)					
Net income (loss)	\$ 92,349	\$ 82,064	\$ 69,306	\$ 79,306	\$ (21,054)
Net income (loss) applicable to common shares	91,306	81,182	68,470	78,199	(20,748)
Per Common Share Data					
Basic earnings (loss) per common share	\$ 1.14	\$ 1.05	\$ 0.92	\$ 1.06	\$ (0.28)
Diluted earnings (loss) per common share	1.14	1.05	0.92	1.06	(0.28)
Common dividends declared	0.36	0.36	0.31	0.16	0.04
Book value at year end	15.46	14.70	14.17	13.34	12.57
Market price at year end	25.23	18.43	17.11	17.53	12.52
Performance Ratios					
Return on average common equity	7.38%	7.17%	6.56%	8.04%	(2.14)%
Return on average tangible common equity	10.77%	10.44%	9.32%	11.29%	(3.07)%
Return on average assets	0.84%	0.85%	0.80%	0.96%	(0.26)%
Tax-equivalent net interest margin ⁽¹⁾	3.60%	3.68%	3.69%	3.68%	3.86 %
Non-performing loans to total loans ⁽²⁾	0.77%	0.45%	0.92%	1.14%	1.80 %
Non-performing assets to total loans plus OREO ⁽²⁾	1.11%	0.86%	1.37%	2.13%	2.68 %

	As of or for the Years Ended December 31,				
	2016	2015	2014	2013	2012
Balance Sheet Highlights (Amounts in thousands)					
Total assets	\$ 11,422,555	\$ 9,732,676	\$ 9,445,139	\$ 8,253,407	\$ 8,099,839
Total loans	8,254,145	7,161,715	6,736,853	5,714,360	5,387,570
Deposits	8,828,603	8,097,738	7,887,758	6,766,101	6,672,255
Senior and subordinated debt	194,603	201,208	200,869	190,932	214,779
Long-term portion of Federal Home Loan Bank ("FHLB") advances	—	—	—	114,550	114,581
Stockholders' equity	1,257,080	1,146,268	1,100,775	1,001,442	940,893
Financial Ratios					
Allowance for credit losses to total loans	1.06%	1.05%	1.11%	1.52%	1.91%
Net charge-offs to average loans	0.24%	0.29%	0.52%	0.55%	3.26%
Total capital to risk-weighted assets ⁽³⁾	12.23%	11.15%	11.23%	12.39%	11.90%
Tier 1 capital to risk-weighted assets ⁽³⁾	9.90%	10.28%	10.19%	10.91%	10.28%
Common equity Tier 1 to risk-weighted assets ⁽³⁾	9.39%	9.73%	N/M	N/M	N/M
Tier 1 capital to average assets ⁽³⁾	8.99%	9.40%	9.03%	9.18%	8.40%
Tangible common equity to tangible assets	8.05%	8.59%	8.41%	9.09%	8.44%
Dividend payout ratio	31.58%	34.29%	33.70%	15.09%	N/M
Average equity to average assets ratio	11.31%	11.67%	12.03%	11.74%	11.93%

N/M – Not meaningful.

- (1) This ratio is a non-GAAP metric. For a discussion of non-GAAP financial measures, see the "Non-GAAP Financial Information and Reconciliations" section of "Management Discussion and Analysis of Financial Condition and Results of Operations" in item 7 of this Form 10-K.
- (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 became effective for the Company on January 1, 2015. These rules revise the risk-based capital requirements and introduce a new capital measure, Common equity Tier 1 to risk-weighted assets. As a result, ratios subsequent to December 31, 2014 are computed using the new rules and prior periods presented are reported using the regulatory guidance applicable at that time.

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 117 banking locations. Our principal subsidiary is First Midwest Bank, which provides a broad range of commercial, retail, treasury, and wealth management products and services to commercial and industrial, commercial real estate, municipal, and consumer customers. We are committed to meeting the financial needs of the people and businesses in the communities where we live and work by providing customized banking solutions, quality products, and innovative services that fulfill those financial needs.

The following discussion and analysis is intended to address the significant factors affecting our Consolidated Statements of Income for the three years ended December 31, 2016 and Consolidated Statements of Financial Condition as of December 31, 2016 and 2015. 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, certain seasonal factors, and changes in real estate and securities markets. Our management evaluates performance using a variety of qualitative and quantitative metrics. The primary quantitative metrics used by management include:

- *Net Interest Income* – Net interest income, our primary source of revenue, equals the difference between interest income and fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities.
- *Net Interest Margin* – Net interest margin equals tax-equivalent net interest income divided by total average interest-earning assets.
- *Noninterest Income* – Noninterest income is the income we earn from fee-based revenues, 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.

Some of these metrics may be presented on a non-GAAP basis. For detail on our non-GAAP metrics, see the discussion in the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations." Unless otherwise stated, all earnings per common share data included in this section and throughout the remainder of this discussion are presented on a fully diluted basis.

A quarterly summary of operations for the years ended December 31, 2016 and 2015 is included in the section of this Item 7 titled "Quarterly Earnings."

As of March 31, 2016, both the Company and the Bank first exceeded \$10.0 billion in total assets. As of December 31, 2016, both had total assets of approximately \$11.4 billion. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies and banks with \$10.0 billion or more in total consolidated assets. As a general matter, the Company and the Bank are not immediately subject to these additional requirements when they exceed \$10 billion in assets; instead, the Company and the Bank will be subject to these various requirements over various dates. For a discussion of the impact that the Dodd-Frank Act and its implementing regulations will have on the Company and the Bank now that they have each exceeded \$10.0 billion in total consolidated assets, see the "Supervision and Regulation" section in Item 1 "Business" and Item 1A "Risk Factors" of this form 10-K.

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, 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.

SIGNIFICANT RECENT EVENTS

Headquarters Relocation to Chicago's O'Hare Corridor

On January 3, 2017, the Company announced its plan to relocate its corporate headquarters in early 2018 to Chicago's O'Hare airport corridor from its current location in Itasca, Illinois. The new headquarters, located at Triangle Plaza at 8750 W. Bryn Mawr Avenue, is expected to offer greater accessibility and collaboration opportunities for the Company's colleagues and a larger space to accommodate future growth. The Company recognized a \$950,000 lease cancellation fee during the fourth quarter of 2016 as a result of its planned move.

Sale-Leaseback Transaction

On September 27, 2016, the Bank completed a sale-leaseback transaction, whereby the Bank sold to Oak Street Real Estate Capital, LLC ("Oak Street") for an aggregate cash purchase price of \$150.3 million, 55 properties owned and operated by the Bank as branches. Upon the sale of the branches to Oak Street, the Bank concurrently entered into triple net lease agreements with certain affiliates of Oak Street for each of the branches sold. Subject to the right of the Bank to terminate certain of the lease agreements at the end of the eleventh year, the lease agreements have initial terms of 14 years. Each lease agreement provides the Bank with five consecutive renewal options of five years each. The sale-leaseback transaction resulted in a pre-tax gain of \$88.0 million, net of transaction related expenses, of which \$5.5 million was immediately recognized in earnings with the remaining \$82.5 million to be accreted into income on a straight-line basis over the initial terms of the leases.

Issuance of Subordinated Notes

On September 29, 2016, the Company completed the issuance and sale of \$150.0 million aggregate principal amount of its 5.875% subordinated notes due 2026. Interest on the notes is payable semiannually on March 29 and September 29, beginning on March 29, 2017. The Company received proceeds of \$146.5 million, net of underwriting discounts and commissions and issuance costs. The Company used the net proceeds to repay the entire \$115.0 million aggregate principal amount outstanding of its 5.875% senior notes, which matured November 22, 2016, plus accrued interest, and for other general corporate purposes.

Acquisitions

Standard Bancshares, Inc.

On January 6, 2017, the Company completed its acquisition of Standard. With the acquisition, the Company acquired 35 banking offices located primarily in the southwest Chicago suburbs and adjacent markets in northwest Indiana, and added approximately \$2.0 billion in deposits and \$1.8 billion in loans. The merger consideration totaled approximately \$580.5 million and consisted of 21,057,085 shares of Company common stock and \$47.1 million in cash. Operating systems were converted in the first quarter of 2017.

NI Bancshares Corporation

On March 8, 2016, the Company completed its acquisition of NI Bancshares. With the acquisition, the Company obtained ten banking offices in northern Illinois, and added approximately \$400 million in loans and \$600 million in deposits. In addition, the Company acquired over \$700 million in trust assets under management, which increased the Company's trust assets under management by approximately 10%. The merger consideration totaled \$70.1 million and consisted of \$54.9 million in Company common stock and \$15.2 million in cash.

Peoples Bancorp, Inc.

On December 3, 2015, the Company completed its acquisition of Peoples. With the acquisition, the Company acquired two banking offices in Arlington Heights, Illinois, and approximately \$92 million in deposits and \$54 million in loans. The merger consideration totaled \$16.8 million and was paid in cash.

PERFORMANCE OVERVIEW

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

	Years Ended December 31,		
	2016	2015	2014
Operating Results			
Interest income	\$ 378,332	\$ 335,984	\$ 299,864
Interest expense	28,641	24,386	23,012
Net interest income	349,691	311,598	276,852
Provision for loan losses	30,983	21,152	19,168
Noninterest income	159,312	136,581	126,618
Noninterest expense	339,500	307,216	283,826
Income before income tax expense	138,520	119,811	100,476
Income tax expense	46,171	37,747	31,170
Net income	<u>\$ 92,349</u>	<u>\$ 82,064</u>	<u>\$ 69,306</u>
Weighted-average diluted common shares outstanding	79,810	77,072	74,496
Diluted earnings per common share	\$ 1.14	\$ 1.05	\$ 0.92
Diluted earnings per common share, excluding certain significant transactions ⁽¹⁾⁽²⁾	\$ 1.22	\$ 1.13	\$ 1.03
Performance Ratios			
Return on average common equity	7.38%	7.17%	6.56%
Return on average tangible common equity	10.77%	10.44%	9.32%
Return on average tangible common equity, excluding certain significant transactions ⁽²⁾	11.45%	11.19%	10.42%
Return on average assets	0.84%	0.85%	0.80%
Return on average assets, excluding certain significant transactions ⁽²⁾	0.90%	0.91%	0.89%
Tax-equivalent net interest margin ⁽²⁾⁽³⁾	3.60%	3.68%	3.69%
Efficiency ratio ⁽²⁾	62.59%	63.57%	64.57%

⁽¹⁾ Certain significant transactions include acquisition and integration related expenses associated with completed and pending acquisitions, the lease cancellation fee recognized as a result of the Company's planned 2018 corporate headquarters relocation, the net gain on the sale-leaseback transaction, and property valuation adjustments related to strategic branch initiatives.

⁽²⁾ These ratios are non-GAAP metrics. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

⁽³⁾ See the section of this Item 7 titled "Earnings Performance" below for additional discussion and calculation of this metric.

	As of December 31,			
	2016	2015	\$ Change	% Change
Balance Sheet Highlights				
Total assets	\$ 11,422,555	\$ 9,732,676	\$ 1,689,879	17.4
Total loans	8,254,145	7,161,715	1,092,430	15.3
Total deposits	8,828,603	8,097,738	730,865	9.0
Core deposits	7,635,318	6,944,272	691,046	10.0
Loans to deposits	93.5%	88.4%		
Core deposits to total deposits	86.5%	85.8%		

	As of December 31,		\$ Change	% Change
	2016	2015		
Asset Quality Highlights ⁽¹⁾				
Non-accrual loans	\$ 58,810	\$ 28,875	\$ 29,935	103.7
90 days or more past due loans, still accruing interest	4,876	2,883	1,993	69.1
Total non-performing loans	63,686	31,758	31,928	100.5
Accruing trouble debt restructurings ("TDRs")	2,291	2,743	(452)	(16.5)
OREO	26,020	27,349	(1,329)	(4.9)
Total non-performing assets	\$ 91,997	\$ 61,850	\$ 30,147	48.7
30-89 days past due loans	\$ 20,125	\$ 16,329	\$ 3,796	23.2
Non-performing assets to loans plus OREO	1.11%	0.86%		

Allowance for Credit Losses

Allowance for credit losses	\$ 87,083	\$ 74,855	\$ 12,228	16.3
Allowance for credit losses to total loans ⁽²⁾	1.06%	1.05%		
Allowance for credit losses to non-accrual loans ⁽¹⁾	146.51%	253.57%		

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

Performance Overview for 2016 Compared with 2015

Net income for 2016 was \$92.3 million, or \$1.14 per share, compared to net income of \$82.1 million, or \$1.05 per share, for 2015. Performance for 2016 and 2015 was impacted by certain significant transactions: acquisition and integration related expenses associated with completed and pending acquisitions (both 2016 and 2015), the lease cancellation fee recognized as a result of the Company's planned 2018 corporate headquarters relocation (2016), the net gain on the sale-leaseback transaction (2016), and property valuation adjustments related to strategic branch initiatives (2015). Excluding these certain significant transactions, earnings per share was \$1.22 for 2016 and \$1.13 for 2015. The increase in net income and earnings per share reflects the benefit of the Peoples acquisition completed during the fourth quarter of 2015 and the NI Bancshares acquisition completed during the first quarter of 2016, organic loan growth, and increases in fee-based revenues, partially offset by higher noninterest expenses and provision for loan losses.

Tax-equivalent net interest margin was 3.60% for 2016 compared to 3.68% for 2015, driven primarily by organic growth in floating rate loans, lower acquired and covered loan accretion, and the addition of FHLB advances, partially offset by the reinvestment of other interest-earning assets into higher yielding securities.

Total noninterest income was \$159.3 million for 2016 compared to \$136.6 million for 2015. Total fee-based revenues increased by 14.0% for 2016 compared to 2015, driven mainly by services provided to customers added in the Peoples and NI Bancshares acquisitions and continued growth in mortgage banking and capital market products income.

Total noninterest expense was \$339.5 million for 2016, increasing by 10.5% compared to 2015. Excluding certain significant transactions, total noninterest expense was \$324.2 million for 2016, increasing by \$27.0 million, or 9.1%, from 2015. This increase is primarily the result of operating costs associated with the NI Bancshares and Peoples transactions and compensation costs associated with merit increases and investments in additional talent to support organizational growth.

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, 2016 our securities available-for-sale portfolio totaled \$1.9 billion, rising \$612.8 million, or 46.9%, from December 31, 2015. Current year growth reflects purchases of certain securities and \$125.8 million in securities acquired in the NI Bancshares acquisition. For a detailed discussion of our securities portfolio, see the section of this Item 7 titled "Investment Portfolio Management" below.

Total loans of \$8.3 billion as of December 31, 2016 reflects growth of \$1.1 billion, or 15.3%, from December 31, 2015. This growth was driven primarily by strong sales production of the corporate and consumer lending teams and the acquisition of NI Bancshares, which represents \$279.7 million of loans at December 31, 2016.

Non-performing assets, excluding covered loans and covered OREO, represented 1.11% of total loans plus OREO as of December 31, 2016 compared to 0.86% as of December 31, 2015 and 1.37% as of December 31, 2014.

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 \$9.5 billion for 2016 increased \$1.1 billion from 2015, due primarily to the deposits assumed in the Peoples and NI Bancshares acquisitions and the addition of \$740.1 million of FHLB advances. For a detailed discussion of our funding sources see the section of this Item 7 titled "Funding and Liquidity Management" below.

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 certain significant transactions: property valuation adjustments related to strategic branch initiatives (2015) and acquisition and integration related expenses associated with completed and pending transactions (both 2014 and 2015). Earnings per share, excluding these certain significant transactions, was \$1.13 for 2015 and \$1.03 for 2014. The increases in net income and earnings per share reflect 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. Greater acquired and covered loan accretion and interest rate swaps substantially offset the impact of the continued shift in the loan mix to floating rate loans and a rise in other interest-earning assets.

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 by 8.2% compared to 2014. Excluding certain significant transactions 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.

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. Growth for 2015 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.

Total loans of \$7.2 billion as of December 31, 2015 reflects growth of \$424.9 million, or 6.3%, 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. The increase in consumer loans was driven by the addition of home equity loans and growth in 1-4 family mortgage loans.

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.

Total average funding sources of \$8.4 billion for 2015 increased by \$899.4 million from 2014, due primarily to 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.

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. The effect of this adjustment is shown at the bottom of Table 2. Although we believe that these non-GAAP financial measures enhance investors' understanding of our business and performance, they should not be considered an alternative to GAAP. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the years ended December 31, 2016, 2015, and 2014, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 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,								
	2016			2015			2014		
	Average Balance	Interest	Yield/Rate (%)	Average Balance	Interest	Yield/Rate (%)	Average Balance	Interest	Yield/Rate (%)
Assets									
Other interest-earning assets	\$ 250,553	\$ 1,603	0.64	\$ 650,450	\$ 2,089	0.32	\$ 543,056	\$ 1,591	0.29
Securities:									
Trading - taxable	17,795	229	1.29	17,941	184	1.03	17,964	174	0.97
Investment securities - taxable	1,454,713	28,724	1.97	795,281	18,082	2.27	649,161	14,516	2.24
Investment securities - nontaxable ⁽¹⁾	310,949	13,521	4.35	399,471	21,351	5.34	461,571	25,705	5.57
Total securities	<u>1,783,457</u>	<u>42,474</u>	<u>2.38</u>	<u>1,212,693</u>	<u>39,617</u>	<u>3.27</u>	<u>1,128,696</u>	<u>40,395</u>	<u>3.58</u>
FHLB and Federal Reserve Bank stock	47,001	1,041	2.21	38,564	1,465	3.80	35,622	1,366	3.83
Loans ⁽¹⁾⁽²⁾⁽³⁾	7,870,081	341,857	4.34	6,865,157	303,492	4.42	6,121,326	268,249	4.38
Total interest-earning assets ⁽¹⁾⁽²⁾	<u>9,951,092</u>	<u>386,975</u>	<u>3.89</u>	<u>8,766,864</u>	<u>346,663</u>	<u>3.95</u>	<u>7,828,700</u>	<u>311,601</u>	<u>3.98</u>
Cash and due from banks	146,070			130,525			120,358		
Allowance for loan losses	(82,449)			(74,028)			(79,482)		
Other assets	919,527			878,690			808,136		
Total assets	<u>\$10,934,240</u>			<u>\$ 9,702,051</u>			<u>\$ 8,677,712</u>		
Liabilities and Stockholders' Equity									
Savings deposits	\$ 1,629,917	1,174	0.07	\$ 1,463,168	1,073	0.07	\$ 1,222,292	904	0.07
NOW accounts	1,634,029	1,096	0.07	1,390,616	691	0.05	1,243,186	673	0.05
Money market deposits	1,639,746	1,805	0.11	1,561,432	1,920	0.12	1,392,367	1,784	0.13
Total interest-bearing core deposits	<u>4,903,692</u>	<u>4,075</u>	<u>0.08</u>	<u>4,415,216</u>	<u>3,684</u>	<u>0.08</u>	<u>3,857,845</u>	<u>3,361</u>	<u>0.09</u>
Time deposits	1,230,658	5,788	0.47	1,201,848	5,843	0.49	1,211,882	7,016	0.58
Total interest-bearing deposits	<u>6,134,350</u>	<u>9,863</u>	<u>0.16</u>	<u>5,617,064</u>	<u>9,527</u>	<u>0.17</u>	<u>5,069,727</u>	<u>10,377</u>	<u>0.20</u>
Borrowed funds	497,563	6,313	1.27	151,032	2,314	1.53	149,559	573	0.38
Senior and subordinated debt	197,515	12,465	6.31	201,041	12,545	6.24	191,776	12,062	6.29
Total interest-bearing liabilities	<u>6,829,428</u>	<u>28,641</u>	<u>0.42</u>	<u>5,969,137</u>	<u>24,386</u>	<u>0.41</u>	<u>5,411,062</u>	<u>23,012</u>	<u>0.43</u>
Demand deposits	2,711,687			2,479,072			2,137,778		
Other liabilities	156,519			121,784			85,306		
Stockholders' equity - common	1,236,606			1,132,058			1,043,566		
Total liabilities and stockholders' equity	<u>\$10,934,240</u>			<u>\$ 9,702,051</u>			<u>\$ 8,677,712</u>		
Tax-equivalent net interest income/margin ⁽¹⁾		358,334	3.60		322,277	3.68		288,589	3.69
Tax-equivalent adjustment		(8,643)			(10,679)			(11,737)	
Net interest income (GAAP)		<u>\$ 349,691</u>			<u>\$ 311,598</u>			<u>\$ 276,852</u>	

- ⁽¹⁾ Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."
- ⁽²⁾ Non-accrual loans, including covered loans, which totaled \$59.3 million as of December 31, 2016, \$29.4 million as of December 31, 2015, and \$66.2 million as of December 31, 2014, 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 Assets 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.

2016 Compared to 2015

Tax-equivalent net interest income was \$358.3 million for 2016 compared to \$322.3 million for 2015, an increase of 11.2%. This increase was driven primarily by organic loan growth, the acquisition of interest-earning assets from the NI Bancshares transaction late in the first quarter of 2016 and the Peoples transaction late in the fourth quarter of 2015, and the redeployment of other interest-earning assets into securities, partially offset by higher borrowed funds costs from the addition of \$740.1 million of FHLB advances during 2016.

Loan accretion on acquired and covered loans contributed \$14.6 million and \$16.3 million to net interest income for 2016 and 2015, respectively. This acquired loan accretion includes accelerated accretion on purchased credit impaired ("PCI") loans of \$1.8 million for 2016 and \$2.6 million for 2015.

Tax-equivalent net interest margin was 3.60% for 2016, decreasing 8 basis points from 2015. The decline was due primarily to organic growth in floating rate loans, lower acquired and covered loan accretion, and the addition of FHLB advances, partially offset by the reinvestment of other interest-earning assets into higher yielding securities.

Total average interest-earning assets were \$10.0 billion for 2016, an increase of \$1.2 billion, or 13.5%, from 2015, which reflects organic loan growth and security purchases, as well as \$528.8 million of interest-earning assets acquired in the NI Bancshares transaction and \$96.2 million of interest-earning assets acquired in the Peoples transaction.

Compared to 2015, total average interest-bearing liabilities increased by \$860.3 million, or 14.4%, during 2016. The increase resulted primarily from deposits acquired in the NI Bancshares and Peoples transactions and the addition of \$740.1 million of FHLB advances during 2016.

2015 Compared to 2014

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. Loan accretion on acquired and covered loans contributed \$16.3 million and \$13.6 million to net interest income for 2015 and 2014, respectively. This loan accretion includes accelerated accretion on PCI loans of \$2.6 million for 2015. There was no accelerated acquired loan accretion in 2014.

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 and the continued shift in the loan mix to floating rate loans, which was substantially offset by greater acquired and covered loan accretion and interest rate swaps.

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 were due primarily to acquisition activity.

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

	2016 compared to 2015			2015 compared to 2014		
	Volume	Rate	Total	Volume	Rate	Total
Other interest-earning assets	\$ (1,794)	\$ 1,308	\$ (486)	\$ 335	\$ 163	\$ 498
Securities:						
Trading – taxable	(1)	46	45	—	10	10
Investment securities – taxable	12,649	(2,007)	10,642	3,318	248	3,566
Investment securities – nontaxable ⁽²⁾	(4,252)	(3,578)	(7,830)	(3,351)	(1,003)	(4,354)
Total securities	8,396	(5,539)	2,857	(33)	(745)	(778)
FHLB and Federal Reserve Bank stock	469	(893)	(424)	112	(13)	99
Loans ^{(2),(3)}	43,526	(5,161)	38,365	31,929	3,314	35,243
Total tax-equivalent interest income ⁽²⁾	50,597	(10,285)	40,312	32,343	2,719	35,062
Savings deposits	101	—	101	177	(8)	169
NOW accounts	161	244	405	58	(40)	18
Money market deposits	129	(244)	(115)	204	(68)	136
Total interest-bearing core deposits	391	—	391	439	(116)	323
Time deposits	44	(99)	(55)	(58)	(1,115)	(1,173)
Total interest-bearing deposits	435	(99)	336	381	(1,231)	(850)
Borrowed funds	4,038	(39)	3,999	6	1,735	1,741
Senior and subordinated debt	(227)	147	(80)	577	(94)	483
Total tax-equivalent interest expense	4,246	9	4,255	964	410	1,374
Tax-equivalent net interest income ⁽²⁾	\$ 46,351	\$ (10,294)	\$ 36,057	\$ 31,379	\$ 2,309	\$ 33,688

- ⁽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%. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."
- ⁽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, 2016 is presented in the following table.

Table 4
Noninterest Income Analysis
(Dollar amounts in thousands)

	Years Ended December 31,			% Change	
	2016	2015	2014	2016-2015	2015-2014
Service charges on deposit accounts	\$ 40,665	\$ 39,979	\$ 36,910	1.7	8.3
Wealth management fees	33,071	29,162	26,474	13.4	10.2
Card-based fees ⁽¹⁾	29,104	26,984	24,340	7.9	10.9
Merchant servicing fees ⁽²⁾	12,533	11,739	11,260	6.8	4.3
Mortgage banking income	10,162	5,741	4,011	77.0	43.1
Capital market products income	10,024	4,806	2,231	108.6	115.4
Other service charges, commissions, and fees	9,542	8,848	5,855	7.8	51.1
Total fee-based revenues	145,101	127,259	111,081	14.0	14.6
Net gain on sale-leaseback transaction	5,509	—	—	100.0	—
BOLI income	3,647	4,185	2,873	(12.9)	45.7
Net securities gains ⁽³⁾	1,420	2,373	8,097	(40.2)	(70.7)
Other income ⁽⁴⁾⁽⁵⁾	3,635	2,764	2,672	31.5	3.4
Gains on sales of properties ⁽⁴⁾	—	—	3,954	—	(100.0)
Loss on early extinguishment of debt ⁽⁴⁾	—	—	(2,059)	—	(100.0)
Total noninterest income	\$ 159,312	\$ 136,581	\$ 126,618	16.6	7.9

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

⁽³⁾ For a discussion of this item, see the section of this Item 7 titled "Investment Portfolio Management."

⁽⁴⁾ These items are included in other income in the Consolidated Statements of Income.

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

2016 Compared to 2015

Total noninterest income was \$159.3 million for 2016, increasing by 16.6% from 2015. Total fee-based revenues were \$145.1 million, rising by 14.0% compared to 2015, reflecting growth across all categories. Approximately one-third of the increase in fee-based revenues was driven by services provided to customers acquired in the NI Bancshares and Peoples transactions. In addition, card-based fees increased as a result of higher transaction volumes and capital market products income grew due to higher sales to commercial clients.

The increase in mortgage banking income during 2016 was due primarily to sales of \$283.3 million of 1-4 family mortgage loans in the secondary market compared to sales of \$180.0 million during 2015. In addition, mortgage banking income for 2016 was positively impacted by changes in the fair value of mortgage servicing rights, which fluctuate from year to year.

Assets under management grew to \$8.6 billion, a rise of \$1.2 billion, or 15.7%, from 2015, driven primarily by the addition of \$700.0 million in trust assets under management from the NI Bancshares transaction, which contributed approximately \$4.0 million to wealth management fees during 2016.

During 2016, the Company completed a sale-leaseback transaction of 55 branches that resulted in a pre-tax gain of \$88.0 million, net of transaction related expenses, of which \$5.5 million was immediately recognized and the remaining \$82.5 million was deferred and will be accreted over future periods. Accretion related to the deferred gain of \$1.5 million was recognized in 2016 and is included in net occupancy and equipment expense.

2015 Compared to 2014

Total noninterest income was \$136.6 million for 2015, increasing by 7.9% from 2014. Total fee-based revenues were \$127.3 million, rising by 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 equipment financing contracts drove the increase in other service charges, commissions, and fees. Gains on sales of equipment financing contracts generated by FMEF totaled \$1.6 million during 2015, compared to \$327,000 during 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.

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

Noninterest Expense

A summary of noninterest expense for the three years ended December 31, 2016 is presented in the following table.

Table 5
Noninterest Expense Analysis
(Dollar amounts in thousands)

	Years Ended December 31,			% Change	
	2016	2015	2014	2016-2015	2015-2014
Salaries and employee benefits:					
Salaries and wages	\$ 151,341	\$ 133,739	\$ 116,578	13.2	14.7
Retirement and other employee benefits	33,309	31,852	27,245	4.6	16.9
Total salaries and employee benefits	<u>184,650</u>	<u>165,591</u>	<u>143,823</u>	<u>11.5</u>	<u>15.1</u>
Net occupancy and equipment expense	41,154	38,720	35,181	6.3	10.1
Professional services	25,122	22,720	23,436	10.6	(3.1)
Technology and related costs	14,765	14,581	12,875	1.3	13.3
Merchant card expense ⁽¹⁾	10,782	9,886	9,195	9.1	7.5
Advertising and promotions	7,787	7,606	8,159	2.4	(6.8)
FDIC premiums	6,268	6,017	5,824	4.2	3.3
Net OREO expense	3,024	5,281	7,075	(42.7)	(25.4)
Cardholder expenses	5,812	5,243	4,251	10.9	23.3
Other expenses	24,834	21,601	20,135	15.0	7.3
Acquisition and integration related expenses	14,352	1,389	13,872	933.3	(90.0)
Lease cancellation fee	950	—	—	100.0	—
Property valuation adjustments	—	8,581	—	(100.0)	100.0
Total noninterest expense	<u>\$ 339,500</u>	<u>\$ 307,216</u>	<u>\$ 283,826</u>	<u>10.5</u>	<u>8.2</u>

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

2016 Compared to 2015

Total noninterest expense for 2016 increased by 10.5% compared to 2015. For both years, total noninterest expense was impacted by certain significant transactions: acquisition and integration related expenses, the lease cancellation fee recognized as a result of the Company's planned 2018 corporate headquarters relocation, and property valuation adjustments related to strategic branch initiatives. Excluding these certain significant transactions, total noninterest expense was \$324.2 million for 2016, increasing by \$27.0 million, or 9.1%, from 2015. Operating costs associated with the NI Bancshares and Peoples transactions contributed over 40% of the increase in total noninterest expense, excluding certain significant transactions, from 2015. These costs occurred primarily within salaries and employee benefits, net occupancy and equipment expense, advertising and promotions, and other

expenses. In addition, the increase in salaries and wages was impacted by compensation costs associated with merit increases and investments in additional talent to support organizational growth.

Net OREO expense decreased by 42.7% compared to 2015 due to reduced valuation adjustments and lower operating expenses, partially offset by net losses on sales of OREO properties realized during 2016.

Compared to 2015, the increase in professional services and a portion of the rise in other expenses resulted from organizational growth needs. In addition, higher loan remediation expenses and vendor commissions related to the origination of equipment finance loans contributed to the increase in professional services from 2015.

During 2016, a lease cancellation fee of \$950,000 was recognized as a result of the Company's planned 2018 corporate headquarters relocation.

Property valuation adjustments of \$8.6 million were recognized during 2015 on twelve closed branches and seven parcels of land as part of the Company's strategic branch initiatives.

2015 Compared to 2014

Total noninterest expense, excluding certain significant transactions: property valuation adjustments and acquisition and integration related expenses, 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 were subsequently 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.

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,		
	2016	2015	2014
Income before income tax expense	\$ 138,520	\$ 119,811	\$ 100,476
Income tax expense:			
Federal income tax expense	\$ 38,962	\$ 30,572	\$ 24,244
State income tax expense	7,209	7,175	6,926
Total income tax expense	<u>\$ 46,171</u>	<u>\$ 37,747</u>	<u>\$ 31,170</u>
Effective income tax rate	33.3%	31.5%	31.0%

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 2015 to 2016 were due primarily to a rise in income subject to tax at statutory rates and a decrease in tax-exempt income. The increase in income tax expense and the effective tax rate from 2014 to 2015 resulted primarily from an increase in income subject to tax at statutory rates, partially offset by decreases in state statutory rates.

Our accounting policies for the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 15 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,								
	2016			2015			2014		
	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 . . .	\$ 48,581	\$ 48,541	2.5	\$ 17,000	\$ 16,980	1.3	\$ —	\$ —	—
U.S. agency securities . . .	183,528	183,637	9.6	86,461	86,643	6.6	30,297	30,431	2.6
Collateralized mortgage obligations ("CMOs") . . .	1,064,130	1,047,446	54.6	695,198	687,185	52.6	538,882	534,156	45.0
Other mortgage-backed securities ("MBSs") . . .	337,139	332,655	17.3	152,481	153,530	11.8	155,443	159,765	13.4
Municipal securities	273,319	270,846	14.1	321,437	327,570	25.1	414,255	423,820	35.7
Trust-preferred collateralized debt obligations ("CDOs") . .	47,681	33,260	1.7	48,287	31,529	2.4	48,502	33,774	2.8
Corporate debt securities	—	—	—	—	—	—	1,719	1,802	0.2
Equity securities	3,206	3,065	0.2	3,282	3,199	0.2	3,224	3,261	0.3
Total securities available-for-sale . . .	<u>\$ 1,957,584</u>	<u>\$ 1,919,450</u>	<u>100.0</u>	<u>\$ 1,324,146</u>	<u>\$ 1,306,636</u>	<u>100.0</u>	<u>\$ 1,192,322</u>	<u>\$ 1,187,009</u>	<u>100.0</u>
Securities Held-to-Maturity									
Municipal securities	<u>\$ 22,291</u>	<u>\$ 18,212</u>		<u>\$ 23,152</u>	<u>\$ 20,054</u>		<u>\$ 26,555</u>	<u>\$ 27,670</u>	

Portfolio Composition

As of December 31, 2016, our securities available-for-sale portfolio totaled \$1.9 billion, rising by \$612.8 million, or 46.9%, from December 31, 2015, following a 10.1% increase from December 31, 2014. Current year growth reflects purchases of \$933.3 million, consisting primarily of CMOs and MBSs, and \$125.8 million in securities acquired in the NI Bancshares acquisition, which were partially offset by \$360.3 million of maturities, calls, and prepayments, sales of \$53.2 million, and net amortization.

Approximately 98% of our \$1.9 billion available-for-sale portfolio as of December 31, 2016 consisted of U.S. treasury securities, U.S. agency securities, CMOs, MBSs, and municipal securities. The remainder of the portfolio was comprised of 11 CDOs with

a fair value of \$33.3 million and miscellaneous other securities with fair values of \$3.1 million. The majority of the CDOs are making interest payments as of December 31, 2016.

Investments in municipal securities consist of general obligations of local municipalities in various states. Our municipal securities portfolio has historically experienced very low default rates and provides a predictable cash flow.

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

	As of December 31,					
	2016			2015		
	Effective Duration ⁽¹⁾	Average Life ⁽²⁾	Yield to Maturity ⁽³⁾	Effective Duration ⁽¹⁾	Average Life ⁽²⁾	Yield to Maturity ⁽³⁾
Securities Available-for-Sale						
U.S. treasury securities	1.39%	1.42	0.99%	2.30%	2.38	1.16%
U.S. agency securities	2.65%	3.89	1.55%	2.78%	3.79	1.78%
CMOs	3.76%	4.49	1.88%	3.61%	3.99	1.94%
MBSs	4.15%	5.62	2.07%	3.48%	4.42	2.60%
Municipal securities	4.17%	2.51	3.85%	3.08%	3.02	4.80%
CDOs	N/M	N/M	N/M	N/M	N/M	N/M
Equity securities	N/M	N/M	N/M	N/M	N/M	N/M
Total securities available-for-sale	<u>3.72%</u>	<u>4.27</u>	<u>2.14%</u>	<u>3.39%</u>	<u>3.76</u>	<u>2.72%</u>
Securities Held-to-Maturity						
Municipal securities	<u>6.47%</u>	<u>9.08</u>	<u>3.98%</u>	<u>5.66%</u>	<u>7.86</u>	<u>4.44%</u>

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 4.27 years and 3.72%, respectively. These increases resulted primarily from the rise in market rates, maturities and sales of investment securities that were reinvested in the portfolio, and purchases of \$933.3 million in securities during 2016 which were substantially funded by excess cash.

Realized Gains and Losses

Net securities gains of \$1.4 million for 2016 resulted from the sale of municipal securities at gains of \$1.1 million, and sales of MBSs and CMOs at net gains of \$304,000.

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 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.

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. Higher market rates resulted in an increase in net unrealized losses from \$17.5 million as of December 31, 2015 to \$38.1 million as of December 31, 2016. 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 \$16.7 million as of December 31, 2016 compared to \$8.0 million as of December 31, 2015. CMOs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. We do not believe any individual unrealized loss on these securities as of December 31, 2016 represents OTTI related to credit deterioration. In addition, we do not intend to sell the CMOs with unrealized losses and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The net unrealized losses on these securities were \$14.4 million as of December 31, 2016 and \$16.8 million as of December 31, 2015. We do not believe the unrealized losses on the CDOs as of December 31, 2016 represent OTTI related to credit deterioration. In addition, we do not intend to sell the CDOs with unrealized losses and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Our estimation of fair values for the CDOs is described in Note 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, 2016							
	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	\$ 16,981	0.92%	\$ 31,600	1.03%	\$ —	—%	\$ —	—%
U.S. agency securities	14,738	1.20%	166,198	1.57%	2,592	2.47%	—	—%
CMOs ⁽²⁾	143,489	1.82%	553,330	1.89%	367,311	1.90%	—	—%
MBSs ⁽²⁾	68,778	2.00%	214,298	2.07%	54,063	2.17%	—	—%
Municipal securities ⁽³⁾	41,950	3.75%	231,369	3.87%	—	—%	—	—%
CDOs	—	—%	—	—%	—	—%	47,681	N/M
Equity securities ⁽⁴⁾	—	—%	—	—%	3,206	N/M	—	—%
Total available-for-sale securities	<u>\$ 285,936</u>	<u>2.06%</u>	<u>\$ 1,196,795</u>	<u>2.24%</u>	<u>\$ 427,172</u>	<u>1.92%</u>	<u>\$ 47,681</u>	<u>—%</u>
Securities Held-to-Maturity								
Municipal securities ⁽³⁾	<u>\$ 2,336</u>	<u>4.72%</u>	<u>\$ 6,834</u>	<u>3.91%</u>	<u>\$ 2,975</u>	<u>4.80%</u>	<u>\$ 10,146</u>	<u>3.62%</u>

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 82.9% of total loans as of December 31, 2016. Consistent with our emphasis on relationship banking, the majority of our corporate loans are made to our core, multi-relationship customers. The customers usually maintain deposit relationships and utilize our other banking services, such as treasury or wealth management services.

To maximize loan income 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 corporate 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,									
	2016	% of Total	2015	% of Total	2014	% of Total	2013	% of Total	2012	% of Total
Commercial and industrial.	\$ 2,827,658	34.3	\$ 2,524,726	35.3	\$ 2,253,556	33.5	\$ 1,830,638	32.0	\$ 1,631,474	30.2
Agricultural	389,496	4.7	387,440	5.4	358,249	5.3	321,702	5.6	268,618	5.0
Commercial real estate:										
Office, retail, and industrial	1,581,827	19.2	1,395,454	19.5	1,478,379	21.9	1,353,685	23.7	1,333,191	24.7
Multi-family	614,034	7.4	528,324	7.4	564,421	8.4	332,873	5.8	285,481	5.3
Construction	451,540	5.4	216,882	3.0	204,236	3.0	186,197	3.3	186,416	3.5
Other commercial real estate	979,359	11.9	931,190	13.0	887,897	13.2	807,071	14.1	773,121	14.4
Total commercial real estate	3,626,760	43.9	3,071,850	42.9	3,134,933	46.5	2,679,826	46.9	2,578,209	47.9
Total corporate loans	6,843,914	82.9	5,984,016	83.6	5,746,738	85.3	4,832,166	84.5	4,478,301	83.1
Home equity	732,604	8.9	653,468	9.1	543,185	8.1	427,020	7.5	390,033	7.2
1-4 family mortgages	416,354	5.0	355,854	5.0	291,463	4.3	275,992	4.8	282,948	5.3
Installment	237,999	2.9	137,602	1.9	76,032	1.1	44,827	0.8	38,394	0.7
Total consumer loans	1,386,957	16.8	1,146,924	16.0	910,680	13.5	747,839	13.1	711,375	13.2
Covered loans	23,274	0.3	30,775	0.4	79,435	1.2	134,355	2.4	197,894	3.7
Total loans	\$ 8,254,145	100.0	\$ 7,161,715	100.0	\$ 6,736,853	100.0	\$ 5,714,360	100.0	\$ 5,387,570	100.0

2016 Compared to 2015

Total loans of \$8.3 billion as of December 31, 2016 reflect growth of \$1.1 billion, or 15.3%, from December 31, 2015 including loans acquired in the NI Bancshares transaction of \$279.7 million, or 11.3% excluding these acquired loans.

Growth in commercial and industrial loans resulted primarily from broad-based increases within our middle market and sector-based lending business units. Office, retail, and industrial and multi-family loans increased compared to December 31, 2015 due to organic growth. The rise in construction loans compared to the same period was driven primarily by select commercial projects for which permanent financing is expected upon their completion.

Consumer loans totaled \$1.4 billion as of December 31, 2016 and represented 16.8% of total loans, increasing by \$240.0 million, or 20.9%, from December 31, 2015. The rise in consumer loans compared to December 31, 2015 resulted from the continued expansion of mortgage and installment loans and the addition of shorter-duration, floating rate home equity loans.

2015 Compared to 2014

Total loans of \$7.2 billion as of December 31, 2015 reflect growth of \$424.9 million, or 6.3%, 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 sector-based lending areas. 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 16.0% of total 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, and growth in 1-4 family mortgages.

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 no longer classified as covered loans and are included within the other loan categories.

Comparisons of Prior Years (2014, 2013, and 2012)

Total loans of \$6.7 billion as of December 31, 2014 reflected growth of \$1.0 billion, or 17.9%, from December 31, 2013. Excluding loans acquired in the Popular and Great Lakes transactions of \$718.3 million, total loans grew \$304.2 million, or 5.3%, from December 31, 2013. Solid performance from our legacy sales platform concentrated within our commercial and industrial, agricultural, and multi-family loan categories reflected the continued impact of greater resource investments and expansion into sector-based lending areas. Excluding loans acquired in the Popular and Great Lakes transactions of \$93.5 million, 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.

Total loans of \$5.7 billion as of December 31, 2013 reflected growth of \$326.8 million, or 6.1%, 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.

The following table summarizes loans by category as of December 31, 2016 between legacy and loans acquired in the NI Bancshares transaction, compared to loans as of December 31, 2015.

Table 11
Legacy and Acquired Loan Portfolio Composition
(Dollar amounts in thousands)

	As of December 31, 2016			As of December 31, 2015	Legacy % Change
	Legacy	Acquired ⁽¹⁾	Total		
Commercial and industrial	\$ 2,789,709	\$ 37,949	\$ 2,827,658	\$ 2,524,726	10.5
Agricultural	369,768	19,728	389,496	387,440	(4.6)
Commercial real estate:					
Office, retail, and industrial	1,515,786	66,041	1,581,827	1,395,454	8.6
Multi-family	583,792	30,242	614,034	528,324	10.5
Construction	448,247	3,293	451,540	216,882	106.7
Other commercial real estate	912,560	66,799	979,359	931,190	(2.0)
Total commercial real estate	3,460,385	166,375	3,626,760	3,071,850	12.6
Total corporate loans	6,619,862	224,052	6,843,914	5,984,016	10.6
Home equity	721,837	10,767	732,604	653,468	10.5
1-4 family mortgages	401,411	14,943	416,354	355,854	12.8
Installment	208,097	29,902	237,999	137,602	51.2
Total consumer loans	1,331,345	55,612	1,386,957	1,146,924	16.1
Covered loans	23,274	—	23,274	30,775	(24.4)
Total loans	<u>\$ 7,974,481</u>	<u>\$ 279,664</u>	<u>\$ 8,254,145</u>	<u>\$ 7,161,715</u>	<u>11.3</u>

⁽¹⁾ Amounts represent loans acquired in the NI Bancshares transaction, which was completed late in the first quarter of 2016.

Commercial, Industrial, and Agricultural Loans

Commercial, industrial, and agricultural loans represent 39.0% of total loans, and totaled \$3.2 billion as of December 31, 2016, an increase of \$305.0 million, or 10.5%, from December 31, 2015. Our commercial and industrial loans are a diverse group of loans generally located in the Chicago metropolitan area with purposes that range from supporting seasonal working capital needs to term financing of equipment. Our commercial and industrial portfolio does not have significant direct exposure to the oil and gas industry. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory. The underlying collateral securing commercial and industrial loans may fluctuate in value due to the success of the business or economic conditions. For loans secured by accounts receivable, the availability of funds for repayment and economic conditions may impact the cash flow of the borrower. Accordingly, the underwriting for these loans is based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower and may incorporate a personal guarantee.

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

Commercial Real Estate Loans

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

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

The following table provides commercial real estate loan detail as of December 31, 2016, 2015, and 2014.

Table 12
Commercial Real Estate Loans
(Dollar amounts in thousands)

	As of December 31,					
	2016	% of Total	2015	% of Total	2014	% of Total
Office, retail, and industrial:						
Office	\$ 599,432	16.5	\$ 479,374	15.6	\$ 494,637	15.8
Retail	412,614	11.4	434,241	14.1	452,225	14.4
Industrial	569,781	15.7	481,839	15.7	531,517	17.0
Total office, retail, and industrial	<u>1,581,827</u>	<u>43.6</u>	<u>1,395,454</u>	<u>45.4</u>	<u>1,478,379</u>	<u>47.2</u>
Multi-family	614,034	16.9	528,324	17.2	564,421	18.0
Construction	451,540	12.5	216,882	7.1	204,236	6.5
Other commercial real estate:						
Multi-use properties	236,430	6.5	202,225	6.6	191,011	6.1
Rental properties	158,965	4.4	131,374	4.3	123,627	3.9
Warehouses and storage	136,853	3.8	137,223	4.5	128,396	4.1
Restaurants	63,067	1.7	78,017	2.5	74,490	2.4
Recreational	58,390	1.6	57,967	1.9	48,718	1.5
Automobile dealers	53,671	1.4	50,580	1.6	53,221	1.7
Service stations and truck stops	51,403	1.4	78,459	2.6	84,108	2.7
Hotels	41,780	1.2	46,889	1.5	46,409	1.5
Religious	38,319	1.1	38,307	1.2	36,427	1.2
Other	140,481	3.9	110,149	3.6	101,490	3.2
Total other commercial real estate	<u>979,359</u>	<u>27.0</u>	<u>931,190</u>	<u>30.3</u>	<u>887,897</u>	<u>28.3</u>
Total commercial real estate	<u>\$ 3,626,760</u>	<u>100.0</u>	<u>\$ 3,071,850</u>	<u>100.0</u>	<u>\$ 3,134,933</u>	<u>100.0</u>

Commercial real estate loans represent 43.9% of total loans and totaled \$3.6 billion as of December 31, 2016, increasing by \$554.9 million, or 18.1% from December 31, 2015. The rise in construction loans compared to the same period was driven primarily by select commercial projects for which permanent financing is expected upon their completion.

The mix of properties securing the loans in our commercial real estate portfolio is balanced between owner-occupied and investor categories and are diverse in terms of type and geographic location, generally within the Company's markets. Approximately 40% of the commercial real estate portfolio is owner-occupied as of December 31, 2016. Using outstanding loan balances, non-owner-occupied commercial real estate loans to total capital was 208% and construction loans to total capital was 32% as of December 31, 2016. Non-owner-occupied (investor) commercial real estate is calculated in accordance with federal banking agency guidelines and includes construction, multi-family, non-farm non-residential property, and commercial real estate not secured by real estate loans.

Consumer Loans

Consumer loans represent 16.8% of total loans, and totaled \$1.4 billion as of December 31, 2016, an increase of \$240.0 million, or 20.9% from 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 is 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, 2016, as well as the interest rate sensitivity of the loans that have maturities in excess of one year. For additional discussion of interest rate sensitivity, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of this Form 10-K.

Table 13
Maturities and Sensitivities of Corporate Loans to Changes in Interest Rates
(Dollar amounts in thousands)

	Maturity Due In			
	One Year or Less	Greater Than One to Five Years	Greater Than Five Years	Total
As of December 31, 2016				
Commercial, industrial, and agricultural	\$ 1,391,155	\$ 1,481,646	\$ 344,353	\$ 3,217,154
Commercial real estate	885,050	2,216,320	525,390	3,626,760
Total corporate loans	<u>\$ 2,276,205</u>	<u>\$ 3,697,966</u>	<u>\$ 869,743</u>	<u>\$ 6,843,914</u>
Loans by interest rate type:				
Fixed interest rates	\$ 866,320	\$ 1,592,535	\$ 191,812	\$ 2,650,667
Floating interest rates	1,409,885	2,105,431	677,931	4,193,247
Total corporate loans	<u>\$ 2,276,205</u>	<u>\$ 3,697,966</u>	<u>\$ 869,743</u>	<u>\$ 6,843,914</u>

As of December 31, 2016, the composition of our corporate loans between fixed and floating interest rates was 39% and 61%, respectively. As of December 31, 2016, the Company hedged \$735.0 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, 48% of the loan portfolio consisted of fixed rate loans and 52% were floating rate loans as of December 31, 2016. 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 14
Loan Portfolio by Performing/Non-Performing Status
(Dollar amounts in thousands)

	Total Loans	Accruing			TDRs	Non-accrual
		Current	30-89 Days Past Due	90 Days Past Due		
As of December 31, 2016						
Commercial and industrial	\$ 2,827,658	\$ 2,790,777	\$ 6,288	\$ 374	\$ 281	\$ 29,938
Agricultural	389,496	388,579	—	736	—	181
Commercial real estate:						
Office, retail, and industrial	1,581,827	1,558,181	5,085	1,129	155	17,277
Multi-family	614,034	611,675	858	604	586	311
Construction	451,540	450,922	332	—	—	286
Other commercial real estate	979,359	973,491	1,182	1,526	268	2,892
Total commercial real estate	3,626,760	3,594,269	7,457	3,259	1,009	20,766
Total corporate loans	6,843,914	6,773,625	13,745	4,369	1,290	50,885
Home equity	732,604	724,761	2,663	17	177	4,986
1-4 family mortgages	416,354	410,119	2,241	231	824	2,939
Installment	237,999	236,264	1,476	259	—	—
Total consumer loans	1,386,957	1,371,144	6,380	507	1,001	7,925
Covered loans	23,274	21,744	918	133	—	479
Total loans	<u>\$ 8,254,145</u>	<u>\$ 8,166,513</u>	<u>\$ 21,043</u>	<u>\$ 5,009</u>	<u>\$ 2,291</u>	<u>\$ 59,289</u>
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, retail and industrial	1,395,454	1,385,764	2,647	4	164	6,875
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
Covered loans	30,775	29,670	376	174	—	555
Total loans	<u>\$ 7,161,715</u>	<u>\$ 7,109,780</u>	<u>\$ 16,705</u>	<u>\$ 3,057</u>	<u>\$ 2,743</u>	<u>\$ 29,430</u>

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

Table 15
Non-Performing Assets and Past Due Loans
(Dollar amounts in thousands)

	As of December 31,				
	2016	2015	2014	2013	2012
Non-performing assets, excluding covered loans and covered OREO					
Non-accrual loans	\$ 58,810	\$ 28,875	\$ 59,971	\$ 59,798	\$ 84,534
90 days or more past due loans, still accruing interest	4,876	2,883	1,173	3,708	8,689
Total non-performing loans	63,686	31,758	61,144	63,506	93,223
Accruing TDRs	2,291	2,743	3,704	23,770	6,867
OREO	26,020	27,349	26,898	32,473	39,953
Total non-performing assets	<u>\$ 91,997</u>	<u>\$ 61,850</u>	<u>\$ 91,746</u>	<u>\$ 119,749</u>	<u>\$ 140,043</u>
30-89 days past due loans	\$ 20,125	\$ 16,329	\$ 20,073	\$ 20,742	\$ 22,666
Non-accrual loans to total loans	0.71%	0.40%	0.90%	1.07%	1.63%
Non-performing loans to total loans	0.77%	0.45%	0.92%	1.14%	1.80%
Non-performing assets to loans plus OREO	1.11%	0.86%	1.37%	2.13%	2.68%
Non-performing covered loans and covered OREO ⁽¹⁾					
Non-accrual loans	\$ 479	\$ 555	\$ 6,186	\$ 20,942	\$ 14,182
90 days or more past due loans, still accruing interest	133	174	5,002	18,081	31,447
Total non-performing loans	612	729	11,188	39,023	45,629
OREO	63	433	8,068	8,863	13,123
Total non-performing assets	<u>\$ 675</u>	<u>\$ 1,162</u>	<u>\$ 19,256</u>	<u>\$ 47,886</u>	<u>\$ 58,752</u>
30-89 days past due loans	\$ 918	\$ 376	\$ 2,565	\$ 2,232	\$ 6,514
Total non-performing assets					
Non-accrual loans	\$ 59,289	\$ 29,430	\$ 66,157	\$ 80,740	\$ 98,716
90 days or more past due loans, still accruing interest	5,009	3,057	6,175	21,789	40,136
Total non-performing loans	64,298	32,487	72,332	102,529	138,852
Accruing TDRs	2,291	2,743	3,704	23,770	6,867
OREO	26,083	27,782	34,966	41,336	53,076
Total non-performing assets	<u>\$ 92,672</u>	<u>\$ 63,012</u>	<u>\$ 111,002</u>	<u>\$ 167,635</u>	<u>\$ 198,795</u>
30-89 days past due loans	\$ 21,043	\$ 16,705	\$ 22,638	\$ 22,974	\$ 29,180
Non-accrual loans to total loans	0.72%	0.41%	0.98%	1.41%	1.83%
Non-performing loans to total loans	0.78%	0.45%	1.07%	1.79%	2.58%
Non-performing assets to loans plus OREO	1.12%	0.88%	1.64%	2.91%	3.65%
Interest income not recognized in the financial statements related to non-accrual loans for 2016					\$ 1,190

⁽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. 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

Total non-performing assets represented 1.11% of total loans and OREO, excluding covered loans and covered OREO, at December 31, 2016, compared to 0.86% and 1.37% at December 31, 2015 and 2014, respectively. As of December 31, 2016, non-performing

assets, excluding covered loans and covered OREO, increased by \$30.1 million, or 48.7%, from December 31, 2015. This increase resulted primarily from the transfer of five corporate loan relationships to non-accrual status during 2016. The Company has recorded any expected losses and implemented remediation plans associated with these credits.

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. 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-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 by 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 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.

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 16
TDRs by Type
(Dollar amounts in thousands)

	As of December 31,					
	2016		2015		2014	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
Commercial and industrial	3	\$ 431	5	\$ 1,344	7	\$ 19,068
Commercial real estate:						
Office, retail, and industrial	3	4,888	1	164	2	586
Multi-family	3	754	3	784	5	1,119
Other commercial real estate	3	316	3	340	5	616
Total commercial real estate loans	9	5,958	7	1,288	12	2,321
Total corporate loans	12	6,389	12	2,632	19	21,389
Home equity	16	997	17	1,161	17	1,157
1-4 family mortgages	11	1,202	11	1,274	10	1,062
Total consumer loans	27	2,199	28	2,435	27	2,219
Total TDRs	39	\$ 8,588	40	\$ 5,067	46	\$ 23,608
Accruing TDRs	18	\$ 2,291	23	\$ 2,743	29	\$ 3,704
Non-accrual TDRs	21	6,297	17	2,324	17	19,904
Total TDRs	39	\$ 8,588	40	\$ 5,067	46	\$ 23,608
Year-to-date charge-offs on TDRs		\$ 1,492		\$ 2,687		\$ 8,457
Specific reserves related to TDRs		—		758		1,765

As of December 31, 2016, TDRs totaled \$8.6 million, increasing by \$3.5 million, or 69.5%, from December 31, 2015. This increase was driven primarily by the addition of two corporate loan relationships to non-accrual TDR status. The December 31, 2016 total includes \$2.3 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.

As of December 31, 2015, the decrease in non-accrual TDRs was driven primarily by the final resolution of a large commercial loan relationship originally identified in the second half of 2014. The decline in accruing TDRs from December 31, 2014 resulted primarily from payoffs.

Corporate Performing Potential Problem Loans

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

Table 17
Corporate Performing Potential Problem Loans
(Dollar amounts in thousands)

	December 31, 2016			December 31, 2015		
	Special Mention ⁽¹⁾	Substandard ⁽²⁾	Total ⁽³⁾	Special Mention ⁽¹⁾	Substandard ⁽²⁾	Total ⁽³⁾
Commercial and industrial	\$ 92,340	\$ 66,266	\$ 158,606	\$ 86,263	\$ 52,590	\$ 138,853
Agricultural	17,039	5,894	22,933	—	5,562	5,562
Commercial real estate:						
Office, retail, and industrial	33,852	39,513	73,365	32,463	35,788	68,251
Multi-family	3,972	2,029	6,001	5,742	3,970	9,712
Construction	111	12,197	12,308	4,678	9,803	14,481
Other commercial real estate	11,808	13,544	25,352	13,179	13,654	26,833
Total commercial real estate	49,743	67,283	117,026	56,062	63,215	119,277
Total corporate performing potential problem loans	\$ 159,122	\$ 139,443	\$ 298,565	\$ 142,325	\$ 121,367	\$ 263,692
Corporate performing potential problem loans to corporate loans	2.33%	2.04%	4.36%	2.38%	2.03%	4.41%

- (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 that may jeopardize the liquidation of the debt. These loans continue to accrue interest because they are well-secured and collection of principal and interest is expected within a reasonable time.
- (3) Total corporate performing potential problem loans excludes accruing TDRs of \$834,000 as of December 31, 2016 and \$862,000 as of December 31, 2015.

Corporate performing potential problem loans totaled \$298.6 million, or 4.36% of corporate loans, as of December 31, 2016, consistent with 4.41% of corporate loans as of December 31, 2015. Management has specific monitoring and remediation plans associated with these loans.

OREO

OREO consists of properties acquired as the result of borrower defaults on loans. OREO, was \$26.1 million as of December 31, 2016, compared to \$27.8 million as of December 31, 2015. As of December 31, 2016, total OREO includes \$2.9 million acquired in the NI Bancshares transaction. 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 18
OREO Properties by Type
(Dollar amounts in thousands)

	As of December 31,		
	2016	2015	2014
Single-family homes	\$ 2,595	\$ 3,965	\$ 3,611
Land parcels:			
Raw land	1,464	1,464	5,909
Farm land	—	—	1,300
Commercial lots	8,176	9,207	9,347
Single-family lots	947	1,719	1,655
Total land parcels	10,587	12,390	18,211
Multi-family units	48	426	1,041
Commercial properties	12,853	11,001	12,103
Total OREO	\$ 26,083	\$ 27,782	\$ 34,966

OREO Activity

A rollforward of OREO balances for the years ended December 31, 2016 and 2015 is presented in the following table.

Table 19
OREO Rollforward
(Dollar amounts in thousands)

	Years Ended December 31,	
	2016	2015
Beginning balance	\$ 27,782	\$ 34,966
Transfers from loans	4,173	13,504
Acquired	2,863	515
Proceeds from sales	(7,539)	(18,572)
Gains on sales of OREO	(222)	1,316
OREO valuation adjustments	(974)	(3,947)
Ending Balance	\$ 26,083	\$ 27,782

Allowance for Credit Losses

Methodology for the Allowance for Credit Losses

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

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

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk ratings by regulatory authorities. Management believes that the allowance for credit losses is an appropriate estimate of credit losses inherent in the loan portfolio as of December 31, 2016.

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, 2016 and 2015.

Table 20
Allowance for Credit Losses and Acquisition Adjustment
(Dollar amounts in thousands)

	Loans, Excluding Acquired Loans	Acquired Loans ⁽¹⁾	Total
Year Ended December 31, 2016			
Beginning balance	\$ 73,268	\$ 1,587	\$ 74,855
Net charge-offs	(18,208)	(322)	(18,530)
Provision for loan losses	29,157	1,601	30,758
Ending balance	<u>\$ 84,217</u>	<u>\$ 2,866</u>	<u>\$ 87,083</u>
As of December 31, 2016			
Total loans	\$ 7,620,100	\$ 634,045	\$ 8,254,145
Remaining acquisition adjustment ⁽²⁾	N/A	22,574	22,574
Allowance for credit losses to total loans	1.11%	0.45%	1.06%
Remaining acquisition adjustment to acquired loans	N/A	3.56%	N/A
Year Ended December 31, 2015			
Beginning balance	\$ 74,510	\$ —	\$ 74,510
Net charge-offs	(19,981)	(235)	(20,216)
Provision for loan losses	18,739	1,822	20,561
Ending balance	<u>\$ 73,268</u>	<u>\$ 1,587</u>	<u>\$ 74,855</u>
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

N/A - Not applicable.

⁽¹⁾ These amounts and ratios relate to the loans acquired in completed acquisitions and exclude covered loans and loans acquired in FDIC-assisted transactions that are no longer covered under the FDIC agreements.

⁽²⁾ The remaining acquisition adjustment consists of \$10.8 million and \$11.8 million relating to PCI and non-purchased credit impaired ("Non-PCI") loans, respectively, as of December 31, 2016, and \$8.5 million and \$9.2 million relating to PCI and Non-PCI loans, respectively, as of December 31, 2015.

Excluding acquired loans, the allowance for credit losses to total loans was 1.11% as of December 31, 2016. The acquisition adjustment increased by \$4.9 million during the year ended December 31, 2016, due primarily to a \$15.6 million acquisition adjustment related to the NI Bancshares transaction recorded in the first quarter of 2016, which was partially offset by \$10.9 million accreted into interest income. This activity resulted in a remaining acquisition adjustment as a percent of acquired loans of 3.56% as of December 31, 2016. Acquired loans that are renewed at market terms are no longer classified as acquired loans. These loans totaled \$117.6 million and \$61.6 million as of December 31, 2016 and 2015, respectively, and are included in loans,

excluding acquired loans, in the table above and allocated an allowance in accordance with our allowance for loan losses methodology.

Table 21
Allowance for Credit Losses and
Summary of Credit Loss Experience
(Dollar amounts in thousands)

	Years Ended December 31,				
	2016	2015	2014	2013	2012
Change in allowance for credit losses					
Beginning balance	\$ 74,855	\$ 74,510	\$ 87,121	\$ 102,812	\$ 121,962
Loan charge-offs:					
Commercial, industrial, and agricultural	9,844	15,885	17,424	12,094	64,668
Office, retail, and industrial	4,707	2,887	7,345	4,744	34,968
Multi-family	307	545	943	1,029	3,361
Construction	134	136	1,052	1,916	27,811
Other commercial real estate	2,932	2,643	4,834	4,784	36,474
Consumer	5,229	4,187	7,574	9,414	10,910
Covered	140	634	1,012	4,599	4,615
Total loan charge-offs	23,293	26,917	40,184	38,580	182,807
Recoveries of loan charge-offs:					
Commercial, industrial, and agricultural	2,451	2,573	3,800	3,797	3,393
Office, retail, and industrial	337	467	497	228	577
Multi-family	97	15	87	584	275
Construction	56	350	166	1,032	451
Other commercial real estate	524	1,993	1,727	1,646	125
Consumer	1,298	1,183	729	1,071	784
Covered	—	120	1,199	24	—
Total recoveries of loan charge-offs	4,763	6,701	8,205	8,382	5,605
Net loan charge-offs	18,530	20,216	31,979	30,198	177,202
Provision for loan losses	30,983	21,152	19,168	16,257	158,052
(Decrease) increase in reserve for unfunded commitments ⁽¹⁾	(225)	(591)	200	(1,750)	—
Total provision for loan losses and other expense	30,758	20,561	19,368	14,507	158,052
Ending balance	\$ 87,083	\$ 74,855	\$ 74,510	\$ 87,121	\$ 102,812

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

	Years Ended December 31,				
	2016	2015	2014	2013	2012
Allowance for credit losses					
Allowance for loan losses	\$ 85,165	\$ 71,992	\$ 65,468	\$ 72,946	\$ 87,384
Allowance for covered loan losses	918	1,638	7,226	12,559	12,062
Total allowance for loan losses	86,083	73,630	72,694	85,505	99,446
Reserve for unfunded commitments	1,000	1,225	1,816	1,616	3,366
Total allowance for credit losses	\$ 87,083	\$ 74,855	\$ 74,510	\$ 87,121	\$ 102,812
Allowance for credit losses to loans ⁽¹⁾	1.06%	1.05%	1.11%	1.52%	1.91%
Allowance for credit losses to non-accrual loans ⁽²⁾	146.51%	253.57%	112.19%	124.69%	107.35%
Allowance for credit losses to non-performing loans ⁽²⁾	135.30%	230.55%	110.04%	117.41%	97.35%
Average loans	\$ 7,864,851	\$ 6,858,193	\$ 6,109,928	\$ 5,475,110	\$ 5,435,670
Net loan charge-offs to average loans	0.24%	0.29%	0.52%	0.55%	3.26%

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

⁽²⁾ 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 \$87.1 million as of December 31, 2016, a \$12.2 million increase from December 31, 2015, and represented 1.06% of total loans, consistent with 1.05% as of December 31, 2015. The provision for loan losses was \$31.0 million for 2016 compared to \$21.2 million for 2015, \$19.2 million for 2014, and \$16.3 million for 2013. The increase in the allowance for credit losses and provision compared to these prior periods resulted primarily from loan growth and the impact of establishing an allowance on acquired loans. The provision for 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.

Net loan charge-offs to average loans declined to 0.24% for 2016 compared to 0.29% for 2015. The significant improvement since 2012 reflects management's continued efforts to remediate problem credits.

Allocation of the Allowance for Credit Losses

Table 22
Allocation of Allowance for Credit Losses
(Dollar amounts in thousands)

	As of December 31,									
	2016	% of Total Loans ⁽¹⁾	2015	% of Total Loans ⁽¹⁾	2014	% of Total Loans ⁽¹⁾	2013	% of Total Loans ⁽¹⁾	2012	% of Total Loans ⁽¹⁾
Commercial, industrial, and agricultural	\$ 40,709	39.0	\$ 37,074	40.7	\$ 29,458	38.8	\$ 30,381	37.6	\$ 36,761	35.2
Commercial real estate:										
Office, retail, and industrial	17,534	19.2	13,116	19.5	10,992	21.9	10,405	23.7	11,432	24.7
Multi-family	3,254	7.4	2,462	7.4	2,249	8.4	2,017	5.8	3,575	5.3
Construction	3,586	5.4	1,533	3.0	2,769	3.0	6,712	3.3	10,241	3.5
Other commercial real estate	8,297	11.9	6,661	13.0	8,841	13.2	11,187	14.1	14,699	14.4
Total commercial real estate	32,671	43.9	23,772	42.9	24,851	46.5	30,321	46.9	39,947	47.9
Consumer	12,785	16.8	12,371	16.0	12,975	13.5	13,860	13.1	14,042	13.2
Covered loans	918	0.3	1,638	0.4	7,226	1.2	12,559	2.4	12,062	3.7
Total allowance for credit losses	<u>\$ 87,083</u>	<u>100.0</u>	<u>\$ 74,855</u>	<u>100.0</u>	<u>\$ 74,510</u>	<u>100.0</u>	<u>\$ 87,121</u>	<u>100.0</u>	<u>\$ 102,812</u>	<u>100.0</u>

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

The allowance for credit losses increased to \$87.1 million as of December 31, 2016 from \$74.9 million as of December 31, 2015, driven primarily by loan growth and the impact of establishing an allowance on acquired loans.

The allowance for credit losses remained consistent at \$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 a continuing 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 reflected continuing 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.

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 cash surrender value ("CSV") with changes recorded as a component of noninterest income in the Consolidated Statements of Income. As of December 31, 2016, the CSV of BOLI assets totaled \$219.7 million. Income and proceeds for BOLI policies are not subject to income taxation.

As of December 31, 2016, 39.1% of our total BOLI portfolio is invested in general account life insurance distributed among thirteen insurance carriers, all of which carry investment grade ratings. This general account life insurance typically includes a feature guaranteeing minimum returns. The remaining 60.9% 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, 2016, we had BOLI income of \$3.6 million compared to prior year BOLI income of \$4.2 million.

GOODWILL

The carrying amount of goodwill was \$340.9 million as of December 31, 2016 and \$319.0 million as of December 31, 2015. Goodwill increased by \$21.9 million from December 31, 2015, which consisted of \$21.8 million related to the NI Bancshares acquisition and a \$121,000 measurement period adjustment related to finalizing the fair values of assets acquired and liabilities assumed in the Peoples 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 2016, we performed our annual impairment test of goodwill at October 1, 2016 and determined that goodwill was not impaired at that date and there was no indication that goodwill was impaired as of December 31, 2016.

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 23
Deferred Tax Assets
(Dollar amounts in thousands)

	As of December 31,			% Change	
	2016	2015	2014	2016-2015	2015-2014
Net deferred tax assets.	\$ 100,207	\$ 86,693	\$ 91,685	15.6	(5.4)

Management assessed whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. This assessment considered whether, in the periods of reversal, the deferred tax assets can be realized through carryback to income in prior years, future reversals of existing deferred tax liabilities, and future taxable income, including taxable income resulting from the application of future tax planning strategies. The assessment also considered positive and negative evidence, including pre-tax income 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, 2016.

Net deferred tax assets increased in 2016 due primarily to accelerated tax gains associated with the disposition of assets resulting from the sale-leaseback transaction and securities valuation adjustments, partially offset by the utilization of net operating loss and credit carryforwards. Net deferred tax assets decreased from 2015 due to the utilization of net operating loss and 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, 2016, 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 \$64.9 million for the year ended December 31, 2016. The primary source of liquidity for the Parent Company is dividends from subsidiaries. The Parent Company had \$48.0 million in junior subordinated debentures, \$146.6 million in subordinated notes, and cash and interest-bearing deposits of \$140.2 million as of December 31, 2016. On September 27, 2016, the Company entered into a loan agreement with U.S. Bank National Association providing for a \$50.0 million short-term, unsecured revolving credit facility. The line of credit will mature on September 26, 2017. As of December 31, 2016, no amount was outstanding under the facility. 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, 2016 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 24
Funding Sources - Average Balances
(Dollar amounts in thousands)

	Years Ended December 31,						% Change	
	2016	% of Total	2015	% of Total	2014	% of Total	2016-2015	2015-2014
Demand deposits	\$ 2,711,687	28.4	\$ 2,479,072	29.3	\$ 2,137,778	28.3	9.4	16.0
Savings deposits	1,629,917	17.1	1,463,168	17.3	1,222,292	16.2	11.4	19.7
NOW accounts	1,634,029	17.1	1,390,616	16.5	1,243,186	16.5	17.5	11.9
Money market accounts	1,639,746	17.2	1,561,432	18.5	1,392,367	18.5	5.0	12.1
Core deposits	7,615,379	79.8	6,894,288	81.6	5,995,623	79.5	10.5	15.0
Time deposits	1,211,554	12.7	1,185,730	14.0	1,195,796	15.8	2.2	(0.8)
Brokered deposits	19,104	0.2	16,118	0.2	16,086	0.2	18.5	0.2
Total time deposits	1,230,658	12.9	1,201,848	14.2	1,211,882	16.0	2.4	(0.8)
Total deposits	8,846,037	92.7	8,096,136	95.8	7,207,505	95.5	9.3	12.3
Securities sold under agreements to repurchase	123,898	1.3	118,838	1.4	106,072	1.4	4.3	12.0
Federal funds purchased	—	—	18	—	82	—	(100.0)	(78.0)
FHLB advances	373,344	3.9	32,176	0.4	43,405	0.6	1,060.3	(25.9)
Other borrowings	321	—	—	—	—	—	N/M	—
Total borrowed funds	497,563	5.2	151,032	1.8	149,559	2.0	229.4	1.0
Senior and subordinated debt	197,515	2.1	201,041	2.4	191,776	2.5	(1.8)	4.8
Total funding sources	\$ 9,541,115	100.0	\$ 8,448,209	100.0	\$ 7,548,840	100.0	12.9	11.9

N/M – Not meaningful.

Average Funding Sources

Total average funding sources of \$9.5 billion for 2016 increased by \$1.1 billion, or 12.9%, from 2015, due primarily to \$91.8 million and \$594.9 million of deposits assumed in the Peoples and NI Bancshares acquisitions, respectively, which further strengthened our core deposit base, and the addition of \$740.1 million of FHLB advances throughout 2016.

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.

Time Deposits

Table 25
Maturities of Time Deposits Greater Than \$100,000
(Dollar amounts in thousands)

	As of December 31, 2016
Three months or less	\$ 82,044
Greater than three months to six months	63,669
Greater than six months to twelve months.	95,100
Greater than twelve months.	196,914
Total	<u>\$ 437,727</u>

Borrowed Funds

Table 26
Borrowed Funds
(Dollar amounts in thousands)

	2016		2015		2014	
	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %
At period-end:						
Securities sold under agreements to repurchase	\$ 129,008	0.05	\$ 155,196	0.17	\$ 137,994	0.05
Federal funds purchased	—	—	—	—	—	—
FHLB advances	750,000	0.60	9,900	0.40	—	—
Total borrowed funds.	<u>\$ 879,008</u>	<u>0.52</u>	<u>\$ 165,096</u>	<u>0.18</u>	<u>\$ 137,994</u>	<u>0.05</u>
Average for the year-to-date period:						
Securities sold under agreements to repurchase	\$ 123,898	0.08	\$ 118,838	0.07	\$ 106,072	0.04
Federal funds purchased	—	—	18	—	82	—
FHLB advances	373,344	1.66	32,176	6.93	43,405	1.23
Other borrowings	321	3.74	—	—	—	—
Total borrowed funds.	<u>\$ 497,563</u>	<u>1.27</u>	<u>\$ 151,032</u>	<u>1.53</u>	<u>\$ 149,559</u>	<u>0.38</u>
Maximum amount outstanding at the end of any day during the period:						
Securities sold under agreements to repurchase	\$ 174,266		\$ 163,982		\$ 149,067	
Federal funds purchased	—		1,300		25,000	
FHLB advances	750,000		62,500		114,550	
Other borrowings	2,400		—		—	

Average borrowed funds totaled \$497.6 million for 2016, up by \$346.5 million from 2015. This increase was due primarily to the increase in FHLB advances of \$740.1 million during 2016. The weighted-average rate on FHLB advances for the year-to-date period was impacted by the hedging of \$325.0 million of FHLB advances using interest rate swaps through which the Company receives variable amounts and pays fixed amounts. As of December 31, 2016, the weighted-average interest rate paid on these interest rate swaps was 2.19%. For further discussion of interest rate swaps, see Note 20 of "Notes to the Consolidated Financial

Statements" in Item 8 of this Form 10-K. The remaining \$425.0 million of FHLB advances have fixed interest rates that range from 0.51% to 0.70%.

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%.

On September 27, 2016, the Company entered into a loan agreement with U.S. Bank National Association providing for a \$50.0 million short-term, unsecured revolving credit facility. Advances will bear interest at a rate equal to one-month LIBOR plus 1.75%, adjusted on a monthly basis, and the Company must pay an unused facility fee equal to 0.35% per annum on a quarterly basis. Management expects to use this line of credit for general corporate purposes. As of December 31, 2016, no amount was outstanding under the facility.

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

Senior and Subordinated Debt

Average senior and subordinated debt decreased by \$3.5 million, or 1.8%, from 2015 to 2016. On April 1, 2016, \$38.5 million of 5.850% subordinated notes matured and were repaid by the Company. On September 29, 2016, the Company completed the issuance and sale of \$150.0 million aggregate principal amount of its 5.875% subordinated notes due 2026. The Company received proceeds of \$146.5 million, net of underwriting discounts and commissions and issuance costs. The Company used the net proceeds to repay the \$115.0 million aggregate principal amount of its 5.875% senior notes that matured on November 22, 2016, plus accrued interest, and for other general corporate purposes. See Note 12 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for additional discussion regarding these transactions.

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.

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, 2016. 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 27
Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Items
(Dollar amounts in thousands)

	Note Reference	Payments Due In				Total
		One Year or Less	Greater Than One to Three Years	Greater Than Three to Five Years	Greater Than Five Years	
Core deposits (no stated maturity)	10	\$ 7,635,318	\$ —	\$ —	\$ —	\$ 7,635,318
Time deposits	10	679,232	273,955	239,732	366	1,193,285
Borrowed funds	11	879,008	—	—	—	879,008
Subordinated debt	12	—	—	—	194,603	194,603
Operating leases	8	18,229	32,823	31,131	145,095	227,278
Pension liability	16	16,009	10,367	9,393	33,190	68,959
Uncertain tax positions liability	15	N/M	N/M	N/M	N/M	2,039
Commitments to extend credit	21	N/M	N/M	N/M	N/M	2,560,902
Letters of credit	21	N/M	N/M	N/M	N/M	100,430

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." 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, 2016 and December 31, 2015.

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. For a discussion on non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

Table 28
Capital Measurements
(Dollar amounts in thousands)

	As of December 31,		As of December 31, 2016		
	2016	2015	Regulatory Minimum For Well- Capitalized	Excess Over Required Minimums	
Bank regulatory capital ratios					
Total capital to risk-weighted assets	10.73%	11.02%	10.00%	7%	\$ 71,028
Tier 1 capital to risk-weighted assets	9.83%	10.13%	8.00%	23%	\$ 178,436
Common equity Tier 1 to risk-weighted assets	9.83%	10.13%	6.50%	51%	\$ 324,304
Tier 1 capital to average assets	8.76%	9.09%	5.00%	75%	\$ 410,699
Company regulatory capital ratios					
Total capital to risk-weighted assets	12.23%	11.15%	N/A	N/A	N/A
Tier 1 capital to risk-weighted assets	9.90%	10.28%	N/A	N/A	N/A
Common equity Tier 1 to risk-weighted assets	9.39%	9.73%	N/A	N/A	N/A
Tier 1 capital to average assets	8.99%	9.40%	N/A	N/A	N/A
Company tangible common equity ratios ⁽¹⁾⁽²⁾:					
Tangible common equity to tangible assets	8.05%	8.59%	N/A	N/A	N/A
Tangible common equity, excluding accumulated other comprehensive loss, to tangible assets	8.42%	8.89%	N/A	N/A	N/A
Tangible common equity to risk-weighted assets	8.88%	9.29%	N/A	N/A	N/A

N/A - Not applicable.

⁽¹⁾ Ratios are not subject to formal Federal Reserve regulatory guidance.

⁽²⁾ Tangible common equity ratios are non-GAAP metrics. For a discussion on non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

The increase in the Company's total capital to risk-weighted assets compared to December 31, 2015 resulted primarily from the issuance of \$150.0 million of subordinated notes during the year. The reduction in the Company's Tier 1 and CET1 capital ratios compared to December 31, 2015 resulted mainly from the impact of the NI Bancshares transaction that was completed during the year. The Bank's regulatory ratios exceeded all regulatory mandated ratios for characterization as "well-capitalized" as of December 31, 2016.

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, 2016 and 2015 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 119,823 treasury shares in 2016 and 154,125 treasury shares in 2015 to fund these plans.

Dividends

The Company's Board declared stock dividends of \$0.07 per share for the first quarter of 2014, followed by an increase 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 2016.

QUARTERLY EARNINGS

Table 29
Quarterly Earnings Performance ⁽¹⁾
(Dollar amounts in thousands, except per share data)

	2016				2015			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income	\$ 96,328	\$ 97,906	\$ 96,550	\$ 87,548	\$ 84,667	\$ 84,292	\$ 84,556	\$ 82,469
Interest expense	8,304	6,934	6,569	6,834	6,655	6,390	5,654	5,687
Net interest income	88,024	90,972	89,981	80,714	78,012	77,902	78,902	76,782
Provision for loan losses	5,307	9,998	8,085	7,593	4,500	4,100	6,000	6,552
Fee-based revenues	37,107	38,466	35,934	33,594	33,927	33,118	31,573	28,641
Net securities gains	323	187	23	887	822	524	515	512
Other noninterest income	2,281	7,200	1,865	1,445	1,729	1,372	1,900	1,948
Noninterest expense	92,669	82,888	81,354	82,589	86,743	74,365	73,451	72,657
Income before income tax expense	29,759	43,939	38,364	26,458	23,247	34,451	33,439	28,674
Income tax expense	9,041	15,537	13,097	8,496	6,923	11,167	10,865	8,792
Net income	\$ 20,718	\$ 28,402	\$ 25,267	\$ 17,962	\$ 16,324	\$ 23,284	\$ 22,574	\$ 19,882
Basic earnings per common share	\$ 0.25	\$ 0.35	\$ 0.31	\$ 0.23	\$ 0.21	\$ 0.30	\$ 0.29	\$ 0.26
Diluted earnings per common share	\$ 0.25	\$ 0.35	\$ 0.31	\$ 0.23	\$ 0.21	\$ 0.30	\$ 0.29	\$ 0.26
Diluted earnings per common share, excluding certain significant transactions ⁽²⁾	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.27	\$ 0.29	\$ 0.30	\$ 0.29	\$ 0.26
Dividends declared per common share	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09
Return on average common equity	6.42%	8.85%	8.13%	6.06%	5.55%	8.06%	7.97%	7.15%
Return on average common equity, excluding certain significant transactions ⁽²⁾	8.02%	8.03%	8.25%	7.09%	7.60%	8.06%	7.97%	7.15%
Return on average assets	0.72%	1.00%	0.93%	0.72%	0.66%	0.94%	0.94%	0.85%
Return on average assets, excluding certain significant transactions ⁽²⁾	0.90%	0.91%	0.94%	0.84%	0.90%	0.94%	0.94%	0.85%
Tax-equivalent net interest margin	3.44%	3.60%	3.72%	3.66%	3.59%	3.58%	3.76%	3.79%

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

⁽²⁾ These ratios are non-GAAP metrics. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

Quarterly earnings performance was impacted by certain significant transactions. Net income for the fourth, third, second, and first quarters of 2016 include pre-tax acquisition and integration expenses of \$7.5 million, \$1.2 million, \$618,000, and \$5.0 million, respectively. In addition, earnings for the fourth quarter of 2016 were impacted by a pre-tax lease cancellation fee of \$950,000 and earnings for the third quarter of 2016 were impacted by a \$5.5 million pre-tax gain as a result of the Company's sale-leaseback transaction. Excluding these certain significant transactions, earnings per share was \$0.32 for each of the fourth, third, and second quarters of 2016 and \$0.27 for the first quarter of 2016. Certain significant transactions that impacted net income for the fourth quarter of 2015 include valuation adjustments related to strategic branch initiatives of \$8.6 million and acquisition and integration expenses of \$1.4 million. Excluding these transactions, earnings per share was \$0.29 for the fourth quarter of 2015.

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 losses, while recoveries of amounts previously charged-off are credited to the allowance for loan losses. Additions to the allowance for loan losses are established through the provision for 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 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, 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.

NON-GAAP FINANCIAL INFORMATION AND RECONCILIATIONS

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

The Company presents EPS, the efficiency ratio, return on average assets, and return on average tangible common equity, all excluding certain significant transactions. All of these metrics exclude acquisition and integration related expenses associated with completed and pending acquisitions, the lease cancellation fee recognized as a result of the Company's planned 2018 corporate headquarters relocation, the net gain on the sale-leaseback transaction, and property valuation adjustments related to strategic branch initiatives. Management believes excluding these transactions from EPS, the efficiency ratio, return on average assets, and return on average tangible common equity are useful in assessing the Company's underlying operational performance since these transactions do not pertain to its core business operations and their exclusion facilitates better comparability between periods. Management believes that excluding acquisition and integration related expenses from these metrics is useful to the Company, as well as analysts and investors, since these expenses can vary significantly based on the size, type, and structure of each acquisition. Additionally, management believes excluding these transactions from these metrics enhances comparability for peer comparison purposes.

The tax-equivalent adjustment to net interest income and net interest margin recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 35% tax rate. Management believes that it is standard practice in the banking industry to present net interest income and net interest margin on a fully tax-equivalent basis and that it enhances comparability for peer comparison purposes.

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

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

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

Years Ended December 31,

	2016	2015	2014
Earnings Per Share			
Net income	\$ 92,349	\$ 82,064	\$ 69,306
Net income applicable to non-vested restricted shares	(1,043)	(882)	(836)
Net income applicable to common shares	91,306	81,182	68,470
Certain significant transactions, net of tax:			
Acquisition and integration related expenses	14,352	1,389	13,872
Tax effect of acquisition and integration related expenses	(5,741)	(556)	(5,549)
Lease cancellation fee	950	—	—
Tax effect of lease cancellation fee	(380)	—	—
Net gain on sale-leaseback transaction	(5,509)	—	—
Tax effect of net gain on sale-leaseback transaction	2,204	—	—
Property valuation adjustments	—	8,581	—
Tax effect of property valuation adjustments	—	(3,432)	—
Gains on sales of properties	—	—	(3,954)
Tax effect of gains on sales of properties	—	—	1,582
Loss on early extinguishment of debt	—	—	2,059
Tax effect loss on early extinguishment of debt	—	—	(824)
Total certain significant transactions, net of tax	5,876	5,982	7,186
Net income applicable to common shares, excluding certain significant transactions ⁽¹⁾	\$ 97,182	\$ 87,164	\$ 76,793
Weighted-average common shares outstanding:			
Weighted-average common shares outstanding (basic)	79,797	77,059	74,484
Dilutive effect of common stock equivalents	13	13	12
Weighted-average diluted common shares outstanding	79,810	77,072	74,496
Basic EPS	\$ 1.14	\$ 1.05	\$ 0.92
Diluted EPS	\$ 1.14	\$ 1.05	\$ 0.92
Diluted EPS, excluding certain significant transactions ⁽¹⁾	\$ 1.22	\$ 1.13	\$ 1.03
Tax-Equivalent Net Interest Income			
Net interest income	\$ 349,691	\$ 311,598	\$ 276,852
Tax-equivalent adjustment	8,643	10,679	11,737
Tax-equivalent net interest income ⁽²⁾	\$ 358,334	\$ 322,277	\$ 288,589
Efficiency Ratio Calculation			
Noninterest expense	\$ 339,500	\$ 307,216	\$ 283,826
Less:			
Net OREO expense	(3,024)	(5,281)	(7,075)
Acquisition and integration related expenses	(14,352)	(1,389)	(13,872)
Lease cancellation fee	(950)	—	—
Property valuation adjustments	—	(8,581)	—
Total	\$ 321,174	\$ 291,965	\$ 262,879
Tax-equivalent net interest income ⁽²⁾	\$ 358,334	\$ 322,277	\$ 288,589
Fee-based revenues	145,101	127,259	111,081
Add:			
Other income, excluding BOLI income	3,635	2,764	2,672
BOLI income	3,647	4,185	2,873
Tax-equivalent adjustment of BOLI income	2,431	2,790	1,915
Total	\$ 513,148	\$ 459,275	\$ 407,130
Efficiency ratio	62.59%	63.57%	64.57%

Note: Non-GAAP Reconciliation footnotes are located at the end of this section.

	Years Ended December 31,		
	2016	2015	2014
Return on Average Common and Tangible Common Equity			
Net income applicable to common shares	\$ 91,306	\$ 81,182	\$ 68,470
Intangibles amortization	4,682	3,920	2,889
Tax effect of intangibles amortization	(1,873)	(1,568)	(1,156)
Net income applicable to common shares, excluding intangibles amortization	94,115	83,534	70,203
Certain significant transactions, net of tax	\$ 5,876	\$ 5,982	\$ 7,186
Net income applicable to common shares, excluding intangibles amortization and certain significant transactions ⁽¹⁾	\$ 99,991	\$ 89,516	\$ 78,526
Average stockholders' equity	\$ 1,236,606	\$ 1,132,058	1,043,566
Less: average intangible assets	(363,112)	(332,269)	(290,303)
Average tangible common equity	\$ 873,494	\$ 799,789	\$ 753,263
Return on average common equity	7.38%	7.17%	6.56%
Return on average tangible common equity	10.77%	10.44%	9.32%
Return on average tangible common equity, excluding certain significant transactions ⁽¹⁾	11.45%	11.19%	10.42%
Return on Average Assets			
Net income	\$ 92,349	\$ 82,064	\$ 69,306
Certain significant transactions, net of tax	5,876	5,982	7,186
Net income, excluding certain significant transactions ⁽¹⁾	\$ 98,225	\$ 88,046	\$ 77,629
Average assets	\$ 10,934,240	\$ 9,702,051	\$ 8,677,712
Return on average assets	0.84%	0.85%	0.80%
Return on average assets, excluding certain significant transactions ⁽¹⁾	0.90%	0.91%	0.89%

	As of December 31,	
	2016	2015
Tangible Common Equity		
Stockholders' equity	\$ 1,257,080	\$ 1,146,268
Less: goodwill and other intangible assets	(366,876)	(339,277)
Tangible common equity	890,204	806,991
Less: accumulated other comprehensive income ("AOCI")	40,910	28,389
Tangible common equity, excluding AOCI	\$ 931,114	\$ 835,380
Total assets	\$ 11,422,555	\$ 9,732,676
Less: goodwill and other intangible assets	(366,876)	(339,277)
Tangible assets	\$ 11,055,679	\$ 9,393,399
Risk-weighted assets	\$ 10,019,434	\$ 8,687,864
Tangible common equity to tangible assets	8.05%	8.59%
Tangible common equity, excluding AOCI, to tangible assets	8.42%	8.89%
Tangible common equity to risk-weighted assets	8.88%	9.29%

Note: Non-GAAP Reconciliation footnotes are located at the end of this section.

	2016				2015			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Quarterly Performance								
Net income	\$ 20,718	\$ 28,402	\$ 25,267	\$ 17,962	\$ 16,324	\$ 23,284	\$ 22,574	\$ 19,882
Net income applicable to non-vested restricted shares	(217)	(324)	(290)	(212)	(179)	(226)	(249)	(228)
Net income applicable to common shares	20,501	28,078	24,977	17,750	16,145	23,058	22,325	19,654
Acquisition and integration related expenses	7,542	1,172	618	5,020	1,389	—	—	—
Tax effect of acquisition and integration related expenses	(3,017)	(469)	(247)	(2,008)	(556)	—	—	—
Lease cancellation fee	950	—	—	—	—	—	—	—
Tax effect of lease cancellation fee	(380)	—	—	—	—	—	—	—
Net gain on sale-leaseback transaction	—	(5,509)	—	—	—	—	—	—
Tax effect of net gain on sale-leaseback transaction	—	2,204	—	—	—	—	—	—
Property valuation adjustments	—	—	—	—	8,581	—	—	—
Tax effect of property valuation adjustments	—	—	—	—	(3,432)	—	—	—
Net income applicable to common shareholders, excluding certain significant transactions	\$ 25,596	\$ 25,476	\$ 25,348	\$ 20,762	\$ 22,127	\$ 23,058	\$ 22,325	\$ 19,654
Weighted-average diluted common shares outstanding	80,430	80,409	80,396	77,992	77,134	77,119	77,101	76,930
Average stockholders' equity	1,269,993	1,261,702	1,235,497	1,178,588	1,154,506	1,134,967	1,123,530	1,114,762
Average assets	11,380,108	11,322,325	10,968,516	10,056,845	9,822,430	9,875,632	9,642,529	9,461,741
Diluted earnings per common share	\$ 0.25	\$ 0.35	\$ 0.31	\$ 0.23	\$ 0.21	\$ 0.30	\$ 0.29	\$ 0.26
Diluted earnings per common share, excluding certain significant transactions	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.27	\$ 0.29	\$ 0.30	\$ 0.29	\$ 0.26
Return on average common equity ⁽³⁾	6.42%	8.85%	8.13%	6.06%	5.55%	8.06%	7.97%	7.15%
Return on average common equity, excluding certain significant transactions ⁽³⁾	8.02%	8.03%	8.25%	7.09%	7.60%	8.06%	7.97%	7.15%
Return on average assets ⁽³⁾	0.72%	1.00%	0.93%	0.72%	0.66%	0.94%	0.94%	0.85%
Return on average assets, excluding certain significant transactions ⁽³⁾	0.90%	0.91%	0.94%	0.84%	0.90%	0.94%	0.94%	0.85%

(1) Certain significant transactions include acquisition and integration related expenses associated with completed and pending acquisitions, the lease cancellation fee recognized as a result of the Company's planned 2018 corporate headquarters relocation, the net gain on the sale-leaseback transaction, and property valuation adjustments related to strategic branch initiatives.

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

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

ITEM 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, 2016 and 2015, 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 the 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 Company's current simulation analysis indicates we would benefit from rising interest rates. Interest-earning assets consist of short and long-term products. Excluding non-accrual loans, and including the impact of hedging certain corporate variable rate loans using interest rate swaps through which the Company receives fixed amounts and pays variable amounts, 48% of the loan portfolio consisted of fixed rate loans and 52% were floating rate loans as of December 31, 2016, compared to 54% and 46%, respectively, as of December 31, 2015. 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, 2016, investments, consisting of securities and interest-bearing deposits in other banks, are more heavily weighted toward fixed rate securities at 95% of the total compared to 5% for floating rate interest-bearing deposits in other banks. This compares to investments comprising 84% of fixed rate securities and 16% of floating rate interest-bearing deposits in other banks as of December 31, 2015. Fixed rate loans are most sensitive to the 3-5 year portion of the yield curve and the Company 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 \$271.5 million, or 5%, of the floating rate loan portfolio as of December 31, 2016 compared to \$374.5 million, or 10%, of the floating rate loan portfolio as of December 31, 2015. On the liability side of the balance sheet, 86% of deposits as of December 31, 2016 and 2015, 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, 2016:				
Dollar change	\$ 44,092	\$ 25,412	\$ 12,763	\$ (26,013)
Percent change	12.3%	7.1%	3.6%	(7.2)%
December 31, 2015:				
Dollar change	\$ 46,556	\$ 28,038	\$ 19,420	\$ (18,421)
Percent change	14.8%	8.9%	6.2%	(5.9)%

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, 2016 would increase net interest income by \$25.4 million, or 7.1%, over the next twelve months compared to no change in interest rates. This same measure was \$28.0 million, or 8.9%, as of December 31, 2015.

Overall, positive risk volatility to rising rates as of December 31, 2016 decreased slightly compared to December 31, 2015. While floating rate loan balances increased, interest-bearing deposit accounts were impacted by a rise in the assumed interest rates paid as we move through a rising interest rate environment. The acquisition of Standard during the first quarter of 2017 is not expected to have a significant impact on our interest rate risk volatility.

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

Michael L. Scudder
President and
Chief Executive Officer

/s/ PATRICK S. BARRETT

Patrick S. Barrett
Executive Vice President and
Chief Financial Officer

February 28, 2017

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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, 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 28, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Chicago, Illinois
February 28, 2017

FIRST MIDWEST BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Amounts in thousands, except per share data)

	As of December 31,	
	2016	2015
Assets		
Cash and due from banks	\$ 155,055	\$ 114,587
Interest-bearing deposits in other banks	107,093	266,615
Trading securities, at fair value	17,920	16,894
Securities available-for-sale, at fair value	1,919,450	1,306,636
Securities held-to-maturity, at amortized cost (fair value 2016 – \$18,212; 2015 – \$20,054)	22,291	23,152
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost	59,131	39,306
Loans	8,254,145	7,161,715
Allowance for loan losses	(86,083)	(73,630)
Net loans	8,168,062	7,088,085
Other real estate owned ("OREO")	26,083	27,782
Premises, furniture, and equipment, net	82,577	122,278
Investment in bank-owned life insurance ("BOLI")	219,746	209,601
Goodwill and other intangible assets	366,876	339,277
Accrued interest receivable and other assets	278,271	178,463
Total assets	<u>\$ 11,422,555</u>	<u>\$ 9,732,676</u>
Liabilities		
Noninterest-bearing deposits	\$ 2,766,748	\$ 2,414,454
Interest-bearing deposits	6,061,855	5,683,284
Total deposits	8,828,603	8,097,738
Borrowed funds	879,008	165,096
Senior and subordinated debt	194,603	201,208
Accrued interest payable and other liabilities	263,261	122,366
Total liabilities	<u>10,165,475</u>	<u>8,586,408</u>
Stockholders' Equity		
Common stock	913	882
Additional paid-in capital	498,937	446,672
Retained earnings	1,016,674	953,516
Accumulated other comprehensive loss, net of tax	(40,910)	(28,389)
Treasury stock, at cost	(218,534)	(226,413)
Total stockholders' equity	<u>1,257,080</u>	<u>1,146,268</u>
Total liabilities and stockholders' equity	<u>\$ 11,422,555</u>	<u>\$ 9,732,676</u>

	December 31, 2016		December 31, 2015	
	Preferred Shares	Common Shares	Preferred Shares	Common Shares
Par value	\$ —	\$ 0.01	\$ —	\$ 0.01
Shares authorized	1,000	150,000	1,000	150,000
Shares issued	—	91,284	—	88,228
Shares outstanding	—	81,325	—	77,952
Treasury shares	—	9,959	—	10,276

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,		
	2016	2015	2014
Interest Income			
Loans	\$ 337,998	\$ 300,303	\$ 265,501
Investment securities – taxable	28,724	18,082	14,516
Investment securities – tax-exempt	8,737	13,861	16,716
Other short-term investments	2,873	3,738	3,131
Total interest income	<u>378,332</u>	<u>335,984</u>	<u>299,864</u>
Interest Expense			
Deposits	9,863	9,527	10,377
Borrowed funds	6,313	2,314	573
Senior and subordinated debt	12,465	12,545	12,062
Total interest expense	<u>28,641</u>	<u>24,386</u>	<u>23,012</u>
Net interest income	349,691	311,598	276,852
Provision for loan losses	<u>30,983</u>	<u>21,152</u>	<u>19,168</u>
Net interest income after provision for loan losses	<u>318,708</u>	<u>290,446</u>	<u>257,684</u>
Noninterest Income			
Service charges on deposit accounts	40,665	39,979	36,910
Wealth management fees	33,071	29,162	26,474
Card-based fees	29,104	26,984	24,340
Merchant servicing fees	12,533	11,739	11,260
Mortgage banking income	10,162	5,741	4,011
Capital market products income	10,024	4,806	2,231
Other service charges, commissions, and fees	9,542	8,848	5,855
Net gain on sale-leaseback transaction	5,509	—	—
BOLI income	3,647	4,185	2,873
Net securities gains	1,420	2,373	8,097
Other income	3,635	2,764	4,567
Total noninterest income	<u>159,312</u>	<u>136,581</u>	<u>126,618</u>
Noninterest Expense			
Salaries and wages	151,341	133,739	116,578
Retirement and other employee benefits	33,309	31,852	27,245
Net occupancy and equipment expense	41,154	38,720	35,181
Professional services	25,122	22,720	23,436
Technology and related costs	14,765	14,581	12,875
Merchant card expense	10,782	9,886	9,195
Advertising and promotions	7,787	7,606	8,159
Federal Deposit Insurance Corporation ("FDIC") premiums	6,268	6,017	5,824
Net OREO expense	3,024	5,281	7,075
Cardholder expense	5,812	5,243	4,251
Other expenses	24,834	21,601	20,135
Acquisition and integration related expenses	14,352	1,389	13,872
Lease cancellation fee	950	—	—
Property valuation adjustments	—	8,581	—
Total noninterest expense	<u>339,500</u>	<u>307,216</u>	<u>283,826</u>
Income before income tax expense	138,520	119,811	100,476
Income tax expense	46,171	37,747	31,170
Net income	<u>\$ 92,349</u>	<u>\$ 82,064</u>	<u>\$ 69,306</u>
Per Common Share Data			
Basic earnings per common share	\$ 1.14	\$ 1.05	\$ 0.92
Diluted earnings per common share	1.14	1.05	0.92
Weighted-average common shares outstanding	79,797	77,059	74,484
Weighted-average diluted common shares outstanding	79,810	77,072	74,496

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,		
	2016	2015	2014
Net Income	\$ 92,349	\$ 82,064	\$ 69,306
Securities Available-for-Sale			
Unrealized holding (losses) gains:			
Before tax.	(19,204)	(9,824)	37,173
Tax effect.	7,682	3,906	(14,918)
Net of tax.	(11,522)	(5,918)	22,255
Reclassification of net gains included in net income:			
Before tax.	1,420	2,373	8,097
Tax effect.	(568)	(970)	(3,311)
Net of tax.	852	1,403	4,786
Net unrealized holding (losses) gains.	(12,374)	(7,321)	17,469
Derivative Instruments			
Unrealized holding gains (losses):			
Before tax.	2,175	(2,233)	(1,930)
Tax effect.	(883)	903	792
Net of tax.	1,292	(1,330)	(1,138)
Unrecognized Net Pension Costs			
Unrealized holding losses:			
Before tax.	(2,002)	(6,570)	(9,127)
Tax effect.	563	2,687	3,733
Net of tax.	(1,439)	(3,883)	(5,394)
Total other comprehensive (loss) income	(12,521)	(12,534)	10,937
Total comprehensive income	\$ 79,828	\$ 69,530	\$ 80,243

	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, 2013	\$ (20,419)	\$ —	\$ (6,373)	\$ (26,792)
Other comprehensive income	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)
Other comprehensive loss	(12,374)	1,292	(1,439)	(12,521)
Balance at December 31, 2016	\$ (22,645)	\$ (1,176)	\$ (17,089)	\$ (40,910)

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, 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)
Acquisition, net of issuance costs	2,441	24	38,276	—	—	—	38,300
Restricted stock activity	176	—	(8,560)	—	—	6,585	(1,975)
Treasury stock issued to benefit plans	7	—	(137)	—	—	506	369
Share-based compensation expense	—	—	5,926	—	—	—	5,926
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)
Restricted stock activity	267	—	(10,236)	—	—	6,940	(3,296)
Treasury stock issued to benefit plans	(3)	—	(132)	—	—	333	201
Share-based compensation expense	—	—	7,242	—	—	—	7,242
Balance at December 31, 2015	77,952	882	446,672	953,516	(28,389)	(226,413)	1,146,268
Net income	—	—	—	92,349	—	—	92,349
Other comprehensive loss	—	—	—	—	(12,521)	—	(12,521)
Common dividends declared (\$0.36 per common share)	—	—	—	(29,191)	—	—	(29,191)
Acquisition, net of issuance costs	3,042	31	54,865	—	—	—	54,896
Common stock issued	13	—	227	—	—	—	227
Restricted stock activity	326	—	(10,685)	—	—	8,012	(2,673)
Treasury stock issued to benefit plans	(8)	—	(21)	—	—	(133)	(154)
Share-based compensation expense	—	—	7,879	—	—	—	7,879
Balance at December 31, 2016	81,325	\$ 913	\$ 498,937	\$ 1,016,674	\$ (40,910)	\$ (218,534)	\$ 1,257,080

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,		
	2016	2015	2014
Operating Activities			
Net income	\$ 92,349	\$ 82,064	\$ 69,306
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	30,983	21,152	19,168
Depreciation of premises, furniture, and equipment	12,804	13,367	12,224
Net amortization of premium on securities	13,653	4,849	8,218
Net securities gains	(1,420)	(2,373)	(8,097)
Gains on sales of 1-4 family mortgages and corporate loans held-for-sale	(8,931)	(6,847)	(4,069)
Net losses on early extinguishment of debt	—	—	2,059
Net losses on sales and valuation adjustments of OREO	1,196	2,631	3,325
Amortization of the FDIC indemnification asset	1,185	1,461	3,315
Net (gains) losses on sales and valuation adjustments of premises, furniture, and equipment	(4,762)	7,718	(3,277)
BOLI income	(3,647)	(4,185)	(2,873)
Net pension (income) cost	(513)	622	(959)
Share-based compensation expense	7,879	7,242	5,926
Tax expense related to share-based compensation	(685)	(1,200)	(106)
Provision for deferred income tax (benefit) expense	(1,367)	16,897	16,215
Amortization of other intangible assets	4,682	3,920	2,889
Originations of mortgage loans held-for-sale	(238,192)	(158,699)	(97,535)
Proceeds from sales of mortgage loans held-for-sale	246,642	158,791	96,006
Net (increase) decrease in trading securities	(1,026)	566	(143)
Net (increase) decrease in accrued interest receivable and other assets	(76,902)	10,023	(18,015)
Net increase (decrease) in accrued interest payable and other liabilities	47,118	(1,042)	22,367
Net cash provided by operating activities	121,046	156,957	125,944
Investing Activities			
Proceeds from maturities, repayments, and calls of securities available-for-sale	360,303	322,764	172,001
Proceeds from sales of securities available-for-sale	53,186	93,909	27,805
Purchases of securities available-for-sale	(933,317)	(509,481)	(25,856)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	8,077	4,645	4,675
Purchases of securities held-to-maturity	(5,352)	(1,242)	(2,638)
Purchases of FHLB stock	(18,276)	(1,190)	(427)
Net increase in loans	(714,213)	(399,807)	(279,654)
Proceeds from claims on BOLI, net of premiums paid	1,588	1,082	(85)
Proceeds from sales of OREO	7,539	18,572	22,368
Proceeds from sales of premises, furniture, and equipment	152,863	1,230	3,906
Purchases of premises, furniture, and equipment	(19,083)	(11,269)	(14,085)
Net cash received from (paid for) acquisitions	57,347	(16,047)	200,645
Net cash (used in) provided by investing activities	(1,049,338)	(496,834)	108,655
Financing Activities			
Net increase (decrease) in deposit accounts	135,944	118,167	(73,244)
Net increase (decrease) in borrowed funds	711,496	25,902	(1,288)
Purchase of treasury stock	—	(120)	—
Net proceeds from the issuance of subordinated debt	146,484	—	—
Payments for the retirement of senior and subordinated debt	(153,500)	—	—
Payment for the termination of FHLB advances	—	—	(116,609)
Cash dividends paid	(29,198)	(27,036)	(22,568)
Restricted stock activity	(2,476)	(2,890)	(2,781)
Excess tax benefit related to share-based compensation	488	794	912
Net cash provided by (used in) financing activities	809,238	114,817	(215,578)
Net (decrease) increase in cash and cash equivalents	(119,054)	(225,060)	19,021
Cash and cash equivalents at beginning of year	381,202	606,262	587,241
Cash and cash equivalents at end of year	\$ 262,148	\$ 381,202	\$ 606,262

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

	Years Ended December 31,		
	2016	2015	2014
Supplemental Disclosures of Cash Flow Information:			
Income taxes paid	\$ 57,553	\$ 25,022	\$ 16,375
Interest paid to depositors and creditors	27,400	24,535	23,088
Dividends declared, but unpaid	7,243	7,250	6,222
Common stock issued for acquisitions, net of issuance costs	54,896	—	38,300
Non-cash transfers of loans to OREO	4,173	13,504	18,079
Non-cash transfers of loans held-for-investment to loans held-for-sale	93,981	57,130	76,446

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.

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

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

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

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

PCI loans are accounted for based on estimates of expected future cash flows. To estimate the fair value, the Company generally aggregates purchased consumer loans and 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 losses or providing an allowance for loan losses.

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

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

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

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

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

The Company does not accrue interest on a TDR unless it believes collection of all principal and interest under the modified terms is reasonably assured. For a TDR to begin accruing interest, the borrower must demonstrate some level of past performance and the future capacity to perform under the modified terms. Generally, six months of consecutive payment performance under the restructured terms is required before a TDR is returned to accrual status. However, the period could vary depending on the individual facts and circumstances of the loan. An evaluation of the borrower's current creditworthiness is used to assess the borrower's capacity to repay the loan under the modified terms. This evaluation includes an estimate of expected future cash flows, evidence of strong financial position, and estimates of the value of collateral, if applicable. For TDRs to be removed from TDR status in the calendar year after the restructuring, the loans must (i) have an interest rate and terms that reflect market conditions at the time of restructuring, and (ii) be in compliance with the modified terms. If the loan was restructured at below market rates and terms, it continues to be separately reported as 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 and the reserve for unfunded commitments, and is maintained by management at a level believed adequate to absorb estimated losses inherent in the existing loan portfolio. Determination of the allowance for credit losses is subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, consideration of current economic trends, and other factors.

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

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

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

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

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

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

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

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

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 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

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern: In August of 2014, the Financial Accounting Standards Board ("FASB") issued guidance that requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The guidance is effective for the annual and interim periods ending after December 15, 2016. The adoption of this guidance on December 31, 2016 did not impact the Company's financial condition, results of operations, or liquidity.

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. The adoption of this guidance on January 1, 2016 did not 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. The adoption of this guidance on January 1, 2016 did not materially impact the Company's financial condition, results of operations, or liquidity.

Accounting Pronouncements Pending Adoption

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

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

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

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

criteria for the determination of whether a contract is or contains a lease. This guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted.

During the third quarter of 2016, the Company entered into a sale-leaseback transaction that resulted in a deferred gain of \$82.5 million, with \$81.0 million remaining as of December 31, 2016. Upon adoption of this guidance, the remaining deferred gain will be recognized immediately as a cumulative-effect adjustment to equity. For additional discussion of the sale-leaseback transaction, see note 8 "Premises, Furniture, and Equipment." Management is evaluating the new guidance and the additional impact to the Company's financial condition, results of operations, or liquidity.

Contingent Put and Call Options in Debt Instruments: In March of 2016, the FASB issued final guidance clarifying the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. Entities are required to apply the guidance to existing debt instruments (or hybrid financial instruments that are determined to have a debt host) using a modified retrospective transition method as of the period of adoption. This guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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

Accounting for Employee Share-based Payments: In March of 2016, the FASB issued guidance to simplify the accounting for employee share-based payment transactions. The guidance requires entities to recognize the income tax effects of awards in the income statement when the awards vest or are settled. In addition, the guidance allows entities to repurchase more of an employee's shares than it can under current guidance for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. This guidance is effective for annual and interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted. 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.

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

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

Update to Amendments to Consolidation Analysis: In October of 2016, the FASB issued guidance that changes how a single decision maker will consider its indirect interests when performing the primary beneficiary analysis under the VIE model. This guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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

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

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

3. ACQUISITIONS

Pending Acquisitions

Standard Bancshares, Inc.

On June 28, 2016, the Company entered into a definitive agreement to acquire Standard Bancshares, Inc. ("Standard"), the holding company for Standard Bank and Trust Company. On January 6, 2017, the Company completed its acquisition of Standard. With the acquisition, the Company acquired all assets and assumed all liabilities of Standard including 35 banking offices located primarily in the southwest Chicago suburbs and adjacent markets in northwest Indiana, total assets of \$2.6 billion, \$2.0 billion in deposits, and \$1.8 billion in loans. For additional discussion and disclosure related to the Standard acquisition, see note 25, "Subsequent Events."

Completed Acquisitions

NI Bancshares Corporation

On March 8, 2016, the Company completed its acquisition of NI Bancshares Corporation ("NI Bancshares"), the holding company for The National Bank & Trust Company of Sycamore. As part of the acquisition, the Company acquired all assets and assumed all liabilities of NI Bancshares, which included ten banking offices in northern Illinois and over \$700.0 million in trust assets under management. The merger consideration was a combination of Company common stock and cash, at a purchase price of \$70.1 million. Goodwill of \$21.8 million associated with the acquisition was recorded by the Company.

During 2016, the Company updated the fair value adjustments associated with the NI Bancshares transaction, which required a measurement period adjustment of \$1.0 million to increase goodwill. This adjustment was recognized in the current period in accordance with accounting guidance applicable to business combinations. The fair value adjustments associated with these accounts and goodwill remain preliminary and may change as the Company continues to finalize the fair value of the assets and liabilities acquired.

Peoples Bancorp, Inc

On December 3, 2015, the Company completed its 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 \$7.7 million associated with the acquisition.

During 2016, the Company finalized the fair value adjustments associated with the Peoples transaction, which required a measurement period adjustment of \$121,000 to increase goodwill. These adjustments were recognized in the current period in accordance with accounting guidance applicable to business combinations.

The following table presents the assets acquired and liabilities assumed, net of the fair value adjustments, in the NI Bancshares and Peoples transactions as of the acquisition date, including measurement period adjustments. 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, except share and per share data)

	NI Bancshares March 8, 2016	Peoples December 3, 2015
Assets		
Cash and due from banks and interest-bearing deposits in other banks	\$ 72,533	\$ 781
Securities available-for-sale	125,843	41,492
Securities held-to-maturity	1,864	—
FHLB and FRB stock	1,549	558
Loans	396,886	53,766
OREO	2,863	515
Investment in BOLI	8,384	—
Goodwill	21,751	7,665
Other intangible assets	10,409	580
Premises, furniture, and equipment	19,636	2,215
Accrued interest receivable and other assets	16,558	2,941
Total assets	\$ 678,276	\$ 110,513
Liabilities		
Noninterest-bearing deposits	\$ 130,909	\$ 15,869
Interest-bearing deposits	464,012	75,944
Total deposits	594,921	91,813
Borrowed funds	2,416	1,200
Intangible liabilities	230	—
Accrued interest payable and other liabilities	10,627	672
Total liabilities	608,194	93,685
Consideration Paid		
Common stock (2016 - 3,042,494 shares issued at \$18.059 per share), net of \$48,000 in issuance costs	54,896	—
Cash paid	15,186	16,828
Total consideration paid	70,082	16,828
	\$ 678,276	\$ 110,513

Expenses related to the acquisition and integration of completed and pending transactions totaled \$14.4 million, \$1.4 million and \$13.9 million during the years ended December 31, 2016, 2015 and 2014, respectively, and are reported as a separate component within noninterest expense in the Consolidated Statements of Income. The completed acquisitions were not considered material to the Company's financial statements; therefore, pro forma financial data and related disclosures are not included.

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,							
	2016				2015			
	Amortized Cost	Gross Unrealized		Fair Value	Amortized Cost	Gross Unrealized		Fair Value
	Gains	Losses			Gains	Losses		
Securities Available-for-Sale								
U.S. treasury securities . . .	\$ 48,581	\$ 26	\$ (66)	\$ 48,541	\$ 17,000	\$ 15	\$ (35)	\$ 16,980
U.S. agency securities . . .	183,528	519	(410)	183,637	86,461	351	(169)	86,643
Collateralized mortgage obligations ("CMOs") . . .	1,064,130	969	(17,653)	1,047,446	695,198	1,072	(9,085)	687,185
Other mortgage-backed securities ("MBSs")	337,139	1,395	(5,879)	332,655	152,481	1,920	(871)	153,530
Municipal securities	273,319	1,245	(3,718)	270,846	321,437	6,443	(310)	327,570
Trust-preferred collateralized debt obligations ("CDOs") . . .	47,681	261	(14,682)	33,260	48,287	34	(16,792)	31,529
Equity securities	3,206	147	(288)	3,065	3,282	86	(169)	3,199
Total securities available-for-sale . . .	<u>\$ 1,957,584</u>	<u>\$ 4,562</u>	<u>\$ (42,696)</u>	<u>\$ 1,919,450</u>	<u>\$ 1,324,146</u>	<u>\$ 9,921</u>	<u>\$ (27,431)</u>	<u>\$ 1,306,636</u>
Securities Held-to-Maturity								
Municipal securities	<u>\$ 22,291</u>	<u>\$ —</u>	<u>\$ (4,079)</u>	<u>\$ 18,212</u>	<u>\$ 23,152</u>	<u>\$ —</u>	<u>\$ (3,098)</u>	<u>\$ 20,054</u>
Trading Securities				<u>\$ 17,920</u>				<u>\$ 16,894</u>

Remaining Contractual Maturity of Securities (Dollar amounts in thousands)

	As of December 31, 2016			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$ 73,669	\$ 71,428	\$ 2,336	\$ 1,909
After one year to five years	429,166	416,112	6,834	5,583
After five years to ten years	2,592	2,513	2,975	2,431
After ten years	47,682	46,231	10,146	8,289
Securities that do not have a single contractual maturity date . . .	1,404,475	1,383,166	—	—
Total	<u>\$ 1,957,584</u>	<u>\$ 1,919,450</u>	<u>\$ 22,291</u>	<u>\$ 18,212</u>

The carrying value of securities available-for-sale that were pledged to secure deposits or for other purposes as permitted or required by law totaled \$1.1 billion as of December 31, 2016 and \$856.9 million as of December 31, 2015. No securities held-to-maturity were pledged as of December 31, 2016 or 2015.

Excluding securities issued or backed by the U.S. government and its agencies and U.S. government-sponsored enterprises, there were no investments in securities from one issuer that exceeded 10% of total stockholders' equity as of December 31, 2016 or 2015.

During the years ended December 31, 2016, 2015, and 2014 there were no material gross trading gains (losses). The following table presents net realized gains on securities available-for-sale for the three years ended December 31, 2016.

Securities Available-for-Sale Gains

(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Gains on sales of securities:			
Gross realized gains	\$ 1,589	\$ 2,519	\$ 8,188
Gross realized losses	(169)	(146)	(63)
Net realized gains on sales of securities	1,420	2,373	8,125
Non-cash impairment charges:			
OTTI	—	—	(28)
Net realized gains	\$ 1,420	\$ 2,373	\$ 8,097

During 2016, net securities gains consisted primarily of sales of municipal securities at gains of \$1.1 million and sales of MBSs, CMOs, and equity securities at net gains of \$304,000. Net securities gains consisted primarily of sales of MBSs at gains of \$1.9 million and sales of CMOs, municipal securities, and other investments at net gains of \$521,000 during 2015. The sale of a non-accrual CDO at a gain of \$3.5 million and other investments at gains totaling \$4.6 million comprised net securities gains during 2014.

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

The following table presents a rollforward of life-to-date OTTI recognized in earnings related to all securities available-for-sale held by the Company for the years ended December 31, 2016, 2015, and 2014. The majority of the beginning and ending balance of OTTI relates to CDOs currently held by the Company.

Changes in OTTI Recognized in Earnings

(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Beginning balance	\$ 23,345	\$ 23,516	\$ 32,422
OTTI included in earnings ⁽¹⁾ :			
Losses on securities that previously had OTTI	—	—	28
Losses on securities that did not previously have OTTI	—	—	—
Reduction for securities sales ⁽²⁾	—	(171)	(8,934)
Ending balance	\$ 23,345	\$ 23,345	\$ 23,516

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

⁽²⁾ These reductions were driven by the sale of one CMO with a carrying value of \$1.3 million during the year ended December 31, 2015 and one CDO with a carrying value of \$1.3 million and one municipal security with a carrying value of \$357,000 during the year ended December 31, 2014.

The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of December 31, 2016 and 2015.

Securities in an Unrealized Loss Position

(Dollar amounts in thousands)

	Number of Securities	Less Than 12 Months		Greater Than 12 Months		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of December 31, 2016							
Securities Available-for-Sale							
U.S. treasury securities	16	\$ 33,505	\$ 61	\$ 3,995	\$ 5	\$ 37,500	\$ 66
U.S. agency securities	28	62,064	364	11,814	46	73,878	410
CMOs	194	523,233	10,309	411,758	7,344	934,991	17,653
MBSs	68	221,174	4,726	77,780	1,154	298,954	5,880
Municipal securities	380	133,957	3,059	29,280	659	163,237	3,718
CDOs	7	—	—	30,592	14,682	30,592	14,682
Equity securities	2	404	201	2,319	86	2,723	287
Total	695	\$ 974,337	\$ 18,720	\$ 567,538	\$ 23,976	\$ 1,541,875	\$ 42,696
Securities Held-to-Maturity							
Municipal securities	14	\$ —	\$ —	\$ 18,212	\$ 4,079	\$ 18,212	\$ 4,079
As of December 31, 2015							
Securities Available-for-Sale							
U.S. treasury securities	4	\$ 7,946	\$ 35	\$ —	\$ —	\$ 7,946	\$ 35
U.S. agency securities	10	30,620	169	—	—	30,620	169
CMOs	133	309,787	3,110	257,362	5,975	567,149	9,085
MBSs	27	63,028	427	31,980	444	95,008	871
Municipal securities	68	8,135	65	24,227	245	32,362	310
CDOs	8	8,034	971	21,642	15,821	29,676	16,792
Equity securities	2	485	120	2,305	49	2,790	169
Total	252	\$ 428,035	\$ 4,897	\$ 337,516	\$ 22,534	\$ 765,551	\$ 27,431
Securities Held-to-Maturity							
Municipal securities	19	\$ 20,054	\$ 3,098	\$ —	\$ —	\$ 20,054	\$ 3,098

Substantially all of the Company's CMOs and other MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. Municipal securities are issued by municipal authorities, and the majority are supported by third-party insurance or some other form of credit enhancement. Management does not believe any of these securities with unrealized losses as of December 31, 2016 represent OTTI related to credit deterioration. These unrealized losses are attributed to changes in interest rates and temporary market movements. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

The unrealized losses on CDOs as of December 31, 2016 reflect changes in market activity for these securities. Management does not believe these unrealized losses represent OTTI related to credit deterioration. In addition, the Company does not intend to sell the CDOs with unrealized losses, and the Company does not believe it is more likely than not that it will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Significant judgment is required to calculate the fair value of the CDOs. For a detailed discussion of the CDO valuation methodology, see Note 22, "Fair Value."

5. LOANS

Loans Held-for-Investment

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

	As of December 31,	
	2016	2015
Commercial and industrial	\$ 2,827,658	\$ 2,524,726
Agricultural	389,496	387,440
Commercial real estate:		
Office, retail, and industrial	1,581,827	1,395,454
Multi-family	614,034	528,324
Construction	451,540	216,882
Other commercial real estate	979,359	931,190
Total commercial real estate	3,626,760	3,071,850
Total corporate loans	6,843,914	5,984,016
Home equity	732,604	653,468
1-4 family mortgages	416,354	355,854
Installment	237,999	137,602
Total consumer loans	1,386,957	1,146,924
Covered loans ⁽¹⁾	23,274	30,775
Total loans	\$ 8,254,145	\$ 7,161,715
Deferred loan fees included in total loans	\$ 3,838	\$ 5,191
Overdrawn demand deposits included in total loans	7,836	2,810

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

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

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

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

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. The repayment of commercial real estate loans depends on the successful operation of the property securing the loan or the business conducted on the property securing the loan. This category of loans may be more adversely affected by conditions in the real estate market. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography, and risk rating criteria. The mix of properties securing the loans in our commercial real estate portfolio are 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 project and are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analyses of absorption and lease rates, and financial analyses

of the developers and property owners. Sources of repayment may be permanent loans from long-term lenders, sales of developed property, or an interim loan commitment until permanent financing is obtained. Generally, construction loans have a higher risk profile than other real estate loans since repayment is impacted by real estate values, interest rate changes, governmental regulation of real property, demand and supply of alternative real estate, the availability of long-term financing, and changes in general economic conditions.

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 that 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.

The carrying value of loans that were pledged to secure liabilities as of December 31, 2016 and 2015 are presented below.

Carrying Value of Loans Pledged
(Dollar amounts in thousands)

	As of December 31	
	2016	2015
Loans pledged to secure:		
FHLB advances	\$ 3,667,202	\$ 3,057,421
FRB's Discount Window Primary Credit Program	777,950	841,808
Total	<u>\$ 4,445,152</u>	<u>\$ 3,899,229</u>

Loan Sales

The following table presents loan sales for the years ended December 31, 2016, 2015, and 2014.

Loan Sales
(Dollar amounts in thousands)

	As of December 31,		
	2016	2015	2014
Corporate loan sales			
Proceeds from sales	\$ 54,681	\$ 31,091	\$ 23,222
Less book value of loans sold	52,821	29,535	22,924
Net gain on corporate sales ⁽¹⁾	<u>\$ 1,860</u>	<u>\$ 1,556</u>	<u>\$ 298</u>
1-4 family mortgage loan sales			
Proceeds from sales	\$ 290,383	\$ 185,308	\$ 148,680
Less book value of loans sold	283,312	180,017	144,909
Net gain on 1-4 family mortgage sales ⁽²⁾	7,071	5,291	3,771
Total net gains on loan sales	<u>\$ 8,931</u>	<u>\$ 6,847</u>	<u>\$ 4,069</u>

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

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

The Company retained servicing responsibilities for a portion of the 1-4 family mortgage loans sold and collects servicing fees equal to a percentage of the outstanding principal balance. The Company also retained limited recourse for credit losses on the sold loans. A description of the recourse obligation is presented in Note 21, "Commitments, Guarantees, and Contingent Liabilities."

6. ACQUIRED AND COVERED LOANS

Covered loans consist of loans acquired by the Company in FDIC-assisted transactions which are covered by the FDIC Agreements. Acquired loans consist of all other loans that were acquired in business combinations that are not covered by the FDIC Agreements. Both acquired and covered loans are included in loans in the Consolidated Statements of Financial Condition. The significant accounting policies related to acquired and covered loans, which are classified as PCI and Non-PCI, and the related FDIC indemnification asset are presented in Note 1, "Summary of Significant Accounting Policies."

During 2015, non-residential mortgage loans related to three FDIC-assisted transactions were no longer covered under the FDIC Agreements. These non-residential loans, which totaled \$14.9 million and \$21.0 million as of December 31, 2016 and 2015, respectively, are included in acquired loans and no longer classified as covered loans. The losses on residential mortgage loans will continue to be covered under the FDIC Agreements through various dates between December 31, 2019 and September 30, 2020.

The following table presents acquired and covered PCI and Non-PCI loans as of December 31, 2016 and 2015.

Acquired and Covered Loans

(Dollar amounts in thousands)

	As of December 31,					
	2016			2015		
	PCI	Non-PCI	Total	PCI	Non-PCI	Total
Acquired loans	\$ 53,772	\$ 613,339	\$ 667,111	\$ 50,286	\$ 534,506	\$ 584,792
Covered loans	7,895	15,379	23,274	9,919	20,856	30,775
Total acquired and covered loans	<u>\$ 61,667</u>	<u>\$ 628,718</u>	<u>\$ 690,385</u>	<u>\$ 60,205</u>	<u>\$ 555,362</u>	<u>\$ 615,567</u>

Acquired Non-PCI loans that are renewed are no longer classified as acquired loans. These loans totaled \$117.6 million and \$61.6 million as of December 31, 2016 and 2015, respectively.

In connection with the FDIC Agreements, the Company recorded an indemnification asset. To maintain eligibility for the loss share reimbursement, the Company is required to follow certain servicing procedures as specified in the FDIC Agreements. The Company was in compliance with those requirements as of December 31, 2016, 2015, and 2014.

Rollforwards of the carrying value of the FDIC indemnification asset for the three years ended December 31, 2016 is presented in the following table.

Changes in the FDIC Indemnification Asset

(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Beginning balance	\$ 3,903	\$ 8,452	\$ 16,585
Amortization	(1,185)	(1,461)	(3,315)
Change in expected reimbursements from the FDIC for changes in expected credit losses	330	1,313	(481)
Net payments to (from) the FDIC	1,474	(4,401)	(4,337)
Ending balance	<u>\$ 4,522</u>	<u>\$ 3,903</u>	<u>\$ 8,452</u>

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

Changes in Accretable Yield

(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Beginning balance	\$ 24,912	\$ 28,244	\$ 36,792
Additions	3,981	1,168	3,517
Accretion	(8,063)	(11,311)	(12,535)
Other ⁽¹⁾	(1,444)	6,811	470
Ending balance	<u>\$ 19,386</u>	<u>\$ 24,912</u>	<u>\$ 28,244</u>

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

Total accretion on acquired and covered PCI and non-PCI loans for December 31, 2016, 2015, and 2014 was \$14.6 million, \$16.3 million, and \$13.6 million, respectively.

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

Past Due and Non-accrual Loans

The following table presents an aging analysis of the Company's past due loans as of December 31, 2016 and 2015. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (the majority of which are past due) and loans 90 days or more past due and still accruing interest, as of each balance sheet date.

Aging Analysis of Past Due Loans and Non-Performing Loans by Class
(Dollar amounts in thousands)

	Aging Analysis (Accruing and Non-accrual)					Non-performing Loans	
	Current	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	Non-accrual	90 Days or More Past Due, Still Accruing Interest
As of December 31, 2016							
Commercial and industrial	\$ 2,816,442	\$ 6,426	\$ 4,790	\$ 11,216	\$ 2,827,658	\$ 29,938	\$ 374
Agricultural	388,596	—	900	900	389,496	181	736
Commercial real estate:							
Office, retail, and industrial . . .	1,563,867	5,327	12,633	17,960	1,581,827	17,277	1,129
Multi-family	612,428	858	748	1,606	614,034	311	604
Construction	450,927	332	281	613	451,540	286	—
Other commercial real estate . .	974,406	1,307	3,646	4,953	979,359	2,892	1,526
Total commercial real estate	3,601,628	7,824	17,308	25,132	3,626,760	20,766	3,259
Total corporate loans	6,806,666	14,250	22,998	37,248	6,843,914	50,885	4,369
Home equity	726,676	3,627	2,301	5,928	732,604	4,986	17
1-4 family mortgages	412,737	2,652	965	3,617	416,354	2,939	231
Installment	236,264	1,476	259	1,735	237,999	—	259
Total consumer loans	1,375,677	7,755	3,525	11,280	1,386,957	7,925	507
Covered loans	22,097	918	259	1,177	23,274	479	133
Total loans	<u>\$ 8,204,440</u>	<u>\$ 22,923</u>	<u>\$ 26,782</u>	<u>\$ 49,705</u>	<u>\$ 8,254,145</u>	<u>\$ 59,289</u>	<u>\$ 5,009</u>
As of December 31, 2015							
Commercial and industrial	\$ 2,516,197	\$ 4,956	\$ 3,573	\$ 8,529	\$ 2,524,726	\$ 5,587	\$ 857
Agricultural	387,109	245	86	331	387,440	355	—
Commercial real estate:							
Office, retail, and industrial . . .	1,386,383	2,647	6,424	9,071	1,395,454	6,875	4
Multi-family	526,625	541	1,158	1,699	528,324	796	548
Construction	216,377	—	505	505	216,882	905	—
Other commercial real estate . .	922,531	3,575	5,084	8,659	931,190	5,611	661
Total commercial real estate	3,051,916	6,763	13,171	19,934	3,071,850	14,187	1,213
Total corporate loans	5,955,222	11,964	16,830	28,794	5,984,016	20,129	2,070
Home equity	647,175	3,247	3,046	6,293	653,468	5,310	216
1-4 family mortgages	350,980	2,680	2,194	4,874	355,854	3,416	528
Installment	136,780	753	69	822	137,602	20	69
Total consumer loans	1,134,935	6,680	5,309	11,989	1,146,924	8,746	813
Covered loans	29,808	405	562	967	30,775	555	174
Total loans	<u>\$ 7,119,965</u>	<u>\$ 19,049</u>	<u>\$ 22,701</u>	<u>\$ 41,750</u>	<u>\$ 7,161,715</u>	<u>\$ 29,430</u>	<u>\$ 3,057</u>

Allowance for Credit Losses

The Company maintains an allowance for credit losses at a level deemed adequate by management to absorb estimated losses inherent in the existing loan portfolio. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for the allowance for credit losses. A rollforward of the allowance for credit losses by portfolio segment for the years ended December 31, 2016, 2015, and 2014 is presented in the table below.

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

	Commercial, Industrial, and Agricultural	Office, Retail, and Industrial	Multi- family	Construction	Other Commercial Real Estate	Consumer	Covered Loans	Reserve for Unfunded Commitments	Total Allowance for Credit Losses
As of December 31, 2016									
Beginning balance.	\$ 37,074	\$ 13,116	\$ 2,462	\$ 1,440	\$ 6,088	\$ 11,812	\$ 1,638	\$ 1,225	\$ 74,855
Charge-offs.	(9,844)	(4,707)	(307)	(134)	(2,932)	(5,229)	(140)	—	(23,293)
Recoveries	2,451	337	97	56	524	1,298	—	—	4,763
Net charge-offs	(7,393)	(4,370)	(210)	(78)	(2,408)	(3,931)	(140)	—	(18,530)
Provision for loan losses and other	11,028	8,788	1,002	2,082	4,050	4,613	(580)	(225)	30,758
Ending Balance.	<u>\$ 40,709</u>	<u>\$ 17,534</u>	<u>\$ 3,254</u>	<u>\$ 3,444</u>	<u>\$ 7,730</u>	<u>\$ 12,494</u>	<u>\$ 918</u>	<u>\$ 1,000</u>	<u>\$ 87,083</u>
As of December 31, 2015									
Beginning balance.	\$ 29,458	\$ 10,992	\$ 2,249	\$ 2,297	\$ 8,327	\$ 12,145	\$ 7,226	\$ 1,816	\$ 74,510
Charge-offs.	(15,885)	(2,887)	(545)	(136)	(2,643)	(4,187)	(634)	—	(26,917)
Recoveries	2,573	467	15	350	1,993	1,183	120	—	6,701
Net charge-offs	(13,312)	(2,420)	(530)	214	(650)	(3,004)	(514)	—	(20,216)
Provision for loan losses and other	20,928	4,544	743	(1,071)	(1,589)	2,671	(5,074)	(591)	20,561
Ending balance	<u>\$ 37,074</u>	<u>\$ 13,116</u>	<u>\$ 2,462</u>	<u>\$ 1,440</u>	<u>\$ 6,088</u>	<u>\$ 11,812</u>	<u>\$ 1,638</u>	<u>\$ 1,225</u>	<u>\$ 74,855</u>
As of December 31, 2014									
Beginning balance.	\$ 30,381	\$ 10,405	\$ 2,017	\$ 6,316	\$ 10,817	\$ 13,010	\$ 12,559	\$ 1,616	\$ 87,121
Charge-offs.	(17,424)	(7,345)	(943)	(1,052)	(4,834)	(7,574)	(1,012)	—	(40,184)
Recoveries	3,800	497	87	166	1,727	729	1,199	—	8,205
Net charge-offs	(13,624)	(6,848)	(856)	(886)	(3,107)	(6,845)	187	—	(31,979)
Provision for loan losses and other	12,701	7,435	1,088	(3,133)	617	5,980	(5,520)	200	19,368
Ending balance	<u>\$ 29,458</u>	<u>\$ 10,992</u>	<u>\$ 2,249</u>	<u>\$ 2,297</u>	<u>\$ 8,327</u>	<u>\$ 12,145</u>	<u>\$ 7,226</u>	<u>\$ 1,816</u>	<u>\$ 74,510</u>

The table below provides a breakdown of loans and the related allowance for credit losses by portfolio segment as of December 31, 2016 and 2015.

Loans and Related Allowance for Credit Losses by Portfolio Segment

(Dollar amounts in thousands)

	Loans				Allowance for Credit Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total
As of December 31, 2016								
Commercial, industrial, and agricultural	\$ 24,645	\$ 3,189,327	\$ 3,182	\$ 3,217,154	\$ 507	\$ 39,554	\$ 648	\$ 40,709
Commercial real estate:								
Office, retail, and industrial	16,287	1,553,234	12,306	1,581,827	—	16,148	1,386	17,534
Multi-family	398	601,429	12,207	614,034	—	3,059	195	3,254
Construction	34	447,058	4,448	451,540	—	3,280	164	3,444
Other commercial real estate	1,286	965,900	12,173	979,359	18	6,613	1,099	7,730
Total commercial real estate	18,005	3,567,621	41,134	3,626,760	18	29,100	2,844	31,962
Total corporate loans	42,650	6,756,948	44,316	6,843,914	525	68,654	3,492	72,671
Consumer	—	1,377,501	9,456	1,386,957	—	12,101	393	12,494
Covered loans	—	15,379	7,895	23,274	—	109	809	918
Reserve for unfunded commitments	—	—	—	—	—	1,000	—	1,000
Total loans	\$ 42,650	\$ 8,149,828	\$ 61,667	\$ 8,254,145	\$ 525	\$ 81,864	\$ 4,694	\$ 87,083
As of December 31, 2015								
Commercial, industrial, and agricultural	\$ 2,871	\$ 2,902,361	\$ 6,934	\$ 2,912,166	\$ 883	\$ 35,378	\$ 813	\$ 37,074
Commercial real estate:								
Office, retail, and industrial	6,162	1,376,789	12,503	1,395,454	715	10,833	1,568	13,116
Multi-family	800	526,037	1,487	528,324	—	2,367	95	2,462
Construction	178	212,671	4,033	216,882	—	1,160	280	1,440
Other commercial real estate	3,665	913,161	14,364	931,190	—	5,367	721	6,088
Total commercial real estate	10,805	3,028,658	32,387	3,071,850	715	19,727	2,664	23,106
Total corporate loans	13,676	5,931,019	39,321	5,984,016	1,598	55,105	3,477	60,180
Consumer	—	1,135,959	10,965	1,146,924	—	11,425	387	11,812
Covered loans	—	20,856	9,919	30,775	—	248	1,390	1,638
Reserve for unfunded commitments	—	—	—	—	—	1,225	—	1,225
Total loans	\$ 13,676	\$ 7,087,834	\$ 60,205	\$ 7,161,715	\$ 1,598	\$ 68,003	\$ 5,254	\$ 74,855

Loans Individually Evaluated for Impairment

The following table presents loans individually evaluated for impairment by class of loan as of December 31, 2016 and 2015. PCI loans are excluded from this disclosure.

Impaired Loans Individually Evaluated by Class

(Dollar amounts in thousands)

	As of December 31,							
	2016				2015			
	Recorded Investment In				Recorded Investment In			
	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial and industrial	\$ 11,579	\$ 13,066	\$ 29,514	\$ 507	\$ 1,673	\$ 1,198	\$ 4,592	\$ 883
Agricultural	—	—	—	—	—	—	—	—
Commercial real estate:								
Office, retail, and industrial	16,287	—	21,057	—	4,654	1,508	12,083	715
Multi-family	398	—	398	—	800	—	941	—
Construction	34	—	34	—	178	—	299	—
Other commercial real estate	1,016	270	2,141	18	3,665	—	4,403	—
Total commercial real estate	17,735	270	23,630	18	9,297	1,508	17,726	715
Total impaired loans individually evaluated for impairment	<u>\$ 29,314</u>	<u>\$ 13,336</u>	<u>\$ 53,144</u>	<u>\$ 525</u>	<u>\$ 10,970</u>	<u>\$ 2,706</u>	<u>\$ 22,318</u>	<u>\$ 1,598</u>

The following table presents the average recorded investment and interest income recognized on impaired loans by class for the years ended December 31, 2016, 2015, and 2014. PCI loans are excluded from this disclosure.

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

(Dollar amounts in thousands)

	Years Ended December 31,					
	2016		2015		2014	
	Average Recorded Investment	Interest Income Recognized ⁽¹⁾	Average Recorded Investment	Interest Income Recognized ⁽¹⁾	Average Recorded Investment	Interest Income Recognized ⁽¹⁾
Commercial and industrial	\$ 9,178	\$ 104	\$ 8,940	\$ 163	\$ 16,137	\$ 371
Agricultural	—	—	—	—	—	—
Commercial real estate:						
Office, retail, and industrial	12,867	291	9,359	52	19,003	245
Multi-family	479	11	855	13	1,245	5
Construction	63	—	3,902	118	5,764	—
Other commercial real estate	2,809	86	3,310	44	6,014	138
Total commercial real estate	16,218	388	17,426	227	32,026	388
Total impaired loans	<u>\$ 25,396</u>	<u>\$ 492</u>	<u>\$ 26,366</u>	<u>\$ 390</u>	<u>\$ 48,163</u>	<u>\$ 759</u>

⁽¹⁾ Recorded using the cash basis of accounting.

Credit Quality Indicators

Corporate loans and commitments are assessed for credit risk and assigned ratings based on various characteristics, such as the borrower's cash flow, leverage, and collateral. Ratings for commercial credits are reviewed periodically. The following tables present credit quality indicators by class for corporate and consumer loans, excluding covered loans, as of December 31, 2016 and 2015.

Corporate Credit Quality Indicators by Class, Excluding Covered Loans

(Dollar amounts in thousands)

	Pass	Special Mention ⁽¹⁾⁽⁴⁾	Substandard ⁽²⁾⁽⁴⁾	Non-accrual ⁽³⁾	Total
As of December 31, 2016					
Commercial and industrial	\$ 2,638,833	\$ 92,340	\$ 66,547	\$ 29,938	\$ 2,827,658
Agricultural	366,382	17,039	5,894	181	389,496
Commercial real estate:					
Office, retail, and industrial.	1,491,030	34,007	39,513	17,277	1,581,827
Multi-family	607,324	4,370	2,029	311	614,034
Construction	438,946	111	12,197	286	451,540
Other commercial real estate.	951,115	11,808	13,544	2,892	979,359
Total commercial real estate.	3,488,415	50,296	67,283	20,766	3,626,760
Total corporate loans.	<u>\$ 6,493,630</u>	<u>\$ 159,675</u>	<u>\$ 139,724</u>	<u>\$ 50,885</u>	<u>\$ 6,843,914</u>
As of December 31, 2015					
Commercial and industrial	\$ 2,379,992	\$ 86,263	\$ 52,884	\$ 5,587	\$ 2,524,726
Agricultural	381,523	—	5,562	355	387,440
Commercial real estate:					
Office, retail, and industrial.	1,320,164	32,627	35,788	6,875	1,395,454
Multi-family	517,412	6,146	3,970	796	528,324
Construction	201,496	4,678	9,803	905	216,882
Other commercial real estate.	898,746	13,179	13,654	5,611	931,190
Total commercial real estate.	2,937,818	56,630	63,215	14,187	3,071,850
Total corporate loans.	<u>\$ 5,699,333</u>	<u>\$ 142,893</u>	<u>\$ 121,661</u>	<u>\$ 20,129</u>	<u>\$ 5,984,016</u>

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

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

(4) Total special mention and substandard loans includes accruing TDRs of \$834,000 as of December 31, 2016 and \$862,000 as of December 31, 2015.

Consumer Credit Quality Indicators by Class, Excluding Covered Loans

(Dollar amounts in thousands)

	Performing	Non-accrual	Total
As of December 31, 2016			
Home equity	\$ 727,618	\$ 4,986	\$ 732,604
1-4 family mortgages	413,415	2,939	416,354
Installment	237,999	—	237,999
Total consumer loans	<u>\$ 1,379,032</u>	<u>\$ 7,925</u>	<u>\$ 1,386,957</u>
As of December 31, 2015			
Home equity	\$ 648,158	\$ 5,310	\$ 653,468
1-4 family mortgages	352,438	3,416	355,854
Installment	137,582	20	137,602
Total consumer loans	<u>\$ 1,138,178</u>	<u>\$ 8,746</u>	<u>\$ 1,146,924</u>

TDRs

TDRs are generally performed at the request of the individual borrower and may include forgiveness of principal, reduction in interest rates, changes in payments, and maturity date extensions. The table below presents TDRs by class as of December 31, 2016 and 2015. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for TDRs.

TDRs by Class

(Dollar amounts in thousands)

	As of December 31,					
	2016			2015		
	Accruing	Non-accrual ⁽¹⁾	Total	Accruing	Non-accrual ⁽¹⁾	Total
Commercial and industrial	\$ 281	\$ 150	\$ 431	\$ 294	\$ 1,050	\$ 1,344
Agricultural	—	—	—	—	—	—
Commercial real estate:						
Office, retail, and industrial	155	4,733	4,888	164	—	164
Multi-family	586	168	754	598	186	784
Construction	—	—	—	—	—	—
Other commercial real estate	268	48	316	340	—	340
Total commercial real estate	<u>1,009</u>	<u>4,949</u>	<u>5,958</u>	<u>1,102</u>	<u>186</u>	<u>1,288</u>
Total corporate loans	<u>1,290</u>	<u>5,099</u>	<u>6,389</u>	<u>1,396</u>	<u>1,236</u>	<u>2,632</u>
Home equity	177	820	997	494	667	1,161
1-4 family mortgages	824	378	1,202	853	421	1,274
Installment	—	—	—	—	—	—
Total consumer loans	<u>1,001</u>	<u>1,198</u>	<u>2,199</u>	<u>1,347</u>	<u>1,088</u>	<u>2,435</u>
Total loans	<u>\$ 2,291</u>	<u>\$ 6,297</u>	<u>\$ 8,588</u>	<u>\$ 2,743</u>	<u>\$ 2,324</u>	<u>\$ 5,067</u>

⁽¹⁾ These TDRs are included in non-accrual loans in the preceding tables.

TDRs are included in the calculation of the allowance for credit losses in the same manner as impaired loans. There were no specific reserves related to TDRs as of December 31, 2016, and there were \$758,000 in specific reserves related to TDRs as of December 31, 2015.

The following table presents a summary of loans that were restructured during the years ended December 31, 2016, 2015, and 2014.

Loans Restructured During the Period
(Dollar amounts in thousands)

	Number of Loans	Pre- Modification Recorded Investment	Funds Disbursed	Interest and Escrow Capitalized	Charge-offs	Post- Modification Recorded Investment
Year Ended December 31, 2016						
Office, retail, and industrial	1	\$ 5,460	\$ —	\$ —	\$ 1,083	\$ 4,377
Other commercial real estate	1	745	—	—	—	745
Total loans restructured during the period . . .	2	\$ 6,205	\$ —	\$ —	\$ 1,083	\$ 5,122
Year Ended December 31, 2015						
Home equity	1	120	—	—	—	120
1-4 family mortgages	2	325	—	—	—	325
Total loans restructured during the period . . .	3	\$ 445	\$ —	\$ —	\$ —	\$ 445
Year Ended December 31, 2014						
Commercial and industrial	7	\$ 23,852	\$ —	\$ —	\$ —	\$ 23,852
Office, retail, and industrial	1	417	—	—	—	417
Multi-family	1	275	—	—	—	275
Home equity	1	75	—	—	—	75
Total loans restructured during the period . . .	10	\$ 24,619	\$ —	\$ —	\$ —	\$ 24,619

Accruing TDRs that do not perform in accordance with their modified terms are transferred to non-accrual. The following table presents TDRs that had payment defaults during the years ended December 31, 2016, 2015, and 2014 where the default occurred within twelve months of the restructure date.

TDRs That Defaulted Within Twelve Months of the Restructured Date
(Dollar amounts in thousands)

	Years Ended December 31,					
	2016		2015		2014	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	—	\$ —	—	\$ —	2	\$ 125
Home equity	1	119	—	—	1	77
Total	1	\$ 119	—	\$ —	3	\$ 202

A rollforward of the carrying value of TDRs for the years ended December 31, 2016, 2015, and 2014 is presented in the following table.

TDR Rollforward
(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Accruing			
Beginning balance	\$ 2,743	\$ 3,704	\$ 23,770
Additions	—	120	804
Net payments	(120)	(774)	(1,440)
Returned to performing status	—	—	(20,656)
Net transfers (to) from non-accrual	(332)	(307)	1,226
Ending balance	<u>2,291</u>	<u>2,743</u>	<u>3,704</u>
Non-accrual			
Beginning balance	2,324	19,904	4,083
Additions	6,205	325	23,815
Net (payments) advances	(1,072)	(15,525)	1,991
Charge-offs	(1,492)	(2,687)	(8,457)
Transfers to OREO	—	—	(302)
Loans sold	—	—	—
Net transfers from (to) accruing	332	307	(1,226)
Ending balance	<u>6,297</u>	<u>2,324</u>	<u>19,904</u>
Total TDRs	<u>\$ 8,588</u>	<u>\$ 5,067</u>	<u>\$ 23,608</u>

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

There were no material commitments to lend additional funds to borrowers with TDRs as of December 31, 2016 and 2015.

8. PREMISES, FURNITURE, AND EQUIPMENT

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

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

	As of December 31,	
	2016	2015
Land	\$ 18,304	\$ 43,442
Premises	94,369	152,444
Furniture and equipment	105,859	90,672
Total cost	<u>218,532</u>	<u>286,558</u>
Accumulated depreciation	(140,030)	(171,708)
Net book value of premises, furniture, and equipment	<u>78,502</u>	<u>114,850</u>
Assets held-for-sale	4,075	7,428
Premises, furniture, and equipment, net	<u>\$ 82,577</u>	<u>\$ 122,278</u>

On September 27, 2016, the Bank completed a sale-leaseback transaction, whereby the Bank sold to a third-party for an aggregate cash purchase price of \$150.3 million, 55 properties with book values totaling \$58.8 million, owned and operated by the Bank as branches. Upon the sale of the branches the Bank concurrently entered into triple net lease agreements with certain affiliates of the third-party for each of the branches sold. Subject to the right of the Bank to terminate certain of the lease agreements at the end of the eleventh year, the lease agreements have initial terms of 14 years. Each lease agreement provides the Bank with five consecutive renewal options of five years each. The sale-leaseback transaction resulted in a pre-tax gain of \$88.0 million, net of transaction related expenses, of which \$5.5 million was immediately recognized in earnings. The remaining pre-tax gain of \$82.5 million was deferred and will be accreted into income on a straight-line basis over the initial terms of the leases. Accretion related to the deferred gain of \$1.5 million was recognized in 2016 and is included in net occupancy and equipment expense in the Consolidated Statement of Income. Aggregate first year rent expense to be paid under the sale-leaseback transaction is approximately \$10.5 million with a 1.50% annual rent escalation during the initial term and during the first and second five-year renewal periods.

As of December 31, 2016 and 2015, assets held-for-sale consisted of former branches that are no longer in operation and parcels of land previously purchased for expansion.

Depreciation on premises, furniture, and equipment totaled \$12.8 million in 2016, \$13.4 million in 2015, and \$12.2 million in 2014.

Operating Leases

As of December 31, 2016, the Company was obligated to utilize certain premises and equipment under certain non-cancelable operating leases, which expire at various dates through the year ending December 31, 2033. Many of these leases contain renewal options and certain leases provide options to purchase the leased property during or at the expiration of the lease period at specific prices. Some leases contain escalation clauses calling for rentals to be adjusted for increased real estate taxes and other operating expenses or proportionately adjusted for increases in consumer or other price indices. The following summary reflects the future minimum payments by year required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2016.

Future Minimum Operating Lease Payments

(Dollar amounts in thousands)

Year Ending December 31,	Total
2017.....	\$ 18,229
2018.....	16,650
2019.....	16,173
2020.....	15,580
2021.....	15,551
2022 and thereafter	145,095
Total minimum lease payments	\$ 227,278

Deferred pre-tax gains of \$82.5 million related to the sale-lease back transaction will be accreted as a reduction to lease expense in other expenses on the Condensed Consolidated Statements of Income on a straight-line basis over the initial terms of the leases.

The Company assumed certain operating leases related to various branches in a 2014 acquisition. On the date of acquisition, an intangible liability of \$10.6 million was recorded as the cash flows of the leases exceeded the fair market value. This intangible liability is accreted into income as a reduction to net occupancy and equipment expense using the straight-line method over the initial term of each lease, which expire between 2018 to 2030. The intangible liability is included in accrued interest and other liabilities in the Consolidated Statements of Financial Condition.

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

Scheduled Accretion of Operating Lease Intangible

(Dollar amounts in thousands)

Year Ending December 31,	Total
2017.....	\$ 1,180
2018.....	935
2019.....	685
2020.....	648
2021.....	648
2022 and thereafter.....	3,997
Total accretion.....	\$ 8,093

The following table presents net operating lease expense for the years ended December 31, 2016, 2015, and 2014.

Net Operating Lease Expense

(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Lease expense charged to operations.....	\$ 11,207	\$ 6,850	\$ 4,669
Accretion of operating lease intangible ⁽¹⁾	(1,171)	(1,144)	(453)
Accretion of deferred gain on sale-leaseback transaction ⁽¹⁾	(1,473)	—	—
Rental income from premises leased to others ⁽¹⁾	(527)	(606)	(541)
Net operating lease expense.....	\$ 8,036	\$ 5,100	\$ 3,675

⁽¹⁾ Included as reductions to net occupancy and equipment expense in the Consolidated Statements of Income.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's annual goodwill impairment test was performed as of October 1, 2016. It was determined that no impairment existed as of that date or as of December 31, 2016. For a discussion of the accounting policies for goodwill and other intangible assets, see Note 1, "Summary of Significant Accounting Policies."

The following table presents changes in the carrying amount of goodwill for the years ended December 31, 2016, 2015, and 2014.

Changes in the Carrying Amount of Goodwill

(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Beginning balance.....	\$ 319,007	\$ 310,589	\$ 264,062
Acquisitions.....	21,872	8,418	46,527
Ending balance.....	\$ 340,879	\$ 319,007	\$ 310,589

The increase in goodwill for the year ended December 31, 2016 resulted from the NI Bancshares acquisition and measurement period adjustments related to finalizing the fair values of the assets acquired and liabilities assumed in the Peoples acquisition. During the year ended December 31, 2015, the increase in goodwill resulted from the Peoples acquisition and a measurement period adjustment related to finalizing the fair values of the assets acquired and liabilities assumed in the Great Lakes Financial Resources, Inc. ("Great Lakes") acquisition. During the year ended December 31, 2014, the increase in goodwill resulted from the Popular Community Bank ("Popular") and Great Lakes acquisitions. See Note 3, "Acquisitions," for additional detail regarding transactions completed in 2016 and 2015.

The Company's other intangible assets are core deposit intangibles, which are being amortized over their estimated useful lives. Other intangible assets are subject to impairment testing when events or circumstances indicate that its carrying amount may not be recoverable. During 2016 there were no events or circumstances to indicate impairment.

Other Intangible Assets

(Dollar amounts in thousands)

	Years Ended December 31,								
	2016			2015			2014		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Beginning balance	\$ 48,550	\$ 28,280	\$ 20,270	\$ 47,970	\$ 24,360	\$ 23,610	\$ 33,775	\$ 21,471	\$ 12,304
Additions	10,409	—	10,409	580	—	580	14,195	—	14,195
Amortization expense	—	4,682	(4,682)	—	3,920	(3,920)	—	2,889	(2,889)
Ending balance	\$ 58,959	\$ 32,962	\$ 25,997	\$ 48,550	\$ 28,280	\$ 20,270	\$ 47,970	\$ 24,360	\$ 23,610
Weighted-average remaining life (in years)	7.6			7.4			8.0		
Estimated remaining useful lives (in years)	0.6 to 9.3			0.8 to 10.0			0.3 to 10.3		

Scheduled Amortization of Other Intangible Assets

(Dollar amounts in thousands)

Year Ending December 31,	Total
2017	\$ 4,161
2018	3,237
2019	3,172
2020	3,121
2021	3,045
2022 and thereafter	9,261
Total	\$ 25,997

10. DEPOSITS

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

Summary of Deposits

(Dollar amounts in thousands)

	As of December 31,	
	2016	2015
Demand deposits	\$ 2,766,748	\$ 2,414,454
Savings deposits	1,615,833	1,547,587
NOW accounts	1,675,421	1,456,175
Money market deposits	1,577,316	1,526,056
Time deposits less than \$100,000	755,558	754,576
Time deposits greater than \$100,000	437,727	398,890
Total deposits	\$ 8,828,603	\$ 8,097,738

The following table provides maturity information related to the Company's time deposits.

Scheduled Maturities of Time Deposits

(Dollar amounts in thousands)

	Total
Year Ending December 31,	
2017.....	\$ 679,232
2018.....	167,265
2019.....	106,690
2020.....	118,347
2021.....	121,385
2022 and thereafter	366
Total.....	\$ 1,193,285

11. BORROWED FUNDS

The following table summarizes the Company's borrowed funds by funding source.

Summary of Borrowed Funds

(Dollar amounts in thousands)

	As of December 31,	
	2016	2015
Securities sold under agreements to repurchase	\$ 129,008	\$ 155,196
FHLB advances.....	750,000	9,900
Total borrowed funds	\$ 879,008	\$ 165,096

Securities sold under agreements to repurchase are treated as financings and the obligations to repurchase securities sold are included as a liability in the Consolidated Statements of Financial Condition. Repurchase agreements are secured by U.S. treasury and agency securities which are held in third-party pledge accounts, if required. The securities underlying the agreements remain in the respective asset accounts. As of December 31, 2016, the Company did not have amounts at risk under repurchase agreements with any individual counterparty or group of counterparties that exceeded 10% of stockholders' equity.

The Bank is a member of the FHLB and has access to term financing from the FHLB. These advances are secured by designated assets that may include qualifying commercial real estate, residential and multi-family mortgages, home equity loans, and certain municipal and mortgage-backed securities. As of December 31, 2016, FHLB advances had fixed interest rates that range from 0.49% to 0.70% and maturity dates that range from January 9, 2017 to March 1, 2017.

The Company hedges interest rates on borrowed funds using interest rate swaps through which the Company receives variable amounts and pays fixed amounts. See Note 20 "Derivative Instruments and Hedging Activities" for a detailed discussion of interest rate swaps.

The following table presents short-term credit lines available for use, for which the Company did not have an outstanding balance as of December 31, 2016 and 2015.

Short-Term Credit Lines Available for Use

(Dollar amounts in thousands)

	As of December 31,	
	2016	2015
FRBs Discount Window Primary Credit Program	\$ 629,699	\$ 655,745
Available federal funds lines.....	632,000	659,000
Correspondent bank line of credit.....	50,000	—

On September 27, 2016, the Company entered into a loan agreement with U.S. Bank National Association providing for a \$50.0 million short-term, unsecured revolving credit facility. Advances will bear interest at a rate equal to one-month LIBOR plus 1.75%, adjusted on a monthly basis, and the Company must pay an unused facility fee equal to 0.35% per annum on a quarterly basis. The line of credit will mature on September 26, 2017. Management expects to use this line of credit for general corporate purposes. As of December 31, 2016, no amount was outstanding under the facility.

None of the Company's borrowings have any related compensating balance requirements that restrict the use of Company assets.

12. SENIOR AND SUBORDINATED DEBT

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

	Senior and Subordinated Debt			As of December 31,	
	(Dollar amounts in thousands)			2016	2015
	Issuance Date	Maturity Date	Interest Rate		
Senior notes	November 2011	November 2016	5.875%	\$ —	\$ 114,891
Subordinated notes:					
Due in 2026	September 2016	September 2026	5.875%	146,573	—
Due in 2016	March 2006	April 2016	5.850%	—	38,499
Junior subordinated debentures:					
First Midwest Capital Trust I ("FMCT")	November 2003	December 2033	6.950%	37,800	37,799
Great Lakes Statutory Trust II ("GLST II") ⁽¹⁾	December 2005	December 2035	L+1.400% ⁽²⁾	4,391	4,296
Great Lakes Statutory Trust III ("GLST III") ⁽¹⁾	June 2007	September 2037	L+1.700% ⁽²⁾	5,839	5,723
Total junior subordinated debentures				<u>48,030</u>	<u>47,818</u>
Total senior and subordinated debt				<u>\$ 194,603</u>	<u>\$ 201,208</u>

⁽¹⁾ The junior subordinated debentures related to GLST II and GLST III were assumed by the Company through the Great Lakes acquisition. As of December 31, 2016, these amounts include acquisition adjustments which resulted in a discount of \$1.8 million to GLST II and \$2.4 million to GLST III. The acquisition adjustments totaled \$1.9 million and \$2.5 million to GLST II and GLST III, respectively, as of December 31, 2015.

⁽²⁾ The interest rates are a variable rate based on the three-month LIBOR plus 1.400% and 1.700% for GLST II and GLST III, respectively.

On April 1, 2016, the \$38.5 million of 5.850% subordinated notes matured and were repaid by the Company. On November 22, 2016, \$115.0 million of 5.875% senior notes matured and were repaid by the Company.

Issuance of Subordinated Notes

On September 29, 2016, the Company completed the issuance and sale of \$150.0 million aggregate principal amount of its 5.875% subordinated notes due 2026. Interest on the notes is payable semi-annually on March 29 and September 29, beginning on March 29, 2017. The Company received proceeds of \$146.5 million, net of underwriting discounts and commissions and issuance costs. The Company used the net proceeds to repay at maturity the entire \$115.0 million aggregate principal amount of its 5.875% senior notes on November 22, 2016, plus accrued interest, and for other general corporate purposes.

Junior Subordinated Debentures

FMCT, GLST II and GLST III are Delaware statutory business trusts. 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 junior subordinated debentures are the sole assets of each trust. Therefore, each trust's ability to pay amounts due on the trust-preferred securities is solely dependent on the Company making payments on the related junior subordinated debentures. The trust-preferred securities are subject to mandatory redemption, in whole or in part, on repayment of the junior subordinated debentures at the stated maturity date or on redemption. The Company guarantees payments of distributions and redemptions on the trust-preferred securities on a limited basis.

Trust-preferred securities are included in Tier 1 capital of the Company for regulatory capital purposes. The statutory trusts qualify as VIEs for which the Company is not the primary beneficiary. Consequently, the accounts of those entities are not consolidated in the Company's financial statements.

13. MATERIAL TRANSACTIONS AFFECTING STOCKHOLDERS' EQUITY

Issued Common Stock

On March 8, 2016, the Company issued 3,042,494 shares of its \$0.01 par value common stock at a price of \$18.059 as part of the consideration in the NI Bancshares acquisition. Additional information regarding the NI Bancshares acquisition is presented in Note 3, "Acquisitions."

On December 2, 2014, the Company issued 2,440,754 shares of its \$0.01 par value common stock at a price of \$15.737 as part of the consideration in the Great Lakes acquisition.

Authorized Common Stock

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

Quarterly Dividend on Common Shares

The Company's Board of Directors ("the Board") declared stock dividends of \$0.07 per share for the first quarter of 2014, and \$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 2016.

Other than share-based compensation which is disclosed in Note 17, "Share-Based Compensation", there were no additional material transactions that affected stockholders' equity during the three years ended December 31, 2016.

14. EARNINGS PER COMMON SHARE

The table below displays the calculation of basic and diluted EPS.

Basic and Diluted EPS (Amounts in thousands, except per share data)

	Years Ended December 31,		
	2016	2015	2014
Net income	\$ 92,349	\$ 82,064	\$ 69,306
Net income applicable to non-vested restricted shares	(1,043)	(882)	(836)
Net income applicable to common shares	<u>\$ 91,306</u>	<u>\$ 81,182</u>	<u>\$ 68,470</u>
Weighted-average common shares outstanding:			
Weighted-average common shares outstanding (basic)	79,797	77,059	74,484
Dilutive effect of common stock equivalents	13	13	12
Weighted-average diluted common shares outstanding	<u>79,810</u>	<u>77,072</u>	<u>74,496</u>
Basic EPS	\$ 1.14	\$ 1.05	\$ 0.92
Diluted EPS	1.14	1.05	0.92
Anti-dilutive shares not included in the computation of diluted EPS ⁽¹⁾	494	800	1,198

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

15. INCOME TAXES

Components of Income Tax Expense

(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Current income tax expense (benefit):			
Federal	\$ 46,748	\$ 18,524	\$ 16,343
State	790	2,326	(1,388)
Total	47,538	20,850	14,955
Deferred income tax (benefit) expense:			
Federal	(7,786)	12,048	7,901
State	6,419	4,849	8,314
Total	(1,367)	16,897	16,215
Total income tax expense	\$ 46,171	\$ 37,747	\$ 31,170

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 for consolidated/combined reporting and sourcing of income and expense.

Components of Effective Tax Rate

(Dollar amounts in thousands)

	Years Ended December 31,					
	2016		2015		2014	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Statutory federal income tax	\$ 48,482	35.0%	\$ 41,934	35.0%	\$ 35,167	35.0%
(Decrease) increase in income taxes resulting from:						
Tax-exempt income, net of interest expense disallowance	(5,439)	(3.9)	(6,752)	(5.6)	(7,520)	(7.5)
State income tax, net of federal income tax effect	4,323	3.1	4,665	3.9	4,503	4.5
Other	(1,195)	(0.9)	(2,100)	(1.8)	(980)	(1.0)
Total	\$ 46,171	33.3%	\$ 37,747	31.5%	\$ 31,170	31.0%

The increase in income tax expense and the effective tax rate from the years ended December 31, 2015 to 2016 was due primarily to higher pre-tax income subject to tax at statutory rates and a decrease in tax-exempt income. The increase in income tax expense and the effective tax rate from the years ended December 31, 2014 to 2015 resulted from an increase in pre-tax income subject to tax at statutory rates, partially offset by decreases in state statutory rates.

As of December 31, 2016, 2015, and 2014, the Company's retained earnings included an appropriation for an acquired thrift's tax bad debt reserves of approximately \$2.5 million for which no provision for federal or state income taxes has been made. If, in the future, this portion of retained earnings were distributed as a result of the liquidation of the Company or its subsidiaries, federal and state income taxes would be imposed at the then applicable rates.

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

Deferred Tax Assets and Liabilities

(Dollar amounts in thousands)

	As of December 31,	
	2016	2015
Deferred tax assets:		
Allowance for credit losses	\$ 30,399	\$ 26,131
Deferred gain on sale-leaseback transaction	28,133	—
Unrealized losses on securities	18,320	18,328
Non-equity based compensation	6,060	3,739
Equity based compensation	5,228	5,469
OREO	4,336	2,597
Federal and state net operating loss ("NOL") carryforwards	388	7,679
Alternative minimum tax ("AMT") and other credit carryforwards	90	17,739
Property valuation adjustments	—	3,003
Other	10,997	8,375
Total deferred tax assets	103,951	93,060
Deferred tax liabilities:		
Acquisition adjustments	(13,407)	(9,371)
Accrued retirement benefits	(6,281)	(6,065)
Deferred loan fees and costs	(3,172)	(2,432)
Cancellation of indebtedness income	(2,136)	(3,204)
Other	(6,442)	(5,039)
Total deferred tax liabilities	(31,438)	(26,111)
Deferred tax valuation allowance	—	—
Net deferred tax assets	72,513	66,949
Tax effect of adjustments related to other comprehensive (loss) income	27,694	19,744
Net deferred tax assets including adjustments	\$ 100,207	\$ 86,693
NOL carryforwards available to offset future taxable income:		
Federal gross NOL carryforwards, begin to expire in 2035	\$ 574	\$ 922
Illinois gross NOL carryforwards, begin to expire in 2027	26,342	160,016
Indiana gross NOL carryforwards, begin to expire in 2023	1,003	11,796
AMT credits	—	17,739

During the year ended December 31, 2016, the Company recorded net deferred tax assets of \$4.4 million related to the NI Bancshares acquisition and a measurement period adjustment related to finalizing the fair values of the assets acquired and liabilities assumed in the Peoples acquisition. Net deferred tax assets for the year ended December 31, 2015 includes \$3.5 million of net deferred tax assets acquired from the Peoples acquisition and a measurement period adjustment related to finalizing the fair values of the assets acquired and liabilities assumed in the Great Lakes acquisition.

During the years ended December 31, 2016 and 2015, the Company transferred certain loans into Real Estate Mortgage Investment Conduit trusts which are classified as loans in the financial statements and as securities for tax purposes.

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

Uncertainty in Income Taxes

The Company files a U.S. federal income tax return and state income tax returns in various states. Income tax returns filed by the Company are no longer subject to examination by federal and state income tax authorities for years prior to 2013.

Rollforward of Unrecognized Tax Benefits

(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Beginning balance	\$ 1,408	\$ 912	\$ 279
Additions for tax positions relating to the current year	640	480	635
Additions for tax positions relating to prior years	—	37	—
Reductions for tax positions relating to prior years	(9)	(21)	(2)
Ending balance.	<u>\$ 2,039</u>	<u>\$ 1,408</u>	<u>\$ 912</u>
Interest and penalties not included above ⁽¹⁾ :			
Interest expense, net of tax effect, and penalties	\$ 49	\$ 20	\$ 4
Accrued interest and penalties, net of tax effect, at end of year.	73	24	4

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

The Company does not anticipate that the amount of uncertain tax positions will significantly increase or decrease in the next 12 months. Included in the balance as of December 31, 2016, 2015, and 2014 are tax positions totaling \$1.4 million, \$936,000 and \$597,000, respectively, which would favorably affect the Company's effective tax rate if recognized in future periods.

16. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

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

Profit Sharing Plan (Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Profit sharing expense ⁽¹⁾	\$ 6,171	\$ 6,919	\$ 6,354
Company dividends received by the Profit Sharing Plan	\$ 494	\$ 466	\$ 428
Company shares held by the Profit Sharing Plan at the end of the year:			
Number of shares	1,175,858	1,277,567	1,364,558
Fair value	\$ 29,667	\$ 23,546	\$ 23,348

⁽¹⁾ Included in retirement and other employee benefits in the Consolidated Statements of Income.

Pension Plan

The Company sponsors the Pension Plan which provides for retirement benefits based on years of service and compensation levels of the participants. The Pension Plan covers employees who met certain eligibility requirements and were hired before April 1, 2007, the date it was amended to eliminate new enrollment of new participants. During 2013, the Board approved an amendment to freeze benefit accruals under the Pension Plan effective on January 1, 2014.

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

Pension Plan Cost and Obligations (Dollar amounts in thousands)

	As of December 31,	
	2016	2015
Accumulated benefit obligation	\$ 68,959	\$ 67,185
Change in projected benefit obligation:		
Beginning balance	\$ 67,185	\$ 67,283
Service cost	—	—
Interest cost	1,635	2,334
Settlements	(3,136)	(7,320)
Actuarial loss	3,851	5,336
Benefits paid	(576)	(448)
Ending balance	\$ 68,959	\$ 67,185
Change in fair value of plan assets:		
Beginning balance	\$ 64,903	\$ 72,193
Actual return on plan assets	3,998	478
Benefits paid	(576)	(448)
Settlements	(3,136)	(7,320)
Ending balance	\$ 65,189	\$ 64,903
Funded status recognized in the Consolidated Statements of Financial Condition:		
Noncurrent liability	\$ (3,770)	\$ (2,282)
Amounts recognized in accumulated other comprehensive loss:		
Prior service cost	\$ —	\$ —
Net loss	28,483	26,481
Net amount recognized	\$ 28,483	\$ 26,481
Actuarial losses included in accumulated other comprehensive loss as a percent of:		
Accumulated benefit obligation	41.3%	39.4%
Fair value of plan assets	43.7%	40.8%
Amounts expected to be amortized from accumulated other comprehensive loss into net periodic benefit cost in the next fiscal year:		
Prior service cost	\$ —	\$ —
Net loss	582	516
Net amount expected to be recognized	\$ 582	\$ 516
Weighted-average assumptions at the end of the year used to determine the actuarial present value of the projected benefit obligation:		
Discount rate	3.86%	3.99%

On December 31, 2015, the Company refined the calculation of the interest component of net periodic benefit expense for the Pension Plan. Previously, the Company estimated the interest cost component utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the end of the period. Under the refined method, the Company utilized a full yield curve approach to estimate the component by applying specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company made this change to more closely match

the projected benefit cash flows and the corresponding yield curve spot rates, and to provide a more precise measurement of interest costs. This change had no impact on the measurement of the Company's total benefit obligations recorded as of December 31, 2015. The Company accounted for this change as a change in estimate that is inseparable from a change in accounting principle, and, accordingly, recognized its effect prospectively beginning in 2016.

To the extent the cumulative actuarial losses included in accumulated other comprehensive loss exceed 10% of the greater of the accumulated benefit obligation or the market-related value of the Pension Plan assets, it is the Company's policy to amortize the Pension Plan's net actuarial losses into income over the average remaining life expectancy of the Pension Plan participants. Actuarial losses included in accumulated other comprehensive loss as of December 31, 2016 exceeded 10% of the accumulated benefit obligation and the fair value of Pension Plan assets. The amortization of net actuarial losses is a component of the net periodic benefit cost. Amortization of the net actuarial losses and prior service cost included in other comprehensive (loss) income is not expected to have a material impact on the Company's future results of operations, financial position, or liquidity.

Net Periodic Benefit Pension Cost
(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Components of net periodic benefit cost:			
Interest cost	\$ 1,635	\$ 2,334	\$ 2,346
Expected return on plan assets	(4,057)	(4,333)	(4,931)
Recognized net actuarial loss	571	367	249
Amortization of prior service cost	—	—	—
Recognized settlement loss	1,338	2,254	1,377
Net periodic (income) cost	(513)	622	(959)
Other changes in plan assets and benefit obligations recognized as a charge to other comprehensive (loss) income:			
Net loss for the period	(3,911)	(9,191)	(10,752)
Amortization of net loss	1,909	2,621	1,625
Total unrealized loss	(2,002)	(6,570)	(9,127)
Total recognized in net periodic pension cost and other comprehensive (loss) income	\$ (1,489)	\$ (7,192)	\$ (8,168)
Weighted-average assumptions used to determine the net periodic cost:			
Discount rate	3.99%	3.60%	4.30%
Expected return on plan assets	6.50%	6.50%	7.25%

Pension Plan Asset Allocation
(Dollar amounts in thousands)

Asset Category:	Target Allocation	Fair Value of Plan Assets ⁽¹⁾	Percentage of Plan Assets as of December 31,	
			2016	2015
Equity securities	50 - 60%	\$ 38,910	60%	59%
Fixed income	30 - 48%	21,405	33%	35%
Cash equivalents	2 - 10%	4,874	7%	6%
Total		\$ 65,189	100%	100%

⁽¹⁾ Additional information regarding the fair value of Pension Plan assets as of December 31, 2016 can be found in Note 22, "Fair Value."

The expected long-term rate of return on Pension Plan assets represents the average rate of return expected to be earned over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Company considers long-term returns based on historical market data and projections of future returns for each asset category, as well as historical actual returns on the Pension Plan assets with the assistance of its independent actuarial consultant. Using this reference

data, the Company develops a forward-looking return expectation for each asset category and a weighted-average expected long-term rate of return based on the target asset allocation.

The investment objective of the Pension Plan is to maximize the return on Pension Plan assets over a long-term horizon to satisfy the Pension Plan obligations. In establishing its investment policies and asset allocation strategies, the Company considers expected returns and the volatility associated with different strategies. The policy established by the Company's Retirement Plan Committee provides for growth of capital with a moderate level of volatility by investing assets according to the target allocations stated above and reallocating those assets as needed to stay within those allocations. Investments are weighted toward publicly traded securities. Investment strategies that include alternative asset classes, such as private equity hedge funds and real estate, are generally avoided. Under the advisement of a certified investment advisor, the Committee reviews the investment policy on a quarterly basis to determine if any adjustments to the policy or investment strategy are necessary.

The following table presents estimated future pension benefit payments under the Pension Plan for retirees already receiving benefits and future retirees, assuming they retire and begin receiving unreduced benefits as soon as they are eligible.

Estimated Future Pension Benefit Payments

(Dollar amounts in thousands)

Year ending December 31,	Total
2017	\$ 16,009
2018	5,308
2019	5,059
2020	4,747
2021	4,646
2022-2026	18,583

17. SHARE-BASED COMPENSATION

Share-Based Plans

Omnibus Stock and Incentive Plan (the "Omnibus Plan") – In 1989, the Board adopted the Omnibus Plan, which allows for the grant of both incentive and non-statutory ("nonqualified") stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, and performance shares to certain key employees.

From the inception of the Omnibus Plan through the end of 2008, certain key employees were granted nonqualified stock options. The option exercise price is the average of the high and low price of the Company's common stock on the grant date. All options have a term of 10 years from the grant date, include reload features, and are non-transferable except to immediate family members, family trusts, or partnerships.

Since 2008, the Company has granted restricted stock and restricted stock unit awards instead of nonqualified stock options to certain key employees. Both restricted stock and restricted stock unit awards vest over three years, with 50% vesting on the second anniversary of the grant date and the remaining 50% vesting on the third anniversary of the grant date, provided the employee remains employed by the Company during this period (subject to accelerated vesting in the event of a change-in-control or upon certain terminations of employment, as set forth in the applicable award agreement). The fair value of the awards is determined based on the average of the high and low price of the Company's common stock on the grant date.

Since 2013, the Company has also granted performance shares to certain key employees. Recipients will earn performance shares totaling between 0% and 200% of the number of performance shares granted based on achieving certain performance metrics. Performance shares may be earned based on achieving an internal metric (core return on average tangible common equity) and an external metric (relative total shareholder return) over a three year period. Each metric is weighted at 50% of the total award opportunity. If earned, and assuming continued employment, the performance shares vest one-third at the completion of the three-year performance period and one-third at the end of the first and second years thereafter. The fair value of the performance shares that are dependent on the internal metric is determined based on the average of the high and low stock price on the grant date. An estimate is made as to the number of shares expected to vest as a result of actual performance against the internal metric to determine the amount of compensation expense to be recognized, which is re-evaluated quarterly. The fair value of the performance shares that are dependent on the external metric is determined using a Monte Carlo simulation model on the grant date assuming 100% of the shares are earned and issued.

Nonemployee Directors Stock Plan (the "Directors Plan") – In 1997, the Board adopted the Directors Plan, which provides for the grant of equity awards to non-management Board members. Until 2008, only nonqualified stock options were issued under the Directors Plan. The exercise price of the options is equal to the average of the high and low price of the Company's common stock on the grant date. All options have a term of 10 years from the grant date.

In 2008, the Company amended the Directors Plan to allow for the grant of restricted stock awards, among other items. The awards are restricted as to transfer, but are not restricted as to voting rights. Dividends accrue and are paid at the vesting date. Both the options and the restricted stock awards vest one year from the grant date subject to accelerated vesting in the event of retirement, death, disability, or change-in-control, as defined in the Directors Plan. Beginning in 2015, non-management members receive fully vested shares of the Company's common stock rather than restricted stock.

Both the Omnibus Plan and the Directors Plan, and material amendments, were submitted to and approved by the stockholders of the Company. The Company issues treasury shares to satisfy stock option exercises and the vesting of restricted stock, restricted stock units, and performance share awards.

Shares of Common Stock Available Under Share-Based Plans

	As of December 31, 2016	
	Shares Authorized	Shares Available For Grant
Omnibus Plan	8,631,641	1,998,949
Directors Plan	481,250	101,727

Stock Options

Nonqualified Stock Option Transactions

(Amounts in thousands, except per share data)

	Year Ended December 31, 2016			
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term ⁽¹⁾	Aggregate Intrinsic Value ⁽²⁾
Options outstanding beginning balance	756	\$ 32.55		
Expired	(270)	33.95		
Options outstanding ending balance	486	\$ 31.77	0.94	\$ 558
Exercisable at the end of the year	486	\$ 31.77	0.94	\$ 558

⁽¹⁾ Represents the average remaining contractual life in years.

⁽²⁾ Aggregate intrinsic value represents the total pre-tax intrinsic value that would have been received by the option holders if they had exercised their options on December 31, 2016. Intrinsic value equals the difference between the Company's average of the high and low stock price on the last trading day of the year and the option exercise price, multiplied by the number of shares. This amount will fluctuate with changes in the fair value of the Company's common stock.

Stock Option Valuation Assumptions – The Company estimates the fair value of stock options at the grant date using a Black-Scholes option-pricing model. No stock options were granted or exercised and no stock option award modifications were made during the three years ended December 31, 2016.

Restricted Stock, Restricted Stock Unit, and Performance Share Awards

Restricted Stock, Restricted Stock Unit, and Performance Share Award Transactions

(Amounts in thousands, except per share data)

	Year Ended December 31, 2016			
	Restricted Stock/Unit Awards		Performance Shares	
	Number of Shares/Units	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested awards beginning balance	908	\$ 15.92	338	\$ 15.19
Granted	494	17.28	126	17.28
Vested	(351)	14.69	(31)	14.69
Forfeited	(62)	16.72	(25)	16.72
Non-vested awards ending balance	989	\$ 16.95	408	\$ 15.78

In addition, non-management board members received 18,000 shares and 14,000 shares of common stock during the years ended December 31, 2016 and 2015, respectively.

Other Restricted Stock, Restricted Stock Unit, and Performance Share Award Information

(Amounts in thousands, except per share data)

	Years Ended December 31,		
	2016	2015	2014
Weighted-average grant date fair value of restricted stock, restricted stock unit, and performance share awards granted during the year	\$ 17.28	\$ 16.95	\$ 16.13
Total fair value of restricted stock and restricted stock unit awards vested during the year	12,231	7,615	7,546
Income tax benefit realized from the vesting/release of restricted stock and restricted stock unit awards	2,529	2,368	2,939

There were no performance shares that vested during the periods presented. No restricted stock, restricted stock unit, and performance share award modifications were made during the periods presented.

Compensation Expense

The Company recognizes share-based compensation expense based on the estimated fair value of the option or award at the grant or modification date. Share-based compensation expense is included in salaries and wages in the Consolidated Statements of Income.

Effect of Recording Share-Based Compensation Expense

(Dollar amounts in thousands)

	Years ended December 31,		
	2016	2015	2014
Total share-based compensation expense ⁽¹⁾	\$ 7,879	\$ 7,242	\$ 5,926
Income tax benefit	3,152	2,962	2,424
Share-based compensation expense, net of tax	\$ 4,727	\$ 4,280	\$ 3,502
Unrecognized compensation expense	\$ 9,990	\$ 8,644	\$ 6,937
Weighted-average amortization period remaining (in years) . . .	1.3	1.4	1.3

⁽¹⁾ Comprised of restricted stock, restricted stock unit, and performance share awards expense.

18. STOCKHOLDER RIGHTS PLAN

On February 15, 1989, the Board adopted a Stockholder Rights Plan and entered into a corresponding Rights Agreement. Pursuant to that plan, the Company attached one right ("Right") to each outstanding share of Company common stock. As subsequently amended, under certain circumstances, each Right entitled the registered holder to purchase from the Company 1/100 of a share of Series A Preferred Stock for a price of \$150, subject to adjustment. The Rights Agreement expired in accordance with its terms on November 15, 2015. As a result, the Rights Agreement and the Stockholder Rights Plan are no longer effective.

19. REGULATORY AND CAPITAL MATTERS

The Company and its subsidiaries are subject to various regulatory requirements that impose restrictions on cash, loans or advances, and dividends. The Bank is also required to maintain reserves against deposits. Reserves are held either in the form of vault cash or noninterest-bearing balances maintained with the FRB and are based on the average daily balances and statutory reserve ratios prescribed by the type of deposit account. Reserve balances totaling \$85.4 million as of December 31, 2016 and \$66.9 million as of December 31, 2015 were maintained in accordance with these requirements.

Under current Federal Reserve regulations, the Bank is limited in the amount it may loan or advance to First Midwest Bancorp, Inc. on an unconsolidated basis (the "Parent Company") and its non-bank subsidiaries. Loans or advances to a single subsidiary may not exceed 10%, and loans to all subsidiaries may not exceed 20% of the Bank's capital stock and surplus, as defined. Loans from subsidiary banks to non-bank subsidiaries, including the Parent Company, are also required to be collateralized.

The principal source of cash flow for the Parent Company is dividends from the Bank. Various federal and state banking regulations and capital guidelines limit the amount of dividends that the Bank may pay to the Parent Company. Without prior regulatory approval and while maintaining its well-capitalized status, the Bank can initiate aggregate dividend payments in 2017 of \$32.8 million plus its net profits for 2017, as defined by statute, up to the date of any such dividend declaration. Future payment of dividends by the Bank depends on individual regulatory capital requirements and levels of profitability.

The Company and the Bank are also subject to various capital requirements set up and administered by federal banking agencies. Under capital adequacy guidelines, the Company and the Bank must meet specific guidelines that involve quantitative measures given the risk levels of assets and certain off-balance sheet items calculated under regulatory accounting practices ("risk-weighted assets"). The capital amounts and classification are also subject to qualitative judgments by the regulators regarding components of capital and assets, risk weightings, and other factors.

The Federal Reserve, the primary regulator of the Company and the Bank, establishes minimum capital requirements that must be met by member institutions. As defined in the regulations, quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total capital to risk-weighted assets, Tier 1 capital to risk-weighted assets, common equity Tier 1 to risk-weighted assets, and Tier 1 capital to adjusted average assets. Failure to meet minimum capital requirements could result in actions by regulators that could have a material adverse effect on the Company's financial statements.

As of December 31, 2016, the Company and the Bank met all capital adequacy requirements. As of December 31, 2016, the most recent regulatory notification classified the Bank as "well-capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes would change the Bank's classification.

The following table outlines the Company's and the Bank's measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve for the Company and the Bank to be categorized as adequately capitalized and the Bank to be categorized as "well-capitalized."

Summary of Regulatory Capital Ratios

(Dollar amounts in thousands)

	Actual		Adequately Capitalized		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Capital	Ratio %	Capital	Ratio %	Capital	Ratio %
As of December 31, 2016						
Total capital to risk-weighted assets:						
First Midwest Bancorp, Inc.	\$1,225,529	12.23	\$ 864,176	8.625	N/A	N/A
First Midwest Bank	1,043,482	10.73	838,741	8.625	\$ 972,454	10.00
Tier 1 capital to risk-weighted assets:						
First Midwest Bancorp, Inc.	991,873	9.90	663,788	6.625	N/A	N/A
First Midwest Bank	956,399	9.83	644,251	6.625	777,963	8.00
Common equity Tier 1 to risk-weighted assets:						
First Midwest Bancorp, Inc.	941,315	9.39	513,496	5.125	N/A	N/A
First Midwest Bank	956,399	9.83	498,383	5.125	632,095	6.50
Tier 1 capital to average assets:						
First Midwest Bancorp, Inc.	991,873	8.99	441,473	4.000	N/A	N/A
First Midwest Bank	956,399	8.76	436,560	4.000	545,700	5.00
As of December 31, 2015						
Total capital to risk-weighted assets:						
First Midwest Bancorp, Inc.	\$ 968,331	11.15	\$ 695,029	8.000	N/A	N/A
First Midwest Bank	929,167	11.02	674,380	8.000	\$ 842,974	10.00
Tier 1 capital to risk-weighted assets:						
First Midwest Bancorp, Inc.	893,476	10.28	521,272	6.000	N/A	N/A
First Midwest Bank	854,322	10.13	505,785	6.000	674,380	8.00
Common equity Tier 1 to risk-weighted assets:						
First Midwest Bancorp, Inc.	845,640	9.73	390,954	4.500	N/A	N/A
First Midwest Bank	854,322	10.13	379,338	4.500	547,933	6.50
Tier 1 capital to average assets:						
First Midwest Bancorp, Inc.	893,476	9.40	380,043	4.000	N/A	N/A
First Midwest Bank	854,322	9.09	375,950	4.000	469,937	5.00

N/A – Not applicable.

In July of 2013, the Federal Reserve published final rules (the "Basel III Capital Rules") that revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision. The phase-in period for the final rules began for the Company on January 1, 2015, with full compliance with the final rules entire requirement phased in on January 1, 2019.

The Basel III Capital Rules (i) introduced a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specified that Tier 1 capital consists of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) narrowly defined 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) expanded the scope of the deductions/adjustments compared to existing regulations. Bank holding companies with less than \$15 billion in consolidated assets as of December 31, 2009, such as the Company, are permitted to include trust-preferred securities in Additional Tier 1 Capital on a permanent basis and without any phase-out. As of December 31, 2016, 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 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 prior 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 continue to exclude these items.

Finally, the Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the previous 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.

The Company and the Bank believe they 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 as of December 31, 2016 and 2015.

20. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Fair Value Hedges

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

Fair Value Hedges (Dollar amounts in thousands)

	As of December 31,	
	2016	2015
Gross notional amount outstanding	\$ 5,958	\$ 11,620
Derivative liability fair value	(282)	(643)
Weighted-average interest rate received	2.63%	2.25%
Weighted-average interest rate paid	5.96%	6.36%
Weighted-average maturity (in years)	1.84	1.97
Fair value of derivative ⁽¹⁾	\$ 296	\$ 665

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

Hedge ineffectiveness is recognized in other noninterest income in the Consolidated Statements of Income. For the years ended December 31, 2016, 2015, and 2014, gains or losses related to fair value hedge ineffectiveness were not material.

Cash Flow Hedges

As of December 31, 2016, the Company hedged \$735.0 million of certain corporate variable rate loans using interest rate swaps through which the Company receives fixed amounts and pays variable amounts. The Company also hedged \$735.0 million of borrowed funds using forward starting interest rate swaps through which the Company receives variable amounts and pays fixed amounts. These transactions allow the Company to add stability to net interest income and manage its exposure to interest rate movements. Forward starting interest rate swaps totaling \$325.0 million began on various dates between June of 2015 and June of 2016, and mature between June and August of 2019. The remaining forward starting interest rate swaps begin on various dates between February of 2017 and December of 2019 and mature between February of 2020 and December of 2021. These derivative contracts are designated as cash flow hedges.

Cash Flow Hedges (Dollar amounts in thousands)

	As of December 31,	
	2016	2015
Gross notional amount outstanding	\$ 1,470,000	\$ 1,220,000
Derivative asset fair value	5,402	4,787
Derivative liability fair value	(7,390)	(8,950)
Weighted-average interest rate received	1.37%	1.24%
Weighted-average interest rate paid	1.11%	0.75%
Weighted-average maturity (in years)	2.83	3.91

The effective portion of gains or losses on cash flow hedges is recorded in accumulated other comprehensive loss on an after-tax basis and is subsequently reclassified to interest income or expense in the period that the forecasted hedged item impacts earnings. Hedge effectiveness is determined using a regression analysis at the inception of the hedge relationship and on an ongoing basis. For the years ended December 31, 2016 and 2015, there were no material gains or losses related to cash flow hedge ineffectiveness. As of December 31, 2016, the Company estimates that \$3.9 million will be reclassified from accumulated other comprehensive loss as an increase to interest income over the next twelve months.

Other Derivative Instruments

The Company also enters into derivative transactions through capital market products with its commercial customers and simultaneously enters into an offsetting interest rate derivative transaction with third-parties. This transaction allows the Company's customers to effectively convert a variable rate loan into a fixed rate loan. Due to the offsetting nature of these transactions, the Company does not apply hedge accounting treatment. The Company's credit exposure on these derivative transactions results primarily from counterparty credit risk. The credit valuation adjustment ("CVA") is a fair value adjustment to the derivative to account for this risk. As of December 31, 2016 and 2015, the Company's credit exposure was fully secured by the underlying collateral on customer loans and mitigated through netting arrangements with third-parties, therefore, no CVA was recorded. Capital market products income related to commercial customer derivative instruments of \$10.0 million, \$4.8 million, and \$2.2 million was recorded in noninterest income for the years ended December 31, 2016, 2015, and 2014, respectively.

Other Derivative Instruments (Dollar amounts in thousands)

	As of December 31,	
	2016	2015
Gross notional amount outstanding	\$ 1,656,612	\$ 853,385
Derivative asset fair value	13,478	11,446
Derivative liability fair value	(13,478)	(11,446)
Fair value of derivative ⁽¹⁾	13,753	11,939

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

The Company occasionally enters into risk participation agreements with counterparty banks to transfer or assume a portion of the credit risk related to customer transactions. The amounts of these instruments were not material for any period presented. The Company had no other derivative instruments as of December 31, 2016 and 2015. The Company does not enter into derivative transactions for purely speculative purposes.

Credit Risk

Derivative instruments are inherently subject to credit risk, which represents the Company's risk of loss when the counterparty to a derivative contract fails to perform according to the terms of the agreement. Credit risk is managed by limiting and collateralizing the aggregate amount of net unrealized losses by transaction, monitoring the size and the maturity structure of the derivatives, and applying uniform credit standards. Company policy establishes limits on credit exposure to any single counterparty. In addition, the Company established bilateral collateral agreements with derivative counterparties that provide for exchanges of marketable securities or cash to collateralize either party's net losses above a stated minimum threshold. As of December 31, 2016 and 2015, these collateral agreements covered 100% of the fair value of the Company's outstanding fair value hedges. Derivative assets and liabilities are presented gross, rather than net, of pledged collateral amounts.

Certain derivative instruments are subject to master netting agreements with counterparties. The Company records these transactions at their gross fair values and does not offset derivative assets and liabilities in the Consolidated Statements of Financial Condition. The following table presents the fair value of the Company's derivatives and offsetting positions as of December 31, 2016 and 2015.

Fair Value of Offsetting Derivatives

(Dollar amounts in thousands)

	As of December 31,			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Gross amounts recognized	\$ 18,880	\$ 21,150	\$ 16,233	\$ 21,039
Less: amounts offset in the Consolidated Statements of Financial Condition	—	—	—	—
Net amount presented in the Consolidated Statements of Financial Condition ⁽¹⁾	18,880	21,150	16,233	21,039
Gross amounts not offset in the Consolidated Statements of Financial Condition:				
Offsetting derivative positions	(10,889)	(10,889)	(4,791)	(4,791)
Cash collateral pledged	—	(10,261)	—	(16,248)
Net credit exposure	\$ 7,991	\$ —	\$ 11,442	\$ —

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

As of December 31, 2016 and 2015, the Company's derivative instruments generally contained provisions that require the Company's debt to remain above a certain credit rating by each of the major credit rating agencies or that the Company maintain certain capital levels. If the Company's debt were to fall below that credit rating or the Company's capital were to fall below the required levels, it would be in violation of those provisions, and the counterparties to the derivative instruments could terminate the swap transaction and demand cash settlement of the derivative instrument in an amount equal to the derivative liability fair value. As of December 31, 2016 and 2015, the Company was in compliance with these provisions.

21. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Commitments and Guarantees

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

Contractual or Notional Amounts of Financial Instruments

(Dollar amounts in thousands)

	As of December 31,	
	2016	2015
Commitments to extend credit:		
Commercial, industrial, and agricultural	\$ 1,522,152	\$ 1,303,056
Commercial real estate	397,423	366,250
Home equity	426,384	352,114
Other commitments ⁽¹⁾	214,943	203,121
Total commitments to extend credit	\$ 2,560,902	\$ 2,224,541
Letters of credit	\$ 100,430	\$ 100,610
Recourse on assets sold:		
Unpaid principal balance of loans sold	\$ 187,158	\$ 196,389
Carrying value of recourse obligation ⁽²⁾	142	87

⁽¹⁾ Other commitments includes installment and overdraft protection program commitments.

⁽²⁾ Included in other liabilities in the Consolidated Statements of Financial Condition.

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

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

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

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

As a result of the sale of certain 1-4 family mortgage loans, the Company is contractually obligated to repurchase any non-performing loans or loans that do not meet underwriting requirements at recorded value. In accordance with the sales agreements, there is no limitation to the maximum potential future payments or expiration of the Company's recourse obligation. There were no material loan repurchases during the years ended December 31, 2016 or 2015.

Legal Proceedings

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries as of December 31, 2016. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect that any liabilities arising from pending legal matters will have a material adverse effect on the Company's financial position, results of operations, or cash flows.

22. FAIR VALUE

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

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

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

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

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

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

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

	Recurring Fair Value Measurements					
	(Dollar amounts in thousands)					
	As of December 31, 2016			As of December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Trading securities:						
Money market funds	\$ 1,645	\$ —	\$ —	\$ 2,530	\$ —	\$ —
Mutual funds	16,275	—	—	14,364	—	—
Total trading securities	17,920	—	—	16,894	—	—
Securities available-for-sale:						
U.S. treasury securities	48,541	—	—	16,980	—	—
U.S. agency securities	—	183,637	—	—	86,643	—
CMOs	—	1,047,446	—	—	687,185	—
MBSs	—	332,655	—	—	153,530	—
Municipal securities	—	270,846	—	—	327,570	—
CDOs	—	—	33,260	—	—	31,529
Equity securities	—	3,065	—	—	3,199	—
Total securities available-for-sale	48,541	1,837,649	33,260	16,980	1,258,127	31,529
Mortgage servicing rights ("MSRs") ⁽¹⁾	—	—	6,120	—	—	1,853
Derivative assets ⁽¹⁾	—	18,880	—	—	16,233	—
Liabilities:						
Derivative liabilities ⁽²⁾	\$ —	\$ 21,150	\$ —	\$ —	\$ 21,039	\$ —

⁽¹⁾ Included in other assets in the Consolidated Statements of Financial Condition.

⁽²⁾ Included in other liabilities in the Consolidated Statements of Financial Condition.

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

Trading Securities

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

Securities Available-for-Sale

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

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

LIBOR plus an adjustment to reflect the impact of market factors. Finally, the discounted cash flows for each Issuer are aggregated to derive the estimated fair value for the specific CDO.

The following table presents the ranges of significant, unobservable inputs calculated using the weighted average of the Issuers used by the Company as of December 31, 2016 and 2015.

Significant Unobservable Inputs Used in the Valuation of CDOs

	As of December 31,	
	2016	2015
Probability of prepayment	0.0% - 10.9%	1.8% - 15.1%
Probability of default	16.7% - 46.8%	19.1% - 32.6%
Loss given default	93.3% - 98.9%	93.8% - 97.1%
Probability of deferral cure	7.6% - 100.0%	15.2% - 63.1%

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

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

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

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

A rollforward of the carrying value of CDOs for the three years ended December 31, 2016 is presented in the following table.

Carrying Value of CDOs (Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Beginning balance	\$ 31,529	\$ 33,774	\$ 18,309
Additions	—	—	6,549
Change in other comprehensive (loss) income ⁽¹⁾	2,337	(2,030)	13,495
Paydowns and sales ⁽²⁾	(606)	(215)	(4,579)
Ending balance.	\$ 33,260	\$ 31,529	\$ 33,774

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

⁽²⁾ During the year ended December 31, 2014, one CDO with a carrying value of \$1.3 million and four CDOs totaling \$2.9 million, which were acquired in the Great Lakes transaction, were sold.

Mortgage Servicing Rights

The Company services loans for others totaling \$640.5 million and \$242.9 million as of December 31, 2016 and 2015, respectively. As of December 31, 2016, loans serviced for others includes approximately \$305.5 million of loans, the servicing of which transitioned from NI Bancshares to the Company as a result of the acquisition. These loans are owned by third-parties and are not included in the Consolidated Statements of Financial Condition. For additional information related to the NI Bancshares transaction, see Note 3, "Acquisitions." MSRs are recorded at fair value and are included in other assets in the Consolidated Statements of Financial Condition.

The Company determines the fair value of MSRs by estimating the present value of expected future cash flows associated with the mortgage loans being serviced and classifies them in level 3 of the fair value hierarchy. The following table presents the ranges of significant, unobservable inputs used by the Company to determine the fair value of MSRs as December 31, 2016 and 2015.

Significant Unobservable Inputs Used in the Valuation of MSRs

	As of December 31,	
	2016	2015
Prepayment speed	7.7% - 22.8%	10.1% - 20.9%
Maturity (months)	12 - 103	6 - 86
Discount rate	9.5% - 13.0%	9.5% - 13.0%

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

A rollforward of the carrying value of MSRs for the three years ended December 31, 2016 is presented in the following table.

Carrying Value of MSRs

(Dollar amounts in thousands)

	Years Ended December 31,		
	2016	2015	2014
Beginning balance	\$ 1,853	\$ 1,728	\$ 1,893
Additions from acquisition	3,092	—	—
New MSRs	1,263	342	315
Total (losses) gains included in earnings ⁽¹⁾ :			
Changes in valuation inputs and assumptions	610	(11)	(480)
Other changes in fair value ⁽²⁾	(698)	(206)	—
Ending balance	\$ 6,120	\$ 1,853	\$ 1,728
Contractual servicing fees earned during the year ⁽¹⁾	\$ 1,312	\$ 546	\$ 520
Total amount of loans being serviced for the benefit of others at the end of the year	640,530	242,915	220,372

⁽¹⁾ Included in mortgage banking income in the Consolidated Statements of Income and relate to assets still held at the end of the year.

⁽²⁾ Primarily represents changes in expected future cash flows over time due to payoffs and paydowns.

Derivative Assets and Derivative Liabilities

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

Pension Plan Assets

Although Pension Plan assets are not consolidated in the Company's Consolidated Statements of Financial Condition, they are required to be measured at fair value on an annual basis. The fair value of Pension Plan assets is presented in the following table by level in the fair value hierarchy.

Annual Fair Value Measurements for Pension Plan Assets

(Dollar amounts in thousands)

	As of December 31, 2016			As of December 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Pension plan assets:						
Mutual funds ⁽¹⁾	\$ 29,071	\$ —	\$ 29,071	\$ 23,061	\$ —	\$ 23,061
U.S. government and government agency securities	5,957	7,947	13,904	6,866	5,538	12,404
Corporate bonds	—	7,010	7,010	—	9,569	9,569
Common stocks	7,526	—	7,526	11,330	—	11,330
Common trust funds	—	7,678	7,678	—	8,539	8,539
Total pension plan assets	\$ 42,554	\$ 22,635	\$ 65,189	\$ 41,257	\$ 23,646	\$ 64,903

⁽¹⁾ Includes mutual funds, money market funds, cash, cash equivalents, and accrued interest.

Mutual funds, certain U.S. government agency securities, and common stocks are based on quoted market prices in active exchange markets and classified in level 1 of the fair value hierarchy. Corporate bonds and certain U.S. government and government agency securities are valued at quoted prices from independent sources that are based on observable market trades or observable prices for similar bonds where a price for the identical bond is not observable and, therefore, are classified in level 2 of the fair value hierarchy. Common trust funds are valued at quoted redemption values on the last business day of the Pension Plan's fiscal year and are classified in level 2 of the fair value hierarchy. There were no Pension Plan assets classified in level 3 of the fair value hierarchy.

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

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

Non-Recurring Fair Value Measurements

(Dollar amounts in thousands)

	As of December 31, 2016			As of December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Collateral-dependent impaired loans ⁽¹⁾	\$ —	\$ —	\$ 22,019	\$ —	\$ —	\$ 10,519
OREO ⁽²⁾	—	—	8,624	—	—	8,581
Loans held-for-sale ⁽³⁾	—	—	10,484	—	—	14,444
Assets held-for-sale ⁽⁴⁾	—	—	4,075	—	—	7,428

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

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

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

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

Collateral-Dependent Impaired Loans

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

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

OREO

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

Loans Held-for-Sale

Loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell as of December 31, 2016 and 2015. These loans were recorded in the held-for-sale category at the contract price and, accordingly, are classified in level 3 of the fair value hierarchy. A commercial real estate loan is also included in loans held-for-sale as of December 31, 2015.

Assets Held-for-Sale

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

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are subject to annual impairment testing, which requires a significant degree of management judgment. If the testing had resulted in impairment, the Company would have classified goodwill and other intangible assets as a level 3 non-recurring fair value measurement. Additional information regarding goodwill, other intangible assets, and impairment policies can be found in Note 1, "Summary of Significant Accounting Policies," and Note 9, "Goodwill and Other Intangible Assets."

Financial Instruments Not Required to be Measured at Fair Value

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

Fair Value Measurements of Other Financial Instruments

(Dollar amounts in thousands)

	Fair Value Hierarchy Level	As of December 31, 2016		As of December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and due from banks	1	\$ 155,055	\$ 155,055	\$ 114,587	\$ 114,587
Interest-bearing deposits in other banks	2	107,093	107,093	266,615	266,615
Securities held-to-maturity	2	22,291	18,212	23,152	20,054
FHLB and FRB stock	2	59,131	59,131	39,306	39,306
Loans	3	8,172,584	7,973,845	7,091,988	6,959,024
Investment in BOLI	3	219,746	219,746	209,601	209,601
Accrued interest receivable	3	34,384	34,384	27,847	27,847
Other interest-earning assets	3	834	834	1,982	1,982
Liabilities:					
Deposits	2	\$ 8,828,603	\$ 8,820,572	\$ 8,097,738	\$ 8,093,640
Borrowed funds	2	879,008	879,008	165,096	165,096
Senior and subordinated debt	2	194,603	197,888	201,208	205,726
Accrued interest payable	2	3,416	3,416	2,175	2,175

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

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

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

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

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

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

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

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

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

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

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

23. RELATED PARTY TRANSACTIONS

The Company, through the Bank, makes loans and has transactions with certain of its directors and executive officers. All of these loans and transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral requirements, for comparable transactions with unrelated persons and did not involve more than the normal risk of collectability or present unfavorable features. For the years ended December 31, 2016 and 2015, loans to directors and executive officers were not greater than 5% of stockholders' equity.

24. CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

The following represents the condensed financial statements of First Midwest Bancorp, Inc., the Parent Company.

Statements of Financial Condition

(Parent Company only)
(Dollar amounts in thousands)

	As of December 31,	
	2016	2015
Assets		
Cash and due from banks	\$ 140,217	\$ 119,693
Investments in and advances to subsidiaries	1,279,065	1,194,173
Other assets	139,060	63,337
Total assets	<u>\$ 1,558,342</u>	<u>\$ 1,377,203</u>
Liabilities and Stockholders' Equity		
Senior and subordinated debt	\$ 194,603	\$ 201,208
Accrued interest payable and other liabilities	106,659	29,727
Stockholders' equity	1,257,080	1,146,268
Total liabilities and stockholders' equity	<u>\$ 1,558,342</u>	<u>\$ 1,377,203</u>

Statements of Income

(Parent Company only)
(Dollar amounts in thousands)

	Years ended December 31,		
	2016	2015	2014
Income			
Dividends from subsidiaries	\$ 86,791	\$ 127,000	\$ 56,881
Interest income	2,188	2,164	1,502
Securities transactions and other	215	584	6,451
Total income	<u>89,194</u>	<u>129,748</u>	<u>64,834</u>
Expenses			
Interest expense	12,477	12,545	12,062
Salaries and employee benefits	16,104	14,624	12,589
Other expenses	7,110	6,003	5,867
Total expenses	<u>35,691</u>	<u>33,172</u>	<u>30,518</u>
Income before income tax benefit and equity in undistributed (loss) income of subsidiaries	53,503	96,576	34,316
Income tax benefit	12,878	11,950	8,710
Income before equity in undistributed (loss) income of subsidiaries	66,381	108,526	43,026
Equity in undistributed income (loss) of subsidiaries	25,968	(26,462)	26,280
Net income	<u>92,349</u>	<u>82,064</u>	<u>69,306</u>
Net income applicable to non-vested restricted shares	(1,043)	(882)	(836)
Net income applicable to common shares	<u>\$ 91,306</u>	<u>\$ 81,182</u>	<u>\$ 68,470</u>

Statements of Cash Flows
(Parent Company only)
(Dollar amounts in thousands)

	Years ended December 31,		
	2016	2015	2014
Operating Activities			
Net income	\$ 92,349	\$ 82,064	\$ 69,306
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed (income) loss of subsidiaries	(25,968)	26,462	(26,280)
Depreciation of premises, furniture, and equipment	2	7	6
Net gains on sales of securities	—	(1)	(5,702)
Share-based compensation expense	7,879	7,242	5,926
Tax expense related to share-based compensation	(685)	(1,200)	(106)
Net (increase) decrease in other assets	(75,104)	23,699	4,599
Net increase (decrease) in other liabilities	74,571	(17,132)	14,063
Net cash provided by operating activities	<u>73,044</u>	<u>121,141</u>	<u>61,812</u>
Investing Activities			
Purchases of securities available-for-sale	(14)	—	—
Proceeds from sales and maturities of securities available-for-sale	601	310	8,540
Purchase of premises, furniture, and equipment	—	(5)	—
Net cash paid for acquisitions	(14,905)	(16,047)	(15,809)
Net cash used in investing activities	<u>(14,318)</u>	<u>(15,742)</u>	<u>(7,269)</u>
Financing Activities			
Net proceeds from the issuance of subordinated debt	146,484	—	—
Payments for the retirement of senior and subordinated debt	(153,500)	—	—
Treasury stock activity	—	(120)	369
Cash dividends paid	(29,198)	(27,036)	(22,568)
Restricted stock activity	(2,476)	(2,890)	(2,781)
Excess tax benefit related to share-based compensation	488	794	912
Net cash used in financing activities	<u>(38,202)</u>	<u>(29,252)</u>	<u>(24,068)</u>
Net increase in cash and cash equivalents	20,524	76,147	30,475
Cash and cash equivalents at beginning of year	119,693	43,546	13,071
Cash and cash equivalents at end of year	<u>\$ 140,217</u>	<u>\$ 119,693</u>	<u>\$ 43,546</u>
Supplemental Disclosures of Cash Flow Information:			
Common stock issued for acquisitions, net of issuance costs	\$ 54,896	\$ —	\$ 38,300

25. SUBSEQUENT EVENTS

On January 6, 2017, the Company completed the acquisition of Standard, and all operating systems were converted in the first quarter of 2017. Pursuant to the terms of the merger agreement, on January 6, 2017, each outstanding share of Standard common stock was cancelled and converted into the right to receive 0.4350 of a share of First Midwest common stock. Based on the closing trading price of shares of First Midwest common stock on the NASDAQ on that date, of \$25.34, the value of the merger consideration per share of Standard common stock was \$11.02. Each outstanding Standard stock settled right was redeemed for cash, and each outstanding Standard stock option and each share of Standard phantom stock was cancelled and terminated in exchange for the right to receive cash, in each case, pursuant to the terms of the merger agreement. This resulted in an overall transaction value of approximately \$580.5 million, which consisted of 21,057,085 shares of Company common stock and \$47.1 million in cash.

The following table presents the assets acquired and liabilities assumed, net of preliminary fair value adjustments, in the Standard transaction as of the acquisition date. The assets acquired and liabilities assumed, both tangible and intangible, are presented at their estimated fair values as of the acquisition date and have been accounted for under the acquisition method of accounting. These fair value adjustments, including goodwill, are preliminary based on estimates and are subject to change as more information becomes available and after final analyses of the fair values of both tangible and intangible assets acquired and liabilities assumed are completed. Goodwill recorded in the acquisition, which reflects the increased Company presence in southern metropolitan Chicago and northwest Indiana and related synergies expected from the combined operations, is not tax deductible.

Acquisition Activity

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

	Standard January 6, 2017
Assets	
Cash and due from banks and interest-bearing deposits in other banks	\$ 101,944
Securities available-for-sale	214,098
FHLB and FRB stock	3,247
Loans	1,795,562
OREO	9,223
Investment in BOLI	55,629
Goodwill	328,296
Other intangible assets	25,868
Premises, furniture, and equipment	56,253
Accrued interest receivable and other assets	48,707
Total assets	<u>\$ 2,638,827</u>
Liabilities	
Noninterest-bearing deposits	\$ 676,295
Interest-bearing deposits	1,347,760
Total deposits	<u>2,024,055</u>
Accrued interest payable and other liabilities	34,289
Total liabilities	<u>2,058,344</u>
Consideration Paid	
Common stock (21,057,085 shares issued at \$25.34 per share), net of issuance costs	533,358
Cash paid	47,125
Total consideration paid	<u>580,483</u>
	<u>\$ 2,638,827</u>

The Company determined that it was not practicable to disclose the further detail related to acquired loans as of the acquisition date as the fair value adjustments are preliminary based on estimates discussed above.

The unaudited pro forma combined results of operations for the for the year ended December 31, 2016 is presented as if the Standard acquisition had occurred on January 1, 2016, the first day of the Company's 2016 fiscal year. The unaudited pro forma combined results of operations is presented for illustrative purposes only and does not necessarily indicate the financial results of the combined companies had the companies actually been combined at the beginning of the period presented. Fair value adjustments included in the following table are preliminary and may be revised. The unaudited pro forma results of operations also does not consider any potential impacts of potential revenue enhancements, anticipated cost savings and expense efficiencies, or asset dispositions, among other factors. Acquisition and integration related expenses directly attributable to the Standard acquisition have been excluded from the following table and are estimated to total \$27.0 million, of which \$8.0 million was expensed during the year ended December 31, 2016.

Unaudited Pro Forma Combined Results of Operations

(Dollar amounts in thousands, except per share data)

	For the Year Ended December 31, 2016
Total revenues ⁽¹⁾	\$ 616,922
Net income	108,770

⁽¹⁾ Includes net interest income and total noninterest income.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms. There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2016 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on this assessment, management determined that the Company's internal control over financial reporting as of December 31, 2016 is effective based on the specified criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Form 10-K, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2016. The report, which expresses an unqualified opinion on the Company's internal control over financial reporting as of December 31, 2016, is included in this Item under the heading "Attestation Report of Independent Registered Public Accounting Firm."

Attestation Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

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

We have audited First Midwest Bancorp, Inc.'s (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of the Company as of December 31, 2016 and 2015, 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, 2016 of the Company and our report dated February 28, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Chicago, Illinois
February 28, 2017

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The Company's executive officers are elected annually by the Board, and the Bank's executive officers are elected annually by the Bank's Board of Directors. Certain information regarding the Company's and the Bank's executive officers is set forth below.

<u>Name (Age)</u>	<u>Position or Employment for Past Five Years</u>	<u>Executive Officer Since</u>
Michael L. Scudder (56)	President and Chief Executive Officer of the Company since 2008; Chairman since 2011 and Vice Chairman from 2010 to 2011 of the Bank's Board of Directors; Chief Executive Officer of the Bank since 2010 and prior thereto, President, Chief Operating Officer and various other senior management positions with the Bank.	2002
Mark G. Sander (58)	President and Chief Operating Officer of the Bank and Senior Executive Vice President and Chief Operating Officer of the Company since 2011; prior thereto, Executive Vice President and head of Commercial Banking for Associated Banc-Corp and its subsidiary, Associated Bank, from 2009 to 2011.	2011
Patrick S. Barrett (53)	Executive Vice President and Chief Financial Officer of the Company and the Bank beginning on January 5, 2017; prior thereto, Senior Executive Vice President and Chief Financial Officer at Fulton Financial Corporation from 2014 to 2016; prior thereto, Chief Financial Officer of Wholesale Banking at SunTrust and before that in numerous leadership positions at JPMorgan Chase & Co.	2017
Jo Ann Boylan (54)	Executive Vice President and Chief Information and Operations Officer of the Bank since 2016; prior thereto, Senior Vice President and Chief Technology Officer at MB Financial.	2016
Nicholas J. Chulos (57)	Executive Vice President, Corporate Secretary, and General Counsel of the Company and Executive Vice President, Corporate Secretary and Chief Legal Officer of the Bank since 2012; prior thereto, Partner of Krieg DeVault, LLP.	2012
Paul F. Clemens (64)	Executive Vice President; prior thereto, Executive Vice President and Chief Financial Officer of the Company and the Bank from 2006 to January 5, 2017.	2006
Robert P. Diedrich (53)	Executive Vice President and Director of Wealth Management of the Bank since 2011.	2004
Michelle Y. Hoskins (48)	Executive Vice President and Chief Human Resources Officer of the Company since 2015; prior thereto, Senior Vice President and Head of Enterprise Change Management at Northern Trust Corporation since 2012; prior thereto, Senior Vice President and Head of Talent Management at Northern Trust Corporation.	2015
James P. Hotchkiss (60)	Executive Vice President and Treasurer of the Company and the Bank since 2004.	2004
Michael W. Jamieson (59)	Executive Vice President and Director of Commercial Banking of the Company since 2016; prior thereto, Senior Vice President and Market Executive at Bank of America Merrill Lynch.	2016
Jeff C. Newcom (44)	Executive Vice President and Chief Risk Officer of the Company since 2016; prior thereto, Chief Compliance and Enterprise Risk Management Officer at Fulton Financial Corporation since 2014; prior thereto, Associate Director at Protiviti.	2016
Thomas M. Prame (47)	Executive Vice President and Director of Strategic Planning and Consumer Banking since 2016; prior thereto, Executive Vice President and Director of Retail Banking of the Bank since 2012; prior thereto, Executive Vice President, Sales and Service at RBS/Citizen's Bank.	2012
Angela L. Putnam (38)	Senior Vice President of the Company and Bank and Chief Accounting Officer of the Bank since 2014; prior thereto, Vice President and Financial Reporting Manager for the Company since 2013; prior thereto, Director in the Assurance Services practice of McGladrey LLP.	2015
Michael C. Spittler (63)	Executive Vice President and Chief Credit Officer of the Bank since 2013; prior thereto, Executive Vice President and Commercial Chief Credit Officer for Busey Bank since 2011.	2013

Additional information required in response to this item will be contained in the Company's definitive Proxy Statement relating to its 2017 Annual Meeting of Stockholders to be held on May 17, 2017 and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this item will be contained in the Company's definitive Proxy Statement relating to its 2017 Annual Meeting of Stockholders to be held on May 17, 2017 and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required in response to this item, in addition to the information presented below under "Equity Compensation Plans," will be contained in the Company's definitive Proxy Statement relating to its 2017 Annual Meeting of Stockholders to be held on May 17, 2017 and is incorporated herein by reference.

Equity Compensation Plans

The following table sets forth information, as of December 31, 2016, relating to equity compensation plans of the Company pursuant to which options, restricted stock, restricted stock units, performance shares, or other rights to acquire shares may be granted from time to time.

	Equity Compensation Plan Information		
Equity Compensation Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Approved by security holders ⁽¹⁾	485,651	\$ 31.77	2,100,676
Not approved by security holders ⁽²⁾	5,552	17.68	—
Total	491,203	31.61	2,100,676

(1) Includes all outstanding options and restricted stock, restricted stock unit, and performance share awards under the Company's Omnibus Stock and Incentive Plan and the Non-Employee Directors' Stock Plan (the "Plans"). Additional information and details about the Plans are also disclosed in Notes 1 and 17 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. Restricted stock, restricted stock units, and performance shares that do not vest or are not earned, as well as the shares underlying options that expire unexercised, are added to the number of securities available for future issuance.

(2) Represents shares underlying deferred stock units credited under the Company's Nonqualified Retirement Plan ("NQ Plan"), payable on a one-for-one basis in shares of Common Stock.

The NQ Plan is a defined contribution deferred compensation plan under which participants are credited with deferred compensation equal to contributions and benefits that would have accrued to the participant under the Company's tax-qualified retirement plans, but for limitations under the Internal Revenue Code, and to amounts of salary and annual bonus that the participant elected to defer. Participant accounts are deemed to be invested in separate investment accounts under the NQ Plan with similar investment alternatives as those available under the Company's tax-qualified savings and profit sharing plan, including an investment account deemed invested in shares of Common Stock. The accounts are adjusted to reflect the investment return related to such deemed investments. Except for the 5,552 shares set forth in the table above, all amounts credited under the NQ Plan are paid in cash.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required in response to this item will be contained in the Company's definitive Proxy Statement relating to its 2017 Annual Meeting of Stockholders to be held on May 17, 2017 and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required in response to this item will be contained in the Company's definitive Proxy Statement relating to its 2017 Annual Meeting of Stockholders to be held on May 17, 2017 and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The following consolidated financial statements of the Registrant and its subsidiaries are filed as a part of this document under Item 8, "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA."

Report of Independent Registered Public Accounting Firm.

Consolidated Statements of Financial Condition as of December 31, 2016 and 2015.

Consolidated Statements of Income for the years ended December 31, 2016, 2015, and 2014.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015, and 2014.

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2016, 2015, and 2014.

Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015, and 2014.

Notes to the Consolidated Financial Statements.

(a) (2) Financial Statement Schedules

The schedules for the Registrant and its subsidiaries are omitted because of the absence of conditions under which they are required, or because the information is set forth in the consolidated financial statements or the notes thereto.

(a) (3) Exhibits

See Exhibit Index beginning on the following page.

EXHIBIT INDEX

Exhibit Number	Description of Documents
2.1 ⁽¹⁾	Agreement and Plan of Merger, dated as of June 28, 2016, by and among First Midwest Bancorp, Inc., Standard Bancshares, Inc. and Benjamin Acquisition Corporation is incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2016.
3.1	Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.
3.2	Certificate of Amendment of Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2014.
3.3	Amended and Restated By-Laws of the Company is incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2016.
4.1	Form of Common Stock Certificate is incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (file no 333-213587) filed with the Securities and Exchange Commission on September 12, 2016.
4.2	Certificate of Designation for Fixed Rate Cumulative Perpetual Preferred Stock Series B dated December 5, 2008 is incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 9, 2008.
4.3	Senior Debt Indenture dated November 22, 2011, by and between the Company and U.S. Bank National Association, as trustee, is incorporated herein by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 22, 2011.
4.4	Satisfaction and Discharge of Indenture, dated September 9, 2016, between First Midwest Bancorp, Inc. and U.S. Bank National Association, as trustee, is incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 9, 2016.
4.5	Subordinated Notes Indenture, dated September 29, 2016, between First Midwest Bancorp, Inc. and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2016.
4.6	First Supplemental Indenture, dated September 29, 2016, to the Subordinated Notes Indenture, between First Midwest Bancorp, Inc. and U.S. Bank National Association, as trustee, is incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2016.
4.7	Form of 5.875% Subordinated Notes due 2026 is incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2016.
4.8	Amended and Restated Declaration of Trust of First Midwest Capital Trust I dated August 21, 2009 is incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2009.
4.9	Supplemental Indenture between the Company and Wilmington Trust Company, as trustee, dated August 21, 2009 is incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2009.
4.10	Capital Securities Guarantee Agreement, dated as of August 21, 2009, between the Company and Wilmington Trust Company is incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2009.
10.1	Agreement of Sale and Purchase, dated September 12, 2016, by First Midwest Bank and Oak Street Real Estate Capital, LLC, is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2016.
10.2	Form of Absolute Lease Agreement is incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2016.
10.3	Loan Agreement, dated as of September 27, 2016, between First Midwest Bancorp, Inc. and U.S. Bank National Association, is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 3, 2016.
10.4	Short-term Incentive Compensation Plan is incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2012.
10.5	First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Annex A to the Company's Proxy Statement filed with the Securities and Exchange Commission on April 9, 2013.

- 10.6 Amendment to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2014.
- 10.7 First Midwest Bancorp, Inc. Amended and Restated Non-Employee Directors Stock Plan dated May 21, 2008 is incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.
- 10.8 Restated First Midwest Bancorp, Inc. Nonqualified Stock Option-Gain Deferral Plan effective January 1, 2008 is incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2008.
- 10.9 Restated First Midwest Bancorp, Inc. Deferred Compensation Plan for Non-employee Directors effective January 1, 2008, is incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2008.
- 10.10 Restated First Midwest Bancorp, Inc. Nonqualified Retirement Plan effective January 1, 2008, is incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2008.
- 10.11 Form of Non-Employee Director Restricted Stock Award Agreement between the Company and non-employee directors of the Company pursuant to the First Midwest Bancorp, Inc. Amended and Restated Non-Employee Directors Stock Plan is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities Exchange Commission on May 28, 2008.
- 10.12 Form of Nonqualified Stock Option Award Agreement between the Company and directors of the Company pursuant to the First Midwest Bancorp, Inc. Non-Employee Directors Stock Option Plan is incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities Exchange Commission on May 12, 2008.
- 10.13 Form of Nonqualified Stock Option Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2008.
- 10.14 Form of Restricted Stock Unit Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 3, 2014.
- 10.15 Form of Restricted Stock Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 3, 2014.
- 10.16 Form of Indemnification Agreement between the Company and certain officers and directors of the Company is incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.
- 10.17 Employment Agreement between the Company and its Chief Executive Officer is incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.
- 10.18 Employment Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.
- 10.19 Employment Agreement between the Company and its Chief Financial Officer.
- 10.20 Employment Agreement between the Company and its Retail Banking Director is incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.
- 10.21 Form of Class II Employment Agreement between the Company and certain of its officers is incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.
- 10.22 Form of Class III Employment Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010.
- 10.23 Form of Tier II Employment Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.
- 10.24 Form of Tier III Employment Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.

- 10.25 Form of Commission Tier III Employment Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.
- 10.26 Form of Amendment to the Employment Agreement between the Company and its Chief Executive Officer and to the Class II Employment Agreements between the Company and certain of its officers is incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.
- 10.27 Amendment to the Employment Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.
- 10.28 Form of Confidentiality and Restrictive Covenants Agreement between the Company and its Chief Executive Officer and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.
- 10.29 Form of Confidentiality and Restrictive Covenants Agreement between the Company and certain of its officers of the Company is incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.
- 10.30 Form of Restricted Stock Unit grant between the Company and certain retirement-eligible officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2011.
- 10.31 Nonqualified Stock Option Letter Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.
- 10.32 Restricted Stock Letter Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.
- 10.33 Supplemental Salary Stock Compensation Award Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.
- 10.34 Compensation Award Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.
- 10.35 First Midwest Bancorp, Inc. Savings and Profit Sharing Plan as Amended and Restated effective January 1, 2014 is incorporated herein by reference to Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2014.
- 10.36 Form of Performance Share Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 3, 2014.
- 10.37 Form of Restricted Stock Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2016.
- 10.38 Form of Restricted Stock Unit Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2016.
- 10.39 Form of Performance Share Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2016.
- 11 Statement re: Computation of Per Share Earnings – The computation of basic and diluted earnings per common share is included in Note 14 of the Company's Notes to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" on Form 10-K for the year ended December 31, 2016.
- 12 Statement re: Computation of Ratio of Earnings to Fixed Charges.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

- 31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company's Annual Report on Form 10-K for the year ended December 31, 2016.
- 32.1 ⁽²⁾ Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Company's Annual Report on Form 10-K for the year ended December 31, 2016.
- 32.2 ⁽²⁾ Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Company's Annual Report on Form 10-K for the year ended December 31, 2016.
- 101 Interactive Data File.

⁽¹⁾ Certain schedules to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and First Midwest agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule upon request.

⁽²⁾ Furnished, not filed.

CERTIFICATION

I, Michael L. Scudder, certify that:

1. I have reviewed this annual report on Form 10-K of First Midwest Bancorp Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/ MICHAEL L. SCUDDER

President and Chief Executive Officer

CERTIFICATION

I, Patrick S. Barrett, certify that:

1. I have reviewed this annual report on Form 10-K of First Midwest Bancorp Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/ PATRICK S. BARRETT

Executive Vice President and Chief Financial Officer

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned officer of First Midwest Bancorp, Inc. (the "Company"), hereby certifies that:

1. The Company's Report on Form 10-K for the year ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL L. SCUDDER

Name: Michael L. Scudder
Title: President and Chief Executive Officer
Dated: February 28, 2017

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned officer of First Midwest Bancorp, Inc. (the "Company"), hereby certifies that:

1. The Company's Report on Form 10-K for the year ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PATRICK S. BARRETT

Name: Patrick S. Barrett
Title: Executive Vice President and Chief Financial Officer
Dated: February 28, 2017

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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STOCKHOLDER INFORMATION



First Midwest Bancorp, Inc. common stock is traded in the Global Select Market tier of the Nasdaq Stock Market under the symbol **FMBI**.

DIVIDEND PAYMENTS

Anticipated dividend payable dates are in January, April, July, and October, subject to the approval of the Board of Directors.

DIRECT DEPOSIT

Stockholders may have their dividends deposited directly to their savings, checking, or money market account at any financial institution. Information concerning Dividend Direct Deposit may be obtained from the Company or our transfer agent.

DIVIDEND REINVESTMENT/ STOCK PURCHASE

Stockholders may fully or partially reinvest dividends and invest up to \$5,000 quarterly in First Midwest Bancorp, Inc. common stock without incurring any brokerage fees. Information concerning dividend reinvestment and stock purchase may be obtained from the Company or our transfer agent.

TRANSFER AGENT/ STOCKHOLDER SERVICES

Stockholders with inquiries regarding stock accounts, dividends, change of ownership or address, lost certificates, consolidation of accounts, or registering shares electronically through the Direct Registration System should contact our transfer agent via the following:

Phone: (888) 581-9376

Correspondence:

Mail:

Computershare
P.O. Box 30170
College Station, TX 77842-3170

Web:

www.computershare.com/investor

Overnight:

Computershare
211 Quality Circle, Suite 210
College Station, TX 77845

Online Inquiries:

<https://www-us.computershare.com/investor/contact>

INVESTOR AND STOCKHOLDER CONTACT

Investor Relations
First Midwest Bancorp, Inc.
One Pierce Place, Suite 1500
Itasca, Illinois 60143
(630) 875-7533
investor.relations@firstmidwest.com

SEC REPORTS AND GENERAL INFORMATION

First Midwest Bancorp, Inc. files an annual report on Form 10-K and three quarterly reports on Form 10-Q with the Securities and Exchange Commission. Requests for these reports and other Company filings and general inquiries regarding stock and dividend information, quarterly earnings, and news releases may be directed to Investor Relations at the above address or can be obtained through the Investor Relations section of the Company's website, www.FirstMidwest.com/InvestorRelations.

FORWARD-LOOKING STATEMENTS

This report, including the letter to stockholders contained in this report may contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of words such as "may," "might," "will," "would," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "probable," "potential," "possible," "target," "continue," "look forward," or "assume" and words of similar import. Forward-looking statements are not historical facts but instead express only management's beliefs regarding future results or events, many of which, by their nature, are inherently uncertain and outside of management's control. It is possible that actual results and events may differ, possibly materially, from the anticipated results or events indicated in these forward-looking statements. Forward-looking statements are not guarantees of future performance, and we caution you not to place undue reliance on these statements. Forward-looking statements contained in the letter to stockholders are made only as of the date of the letter, and we undertake no obligation to update any forward-looking statements contained in this letter to reflect new information or events or conditions. These statements are subject to certain risks, uncertainties and assumptions. For a discussion of these risks, uncertainties and assumptions, you should refer to the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2016, as well as our subsequent filings made with the Securities and Exchange Commission. However, these risks and uncertainties are not exhaustive. Other sections of such reports describe additional factors that could impact our business and financial performance.

FIRST MIDWEST BANCORP, INC.