

FIRST MIDWEST BANCORP INC  
Form 10-Q  
May 07, 2018

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

FORM 10-Q  
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2018

or

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

Commission File Number 0-10967

(Exact name of registrant as specified in its charter)

Delaware 36-3161078  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)  
One Pierce Place, Suite 1500  
Itasca, Illinois 60143-1254  
(Address of principal executive offices) (zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No . Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

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

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

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

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

As of May 4, 2018, there were 103,084,699 shares of common stock, \$.01 par value, outstanding.



FIRST MIDWEST BANCORP, INC.  
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## PART I. FINANCIAL INFORMATION (Unaudited)

## ITEM 1. FINANCIAL STATEMENTS

## FIRST MIDWEST BANCORP, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Amounts in thousands, except per share data)

|   | March 31,<br>2018 | December 31,<br>2017 |
|---|-------------------|----------------------|
| Assets  | (Unaudited)       |                      |
| Cash and due from banks   | \$ 150,138        | \$ 192,800           |
| Interest-bearing deposits in other banks  | 84,898            | 153,770              |
| Trading securities, at fair value   | —                 | 20,447               |
| Equity securities, at fair value  | 28,513            | —                    |
| Securities available-for-sale, at fair value                                    | 2,040,950         | 1,884,209            |
| Securities held-to-maturity, at amortized cost                                  | 13,400            | 13,760               |
| Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost | 80,508            | 69,708               |
| Loans   | 10,676,774        | 10,437,812           |
| Allowance for loan losses   | (94,854 )         | (95,729 )            |
| Net loans   | 10,581,920        | 10,342,083           |
| Other real estate owned ("OREO")  | 17,472            | 20,851               |
| Premises, furniture, and equipment, net   | 126,348           | 123,316              |
| Investment in bank-owned life insurance ("BOLI")                                | 281,285           | 279,900              |
| Goodwill and other intangible assets  | 754,814           | 754,757              |
| Accrued interest receivable and other assets                                    | 219,725           | 221,451              |
| Total assets  | \$ 14,379,971     | \$ 14,077,052        |
| Liabilities   |                   |                      |
| Noninterest-bearing deposits  | \$ 3,527,081      | \$ 3,576,190         |
| Interest-bearing deposits   | 7,618,941         | 7,477,135            |
| Total deposits  | 11,146,022        | 11,053,325           |
| Borrowed funds  | 950,688           | 714,884              |
| Senior and subordinated debt  | 195,312           | 195,170              |
| Accrued interest payable and other liabilities                                  | 218,662           | 248,799              |
| Total liabilities   | 12,510,684        | 12,212,178           |
| Stockholders' Equity  |                   |                      |
| Common stock  | 1,123             | 1,123                |
| Additional paid-in capital  | 1,021,923         | 1,031,870            |

|  |              |              |
|--|--------------|--------------|
| Retained earnings                                | 1,103,840    | 1,074,990    |
| Accumulated other comprehensive loss, net of tax | (57,531 )    | (33,036 )    |
| Treasury stock, at cost                          | (200,068 )   | (210,073 )   |
| Total stockholders' equity                       | 1,869,287    | 1,864,874    |
| Total liabilities and stockholders' equity       | \$14,379,971 | \$14,077,052 |

|                    | March 31,<br>2018<br>(Unaudited) | December 31, 2017   |                  |
|--------------------|----------------------------------|---------------------|------------------|
|                    | Preferred<br>Shares              | Preferred<br>Shares | Common<br>Shares |
| Par value          | \$ — \$ 0.01                     | \$ —                | \$0.01           |
| Shares authorized  | 1,000,000                        | 1,000               | 250,000          |
| Shares issued      | — 112,353                        | —                   | 112,351          |
| Shares outstanding | — 103,092                        | —                   | 102,717          |
| Treasury shares    | — 9,261                          | —                   | 9,634            |

See accompanying unaudited notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

(Unaudited)

|   | Quarters Ended |           |
|---|----------------|-----------|
|   | March 31,      |           |
|   | 2018           | 2017      |
| Interest Income                                     |                |           |
| Loans   | \$118,686      | \$112,365 |
| Investment securities                               | 11,756         | 10,484    |
| Other short-term investments                        | 903            | 850       |
| Total interest income                               | 131,345        | 123,699   |
| Interest Expense                                    |                |           |
| Deposits  | 6,179          | 3,209     |
| Borrowed funds                                      | 3,479          | 2,194     |
| Senior and subordinated debt                        | 3,124          | 3,099     |
| Total interest expense                              | 12,782         | 8,502     |
| Net interest income                                 | 118,563        | 115,197   |
| Provision for loan losses                           | 15,181         | 4,918     |
| Net interest income after provision for loan losses | 103,382        | 110,279   |
| Noninterest Income                                  |                |           |
| Service charges on deposit accounts                 | 11,652         | 11,365    |
| Wealth management fees                              | 10,958         | 9,660     |
| Card-based fees, net                                | 3,933          | 8,116     |
| Mortgage banking income                             | 2,397          | 1,888     |
| Capital market products income                      | 1,558          | 1,376     |
| Other service charges, commissions, and fees        | 2,548          | 5,442     |
| Other income  | 2,471          | 2,104     |
| Total noninterest income                            | 35,517         | 39,951    |
| Noninterest Expense                                 |                |           |
| Salaries and employee benefits                      | 56,787         | 55,772    |
| Net occupancy and equipment expense                 | 13,773         | 12,325    |
| Professional services                               | 7,580          | 8,463     |
| Technology and related costs                        | 4,771          | 4,433     |
| Net OREO expense                                    | 1,068          | 1,700     |
| Other expenses                                      | 11,603         | 15,384    |
| Acquisition and integration related expenses        | —              | 18,565    |
| Total noninterest expense                           | 95,582         | 116,642   |
| Income before income tax expense                    | 43,317         | 33,588    |
| Income tax expense                                  | 9,807          | 10,733    |
| Net income  | \$33,510       | \$22,855  |
| Per Common Share Data                               |                |           |
| Basic earnings per common share                     | \$0.33         | \$0.23    |
| Diluted earnings per common share                   | \$0.33         | \$0.23    |
| Dividends declared per common share                 | \$0.11         | \$0.09    |
| Weighted-average common shares outstanding          | 101,922        | 100,411   |

Weighted-average diluted common shares outstanding 101,938 100,432

See accompanying unaudited notes to the condensed consolidated financial statements.

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

|   | Quarters Ended |          |
|---|----------------|----------|
|   | March 31,      |          |
|   | 2018           | 2017     |
| Net income                              | \$33,510       | \$22,855 |
| Securities Available-for-Sale           |                |          |
| Unrealized holding (losses) gains:      |                |          |
| Before tax                              | (25,153 )      | 3,298    |
| Tax effect                              | 6,972          | (1,321 ) |
| Net of tax                              | (18,181 )      | 1,977    |
| Derivative Instruments                  |                |          |
| Unrealized holding gains (losses):      |                |          |
| Before tax                              | 522            | (2,220 ) |
| Tax effect                              | (147 )         | 889      |
| Net of tax                              | 375            | (1,331 ) |
| Total other comprehensive (loss) income | (17,806 )      | 646      |
| Total comprehensive income              | \$15,704       | \$23,501 |

|   | Accumulated<br>Unrealized<br>Loss on<br>Securities<br>Available-<br>for-Sale | Accumulated<br>Unrealized<br>Loss on<br>Derivative<br>Instruments | Unrecognized<br>Net Pension<br>Costs | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|--|---|--------------------------------------|--|
| Balance at December 31, 2016  | \$ (22,645 )   | \$ (1,176 )   | \$ (17,089 )                         | \$ (40,910 )   |
| Other comprehensive income  | 1,977  | (1,331 )  | —                                    | 646  |
| Balance at March 31, 2017   | \$ (20,668 )   | \$ (2,507 )   | \$ (17,089 )                         | \$ (40,264 )   |
| Balance at December 31, 2017  | \$ (13,976 )   | \$ (3,763 )   | \$ (15,297 )                         | \$ (33,036 )   |
| Adjustment to apply recent accounting pronouncements <sup>(1)</sup> | (2,864 )   | (784 )  | (3,041 )                             | (6,689 )   |
| Other comprehensive loss  | (18,181 )  | 375   | —                                    | (17,806 )  |
| Balance at March 31, 2018   | \$ (35,021 )   | \$ (4,172 )   | \$ (18,338 )                         | \$ (57,531 )   |

As a result of accounting guidance adopted in the first quarter of 2018, certain reclassifications were made from

<sup>(1)</sup> accumulated other comprehensive loss to retained earnings as of January 1, 2018. For further discussion of this guidance, see Note 2, "Recent Accounting Pronouncements."

See accompanying unaudited notes to the condensed consolidated financial statements.

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

|   | Common<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total       |
|---|---------------------------------|-----------------|----------------------------------|----------------------|---|-------------------|-------------|
| Balance at December 31, 2016  | 81,325                          | \$ 913          | \$498,937                        | \$1,016,674          | \$ (40,910 )                                  | \$(218,534)       | \$1,257,080 |
| Net income  | —                               | —               | —                                | 22,855               | —   | —                 | 22,855      |
| Other comprehensive income  | —                               | —               | —                                | —                    | 646   | —                 | 646         |
| Common dividends declared (\$0.09 per common share)                 | —                               | —               | —                                | (9,126 )             | —   | —                 | (9,126 )    |
| Acquisition, net of issuance costs                                  | 21,078                          | 210             | 533,322                          | —                    | —   | 558               | 534,090     |
| Common stock issued   | 2                               | —               | 53                               | —                    | —   | —                 | 53          |
| Restricted stock activity   | 355                             | —               | (12,860 )                        | —                    | —   | 9,108             | (3,752 )    |
| Treasury stock issued to benefit plans                              | (3 )                            | —               | —                                | —                    | —   | (78 )             | (78 )       |
| Share-based compensation expense                                    | —                               | —               | 2,965                            | —                    | —   | —                 | 2,965       |
| Balance at March 31, 2017   | 102,757                         | \$ 1,123        | \$1,022,417                      | \$1,030,403          | \$ (40,264 )                                  | \$(208,946)       | \$1,804,733 |
| Balance at December 31, 2017  | 102,717                         | \$ 1,123        | \$1,031,870                      | \$1,074,990          | \$ (33,036 )                                  | \$(210,073)       | \$1,864,874 |
| Adjustment to apply recent accounting pronouncements <sup>(1)</sup> | —                               | —               | —                                | 6,689                | (6,689 )                                      | —                 | —           |
| Net income  | —                               | —               | —                                | 33,510               | —   | —                 | 33,510      |
| Other comprehensive income  | —                               | —               | —                                | —                    | (17,806 )                                     | —                 | (17,806 )   |
| Common dividends declared (\$0.11 per common share)                 | —                               | —               | —                                | (11,349 )            | —   | —                 | (11,349 )   |
| Common stock issued   | 1                               | —               | 94                               | —                    | —   | 667               | 761         |
| Restricted stock activity   | 377                             | —               | (13,430 )                        | —                    | —   | 9,432             | (3,998 )    |
| Treasury stock issued to benefit plans                              | (3 )                            | —               | 22                               | —                    | —   | (94 )             | (72 )       |
| Share-based compensation expense                                    | —                               | —               | 3,367                            | —                    | —   | —                 | 3,367       |
| Balance at March 31, 2018   | 103,092                         | \$ 1,123        | \$1,021,923                      | \$1,103,840          | \$ (57,531 )                                  | \$(200,068)       | \$1,869,287 |

As a result of accounting guidance adopted in the first quarter of 2018, certain reclassifications were made from <sup>(1)</sup> accumulated other comprehensive loss to retained earnings as of January 1, 2018. For further discussion of this guidance, see Note 2, "Recent Accounting Pronouncements."

See accompanying unaudited notes to the condensed consolidated financial statements.



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

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2018                            | 2017      |
| <b>Operating Activities</b>   |                                 |           |
| Net income  | \$33,510                        | \$22,855  |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                 |           |
| Provision for loan losses   | 15,181                          | 4,918     |
| Depreciation of premises, furniture, and equipment                                  | 3,606                           | 3,461     |
| Net amortization of premium on securities   | 3,848                           | 4,284     |
| Gains on sales of 1-4 family mortgages and corporate loans held-for-sale            | (1,625)                         | (1,414)   |
| Net losses on sales and valuation adjustments of OREO                               | 440                             | 689       |
| Amortization of the FDIC indemnification asset                                      | 302                             | 302       |
| Net losses on sales and valuation adjustments of premises, furniture, and equipment | 60                              | 113       |
| BOLI income   | (1,373)                         | (1,260)   |
| Share-based compensation expense  | 3,367                           | 2,965     |
| Tax benefit related to share-based compensation                                     | 51                              | 29        |
| Amortization of other intangible assets   | 1,802                           | 1,541     |
| Originations of mortgage loans held-for-sale  | (49,535)                        | (43,132)  |
| Proceeds from sales of mortgage loans held-for-sale                                 | 65,185                          | 55,761    |
| Net increase in equity securities   | (658)                           | —         |
| Net increase in trading securities  | —                               | (1,210)   |
| Net increase in accrued interest receivable and other assets                        | (7,309)                         | (6,767)   |
| Net decrease in accrued interest payables and other liabilities                     | (31,120)                        | (34,934)  |
| Net cash provided by operating activities   | 35,732                          | 8,201     |
| <b>Investing Activities</b>   |                                 |           |
| Proceeds from maturities, repayments, and calls of securities available-for-sale    | 70,236                          | 80,060    |
| Proceeds from sales of securities available-for-sale                                | —                               | 210,154   |
| Purchases of securities available-for-sale  | (263,386)                       | (94,766)  |
| Proceeds from maturities, repayments, and calls of securities held-to-maturity      | 360                             | 4,549     |
| Net purchases of FHLB stock   | (10,800)                        | 16,072    |
| Net increase in loans   | (255,057)                       | (43,771)  |
| Premiums paid on BOLI, net of proceeds from claims                                  | (12)                            | (24)      |
| Proceeds from sales of OREO   | 3,876                           | 5,364     |
| Proceeds from sales of premises, furniture, and equipment                           | 146                             | 404       |
| Purchases of premises, furniture, and equipment                                     | (6,844)                         | (2,891)   |
| Net cash received from acquisitions   | —                               | 41,717    |
| Net cash (used in) provided by investing activities                                 | (461,481)                       | 216,868   |
| <b>Financing Activities</b>   |                                 |           |
| Net increase in deposit accounts  | 92,697                          | 104,064   |
| Net increase (decrease) in borrowed funds   | 235,804                         | (331,085) |
| Cash dividends paid   | (10,288)                        | (7,206)   |
| Restricted stock activity   | (3,998)                         | (3,830)   |

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|   |            |            |
|---|------------|------------|
| Net cash provided by (used in) financing activities | 314,215    | (238,057 ) |
| Net decrease in cash and cash equivalents           | (111,534 ) | (12,988 )  |
| Cash and cash equivalents at beginning of period    | 346,570    | 262,148    |
| Cash and cash equivalents at end of period          | \$235,036  | \$249,160  |

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

|  | Three Months<br>Ended<br>March 31,<br>2018 2017 |           |
|--|---|-----------|
| Supplemental Disclosures of Cash Flow Information:   |   |           |
| Income taxes paid  | \$116   | \$(1,259) |
| Interest paid to depositors and creditors  | 13,379  | 3,354     |
| Dividends declared, but unpaid   | 11,240  | 1,163     |
| Stock issued for acquisitions, net of issuance costs   | —   | 534,090   |
| Non-cash transfers of loans to OREO  | 937   | 683       |
| Non-cash transfers of loans held-for-investment to loans held-for-sale   | 905   | 13,136    |
| Non-cash transfer of equity securities previously classified as trading securities and securities available-for-sale | 27,855  | —         |

See accompanying unaudited notes to the condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying unaudited condensed consolidated interim financial statements ("consolidated financial statements") of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, were prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and reflect all adjustments that management deems necessary for the fair presentation of the financial position and results of operations for the periods presented. The results of operations for the quarter ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry. The accompanying consolidated financial statements do not include certain information and note disclosures required by GAAP for complete annual financial statements. Therefore, these financial statements should be read in conjunction with the Company's 2017 Annual Report on Form 10-K ("2017 10-K"). The Company uses the accrual basis of accounting for financial reporting purposes. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

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

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

The accounting policies related to business combinations, loans, the allowance for credit losses, and derivative financial instruments are presented below. For a summary of all other significant accounting policies, see Note 1, "Summary of Significant Accounting Policies," in the Company's 2017 10-K.

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

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

Acquired and Covered Loans – Covered loans consists of loans acquired by the Company in Federal Deposit Insurance Corporation ("FDIC")-assisted transactions, which are covered by loss share agreements with the FDIC (the "FDIC Agreements"), under which the FDIC reimburses the Company for the majority of the losses and eligible expenses

related to these assets during the coverage period. Acquired loans consist of all other loans that were acquired in business combinations that are not covered by the FDIC Agreements. Certain loans that were previously classified as covered loans are no longer covered under the FDIC Agreements, and are included in acquired 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

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

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

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

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

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

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

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

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

The Company does not accrue interest on a TDR unless it believes collection of all principal and interest under the modified terms is reasonably assured. For a TDR to begin accruing interest, the borrower must demonstrate some level of past performance and the future capacity to perform under the modified terms. Generally, six months of

consecutive payment performance under the restructured terms is required before a TDR is returned to accrual status. However, the period could vary depending on the individual facts and circumstances of the loan. An evaluation of the borrower's current creditworthiness is used to assess the borrower's capacity to repay the loan under the modified terms. This evaluation includes an estimate of expected future cash flows, evidence of strong financial position, and estimates of the value of collateral, if applicable. For TDRs to be removed from TDR status in the calendar year after the restructuring, the loans must (i) have an interest rate and terms that reflect market conditions at the time of restructuring, and (ii) be in compliance with the modified terms. If the loan was restructured at below market rates and terms, it continues to be separately reported as restructured until it is paid in full or charged-off.

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

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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

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

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

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

At the hedge's inception, 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 in the same income statement line item as the earnings effect of the hedged item. 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.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

### Adopted Accounting Pronouncements

**Revenue from Contracts with Customers:** In May of 2014, the Financial Accounting Standards Board ("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 is effective for annual and interim reporting periods beginning on or after December 15, 2017, and must be applied either retrospectively or using the modified retrospective approach.

The Company's revenue is comprised of net interest income on financial assets and liabilities, which is excluded from the scope of this guidance, and noninterest income. The primary sources of revenue within noninterest income are service charges on deposit accounts, wealth management fees, card-based fees, and merchant servicing fees. The adoption of this guidance on January 1, 2018, using the modified retrospective approach, affected how the Company presents merchant servicing fees, merchant card expenses, card-based fees, and cardholder expenses, which are presented on a gross basis within noninterest income and noninterest expense for the prior period and are presented on a net basis within noninterest income for the current period. Total expenses of \$3.7 million for the quarter ended

March 31, 2018 were netted in noninterest income. The adoption of this guidance did not impact net income, therefore, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts for the reclassification of merchant card expenses and cardholder expenses.

A description of the Company's revenue streams accounted for under the scope of this guidance follows:

**Service Charges on Deposit Accounts** – Service charges on deposit accounts consist of account analysis fees (net fees earned on analyzed business and public checking accounts), monthly service fees, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Other deposit account related fees are largely transactional based and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges

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on deposit accounts is primarily received as a direct charge to customers' accounts. As a result of the adoption of this guidance, there was no impact to the method of recognizing revenue related to service charges on deposit accounts for the quarter ended March 31, 2018.

**Wealth management fees** – Wealth management fees represents quarterly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management services include custody of assets, investment management, escrow services, fees for trust services and similar fiduciary activities. Revenue is recognized when our performance obligation is completed each quarter, which is generally the time that payment is received. Also included are fees received from a third-party broker-dealer as part of a revenue-sharing agreement. These fees are paid to us by the third-party on a quarterly basis and recognized ratably throughout the quarter as our performance obligation is satisfied. As a result of the adoption of this guidance, there was no impact to the method of recognizing revenue related to wealth management fees for the quarter ended March 31, 2018.

**Card-based fees, net** – Card-based fees, net consists of debit and credit card interchange fees for processing transactions, as well as, various fees for automated teller machine ("ATM") and point-of-sale transactions processed through the related networks. Interchange, ATM, and point-of-sale fees from cardholder transactions represent a percentage of the underlying transaction value or a flat fee and are recognized daily, in connection with the transaction processing services provided to the cardholder. Card-based fees are presented net of certain contract costs associated with the debit, credit and ATM card interchange networks. As a result of the adoption of this guidance, \$1.8 million of cardholder expenses are netted against card-based fees for the quarter ended March 31, 2018.

**Merchant servicing fees, net** – Merchant servicing fees, net is included in other service charges, commissions, and fees in the Consolidated Statements of Income. The Company acts in an agency capacity with respect to its merchants to process their debit and credit card transactions, deriving revenue from assisting another entity in transactions with our customers. Merchant servicing fees represent a percentage of the underlying net transaction volume or a flat fee and are recognized monthly. Merchant servicing fees are presented net of certain contract costs associated with the third-party merchant processing. As a result of the adoption of this guidance, \$1.9 million of merchant card expenses are netted against merchant servicing fees for the quarter ended March 31, 2018.

**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 subsequent changes in fair value will be recognized in net income unless the investments qualify for a new practicability exception. Equity securities totaling \$27.9 million are no longer classified as trading securities or securities available-for-sale. This guidance also requires entities to adjust the fair value disclosures for financial instruments carried at amortized cost from an entry price to an exit price. No changes were made to the guidance for classifying and measuring investments in debt securities and loans. Except as discussed above, the adoption of this guidance on January 1, 2018 did not materially impact the Company's financial condition, results of operations, or 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. The adoption of this guidance on January 1, 2018 did not 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. The adoption of this guidance on January 1, 2018 did not 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. The adoption of this guidance on January 1, 2018 did not impact the Company's financial condition, results of operations, or liquidity.

**Presentation of Defined Benefit Retirement Plan Costs:** In March of 2017, the FASB issued guidance that changes how employers that sponsor defined pension and or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers are required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Other components of net periodic benefit cost are required to be presented separately from the line item(s) that includes the service cost. The adoption of this guidance on January 1, 2018 did not materially impact the Company's financial condition, results of operations, or liquidity.

**Share-based Payment Award Modifications:** In May of 2017, the FASB issued guidance to reduce diversity in practice by clarifying when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. The adoption of this guidance on January 1, 2018 did not materially impact the Company's financial condition, results of operations, or liquidity.

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**Derivatives and Hedging:** In August of 2017, the FASB issued guidance to better align the financial reporting related to hedging activities with the economic objectives of those activities and to simplify the application of current hedge accounting guidance. Entities are required to apply the guidance using a modified retrospective method as of the period of adoption. This guidance is effective for annual and interim periods beginning after December 31, 2018. Early adoption is permitted, and the Company elected to do so on January 1, 2018, which did not materially impact the Company's financial condition, results of operations, or liquidity.

**Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income:** In February of 2018, the FASB issued guidance that requires a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. Entities electing the reclassification are required to apply the guidance either at the beginning of the period of adoption or retrospectively for all periods impacted. This guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted and the Company elected to do so on January 1, 2018, which resulted in the reclassification of \$6.8 million of stranded tax effects from accumulated other comprehensive loss to retained earnings as of the beginning of the period of adoption.

**Accounting Pronouncements Pending Adoption**

**Leases:** In February of 2016, the FASB issued guidance to increase transparency and comparability across entities for leasing arrangements. This guidance requires lessees to recognize assets and liabilities for most leases. For lessors, this guidance modifies the lease classification criteria and the accounting for sales-type and direct financing leases. In addition, this guidance clarifies criteria for the determination of whether a contract is or contains a lease. This guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. During 2016, First Midwest Bank (the "Bank") entered into a sale-leaseback transaction that resulted in a deferred gain of \$82.5 million, with \$73.1 million remaining as of March 31, 2018. 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" to the Consolidated Financial Statements in the Company's 2017 10-K. Management is evaluating the new guidance and the additional impact to the Company's financial condition, results of operations, or liquidity.

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

**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.

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

condition, results of operations, or liquidity.

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3. ACQUISITIONS

Completed Acquisitions

Standard Bancshares, Inc.

On January 6, 2017, the Company completed its acquisition of Standard Bancshares, Inc. ("Standard"), the holding company for Standard Bank and Trust Company. Pursuant to the terms of the merger agreement, on January 6, 2017, each outstanding share of Standard common stock was canceled and converted into the right to receive 0.4350 of a share of Company common stock. Based on the closing price of shares of Company common stock of \$25.34 on that date, as reported by NASDAQ, 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 canceled and terminated in exchange for the right to receive cash, in each case, pursuant to the terms of the merger agreement. This resulted in an overall transaction value of approximately \$580.7 million, which consisted of 21,057,085 shares of Company common stock and \$47.1 million in cash. Goodwill of \$345.3 million associated with the acquisition was recorded by the Company. All operating systems were converted during the first quarter of 2017.

During 2017, the Company finalized the fair value adjustments associated with the Standard transactions.

Premier Asset Management LLC

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

During the first quarter of 2018, the Company finalized the fair value adjustments associated with the Premier transaction, which required a measurement period adjustment of \$1.9 million to increase goodwill. This adjustment was recognized in the current period in accordance with accounting guidance applicable to business combinations.

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## 4. SECURITIES

The significant accounting policies related to securities are presented in Note 1, "Summary of Significant Accounting Policies" to the Consolidated Financial Statements in the Company's 2017 10-K.

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

## Securities Portfolio

(Dollar amounts in thousands)

|  | As of March 31, 2018 |                        |                   | As of December 31, 2017 |                |                        |                   |             |
|--|----------------------|------------------------|-------------------|-------------------------|----------------|------------------------|-------------------|-------------|
|  | Amortized Cost       | Gross Unrealized Gains | Unrealized Losses | Fair Value              | Amortized Cost | Gross Unrealized Gains | Unrealized Losses | Fair Value  |
| <b>Securities Available-for-Sale</b>         |                      |                        |                   |                         |                |                        |                   |             |
| U.S. treasury securities                     | \$50,487             | \$—                    | \$(296)           | \$50,191                | \$46,529       | \$—                    | \$(184)           | \$46,345    |
| U.S. agency securities                       | 160,936              | 146                    | (1,544)           | 159,538                 | 157,636        | 197                    | (986)             | 156,847     |
| Collateralized mortgage obligations ("CMOs") | 1,213,796            | 147                    | (32,208)          | 1,181,735               | 1,113,019      | 121                    | (17,954)          | 1,095,186   |
| Other mortgage-backed securities ("MBSs")    | 434,485              | 191                    | (11,314)          | 423,362                 | 373,676        | 201                    | (4,334)           | 369,543     |
| Municipal securities                         | 217,855              | 170                    | (4,041)           | 213,984                 | 209,558        | 693                    | (1,260)           | 208,991     |
| Corporate debt securities                    | 12,161               | —                      | (21)              | 12,140                  | —              | —                      | —                 | —           |
| Equity securities <sup>(1)</sup>             | —                    | —                      | —                 | —                       | 7,408          | 194                    | (305)             | 7,297       |
| Total securities available-for-sale          | \$2,089,720          | \$654                  | \$(49,424)        | \$2,040,950             | \$1,907,826    | \$1,406                | \$(25,023)        | \$1,884,209 |
| <b>Securities Held-to-Maturity</b>           |                      |                        |                   |                         |                |                        |                   |             |
| Municipal securities                         | \$13,400             | \$—                    | \$(2,113)         | \$11,287                | \$13,760       | \$—                    | \$(1,747)         | \$12,013    |
| Equity Securities <sup>(1)</sup>             |                      |                        |                   | \$28,513                |                |                        |                   | \$—         |
| Trading Securities <sup>(1)</sup>            |                      |                        |                   | \$—                     |                |                        |                   | \$20,447    |

As a result of accounting guidance adopted in the first quarter of 2018, equity securities are no longer presented within trading securities or securities available-for-sale and are now presented within equity securities in the Consolidated Statements of Financial Condition for the current period. For further discussion of this guidance, see Note 2, "Recent Accounting Pronouncements."

## Remaining Contractual Maturity of Securities

(Dollar amounts in thousands)

|  | As of March 31, 2018 |             |                  |            |
|--|----------------------|-------------|------------------|------------|
|  | Available-for-Sale   |             | Held-to-Maturity |            |
|  | Amortized Cost       | Fair Value  | Amortized Cost   | Fair Value |
| One year or less   | \$130,003            | \$128,358   | \$1,611          | \$1,357    |
| After one year to five years                                   | 184,271              | 181,940     | 5,459            | 4,598      |
| After five years to ten years                                  | 127,155              | 125,546     | 2,195            | 1,849      |
| After ten years  | 10                   | 9           | 4,135            | 3,483      |
| Securities that do not have a single contractual maturity date | 1,648,281            | 1,605,097   | —                | —          |
| Total  | \$2,089,720          | \$2,040,950 | \$13,400         | \$11,287   |

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 \$1.0 billion for March 31, 2018 and \$1.1 billion for December 31, 2017. No securities held-to-maturity were pledged as of March 31, 2018 or December 31, 2017.



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During the quarters ended March 31, 2018 and 2017 there were no material gross trading gains (losses) and there were no realized gains (losses) on securities available-for-sale.

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

There was no outstanding balance of OTTI previously recognized on securities available-for-sale as of both March 31, 2018 and December 31, 2017. During the quarters ended March 31, 2018 and 2017 there were no changes to the balance of OTTI related to securities available-for-sale.

The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of March 31, 2018 and December 31, 2017.

## Securities in an Unrealized Loss Position

(Dollar amounts in thousands)

|                                  | Number of Securities | Less Than 12 Months |                   | 12 Months or Longer |                   | Total       |                   |
|----------------------------------|----------------------|---------------------|-------------------|---------------------|-------------------|-------------|-------------------|
|                                  |                      | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value  | Unrealized Losses |
| As of March 31, 2018             |                      |                     |                   |                     |                   |             |                   |
| Securities Available-for-Sale    |                      |                     |                   |                     |                   |             |                   |
| U.S. treasury securities         | 22                   | \$32,744            | \$222             | \$60,664            | \$74              | \$93,408    | \$296             |
| U.S. agency securities           | 77                   | 69,433              | 519               | 17,446              | 1,025             | 86,879      | 1,544             |
| CMOs                             | 238                  | 524,167             | 9,432             | 621,039             | 22,776            | 1,145,206   | 32,208            |
| MBSs                             | 98                   | 190,166             | 3,677             | 212,297             | 7,637             | 402,463     | 11,314            |
| Municipal securities             | 447                  | 74,891              | 1,210             | 103,638             | 2,831             | 178,529     | 4,041             |
| Corporate debt securities        | 3                    | 8,985               | 21                | —                   | —                 | 8,985       | 21                |
| Total                            | 885                  | \$900,386           | \$15,081          | \$1,015,084         | \$34,343          | \$1,915,470 | \$49,424          |
| Securities Held-to-Maturity      |                      |                     |                   |                     |                   |             |                   |
| Municipal securities             | 8                    | \$—                 | \$—               | \$11,287            | \$2,113           | \$11,287    | \$2,113           |
| As of December 31, 2017          |                      |                     |                   |                     |                   |             |                   |
| Securities Available-for-Sale    |                      |                     |                   |                     |                   |             |                   |
| U.S. treasury securities         | 20                   | \$19,918            | \$87              | \$26,427            | \$97              | \$46,345    | \$184             |
| U.S. agency securities           | 72                   | 66,899              | 300               | 58,021              | 686               | 124,920     | 986               |
| CMOs                             | 211                  | 365,131             | 3,265             | 633,227             | 14,689            | 998,358     | 17,954            |
| MBSs                             | 86                   | 126,136             | 902               | 210,017             | 3,432             | 336,153     | 4,334             |
| Municipal securities             | 265                  | 35,500              | 479               | 81,360              | 781               | 116,860     | 1,260             |
| Equity securities <sup>(1)</sup> | 2                    | 391                 | 214               | 6,386               | 91                | 6,777       | 305               |
| Total                            | 656                  | \$613,975           | \$5,247           | \$1,015,438         | \$19,776          | \$1,629,413 | \$25,023          |
| Securities Held-to-Maturity      |                      |                     |                   |                     |                   |             |                   |
| Municipal securities             | 8                    | \$—                 | \$—               | \$12,013            | \$1,747           | \$12,013    | \$1,747           |

As a result of accounting guidance adopted in the first quarter of 2018, equity securities are no longer presented within securities available-for-sale and are now presented within equity securities in the Consolidated Statements of Financial Condition for the current period. For further discussion of this guidance, see Note 2, "Recent Accounting Pronouncements."

Substantially all of the Company's CMOs and other MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. Municipal securities are issued by municipal authorities, and the majority are supported by third-party insurance or some other form of credit enhancement. Management does not believe any of these securities with unrealized losses as of March 31, 2018 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

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likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

## 5. LOANS

## Loans Held-for-Investment

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

## Loan Portfolio

(Dollar amounts in thousands)

|   | As of             |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2018 | December 31,<br>2017 |
| Commercial and industrial                         | \$3,659,066       | \$3,529,914          |
| Agricultural                                      | 435,734           | 430,886              |
| Commercial real estate:                           |                   |                      |
| Office, retail, and industrial                    | 1,931,202         | 1,979,820            |
| Multi-family                                      | 695,830           | 675,463              |
| Construction                                      | 585,766           | 539,820              |
| Other commercial real estate                      | 1,363,238         | 1,358,515            |
| Total commercial real estate                      | 4,576,036         | 4,553,618            |
| Total corporate loans                             | 8,670,836         | 8,514,418            |
| Home equity                                       | 881,534           | 827,055              |
| 1-4 family mortgages                              | 798,902           | 774,357              |
| Installment                                       | 325,502           | 321,982              |
| Total consumer loans                              | 2,005,938         | 1,923,394            |
| Total loans                                       | \$10,676,774      | \$10,437,812         |
| Deferred loan fees included in total loans        | \$5,349           | \$4,986              |
| Overdrawn demand deposits included in total loans | 6,302             | 8,587                |

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

It is the Company's policy to review each prospective credit to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state lending laws, the Company's lending standards, and credit monitoring and remediation procedures. A discussion of risk characteristics relevant to each portfolio segment is presented in Note 5, "Loans" to the Consolidated Financial Statements in the Company's 2017 10-K.

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## Loan Sales

The following table presents loan sales for the quarters ended March 31, 2018 and 2017.

## Loan Sales

(Dollar amounts in thousands)

|  | Quarters Ended |          |
|--|----------------|----------|
|  | March 31,      |          |
|  | 2018           | 2017     |
| Corporate loan sales                                       |                |          |
| Proceeds from sales  | \$8,321        | \$15,368 |
| Less book value of loans sold                              | 8,123          | 15,117   |
| Net gains on corporate loan sales <sup>(1)</sup>           | 198            | 251      |
| 1-4 family mortgage loan sales                             |                |          |
| Proceeds from sales  | \$65,185       | \$55,761 |
| Less book value of loans sold                              | 63,758         | 54,598   |
| Net gains on 1-4 family mortgage loan sales <sup>(2)</sup> | 1,427          | 1,163    |
| Total net gains on loan sales                              | \$1,625        | \$1,414  |

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

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

The Company retained servicing responsibilities for a portion of the 1-4 family mortgage loans sold and collects servicing fees equal to a percentage of the outstanding principal balance. For additional disclosure related to the Company's obligations resulting from the sale of certain 1-4 family mortgage loans, see Note 10, "Commitments, Guarantees, and Contingent Liabilities."

## 6. ACQUIRED AND COVERED LOANS

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

The following table presents the carrying amount of acquired and covered PCI and non-PCI loans as of March 31, 2018 and December 31, 2017.

Acquired and Covered Loans<sup>(1)</sup>

(Dollar amounts in thousands)

|                                  | As of March 31, 2018 |             |             | As of December 31, 2017 |             |             |
|----------------------------------|----------------------|-------------|-------------|-------------------------|-------------|-------------|
|                                  | PCI                  | Non-PCI     | Total       | PCI                     | Non-PCI     | Total       |
| Acquired loans                   | \$122,071            | \$1,361,055 | \$1,483,126 | \$130,694               | \$1,512,664 | \$1,643,358 |
| Covered loans                    | 6,635                | 9,863       | 16,498      | 6,759                   | 11,789      | 18,548      |
| Total acquired and covered loans | \$128,706            | \$1,370,918 | \$1,499,624 | \$137,453               | \$1,524,453 | \$1,661,906 |

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

The outstanding balance of PCI loans was \$188.1 million and \$210.7 million as of March 31, 2018 and December 31, 2017, respectively.

Acquired non-PCI loans that are renewed are no longer classified as acquired loans. These loans totaled \$404.2 million and \$366.0 million as of March 31, 2018 and December 31, 2017, respectively.

In connection with the FDIC Agreements, the Company recorded an indemnification asset. To maintain eligibility for the loss share reimbursement, the Company is required to follow certain servicing procedures as specified in the FDIC Agreements. The Company was in compliance with those requirements as of March 31, 2018 and December 31, 2017.



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Rollforwards of the carrying value of the FDIC indemnification asset for the quarters ended March 31, 2018 and 2017 are presented in the following table.

## Changes in the FDIC Indemnification Asset

(Dollar amounts in thousands)

|   | Quarters Ended |         |
|---|----------------|---------|
|   | March 31,      |         |
|   | 2018           | 2017    |
| Beginning balance   | \$3,314        | \$4,522 |
| Amortization  | (302 )         | (302 )  |
| Change in expected reimbursements from the FDIC for changes in expected credit losses | 146            | (328 )  |
| Net payments (from) to the FDIC   | (146 )         | 328     |
| Ending balance  | \$3,012        | \$4,220 |

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

## Changes in Accretable Yield

(Dollar amounts in thousands)

|                      | Quarters Ended |          |
|----------------------|----------------|----------|
|                      | March 31,      |          |
|                      | 2018           | 2017     |
| Beginning balances   | \$32,957       | \$19,385 |
| Additions            | —              | 27,316   |
| Accretion            | (3,618 )       | (3,955 ) |
| Other <sup>(1)</sup> | 7,204          | (1,497 ) |
| Ending balance       | \$36,543       | \$41,249 |

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

Total accretion on acquired and covered PCI and non-PCI loans for the quarters ended March 31, 2018 and 2017 was \$5.1 million and \$11.3 million, respectively.

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

## Past Due and Non-accrual Loans

The following table presents an aging analysis of the Company's past due loans as of March 31, 2018 and December 31, 2017. 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 <sup>(1)</sup>                    | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Total Loans          | Non-accrual <sup>(2)</sup> | 90 Days or More Past Due, Still Accruing Interest |
| As of March 31, 2018           |   |                     |                          |                |                      |                            |   |
| Commercial and industrial      | \$3,612,554                               | \$11,412            | \$35,100                 | \$46,512       | \$3,659,066          | \$43,974                   | \$ 1,963  |
| Agricultural                   | 430,903                                   | 264                 | 4,567                    | 4,831          | 435,734              | 4,086                      | 489   |
| Commercial real estate:        |   |                     |                          |                |                      |                            |   |
| Office, retail, and industrial | 1,915,943                                 | 5,926               | 9,333                    | 15,259         | 1,931,202            | 12,342                     | 476   |
| Multi-family                   | 680,557                                   | 15,249              | 24                       | 15,273         | 695,830              | 144                        | 24  |
| Construction                   | 584,607                                   | 35                  | 1,124                    | 1,159          | 585,766              | 208                        | 916   |
| Other commercial real estate   | 1,356,320                                 | 4,083               | 2,835                    | 6,918          | 1,363,238            | 4,088                      | 64  |
| Total commercial real estate   | 4,537,427                                 | 25,293              | 13,316                   | 38,609         | 4,576,036            | 16,782                     | 1,480   |
| Total corporate loans          | 8,580,884                                 | 36,969              | 52,983                   | 89,952         | 8,670,836            | 64,842                     | 3,932   |
| Home equity                    | 875,789                                   | 3,399               | 2,346                    | 5,745          | 881,534              | 5,780                      | 44  |
| 1-4 family mortgages           | 794,212                                   | 2,608               | 2,082                    | 4,690          | 798,902              | 4,393                      | 132   |
| Installment                    | 322,797                                   | 2,180               | 525                      | 2,705          | 325,502              | —                          | 525   |
| Total consumer loans           | 1,992,798                                 | 8,187               | 4,953                    | 13,140         | 2,005,938            | 10,173                     | 701   |
| Total loans                    | \$10,573,682                              | \$45,156            | \$57,936                 | \$103,092      | \$10,676,774         | \$75,015                   | \$ 4,633  |
| As of December 31, 2017        |   |                     |                          |                |                      |                            |   |
| Commercial and industrial      | \$3,490,783                               | \$34,620            | \$4,511                  | \$39,131       | \$3,529,914          | \$40,580                   | \$ 1,830  |
| Agricultural                   | 430,221                                   | 280                 | 385                      | 665            | 430,886              | 219                        | 177   |
| Commercial real estate:        |   |                     |                          |                |                      |                            |   |
| Office, retail, and industrial | 1,970,564                                 | 3,156               | 6,100                    | 9,256          | 1,979,820            | 11,560                     | 345   |
| Multi-family                   | 672,098                                   | 3,117               | 248                      | 3,365          | 675,463              | 377                        | 20  |
| Construction                   | 539,043                                   | 198                 | 579                      | 777            | 539,820              | 209                        | 371   |
| Other commercial real estate   | 1,353,263                                 | 2,545               | 2,707                    | 5,252          | 1,358,515            | 3,621                      | 317   |
| Total commercial real estate   | 4,534,968                                 | 9,016               | 9,634                    | 18,650         | 4,553,618            | 15,767                     | 1,053   |
| Total corporate loans          | 8,455,972                                 | 43,916              | 14,530                   | 58,446         | 8,514,418            | 56,566                     | 3,060   |
| Home equity                    | 820,099                                   | 4,102               | 2,854                    | 6,956          | 827,055              | 5,946                      | 98  |
| 1-4 family mortgages           | 770,120                                   | 2,145               | 2,092                    | 4,237          | 774,357              | 4,412                      | —   |
| Installment                    | 319,178                                   | 2,407               | 397                      | 2,804          | 321,982              | —                          | 397   |
| Total consumer loans           | 1,909,397                                 | 8,654               | 5,343                    | 13,997         | 1,923,394            | 10,358                     | 495   |
| Total loans                    | \$10,365,369                              | \$52,570            | \$19,873                 | \$72,443       | \$10,437,812         | \$66,924                   | \$ 3,555  |

(1) PCI loans with an accretable yield are considered current.

Includes PCI loans of \$760,000 and \$763,000 as of March 31, 2018 and December 31, 2017, respectively, which

(2) no longer have an accretable yield as estimates of expected future cash flows have decreased since the acquisition due to credit deterioration.

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## Allowance for Credit Losses

The Company maintains an allowance for credit losses at a level deemed adequate by management to absorb estimated losses inherent in the existing loan portfolio. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for the allowance for credit losses. A rollforward of the allowance for credit losses by portfolio segment for the quarters ended March 31, 2018 and 2017 is presented in the table below.

## Allowance for Credit Losses by Portfolio Segment

(Dollar amounts in thousands)

|  | Commercial,<br>Industrial,<br>and<br>Agricultural | Office,<br>Retail,<br>and<br>Industrial | Multi-<br>family | Construction | Other<br>Commercial<br>Real Estate | Consumer  | Reserve for<br>Unfunded<br>Commitments | Total<br>Allowance<br>for Credit<br>Losses |
|--|---|---|------------------|--------------|------------------------------------|-----------|--|--|
| Quarter ended March 31, 2018           |   |   |                  |              |                                    |           |  |  |
| Beginning balance                      | \$ 55,791   | \$ 10,996                               | \$ 2,534         | \$ 3,481     | \$ 6,381                           | \$ 16,546 | \$ 1,000                               | \$ 96,729                                  |
| Charge-offs                            | (14,670 )   | (461 )                                  | —                | —            | (69 )                              | (1,885 )  | —                                      | (17,085 )                                  |
| Recoveries                             | 538   | 97                                      | —                | 13           | 39                                 | 342       | —                                      | 1,029                                      |
| Net charge-offs                        | (14,132 )   | (364 )                                  | —                | 13           | (30 )                              | (1,543 )  | —                                      | (16,056 )                                  |
| Provision for loan<br>losses and other | 15,541  | (25 )                                   | 58               | (1,522 )     | (1,060 )                           | 2,189     | —                                      | 15,181                                     |
| Ending balance                         | \$ 57,200   | \$ 10,607                               | \$ 2,592         | \$ 1,972     | \$ 5,291                           | \$ 17,192 | \$ 1,000                               | \$ 95,854                                  |
| Quarter ended March 31, 2017           |   |   |                  |              |                                    |           |  |  |
| Beginning balance                      | \$ 40,709   | \$ 17,595                               | \$ 3,261         | \$ 3,444     | \$ 7,739                           | \$ 13,335 | \$ 1,000                               | \$ 87,083                                  |
| Charge-offs                            | (4,074 )  | (127 )                                  | —                | (5 )         | (408 )                             | (1,664 )  | —                                      | (6,278 )                                   |
| Recoveries                             | 1,666   | 975                                     | 28               | 227          | 101                                | 443       | —                                      | 3,440                                      |
| Net charge-offs                        | (2,408 )  | 848                                     | 28               | 222          | (307 )                             | (1,221 )  | —                                      | (2,838 )                                   |
| Provision for loan<br>losses and other | 3,485   | (742 )                                  | (429 )           | 444          | (510 )                             | 2,670     | —                                      | 4,918                                      |
| Ending balance                         | \$ 41,786   | \$ 17,701                               | \$ 2,860         | \$ 4,110     | \$ 6,922                           | \$ 14,784 | \$ 1,000                               | \$ 89,163                                  |

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The table below provides a breakdown of loans and the related allowance for credit losses by portfolio segment as of March 31, 2018 and December 31, 2017.

## Loans and Related Allowance for Credit Losses by Portfolio Segment

(Dollar amounts in thousands)

|  | Loans  |  | PCI       | Total        | Allowance for Credit Losses                    |  |         |          |
|--|--|--|-----------|--------------|--|--|---------|----------|
|  | Individually<br>Evaluated<br>for<br>Impairment | Collectively<br>Evaluated<br>for<br>Impairment |           |              | Individually<br>Evaluated<br>for<br>Impairment | Collectively<br>Evaluated<br>for<br>Impairment | PCI     | Total    |
| As of March 31, 2018                     |  |  |           |              |  |  |         |          |
| Commercial, industrial, and agricultural | \$46,748                                       | \$4,037,396                                    | \$10,656  | \$4,094,800  | \$8,111  | \$48,400                                       | \$689   | \$57,200 |
| Commercial real estate:                  |  |  |           |              |  |  |         |          |
| Office, retail, and industrial           | 11,375   | 1,905,401                                      | 14,426    | 1,931,202    | 481  | 8,705  | 1,421   | 10,607   |
| Multi-family                             | 391  | 682,238  | 13,201    | 695,830      | —  | 2,418  | 174     | 2,592    |
| Construction                             | —  | 577,297  | 8,469     | 585,766      | —  | 1,815  | 157     | 1,972    |
| Other commercial real estate             | 2,223  | 1,300,548                                      | 60,467    | 1,363,238    | —  | 4,320  | 971     | 5,291    |
| Total commercial real estate             | 13,989   | 4,465,484                                      | 96,563    | 4,576,036    | 481  | 17,258   | 2,723   | 20,462   |
| Total corporate loans                    | 60,737   | 8,502,880                                      | 107,219   | 8,670,836    | 8,592  | 65,658   | 3,412   | 77,662   |
| Consumer                                 | —  | 1,984,451                                      | 21,487    | 2,005,938    | —  | 15,926   | 1,266   | 17,192   |
| Reserve for unfunded commitments         | —  | —  | —         | —            | —  | 1,000  | —       | 1,000    |
| Total loans                              | \$60,737                                       | \$10,487,331                                   | \$128,706 | \$10,676,774 | \$8,592  | \$82,584                                       | \$4,678 | \$95,854 |
| As of December 31, 2017                  |  |  |           |              |  |  |         |          |
| Commercial, industrial, and agricultural | \$38,718                                       | \$3,909,380                                    | \$12,702  | \$3,960,800  | \$10,074                                       | \$45,293                                       | \$424   | \$55,791 |
| Commercial real estate:                  |  |  |           |              |  |  |         |          |
| Office, retail, and industrial           | 10,810   | 1,954,435                                      | 14,575    | 1,979,820    | —  | 9,333  | 1,663   | 10,996   |
| Multi-family                             | 621  | 660,771  | 14,071    | 675,463      | —  | 2,436  | 98      | 2,534    |
| Construction                             | —  | 530,977  | 8,843     | 539,820      | —  | 3,331  | 150     | 3,481    |
| Other commercial real estate             | 1,468  | 1,291,723                                      | 65,324    | 1,358,515    | —  | 5,415  | 966     | 6,381    |
| Total commercial real estate             | 12,899   | 4,437,906                                      | 102,813   | 4,553,618    | —  | 20,515   | 2,877   | 23,392   |
| Total corporate loans                    | 51,617   | 8,347,286                                      | 115,515   | 8,514,418    | 10,074   | 65,808   | 3,301   | 79,183   |
| Consumer                                 | —  | 1,901,456                                      | 21,938    | 1,923,394    | —  | 15,533   | 1,013   | 16,546   |
| Reserve for unfunded commitments         | —  | —  | —         | —            | —  | 1,000  | —       | 1,000    |
| Total loans                              | \$51,617                                       | \$10,248,742                                   | \$137,453 | \$10,437,812 | \$10,074                                       | \$82,341                                       | \$4,314 | \$96,729 |

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## Loans Individually Evaluated for Impairment

The following table presents loans individually evaluated for impairment by class of loan as of March 31, 2018 and December 31, 2017. PCI loans are excluded from this disclosure.

## Impaired Loans Individually Evaluated by Class

(Dollar amounts in thousands)

|                                       | As of March 31, 2018          |                                |                          |                  | As of December 31, 2017       |          |                          |                  |
|---------------------------------------|-------------------------------|--------------------------------|--------------------------|------------------|-------------------------------|----------|--------------------------|------------------|
|                                       | Recorded Investment In        |                                | Unpaid Principal Balance | Specific Reserve | Recorded Investment In        |          | Unpaid Principal Balance | Specific Reserve |
| Loans with No Specific Reserve        | Loans with a Specific Reserve | Loans with No Specific Reserve |                          |                  | Loans with a Specific Reserve |          |                          |                  |
| Commercial and industrial             | \$7,147                       | \$35,731                       | \$68,806                 | \$7,310          | \$4,234                       | \$34,484 | \$53,192                 | \$10,074         |
| Agricultural                          | —                             | 3,870                          | 4,672                    | 801              | —                             | —        | —                        | —                |
| Commercial real estate:               |                               |                                |                          |                  |                               |          |                          |                  |
| Office, retail, and industrial        | 7,538                         | 3,837                          | 12,333                   | 481              | 7,154                         | 3,656    | 14,246                   | —                |
| Multi-family                          | 391                           | —                              | 391                      | —                | 621                           | —        | 621                      | —                |
| Construction                          | —                             | —                              | —                        | —                | —                             | —        | —                        | —                |
| Other commercial real estate          | 2,223                         | —                              | 2,243                    | —                | 1,468                         | —        | 1,566                    | —                |
| Total commercial real estate          | 10,152                        | 3,837                          | 14,967                   | 481              | 9,243                         | 3,656    | 16,433                   | —                |
| Total impaired loans                  |                               |                                |                          |                  |                               |          |                          |                  |
| individually evaluated for impairment | \$17,299                      | \$43,438                       | \$88,445                 | \$8,592          | \$13,477                      | \$38,140 | \$69,625                 | \$10,074         |

The following table presents the average recorded investment and interest income recognized on impaired loans by class for the quarters ended March 31, 2018 and 2017. PCI loans are excluded from this disclosure.

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

(Dollar amounts in thousands)

|                                | Quarters Ended March 31, 2018 |   | Quarters Ended March 31, 2017 |   |
|--------------------------------|-------------------------------|---|-------------------------------|---|
|                                | Average Recorded Investment   | Interest Income Recognized <sup>(1)</sup> | Average Recorded Investment   | Interest Income Recognized <sup>(1)</sup> |
| Commercial and industrial      | \$40,798                      | \$ 22                                     | \$20,849                      | \$ 214                                    |
| Agricultural                   | 1,935                         | —   | 557                           | —   |
| Commercial real estate:        |                               |   |                               |   |
| Office, retail, and industrial | 11,093                        | 112                                       | 14,865                        | 93  |
| Multi-family                   | 506                           | 7   | 397                           | 28  |
| Construction                   | —                             | —   | 17                            | 136                                       |
| Other commercial real estate   | 1,846                         | 52  | 1,890                         | 12  |
| Total commercial real estate   | 13,445                        | 171                                       | 17,169                        | 269                                       |
| Total impaired loans           | \$56,178                      | \$ 193                                    | \$38,575                      | \$ 483                                    |

<sup>(1)</sup> Recorded using the cash basis of accounting.



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## Credit Quality Indicators

Corporate loans and commitments are assessed for credit risk and assigned ratings based on various characteristics, such as the borrower's cash flow, leverage, and collateral. Ratings for commercial credits are reviewed periodically. The following tables present credit quality indicators by class for corporate and consumer loans, as of March 31, 2018 and December 31, 2017.

## Corporate Credit Quality Indicators by Class

(Dollar amounts in thousands)

|                                | Pass        | Special<br>Mention <sup>(1)(4)</sup> | Substandard <sup>(2)(4)</sup> | Non-accrual <sup>(3)</sup> | Total       |
|--------------------------------|-------------|--------------------------------------|-------------------------------|----------------------------|-------------|
| As of March 31, 2018           |             |                                      |                               |                            |             |
| Commercial and industrial      | \$3,505,129 | \$ 95,259                            | \$ 14,704                     | \$ 43,974                  | \$3,659,066 |
| Agricultural                   | 417,644     | 7,756                                | 6,248                         | 4,086                      | 435,734     |
| Commercial real estate:        |             |                                      |                               |                            |             |
| Office, retail, and industrial | 1,856,832   | 26,642                               | 35,386                        | 12,342                     | 1,931,202   |
| Multi-family                   | 682,926     | 10,961                               | 1,799                         | 144                        | 695,830     |
| Construction                   | 568,148     | 9,941                                | 7,469                         | 208                        | 585,766     |
| Other commercial real estate   | 1,310,712   | 31,431                               | 17,007                        | 4,088                      | 1,363,238   |
| Total commercial real estate   | 4,418,618   | 78,975                               | 61,661                        | 16,782                     | 4,576,036   |
| Total corporate loans          | \$8,341,391 | \$ 181,990                           | \$ 82,613                     | \$ 64,842                  | \$8,670,836 |
| As of December 31, 2017        |             |                                      |                               |                            |             |
| Commercial and industrial      | \$3,388,133 | \$ 70,863                            | \$ 30,338                     | \$ 40,580                  | \$3,529,914 |
| Agricultural                   | 413,946     | 10,989                               | 5,732                         | 219                        | 430,886     |
| Commercial real estate:        |             |                                      |                               |                            |             |
| Office, retail, and industrial | 1,903,737   | 25,546                               | 38,977                        | 11,560                     | 1,979,820   |
| Multi-family                   | 665,496     | 7,395                                | 2,195                         | 377                        | 675,463     |
| Construction                   | 521,911     | 10,184                               | 7,516                         | 209                        | 539,820     |
| Other commercial real estate   | 1,304,337   | 29,624                               | 20,933                        | 3,621                      | 1,358,515   |
| Total commercial real estate   | 4,395,481   | 72,749                               | 69,621                        | 15,767                     | 4,553,618   |
| Total corporate loans          | \$8,197,560 | \$ 154,601                           | \$ 105,691                    | \$ 56,566                  | \$8,514,418 |

(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.

Loans categorized as substandard exhibit well-defined weaknesses that may jeopardize the liquidation of the debt.

(2) These loans continue to accrue interest because they are well-secured and collection of principal and interest is expected within a reasonable time.

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

(4) Total special mention and substandard loans includes accruing TDRs of \$651,000 as of March 31, 2018 and \$657,000 as of December 31, 2017.

## Consumer Credit Quality Indicators by Class

(Dollar amounts in thousands)

|                      | Performing  | Non-accrual | Total       |
|----------------------|-------------|-------------|-------------|
| As of March 31, 2018 |             |             |             |
| Home equity          | \$875,754   | \$ 5,780    | \$881,534   |
| 1-4 family mortgages | 794,509     | 4,393       | 798,902     |
| Installment          | 325,502     | —           | 325,502     |
| Total consumer loans | \$1,995,765 | \$ 10,173   | \$2,005,938 |

As of December 31, 2017

|                      |             |           |             |
|----------------------|-------------|-----------|-------------|
| Home equity          | \$821,109   | \$ 5,946  | \$827,055   |
| 1-4 family mortgages | 769,945     | 4,412     | 774,357     |
| Installment          | 321,982     | —         | 321,982     |
| Total consumer loans | \$1,913,036 | \$ 10,358 | \$1,923,394 |

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## TDRs

TDRs are generally performed at the request of the individual borrower and may include forgiveness of principal, reduction in interest rates, changes in payments, and maturity date extensions. The table below presents TDRs by class as of March 31, 2018 and December 31, 2017. See Note 1, "Summary of Significant Accounting Policies," for the accounting policy for TDRs.

## TDRs by Class

(Dollar amounts in thousands)

|                                | As of March 31, 2018 |                            |          | As of December 31, 2017 |                            |          |
|--------------------------------|----------------------|----------------------------|----------|-------------------------|----------------------------|----------|
|                                | Accruing             | Non-accrual <sup>(1)</sup> | Total    | Accruing                | Non-accrual <sup>(1)</sup> | Total    |
| Commercial and industrial      | \$260                | \$ 16,830                  | \$17,090 | \$264                   | \$ 18,959                  | \$19,223 |
| Agricultural                   | —                    | —                          | —        | —                       | —                          | —        |
| Commercial real estate:        |                      |                            |          |                         |                            |          |
| Office, retail, and industrial | —                    | 2,336                      | 2,336    | —                       | 4,236                      | 4,236    |
| Multi-family                   | 570                  | 144                        | 714      | 574                     | 149                        | 723      |
| Construction                   | —                    | —                          | —        | —                       | —                          | —        |
| Other commercial real estate   | 189                  | —                          | 189      | 192                     | —                          | 192      |
| Total commercial real estate   | 759                  | 2,480                      | 3,239    | 766                     | 4,385                      | 5,151    |
| Total corporate loans          | 1,019                | 19,310                     | 20,329   | 1,030                   | 23,344                     | 24,374   |
| Home equity                    | 85                   | 724                        | 809      | 86                      | 738                        | 824      |
| 1-4 family mortgages           | 674                  | 432                        | 1,106    | 680                     | 451                        | 1,131    |
| Installment                    | —                    | —                          | —        | —                       | —                          | —        |
| Total consumer loans           | 759                  | 1,156                      | 1,915    | 766                     | 1,189                      | 1,955    |
| Total loans                    | \$1,778              | \$ 20,466                  | \$22,244 | \$1,796                 | \$ 24,533                  | \$26,329 |

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

TDRs are included in the calculation of the allowance for credit losses in the same manner as impaired loans. There were \$2.4 million and \$2.0 million specific reserves related to TDRs as of March 31, 2018 and December 31, 2017, respectively.

There were no material restructures during the quarters ended March 31, 2018 and 2017.

Accruing TDRs that do not perform in accordance with their modified terms are transferred to non-accrual. There were no material TDRs that defaulted within twelve months of the restructure date during the quarters ended March 31, 2018 and 2017.

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A rollforward of the carrying value of TDRs for the quarters ended March 31, 2018 and 2017 is presented in the following table.

## TDR Rollforward

(Dollar amounts in thousands)

|                                     | Quarters Ended    |          |
|-------------------------------------|-------------------|----------|
|                                     | March 31,<br>2018 | 2017     |
| Accruing                            |                   |          |
| Beginning balance                   | \$1,796           | \$2,291  |
| Additions                           | —                 | 922      |
| Net payments                        | (18 )             | (24 )    |
| Net transfers from (to) non-accrual | —                 | (1,077 ) |
| Ending balance                      | 1,778             | 2,112    |
| Non-accrual                         |                   |          |
| Beginning balance                   | 24,533            | 6,297    |
| Additions                           | 355               | —        |
| Net payments                        | (3,113 )          | (4,150 ) |
| Charge-offs                         | (1,309 )          | (112 )   |
| Net transfers from accruing         | —                 | 1,077    |
| Ending balance                      | 20,466            | 3,112    |
| Total TDRs                          | \$22,244          | \$5,224  |

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

There were no material commitments to lend additional funds to borrowers with TDRs as of March 31, 2018 and December 31, 2017.

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## 8. EARNINGS PER COMMON SHARE

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

## Basic and Diluted EPS

(Amounts in thousands, except per share data)

|  | Quarters Ended |          |
|--|----------------|----------|
|  | March 31,      |          |
|  | 2018           | 2017     |
| Net income   | \$33,510       | \$22,855 |
| Net income applicable to non-vested restricted shares                              | (311 )         | (234 )   |
| Net income applicable to common shares   | \$33,199       | \$22,621 |
| Weighted-average common shares outstanding:  |                |          |
| Weighted-average common shares outstanding (basic)                                 | 101,922        | 100,411  |
| Dilutive effect of common stock equivalents  | 16             | 21       |
| Weighted-average diluted common shares outstanding                                 | 101,938        | 100,432  |
| Basic EPS  | \$0.33         | \$0.23   |
| Diluted EPS  | \$0.33         | \$0.23   |
| Anti-dilutive shares not included in the computation of diluted EPS <sup>(1)</sup> | 110            | 343      |

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

## 9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

## Fair Value Hedges

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

## Fair Value Hedges

(Dollar amounts in thousands)

|  | As of                  |          |
|--|------------------------|----------|
|  | March 31, December 31, |          |
|  | 2018                   | 2017     |
| Gross notional amount outstanding                    | \$5,333                | \$ 5,458 |
| Derivative liability fair value in other liabilities | (61 )                  | (101 )   |
| Weighted-average interest rate received              | 3.69 %                 | 3.38 %   |
| Weighted-average interest rate paid                  | 5.96 %                 | 5.96 %   |
| Weighted-average maturity (in years)                 | 0.60                   | 0.84     |
| Fair value of derivative <sup>(1)</sup>              | \$70                   | \$ 110   |

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

Changes in the fair value of fair value hedges are recognized in other noninterest income in the Condensed Consolidated Statements of Income.

## Cash Flow Hedges

As of March 31, 2018, the Company hedged \$1.1 billion of certain corporate variable rate loans using interest rate swaps through which the Company receives fixed amounts and pays variable amounts. The Company also hedged \$980.0 million of borrowed funds using forward starting interest rate swaps through which the Company receives

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

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Forward starting interest rate swaps totaling \$510.0 million began on various dates between June of 2015 and March of 2018, and mature between June of 2019 and March of 2020. The remaining forward starting interest rate swaps totaling \$470.0 million begin at various dates between May of 2018 and February of 2020 and mature between May of 2020 and April of 2022. The weighted-average fixed interest rate to be paid on these interest rate swaps that have not yet begun was 1.89% as of March 31, 2018. These derivative contracts are designated as cash flow hedges.

## Cash Flow Hedges

(Dollar amounts in thousands)

|   | As of             |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2018 | December 31,<br>2017 |
| Gross notional amount outstanding                                   | \$2,060,000       | \$1,960,000          |
| Derivative asset fair value in other assets <sup>(1)</sup>          | 7,291             | 3,989                |
| Derivative liability fair value in other liabilities <sup>(1)</sup> | (15,729 )         | (10,219 )            |
| Weighted-average interest rate received                             | 1.78              | % 1.58 %             |
| Weighted-average interest rate paid                                 | 1.85              | % 1.61 %             |
| Weighted-average maturity (in years)                                | 2.17              | 2.25                 |

<sup>(1)</sup> Certain cash flow hedges are transacted through a clearinghouse ("centrally cleared") and their change in fair value is settled by the counterparties to the transaction, which results in no fair value.

Changes in the fair value of cash flow hedges are recorded in accumulated other comprehensive loss on an after-tax basis and are subsequently reclassified to interest income or expense in the period that the forecasted hedged item impacts earnings. As of March 31, 2018, the Company estimates that \$1.3 million will be reclassified from accumulated other comprehensive loss as a decrease to interest income over the next twelve months.

## Other Derivative Instruments

The Company also enters into derivative transactions through capital market products with its commercial customers and simultaneously enters into an offsetting interest rate derivative transaction with third-parties. This transaction allows the Company's customers to effectively convert a variable rate loan into a fixed rate loan. Due to the offsetting nature of these transactions, the Company does not apply hedge accounting treatment. The Company's credit exposure on these derivative transactions results primarily from counterparty credit risk. The credit valuation adjustment ("CVA") is a fair value adjustment to the derivative to account for this risk. As of March 31, 2018 and December 31, 2017, the Company's credit exposure was fully secured by the underlying collateral on customer loans and mitigated through netting arrangements with third-parties, therefore, no CVA was recorded. Capital market products income related to commercial customer derivative instruments of \$1.6 million and \$1.4 million were recorded in noninterest income for the quarters ended March 31, 2018 and 2017, respectively.

## Other Derivative Instruments

(Dollar amounts in thousands)

|   | As of             |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2018 | December 31,<br>2017 |
| Gross notional amount outstanding                                   | \$2,755,248       | \$2,665,358          |
| Derivative asset fair value in other assets <sup>(1)</sup>          | 21,019            | 17,079               |
| Derivative liability fair value in other liabilities <sup>(1)</sup> | (22,948 )         | (14,930 )            |
| Fair value of derivative <sup>(2)</sup>                             | 22,682            | 15,059               |

<sup>(1)</sup> Certain other derivative instruments are centrally cleared and their change in fair value is settled by the counterparties to the transaction, which results in no fair value.

<sup>(2)</sup> This amount represents the fair value if credit risk related contingent features were triggered.

The Company occasionally enters into risk participation agreements with counterparty banks to transfer or assume a portion of the credit risk related to customer transactions. The amounts of these instruments were not material for any periods presented. The Company had no other derivative instruments as of March 31, 2018 and December 31, 2017. The Company does not enter into derivative transactions for purely speculative purposes.

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The following table presents the impact of derivative instruments on comprehensive income and the reclassification of gains (losses) from accumulated other comprehensive loss to net interest income for the quarters ended March 31, 2018 and 2017.

## Cash Flow Hedge Accounting on AOCI

(Dollar amounts in thousands)

|   | Quarters Ended |          |
|---|----------------|----------|
|   | March 31,      |          |
|   | 2018           | 2017     |
| Gains (losses) recognized in other comprehensive income   |                |          |
| Interest rate swaps in interest income                    | \$6,996        | \$1,811  |
| Interest rate swaps in interest expense                   | (7,183 )       | (302 )   |
| Reclassification of gains (losses) included in net income |                |          |
| Interest rate swaps in interest income                    | \$271          | \$1,856  |
| Interest rate swaps in interest expense                   | (606 )         | (1,145 ) |

The following table presents the impact of derivative instruments on net interest income for the quarters ended March 31, 2018 and 2017.

## Hedge Income

(Dollar amounts in thousands)

|   | Quarters  |          |
|---|-----------|----------|
|   | Ended     |          |
|   | March 31, |          |
|   | 2018      | 2017     |
| Fair Value Hedges                       |           |          |
| Interest rate swaps in interest income  | \$(41 )   | \$(34 )  |
| Cash Flow Hedges                        |           |          |
| Interest rate swaps in interest income  | 271       | 1,856    |
| Interest rate swaps in interest expense | (606 )    | (1,145 ) |
| Total cash flow hedges                  | (335 )    | 711      |
| Total net gains (losses) on hedges      | \$(376)   | \$677    |

## Credit Risk

Derivative instruments are inherently subject to credit risk, which represents the Company's risk of loss when the counterparty to a derivative contract fails to perform according to the terms of the agreement. Credit risk is managed by limiting and collateralizing the aggregate amount of net unrealized losses by transaction, monitoring the size and the maturity structure of the derivatives, and applying uniform credit standards. Company policy establishes limits on credit exposure to any single counterparty. In addition, the Company established bilateral collateral agreements with derivative counterparties that provide for exchanges of marketable securities or cash to collateralize either party's net losses above a stated minimum threshold. As of March 31, 2018 and December 31, 2017, 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.

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Certain derivative instruments are subject to master netting agreements with counterparties. The Company records these transactions at their gross fair values and does not offset derivative assets and liabilities in the Consolidated Statements of Financial Condition. The following table presents the fair value of the Company's derivatives and offsetting positions as of March 31, 2018 and December 31, 2017.

Fair Value of Offsetting Derivatives  
(Dollar amounts in thousands)

|   | As of March 31,<br>2018 |             | As of December 31,<br>2017 |             |
|---|-------------------------|-------------|----------------------------|-------------|
|   | Assets                  | Liabilities | Assets                     | Liabilities |
| Gross amounts recognized  | \$28,310                | \$38,738    | \$21,068                   | \$25,250    |
| Less: amounts offset in the Consolidated Statements of Financial Condition                | —                       | —           | —                          | —           |
| Net amount presented in the Consolidated Statements of Financial Condition <sup>(1)</sup> | 28,310                  | 38,738      | 21,068                     | 25,250      |
| Gross amounts not offset in the Consolidated Statements of Financial Condition:           |                         |             |                            |             |
| Offsetting derivative positions   | (18,362 )               | (18,362 )   | (16,880 )                  | (16,880 )   |
| Cash collateral pledged   | —                       | (20,376 )   | —                          | (8,370 )    |
| Net credit exposure   | \$9,948                 | \$—         | \$4,188                    | \$—         |

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

As of March 31, 2018 and December 31, 2017, the Company's derivative instruments generally contained provisions that require the Company's debt to remain above a certain credit rating by each of the major credit rating agencies or that the Company maintain certain capital levels. If the Company's debt were to fall below that credit rating or the Company's capital were to fall below the required levels, it would be in violation of those provisions, and the counterparties to the derivative instruments could terminate the swap transaction and demand cash settlement of the derivative instrument in an amount equal to the derivative liability fair value. As of March 31, 2018 and December 31, 2017 the Company was in compliance with these provisions.

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## 10. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

## Credit Commitments and Guarantees

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

## Contractual or Notional Amounts of Financial Instruments

(Dollar amounts in thousands)

|  | As of       |              |
|--|-------------|--------------|
|  | March 31,   | December 31, |
|  | 2018        | 2017         |
| Commitments to extend credit:            |             |              |
| Commercial, industrial, and agricultural | \$1,712,750 | \$1,729,426  |
| Commercial real estate                   | 356,393     | 377,551      |
| Home equity                              | 529,808     | 514,973      |
| Other commitments <sup>(1)</sup>         | 244,206     | 244,222      |
| Total commitments to extend credit       | \$2,843,157 | \$2,866,172  |

Letters of credit \$117,926 \$128,801

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

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 for the full contractual amount. 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 early payment default loans or loans that do not meet underwriting requirements at recorded value. In accordance with the sales agreements, there is no limitation to the maximum potential future payments or expiration of the Company's recourse obligation. There were no material loan repurchases during the quarters ended March 31, 2018 and 2017.

## Legal Proceedings

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at March 31, 2018. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect that any liabilities arising from pending legal matters will have a material adverse effect on the Company's financial position, results of operations, or cash

flows.

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11. 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.

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

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

## Recurring Fair Value Measurements

(Dollar amounts in thousands)

|   | As of March 31,<br>2018 |           | As of December 31,<br>2017 |         |           |         |
|---|-------------------------|-----------|----------------------------|---------|-----------|---------|
|   | Level 1                 | Level 2   | Level 3                    | Level 1 | Level 2   | Level 3 |
| <b>Assets</b>                                     |                         |           |                            |         |           |         |
| <b>Trading securities:</b>                        |                         |           |                            |         |           |         |
| Money market funds                                | \$ —                    | \$ —      | \$ —                       | \$ —    | \$ —      | \$ —    |
| Mutual funds                                      | —                       | —         | 18,762                     | —       | —         | —       |
| Total trading securities <sup>(1)</sup>           | —                       | —         | 20,447                     | —       | —         | —       |
| <b>Equity securities<sup>(1)</sup></b>            |                         |           |                            |         |           |         |
| Securities available-for-sale <sup>(1)</sup>      | 21,721                  | —         | —                          | —       | —         | —       |
| U.S. treasury securities                          | 50,191                  | —         | 46,345                     | —       | —         | —       |
| U.S. agency securities                            | —                       | 159,538   | —                          | —       | 156,847   | —       |
| CMOs  | —                       | 1,181,735 | —                          | —       | 1,095,186 | —       |
| MBSs  | —                       | 423,362   | —                          | —       | 369,543   | —       |
| Municipal securities                              | —                       | 213,984   | —                          | —       | 208,991   | —       |
| Corporate debt securities                         | —                       | 12,140    | —                          | —       | —         | —       |
| Equity securities                                 | —                       | —         | —                          | —       | 7,297     | —       |
| Total securities available-for-sale               | 50,191                  | 1,990,759 | —                          | 46,345  | 1,837,864 | —       |
| Mortgage servicing rights ("MSRs") <sup>(2)</sup> | —                       | —         | 6,468                      | —       | —         | 5,894   |
| Derivative assets <sup>(2)</sup>                  | —                       | 28,310    | —                          | —       | 21,068    | —       |
| <b>Liabilities</b>                                |                         |           |                            |         |           |         |
| Derivative liabilities <sup>(3)</sup>             | \$ —                    | \$ 38,738 | \$ —                       | \$ —    | \$ 25,250 | \$ —    |

As a result of recently adopted accounting guidance, equity securities are no longer presented within trading securities or securities available-for-sale for the prior period and are now presented within equity securities for the current period. For further discussion of this guidance, see Note 2 of "Notes to the Consolidated Financial Statements" in Item 1 of this Form 10-Q.

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

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

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

**Equity Securities**

The Company's equity securities consist primarily of community development investments and certain diversified investment securities held in a grantor trust for participants in the Company's nonqualified deferred compensation plan that are invested in money market and mutual funds. The fair value of community development investments are based on quoted prices in active markets or market prices for similar securities obtained from external pricing services or dealer market participants and are classified in level 2 of the fair value hierarchy. The fair value of the money market and mutual funds is based on quoted market prices in active exchange markets and is classified in level 1 of the fair value hierarchy.

**Securities Available-for-Sale**

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

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## MSRs

The Company services loans for others totaling \$604.2 million as of March 31, 2018 and \$607.0 million as of December 31, 2017. These loans are owned by third-parties and are not included in the Consolidated Statements of Financial Condition. The Company determines the fair value of MSRs by estimating the present value of expected future cash flows associated with the mortgage loans being serviced and classifies them in level 3 of the fair value hierarchy. The following table presents the ranges of significant, unobservable inputs used by the Company to determine the fair value of MSRs as of March 31, 2018 and December 31, 2017.

## Significant Unobservable Inputs Used in the Valuation of MSRs

|                   | As of             |                      |
|-------------------|-------------------|----------------------|
|                   | March 31,<br>2018 | December 31,<br>2017 |
| Prepayment speed  | 6.7% - 13.1%      | 4.2% - 13.1%         |
| Maturity (months) | 5 - 102           | 6 - 92               |
| Discount rate     | 9.5% - 12.0%      | 9.5% - 12.0%         |

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

A rollforward of the carrying value of MSRs for the quarters ended March 31, 2018 and 2017 is presented in the following table.

## Carrying Value of MSRs

(Dollar amounts in thousands)

|  | Quarters Ended<br>March 31, |         |
|--|-----------------------------|---------|
|  | 2018                        | 2017    |
| Beginning balance  | \$5,894                     | \$6,120 |
| New MSRs   | 176                         | 156     |
| Total losses (gains) included in earnings <sup>(1)</sup> : |                             |         |
| Changes in valuation inputs and assumptions                | 560                         | 172     |
| Other changes in fair value <sup>(2)</sup>                 | (162 )                      | (203 )  |
| Ending balance   | \$6,468                     | \$6,245 |
| Contractual servicing fees earned <sup>(1)</sup>           | \$378                       | \$395   |

<sup>(1)</sup> Included in mortgage banking income in the Condensed Consolidated Statements of Income and related to assets held as of March 31, 2018 and 2017.

<sup>(2)</sup> Primarily represents changes in expected future cash flows due to payoffs and paydowns.

## Derivative Assets and Derivative Liabilities

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

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

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

## Non-Recurring Fair Value Measurements

(Dollar amounts in thousands)

|  | As of March 31, 2018 |         |           | As of December 31, 2017 |         |           |
|--|----------------------|---------|-----------|-------------------------|---------|-----------|
|  | Level 1              | Level 2 | Level 3   | Level 1                 | Level 2 | Level 3   |
| Collateral-dependent impaired loans <sup>(1)</sup> | \$—                  | \$—     | -\$35,715 | \$—                     | \$—     | -\$33,240 |
| OREO <sup>(2)</sup>                                | —                    | —       | 4,792     | —                       | —       | 12,340    |
| Loans held-for-sale <sup>(3)</sup>                 | —                    | —       | 5,970     | —                       | —       | 21,098    |
| Assets held-for-sale <sup>(4)</sup>                | —                    | —       | 3,383     | —                       | —       | 2,208     |

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

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

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

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

## Collateral-Dependent Impaired Loans

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

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

## OREO

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

## Loans Held-for-Sale

As of March 31, 2018, loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell. These loans were recorded in the held-for-sale category at the contract price and, accordingly, are classified in level 3 of the fair value hierarchy. As of December 31, 2017, loans held-for-sale consists of 1-4 family mortgage loans, which were originated with the intent to sell, and a corporate loan.

## Assets Held-for-Sale

Assets held-for-sale as of March 31, 2018 and December 31, 2017 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.



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## 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 March 31, 2018 |               | December 31, 2017 |               |
|--|----------------------------|----------------------|---------------|-------------------|---------------|
|  |                            | Carrying Amount      | Fair Value    | Carrying Amount   | Fair Value    |
| <b>Assets</b>                            |                            |                      |               |                   |               |
| Cash and due from banks                  | 1                          | \$ 150,138           | \$ 150,138    | \$ 192,800        | \$ 192,800    |
| Interest-bearing deposits in other banks | 2                          | 84,898               | 84,898        | 153,770           | 153,770       |
| Securities held-to-maturity              | 2                          | 13,400               | 11,287        | 13,760            | 12,013        |
| FHLB and FRB stock                       | 2                          | 80,508               | 80,508        | 69,708            | 69,708        |
| Loans                                    | 3                          | 10,584,932           | 10,256,027    | 10,345,397        | 10,059,992    |
| Investment in BOLI                       | 3                          | 281,285              | 281,285       | 279,900           | 279,900       |
| Accrued interest receivable              | 3                          | 45,703               | 45,703        | 45,261            | 45,261        |
| Other interest-earning assets            | 3                          | 146                  | 146           | 228               | 228           |
| <b>Liabilities</b>                       |                            |                      |               |                   |               |
| Deposits                                 | 2                          | \$ 11,146,022        | \$ 11,123,916 | \$ 11,053,325     | \$ 11,038,819 |
| Borrowed funds                           | 2                          | 950,688              | 950,688       | 714,884           | 714,884       |
| Senior and subordinated debt             | 2                          | 195,312              | 194,980       | 195,170           | 198,806       |
| Accrued interest payable                 | 2                          | 4,107                | 4,107         | 4,704             | 4,704         |

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. Loans include the FDIC indemnification asset and net loans, which consists of loans held-for-investment, acquired loans, and the allowance for loan losses. As of both March 31, 2018 and December 31, 2017, the Company estimated the fair value of lending commitments outstanding to be immaterial.

Table of ContentsITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

## INTRODUCTION

First Midwest Bancorp, Inc. is a bank holding company headquartered in the Chicago suburb of Itasca, Illinois, with operations throughout the Chicago metropolitan area, northwest Indiana, central and western Illinois, and eastern Iowa through over 130 banking locations. Our principal subsidiary, First Midwest Bank, and other affiliates provide a broad range of commercial, retail, treasury management, equipment leasing, wealth management, trust, and private banking products and services to commercial and industrial, commercial real estate, municipal, and consumer customers. We are committed to meeting the financial needs of the people and businesses in the communities where we live and work by providing customized banking solutions, quality products, and innovative services that fulfill those financial needs. The following discussion and analysis is intended to address the significant factors affecting our Condensed Consolidated Statements of Income for the quarters ended March 31, 2018 and 2017 and Consolidated Statements of Financial Condition as of March 31, 2018 and December 31, 2017. When we use the terms "First Midwest," the "Company," "we," "us," and "our," we mean First Midwest Bancorp, Inc. and its consolidated subsidiaries. When we use the term "Bank," we are referring to our wholly-owned banking subsidiary, First Midwest Bank. Management's discussion and analysis should be read in conjunction with the consolidated financial statements, accompanying notes thereto, and other information presented in Item 1 of this Quarterly Report on Form 10-Q ("Form 10-Q"), as well as in our 2017 Annual Report on Form 10-K ("2017 10-K"). The results of operations for the quarter ended March 31, 2018 are not necessarily indicative of future results.

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

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

• **Net Interest Margin** – Net interest margin equals tax-equivalent net interest income divided by total average interest-earning assets.

• **Noninterest Income** – Noninterest income is the income we earn from fee-based revenues, investment in bank-owned life insurance ("BOLI") other income, and non-operating revenues.

• **Noninterest Expense** – Noninterest expense is the expense we incur to operate the Company, which includes salaries and employee benefits, net occupancy and equipment, professional services, and other costs.

• **Asset Quality** – Asset quality represents an estimation of the quality of our loan portfolio, including an assessment of the credit risk related to existing and potential loss exposure, and can be evaluated using a number of quantitative measures, such as non-performing loans to total loans.

• **Regulatory Capital** – Our regulatory capital is classified in one of the following tiers: (i) Common Equity Tier 1 capital ("CET1"), which consists of common equity and retained earnings, less goodwill and other intangible assets and a portion of disallowed deferred tax assets, (ii) Tier 1 capital, which consists of CET1 and qualifying trust-preferred securities and the remaining portion of disallowed deferred tax assets, and (iii) Tier 2 capital, which includes qualifying subordinated debt and the allowance for credit losses, subject to limitations.

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

As of March 31, 2018, the Company and the Bank each had total assets of over \$14.0 billion. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and its implementing regulations impose various

additional requirements on bank holding companies and banks with \$10.0 billion or more in total consolidated assets. As a general matter, these requirements are phased in and become applicable to the Company and the Bank over various dates. For a discussion of the impact that the Dodd-Frank Act and its implementing regulations will have on the Company and the Bank now that they have each exceeded \$10.0 billion in total consolidated assets, see the "Supervision and Regulation" section in Item 1, "Business" and Item 1A, "Risk Factors" in the Company's 2017 10-K, as well as our subsequent filings made with the Securities and Exchange Commission ("SEC").

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Form 10-Q may contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of words such as "may," "might," "will," "would," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "probable," "potential," "possible," "target," "continue," "look forward," or "assume," and words of similar import. Forward-looking statements are not historical facts but instead express only management's beliefs regarding future results or events, many of which, by their nature, are inherently uncertain and outside of management's control. It is possible that actual results and events may differ, possibly materially, from the anticipated results or events indicated in these forward-looking statements. Forward-looking statements are not guarantees of future performance or outcome, 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, including the impact of strategic actions and initiatives, anticipated trends in our business, regulatory developments, the impact of federal income tax reform legislation, acquisition transactions, including estimated synergies, cost savings and financial benefits of consummated transactions, and growth strategies, including possible future acquisitions. These statements are subject to certain risks, uncertainties and assumptions. For a discussion of these risks, uncertainties, and assumptions, you should refer to the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and in our 2017 10-K, as well as our subsequent filings made with the SEC. However, these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

**CRITICAL ACCOUNTING ESTIMATES**

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

For additional information regarding critical accounting estimates, see the "Summary of Significant Accounting Policies," presented in Note 1 to the Consolidated Financial Statements and the section titled "Critical Accounting Estimates" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2017 10-K. There have been no material changes in the Company's application of critical accounting estimates related to the allowance for credit losses, valuation of securities, income taxes, and goodwill and other intangible assets since December 31, 2017.

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## PERFORMANCE OVERVIEW

Table 1

## Selected Financial Data

(Amounts in thousands, except per share data)

|   | Quarters Ended    |            |   |
|---|-------------------|------------|---|
|   | March 31,<br>2018 | 2017       |   |
| <b>Operating Results</b>  |                   |            |   |
| Interest income   | \$ 131,345        | \$ 123,699 |   |
| Interest expense  | 12,782            | 8,502      |   |
| Net interest income   | 118,563           | 115,197    |   |
| Provision for loan losses   | 15,181            | 4,918      |   |
| Noninterest income  | 35,517            | 39,951     |   |
| Noninterest expense   | 95,582            | 116,642    |   |
| Income before income tax expense  | 43,317            | 33,588     |   |
| Income tax expense  | 9,807             | 10,733     |   |
| Net income  | \$ 33,510         | \$ 22,855  |   |
| Weighted-average diluted common shares outstanding                      | 101,938           | 100,432    |   |
| Diluted earnings per common share                                       | \$ 0.33           | \$ 0.23    |   |
| Diluted earnings per common share, adjusted <sup>(1)(2)</sup>           | \$ 0.33           | \$ 0.34    |   |
| <b>Performance Ratios</b>   |                   |            |   |
| Return on average common equity <sup>(3)</sup>                          | 7.19              | % 5.20     | % |
| Return on average common equity, adjusted <sup>(1)(2)(3)</sup>          | 7.19              | % 7.76     | % |
| Return on average tangible common equity <sup>(3)</sup>                 | 12.50             | % 9.53     | % |
| Return on average tangible common equity, adjusted <sup>(1)(2)(3)</sup> | 12.50             | % 13.99    | % |
| Return on average assets <sup>(3)</sup>                                 | 0.96              | % 0.68     | % |
| Return on average assets, adjusted <sup>(1)(2)(3)</sup>                 | 0.96              | % 1.01     | % |
| Tax-equivalent net interest margin <sup>(2)(3)(4)</sup>                 | 3.80              | % 3.89     | % |
| Efficiency ratio <sup>(2)</sup>   | 60.96             | % 61.31    | % |
| Efficiency ratio (prior presentation) <sup>(5)</sup>                    | N/A               | 60.98      | % |

Adjustments to net income include acquisition and integration related expenses associated with completed and

(1) pending acquisitions (first quarter 2017). For additional discussion of adjustments, see the "Non-GAAP Financial Information and Reconciliations" section.

(2) This item is a non-GAAP financial measure. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

(3) These ratios are presented on an annualized basis.

(4) See the section of this Item 2 titled "Earnings Performance" below for additional discussion and calculation of this financial measure.

Presented as calculated prior to March 31, 2018, which included a tax-equivalent adjustment for BOLI.

(5) Management believes that removing this adjustment from the current calculation of this metric enhances comparability for peer comparison purposes.

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|  | As of             |                      |                   | March 31, 2018<br>Change From |                   |
|--|-------------------|----------------------|-------------------|-------------------------------|-------------------|
|  | March 31,<br>2018 | December 31,<br>2017 | March 31,<br>2017 | December 31,<br>2017          | March 31,<br>2017 |
| <b>Balance Sheet Highlights</b>  |                   |                      |                   |                               |                   |
| Total assets   | \$ 14,379,971     | \$ 14,077,052        | \$ 13,773,471     | \$ 302,919                    | \$ 606,500        |
| Total loans  | 10,676,774        | 10,437,812           | 10,054,370        | 238,962                       | 622,404           |
| Total deposits   | 11,146,022        | 11,053,325           | 10,956,541        | 92,697                        | 189,481           |
| Core deposits  | 9,339,760         | 9,406,542            | 9,415,286         | (66,782 )                     | (75,526 )         |
| Loans to deposits  | 95.8              | % 94.4               | % 91.8            | %                             | %                 |
| Core deposits to total deposits  | 83.8              | % 85.1               | % 85.9            | %                             | %                 |
| <b>Asset Quality Highlights</b>  |                   |                      |                   |                               |                   |
| Non-accrual loans  | \$ 75,015         | \$ 66,924            | \$ 54,294         | \$ 8,091                      | \$ 20,721         |
| 90 days or more past due loans, still<br>accruing interest <sup>(1)</sup>              | 4,633             | 3,555                | 2,633             | 1,078                         | 2,000             |
| Total non-performing loans   | 79,648            | 70,479               | 56,927            | 9,169                         | 22,721            |
| Accruing troubled debt<br>restructurings ("TDRs")                                      | 1,778             | 1,796                | 2,112             | (18 )                         | (334 )            |
| Other real estate owned ("OREO")   | 17,472            | 20,851               | 29,140            | (3,379 )                      | (11,668 )         |
| Total non-performing assets  | \$ 98,898         | \$ 93,126            | \$ 88,179         | \$ 5,772                      | \$ 10,719         |
| 30-89 days past due loans <sup>(1)</sup>   | \$ 42,573         | \$ 39,725            | \$ 23,641         | \$ 2,848                      | \$ 18,932         |
| Non-performing assets to total loans plus<br>OREO                                      | 0.92              | % 0.89               | % 0.87            | %                             | %                 |
| <b>Allowance for Credit Losses</b>   |                   |                      |                   |                               |                   |
| Allowance for credit losses  | \$ 95,854         | \$ 96,729            | \$ 89,163         | \$ (875 )                     | \$ 6,691          |
| Allowance for credit losses to<br>total loans <sup>(2)</sup>                           | 0.90              | % 0.93               | % 0.89            | %                             | %                 |
| Allowance for credit losses to<br>total loans, excluding acquired loans <sup>(3)</sup> | 1.01              | % 1.07               | % 1.11            | %                             | %                 |
| Allowance for credit losses to<br>non-accrual loans <sup>(2)</sup>                     | 127.78            | % 144.54             | % 164.22          | %                             | %                 |

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

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.

(2) 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."

The allowance for credit losses to total loans, excluding acquired loans is a non-GAAP financial measure. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

Net income for the first quarter of 2018 was \$33.5 million, or \$0.33 per share, compared to \$22.9 million, or \$0.23 per share, for the first quarter of 2017. Performance for the first quarter of 2017 was impacted by acquisition and integration related pre-tax expenses of \$18.6 million. Excluding these expenses, net income for the first quarter of 2017 was \$33.8 million, or \$0.34 per share. The modest decrease in net income and earnings per share, excluding acquisition and integration related expenses, compared to the first quarter of 2017 reflects higher provision for loan

losses, partially offset by higher net interest income and noninterest income, controlled noninterest expenses, and a lower effective income tax rate. A discussion of net interest income, noninterest income, noninterest expense, and income tax expense is presented in the following section titled "Earnings Performance."

Total loans of \$10.7 billion grew by \$239.0 million, or 9.3% annualized, from December 31, 2017.

Non-performing assets to loans plus OREO was 0.92% at March 31, 2018, up from 0.89% and 0.87% at December 31, 2017 and March 31, 2017, respectively. See the following "Loan Portfolio and Credit Quality" section for further discussion of our loan portfolio, non-accrual loans, 90 days or more past due loans, TDRs, and OREO.

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EARNINGS PERFORMANCE

Net Interest Income

Net interest income is our primary source of revenue and is impacted by interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities. The accounting policies for the recognition of interest income on loans, securities, and other interest-earning assets are presented in Note 1 to the Consolidated Financial Statements included in our 2017 10-K.

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

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the quarters ended March 31, 2018 and 2017, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 2 also details differences in interest income and expense from the prior quarter and the extent to which any changes are attributable to volume and rate fluctuations.

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

|  | Quarters Ended March 31,<br>2018 |          |                       | 2017               |          |                       | Attribution of Change<br>in Net Interest Income |                |         |
|--|----------------------------------|----------|-----------------------|--------------------|----------|-----------------------|---|----------------|---------|
|  | Average<br>Balance               | Interest | Yield/<br>Rate<br>(%) | Average<br>Balance | Interest | Yield/<br>Rate<br>(%) | Volume  | Yield/<br>Rate | Total   |
| <b>Assets</b>  |                                  |          |                       |                    |          |                       |   |                |         |
| Other interest-earning assets  | \$112,137                        | \$423    | 1.53                  | \$215,915          | \$441    | 0.83                  | \$(206 )  | \$188          | \$(18 ) |
| Securities <sup>(1)</sup>  | 2,063,223                        | 12,141   | 2.35                  | 2,021,157          | 11,535   | 2.28                  | 233   | 373            | 606     |
| Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock | 76,883                           | 438      | 2.28                  | 54,219             | 368      | 2.71                  | 114   | (44 )          | 70      |
| Loans <sup>(1)(2)</sup>  | 10,499,283                       | 119,318  | 4.61                  | 9,920,513          | 113,409  | 4.64                  | 6,413   | (504 )         | 5,909   |
| Total interest-earning assets <sup>(1)(2)</sup>                        | 12,751,526                       | 132,320  | 4.20                  | 12,211,804         | 125,753  | 4.17                  | 6,554   | 13             | 6,567   |
| Cash and due from banks  | 181,797                          |          |                       | 176,953            |          |                       |   |                |         |
| Allowance for loan losses  | (99,234 )                        |          |                       | (89,065 )          |          |                       |   |                |         |
| Other assets   | 1,352,964                        |          |                       | 1,373,433          |          |                       |   |                |         |
| Total assets   | \$14,187,053                     |          |                       | \$13,673,125       |          |                       |   |                |         |
| <b>Liabilities and Stockholders' Equity</b>                            |                                  |          |                       |                    |          |                       |   |                |         |
| Savings deposits   | \$2,015,679                      | 368      | 0.07                  | \$2,029,631        | 400      | 0.08                  | (3 )  | (29 )          | (32 )   |
| NOW accounts   | 1,992,672                        | 1,048    | 0.21                  | 1,916,816          | 478      | 0.10                  | 20  | 550            | 570     |
| Money market deposits  | 1,814,057                        | 824      | 0.18                  | 1,890,703          | 619      | 0.13                  | (24 )   | 229            | 205     |
| Time deposits  | 1,735,155                        | 3,939    | 0.92                  | 1,515,597          | 1,712    | 0.46                  | 279   | 1,948          | 2,227   |
| Borrowed funds   | 858,297                          | 3,479    | 1.64                  | 734,091            | 2,194    | 1.21                  | 414   | 871            | 1,285   |
| Senior and subordinated debt   | 195,243                          | 3,124    | 6.49                  | 194,677            | 3,099    | 6.46                  | 9   | 16             | 25      |
| Total interest-bearing liabilities                                     | 8,611,103                        | 12,782   | 0.60                  | 8,281,515          | 8,502    | 0.42                  | 695   | 3,585          | 4,280   |
| Demand deposits  | 3,466,832                        |          |                       | 3,355,674          |          |                       |   |                |         |
| Total funding sources  | 12,077,935                       |          | 0.43                  | 11,637,189         |          | 0.30                  |   |                |         |
| Other liabilities  | 235,699                          |          |                       | 272,398            |          |                       |   |                |         |
| Stockholders' equity - common  | 1,873,419                        |          |                       | 1,763,538          |          |                       |   |                |         |
| Total liabilities and stockholders' equity                             | \$14,187,053                     |          |                       | \$13,673,125       |          |                       |   |                |         |
| Tax-equivalent net interest  |                                  | 119,538  | 3.80                  |                    | 117,251  | 3.89                  | \$5,859   | \$(3,572)      | \$2,287 |

|  |                |                |
|--|----------------|----------------|
| income/margin <sup>(1)</sup>                                       |                |                |
| Tax-equivalent adjustment  | (975 )         | (2,054 )       |
| Net interest income (GAAP)   | \$118,563      | \$115,197      |
| Impact of acquired loan accretion <sup>(1)</sup>                   | \$5,112 0.16   | \$11,345 0.38  |
| Tax-equivalent net interest income/margin, adjusted <sup>(1)</sup> | \$114,426 3.64 | \$105,906 3.51 |

Interest income and yields on tax-exempt securities and loans are presented on a tax-equivalent basis, assuming the applicable federal income tax rate for each period presented. As a result, interest income and yields on tax-exempt securities and loans subsequent to December 31, 2017 are presented at the current federal income tax rate of 21%<sup>(1)</sup> and prior periods are presented using the federal income tax rate applicable at that time, or 35%. The corresponding income tax impact related to tax-exempt items is recorded in income tax expense. These adjustments have no impact on net income. See the "Non-GAAP Financial Information and Reconciliations" section presented later in this Item 2 for a discussion of this non-GAAP financial measure.

Non-accrual loans, which totaled \$75.0 million as of March 31, 2018 and \$54.3 million as of March 31, 2017, are included in loans for purposes of this analysis. Additional detail regarding non-accrual loans is presented in the following section of this Item 2 titled "Non-performing Assets and Corporate Performing Potential Problem Loans."

Net interest income increased by 2.9% compared to the first quarter of 2017. The rise in net interest income compared to the first quarter of 2017 was driven primarily by higher interest rates and loan growth, partially offset by lower acquired loan accretion and higher cost of funds.

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Acquired loan accretion contributed \$5.1 million and \$11.3 million to net interest income for the first quarter of 2018 and 2017, respectively.

Tax-equivalent net interest margin for the first quarter of 2018 was 3.80%, decreasing 9 basis points from the same period in 2017. The decrease in tax-equivalent net interest margin compared to the first quarter of 2017 was due primarily to a 22 basis point decrease in acquired loan accretion, partially offset by the positive impact of higher interest rates. In addition, tax-equivalent net interest margin for the first quarter of 2018 was negatively impacted by a 3 basis points reduction in the tax-equivalent adjustment as a result of lower federal income tax rates.

Total average interest-earning assets rose by \$539.7 million from the first quarter of 2017. The increase resulted primarily from loan growth, which was partially offset by a reduction in other interest-earning assets.

Compared to the first quarter of 2017, total average funding sources increased by \$440.7 million, due primarily to an increase in FHLB advances and time deposits.

#### Noninterest Income

A summary of noninterest income for the quarters ended March 31, 2018 and 2017 is presented in the following table.

Table 3

#### Noninterest Income Analysis

(Dollar amounts in thousands)

|  | Quarters Ended |          | %<br>Change |
|--|----------------|----------|-------------|
|  | 2018           | 2017     |             |
| Service charges on deposit accounts              | \$11,652       | \$11,365 | 2.5         |
| Wealth management fees                           | 10,958         | 9,660    | 13.4        |
| Card-based fees, net <sup>(1)(2)</sup> :         |                |          |             |
| Card-based fees                                  | 5,692          | 8,116    | (29.9 )     |
| Cardholder expenses                              | (1,759 )       | —        | —           |
| Card-based fees, net                             | 3,933          | 8,116    | (51.5 )     |
| Mortgage banking income                          | 2,397          | 1,888    | 27.0        |
| Capital market products income                   | 1,558          | 1,376    | 13.2        |
| Merchant servicing fees, net <sup>(1)(3)</sup> : |                |          |             |
| Merchant servicing fees                          | 2,237          | 3,135    | (28.6 )     |
| Merchant card expenses                           | (1,907 )       | —        | —           |
| Merchant servicing fees, net                     | 330            | 3,135    | (89.5 )     |
| Other service charges, commissions, and fees     | 2,218          | 2,307    | (3.9 )      |
| Other income <sup>(4)</sup>                      | 2,471          | 2,104    | 17.4        |
| Total noninterest income                         | \$35,517       | \$39,951 | (11.1 )     |

As a result of accounting guidance adopted in the first quarter of 2018, certain noninterest income line items and the related noninterest expense line items that are presented on a gross basis for the prior periods are presented on a net basis in noninterest income for the current period. For further discussion of this guidance, see Note 2 of "Notes to the Consolidated Financial Statements" in Item 1 of this Form 10-Q.

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

Merchant servicing fees are included in other service charges, commissions, and fees in the Condensed Consolidated Statements of Income.

Other income consists of various items, including BOLI income, safe deposit box rentals, miscellaneous recoveries, and gains on the sales of various assets.

Total noninterest income for the first quarter of 2018 of \$35.5 million was down 11.1% compared to the first quarter of 2017. In the first quarter of 2018, the Company adopted accounting guidance which impacted how cardholder and merchant card expenses are presented within noninterest income on a prospective basis. As a result, these expenses are presented on a net basis against the related noninterest income for the first quarter of 2018 versus a gross basis within noninterest expense for the prior period. In addition, the Durbin Amendment of the Dodd-Frank Act ("Durbin") became effective for the Company in the third quarter of 2017. Excluding the \$3.7 million reclassification impact of accounting guidance adopted in the first quarter of 2018 on the current period

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and the \$2.9 million impact of Durbin on the first quarter of 2017, noninterest income was \$39.2 million, up 5.8% from \$37.1 million in the first quarter of 2017. This item is a non-GAAP financial measure. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

Net card-based fees were up 8.4% compared to the first quarter of 2017, excluding the accounting reclassification and Durbin, due to higher transaction volumes. Compared to the first quarter of 2017, the increase in wealth management fees was driven primarily by the full quarter impact of customers acquired in the Premier Asset Management LLC ("Premier") transaction and organic growth. The decline in merchant servicing fees from the first quarter of 2017 reflected lower customer volumes, substantially offset by the decline in merchant card expense.

Mortgage banking income for the first quarter of 2018 resulted from sales of \$63.8 million of 1-4 family mortgage loans in the secondary market, compared to \$54.6 million in the first quarter of 2017. In addition, mortgage banking income for the first quarter of 2018 was positively impacted by changes in the fair value of mortgage servicing rights, which fluctuate from quarter to quarter.

#### Noninterest Expense

A summary of noninterest expense for the quarters ended March 31, 2018 and 2017 is presented in the following table.

Table 4

#### Noninterest Expense Analysis

(Dollar amounts in thousands)

|  | Quarters Ended |           | %<br>Change |
|--|----------------|-----------|-------------|
|  | 2018           | 2017      |             |
| Salaries and employee benefits:              |                |           |             |
| Salaries and wages                           | \$45,830       | \$44,890  | 2.1         |
| Retirement and other employee benefits       | 10,957         | 10,882    | 0.7         |
| Total salaries and employee benefits         | 56,787         | 55,772    | 1.8         |
| Net occupancy and equipment expense          | 13,773         | 12,325    | 11.7        |
| Professional services                        | 7,580          | 8,463     | (10.4 )     |
| Technology and related costs                 | 4,771          | 4,433     | 7.6         |
| Advertising and promotions                   | 1,650          | 1,066     | 54.8        |
| Net OREO expense                             | 1,068          | 1,700     | (37.2 )     |
| Merchant card expenses <sup>(1)</sup>        | —              | 2,585     | (100.0 )    |
| Cardholder expenses <sup>(1)</sup>           | —              | 1,764     | (100.0 )    |
| Other expenses                               | 9,953          | 9,969     | (0.2 )      |
| Acquisition and integration related expenses | —              | 18,565    | (100.0 )    |
| Total noninterest expense <sup>(1)</sup>     | \$95,582       | \$116,642 | (18.1 )     |

As a result of accounting guidance adopted in the first quarter of 2018, certain noninterest income line items and (1) the related noninterest expense line items that are presented on a gross basis for the prior periods are presented on a net basis in noninterest income for the current period. For further discussion of this guidance, see Note 2 of "Notes to the Consolidated Financial Statements" in Item 1 of this Form 10-Q.

Total noninterest expense of \$95.6 million decreased by 18.1% compared to the first quarter of 2017. In the first quarter of 2018, the Company adopted accounting guidance which impacted how cardholder and merchant card expenses are presented within noninterest income on a prospective basis. As a result, these expenses are presented on a net basis against the related noninterest income for the first quarter of 2018 versus a gross basis within noninterest expense for the prior period. Excluding the \$3.7 million reclassification impact of this accounting guidance on the

current period and \$18.6 million acquisition and integration related expenses that resulted from the acquisition of Standard Bancshares, Inc ("Standard") in the first quarter of 2017, noninterest expense for the first quarter of 2018 was \$99.2 million, consistent with \$98.1 million in the first quarter of 2017. This item is a non-GAAP financial measure. For a discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

The increase in salaries and wages compared to the first quarter of 2017 was driven primarily by merit increases and organizational growth. Compared to the first quarter of 2017, net occupancy and equipment expenses increased as a result of higher costs related to winter weather conditions and the timing of expenses related to the Company's planned corporate headquarters relocation. Professional services expense declined compared to the first quarter of 2017 due to lower loan remediation expenses. Compared to the first quarter of 2017, the rise in advertising and promotions expense resulted from the timing of certain advertising costs.

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Net OREO expense decreased compared to the first quarter of 2017 as a result of lower levels of operating expenses, losses on sales, and valuation adjustments.

**Income Taxes**

Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes for the quarters ended March 31, 2018 and 2017 is detailed in the following table.

Table 5

**Income Tax Expense Analysis**

(Dollar amounts in thousands)

|                                  | Quarters Ended    |          |
|----------------------------------|-------------------|----------|
|                                  | March 31,<br>2018 | 2017     |
| Income before income tax expense | \$43,317          | \$33,588 |
| Income tax expense:              |                   |          |
| Federal income tax expense       | \$7,146           | \$8,895  |
| State income tax expense         | 2,661             | 1,838    |
| Total income tax expense         | \$9,807           | \$10,733 |
| Effective income tax rate        | 22.6              | % 32.0 % |

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 and state income taxes. State income tax expense and the related effective tax rate are driven by the amount of state tax-exempt income in relation to pre-tax income and state tax rules related to consolidated/combined reporting and sourcing of income and expense. The decrease in the effective tax rate compared to the first quarter of 2017 was driven primarily by the reduction in the federal income tax rate from 35% to 21% which became effective in the first quarter of 2018 as a result of federal income tax reform. In addition, the first quarter of 2018 was impacted by a \$1.0 million income tax benefit related to employee share-based payments.

Total income tax expense for the first quarter of 2018 was down 8.6% compared to the same period in the prior year. Higher levels of income subject to tax at statutory rates and a decrease in tax-exempt income compared to the first quarter of 2017 were more than offset by the decrease in the federal income tax rate.

Our accounting policies regarding the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are described in Notes 1 and 15 to the Consolidated Financial Statements of our 2017 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. Equity securities are carried at fair value and consist primarily of community development investments and certain diversified investment securities held in a grantor trust for participants in the Company's nonqualified deferred compensation plan that are invested in money market and mutual funds. 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.



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

Table 6

## Investment Portfolio

(Dollar amounts in thousands)

|                                      | As of March 31, 2018 |                               |             |            | As of December 31, 2017 |                               |             |            |
|--------------------------------------|----------------------|-------------------------------|-------------|------------|-------------------------|-------------------------------|-------------|------------|
|                                      | Amortized Cost       | Net Unrealized Gains (Losses) | Fair Value  | % of Total | Amortized Cost          | Net Unrealized Gains (Losses) | Fair Value  | % of Total |
| <b>Securities Available-for-Sale</b> |                      |                               |             |            |                         |                               |             |            |
| U.S. treasury securities             | \$50,487             | \$(296)                       | \$50,191    | 2.5        | \$46,529                | \$(184)                       | \$46,345    | 2.5        |
| U.S. agency securities               | 160,936              | (1,398)                       | 159,538     | 7.8        | 157,636                 | (789)                         | 156,847     | 8.3        |
| <b>Collateralized</b>                |                      |                               |             |            |                         |                               |             |            |
| mortgage obligations ("CMOs")        | 1,213,796            | (32,061)                      | 1,181,735   | 57.9       | 1,113,019               | (17,833)                      | 1,095,186   | 58.1       |
| <b>Other</b>                         |                      |                               |             |            |                         |                               |             |            |
| mortgage-backed securities ("MBSs")  | 434,485              | (11,123)                      | 423,362     | 20.7       | 373,676                 | (4,133)                       | 369,543     | 19.6       |
| Municipal securities                 | 217,855              | (3,871)                       | 213,984     | 10.5       | 209,558                 | (567)                         | 208,991     | 11.1       |
| Corporate debt securities            | 12,161               | (21)                          | 12,140      | 0.6        | —                       | —                             | —           | —          |
| Equity securities <sup>(1)</sup>     | —                    | —                             | —           | —          | 7,408                   | (111)                         | 7,297       | 0.4        |
| Total securities available-for-sale  | \$2,089,720          | \$(48,770)                    | \$2,040,950 | 100.0      | \$1,907,826             | \$(23,617)                    | \$1,884,209 | 100.0      |
| <b>Securities Held-to-Maturity</b>   |                      |                               |             |            |                         |                               |             |            |
| Municipal securities                 | \$13,400             | \$(2,113)                     | \$11,287    |            | \$13,760                | \$(1,747)                     | \$12,013    |            |
| Equity Securities <sup>(1)</sup>     |                      |                               | \$28,513    |            |                         |                               | \$—         |            |
| Trading Securities <sup>(1)</sup>    |                      |                               | \$—         |            |                         |                               | \$20,447    |            |

As a result of accounting guidance adopted in the first quarter of 2018, equity securities are no longer presented within trading securities or securities available-for-sale and are now presented within equity securities in the Consolidated Statements of Financial Condition for the current period. For further discussion of this guidance, see Note 2 of "Notes to the Consolidated Financial Statements" in Item 1 of this Form 10-Q.

## Portfolio Composition

As of March 31, 2018, our securities available-for-sale portfolio totaled \$2.0 billion, increasing \$156.7 million, or 8.3%, from December 31, 2017. The increase from December 31, 2017 was driven primarily by purchases of CMOs and MBSs in light of current market conditions. For additional detail regarding sales of securities see the "Realized Gains and Losses" section below.

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.



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Table 7

## Securities Effective Duration Analysis

|                                      | As of March 31, 2018              |                             |                                  |   | As of December 31, 2017           |                             |                                  |   |
|--------------------------------------|-----------------------------------|-----------------------------|----------------------------------|---|-----------------------------------|-----------------------------|----------------------------------|---|
|                                      | Effective Duration <sup>(1)</sup> | Average Life <sup>(2)</sup> | Yield to Maturity <sup>(3)</sup> | % | Effective Duration <sup>(1)</sup> | Average Life <sup>(2)</sup> | Yield to Maturity <sup>(3)</sup> | % |
| <b>Securities Available-for-Sale</b> |                                   |                             |                                  |   |                                   |                             |                                  |   |
| U.S. treasury securities             | 1.10%                             | 1.13                        | 1.54                             | % | 1.01%                             | 1.03                        | 1.30                             | % |
| U.S. agency securities               | 1.82%                             | 3.22                        | 1.96                             | % | 1.80%                             | 3.22                        | 1.74                             | % |
| CMOs                                 | 3.75%                             | 4.72                        | 2.44                             | % | 3.36%                             | 4.51                        | 2.35                             | % |
| MBSs                                 | 4.17%                             | 5.60                        | 2.50                             | % | 3.77%                             | 5.29                        | 2.30                             | % |
| Municipal securities                 | 4.75%                             | 5.05                        | 2.60                             | % | 4.47%                             | 4.87                        | 3.04                             | % |
| Corporate debt securities            | 0.28%                             | 7.98                        | 3.32                             | % | N/M                               | N/M                         | N/M                              |   |
| Total securities available-for-sale  | 3.71%                             | 4.75                        | 2.41                             | % | 3.38%                             | 4.51                        | 2.34                             | % |
| <b>Securities Held-to-Maturity</b>   |                                   |                             |                                  |   |                                   |                             |                                  |   |
| Municipal securities                 | 5.15%                             | 7.03                        | 3.52                             | % | 5.33%                             | 7.15                        | 4.55                             | % |
| N/M – Not meaningful.                |                                   |                             |                                  |   |                                   |                             |                                  |   |

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

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

(3) Yields on municipal securities are reflected on a tax-equivalent basis, assuming the applicable federal income tax rate for each period presented.

**Effective Duration**

The average life and effective duration of our securities available-for-sale portfolio was 4.75 years and 3.71%, respectively, as of March 31, 2018, up from 4.51 years and 3.38% as of December 31, 2017. The increase resulted primarily from purchases of CMOs and MBSs.

**Realized Gains and Losses**

There were no net securities gains or impairment charges recognized during the first quarters of 2018 and 2017. During the first quarter of 2017, \$210.2 million of securities acquired in the Standard transaction were sold shortly after the acquisition date and resulted in no gains or losses as they were recorded at fair value upon acquisition.

**Unrealized Gains and Losses**

Unrealized gains and losses on securities available-for-sale represent the difference between the aggregate cost and fair value of the portfolio. These amounts are presented in the Consolidated Statements of Comprehensive Income and reported as a separate component of stockholders' equity in accumulated other comprehensive loss on an after-tax basis. This balance sheet component will fluctuate as current market interest rates and conditions change and affect the aggregate fair value of the portfolio. Higher market rates drove the rise in net unrealized losses to \$48.8 million as of March 31, 2018 from \$23.6 million as of December 31, 2017.

Net unrealized losses in the CMO and MBS portfolio totaled \$32.1 million and \$11.1 million as of March 31, 2018, respectively, compared to \$17.8 million and \$4.1 million as of December 31, 2017 for the same portfolios. CMOs and MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. We do not believe any individual unrealized loss on these securities as of March 31, 2018 represents other-than-temporary securities impairment ("OTTI") related to credit deterioration. In addition, we do not intend to sell the CMOs or MBSs 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.



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## LOAN PORTFOLIO AND CREDIT QUALITY

## Portfolio Composition

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 81.2% of total loans as of March 31, 2018. Consistent with our emphasis on relationship banking, the majority of our corporate loans are made to our core, multi-relationship customers. The customers usually maintain deposit relationships and utilize our other banking services, such as treasury or wealth management services.

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

Table 8

## Loan Portfolio

(Dollar amounts in thousands)

|                                | As of<br>March 31,<br>2018 | % of<br>Total Loans | As of<br>December<br>31, 2017 | % of<br>Total Loans | %<br>Change |
|--------------------------------|----------------------------|---------------------|-------------------------------|---------------------|-------------|
| Commercial and industrial      | \$3,659,066                | 34.3                | \$3,529,914                   | 33.8                | 3.7         |
| Agricultural                   | 435,734                    | 4.1                 | 430,886                       | 4.1                 | 1.1         |
| Commercial real estate:        |                            |                     |                               |                     |             |
| Office, retail, and industrial | 1,931,202                  | 18.1                | 1,979,820                     | 19.0                | (2.5 )      |
| Multi-family                   | 695,830                    | 6.4                 | 675,463                       | 6.5                 | 3.0         |
| Construction                   | 585,766                    | 5.5                 | 539,820                       | 5.2                 | 8.5         |
| Other commercial real estate   | 1,363,238                  | 12.8                | 1,358,515                     | 13.0                | 0.3         |
| Total commercial real estate   | 4,576,036                  | 42.8                | 4,553,618                     | 43.7                | 0.5         |
| Total corporate loans          | 8,670,836                  | 81.2                | 8,514,418                     | 81.6                | 1.8         |
| Home equity                    | 881,534                    | 8.3                 | 827,055                       | 7.9                 | 6.6         |
| 1-4 family mortgages           | 798,902                    | 7.5                 | 774,357                       | 7.4                 | 3.2         |
| Installment                    | 325,502                    | 3.0                 | 321,982                       | 3.1                 | 1.1         |
| Total consumer loans           | 2,005,938                  | 18.8                | 1,923,394                     | 18.4                | 4.3         |
| Total loans                    | \$10,676,774               | 100.0               | \$10,437,812                  | 100.0               | 2.3         |

Total loans of \$10.7 billion increased by 9.3%, annualized from December 31, 2017. Growth in commercial and industrial loans, primarily within our sector-based lending businesses, multi-family, and construction loans drove the rise in total corporate loans. Growth in consumer loans compared to December 31, 2017 benefited from the impact of purchases of shorter-duration home equity loans and organic production.

## Commercial, Industrial, and Agricultural Loans

Commercial, industrial, and agricultural loans represent 38.4% of total loans, and totaled \$4.1 billion at March 31, 2018, an increase of \$134.0 million, or 3.4%, from December 31, 2017. Our commercial and industrial loans are a diverse group of loans generally located in the Chicago metropolitan area with purposes that include supporting seasonal working capital needs, accounts receivable financing, inventory and equipment financing, and select sector based lending, such as healthcare, asset-based lending, structured finance, and syndications. 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

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

The following table presents commercial real estate loan detail as of March 31, 2018 and December 31, 2017.

Table 9

**Commercial Real Estate Loans**

(Dollar amounts in thousands)

|                                      | As of<br>March 31,<br>2018 | % of<br>Total | As of<br>December 31,<br>2017 | % of<br>Total |
|--------------------------------------|----------------------------|---------------|-------------------------------|---------------|
| Office, retail, and industrial:      |                            |               |                               |               |
| Office                               | \$ 809,358                 | 17.7          | \$ 844,413                    | 18.5          |
| Retail                               | 469,321                    | 10.3          | 471,781                       | 10.4          |
| Industrial                           | 652,523                    | 14.3          | 663,626                       | 14.6          |
| Total office, retail, and industrial | 1,931,202                  | 42.3          | 1,979,820                     | 43.5          |
| Multi-family                         | 695,830                    | 15.2          | 675,463                       | 14.8          |
| Construction                         | 585,766                    | 12.8          | 539,820                       | 11.8          |
| Other commercial real estate:        |                            |               |                               |               |
| Multi-use properties                 | 330,934                    | 7.2           | 330,926                       | 7.3           |
| Rental properties                    | 184,394                    | 4.0           | 197,579                       | 4.3           |
| Warehouses and storage               | 170,218                    | 3.7           | 172,505                       | 3.8           |
| Hotels                               | 122,600                    | 2.7           | 97,016                        | 2.1           |
| Restaurants                          | 121,025                    | 2.6           | 112,547                       | 2.5           |
| Service stations and truck stops     | 104,611                    | 2.3           | 107,834                       | 2.4           |
| Recreational                         | 84,927                     | 1.9           | 87,986                        | 1.9           |
| Automobile dealers                   | 38,153                     | 0.8           | 39,020                        | 0.9           |
| Other                                | 206,376                    | 4.5           | 213,102                       | 4.7           |
| Total other commercial real estate   | 1,363,238                  | 29.7          | 1,358,515                     | 29.9          |
| Total commercial real estate         | \$ 4,576,036               | 100.0         | \$ 4,553,618                  | 100.0         |

Commercial real estate loans represent 42.8% of total loans, and totaled \$4.6 billion at March 31, 2018, increasing by \$22.4 million from December 31, 2017.

The mix of properties securing the loans in our commercial real estate portfolio is balanced between owner-occupied and investor categories and is diverse in terms of type and geographic location, generally within the Company's markets. Approximately 43% of the commercial real estate portfolio, excluding multi-family and construction loans, is owner-occupied as of March 31, 2018. Using outstanding loan balances, non-owner-occupied commercial real estate loans to total capital was 214% and construction loans to total capital was 32% as of March 31, 2018. Non-owner-occupied (investor) commercial real estate is calculated in

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accordance with federal banking agency guidelines and includes construction, multi-family, non-farm non-residential property, and commercial real estate loans that are not secured by real estate collateral.

Consumer Loans

Consumer loans represent 18.8% of total loans, and totaled \$2.0 billion at March 31, 2018, an increase of \$82.5 million, or 4.3%, from December 31, 2017. Consumer loans are centrally underwritten using a credit scoring model developed by the Fair Isaac Corporation ("FICO"), which employs a risk-based system to determine the probability a borrower may default. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. The home equity category consists mainly of revolving lines of credit secured by junior liens on owner-occupied real estate. Loan-to-value ratios on home equity loans and 1-4 family mortgages are based on the current appraised value of the collateral. Repayment for these loans is dependent on the borrower's continued financial stability, and is more likely to be impacted by adverse personal circumstances.

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## Non-performing Assets and Corporate Performing Potential Problem Loans

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

Table 10

## Loan Portfolio by Performing/Non-Performing Status

(Dollar amounts in thousands)

|                                | Accruing           |              | 30-89<br>Days<br>Past<br>Due | 90<br>Days<br>Past<br>Due | Non-accrual <sup>(2)</sup> | Total<br>Loans |
|--------------------------------|--------------------|--------------|------------------------------|---------------------------|----------------------------|----------------|
|                                | PCI <sup>(1)</sup> | Current      |                              |                           |                            |                |
| As of March 31, 2018           |                    |              |                              |                           |                            |                |
| Commercial and industrial      | \$3,373            | \$3,599,159  | \$10,597                     | \$1,963                   | \$ 43,974                  | \$3,659,066    |
| Agricultural                   | 7,234              | 423,661      | 264                          | 489                       | 4,086                      | 435,734        |
| Commercial real estate:        |                    |              |                              |                           |                            |                |
| Office, retail, and industrial | 14,426             | 1,898,381    | 5,577                        | 476                       | 12,342                     | 1,931,202      |
| Multi-family                   | 13,201             | 667,212      | 15,249                       | 24                        | 144                        | 695,830        |
| Construction                   | 8,405              | 576,202      | 35                           | 916                       | 208                        | 585,766        |
| Other commercial real estate   | 59,820             | 1,295,183    | 4,083                        | 64                        | 4,088                      | 1,363,238      |
| Total commercial real estate   | 95,852             | 4,436,978    | 24,944                       | 1,480                     | 16,782                     | 4,576,036      |
| Total corporate loans          | 106,459            | 8,459,798    | 35,805                       | 3,932                     | 64,842                     | 8,670,836      |
| Home equity                    | 2,656              | 870,443      | 2,611                        | 44                        | 5,780                      | 881,534        |
| 1-4 family mortgages           | 17,775             | 774,625      | 1,977                        | 132                       | 4,393                      | 798,902        |
| Installment                    | 1,056              | 321,741      | 2,180                        | 525                       | —                          | 325,502        |
| Total consumer loans           | 21,487             | 1,966,809    | 6,768                        | 701                       | 10,173                     | 2,005,938      |
| Total loans                    | \$127,946          | \$10,426,607 | \$42,573                     | \$4,633                   | \$ 75,015                  | \$10,676,774   |
| As of December 31, 2017        |                    |              |                              |                           |                            |                |
| Commercial and industrial      | \$5,450            | \$3,458,049  | \$24,005                     | \$1,830                   | \$ 40,580                  | \$3,529,914    |
| Agricultural                   | 7,203              | 423,007      | 280                          | 177                       | 219                        | 430,886        |
| Commercial real estate:        |                    |              |                              |                           |                            |                |
| Office, retail, and industrial | 14,575             | 1,950,564    | 2,776                        | 345                       | 11,560                     | 1,979,820      |
| Multi-family                   | 14,071             | 657,878      | 3,117                        | 20                        | 377                        | 675,463        |
| Construction                   | 8,778              | 530,264      | 198                          | 371                       | 209                        | 539,820        |
| Other commercial real estate   | 64,675             | 1,287,522    | 2,380                        | 317                       | 3,621                      | 1,358,515      |
| Total commercial real estate   | 102,099            | 4,426,228    | 8,471                        | 1,053                     | 15,767                     | 4,553,618      |
| Total corporate loans          | 114,752            | 8,307,284    | 32,756                       | 3,060                     | 56,566                     | 8,514,418      |
| Home equity                    | 2,745              | 815,014      | 3,252                        | 98                        | 5,946                      | 827,055        |
| 1-4 family mortgages           | 18,080             | 750,555      | 1,310                        | —                         | 4,412                      | 774,357        |
| Installment                    | 1,113              | 318,065      | 2,407                        | 397                       | —                          | 321,982        |
| Total consumer loans           | 21,938             | 1,883,634    | 6,969                        | 495                       | 10,358                     | 1,923,394      |
| Total loans                    | \$136,690          | \$10,190,918 | \$39,725                     | \$3,555                   | \$ 66,924                  | \$10,437,812   |

<sup>(1)</sup> PCI loans with an accretable yield are considered current.

<sup>(2)</sup> Includes PCI loans of \$760,000 and \$763,000 as of March 31, 2018 and December 31, 2017, respectively, which no longer have an accretable yield as estimates of expected future cash flows have decreased since the acquisition date due to credit deterioration.



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

Table 11

## Non-Performing Assets and Past Due Loans

(Dollar amounts in thousands)

|  | As of             |                      |                       |                  |                   |   |
|--|-------------------|----------------------|-----------------------|------------------|-------------------|---|
|  | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 | March 31,<br>2017 |   |
| Non-accrual loans  | \$75,015          | \$ 66,924            | \$ 65,176             | \$79,196         | \$54,294          |   |
| 90 days or more past due loans, still accruing interest <sup>(1)</sup> | 4,633             | 3,555                | 2,839                 | 2,059            | 2,633             |   |
| Total non-performing loans   | 79,648            | 70,479               | 68,015                | 81,255           | 56,927            |   |
| Accruing TDRs  | 1,778             | 1,796                | 1,813                 | 2,029            | 2,112             |   |
| OREO   | 17,472            | 20,851               | 19,873                | 26,493           | 29,140            |   |
| Total non-performing assets  | \$98,898          | \$ 93,126            | \$ 89,701             | \$109,777        | \$88,179          |   |
| 30-89 days past due loans <sup>(1)</sup>                               | \$42,573          | \$ 39,725            | \$ 28,868             | \$19,081         | \$23,641          |   |
| Non-accrual loans to total loans                                       | 0.70              | % 0.64               | % 0.63                | % 0.77           | % 0.54            | % |
| Non-performing loans to total loans                                    | 0.75              | % 0.68               | % 0.65                | % 0.79           | % 0.57            | % |
| Non-performing assets to total loans plus OREO                         | 0.92              | % 0.89               | % 0.86                | % 1.07           | % 0.87            | % |

<sup>(1)</sup> PCI loans with an accretable yield are considered current and are not included in past due loan totals.

Total non-performing assets represented 0.92% of total loans and OREO at March 31, 2018, up from 0.89% and 0.87% at December 31, 2017 and March 31, 2017, respectively, reflective of normal fluctuations that can occur on a quarterly basis.

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## TDRs

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

Table 12

## TDRs by Type

(Dollar amounts in thousands)

|                                   | As of                 |          |                       |          |                       |         |
|-----------------------------------|-----------------------|----------|-----------------------|----------|-----------------------|---------|
|                                   | March 31,<br>2018     |          | December 31,<br>2017  |          | March 31,<br>2017     |         |
|                                   | Number<br>of<br>Loans | Amount   | Number<br>of<br>Loans | Amount   | Number<br>of<br>Loans | Amount  |
| Commercial and industrial         | 10                    | \$17,090 | 11                    | \$19,223 | 4                     | \$1,200 |
| Commercial real estate:           |                       |          |                       |          |                       |         |
| Office, retail, and industrial    | 4                     | 2,336    | 4                     | 4,236    | 2                     | 864     |
| Multi-family                      | 3                     | 714      | 3                     | 723      | 3                     | 745     |
| Other commercial real estate      | 1                     | 189      | 1                     | 192      | 2                     | 263     |
| Total commercial real estate      | 8                     | 3,239    | 8                     | 5,151    | 7                     | 1,872   |
| Total corporate loans             | 18                    | 20,329   | 19                    | 24,374   | 11                    | 3,072   |
| Home equity                       | 14                    | 809      | 15                    | 824      | 16                    | 967     |
| 1-4 family mortgages              | 11                    | 1,106    | 11                    | 1,131    | 11                    | 1,185   |
| Total consumer loans              | 25                    | 1,915    | 26                    | 1,955    | 27                    | 2,152   |
| Total TDRs                        | 43                    | \$22,244 | 45                    | \$26,329 | 38                    | \$5,224 |
| Accruing TDRs                     | 13                    | \$1,778  | 14                    | \$1,796  | 17                    | \$2,112 |
| Non-accrual TDRs                  | 30                    | 20,466   | 31                    | 24,533   | 21                    | 3,112   |
| Total TDRs                        | 43                    | \$22,244 | 45                    | \$26,329 | 38                    | \$5,224 |
| Year-to-date charge-offs on TDRs  |                       | \$1,309  |                       | \$6,345  |                       | \$112   |
| Specific reserves related to TDRs |                       | 2,374    |                       | 1,977    |                       | 32      |

As of March 31, 2018, TDRs totaled \$22.2 million, decreasing by \$4.1 million from December 31, 2017. The increase from \$5.2 million at March 31, 2017 was driven primarily by the extension of two non-accrual credits during the third quarter of 2017.

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## Corporate Performing Potential Problem Loans

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

## Table 13

## Corporate Performing Potential Problem Loans

(Dollar amounts in thousands)

|   | As of March 31, 2018           |                            |                      | As of December 31, 2017        |                            |                      |   |
|---|--------------------------------|----------------------------|----------------------|--------------------------------|----------------------------|----------------------|---|
|   | Special Mention <sup>(1)</sup> | Substandard <sup>(2)</sup> | Total <sup>(3)</sup> | Special Mention <sup>(1)</sup> | Substandard <sup>(2)</sup> | Total <sup>(3)</sup> |   |
| Commercial and industrial   | \$95,259                       | \$ 14,444                  | \$109,703            | \$70,863                       | \$ 30,074                  | \$100,937            |   |
| Agricultural  | 7,756                          | 6,248                      | 14,004               | 10,989                         | 5,732                      | 16,721               |   |
| Commercial real estate  | 78,975                         | 61,270                     | 140,245              | 72,749                         | 69,228                     | 141,977              |   |
| Total corporate performing potential problem loans <sup>(4)</sup>             | \$181,990                      | \$ 81,962                  | \$263,952            | \$154,601                      | \$ 105,034                 | \$259,635            |   |
| Corporate performing potential problem loans to corporate loans               | 2.10                           | % 0.95                     | % 3.04               | % 1.82                         | % 1.23                     | % 3.05               | % |
| Corporate PCI performing potential problem loans included in the totals above | \$17,422                       | \$ 22,775                  | \$40,197             | \$17,685                       | \$ 26,635                  | \$44,320             |   |

(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.

Loans categorized as substandard exhibit well-defined weaknesses that may jeopardize the liquidation of the debt.

(2) 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 \$651,000 as of March 31, 2018 and \$657,000 as of December 31, 2017.

(4) Includes corporate PCI performing potential problem loans.

Corporate performing potential problem loans to corporate loans of 3.04% at March 31, 2018 were consistent with December 31, 2017.

## OREO

OREO consists of properties acquired as the result of borrower defaults on loans.

## Table 14

## OREO by Type

(Dollar amounts in thousands)

|                     | As of          |                   |                |
|---------------------|----------------|-------------------|----------------|
|                     | March 31, 2018 | December 31, 2017 | March 31, 2017 |
| Single-family homes | \$1,173        | \$ 837            | \$ 1,768       |
| Land parcels:       |                |                   |                |
| Raw land            | 850            | 850               | 1,025          |
| Commercial lots     | 4,657          | 8,698             | 10,638         |
| Single-family lots  | 2,135          | 2,150             | 2,232          |
| Total land parcels  | 7,642          | 11,698            | 13,895         |

|                       |          |           |           |
|-----------------------|----------|-----------|-----------|
| Multi-family units    | 225      | 48        | 272       |
| Commercial properties | 8,432    | 8,268     | 13,205    |
| Total OREO            | \$17,472 | \$ 20,851 | \$ 29,140 |

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## OREO Activity

A rollforward of OREO balances for the quarters ended March 31, 2018 and 2017 is presented in the following table.

## Table 15

## OREO Rollforward

(Dollar amounts in thousands)

|                            | Quarters Ended    |          |
|----------------------------|-------------------|----------|
|                            | March 31,<br>2018 | 2017     |
| Beginning balance          | \$20,851          | \$26,083 |
| Transfers from loans       | 937               | 683      |
| Acquisitions               | —                 | 8,427    |
| Proceeds from sales        | (3,876 )          | (5,364 ) |
| Losses on sales of OREO    | (20 )             | (156 )   |
| OREO valuation adjustments | (420 )            | (533 )   |
| Ending balance             | \$17,472          | \$29,140 |

## 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 for such loans. As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses is established as necessary to reflect credit deterioration. In addition, certain acquired loans that have renewed subsequent to their respective acquisition dates are no longer classified as acquired loans. Instead, they are included with our loan population that is allocated an allowance in accordance with our allowance for loan losses methodology.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk ratings by regulatory authorities. Management believes that the allowance for credit losses is an appropriate estimate of credit losses inherent in the loan portfolio as of March 31, 2018.

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

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An allowance for credit losses is established on loans originated by the Bank, acquired loans, and covered loans. Additional discussion regarding acquired and covered loans can be found in Note 6 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q. The following table provides additional details related to acquired loans, the allowance for credit losses as related to acquired loans, and the remaining acquisition adjustment associated with acquired loans as of March 31, 2018 and December 31, 2017.

Table 16

## Allowance for Credit Losses and Acquisition Adjustment

(Dollar amounts in thousands)

|   | Loans,<br>Excluding<br>Acquired<br>Loans | Acquired<br>Loans <sup>(1)</sup> | Total        |
|---|--|----------------------------------|--------------|
| Quarter Ended March 31, 2018                              |  |                                  |              |
| Beginning balance   | \$94,123                                 | \$2,606                          | \$96,729     |
| Net charge-offs   | (15,806 )                                | (250 )                           | (16,056 )    |
| Provision for loan losses and other expense               | 15,215                                   | (34 )                            | 15,181       |
| Ending balance  | \$93,532                                 | \$2,322                          | \$95,854     |
| As of March 31, 2018                                      |  |                                  |              |
| Total loans   | \$9,219,842                              | \$1,456,932                      | \$10,676,774 |
| Remaining acquisition adjustment <sup>(2)</sup>           | N/A                                      | 70,651                           | 70,651       |
| Allowance for credit losses to total loans <sup>(3)</sup> | 1.01                                     | % 0.16                           | % 0.90       |
| Remaining acquisition adjustment to acquired loans        | N/A                                      | 4.85                             | % N/A        |
| As of December 31, 2017                                   |  |                                  |              |
| Total loans   | \$8,822,560                              | \$1,615,252                      | \$10,437,812 |
| Remaining acquisition adjustment <sup>(2)</sup>           | N/A                                      | 74,677                           | 74,677       |
| Allowance for credit losses to total loans <sup>(3)</sup> | 1.07                                     | % 0.16                           | % 0.93       |
| Remaining acquisition adjustment to acquired loans        | N/A                                      | 4.62                             | % N/A        |

N/A - Not applicable.

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

The remaining acquisition adjustment consists of \$41.2 million and \$29.5 million relating to PCI and

<sup>(2)</sup> non-purchased credit impaired ("Non-PCI") loans, respectively, as of March 31, 2018, and \$43.5 million and \$31.2 million relating to PCI and Non-PCI loans, respectively, as of December 31, 2017.

The allowance for credit losses to total loans, excluding acquired loans is a non-GAAP financial measure. For a

<sup>(3)</sup> discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

Excluding acquired loans, the allowance for credit losses to total loans was 1.01% as of March 31, 2018. The acquisition adjustment decreased \$4.0 million during the first quarter of 2018, driven primarily by acquired loan accretion, resulting in a remaining acquisition adjustment as a percent of acquired loans of 4.85%. Acquired loans that are renewed are no longer classified as acquired loans. These loans totaled \$404.2 million and \$366.0 million as of March 31, 2018 and December 31, 2017, respectively, and are included in loans, excluding acquired loans, in the table above and allocated an allowance in accordance with our allowance for loan losses methodology. In addition, there is an allowance for credit losses of \$2.3 million on acquired loans.



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

|   | Quarters Ended    |                      |                       |                  |                   |   |
|---|-------------------|----------------------|-----------------------|------------------|-------------------|---|
|   | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 | March 31,<br>2017 |   |
| Change in allowance for credit losses   |                   |                      |                       |                  |                   |   |
| Beginning balance   | \$96,729          | \$95,814             | \$93,371              | \$89,163         | \$87,083          |   |
| Loan charge-offs:   |                   |                      |                       |                  |                   |   |
| Commercial, industrial, and agricultural  | 14,670            | 6,919                | 8,935                 | 2,957            | 4,074             |   |
| Office, retail, and industrial  | 461               | 49                   | 14                    | —                | 127               |   |
| Multi-family  | —                 | —                    | —                     | —                | —                 |   |
| Construction  | —                 | —                    | (6                    | ) 39             | 5                 |   |
| Other commercial real estate  | 69                | 34                   | 6                     | 307              | 408               |   |
| Consumer  | 1,885             | 2,118                | 1,617                 | 1,556            | 1,664             |   |
| Total loan charge-offs  | 17,085            | 9,120                | 10,566                | 4,859            | 6,278             |   |
| Recoveries of loan charge-offs:   |                   |                      |                       |                  |                   |   |
| Commercial, industrial, and agricultural  | 538               | 1,386                | 698                   | 400              | 1,666             |   |
| Office, retail, and industrial  | 97                | 127                  | 1,825                 | 8                | 975               |   |
| Multi-family  | —                 | 3                    | 2                     | 6                | 28                |   |
| Construction  | 13                | 12                   | 19                    | 12               | 227               |   |
| Other commercial real estate  | 39                | 39                   | 25                    | 79               | 101               |   |
| Consumer  | 342               | 444                  | 331                   | 323              | 443               |   |
| Total recoveries of loan charge-offs  | 1,029             | 2,011                | 2,900                 | 828              | 3,440             |   |
| Net loan charge-offs  | 16,056            | 7,109                | 7,666                 | 4,031            | 2,838             |   |
| Provision for loan losses   | 15,181            | 8,024                | 10,109                | 8,239            | 4,918             |   |
| Ending balance  | \$95,854          | \$96,729             | \$95,814              | \$93,371         | \$89,163          |   |
| Allowance for credit losses   |                   |                      |                       |                  |                   |   |
| Allowance for loan losses   | \$94,854          | \$95,728             | \$94,814              | \$92,371         | \$88,163          |   |
| Reserve for unfunded commitments  | 1,000             | 1,000                | 1,000                 | 1,000            | 1,000             |   |
| Total allowance for credit losses   | \$95,854          | \$96,728             | \$95,814              | \$93,371         | \$89,163          |   |
| Allowance for credit losses to loans <sup>(1)</sup>                                 | 0.90              | % 0.93               | % 0.92                | % 0.91           | % 0.89            | % |
| Allowance for credit losses to loans,<br>excluding<br>acquired loans <sup>(2)</sup> | 1.01              | % 1.07               | % 1.09                | % 1.10           | % 1.11            | % |
| Allowance for credit losses to<br>non-accrual loans                                 | 127.78            | % 144.54             | % 147.01              | % 117.90         | % 164.22          | % |
| Allowance for credit losses to<br>non-performing loans                              | 120.35            | % 137.25             | % 140.87              | % 114.91         | % 156.63          | % |
| Average loans   | \$10,496,089      | \$10,380,689         | \$10,273,630          | \$10,059,968     | \$9,916,281       |   |
| Net loan charge-offs to average loans,<br>annualized                                | 0.62              | % 0.27               | % 0.30                | % 0.16           | % 0.12            | % |

<sup>(1)</sup> 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.

The allowance for credit losses to total loans, excluding acquired loans is a non-GAAP financial measure. For a<sup>(2)</sup> discussion of non-GAAP financial measures, see the section of this Item 2 titled "Non-GAAP Financial Information and Reconciliations."

**Activity in the Allowance for Credit Losses**

The allowance for credit losses was \$95.9 million as of March 31, 2018 and represents 0.90% of total loans, compared to 0.93% at December 31, 2017.

The provision for loan losses was \$15.2 million for the quarter ended March 31, 2018, up from \$8.0 million for the quarter ended December 31, 2017. The increase compared to the quarter ended December 31, 2017 resulted primarily from higher levels of net charge-offs.

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Net loan charge-offs to average loans, annualized were 0.62%, or \$16.1 million, for the first quarter of 2018, up from 0.27% and 0.12% for the fourth and first quarters of 2017, respectively. The increase in net loan charge-offs compared to both prior periods resulted largely from losses on two corporate relationships based upon circumstances unique to these borrowers. Included within net charge-offs for the first quarter of 2017 were \$3.4 million in recoveries which related to three corporate relationships that were charged-off in prior periods.

**FUNDING AND LIQUIDITY MANAGEMENT**

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

Table 18

Funding Sources - Average Balances  
(Dollar amounts in thousands)

|   | Quarters Ended |                   |                | March 31, 2018                  |                              |
|---|----------------|-------------------|----------------|---------------------------------|------------------------------|
|   | March 31, 2018 | December 31, 2017 | March 31, 2017 | % Change From December 31, 2017 | % Change From March 31, 2017 |
| Demand deposits                                 | \$3,466,832    | \$3,611,811       | \$3,355,674    | (4.0 )                          | 3.3                          |
| Savings deposits                                | 2,015,679      | 2,017,489         | 2,029,631      | (0.1 )                          | (0.7 )                       |
| NOW accounts                                    | 1,992,672      | 1,992,150         | 1,916,816      | —                               | 4.0                          |
| Money market accounts                           | 1,814,057      | 1,938,195         | 1,890,703      | (6.4 )                          | (4.1 )                       |
| Core deposits                                   | 9,289,240      | 9,559,645         | 9,192,824      | (2.8 )                          | 1.0                          |
| Time deposits                                   | 1,726,082      | 1,613,681         | 1,473,882      | 7.0                             | 17.1                         |
| Brokered deposits                               | 9,073          | 6,077             | 41,715         | 49.3                            | (78.3 )                      |
| Total time deposits                             | 1,735,155      | 1,619,758         | 1,515,597      | 7.1                             | 14.5                         |
| Total deposits                                  | 11,024,395     | 11,179,403        | 10,708,421     | (1.4 )                          | 3.0                          |
| Securities sold under agreements to repurchase  | 119,852        | 119,797           | 126,202        | —                               | (5.0 )                       |
| Federal funds purchased                         | 11,389         | —                 | —              | N/M                             | N/M                          |
| FHLB advances                                   | 727,056        | 434,837           | 607,889        | 67.2                            | 19.6                         |
| Total borrowed funds                            | 858,297        | 554,634           | 734,091        | 54.8                            | 16.9                         |
| Senior and subordinated debt                    | 195,243        | 195,102           | 194,677        | 0.1                             | 0.3                          |
| Total funding sources                           | \$12,077,935   | \$11,929,139      | \$11,637,189   | 1.2                             | 3.8                          |
| Average interest rate paid on borrowed funds    | 1.64           | % 1.62            | % 1.21         | %                               |                              |
| Weighted-average maturity of FHLB advances      | 0.9 months     | 1.0 months        | 1.3 months     |                                 |                              |
| Weighted-average interest rate of FHLB advances | 1.74           | % 1.26            | % 0.74         | %                               |                              |

N/M – Not meaningful.

Total average funding sources for the first quarter of 2018 increased by \$148.8 million, or 1.2%, compared to the fourth quarter of 2017 and \$440.7 million, or 3.8%, compared to the first quarter of 2017. The increase compared to both prior periods resulted from an increase in FHLB advances as related interest rate swaps became effective and a rise in time deposits due to the continued success of promotions which started in 2017.



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Table 19

## Borrowed Funds

(Dollar amounts in thousands)

|  | As of March 31,<br>2018 |                                  | As of March 31,<br>2017 |                                  |
|--|-------------------------|----------------------------------|-------------------------|----------------------------------|
|  | Amount                  | Weighted-<br>Average<br>Rate (%) | Amount                  | Weighted-<br>Average<br>Rate (%) |
| At period-end:   |                         |                                  |                         |                                  |
| Securities sold under agreements to repurchase                         | \$ 120,688              | 0.07                             | \$ 132,923              | 0.06                             |
| FHLB advances  | 830,000                 | 1.74                             | 415,000                 | 0.74                             |
| Total borrowed funds   | \$ 950,688              | 1.53                             | \$ 547,923              | 0.58                             |
| Average for the year-to-date period:                                   |                         |                                  |                         |                                  |
| Securities sold under agreements to repurchase                         | \$ 119,852              | 0.06                             | \$ 126,202              | 0.05                             |
| Federal funds purchased  | 11,389                  | 1.60                             | —                       | —                                |
| FHLB advances  | 727,056                 | 1.90                             | 607,889                 | 1.45                             |
| Total borrowed funds   | \$ 858,297              | 1.64                             | \$ 734,091              | 1.21                             |
| Maximum amount outstanding at the end of any day<br>during the period: |                         |                                  |                         |                                  |
| Securities sold under agreements to repurchase                         | \$ 128,553              |                                  | \$ 140,764              |                                  |
| Federal funds purchased  | 65,000                  |                                  | —                       |                                  |
| FHLB advances  | 930,000                 |                                  | 940,000                 |                                  |

Average borrowed funds totaled \$858.3 million for the first quarter of 2018, increasing by \$124.2 million compared to the same period in 2017. This increase was due primarily to higher levels of FHLB advances during the first quarter of 2017. The weighted-average rate on FHLB advances for both periods presented was impacted by the hedging of \$510.0 million and \$415.0 million in FHLB advances as of March 31, 2018 and 2017, respectively, using interest rate swaps through which the Company receives variable amounts and pays fixed amounts. The weighted-average interest rate paid on these interest rate swaps was 2.19% and 2.17% as of March 31, 2018 and 2017, respectively. For a detailed discussion of interest rate swaps, see Note 9 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

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

**MANAGEMENT OF CAPITAL****Capital Measurements**

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

The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve for the Bank to be categorized as "well-capitalized." We manage our capital levels for both the Company and the Bank to consistently maintain these measurements in excess of the Federal Reserve's minimum levels to be considered "well-capitalized," which is the highest capital category established. All regulatory mandated ratios for characterization as "well-capitalized" were exceeded as of March 31, 2018 and December 31, 2017.

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

## Table 20

## Capital Measurements

(Dollar amounts in thousands)

|  | As of<br>March<br>31,<br>2018 | December 31,<br>2017 |   | As of March 31, 2018<br>Regulatory<br>Minimum<br>For<br>Well-<br>Capitalized | Excess Over<br>Required<br>Minimums |           |
|--|-------------------------------|----------------------|---|--|-------------------------------------|-----------|
| Bank regulatory capital ratios   |                               |                      |   |  |                                     |           |
| Total capital to risk-weighted assets  | 10.82 %                       | 10.95 %              | % | 10.00 %  | 8 %                                 | \$99,042  |
| Tier 1 capital to risk-weighted assets   | 10.03 %                       | 10.13 %              | % | 8.00 %   | 25 %                                | \$245,130 |
| CET1 to risk-weighted assets   | 10.03 %                       | 10.13 %              | % | 6.50 %   | 54 %                                | \$426,586 |
| Tier 1 capital to average assets   | 9.03 %                        | 9.10 %               | % | 5.00 %   | 81 %                                | \$540,972 |
| Company regulatory capital ratios  |                               |                      |   |  |                                     |           |
| Total capital to risk-weighted assets  | 12.07 %                       | 12.15 %              | % | N/A  | N/A                                 | N/A       |
| Tier 1 capital to risk-weighted assets   | 10.07 %                       | 10.10 %              | % | N/A  | N/A                                 | N/A       |
| CET1 to risk-weighted assets   | 9.65 %                        | 9.68 %               | % | N/A  | N/A                                 | N/A       |
| Tier 1 capital to average assets   | 9.07 %                        | 8.99 %               | % | N/A  | N/A                                 | N/A       |
| Company tangible common equity ratios <sup>(1)(2)</sup>  |                               |                      |   |  |                                     |           |
| Tangible common equity to tangible assets  | 8.18 %                        | 8.33 %               | % | N/A  | N/A                                 | N/A       |
| Tangible common equity, excluding<br>accumulated other comprehensive loss, to<br>tangible assets | 8.60 %                        | 8.58 %               | % | N/A  | N/A                                 | N/A       |
| Tangible common equity to risk-weighted<br>assets  | 9.18 %                        | 9.31 %               | % | N/A  | N/A                                 | N/A       |

N/A - Not applicable.

<sup>(1)</sup> Ratios are not subject to formal Federal Reserve regulatory guidance.

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

Overall, the Company's regulatory capital ratios decreased compared to December 31, 2017, due primarily to the impact of loan growth on risk-weighted assets and the nearly 10 basis point impact of the phase-in of certain provisions related to regulatory capital ratio calculations, substantially offset by an increase in retained earnings. The Board of Directors reviews the Company's capital plan each quarter, considering the current and expected operating environment as well as evaluating various capital alternatives.

## Dividends

The Board of Directors approved a quarterly cash dividend of \$0.11 per common share during the first quarter of 2018, which is a 10% increase from the fourth quarter of 2017 and will represent the 141<sup>st</sup> consecutive cash dividend paid by the Company since its inception in 1983.



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NON-GAAP FINANCIAL INFORMATION AND RECONCILIATIONS

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

The Company presents EPS, the efficiency ratio, return on average assets, return on average common equity, and return on average tangible common equity, all adjusted for certain significant transactions. These transactions include acquisition and integration related expenses (first quarter of 2017). Management believes excluding these transactions from EPS, the efficiency ratio, return on average assets, return on average common equity, 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 Company presents noninterest income, excluding the accounting reclassification and Durbin and noninterest expense, excluding the accounting reclassification and acquisition and integration related expenses. Management believes that excluding these items from noninterest income and noninterest expense is useful in assessing the Company's underlying operational performance as these items either do not pertain to its core business operations or their exclusion facilitates better comparability between periods and for peer comparison purposes.

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

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.

The Company presents the allowance for credit losses to total loans, excluding acquired loans. Management believes excluding acquired loans is useful as it facilitates better comparability between periods as these 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. Additionally, management believes excluding these transactions from these metrics enhances comparability for peer comparison purposes. See Table 16 in the section of this Item 2 titled "Loan Portfolio and Credit Quality" for details on the calculation of this measure.

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.

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## Non-GAAP Reconciliations

(Amounts in thousands, except per share data)

|   | Quarters Ended    |                |
|---|-------------------|----------------|
|   | March 31,<br>2018 | 2017           |
| Earnings Per Share  |                   |                |
| Net income  | \$33,510          | \$22,855       |
| Net income applicable to non-vested restricted shares   | (311 )            | (234 )         |
| Net income applicable to common shares  | 33,199            | 22,621         |
| Adjustments to net income:  |                   |                |
| Acquisition and integration related expenses  | —                 | 18,565         |
| Tax effect of acquisition and integration related expenses  | —                 | (7,426 )       |
| Total adjustments to net income, net of tax   | —                 | 11,139         |
| Net income applicable to common shares, adjusted <sup>(1)</sup>                                     | \$33,199          | \$33,760       |
| Weighted-average common shares outstanding:   |                   |                |
| Weighted-average common shares outstanding (basic)  | 101,922           | 100,411        |
| Dilutive effect of common stock equivalents   | 16                | 21             |
| Weighted-average diluted common shares outstanding  | 101,938           | 100,432        |
| Basic EPS   | \$0.33            | \$0.23         |
| Diluted EPS   | \$0.33            | \$0.23         |
| Diluted EPS, adjusted <sup>(1)</sup>  | \$0.33            | \$0.34         |
| Return on Average Assets  |                   |                |
| Net income  | \$33,510          | \$22,855       |
| Total adjustments to net income, net of tax   | —                 | 11,139         |
| Net income, adjusted <sup>(1)</sup>   | \$33,510          | \$33,994       |
| Average assets  | \$14,187,053      | \$13,673,125   |
| Return on average assets <sup>(3)</sup>   | 0.96              | % 0.68 %       |
| Return on average assets, adjusted <sup>(1)(3)</sup>  | 0.96              | % 1.01 %       |
| Return on Average Common and Tangible Common Equity   |                   |                |
| Net income applicable to common shares  | \$33,199          | \$22,621       |
| Intangibles amortization  | 1,802             | 1,965          |
| Tax effect of intangibles amortization  | (721 )            | (786 )         |
| Net income applicable to common shares, excluding intangibles amortization                          | 34,280            | 23,800         |
| Total adjustments to net income, net of tax   | —                 | 11,139         |
| Net income applicable to common shares, excluding intangibles amortization, adjusted <sup>(1)</sup> | \$34,280          | \$34,939       |
| Average stockholders' common equity   | \$1,873,419       | \$1,763,538    |
| Less: average intangible assets   | (753,870 )        | (750,589 )     |
| Average tangible common equity  | \$1,119,549       | \$(1,012,949 ) |
| Return on average common equity <sup>(3)</sup>  | 7.19              | % 5.20 %       |
| Return on average common equity, adjusted <sup>(3)</sup>  | 7.19              | % 7.76 %       |
| Return on average tangible common equity <sup>(3)</sup>   | 12.50             | % 9.53 %       |
| Return on average tangible common equity, adjusted <sup>(1)(3)</sup>                                | 12.50             | % 13.99 %      |

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



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|  | Quarters Ended    |           |                            |                      |
|--|-------------------|-----------|----------------------------|----------------------|
|  | March 31,<br>2018 | 2017      | As of<br>March 31,<br>2018 | December 31,<br>2017 |
| Efficiency Ratio Calculation                               |                   |           |                            |                      |
| Noninterest expense  | \$95,582          | \$116,642 |                            |                      |
| Less:  |                   |           |                            |                      |
| Net OREO expense   | (1,068 )          | (1,700 )  |                            |                      |
| Acquisition and integration related expenses               | —                 | (18,565 ) |                            |                      |
| Total  | \$94,514          | \$96,377  |                            |                      |
| Tax-equivalent net interest income <sup>(2)</sup>          | \$119,538         | \$117,251 |                            |                      |
| Noninterest income   | 35,517            | 39,951    |                            |                      |
| Less: net securities gains (losses)                        | —                 | —         |                            |                      |
| Total  | \$155,055         | \$157,202 |                            |                      |
| Efficiency ratio   | 60.96             | % 61.31   | %                          | %                    |
| Efficiency ratio (prior presentation) <sup>(4)</sup>       | N/A               | 60.98     | %                          | %                    |
| Tangible Common Equity                                     |                   |           |                            |                      |
| Stockholders' equity                                       |                   |           | \$1,869,287                | \$1,864,874          |
| Less: goodwill and other intangible assets                 |                   |           | (754,814 )                 | (754,757 )           |
| Tangible common equity                                     |                   |           | 1,114,473                  | 1,110,117            |
| Less: accumulated other comprehensive income ("AOCI")      |                   |           | 57,531                     | 33,036               |
| Tangible common equity, excluding AOCI                     |                   |           | \$1,172,004                | \$1,143,153          |
| Total assets   |                   |           | \$14,379,971               | \$14,077,052         |
| Less: goodwill and other intangible assets                 |                   |           | (754,814 )                 | (754,757 )           |
| Tangible assets  |                   |           | \$13,625,157               | \$13,322,295         |
| Risk-weighted assets                                       |                   |           | \$12,135,662               | \$11,920,372         |
| Tangible common equity to tangible assets                  |                   |           | 8.18                       | % 8.33               |
| Tangible common equity, excluding AOCI, to tangible assets |                   |           | 8.60                       | % 8.58               |
| Tangible common equity to risk-weighted assets             |                   |           | 9.18                       | % 9.31               |

(1) Adjustments to net income include acquisition and integration related expenses associated with completed and pending acquisitions.

Presented on a tax-equivalent basis, assuming the applicable federal income tax rate for each period presented. As a result, interest income and yields on tax-exempt securities and loans subsequent to December 31, 2017 are presented using the current federal income tax rate of 21% and prior periods are computed using the federal income tax rate applicable at that time, or 35%.

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

Presented as calculated prior to March 31, 2018, which included a tax-equivalent adjustment for BOLI.

(4) Management believes that removing this adjustment from the current calculation of this metric enhances comparability for peer comparison purposes.



Table of ContentsEfficiency Ratio Calculation  
(Dollar amounts in thousands)

|  | For the Years Ended December 31, |           |           |           |           |   |
|--|----------------------------------|-----------|-----------|-----------|-----------|---|
|  | 2017                             | 2016      | 2015      | 2014      | 2013      |   |
| Efficiency Ratio                                     |                                  |           |           |           |           |   |
| Noninterest expense                                  | \$415,909                        | \$339,500 | \$307,216 | \$283,826 | \$256,737 |   |
| Less:  |                                  |           |           |           |           |   |
| Net OREO expense                                     | (4,683 )                         | (3,024 )  | (5,281 )  | (7,075 )  | (8,547 )  |   |
| Special bonus  | (1,915 )                         | —         | —         | —         | —         |   |
| Charitable contribution                              | (1,600 )                         | —         | —         | —         | —         |   |
| Acquisition and integration related expenses         | (20,123 )                        | (14,352 ) | (1,389 )  | (13,872 ) | —         |   |
| Lease cancellation fee                               | —                                | (950 )    | —         | —         | —         |   |
| Property valuation adjustments                       | —                                | —         | (8,581 )  | —         | —         |   |
| Total  | \$387,588                        | \$321,174 | \$291,965 | \$262,879 | \$248,190 |   |
| Tax-equivalent net interest income <sup>(1)</sup>    | \$479,965                        | \$358,334 | \$322,277 | \$288,589 | \$272,429 |   |
| Noninterest income                                   | 163,149                          | 159,312   | 136,581   | 126,618   | 140,883   |   |
| Less:  |                                  |           |           |           |           |   |
| Net securities gains (losses)                        | 1,876                            | (1,420 )  | (2,373 )  | (8,097 )  | (34,164 ) |   |
| Net gain on sale-leaseback transaction               | —                                | (5,509 )  | —         | —         | —         |   |
| Gains on sales of properties                         | —                                | —         | —         | (3,954 )  | —         |   |
| Loss on early extinguishment of debt                 | —                                | —         | —         | 2,059     | —         |   |
| Gain on termination of FHLB forward commitments      | —                                | —         | —         | —         | (7,829 )  |   |
| Total  | \$644,990                        | \$510,717 | \$456,485 | \$405,215 | \$371,319 |   |
| Efficiency ratio                                     | 60.09                            | % 62.89   | % 63.96   | % 64.87   | % 66.84   | % |
| Efficiency ratio (prior presentation) <sup>(2)</sup> | 59.73                            | % 62.59   | % 63.57   | % 64.57   | % 64.19   | % |

Presented on a tax-equivalent basis, assuming the applicable federal income tax rate for each period presented. As a result, interest income and yields on tax-exempt securities and loans subsequent to December 31, 2017 are presented using the current federal income tax rate of 21% and prior periods are computed using the federal income tax rate applicable at that time, or 35%.

<sup>(1)</sup> Presented as calculated prior to March 31, 2018, which included a tax-equivalent adjustment for BOLI.

<sup>(2)</sup> Management believes that removing this adjustment from the current calculation of this metric enhances comparability for peer comparison purposes.

Table of ContentsITEM 3. QUANTITATIVE AND QUALITATIVE  
DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is our primary market risk and is the result of repricing, basis, and option risk. A description and analysis of our interest rate risk management policies is included in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in our 2017 10-K.

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

## Net Interest Income Sensitivity

The analysis of net interest income sensitivity assesses the magnitude of changes in net interest income over a twelve-month measurement period resulting from immediate changes in interest rates using multiple rate scenarios. These scenarios include, but are not limited to, a flat or unchanged rate environment, immediate increases of 100, 200, and 300 basis points, and an immediate decrease of 100 basis points. Due to the low interest rate environment as of March 31, 2018 and December 31, 2017, management determined that an immediate decrease in interest rates greater than 100 basis points was not meaningful for this analysis.

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

Our balance sheet is asset sensitive based on repricing and maturity characteristics and simulation analysis assumptions. The 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, 49% of the loan portfolio consisted of fixed rate loans and 51% were floating rate loans as of March 31, 2018, consistent with December 31, 2017.

As of March 31, 2018, investments, consisting of securities and interest-bearing deposits in other banks, are more heavily weighted toward fixed rate securities at 96% of the total compared to 4% for floating rate interest-bearing deposits in other banks. This compares to investments comprising 93% of fixed rate securities and 7% of floating rate interest-bearing deposits in other banks as of December 31, 2017. Fixed rate loans are most sensitive to the 3-5 year portion of the yield curve and the Bank limits its loans with maturities that extend beyond 5 years. The majority of floating rate loans are indexed to the short-term LIBOR or Prime rates. The amount of floating rate loans with active interest rate floors was \$19.5 million, less than 1% of the floating rate loan portfolio, as of March 31, 2018, compared to \$60.0 million, or 1% of the floating rate loan portfolio, as of December 31, 2017. On the liability side of the balance

sheet, 84% of deposits as of both March 31, 2018 and December 31, 2017 are demand deposits or interest-bearing core deposits, which either do not pay interest or the interest rates are expected to rise at a slower pace than short-term interest rates.

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## Analysis of Net Interest Income Sensitivity

(Dollar amounts in thousands)

|                         | Immediate Change in Rates |          |          |            |
|-------------------------|---------------------------|----------|----------|------------|
|                         | +300                      | +200     | +100     | -100       |
| As of March 31, 2018    |                           |          |          |            |
| Dollar change           | \$71,025                  | \$43,560 | \$27,235 | \$(47,234) |
| Percent change          | 14.1                      | % 8.7    | % 5.4    | % (9.4) %  |
| As of December 31, 2017 |                           |          |          |            |
| Dollar change           | \$70,999                  | \$44,733 | \$33,099 | \$(44,579) |
| Percent change          | 14.8                      | % 9.3    | % 6.9    | % (9.3) %  |

The sensitivity of estimated net interest income to an instantaneous parallel shift in interest rates is reflected as both dollar and percentage changes. This table illustrates that an instantaneous 200 basis point rise in interest rates as of March 31, 2018 would increase net interest income by \$43.6 million, or 8.7%, over the next twelve months compared to no change in interest rates. This same measure was \$44.7 million, or 9.3%, as of December 31, 2017.

Overall, positive interest rate risk volatility as of March 31, 2018 decreased modestly compared to December 31, 2017. This decrease was driven primarily by higher interest rates and continued growth in floating rate loans funded with time deposits and FHLB advances.

## ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this report, (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chairman of the Board, President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Chairman of the Board, 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 most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at March 31, 2018. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect that any liabilities arising from pending legal matters will have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

## ITEM 1A. RISK FACTORS

The Company provided a discussion of certain risks and uncertainties faced by the Company in the section entitled "Risk Factors" in its 2017 Form 10-K. These risks and uncertainties are not exhaustive. Additional risks and uncertainties are discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report, our 2017 Form 10-K, and our other filings made with the SEC, as well as in other sections of such reports.



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

The following table summarizes the Company's monthly Common Stock purchases during the first quarter of 2018. The Board approved a stock repurchase program on November 27, 2007. Up to 2.5 million shares of the Company's Common Stock may be repurchased, and the total remaining authorization under the program was 2,487,947 shares as of March 31, 2018. The repurchase program has no set expiration or termination date.

## Issuer Purchases of Equity Securities

|                                | Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | Average<br>Price<br>Paid per<br>Share | Total<br>Number<br>of Shares<br>Purchased<br>as<br>Part of a<br>Publicly<br>Announced<br>Plan or<br>Program | Maximum<br>Number<br>of<br>Shares<br>that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Plan or<br>Program |
|--------------------------------|--|---------------------------------------|---|--|
| January 1 - January 31, 2017   | 185  | \$ 24.22                              | —   | 2,487,947  |
| February 1 - February 28, 2017 | 122,074  | 25.07                                 | —   | 2,487,947  |
| March 1 - March 31, 2017       | 8,231  | 24.54                                 | —   | 2,487,947  |
| Total                          | 130,490  | \$ 25.04                              | —   |  |

Consists of shares acquired pursuant to the Company's share-based compensation plans and not the Company's Board-approved stock repurchase program. Under the terms of the Company's share-based compensation plans, the

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

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ITEM 6. EXHIBITS

| Exhibit<br>Number          | Description of Documents  |
|----------------------------|---|
| <u>10.1</u> <sup>(1)</sup> | Form of Performance Shares Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan.  |
| <u>10.2</u> <sup>(1)</sup> | Employment Agreement, dated as of August 29, 2016, between the Company and its Director of Commercial Banking.  |
| <u>11</u>                  | Statement re: Computation of Per Share Earnings – The computation of basic and diluted earnings per common share is included in Note 8 of the Company's Notes to the Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS" of this document. |
| <u>15</u>                  | Acknowledgement of Independent Registered Public Accounting Firm.   |
| <u>31.1</u>                | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| <u>31.2</u>                | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| <u>32.1</u> <sup>(2)</sup> | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| <u>32.2</u> <sup>(2)</sup> | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| <u>99</u>                  | Review Report of Independent Registered Public Accounting Firm.   |
| <u>101</u>                 | Interactive Data File.  |

<sup>(1)</sup> Management contract or compensatory plan or arrangement.

<sup>(2)</sup> Furnished, not filed.

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SIGNATURES

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

First Midwest Bancorp, Inc.

/s/ PATRICK S. BARRETT

Patrick S. Barrett

Executive Vice President and Chief Financial Officer\*

Date: May 7, 2018

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