FIRST MIDWEST BANCORP INC
Form 10-K
March 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 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.)

8750 West Bryn Mawr Avenue, Suite 1300
Chicago, Illinois 60631-3655
(Address of principal executive offices) (zip code)
Registrant's telephone number, including area code: (708) 831-7483
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ].
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X].
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ].
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X].
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, 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.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	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 Act). Yes [ ] No [X].

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2018, determined using a per share closing price on that date of $25.47, as quoted on the NASDAQ Stock Market, was $2,568,432,801.

As of February 26, 2019, there were 106,848,075 shares of common stock, $0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III.

FIRST MIDWEST BANCORP, INC.
FORM 10-K
TABLE OF CONTENTS

		Page
Part I		
ITEM 1.	Business	3
ITEM 1A.	Risk Factors	14
ITEM 1B.	Unresolved Staff Comments	25
ITEM 2.	Properties	26
ITEM 3.	Legal Proceedings	26
ITEM 4.	Mine Safety Disclosures	26
Part II		
ITEM 5.	Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	27
ITEM 6.	Selected Financial Data	30
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
ITEM 7A.	Quantitative and Qualitative Disclosures about Market Risk	74
ITEM 8.	Financial Statements and Supplementary Data	76
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	138
ITEM 9A.	Controls and Procedures	138
ITEM 9B.	Other Information	140
Part III		
ITEM 10.	Directors, Executive Officers, and Corporate Governance	140
ITEM 11.	Executive Compensation	141
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	141
ITEM 13.	Certain Relationships and Related Transactions and Director Independence	141
ITEM 14.	Principal Accountant Fees and Services	141
Part IV		
ITEM 15.	Exhibits and Financial Statement Schedules	142
	Signatures	146

PART I

ITEM 1. BUSINESS

First Midwest Bancorp, Inc.

First Midwest Bancorp, Inc. (the "Company," "we," "us," or "our") is a Delaware corporation incorporated in 1982 and headquartered in Chicago, Illinois. The Company is one of Illinois' largest independent publicly-traded bank holding companies, with assets of $15.5 billion as of December 31, 2018, and is registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Company's common stock, $0.01 par value per share ("Common Stock"), is listed on the NASDAQ Stock Market and trades under the symbol "FMBI."

In 1983, the Company became a bank holding company through the simultaneous acquisition of over 20 affiliated financial institutions. Our principal subsidiary, First Midwest Bank (the "Bank"), is an Illinois state-chartered bank and provides a full range of commercial, retail, treasury management, and wealth management products and services to commercial and industrial, agricultural, commercial real estate, municipal, and consumer customers. The Bank operates primarily throughout the metropolitan Chicago area, northwest Indiana, central and western Illinois, and eastern Iowa through 120 banking locations.

The Company maintains a philosophy that focuses on helping its customers achieve financial success through its long-standing commitment to delivering highly-personalized service. The Company has grown and expanded its market footprint by opening new locations, growing existing locations, enhancing its internet and mobile capabilities, and acquiring financial institutions, branches, and non-banking organizations. As of December 31, 2018, the Company and its subsidiaries employed a total of 2,046 full-time equivalent employees.

Subsidiaries

The Company is responsible for the overall conduct, direction, and performance of its subsidiaries. In addition, the Company provides various services to its subsidiaries, establishes policies and procedures, and provides other resources as needed, including capital. As of December 31, 2018, the following were the Company's primary subsidiaries:

First Midwest Bank

The Bank, through its predecessors, has provided banking services for nearly 80 years and offers a variety of financial products and services that are designed to meet the financial needs of the customers and communities it serves. As of December 31, 2018, the Bank had total assets of $15.4 billion, total loans of $11.4 billion, and total deposits of $12.2 billion.

The Bank operates the following wholly-owned subsidiaries:

- First Midwest Equipment Finance Co. ("FMEF"), an Illinois corporation providing equipment loans and leases and commercial financing alternatives to traditional bank financing.
- First Midwest Securities Management, LLC, a Delaware limited liability company managing investment securities.
- Synergy Property Holdings, LLC, an Illinois limited liability company managing the majority of the Bank's other real estate owned ("OREO") properties.
- Plank Road, LLC, an Illinois limited liability company acquired during 2016 that manages certain of the Bank's OREO properties.
- First Midwest Holdings, Inc., a Delaware corporation managing investment securities, principally municipal obligations, and providing corporate management services to its wholly-owned subsidiary, FMB Investments Ltd., a Bermuda corporation. FMB Investments Ltd. manages investment securities.
- The Boulevard, Inc., an Indiana corporation acquired during 2017 that provides insurance brokerage services to individual and institutional customers.

Catalyst Asset Holdings, LLC

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

Premier Asset Management LLC

Premier Asset Management, LLC ("Premier"), an Illinois limited liability company, is a registered investment adviser under the Investment Advisors Act of 1940. Premier provides wealth management services to individual and institutional customers.

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

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

These trusts qualify as variable interest entities for which the Company is not the primary beneficiary. Consequently, the accounts of those entities are not consolidated in the Company's financial statements. However, the combined $60.7 million in trust-preferred securities held by the four trusts as of December 31, 2018 are included in Tier 2 capital of the Company for regulatory capital purposes. For additional discussion of the regulatory capital treatment of trust-preferred securities, see the section of this Item 1 titled "Capital Requirements" below.

Segments

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

Our Business

The Bank has been in the business of commercial and retail banking for nearly 80 years, attracting deposits, making loans, and providing treasury and wealth management services. The Bank operates in the most active and diverse markets in Illinois, including the metropolitan Chicago market and central and western Illinois. The Bank's other market areas include northwestern Indiana and eastern Iowa. These areas encompass urban, suburban, and rural markets, and contain a diversified mix of industry groups.

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

Deposit and Retail Services

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

Corporate and Consumer Lending

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

Commercial and Industrial and Agricultural Loans

The Bank provides commercial and industrial loans to middle market businesses generally located in the metropolitan Chicago area. Our broad range of financing products includes supporting 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. The Bank provides agricultural loans to meet seasonal production, equipment, and farm real estate borrowing needs of individual and corporate crop and livestock producers.

Commercial Real Estate Loans

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

Consumer Loans

Consumer loan products include mortgages, home equity lines and loans, personal loans, specialty loans, and consumer secured loans. These products are primarily provided to the residents who live and work within the Bank's market areas. The Bank also provides these consumer loan products to customers outside of its primary market area that fall within the Bank's credit guidelines.

Treasury Management

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

Wealth Management

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

Growth and Acquisitions

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

Pending Acquisitions

During 2018, the Company entered into a definitive agreement to acquire Bridgeview Bancorp, Inc. ("Bridgeview"), the holding company for Bridgeview Bank Group. The acquisition is subject to customary regulatory approvals, the approval of Bridgeview's stockholders, and the completion of various closing conditions, and is expected to close in the second quarter of 2019.

Completed Acquisitions

On January 16, 2019, the Company completed the acquisition of Northern Oak Wealth Management, Inc. ("Northern Oak"), a registered investment adviser.

During 2018, the Company completed the acquisition of Northern States Financial Corporation, ("Northern States"), the holding company for NorStates Bank.

During 2017, the Company completed the acquisitions of Standard Bancshares, Inc. ("Standard"), the holding company for Standard Bank and Trust Company, and Premier, a registered investment adviser.

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

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

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

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

Competition

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

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

In providing investment advisory services, the Company also competes with retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial institutions for wealth management customers. Competition is generally based on the variety of products and services offered to customers and the performance of funds under management. The Company's main competitors are financial service providers both within and outside of the market areas in which the Company maintains offices.

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

Intellectual Property

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

Supervision and Regulation

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

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

The following sections describe the significant elements of the material statutes and regulations affecting the Company and its subsidiaries, some of which are not yet effective or remain subject to ongoing revision and rulemaking.

Bank Holding Company Act of 1956

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

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

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

The Gramm-Leach-Bliley Act of 1999, as amended (the "GLB Act"), allows certain bank holding companies to elect to be treated as a financial holding company (a "FHC") that may offer customers a more comprehensive array of financial products and services. At this time, the Company has not elected to be a FHC.

Transactions with Affiliates

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

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

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

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

Source of Strength

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

Community Reinvestment Act of 1977

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practices. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low-income and moderate-income individuals and communities. Federal regulators conduct CRA examinations on a regular basis to assess the performance of financial institutions and assign one of four ratings to the institution's record of meeting the credit needs of its community. Banking regulators take into account CRA ratings when considering approval of a proposed merger or acquisition. As of its last examination report issued in May 2017, the Bank received a rating of "outstanding," the highest rating available. The Bank has received an overall "outstanding" rating in each of its CRA performance evaluations since 1998. In April 2018, the U.S. Department of Treasury issued a memorandum to the federal banking regulators with recommended changes to the CRA’s implementing regulations to reduce their complexity and associated burden on banks. Management will continue to evaluate any changes to the CRA's regulations and their impact to the Company's financial condition, results of operations, or liquidity.

Financial Privacy

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

Bank Secrecy Act and USA PATRIOT Act

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

Office of Foreign Assets Control Regulation

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") significantly restructured the financial regulatory regime in the U.S. Some of the Dodd-Frank Act's provisions, which are described in more detail below, may have the consequence of increasing the Company's expenses, decreasing the Company's revenues, and changing the activities in which the Company chooses to engage.

Enhanced Prudential Standards

The Dodd-Frank Act, as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 ("EGRRCPA"), which was signed into law on May 24, 2018, directs the Federal Reserve to monitor emerging risks to financial stability and enact enhanced supervision and prudential standards applicable to bank holding companies with total consolidated assets of $250 billion or more and non-bank covered companies designated as systemically important by the Financial Stability Oversight Council (often referred to as systemically important financial institutions). The Dodd-Frank Act mandates that certain regulatory requirements applicable to systemically important financial institutions be more stringent than those applicable to other financial institutions. In general, EGRRCPA increased the statutory asset threshold above which the Federal Reserve is required to apply these enhanced prudential standards from $50 billion to $250 billion (subject to certain discretion by the Federal Reserve to apply any enhanced prudential standard requirement to any BHC with between $100 billion and $250 billion in total consolidated assets that would otherwise be exempt under EGRRCPA). BHCs with $250 billion or more in total consolidated assets remain fully subject to the Dodd-Frank Act’s enhanced prudential standards requirements.

In February 2014, the Federal Reserve adopted rules to implement certain of these enhanced prudential standards. These rules require publicly traded bank holding companies with $10 billion or more in total consolidated assets to establish risk committees and require bank holding companies with $50 billion or more in total consolidated assets to comply with enhanced liquidity and overall risk management standards. The Company has established a risk committee in accordance with this requirement. In October 2018, the Federal Reserve and the other federal bank regulators proposed rules that would tailor the application of the enhanced prudential standards to BHCs and depository institutions pursuant to the EGRRCPA amendments, including by raising the asset threshold for application of many of these standards. If the proposed rules are adopted as proposed, publicly traded bank holding companies with between $10 billion and $50 billion in total consolidated assets, including the Company, would no longer be required to maintain a risk committee. The Company has determined that it would nevertheless retain its risk committee.

Consumer Financial Protection

The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB") as a new and independent unit within the Federal Reserve. The powers of the CFPB currently include primary enforcement and exclusive supervision authority for federal consumer financial laws over insured depository institutions with assets of $10 billion or more, such as the Bank, and their affiliates. This includes the right to obtain information about an institution's activities and compliance systems and procedures and to detect and assess risks to consumers and markets.

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

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

In addition, state authorities are responsible for monitoring the Company's compliance with all state consumer laws. Failure to comply with these federal and state requirements could have serious legal and reputational consequences for the Company and the Bank, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions.

Interchange Fees

Under the Durbin Amendment of the Dodd-Frank Act ("Durbin"), the Federal Reserve established a maximum permissible interchange fee equal to no more than 21 cents plus five basis points of the transaction value for many types of debit interchange transactions. Interchange fees, or "swipe" fees, are charges that merchants pay to card-issuing banks, such as the Bank, for processing electronic payment transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Company is in compliance with these fraud-related requirements. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product. The interchange fee limitations became effective for the Company on July 1, 2017.

Capital Requirements

The Company and the Bank are each required to comply with applicable capital adequacy standards established by the Federal Reserve. In July 2013, the federal bank regulators approved final rules (the "Basel III Capital Rules") implementing the Basel III framework set forth by the Basel Committee on Banking Supervision (the "Basel Committee") as well as certain provisions of the Dodd-Frank Act.

Under the Basel III Capital Rules, bank holding companies with less than $15 billion in consolidated assets as of December 31, 2009 are permitted to include trust-preferred securities in Additional Tier 1 Capital. During 2018, the Company exceeded $15 billion in consolidated assets as the result of both organic growth and acquisition-related activity. As a result, the Tier 1 treatment of its outstanding trust-preferred securities ended, and those securities are instead treated as Tier 2 capital. As of December 31, 2018, the Company had $60.7 million of trust-preferred securities included in Tier 2 capital.

Since full phase-in on January 1, 2019, the Basel III Capital Rules have required the Company and the Bank to maintain the following:

- A minimum ratio of Common equity Tier 1 ("CET1") to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%).
- A minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5%).

- A minimum ratio of total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (resulting in a minimum total capital ratio of 10.5%).
- A minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum, but below the conservation buffer, will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall and the institution’s "eligible retained income" (that is, four quarter trailing net income, net of distributions and tax effects not reflected in net income). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and was phased-in over a four-year period (increasing by that amount on each subsequent January 1 until it reached 2.5% on January 1, 2019).

The Basel III Capital Rules also provide for a number of deductions from and adjustments to CET1 that were phased-in over a four-year period through January 1, 2019 (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). In November 2017, the Federal Reserve issued a final rule that retains certain existing transition provisions related to deductions from and adjustments to CET1. Examples of these include the requirement that mortgage servicing rights, deferred tax assets depending on future taxable income, and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are included for purposes of determining regulatory capital ratios; however, the Company and the Bank made a one-time permanent election to exclude these items.

Management believes that as of December 31, 2018, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

In September 2017, the federal bank regulators proposed to revise and simplify the capital treatment for certain deferred tax assets, mortgage servicing assets, investments in non-consolidated financial entities and minority interests for banking organizations, such as the Company and the Bank, that are not subject to the advanced approaches framework. In November 2017, the federal banking regulators revised the Basel III Rules to extend the current transitional treatment of these items for non-advanced approaches banking organizations until the September 2017 proposal is finalized.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including the recalibration of risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provide a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches banking organizations, and not to the Company or the Bank. The impact of Basel IV on the Company and the Bank will depend on the manner in which it is implemented by the federal bank regulators.

Prompt Corrective Action

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

A bank will be:

- "Well-capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a CET1 capital ratio of 6.5% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure.
- "Adequately capitalized" if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a CET1 capital ratio of 4.5% or greater, and a leverage ratio of 4.0% or greater and is not "well-capitalized."
-

"Undercapitalized" if the institution has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a CET1 capital ratio of less than 4.5%, or a leverage ratio of less than 4.0%.

- "Significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a CET1 capital ratio of less than 3.0% or a leverage ratio of less than 3.0%.
- "Critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating for certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes. As of December 31, 2018, the Bank was "well-capitalized" based on its ratios as defined above.

The FDIA prohibits an insured depository institution from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is well-capitalized or is adequately capitalized and receives a waiver from the FDIC. A depository institution that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposits in excess of 75 basis points over certain prevailing market areas.

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

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

Volcker Rule

The so-called "Volcker Rule" issued under the Dodd-Frank Act, which became effective in July 2015, restricts the ability of the Company and its subsidiaries, including the Bank, to sponsor or invest in private funds or to engage in certain types of proprietary trading. In July 2018, the Federal Reserve, Office of the Comptroller of the Currency (the "OCC"), FDIC, CFTC and SEC issued a notice of proposed rulemaking intended to tailor the application of the Volcker Rule based on the size and scope of a banking entity’s trading activities and to clarify and amend certain definitions, requirements and exemptions. The ultimate impact of any amendments to the Volcker Rule will depend on, among other things, further rulemaking and implementation guidance from the relevant U.S. federal regulatory agencies and the development of market practices and standards. The Company generally does not engage in the businesses prohibited by the Volcker Rule; therefore, the Volcker Rule does not have a material effect on the operations of the Company and its subsidiaries.

Illinois Banking Law

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

Dividends and Repurchases

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

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

In addition, financial institutions, such as the Company and the Bank, with average total consolidated assets greater than $10 billion were previously required by the Dodd-Frank Act to conduct an annual company-run stress test of capital, report results to the Federal Reserve, and publicly disclose a summary of the results. As a result of EGRRCPA, the Company and the Bank are no longer required to perform these actions.

Under the Basel III Capital Rules, any repurchase or redemption of a regulatory capital instrument is subject to prior regulatory approval. Accordingly, the Company may not repurchase its common stock or redeem its preferred stock or subordinated debt without the prior approval of the Federal Reserve.

FDIC Insurance Premiums

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

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

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

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. In August 2016, the FDIC announced that the DIF reserve ratio had surpassed 1.15% as of June 30, 2016. As a result, beginning in the third quarter of 2016, the range of initial assessment ranges for all institutions were adjusted downward such that the initial base deposit insurance assessment rate ranges from 3 to 30 basis points on an annualized basis. After the effect of potential base-rate adjustments, the total base assessment rate could range from 1.5 to 40 basis points on an annualized basis. In March 2016, the FDIC adopted a final rule that imposed a surcharge on the assessments of depository institutions with $10 billion or more in assets, including the Bank, from the third quarter of 2016 through September 30, 2018, when the reserve ratio of the DIF reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35%. As a result, the surcharge no longer applies and the last quarterly surcharge was reflected in the Bank's December 2018 assessment invoice.

Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over the other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the U.S. and the bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Employee Incentive Compensation

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

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

Cybersecurity

The federal banking agencies have established certain expectations with respect to institutions' information security and cybersecurity programs, with an increasing focus on risk management, processes related to information technology and operational resiliency, and the use of third-parties in the provision of financial services. In October 2016, the federal banking agencies jointly issued an advance notice of proposed rulemaking on enhanced cybersecurity risk-management and resilience standards that would address five categories of cyber standards which include (i) cyber risk goverance, (ii) cyber risk management, (iii) internal dependency management, (iv) external dependency management, and (v) incident response, cyber resilience, and situational awareness. As proposed, these enhanced standards would apply only to depository institutions and depository institution holding companies with total consolidated assets of $50 billion or more; however, it is possible that if these enhanced standards are implemented, even if the $50 billion threshold is increased, the Federal Reserve will consider them in connection with the examination and supervision of banks below the $50 billion threshold. The federal banking agencies have not yet taken further action on these proposed standards.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states have adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states have also recently implemented or modified their data breach notification and data privacy requirements. We expect this trend of state-level activity in those areas to continue, and are continually monitoring developments in the states in which the Company operates.

In late 2017, the SEC announced that it plans to issue guidelines governing the manner in which public companies report cybersecurity breaches to investors. Any SEC guidelines would be in addition to notification and disclosure requirements under state and federal banking law and regulations.

Future Legislation and Regulation

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

AVAILABLE INFORMATION

We file annual, quarterly, and current reports, proxy statements, and other information with the SEC, and we make this information available free of charge on the investor relations section of our website at www.firstmidwest.com/investorrelations. In addition, the SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The following documents are also posted on our website or are available in print upon the request of any stockholder to our Corporate Secretary:

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

Within the time period required by the SEC and the NASDAQ Stock Market, we will post on our website any amendment to the Code of Conduct and any waiver applicable to any executive officer, director, or senior financial officer (as defined in the Code of Conduct). In addition, our website includes information concerning purchases and sales of our securities by our executive officers and directors. 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. We post on our website any disclosure relating to non-GAAP financial measures (as defined in the SEC's Regulation G) that we use in our written and oral statements.

Our Corporate Secretary can be contacted by writing to First Midwest Bancorp, Inc., 8750 West Bryn Mawr Avenue, Suite 1300, Chicago, Illinois 60631, attention: Corporate Secretary. The Company's Investor Relations Department can be contacted by telephone at (708) 831-7483 or by e-mail at investor.relations@firstmidwest.com.

ITEM 1A. RISK FACTORS

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

Risks Related to the Company's Business

Interest Rate and Credit Risks

The Company is subject to interest rate risk.

The Company's earnings and cash flows largely depend on its net interest income. Net interest income equals the difference between interest income and fees earned on interest-earning assets (such as loans and securities) and interest expense incurred on interest-bearing liabilities (such as deposits and borrowed funds). Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence the amount of interest the Company earns on loans and securities and the amount of interest it pays on deposits and borrowings. These changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income and, therefore, earnings could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

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

Changes in the method pursuant to which the LIBOR and other benchmark rates are determined could adversely impact our business and results of operations.

Our floating-rate funding, certain hedging transactions and certain of the products that we offer, such as floating-rate loans and mortgages, determine the applicable interest rate or payment amount by reference to a benchmark rate, such as the London Interbank Offered Rate (“LIBOR”), or to an index, currency, basket or other financial metric. LIBOR and certain other benchmark rates are the subject of recent national, international, and other regulatory guidance and proposals for reform. In July 2017, the Chief Executive of the FCA announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-linked financial instruments.

The discontinuation of LIBOR, changes in LIBOR or changes in market perceptions of the acceptability of LIBOR as a benchmark could result in changes to our risk exposures (for example, if the anticipated discontinuation of LIBOR adversely affects the availability or cost of floating-rate funding and, therefore, our exposure to fluctuations in interest rates) or otherwise result in losses on a product or having to pay more or receive less on securities that we own or have issued. In addition, such uncertainty could result in pricing volatility and increased capital requirements, loss of market share in certain products, adverse tax or accounting impacts, and compliance, legal and operational costs and risks associated with client disclosures, discretionary actions taken or negotiation of fallback provisions, systems disruption, business continuity, and model disruption.

The Company is subject to lending risk and lending concentration risk.

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

In particular, economic weakness in real estate and related markets could increase the Company's lending risk as it relates to its commercial real estate loan portfolio and the value of the underlying collateral.

As of December 31, 2018, the Company's loan portfolio consisted of 79.9% of corporate loans, the majority of which were secured by commercial real estate, and 20.1% of consumer loans. The deterioration of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's business, financial condition, and results of operations. See "Loan Portfolio and Credit Quality" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K for further discussion related to corporate and consumer loans.

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

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

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

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

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

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

Accounting Standards Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments, which is effective for annual and interim periods beginning after December 15, 2019, will substantially change the accounting for credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The standard changes the existing incurred loss model in GAAP for recognizing credit losses and instead requires companies to reflect their estimate of current expected credit losses over the life of the financial assets. Management is evaluating the guidance and the impact to the Company's financial condition, results of operations, or liquidity.

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

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

Funding Risks

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

The Company is a bank holding company, and its operations are primarily conducted by the Bank, which is subject to significant federal and state regulation. Cash available to pay dividends to stockholders of the Company is derived primarily from dividends received from the Bank. The Company's ability to receive dividends or loans from its subsidiaries is restricted by law. Dividend payments by the Bank to the Company in the future will require generation of future earnings by the Bank and could require regulatory approval if the proposed dividend is in excess of prescribed guidelines. Further, the Company's right to participate in the assets of the Bank upon its liquidation, reorganization, or otherwise will be subject to the claims of the Bank's creditors, including depositors, which will take priority except to the extent the Company may be a creditor with a recognized claim. As of December 31, 2018, the

Company's subsidiaries had deposits and other liabilities of $13.4 billion.

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

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets, and its access to alternative sources of funds. A substantial majority of our liabilities are demand deposits, savings deposits, NOW accounts and money market accounts, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of our assets are loans, which cannot be called or sold in the same time frame. We may not be able to replace maturing deposits and advances as necessary in the future, especially if a large number of our depositors sought to withdraw their accounts, regardless of the reason. The Company seeks to ensure its funding needs are met by maintaining an adequate level of liquidity through asset and liability management. If the Company becomes unable to obtain funds when needed, it could have a material adverse effect on the Company's business, financial condition, and results of operations.

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

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

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

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

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

The Company's current credit ratings are as follows:

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

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

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

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

Operational Risks

The Company’s reported financial results may be impacted by management’s selection of accounting methods and certain assumptions and estimates.

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

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

From time to time, the Financial Accounting Standards Board ("FASB") and the SEC change the financial accounting and reporting standards, or the interpretation of those standards, that govern the preparation of the Company's external financial statements. These changes are beyond the Company's control, can be difficult to predict, and could materially impact how the Company reports its results of operations and financial condition. For example, in June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which is effective for annual and interim periods beginning after December 15, 2019 and will substantially change the accounting for credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The standard changes the existing incurred loss model in GAAP for recognizing credit losses and instead requires companies to reflect their estimate of current expected credit losses over the life of the financial assets. Companies must consider all relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts. In April 2018, the Federal Reserve, OCC and FDIC released a joint proposal to revise their regulatory capital rules to address this upcoming change to the treatment of credit expense and allowances and provide an optional three-year phase-in period for the day-one adverse regulatory capital effects upon adopting the standard to address concerns with the impact on capital and capital planning. The impact of this proposal on the Company and the Bank will depend on the manner in which it is implemented by the Federal banking agencies and whether we elect to phase-in the impact of the standard over a three-year period under any final rule. Management is evaluating the guidance and the impact to the Company's allowance and capital upon adoption. It is also possible that the Company’s ongoing reported earnings and lending activity will be negatively impacted in periods following adoption.

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

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

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

The processes the Company uses to estimate its loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the Company's financial condition and results of operations, depend on the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models the Company uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses resulting from changes in market interest rates or other market measures. If the models the Company uses for estimating its loan losses are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models the Company uses to measure the fair value of financial instruments are inadequate, the fair value of these financial instruments may fluctuate unexpectedly or may not accurately reflect what the Company could realize on the sale or settlement. Any failure in the Company's analytical or forecasting models could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company may not be able to attract and retain skilled people.

The Company's success depends on its ability to attract and retain skilled people. Competition for the best people in most activities in which the Company engages can be intense, and the Company may not be able to hire people or retain them.

The unexpected loss of services of certain of the Company's skilled personnel could have a material adverse effect on the Company's business because of their skills, knowledge of the Company's market, years of industry experience, customer relationships, and the difficulty of promptly finding qualified replacement personnel. In addition, the scope and content of the federal banking agencies' policies on incentive compensation, as well as changes to those policies, could adversely affect the ability of the Company to hire, retain and motivate its key personnel.

The Company's information systems may experience an interruption or breach in security, including due to cyber-attacks.

The Company relies heavily on internal and outsourced digital technologies, communications, and information systems to conduct its business operations and store sensitive data. As the Company's reliance on technology systems increases, the potential risks of technology-related operation interruptions in the Company's customer relationship management, general ledger, deposit, loan, or other systems or the occurrence of cyber incidents also increases. Cyber incidents can result from unintentional events or from deliberate attacks including, among other things, (i) gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing potentially debilitating operational disruptions, (ii) causing denial-of-service attacks on websites, or (iii) intelligence gathering and social engineering aimed at obtaining information. Cyber-attacks can originate from a variety of sources and the techniques used are increasingly sophisticated.

The occurrence of any failures, interruptions, or security breaches of the Company's technology systems could damage the Company's reputation, result in a loss of customer business, result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of proprietary information, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's business, financial condition, and results of operations, as well as its reputation or stock price. A successful cyber-attack could persist for an extended period of time before being detected, and, following detection, it could take considerable time and expense for us to obtain full and reliable information about the cybersecurity incident and the extent, amount and type of information compromised. During the course of an investigation, we may not necessarily know the effects of the incident or how to remediate it, and actions, decisions and mistakes that are taken or made may further increase the costs and other negative consequences of the incident. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of internet and mobile banking and other technology-based products and services, by the Company and its customers. As cyber threats continue to evolve, the Company expects it will be required to spend additional resources on an ongoing basis to continue to modify and enhance its protective measures and to investigate and remediate any information security vulnerabilities.

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

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

The Company continually encounters technological change.

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

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

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

External Risks

The Company operates in a highly competitive industry and market area.

The Company faces substantial competition in all areas of its operations from a variety of different competitors, including traditional competitors that may be larger and have more financial resources and non-traditional competitors that may be subject to fewer regulatory constraints and may have lower cost structures. Traditional competitors primarily include national, regional, and community banks within the markets in which the Company operates. The Company also faces competition from many other types of financial institutions, including savings and loan associations, credit unions, personal loan and finance companies, retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial intermediaries. In addition, technology has lowered barriers to entry and made it possible for non-banks to offer products and services, traditionally provided by banks, such as loans, automatic fund transfer and automatic payment systems. In particular, the activity and prominence of so-called marketplace lenders and other technology-driven financial services companies have grown significantly over recent years and are expected to continue growing.

The financial services industry could become even more competitive as a result of legislative, regulatory, and technological changes, further illiquidity in the credit markets, and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of a FHC, which can offer virtually any type of financial service, including banking, securities underwriting, insurance, and merchant banking. Due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services, as well as better pricing for those products and services, than the Company can offer.

The Company's ability to compete successfully depends on a number of factors, including:

- Developing, maintaining, and building long-term customer relationships.
- Expanding the Company's market position.
- Offering products and services at prices and with the features that meet customers' needs and demands.
- Introducing new products and services.
- Maintaining a satisfactory level of customer service.
- Anticipating and adjusting to changes in industry and general economic trends.
- Continued development and support of internet-based services.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability. This, in turn, could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's business may be adversely affected by conditions in the financial markets and economic conditions generally.

The Company's financial performance depends to a large extent on the business environment in the suburban metropolitan Chicago market, the states of Illinois, Indiana, and Iowa, and the U.S. as a whole. In particular, the business environment impacts the ability of borrowers to pay interest on and repay principal of outstanding loans as well as the value of collateral securing those loans. A favorable business environment is generally characterized by economic growth, low unemployment, efficient capital markets, low inflation, high business and investor confidence, strong business earnings, and other factors. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, high unemployment, natural disasters, or a combination of these or other factors.

During and after the so-called "Great Recession," the suburban metropolitan Chicago market, the states of Illinois, Indiana, and Iowa, and the U.S. as a whole experienced a downward economic cycle, including a significant recession. While business growth across a wide range of industries and regions in the U.S. has gradually recovered, local governments and many businesses continue to experience financial difficulty. Since the recession, economic growth has been slow and uneven and there are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt. In addition, there are significant concerns regarding the fiscal affairs and status of the State of Illinois. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Periods of increased volatility in financial and other markets, such as those experienced recently with regard to oil and other commodity prices and current rates, concerns over European sovereign debt risk, trade with China, and those that may arise from global and political tensions can have a direct or indirect negative impact on the Company and our customers and introduce greater uncertainty into credit evaluation decisions and prospects for growth. Economic pressure on consumers and uncertainty regarding continuing economic improvement may also result in changes in consumer and business spending, borrowing and saving habits.

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

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

Although market and economic conditions have improved in recent years, there can be no assurance that this improvement will continue. Deterioration in market or economic conditions could have an adverse effect, which may be material, on the Company's ability to access capital and on the its business, financial condition, and results of operations.

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

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

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

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

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

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

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

Changes in the federal, state or local tax laws may negatively impact the Company’s financial performance.

We are subject to changes in tax law that could increase our effective tax rates. These law changes may be retroactive to previous periods and as a result could negatively affect our current and future financial performance. Furthermore, the full impact of the Tax Cuts and Jobs Act ("federal income tax reform") on us and our customers is unknown at present, creating uncertainty and risk related to our customers' future demand for credit and our future results. Increased economic activity expected to result from the decrease in federal income tax rates on businesses generally could spur additional economic activity that would encourage additional borrowing. At the same time, some customers may elect to use their additional cash flow from lower taxes to fund their existing levels of activity, decreasing borrowing needs. The elimination of the federal income tax deductibility of business interest expense for a significant number of our customers effectively increases the cost of borrowing and makes equity or hybrid funding relatively more attractive. This could have a long-term negative impact on business customer borrowing. We experienced a significant increase in our after-tax net income available to stockholders in 2018, which we expect to continue in future years, as a result of the decrease in our effective tax rate. Some or all of this benefit could be lost to the extent that the banks and financial services companies we compete with elect to lower interest rates and fees and we are forced to respond in order to remain competitive. There is no assurance that presently anticipated benefits of federal income tax reform for the Company will be realized.

Legal/Compliance Risks

The Company and the Bank are subject to extensive government regulation and supervision and possible enforcement and other legal action.

The Company and the Bank are subject to extensive federal and state regulations and supervision. Banking regulations are primarily intended to protect depositors' funds, FDIC funds, and the banking system as a whole, not security holders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy, and growth. Congress and federal regulatory agencies continually review banking laws, regulations, policies, and other supervisory guidance for possible changes. Changes to statutes, regulations, regulatory policies, or other supervisory guidance, including changes in the interpretation or implementation of those regulations or policies, could affect the Company in substantial and unpredictable ways and could have a material adverse effect on the Company's business, financial condition, and results of operations. These changes could subject the Company to additional costs, limit the types of financial products and services the Company may offer, limit the activities it is permitted to engage in, and increase the ability of non-banks to offer competing financial products and services. Failure to comply with laws, regulations, policies, or other regulatory guidance could result in civil or criminal sanctions by regulatory agencies, civil monetary penalties, and damage to the Company's reputation. Government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities. Any of these actions could have a material adverse effect on the Company's business, financial condition, and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See "Supervision and Regulation" in Item 1, "Business," and Note 18 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

The Company's business may be adversely affected in the future by the passage and implementation of legal and regulatory changes regarding banks and financial institutions.

The Dodd-Frank Act significantly changed the bank regulatory structure and affects the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act required various federal agencies to adopt a broad range of new rules and regulations and to prepare numerous studies and reports for Congress. Compliance with these laws and regulations has resulted, and will continue to result, in additional operating costs that have had an effect on the Company's business, financial condition, and results of operations.

There have been significant revisions to the laws and regulations applicable to financial institutions that have been enacted or proposed in recent months. These and other rules to implement the changes have yet to be finalized, and the final timing, scope and impact of these changes to the regulatory framework applicable to financial institutions remain uncertain.

See "Supervision and Regulation" in Item 1, "Business" of this Form 10-K for a discussion of several significant elements of the regulatory framework applicable to us, including the Volcker Rule and recent regulatory developments.

Compliance with any new requirements may cause the Company to hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on the Company's business, financial condition, or results of operations. To ensure compliance with new requirements when effective, the Company's regulators may require it to fully comply with these requirements or take actions to prepare for compliance even before it might otherwise be required, which may cause the Company to incur compliance-related costs before it might otherwise be required. The Company's regulators may also consider its preparation for compliance with these regulatory requirements when examining its operations generally or considering any request for regulatory approval the Company may make, even requests for approvals on unrelated matters.

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

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

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

We are subject to claims and litigation pertaining to fiduciary responsibilities and certain other legal proceedings. Currently, there are certain legal proceedings pending against the Company and its subsidiaries in the ordinary course of business. While the outcome of any legal proceeding is inherently uncertain, the Company's management believes that any liabilities arising from pending legal matters would be immaterial based on information currently available. However, if actual results differ from management's expectations, it could have a material adverse effect on the Company's financial condition, results of operations, or cash flows. For a detailed discussion on current legal proceedings, see Item 3, "Legal Proceedings," and Note 20 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Risks Related to Acquisition Activity

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

The Company strategically looks to acquire whole banks, branches of other banks, and non-banking organizations. The Company has recently been active in the merger and acquisition market and may consider future acquisitions to supplement internal growth opportunities, as permitted by regulators. Acquiring other banks, branches, or non-banks involves potential risks that could have a material adverse impact on the Company's business, financial condition, and results of operations, including:

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

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

Table of Contents

and Acquisitions" and "Supervision and Regulation" in Item 1, "Business," of this Form 10-K for additional detail and further discussion of these matters.

Competition for acquisition candidates is intense.

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

Acquisitions may be delayed, impeded, or prohibited due to regulatory issues.

Acquisitions by financial institutions, including by the Company, are subject to approval by a variety of federal and state regulatory agencies (collectively, "regulatory approvals"). The process for obtaining these required regulatory approvals has become substantially more difficult in recent years. Regulatory approvals could be delayed, impeded, restrictively conditioned or denied due to new regulatory issues the Company may have with regulatory agencies, including, without limitation, issues related to Bank Secrecy Act compliance, CRA issues, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations and other similar laws and regulations. The Company may fail to pursue, evaluate, or complete strategic and competitively significant acquisition opportunities as a result of its inability, or perceived or anticipated inability, to obtain regulatory approvals in a timely manner, under reasonable conditions, or at all. Difficulties associated with potential acquisitions that may result from these factors could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Risks Associated with the Company's Common Stock

The Company's stock price can be volatile.

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

- Actual or anticipated variations in quarterly results of operations.
- Recommendations by securities analysts.
- Operating and stock price performance of other companies that investors deem comparable to the Company.
- News reports relating to trends, concerns, and other issues in the financial services industry.
- Perceptions in the marketplace regarding the Company and/or its competitors.

- New technology used or services offered by competitors.
- Significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by or involving the Company or its competitors.
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions.
- Changes in government regulations.
- Geopolitical conditions, such as acts or threats of terrorism or military conflicts.

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

The Company's Restated Certificate of Incorporation and Amended and Restated By-laws, as well as certain banking laws, may have an anti-takeover effect.

Provisions of the Company's Restated Certificate of Incorporation and Amended and Restated By-laws and federal banking laws, including regulatory approval requirements, could make it more difficult for a third-party to acquire the Company, even if doing so would be perceived to be beneficial by the Company's stockholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's Common Stock.

The Company may issue additional securities, which could dilute the ownership percentage of holders of the Company's Common Stock.

The Company may issue additional securities to raise additional capital, finance acquisitions, or for other corporate purposes, or in connection with its share-based compensation plans or retirement plans, and, if it does, the ownership percentage of holders of the Company's Common Stock could be diluted, potentially materially.

The Company has not established a minimum dividend payment level, and it cannot ensure its ability to pay dividends in the future.

The Company's fourth quarter 2018 cash dividend was $0.12 per share. The Company has not established a minimum dividend payment level, and the amount of its dividend, if any, may fluctuate. All dividends will be made at the discretion of the Company's Board of Directors (the "Board") and will depend on the Company's earnings, financial condition, and such other factors as the Board may deem relevant from time to time. The Board may, at its discretion, further reduce or eliminate dividends or change its dividend policy in the future.

In addition, the Federal Reserve issued Federal Reserve Supervision and Regulation Letter SR-09-4, which requires bank holding companies to inform and consult with Federal Reserve supervisory staff prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid. Under this regulation, if the Company experiences losses in a series of consecutive quarters, it may be required to inform and consult with the Federal Reserve supervisory staff prior to declaring or paying any dividends. In this event, there can be no assurance that the Company's regulators will approve the payment of such dividends.

Offerings of debt, which would be senior to the Company's Common Stock upon liquidation, and/or preferred equity securities, which may be senior to the Company's Common Stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of the Company's Common Stock.

The Company may attempt to increase capital or raise additional capital by making additional offerings of debt or preferred equity securities, including trust-preferred securities, senior or subordinated notes, and preferred stock. In the event of liquidation, holders of the Company's debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of the Company's available assets prior to the holders of the Company's Common Stock. Additional equity offerings may dilute the holdings of the Company's existing stockholders or reduce the market price of the Company's Common Stock, or both. Holders of the Company's Common Stock are not entitled to preemptive rights or other protections against dilution.

The Board is authorized to issue one or more series of preferred stock from time to time without any action on the part of the Company's stockholders. The Board also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over the Company's Common Stock with respect to dividends or upon the Company's dissolution, winding-up, liquidation, and other terms. If the Company issues preferred stock in the future that has a preference over the Company's Common Stock with respect to the payment of dividends or upon liquidation, or if the Company issues preferred stock with voting rights that dilute the voting power of the Company's Common Stock, the rights of holders of the Company's Common Stock or the market price of the Company's Common Stock could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

The corporate headquarters of the Company are located at 8750 West Bryn Mawr Avenue, Suite 1300, Chicago, Illinois, and are leased from an unaffiliated third-party. The Company conducts business through 120 banking locations largely located in various communities throughout the greater Chicago metropolitan area, as well as northwest Indiana, central and western Illinois, and eastern Iowa. Approximately 70%, of the Company's banking locations are leased and 30% are owned.

The Company owns 177 ATMs, most of which are housed at banking locations. Some ATMs are independently located. In addition, the Company owns other real property that, when considered individually or in the aggregate, is not material to the Company's financial position.

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

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at December 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 business, financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

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

The Company's Common Stock is traded under the symbol "FMBI" in the NASDAQ Global Select Market tier of the NASDAQ Stock Market. As of December 31, 2018, there were 2,265 stockholders of record, a number that does not include beneficial owners who hold shares in "street name" (or stockholders from previously acquired companies that had not yet exchanged their stock).

	2018				2017			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Market price of Common Stock								
High	$27.38	$27.70	$27.40	$26.55	$25.86	$24.00	$24.72	$25.83
Low	18.10	25.31	23.93	23.44	22.03	20.50	21.61	22.19
Cash dividends declared per common share	0.12	0.11	0.11	0.11	0.10	0.10	0.10	0.09

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

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

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

Stock Performance Graph

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

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

	2013	2014	2015	2016	2017	2018
First Midwest Bancorp, Inc.	$100.00	$99.41	$109.23	$152.30	$147.35	$123.90
NASDAQ Composite	100.00	114.62	122.81	133.19	172.11	165.84
NASDAQ Banks	100.00	104.89	113.29	155.71	164.24	136.99

[1] Assumes $100 invested on December 31, 2013 with the reinvestment of all related dividends.

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

Issuer Purchases of Equity Securities

The following table summarizes the Company's monthly Common Stock purchases during the fourth quarter of 2018. The Board approved a stock repurchase program on November 27, 2007. Up to 2,500,000 shares of the Company's Common Stock may be repurchased, and the total remaining authorization under the program was 2,487,947 shares as of December 31, 2018. The repurchase program has no set expiration or termination date.

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program
October 1 – October 31, 2018	—	$ —	—	2,487,947
November 1 – November 30, 2018	—	—	—	2,487,947
December 1 – December 31, 2018	2,668	20.19	—	2,487,947
Total	2,668	$ 20.19	—	

[1] Consists of shares acquired pursuant to the Company's share-based compensation plans and not the Company's Board-approved stock repurchase program. Under the terms of the Company's share-based compensation plans, the Company accepts previously owned shares of Common Stock surrendered to satisfy tax withholding obligations associated with the vesting of restricted shares.

Unregistered Sales of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Consolidated financial information reflecting a summary of the results of operations and financial condition of the Company for each of the five years in the period ended December 31, 2018 is presented in the following table. This summary should be read in conjunction with the consolidated financial statements, and accompanying notes thereto, and other financial information included in Item 8, "Financial Statements and Supplementary Data," of this Form 10-K. A more detailed discussion and analysis of the factors affecting the Company's financial condition and results of operations is presented in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K.

	As of or for the Years Ended December 31,				
	2018	2017	2016	2015	2014
Results of Operations (Amounts in thousands, except per share data)					
Net income	$157,870	$98,387	$92,349	$82,064	$69,306
Net income applicable to common shares	156,558	97,471	91,306	81,182	68,470
Per Common Share Data					
Basic earnings per common share	$1.52	$0.96	$1.14	$1.05	$0.92
Diluted earnings per common share	1.52	0.96	1.14	1.05	0.92
Diluted earnings per common share, adjusted(1)	1.67	1.35	1.22	1.13	1.03
Common dividends declared	0.45	0.39	0.36	0.36	0.31
Book value at year end	19.32	18.16	15.46	14.70	14.17
Market price at year end	19.81	24.01	25.23	18.43	17.11
Performance Ratios					
Return on average common equity	8.14 %	5.32 %	7.38 %	7.17 %	6.56 %
Return on average common equity, adjusted(1)	8.91 %	7.45 %	7.86 %	7.70 %	7.36 %
Return on average tangible common equity	13.87 %	9.44 %	10.77 %	10.44 %	9.32 %
Return on average tangible common equity, adjusted(1)	15.13 %	13.06 %	11.45 %	11.19 %	10.42 %
Return on average assets	1.07 %	0.70 %	0.84 %	0.85 %	0.80 %
Return on average assets, adjusted(1)	1.17 %	0.98 %	0.90 %	0.91 %	0.89 %
Tax-equivalent net interest margin(1)	3.90 %	3.87 %	3.60 %	3.68 %	3.69 %
Non-performing loans to total loans	0.57 %	0.68 %	0.78 %	0.45 %	1.07 %
Non-performing assets to total loans plus OREO	0.70 %	0.89 %	1.12 %	0.88 %	1.64 %
Balance Sheet Highlights					
Total assets	$15,505,649	$14,077,052	$11,422,555	$9,732,676	$9,445,139
Total loans	11,446,783	10,437,812	8,254,145	7,161,715	6,736,853
Deposits	12,084,112	11,053,325	8,828,603	8,097,738	7,887,758
Senior and subordinated debt	203,808	195,170	194,603	201,208	200,869
Stockholders' equity	2,054,998	1,864,874	1,257,080	1,146,268	1,100,775
Financial Ratios					
Allowance for credit losses to total loans	0.90 %	0.93 %	1.06 %	1.05 %	1.11 %
Net charge-offs to average loans	0.38 %	0.21 %	0.24 %	0.29 %	0.52 %
Total capital to risk-weighted assets(2)	12.62 %	12.15 %	12.23 %	11.15 %	11.23 %
Tier 1 capital to risk-weighted assets(2)	10.20 %	10.10 %	9.90 %	10.28 %	10.19 %

CET1 to risk-weighted assets[2]	10.20	%	9.68	%	9.39	%	9.73	%	N/M	
Tier 1 capital to average assets[2]	8.90	%	8.99	%	8.99	%	9.40	%	9.03	%
Tangible common equity to tangible assets	8.59	%	8.33	%	8.05	%	8.59	%	8.41	%
Dividend payout ratio	29.61	%	40.63	%	31.58	%	34.17	%	33.70	%
Dividend payout ratio, adjusted[1]	26.95	%	28.89	%	29.51	%	31.86	%	30.10	%

N/M – Not meaningful.

[1] This ratio is a non-GAAP measure. For a discussion of non-GAAP financial measures, see the "Non-GAAP Financial Information and Reconciliations" section of "Management Discussion and Analysis of Financial Condition and Results of Operations" in item 7 of this Form 10-K.

[2] Basel III Capital Rules became effective for the Company on January 1, 2015. These rules revise the risk-based capital requirements and introduce a new capital measure, CET1 to risk-weighted assets. As a result, ratios subsequent to December 31, 2014 are computed using the new rules and prior periods presented are reported using the regulatory guidance applicable at that time.

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

INTRODUCTION

First Midwest Bancorp, Inc. is a bank holding company headquartered in Chicago, Illinois with operations throughout metropolitan Chicago, northwest Indiana, central and western Illinois, and eastern Iowa. Our principal subsidiary, First Midwest Bank, and other affiliates provide a full range of commercial, treasury management, equipment leasing, consumer, wealth management, trust, and private banking products and services to commercial and industrial, commercial real estate, municipal, and consumer customers through 120 banking locations. We are committed to meeting the financial needs of the people and businesses in the communities where we live and work by providing customized banking solutions, quality products, and innovative services that fulfill those financial needs.

The following discussion and analysis is intended to address the significant factors affecting our Consolidated Statements of Income for the three years ended December 31, 2018 and Consolidated Statements of Financial Condition as of December 31, 2018 and 2017. Certain reclassifications were made to prior year amounts to conform to the current year presentation. When we use the terms "First Midwest," the "Company," "we," "us," and "our," we mean First Midwest Bancorp, Inc. and its consolidated subsidiaries. When we use the term "Bank," we are referring to our wholly-owned banking subsidiary, First Midwest Bank. Management's discussion and analysis should be read in conjunction with the consolidated financial statements, accompanying notes thereto, and other financial information presented in Item 8 of this Form 10-K.

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

- Net Interest Income – Net interest income, our primary source of revenue, equals the difference between interest income and fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities.
- Net Interest Margin – Net interest margin equals tax-equivalent net interest income divided by total average interest-earning assets.
- Noninterest Income – Noninterest income is the income we earn from fee-based revenues, investment in bank-owned life insurance ("BOLI"), 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 ("DTAs"), (ii) Tier 1 capital, which consists of CET1 and the remaining portion of disallowed deferred tax assets, and (iii) Tier 2 capital, which includes qualifying subordinated debt, qualifying trust-preferred securities, and the allowance for credit losses, subject to limitations. During 2018, the Company's total assets surpassed $15 billion, requiring the Company to treat outstanding trust-preferred securities as Tier 2 capital instead of Tier 1 capital.

Some of these metrics may be presented on a basis not in accordance with U.S. generally accepted accounting principles ("non-GAAP") basis. For detail on our non-GAAP measures, see the discussion in the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations." Unless otherwise stated, all earnings per common share data included in this section and throughout the remainder of this discussion are presented on a fully diluted basis.

A quarterly summary of operations for the years ended December 31, 2018 and 2017 is included in the section of this Item 7 titled "Quarterly Earnings."

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K may contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of words such as "may," "might," "will," "would," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "probable," "potential," "possible," "target," "continue," "look forward," 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 outcomes, 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, including the related outlook for 2019, 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 certain actions and initiatives, our Delivering Excellence initiative, including actions, goals, and expectations, as well as costs and benefits associated therewith and the timing thereof, anticipated trends in our business, regulatory developments, the impact of federal income tax reform legislation, acquisition transactions, including our proposed acquisition of Bridgeview, estimated synergies, cost savings and financial benefits of completed transactions, and growth strategies, including possible future acquisitions. These statements are subject to certain risks, uncertainties, and assumptions. These risks, uncertainties, and assumptions include, among other things, the following:

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

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

Table of Contents

SIGNIFICANT EVENTS

Delivering Excellence Initiative

During 2018, the Company initiated certain actions in connection with its Delivering Excellence initiative. This initiative further demonstrates the Company's ongoing commitment to providing service excellence to its clients, as well as maximizing both the efficiency and scalability of its operating platform. Components of Delivering Excellence include improved delivery of services to clients through streamlined processes, the consolidation or closing of 19 locations, organizational realignments, and several revenue growth opportunities. The implementation of this initiative resulted in pre-tax implementation costs of $20.4 million for the year ended December 31, 2018, associated with property valuation adjustments on locations identified for closure, employee severance, and general restructuring and advisory services.

Impact of Federal Income Tax Reform

On December 22, 2017, the Tax Cuts and Jobs Act ("federal income tax reform") was enacted into law. This federal income tax reform, among other things, reduced the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result, in 2017 the Company revalued its DTAs, expanded investments in its colleagues and communities, and took certain actions related to its securities portfolio.

Completed Acquisitions

Northern Oak Wealth Management, Inc.

On January 16, 2019, the Company completed its acquisition of Northern Oak, a registered investment adviser based in Milwaukee, Wisconsin with approximately $800.0 million of assets under management at closing.

Northern States Financial Corporation

On October 12, 2018, the Company completed its acquisition of Northern States, the holding company for NorStates Bank, based in Waukegan, Illinois. At closing, the Company acquired $578.7 million of total assets, $463.2 million of deposits, and $284.9 million of loans. The merger consideration totaled $83.3 million and consisted of 3.3 million shares of Company common stock. All Northern States operating systems were converted during the fourth quarter of 2018.

Premier Asset Management LLC

On February 28, 2017, the Company completed the acquisition of Premier, a registered investment adviser based in Chicago, Illinois with approximately $550.0 million of assets under management at closing.

Standard Bancshares, Inc.

On January 6, 2017, the Company completed its acquisition of Standard. With the acquisition, the Company acquired 35 banking offices located primarily in the southwest Chicago suburbs and adjacent markets in northwest Indiana, and added approximately $2.6 billion of total assets, $2.0 billion of deposits, and $1.8 billion of loans. The merger consideration totaled $580.7 million and consisted of $533.6 million of Company common stock and $47.1 million of cash. All operating systems were converted during the first quarter of 2017.

Pending Acquisitions

Bridgeview Bancorp, Inc.

On December 6, 2018, the Company entered into a merger agreement to acquire Bridgeview Bancorp, Inc. ("Bridgeview"), the holding company for Bridgeview Bank Group. With the acquisition, the Company would acquire 13 banking offices located across greater Chicagoland and several suburbs. As of September 30, 2018, Bridgeview had approximately $1.2 billion of assets, $1.1 billion of deposits, and $800 million of loans, excluding Bridgeview's mortgage division, which the Company is not acquiring. The merger agreement provides for a fixed exchange ratio of 0.2767 shares of Company common stock, plus $1.79 in cash, for each share of Bridgeview common stock, subject to certain adjustments. As of the date of announcement, the overall transaction was valued at approximately $145 million. The acquisition is subject to customary regulatory approvals, the approval of Bridgeview’s stockholders, and the completion of various closing conditions, and is anticipated to close in the second quarter of 2019.

OVERVIEW

Table 1

Selected Financial Data

(Dollar amounts in thousands, except per share data)

	Years Ended December 31,		
	2018	2017	2016
Operating Results			
Interest income	$582,492	$509,716	$378,332
Interest expense	65,870	37,712	28,641
Net interest income	516,622	472,004	349,691
Provision for loan losses	47,854	31,290	30,983
Noninterest income	144,592	163,149	159,312
Noninterest expense	416,303	415,909	339,500
Income before income tax expense	197,057	187,954	138,520
Income tax expense	39,187	89,567	46,171
Net income	$157,870	$98,387	$92,349
Weighted-average diluted common shares outstanding	102,854	101,443	79,810
Diluted earnings per common share	$1.52	$0.96	$1.14
Diluted earnings per common share, adjusted[1]	$1.67	$1.35	$1.22
Performance Ratios			
Return on average common equity	8.14 %	5.32 %	7.38 %
Return on average common equity, adjusted[1]	8.91 %	7.45 %	7.86 %
Return on average tangible common equity	13.87 %	9.44 %	10.77 %
Return on average tangible common equity, adjusted[1]	15.13 %	13.06 %	11.45 %
Return on average assets	1.07 %	0.70 %	0.84 %
Return on average assets, adjusted[1]	1.17 %	0.98 %	0.90 %
Tax-equivalent net interest margin[1][2]	3.90 %	3.87 %	3.60 %
Efficiency ratio[1]	57.87 %	60.09 %	62.89 %
Efficiency ratio, prior presentation[1][3]	N/A	59.73 %	62.59 %

[1] This item is a non-GAAP financial measure. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

[2] See the section of this Item 7 titled "Earnings Performance" below for additional discussion and calculation of this metric.

[3] Presented as calculated prior to 2018, which included a tax-equivalent adjustment for BOLI. Management believes that removing this adjustment from the current calculation of this metric enhances comparability for peer comparison purposes.

	As of December 31,			
	2018	2017	$ Change	% Change
Balance Sheet Highlights				
Total assets	$15,505,649	$14,077,052	$1,428,597	10.1
Total loans	11,446,783	10,437,812	1,008,971	9.7
Total deposits	12,084,112	11,053,325	1,030,787	9.3
Core deposits	9,543,208	9,406,546	136,662	1.5
Loans to deposits	94.7%	94.4%		
Core deposits to total deposits	79.0%	85.1%		
Asset Quality Highlights				
Non-accrual loans	$56,935	$66,924	$(9,989)	(14.9)
90 days or more past due loans, still accruing interest[1]	8,282	3,555	4,727	133.0
Total non-performing loans	65,217	70,479	(5,262)	(7.5)
Accruing troubled debt restructurings ("TDRs")	1,866	1,796	70	3.9
OREO	12,821	20,851	(8,030)	(38.5)
Total non-performing assets	$79,904	$93,126	$(13,222)	(14.2)
30-89 days past due loans[1]	$37,524	$39,725	$(2,201)	(5.5)
Non-performing assets to loans plus OREO	0.70%	0.89%		
Allowance for Credit Losses				
Allowance for credit losses	$103,419	$96,729	$6,690	6.9
Allowance for credit losses to total loans[2]	0.90%	0.93%		
Allowance for credit losses to total loans, excluding acquired loans[3]	1.01%	1.07%		
Allowance for credit losses to non-accrual loans[2]	181.64%	144.54%		

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

[2] This ratio includes acquired loans that are recorded at fair value through an acquisition adjustment, which incorporates credit risk as of the acquisition date with no allowance for credit losses being established at that time. As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses on acquired loans 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 of this Item 7 titled "Loan Portfolio and Credit Quality."

[3] This item is a non-GAAP financial measure. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

Performance Overview for 2018 Compared with 2017

Net income for 2018 was $157.9 million, or $1.52 per share, compared to net income of $98.4 million, or $0.96 per share, for 2017. Performance for 2018 was impacted by Delivering Excellence implementation costs and income tax benefits. Both 2018 and 2017 were impacted by acquisition and integration related expenses associated with completed and pending acquisitions. In addition, performance for 2017 was impacted by various actions taken by the Company in light of tax reform which include the revaluation of DTAs, certain actions resulting in securities losses and gains, a special bonus to colleagues, and a charitable contribution to the First Midwest Charitable Foundation. Excluding these adjustments, earnings per share was $1.67 for 2018 and $1.35 for 2017. For additional detail on these adjustments, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations." The increase in net income, adjusted, and earnings per share, adjusted, compared to 2017 reflects higher net interest income, controlled noninterest expense, and a lower effective income tax rate, partially offset by higher provision for loan losses and lower noninterest income.

Tax-equivalent net interest margin was 3.90% for 2018 compared to 3.87% for 2017, driven primarily by higher interest rates, which more than offset the rise in funding costs, lower acquired loan accretion, and a decline in the tax-equivalent adjustment as a result of lower federal income tax rates.

Total noninterest income was $144.6 million for 2018 compared to $163.1 million for 2017. The decrease was primarily driven by the impact of Durbin, which became effective for the Company in the third quarter of 2017, and the reclassification in 2018 of certain noninterest expense line items to noninterest income as a result of the adoption of accounting guidance, partially offset by growth in wealth management fees.

Total noninterest expense of $416.3 million for 2018 was consistent with 2017. The reclassification in 2018 of certain noninterest expense line items to noninterest income as a result of the adoption of accounting guidance, lower acquisition and integration related expenses, as well as the recurring benefits of the Company's Delivering Excellence initiative, substantially offset increases in expenses associated with organizational growth and Delivering Excellence integration costs.

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

As of December 31, 2018, our securities available-for-sale portfolio totaled $2.3 billion, up 20.6%, from December 31, 2017. For a detailed discussion of our securities portfolio, see the section of this Item 7 titled "Investment Portfolio Management."

Total loans of $11.4 billion as of December 31, 2018 reflects growth of $1.0 billion, or 9.7%, from December 31, 2017. This growth was driven primarily by sales production of the corporate and consumer lending teams, loan purchases, and loans acquired in the Northern States transaction.

Non-performing assets represented 0.70% of total loans plus OREO as of December 31, 2018 compared to 0.89% as of December 31, 2017.

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

Total average funding sources of $12.6 billion for 2018 increased by $785.9 million from 2017, primarily from time deposits and FHLB advances. For a detailed discussion of our funding sources see the section of this Item 7 titled "Funding and Liquidity Management."

Performance Overview for 2017 Compared with 2016

Net income for 2017 was $98.4 million, or $0.96 per share, compared to net income of $92.3 million, or $1.14 per share, for 2016. Performance for 2017 and 2016 was impacted by revaluation of DTAs related to federal income tax reform and changes in Illinois income tax rates (2017), a special bonus to colleagues (2017), a charitable contribution to the First Midwest Charitable Foundation (2017), certain actions resulting in securities losses and gains (2017), acquisition and integration related expenses associated with completed and pending acquisitions (both 2017 and 2016), a lease cancellation fee recognized as a result of the Company's planned 2018 corporate headquarters relocation (2016), and a net gain on a sale-leaseback transaction (2016). Excluding these adjustments, earnings per share was $1.35 for 2017 and $1.22 for 2016. The increase in net income and earnings per share reflects the benefit of the Standard and Premier acquisitions completed in the first quarter of 2017 and the full year impact of the NI Bancshares acquisition completed during the first quarter of 2016, organic loan growth, and increases in fee-based revenues, partially offset by higher noninterest expenses.

Tax-equivalent net interest margin was 3.87% for 2017 compared to 3.60% for 2016, driven primarily by an increase in acquired loan accretion, higher rates, and the additional portfolio of higher-yielding fixed rate loans acquired in the Standard transaction, partially offset by growth in the securities portfolio and the continued shift of loan originations and mix to lower-yielding floating rate loans.

Total noninterest income was $163.1 million for 2017 compared to $159.3 million for 2016. Total fee-based revenues increased by 6.9% for 2017 compared to 2016, due primarily to services provided to customers acquired in the Standard and Premier transactions and organic growth in wealth management and treasury management services, partly offset by lower card-based fees.

Total noninterest expense was $415.9 million for 2017, increasing by 22.5% compared to 2016. This increase is primarily the result of operating costs associated with the Standard and Premier transactions and compensation costs associated with merit increases and investments in additional talent to support organizational growth.

As of December 31, 2017, our securities available-for-sale portfolio totaled $1.9 billion, down 1.8%, from December 31, 2017.

Total loans of $10.4 billion as of December 31, 2017 reflects growth of $2.2 billion, or 26.5%, from December 31, 2016. This growth was driven primarily by loans acquired in the Standard transaction and sales production of the corporate and consumer lending teams.

Non-performing assets represented 0.89% of total loans plus OREO as of December 31, 2017 compared to 1.12% as of December 31, 2016.

Total average funding sources of $11.9 billion for 2017 increased by $2.3 billion from 2016, due primarily to the deposits assumed in the Standard acquisition.

EARNINGS PERFORMANCE

Net Interest Income

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

Our accounting and reporting policies conform to GAAP and general practices within the banking industry. For purposes of this discussion, both net interest income and net interest margin have been adjusted to a fully tax-equivalent basis to more appropriately compare the returns on certain tax-exempt loans and securities to those on taxable interest-earning assets. The effect of this adjustment is shown at the bottom of Table 2. Although we believe that these non-GAAP financial measures enhance investors' understanding of our business and performance, they should not be considered an alternative to GAAP. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the years ended December 31, 2018, 2017, and 2016, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 3 details differences in interest income and expense from prior years and the extent to which any changes are attributable to volume and rate fluctuations.

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

	Years Ended December 31,								
	2018			2017			2016		
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)
Assets									
Other interest-earning assets	$142,202	$2,047	1.44	$229,814	$2,643	1.15	$250,553	$1,603	0.64
Securities:									
Trading - taxable[1]	—	—	—	19,462	251	1.29	17,795	229	1.29
Equity - taxable[1]	30,140	505	1.68	—	—	—	—	—	—
Investment securities - taxable	1,946,759	50,339	2.59	1,681,978	35,569	2.11	1,454,713	28,724	1.97
Investment securities - nontaxable[2]	232,309	5,060	2.18	262,169	9,759	3.72	310,949	13,521	4.35
Total securities	2,209,208	55,904	2.53	1,963,609	45,579	2.32	1,783,457	42,474	2.38
FHLB and Federal Reserve Bank stock	81,434	2,747	3.37	60,649	1,626	2.68	47,001	1,041	2.21
Loans[2][3]	10,921,795	526,068	4.82	10,163,119	467,829	4.60	7,870,081	341,857	4.34
Total interest-earning assets[2][3]	13,354,639	586,766	4.39	12,417,191	517,677	4.17	9,951,092	386,975	3.89
Cash and due from banks	196,709			187,219			146,070		
Allowance for loan losses	(101,039)			(95,054)			(82,449)		
Other assets	1,351,272			1,469,337			919,527		
Total assets	$14,801,581			$13,978,693			$10,934,240		
Liabilities and Stockholders' Equity									
Savings deposits	$2,031,001	1,464	0.07	$2,039,986	1,568	0.08	$1,629,917	1,174	0.07
NOW accounts	2,088,317	6,566	0.31	1,990,021	2,640	0.13	1,634,029	1,096	0.07
Money market deposits	1,794,363	5,409	0.30	1,925,273	2,739	0.14	1,639,746	1,805	0.11
Total interest-bearing core deposits	5,913,681	13,439	0.23	5,955,280	6,947	0.12	4,903,692	4,075	0.08
Time deposits	1,979,530	24,335	1.23	1,558,831	9,237	0.59	1,230,658	5,788	0.47
Total interest-bearing deposits	7,893,211	37,774	0.48	7,514,111	16,184	0.22	6,134,350	9,863	0.16

Borrowed funds	946,536	15,388	1.63	622,091	9,100	1.46	497,563	6,313	1.27
Senior and subordinated debt	197,564	12,708	6.43	194,891	12,428	6.38	197,515	12,465	6.31
Total interest-bearing liabilities	9,037,311	65,870	0.73	8,331,093	37,712	0.45	6,829,428	28,641	0.42
Demand deposits	3,600,369			3,520,737			2,711,687		
Total funding sources	12,637,680		0.52	11,851,830		0.32	9,541,115		0.30
Other liabilities	241,374			293,983			156,519		
Stockholders' equity - common	1,922,527			1,832,880			1,236,606		
Total liabilities and stockholders' equity	$14,801,581			$13,978,693			$10,934,240		
Tax-equivalent net interest income/margin[2]		520,896	3.90		479,965	3.87		358,334	3.60
Tax-equivalent adjustment		(4,274)			(7,961)			(8,643)	
Net interest income (GAAP)		$516,622			$472,004			$349,691	
Impact of acquired loan accretion[2]		$19,548	0.15		$33,923	0.28		$14,568	0.15
Tax-equivalent net interest income/margin, adjusted[2]		$501,348	3.75		$446,042	3.59		$343,766	3.45

[1] As a result of accounting guidance adopted in 2018, equity securities are no longer presented within trading securities or securities available-for-sale and are now presented as equity securities in the Consolidated Statements of Financial Condition for periods subsequent to December 31, 2017.

[2] 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% and the prior periods are presented using the federal income tax rate applicable at that time of 35%. The corresponding income tax impact related to tax-exempt items is recorded in income tax expense. These adjustments have no impact on net income. For a discussion of tax-equivalent net interest income/margin, net interest income (GAAP), and tax-equivalent net interest income/margin, adjusted, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

[3] Non-accrual loans, which totaled $56.9 million as of December 31, 2018, $66.9 million as of December 31, 2017, and $59.3 million as of December 31, 2016, are included in loans for purposes of this analysis. Additional detail regarding non-accrual loans is presented in the section of this Item 7 titled "Non-Performing Assets and Performing Potential Problem Loans."

2018 Compared to 2017

Net interest income was $516.6 million for 2018 compared to $472.0 million for 2017, an increase of 9.5%. The rise in net interest income resulted primarily from higher interest rates, growth in loans and securities, and the acquisition of interest-earning assets from the Northern States transaction early in the fourth quarter of 2018, partially offset by higher cost of funds and lower acquired loan accretion.

Acquired loan accretion contributed $19.5 million and $33.9 million to net interest income for 2018 and 2017, respectively.

Tax-equivalent net interest margin was 3.90% for 2018, increasing by 3 basis points from 2017. Compared to 2017, the benefit of higher interest rates more than offset the rise in funding costs, a 13 basis point decrease in acquired loan accretion, and a 3 basis point reduction in the tax-equivalent adjustment as a result of lower federal income tax rates.

Total average interest-earning assets were $13.4 billion for 2018, an increase of $937.4 million, or 7.5%, from 2017. The increase resulted from growth in loans and securities as well as the acquisition of interest-earning assets from the Northern States transaction.

Total average interest-bearing liabilities were $9.0 billion for 2018 compared to $8.3 billion for 2017, an increase of $706.2 million, or 8.5%. The increase resulted from time deposits, FHLB advances, and funding sources acquired in the Northern States transaction.

2017 Compared to 2016

Net interest income was $472.0 million for 2017 compared to $349.7 million for 2016, an increase of 35.0%. This increase was driven primarily by the acquisition of interest-earning assets and acquired loan accretion from the Standard transaction early in the first quarter of 2017, organic loan growth, and higher interest rates.

Acquired loan accretion contributed $33.9 million and $14.6 million to net interest income for 2017 and 2016, respectively.

Tax-equivalent net interest margin was 3.87% for 2017, increasing by 27 basis points from 2016. The rise in tax-equivalent net interest margin was driven primarily by a 13 basis point increase in acquired loan accretion combined with the positive impact of higher interest rates. In addition, the impact of adding a portfolio of higher-yielding fixed-rate loans acquired from Standard contributed to the increase, partially offset by growth in the securities portfolio and the continued shift of loan originations and mix to lower-yielding floating rate loans.

Total average interest-earning assets were $12.4 billion for 2017, an increase of $2.5 billion, or 24.8%, from 2016. The increase resulted from interest-earning assets acquired in the Standard transaction, loan growth, and security purchases. In addition, interest-earning assets acquired in the NI Bancshares transaction late in the first quarter of 2016 contributed to the increase.

Total average interest-bearing liabilities increased by $1.5 billion to $8.3 billion for 2017 from $6.8 billion for 2016. The increase resulted primarily from deposits acquired in the Standard transaction and the addition of FHLB advances during 2017. Deposits acquired in the NI Bancshares transaction also contributed to the increase.

Table 3

Changes in Net Interest Income Applicable to Volumes and Interest Rates [1]

(Dollar amounts in thousands)

	2018 compared to 2017			2017 compared to 2016		
	Volume	Rate	Total	Volume	Rate	Total
Other interest-earning assets	$(1,757)	$1,161	$(596)	$(121)	$1,161	$1,040
Securities:						
Trading – taxable	(251)	—	(251)	22	—	22
Equity – taxable	505	—	505	—	—	—
Investment securities – taxable	6,072	8,698	14,770	4,656	2,189	6,845
Investment securities – nontaxable[2]	(1,013)	(3,686)	(4,699)	(1,314)	(2,448)	(3,762)
Total securities	5,313	5,012	10,325	3,364	(259)	3,105
FHLB and Federal Reserve Bank stock	639	482	1,121	338	247	585
Loans[2]	35,497	22,742	58,239	104,488	21,484	125,972
Total tax-equivalent interest income[2]	39,692	29,397	69,089	108,069	22,633	130,702
Savings deposits	(3)	(101)	(104)	251	143	394
NOW accounts	135	3,791	3,926	313	1,231	1,544
Money market deposits	(169)	2,839	2,670	364	570	934
Total interest-bearing core deposits	(37)	6,529	6,492	928	1,944	2,872
Time deposits	3,008	12,090	15,098	1,762	1,687	3,449
Total interest-bearing deposits	2,971	18,619	21,590	2,690	3,631	6,321
Borrowed funds	5,311	977	6,288	1,617	1,170	2,787
Senior and subordinated debt	179	101	280	(219)	182	(37)
Total interest expense	8,461	19,697	28,158	4,088	4,983	9,071
Tax-equivalent net interest income[2]	$31,231	$9,700	$40,931	$103,981	$17,650	$121,631

[1] For purposes of this table, changes which are not due solely to volume changes or rate changes are allocated to each category on the basis of the percentage relationship of each to the sum of the two.

[2] Interest income and yields 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% and the prior periods are presented using the federal income tax rate applicable at that time of 35%. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

Noninterest Income

A summary of noninterest income for the three years ended December 31, 2018 is presented in the following table.

Table 4

Noninterest Income Analysis

(Dollar amounts in thousands)

	Years Ended December 31,			% Change	
	2018	2017	2016	2018-2017	2017-2016
Service charges on deposit accounts	$48,715	$48,368	$40,665	0.7	18.9
Wealth management fees	43,512	41,321	33,071	5.3	24.9
Card-based fees, net[1][2]:					
Card-based fees	24,552	28,992	29,104	(15.3)	(0.4)
Cardholder expenses	(7,528)	—	—	100.0	—
Card-based fees, net	17,024	28,992	29,104	(41.3)	(0.4)
Capital market products income	7,721	8,171	10,024	(5.5)	(18.5)
Mortgage banking income	7,094	8,131	10,162	(12.8)	(20.0)
Merchant servicing fees, net[1]:					
Merchant servicing fees	10,058	10,340	12,533	(2.7)	(17.5)
Merchant card expenses	(8,593)	—	—	100.0	—
Merchant servicing fees, net	1,465	10,340	12,533	(85.8)	(17.5)
Other service charges, commissions, and fees	9,425	9,843	9,542	(4.2)	3.2
Total fee-based revenues	134,956	155,166	145,101	(13.0)	6.9
Net securities gains (losses)[3]	—	(1,876)	1,420	(100.0)	(232.1)
Other income[4]	9,636	9,859	7,282	(2.3)	35.4
Net gain on sale-leaseback transaction	—	—	5,509	—	(100.0)
Total noninterest income	$144,592	$163,149	$159,312	(11.4)	2.4
Accounting reclassification[1]	$—	$(15,700)	$(16,594)	(100.0)	(5.4)
Net securities (gains) losses[3]	—	1,876	(1,420)	(100.0)	(232.1)
Total noninterest income, adjusted[5]	$144,592	$149,325	$141,298	(3.2)	5.7

[1] As a result of accounting guidance adopted in 2018 (the "accounting reclassification"), certain noninterest income line items and the related noninterest expense line items that are presented on a gross period 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-K.

[2] Card-based fees consist of debit and credit card interchange fees for processing transactions as well as various fees on both customer and non-customer ATM and point-of-sale transactions processed through the ATM and point-of-sale networks, as well as the related cardholder expense.

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

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

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

2018 Compared to 2017

Total noninterest income was $144.6 million, decreasing by 11.4% compared to 2017. In 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 2018 versus a gross basis within noninterest expense for 2017. Excluding the accounting reclassification and net securities (gains) losses, noninterest income was down $4.7 million, or 3.2%, from 2017. This decrease was due primarily to the $6.0 million reduction of interchange revenue as Durbin became effective for the Company in the third quarter of 2017.

The increase in wealth management fees compared to 2017 was driven primarily by continued sales of fiduciary and investment advisory services and the full year impact of services provided to customers acquired in the Premier transaction, which was partially offset by the lower market environment. Net card-based fees, excluding the accounting reclassification and the impact of Durbin, were up by 8.7% due to higher transaction volumes. Noninterest income for 2018 was impacted by lower capital market products income, which fluctuates from year to year based on the size and frequency of sales to corporate clients. Mortgage banking income for 2018 resulted from sales of $240.8 million of 1-4 family mortgage loans in the secondary market compared to sales of $252.7 million during 2017. In addition, mortgage banking income for 2018 was negatively impacted by changes in the fair value of mortgage servicing rights, which fluctuate from year to year.

Net securities losses of $1.9 million were recognized during 2017 in connection with gains from the strategic repositioning of the securities portfolio, which were more than offset by losses due to certain actions taken in light of federal income tax reform.

2017 Compared to 2016

Total noninterest income was $163.1 million, rising by 2.4% compared to 2016. Fee-based revenues were positively impacted by services provided to customers acquired in the Standard and Premier transactions completed in the first quarter of 2017 and organic growth in wealth management and treasury management services, partially offset by the negative impact on card-based fees due to the reduction in interchange revenue as Durbin became effective in the second half of 2017. Assets under management grew to $10.7 billion, a rise of $2.1 billion, or 24.1%, from 2016, driven primarily by organic growth and the addition of $863.4 million in assets under management from the Standard and Premier transactions, which contributed approximately $5.6 million to wealth management fees during 2017. In addition, the full year impact of customers acquired in the NI Bancshares transaction late in the first quarter of 2016 contributed to the increase in fee-based revenues compared to 2016.

The decline in merchant servicing fees reflected lower customer volumes, offset by the decline in merchant card expense included in noninterest expense. The decline in capital market products income compared to 2016 was in-line with lower origination volumes compared to the same period.

Mortgage banking income during 2017 resulted from sales of $252.7 million of 1-4 family mortgage loans in the secondary market compared to sales of $283.3 million during 2016. In addition, mortgage banking income for 2017 was negatively impacted by changes in the fair value of mortgage servicing rights, which fluctuate from year to year. Other income for 2017 was positively impacted by BOLI benefit settlements.

During 2016, the Company completed a sale-leaseback transaction of 55 branches that resulted in a pre-tax gain of $88.0 million, net of transaction related expenses, of which $5.5 million was immediately recognized and the remaining $82.5 million was deferred. Accretion related to the deferred gain was $5.9 million and $1.5 million in 2017 and 2016, respectively, and is included in net occupancy and equipment expense.

Table of Contents

Noninterest Expense

A summary of noninterest expense for the three years ended December 31, 2018 is presented in the following table.

Table 5

Noninterest Expense Analysis

(Dollar amounts in thousands)

	Years Ended December 31,			% Change	
	2018	2017	2016	2018-2017	2017-2016
Salaries and employee benefits:					
Salaries and wages	$181,164	$182,507	$151,341	(0.7)	20.6
Retirement and other employee benefits	43,104	41,886	33,309	2.9	25.7
Total salaries and employee benefits	224,268	224,393	184,650	(0.1)	21.5
Net occupancy and equipment expense	53,434	49,751	41,154	7.4	20.9
Professional services	32,681	33,689	25,122	(3.0)	34.1
Technology and related costs	19,220	18,068	14,765	6.4	22.4
FDIC premiums	10,584	8,987	6,268	17.8	43.4
Advertising and promotions	9,248	8,694	7,787	6.4	11.6
Amortization of other intangible assets	7,444	7,865	4,682	(5.4)	68.0
Net OREO expense	1,162	4,683	3,024	(75.2)	54.9
Merchant card expense[(1)]	—	8,377	10,782	(100.0)	(22.3)
Cardholder expenses[(1)]	—	7,323	5,812	(100.0)	26.0
Other expenses	28,236	23,956	20,152	17.9	18.9
Delivering Excellence implementation costs	20,413	—	—	100.0	—
Acquisition and integration related expenses	9,613	20,123	14,352	(52.2)	40.2
Lease cancellation fee	—	—	950	—	(100.0)
Total noninterest expense[(1)]	$416,303	$415,909	$339,500	0.1	22.5
Delivering Excellence implementation costs	$(20,413)	$—	$—	100.0	—
Acquisition and integration related expenses	(9,613)	(20,123)	(14,352)	(52.2)	40.2
Accounting reclassification[(1)]	—	(15,700)	(16,594)	(100.0)	(5.4)
Special bonus	—	(1,915)	—	(100.0)	100.0
Charitable contribution	—	(1,600)	—	(100.0)	100.0
Lease cancellation fee	—	—	(950)	—	(100.0)
Total noninterest expense, adjusted[(2)]	$386,277	$376,571	$307,604	2.6	22.4

[(1)] As a result of the accounting reclassification, certain noninterest income line items and the related noninterest expense line items that are presented on a gross period 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-K.

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

2018 Compared to 2017

Total noninterest expense for 2018 was consistent with 2017. During 2018, noninterest expense was impacted by costs related to the implementation of the Delivering Excellence initiative, which include property valuation adjustments on locations identified for closure, employee severance, and general restructuring and advisory services. In 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 2018 versus a gross basis within noninterest expense for 2017. Expenses for all periods presented were impacted by acquisition and integration related expenses associated with pending and completed transactions. In addition, salaries and wages and advertising and promotions expense were impacted by the special bonus paid and charitable contribution made in connection with federal income tax reform in 2017. Excluding these items, noninterest expense for 2018 was up $9.7 million, or 2.6%, from 2017. This increase was impacted by approximately $2.0 million of operating costs associated with the Northern States transaction.

Salaries and employee benefits were consistent with 2017 as higher costs associated with organizational growth and merit increases were offset by the ongoing benefits of the Delivering Excellence initiative. Net occupancy and equipment expense increased as a result of the Company's corporate headquarters relocation and higher costs related to winter weather conditions during 2018.

Compared to 2017, the increase in technology and related costs was driven primarily by technology initiatives associated with organizational growth. Professional services expenses decreased due primarily to lower loan remediation expenses and recruiting expenses. The rise in advertising and promotions expense resulted from the launch of a new marketing campaign. The decrease in net OREO expense resulted primarily from higher levels of gains on sales of properties, a reduction in operating expenses, and a lower level of valuation adjustments compared to 2017. Other expenses increased as a result of property valuation adjustments related to the Company's corporate headquarters relocation, the reserve for unfunded commitments, and other miscellaneous expenses.

Acquisition and integration related expenses for 2018 resulted from the acquisition of Northern States, which was completed during the fourth quarter of 2018.

2017 Compared to 2016

Total noninterest expense for 2017 increased by 22.5% compared to 2016. Salaries and wages and advertising and promotions expense were impacted by the special bonus and charitable contribution in connection with federal income tax reform in 2017. In addition, both periods were impacted by acquisition and integration related expenses and 2016 was impacted by a lease cancellation fee as a result of the Company's planned 2018 corporate headquarters relocation. Excluding these items, total noninterest expense increased to $376.6 million, up 22.4% compared to $307.6 million in 2016. Operating costs associated with the Standard and Premier transactions, which impacted most categories, drove the increase in total noninterest expense from 2016.

The increase in salaries and wages was also impacted by merit increases and investments in additional talent to support growth. Higher loan remediation expenses and certain costs associated with organizational growth contributed to the rise in professional services. Net OREO expense increased due to higher valuation adjustments and operating expenses, partially offset by net gains on sales of OREO properties.

Acquisition and integration related expenses resulted from the acquisition of Standard and Premier for 2017 and NI Bancshares for 2016.

Income Taxes

Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes is detailed in the following table.

Table 6

Income Tax Expense Analysis

(Dollar amounts in thousands)

	Years Ended December 31,		
	2018	2017	2016
Income before income tax expense	$197,057	$187,954	$138,520
Income tax expense:			
Federal income tax expense	$27,986	$81,321	$38,962
State income tax expense	11,201	8,246	7,209
Total income tax expense	$39,187	$89,567	$46,171
Effective income tax rate	19.9 %	47.7 %	33.3 %
Effective income tax rate, adjusted[1]	23.8 %	35.0 %	33.3 %

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

Federal income tax expense and the related effective income tax rate are influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax income as well as state income taxes. State income tax expense and the related effective income tax rate are driven by 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.

Federal income tax reform was enacted on December 22, 2017. The new law enacted various changes to the federal corporate income tax, the most impactful being the reduction in the corporate tax rate to a flat 21%.

The effective tax rate and total income tax expense for 2018 was impacted by $7.8 million of income tax benefits resulting from federal income tax reform. Income tax expense for 2017 was elevated as a result of the downward revaluation of DTAs by $26.6 million due to federal income tax reform as well as a $2.8 million benefit as a result of changes in Illinois income tax rates.

Excluding these items, the Company's effective income tax rate was 23.8% for 2018 compared to 35.0% for 2017, which reflects the decrease in the effective federal income tax rate from 35% to 21% in 2018.

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 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

FINANCIAL CONDITION

Investment Portfolio Management

Securities that we have the intent and ability to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premiums and accretion of discounts. 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.

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 7
Investment Portfolio
(Dollar amounts in thousands)

	As of December 31,								
	2018			2017			2016		
	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Securities Available-for-Sale									
U.S. treasury securities	$37,925	$37,767	1.7	$46,529	$46,345	2.5	$48,581	$48,541	2.5
U.S. agency securities	144,125	142,563	6.3	157,636	156,847	8.3	183,528	183,637	9.6
CMOs	1,336,531	1,315,209	57.9	1,113,019	1,095,186	58.1	1,064,130	1,047,446	54.6
MBSs	477,665	466,934	20.6	373,676	369,543	19.6	337,139	332,655	17.3
Municipal securities	229,600	227,187	10.0	209,558	208,991	11.1	273,319	270,846	14.1
CDOs	—	—	—	—	—	—	47,681	33,260	1.7
Corporate debt securities	86,074	82,349	3.6	—	—	—	—	—	—
Equity securities(1)	—	—	—	7,408	7,297	0.4	3,206	3,065	0.2
Total securities available-for-sale	$2,311,920	$2,272,009	100.0	$1,907,826	$1,884,209	100.0	$1,957,584	$1,919,450	100.0
Securities Held-to-Maturity									
Municipal securities	$10,176	$9,871		$13,760	$12,013		$22,291	$18,212	
Equity Securities(1)		$30,806			$—			$—	
		$—			$20,447			$17,920	

Trading Securities[1]

[1] As a result of accounting guidance adopted in 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 Condensed Consolidated Financial Statements" in Item 8 of this Form 10-K.

Portfolio Composition

As of December 31, 2018, our securities available-for-sale portfolio totaled $2.3 billion, increasing by $387.8 million, or 20.6%, from December 31, 2017, following a 1.8% decrease from December 31, 2016. The increase from December 31, 2017 was driven primarily by $735.7 million of purchases, consisting primarily of CMOs, MBSs, and corporate debt securities, partially offset by $331.0 million of maturities, calls, and prepayments. For detail regarding sales of securities, see the "Realized Losses and Gains" section of this Item 7 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.

The following table presents the effective duration, average life, and yield to maturity for the Company's securities portfolio by category as of December 31, 2018 and 2017.

Table 8

Securities Effective Duration Analysis

(Dollar amounts in thousands)

	As of December 31,					
	2018			2017		
	Effective Duration[1]	Average Life[2]	Yield to Maturity[3]	Effective Duration[1]	Average Life[2]	Yield to Maturity[3]
Securities Available-for-Sale						
U.S. treasury securities	1.08%	1.12	2.23 %	1.01%	1.03	1.30 %
U.S. agency securities	1.56%	2.97	2.29 %	1.80%	3.22	1.74 %
CMOs	3.53%	4.71	2.72 %	3.36%	4.51	2.35 %
MBSs	4.26%	5.63	2.76 %	3.77%	5.29	2.30 %
Municipal securities	4.81%	5.05	2.65 %	4.47%	4.87	3.04 %
Corporate debt securities	0.00%	6.93	3.53 %	N/A	N/A	N/A
Total securities available-for-sale	3.51%	4.85	2.72 %	3.38%	4.51	2.34 %
Securities Held-to-Maturity						
Municipal securities	1.27%	1.35	3.54 %	5.33%	7.15	4.55 %

N/A – Not applicable.

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

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

[3] Yields on municipal securities are reflected on a tax-equivalent basis, assuming 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 were 4.85 years and 3.51%, respectively, as of December 31, 2018, compared to 4.51 years and 3.38% as of December 31, 2017. The increase in average life and effective duration resulted from maturities of securities that were reinvested in longer duration and average life CMOs and MBSs, as well as higher interest rates.

Realized Losses and Gains

There were no net securities losses or gains recognized for the year ended December 31, 2018. Securities acquired in the Northern States transaction totaled $47.1 million, of which $25.0 million were sold shortly after the acquisition date and resulted in no gains or losses as they were recorded at fair value upon acquisition.

There were $1.9 million of net securities losses for 2017 driven primarily by the opportunistic repositioning of the securities portfolio in light of market conditions in the second half of the year as well as strategic actions in connection with federal income tax reform, which included the liquidation of $47.7 million of CDOs. In addition, $214.1 million of securities were acquired in the Standard transaction during the first quarter of 2017, of which $210.2 million were sold shortly after the acquisition date and resulted in no gains or losses as they were recorded at fair value upon acquisition.

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

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, net of deferred income taxes. This balance sheet component will fluctuate as interest rates and conditions change and affect the aggregate fair value of the portfolio. Higher interest rates resulted in an increase in net unrealized losses from $23.6 million at December 31, 2017 to $39.9 million as of December 31, 2018.

Net unrealized losses in the CMO and MBS portfolios totaled $32.1 million as of December 31, 2018 compared to $22.0 million as of December 31, 2017. CMOs and MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. We do not believe any individual unrealized loss on these securities as of December 31, 2018 represents 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. For additional discussion of unrealized gains and losses on securities available-for-sale, see Note 4 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 9

Repricing Distribution and Portfolio Yields

(Dollar amounts in thousands)

	As of December 31, 2018							
	One Year or Less		One Year to Five Years		Five Years to Ten Years		After 10 years	
	Amortized Cost	Yield to Maturity[1]	Amortized Cost	Yield to Maturity[1]	Amortized Cost	Yield to Maturity[1]	Amortized Cost	Yield to Maturity[1]
Securities Available-for-Sale								
U.S. treasury securities	$22,928	2.20 %	$14,997	2.28 %	$—	— %	$—	— %
U.S. agency securities	80,725	2.52 %	63,400	2.00 %	—	— %	—	— %
CMOs[2]	147,310	2.72 %	633,377	2.72 %	—	— %	555,844	2.72 %
MBSs[2]	55,566	2.78 %	170,851	2.78 %	—	— %	251,248	2.75 %
Municipal securities[3]	9,895	2.74 %	97,951	2.74 %	121,754	2.57 %	—	— %
Corporate debt securities[4]	—	— %	—	— %	86,074	3.53 %	—	— %
Total available-for-sale securities	$316,424	2.64 %	$980,576	2.68 %	$207,828	2.97 %	$807,092	2.73 %
Securities Held-to-Maturity								
Municipal securities[3]	$7,581	3.17 %	$2,235	4.12 %	$360	7.57 %	$—	— %

[1] Based on amortized cost.

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

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

[4] Yields on equity securities are presented on a tax-equivalent basis, assuming the applicable federal income tax rate for the periods presented. Maturity dates are based on contractual maturity or repricing characteristics.

LOAN PORTFOLIO AND CREDIT QUALITY

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

Portfolio Composition

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 79.9% of total loans as of December 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 with an acceptable level of risk, we have certain lending policies and procedures that management reviews on a regular basis. In addition, management receives periodic reporting related to loan production, loan quality, credit concentrations, loan delinquencies, and non-performing and corporate performing potential problem loans to monitor and mitigate potential and current risks in the portfolio.

Table 10
Loan Portfolio
(Dollar amounts in thousands)

	As of December 31,									
	2018	% of Total	2017	% of Total	2016	% of Total	2015	% of Total	2014	% of Total
Commercial and industrial	$4,120,293	36.0	$3,529,914	33.8	$2,827,658	34.3	$2,524,726	35.3	$2,261,230	33.6
Agricultural	430,928	3.8	430,886	4.1	389,496	4.7	387,440	5.4	359,737	5.3
Commercial real estate:										
Office, retail, and industrial	1,820,917	15.9	1,979,820	19.0	1,581,967	19.2	1,395,586	19.5	1,495,225	22.2
Multi-family	764,185	6.7	675,463	6.5	614,052	7.4	528,343	7.4	565,494	8.4
Construction	649,337	5.6	539,820	5.2	451,540	5.5	216,882	3.0	207,775	3.1
Other commercial real estate	1,361,810	11.9	1,358,515	13.0	979,528	11.9	931,368	13.0	897,965	13.3
Total commercial real estate	4,596,249	40.1	4,553,618	43.7	3,627,087	43.9	3,072,179	42.9	3,166,459	47.0
Total corporate loans	9,147,470	79.9	8,514,418	81.6	6,844,241	82.9	5,984,345	83.6	5,787,426	85.9
Home equity	851,607	7.4	827,055	7.9	747,983	9.1	674,883	9.4	568,419	8.4
1-4 family mortgages	1,017,181	8.9	774,357	7.4	423,922	5.1	364,885	5.1	303,557	4.6
Installment	430,525	3.8	321,982	3.1	237,999	2.9	137,602	1.9	77,451	1.1
Total consumer loans	2,299,313	20.1	1,923,394	18.4	1,409,904	17.1	1,177,370	16.4	949,427	14.1
Total loans	$11,446,783	100.0	$10,437,812	100.0	$8,254,145	100.0	$7,161,715	100.0	$6,736,853	100.0

2018 Compared to 2017

Total loans of $11.4 billion as of December 31, 2018 reflect growth of $1.0 billion, or 9.7%, from December 31, 2017. Excluding loans related to customers acquired in the Northern States transaction of $271.3 million, total loans grew by 7.1% from December 31, 2017. Growth in commercial and industrial loans was driven primarily by strong production in our sector-based lending. The rise in construction loans was due largely to draws on existing lines of credit. The overall decline in office, retail, and industrial and other commercial real estate loans resulted primarily from the decision of certain customers to opportunistically sell their commercial business and investment real estate properties, as well as expected payoffs. Growth in consumer loans benefited from organic production as well as the impact of purchases of 1-4 family mortgages, shorter-duration, floating rate home equity loans, and installment loans.

2017 Compared to 2016

Total loans of $10.4 billion as of December 31, 2017 reflect growth of $2.2 billion, or 26.5%, from December 31, 2016. Excluding loans related to customers and locations acquired in the Standard transaction, total loans grew by approximately 7.0% from December 31, 2016. Growth in commercial and industrial loans, primarily within our sector-based lending businesses and multi-family loans, contributed to the increase in total corporate loans. Total loans were also impacted by the purchase of 1-4 family mortgages, installment loans, and shorter-duration, floating rate home equity loans.

Comparisons of Prior Years (2016, 2015, and 2014)

Total loans of $8.3 billion as of December 31, 2016 reflect growth of $1.1 billion, or 15.3%, from December 31, 2015. Excluding loans related to customers acquired in the NI Bancshares transaction of $279.7 million, total loans grew by 11.3% from December 31, 2015. Growth in commercial and industrial loans resulted primarily from broad-based increases within our middle market and sector-based lending business units. Office, retail, and industrial and multi-family loans increased compared to December 31, 2015 due to organic growth. The rise in construction loans compared to the same period was driven primarily by select commercial projects for which permanent financing is expected upon their completion. The rise in consumer loans compared to December 31, 2015 resulted from the continued expansion of mortgage and installment loans and the purchase of shorter-duration, floating rate home equity loans.

Total loans of $7.2 billion as of December 31, 2015 reflect growth of $424.9 million, or 6.3%, from December 31, 2014. The Peoples acquisition completed in the fourth quarter of 2015 contributed $53.9 million in loans. Growth in corporate loans was concentrated within our commercial and industrial loan category, reflective of the continued expansion into sector-based lending areas. The overall decline in commercial real estate loans from December 31, 2014 resulted from the decision of certain customers to opportunistically sell their commercial businesses and investment real estate properties or use excess liquidity to payoff long-term debt. These decreases more than offset organic commercial real estate growth. Consumer loans totaled $1.2 billion as of December 31, 2015 and increased $227.9 million, or 24.0%, from December 31, 2014. This growth reflects the purchase of shorter-duration, floating rate home equity loans, and growth in 1-4 family mortgages.

The following table summarizes loans by category as of December 31, 2018 between legacy and loans acquired in the Northern States transaction, compared to loans as of December 31, 2017.

Table 11

Legacy and Acquired Loan Portfolio Composition

(Dollar amounts in thousands)

	As of December 31, 2018				
	Legacy	Acquired[1]	Total	As of December 31, 2017	Legacy % Change
Commercial and industrial	$4,091,101	$ 29,192	$4,120,293	$3,529,914	15.9
Agricultural	430,928	—	430,928	430,886	—
Commercial real estate:					
Office, retail, and industrial	1,752,169	68,748	1,820,917	1,979,820	(11.5)
Multi-family	688,921	75,264	764,185	675,463	2.0
Construction	614,688	34,649	649,337	539,820	13.9
Other commercial real estate	1,314,924	46,886	1,361,810	1,358,515	(3.2)
Total commercial real estate	4,370,702	225,547	4,596,249	4,553,618	(4.0)
Total corporate loans	8,892,731	254,739	9,147,470	8,514,418	4.4
Home equity	846,201	5,406	851,607	827,055	2.3
1-4 family mortgages	1,007,432	9,749	1,017,181	774,357	30.1
Installment	429,167	1,358	430,525	321,982	33.3
Total consumer loans	2,282,800	16,513	2,299,313	1,923,394	18.7
Total loans	$11,175,531	$ 271,252	$11,446,783	$10,437,812	7.1

[1] Amounts represent loans acquired in the Northern States transaction, which was completed in the fourth quarter of 2018.

Commercial, Industrial, and Agricultural Loans

Commercial, industrial, and agricultural loans represent 39.8% of total loans and totaled $4.6 billion as of December 31, 2018, an increase of $590.4 million, or 14.9%, 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. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory. The underlying collateral securing commercial and industrial loans may fluctuate in value due to the success of the business or economic conditions. For loans secured by accounts receivable, the availability of funds for repayment and economic conditions may impact the cash flow of the borrower. Accordingly, the underwriting for these loans is based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower and may incorporate a personal guarantee.

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

Commercial Real Estate Loans

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. The repayment of commercial real estate loans depends on the successful operation of the property securing the loan or the business conducted on the property securing the loan. This category of loans may be more adversely affected by conditions in real estate markets. 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 made 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 December 31, 2018, 2017, and 2016.

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

	As of December 31,					
	2018	% of Total	2017	% of Total	2016	% of Total
Office, retail, and industrial:						
Office	$708,146	15.4	$844,413	18.5	$599,572	16.5
Retail	506,099	11.0	471,781	10.4	412,614	11.4
Industrial	606,672	13.2	663,626	14.6	569,781	15.7
Total office, retail, and industrial	1,820,917	39.6	1,979,820	43.5	1,581,967	43.6
Multi-family	764,185	16.7	675,463	14.8	614,052	16.9
Construction	649,337	14.1	539,820	11.8	451,540	12.4
Other commercial real estate:						
Multi-use properties	309,199	6.7	330,926	7.3	236,430	6.5
Rental properties	235,851	5.1	197,579	4.3	159,134	4.4
Warehouses and storage	197,185	4.3	172,505	3.8	136,853	3.8
Hotels	128,199	2.8	97,016	2.1	41,780	1.2
Restaurants	115,667	2.5	112,547	2.5	63,067	1.7
Service stations and truck stops	100,293	2.2	107,834	2.4	51,403	1.4

Recreational	70,490	1.5	87,986	1.9	58,390	1.6
Other	204,926	4.5	252,122	5.6	232,471	6.5
Total other commercial real estate	1,361,810	29.6	1,358,515	29.9	979,528	27.1
Total commercial real estate	$4,596,249	100.0	$4,553,618	100.0	$3,627,087	100.0

Commercial real estate loans represent 40.1% of total loans and totaled $4.6 billion as of December 31, 2018, consistent with 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 42% of the commercial real estate portfolio, excluding multi-family and construction loans, is owner-occupied as of December 31, 2018. Using outstanding loan balances, non-owner-occupied commercial real estate loans to total capital was 204% and construction loans to total capital was 35% as of December 31, 2018. Non-owner-occupied (investor) commercial real estate is calculated in accordance with federal banking agency guidelines and includes construction, multi-family, non-farm non-residential property, and commercial real estate loans that are not secured by real estate collateral.

Consumer Loans

Consumer loans represent 20.1% of total loans, and totaled $2.3 billion as of December 31, 2018, an increase of $375.9 million, or 19.5%, 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 that a borrower may default. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. The home equity category consists mainly of revolving lines of credit secured by junior liens on owner-occupied real estate. Loan-to-value ratios on home equity loans and 1-4 family mortgages are based on the current appraised value of the collateral. Repayment for these loans is dependent on the borrower's continued financial stability, and is more likely to be impacted by adverse personal circumstances.

Maturity and Interest Rate Sensitivity of Corporate Loans

The following table summarizes the maturity distribution and interest rate sensitivity of our corporate loan portfolio as of December 31, 2018, For additional discussion of interest rate sensitivity, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of this Form 10-K.

Table 13

Maturities and Sensitivities of Corporate Loans to Changes in Interest Rates

(Dollar amounts in thousands)

	Maturity Due In			
	One Year or Less	Greater Than One to Five Years	Greater Than Five Years	Total
As of December 31, 2018				
Commercial, industrial, and agricultural	$1,511,485	$2,142,650	$897,086	$4,551,221
Commercial real estate	1,074,293	2,830,939	691,017	4,596,249
Total corporate loans	$2,585,778	$4,973,589	$1,588,103	$9,147,470
Loans by interest rate type:				
Fixed interest rates	$1,019,435	$1,933,044	$345,973	$3,298,452
Floating interest rates	1,566,343	3,040,545	1,242,130	5,849,018
Total corporate loans	$2,585,778	$4,973,589	$1,588,103	$9,147,470

As of December 31, 2018, the composition of our corporate loans between fixed and floating interest rates was 36% and 64%, respectively. As of December 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. Including the impact of these interest rate swaps, 49% of the loan portfolio consisted of fixed rate loans and 51% were floating rate loans as of December 31, 2018. See Note 19 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for detail regarding interest rate swaps.

Non-performing Assets and Performing Potential Problem Loans

The following table presents our loan portfolio by performing and non-performing status. A discussion of our accounting policies for non-accrual loans, TDRs, and loans 90 days or more past due can be found in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 14

Loan Portfolio by Performing/Non-performing Status

(Dollar amounts in thousands)

	Accruing					
	PCI[1]	Current	30-89 Days Past Due	90 Days Past Due	Non-accrual[2]	Total Loans
As of December 31, 2018						
Commercial and industrial	$1,175	$4,076,842	$8,347	$422	$ 33,507	$4,120,293
Agricultural	3,282	425,041	940	101	1,564	430,928
Commercial real estate:						
Office, retail, and industrial	16,556	1,785,561	8,209	4,081	6,510	1,820,917
Multi-family	13,663	745,739	1,487	189	3,107	764,185
Construction	4,838	640,936	3,419	—	144	649,337
Other commercial real estate	54,763	1,297,191	4,805	2,197	2,854	1,361,810
Total commercial real estate	89,820	4,469,427	17,920	6,467	12,615	4,596,249
Total corporate loans	94,277	8,971,310	27,207	6,990	47,686	9,147,470
Home equity	1,916	839,206	4,988	104	5,393	851,607
1-4 family mortgages	16,655	991,842	3,681	1,147	3,856	1,017,181
Installment	962	427,874	1,648	41	—	430,525
Total consumer loans	19,533	2,258,922	10,317	1,292	9,249	2,299,313
Total loans	$113,810	$11,230,232	$37,524	$8,282	$ 56,935	$11,446,783
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

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

[2] Includes PCI loans of $58,000 and $763,000 as of December 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.

The following table provides a comparison of our non-performing assets and past due loans to prior periods.
Table 15
Non-performing Assets and Past Due Loans
(Dollar amounts in thousands)

	As of December 31,				
	2018	2017	2016	2015	2014
Non-accrual loans	$56,935	$66,924	$59,289	$29,430	$66,157
90 days or more past due loans, still accruing interest[1]	8,282	3,555	5,009	3,057	6,175
Total non-performing loans	65,217	70,479	64,298	32,487	72,332
Accruing TDRs	1,866	1,796	2,291	2,743	3,704
OREO	12,821	20,851	26,083	27,782	34,966
Total non-performing assets	$79,904	$93,126	$92,672	$63,012	$111,002
30-89 days past due loans[1]	$37,524	$39,725	$21,043	$16,705	$22,638
Non-accrual loans to total loans	0.50 %	0.64 %	0.72 %	0.41 %	0.98 %
Non-performing loans to total loans	0.57 %	0.68 %	0.78 %	0.45 %	1.07 %
Non-performing assets to loans plus OREO	0.70 %	0.89 %	1.12 %	0.88 %	1.64 %
Interest income not recognized in the financial statements related to non-accrual loans for 2018					$3,225

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

Non-performing Assets

Total non-performing assets represented 0.70% of total loans and OREO at December 31, 2018, compared to 0.89% and 1.12% at December 31, 2017 and 2016, respectively. The decrease in non-performing assets compared to December 31, 2017 resulted primarily from a decrease in non-accrual loans and sales of OREO properties.

As of December 31, 2017, total non-performing assets were consistent with December 31, 2016.

As of December 31, 2016, non-performing assets increased by $29.7 million, or 47.1%, from December 31, 2015. This increase resulted primarily from the transfer of certain corporate loan relationships to non-accrual status during 2016.

As of December 31, 2015, non-performing assets decreased by $48.0 million, or 43.2%, from December 31, 2014, due mainly to lower levels of non-accrual loans. The improvement in non-accrual loans related primarily to the final resolution of a large commercial loan relationship originally identified in the second half of 2014, for which a specific reserve was then established. In addition, lower levels of covered non-performing assets contributed to the decrease.

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 terms of the loans. A discussion of our accounting policies for TDRs can be found in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 16

TDRs by Type

(Dollar amounts in thousands)

	As of December 31,					
	2018		2017		2016	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
Commercial and industrial	6	$ 6,240	11	$ 19,223	3	$ 431
Commercial real estate:						
Office, retail, and industrial	—	—	4	4,236	3	4,888
Multi-family	2	557	3	723	3	754
Other commercial real estate	1	181	1	192	3	316
Total commercial real estate loans	3	738	8	5,151	9	5,958
Total corporate loans	9	6,978	19	24,374	12	6,389
Home equity	11	440	15	824	16	997
1-4 family mortgages	11	1,060	11	1,131	11	1,202
Total consumer loans	22	1,500	26	1,955	27	2,199
Total TDRs	31	$ 8,478	45	$ 26,329	39	$ 8,588
Accruing TDRs	15	$ 1,866	14	$ 1,796	18	$ 2,291
Non-accrual TDRs	16	6,612	31	24,533	21	6,297
Total TDRs	31	$ 8,478	45	$ 26,329	39	$ 8,588
Year-to-date charge-offs on TDRs		$ 3,925		$ 6,345		$ 1,492
Specific reserves related to TDRs		—		1,977		—

As of December 31, 2018, TDRs totaled $8.5 million, decreasing by $17.9 million from December 31, 2017. The decrease was driven primarily by paydowns and the final resolution of one non-accrual corporate relationship during 2018. The December 31, 2018 total includes $1.9 million in loans that are accruing interest, with the majority restructured at market terms. After a sufficient period of performance under the modified terms, the loans restructured at market rates will be reclassified to performing status.

As of December 31, 2017, TDRs totaled $26.3 million, increasing by $17.7 million from December 31, 2016. The increase was driven primarily by the extension of two non-accrual credits during 2017.

Corporate Performing Potential Problem Loans

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

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

	December 31, 2018			December 31, 2017		
	Special Mention[1]	Substandard[2]	Total[3]	Special Mention[1]	Substandard[2]	Total[3]
Commercial and industrial	$74,878	$ 59,597	$134,475	$70,863	$ 30,074	$100,937
Agricultural	10,070	11,752	21,822	10,989	5,732	16,721
Commercial real estate	109,232	74,886	184,118	72,749	69,228	141,977
Total corporate performing potential problem loans[4]	$194,180	$ 146,235	$340,415	$154,601	$ 105,034	$259,635
Corporate performing potential problem loans to corporate loans	2.12 %	1.60 %	3.72 %	1.82 %	1.23 %	3.05 %
Corporate PCI performing potential problem loans included in the total above	$14,650	$ 20,638	$35,288	$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.

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

[3] Total corporate performing potential problem loans excludes accruing TDRs of $630,000 as of December 31, 2018 and $657,000 as of December 31, 2017.

[4] Includes corporate PCI performing potential problem loans.

Corporate performing potential problem loans were 3.72% of corporate loans as of December 31, 2018, up from 3.05% as of December 31, 2017. The increase resulted primarily from higher levels of commercial and industrial loans classified as substandard and commercial real estate loans classified as special mention. Management has specific monitoring and remediation plans associated with these loans.

OREO

OREO consists of properties acquired as the result of borrower defaults on loans. A discussion of our accounting policies for OREO is contained in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 18
OREO Properties by Type
(Dollar amounts in thousands)

	As of December 31,		
	2018	2017	2016
Single-family homes	$3,337	$837	$2,595
Land parcels:			
Raw land	—	850	1,464
Commercial lots	2,310	8,698	8,176
Single-family lots	1,962	2,150	947

Total land parcels	4,272	11,698	10,587
Multi-family units	—	48	48
Commercial properties	5,212	8,268	12,853
Total OREO	$12,821	$20,851	$26,083

Table of Contents

OREO Activity

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

Table 19

OREO Rollforward

(Dollar amounts in thousands)

	Years Ended December 31,	
	2018	2017
Beginning balance	$20,851	$26,083
Transfers from loans	6,027	6,255
Acquired	2,549	8,424
Proceeds from sales	(16,953)	(19,326)
Gains on sales of OREO	1,959	1,451
OREO valuation adjustments	(1,612)	(2,036)
Ending balance	$12,821	$20,851

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, and other factors.

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 December 31, 2018.

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

An allowance for credit losses is established on loans originated by the Bank, acquired loans, and covered loans. Additional discussion regarding acquired and covered loans can be found in Notes 1 and 6 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. The following table provides additional details related to acquired loans, the allowance for credit losses related to acquired loans, and the remaining acquisition adjustment associated with acquired loans as of and for the years ended December 31, 2018 and 2017.

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

	Loans, Excluding Acquired Loans	Acquired Loans[1]	Total
Year Ended December 31, 2018			
Beginning balance	$94,123	$2,606	$96,729
Net charge-offs	(40,786)	(578)	(41,364)
Provision for loan losses	48,885	(831)	48,054
Ending balance	$102,222	$1,197	$103,419
As of December 31, 2018			
Total loans	$10,114,113	$1,332,670	$11,446,783
Remaining acquisition adjustment[2]	N/A	76,496	76,496
Allowance for credit losses to total loans[3]	1.01%	0.09%	0.90%
Remaining acquisition adjustment to acquired loans	N/A	5.74%	N/A
Year Ended December 31, 2017			
Beginning balance	$84,217	$2,866	$87,083
Net charge-offs	(21,236)	(408)	(21,644)
Provision for loan losses	31,142	148	31,290
Ending balance	$94,123	$2,606	$96,729
As of December 31, 2017			
Total loans	$8,822,560	$1,615,252	$10,437,812
Remaining acquisition adjustment[2]	N/A	74,677	74,677
Allowance for credit losses to total loans[3]	1.07%	0.16%	0.93%
Remaining acquisition adjustment to acquired loans	N/A	4.62%	N/A

N/A - Not applicable.

[1] These amounts and ratios relate to the loans acquired in completed acquisitions.

[2] The remaining acquisition adjustment consists of $45.4 million and $31.1 million relating to PCI and non-purchased credit impaired ("non-PCI") loans, respectively, as of December 31, 2018, and $43.5 million and $31.2 million relating to PCI and non-PCI loans, respectively, as of December 31, 2017.

[3] 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 7 titled "Non-GAAP Financial Information and Reconciliations."

Excluding acquired loans, the allowance for credit losses to total loans was 1.01% as of December 31, 2018. The acquisition adjustment increased by $1.8 million during the year ended December 31, 2018, due primarily to the Northern States transaction. This was partially offset by acquired loan accretion, resulting in a remaining acquisition adjustment as a percent of acquired loans of 5.74% as of December 31, 2018. Acquired loans that are renewed are no longer classified as acquired loans. These loans totaled $458.0 million and $366.0 million as of December 31, 2018 and 2017, respectively, and are included in loans, excluding acquired loans, and allocated an allowance in accordance with our allowance for loan losses methodology. In addition, there is an allowance for credit losses of $1.2 million on acquired loans.

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

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Change in allowance for credit losses					
Beginning balance	$96,729	$87,083	$74,855	$74,510	$87,121
Loan charge-offs:					
Commercial, industrial, and agricultural	36,477	22,885	9,982	16,422	17,776
Office, retail, and industrial	2,286	190	4,707	2,899	7,388
Multi-family	5	—	307	568	948
Construction	1	38	134	139	1,343
Other commercial real estate	410	755	2,932	2,678	4,975
Consumer	8,806	6,955	5,231	4,211	7,754
Total loan charge-offs	47,985	30,823	23,293	26,917	40,184
Recoveries of loan charge-offs:					
Commercial, industrial, and agricultural	2,946	4,150	2,451	2,588	3,858
Office, retail, and industrial	334	2,935	337	534	693
Multi-family	3	39	97	15	97
Construction	125	270	56	350	303
Other commercial real estate	1,532	244	524	2,031	2,487
Consumer	1,681	1,541	1,298	1,183	767
Total recoveries of loan charge-offs	6,621	9,179	4,763	6,701	8,205
Net loan charge-offs	41,364	21,644	18,530	20,216	31,979
Provision for loan losses	47,854	31,290	30,983	21,152	19,168
Increase (decrease) in reserve for unfunded commitments[1]	200	—	(225)	(591)	200
Total provision for loan losses and other expense	48,054	31,290	30,758	20,561	19,368
Ending balance	$103,419	$96,729	$87,083	$74,855	$74,510
Allowance for credit losses					
Allowance for loan losses	$102,219	$95,729	$86,083	$73,630	$72,694
Reserve for unfunded commitments	1,200	1,000	1,000	1,225	1,816
Total allowance for credit losses	$103,419	$96,729	$87,083	$74,855	$74,510
Allowance for credit losses to loans[2]	0.90 %	0.93 %	1.06 %	1.05 %	1.11 %
Allowance for credit losses to loans, excluding acquired loans[3]	1.01 %	1.07 %	1.11 %	1.11 %	1.24 %
Allowance for credit losses to non-accrual loans	181.64 %	144.54 %	146.88 %	254.35 %	112.63 %
Allowance for credit losses to non-performing loans	158.58 %	137.25 %	135.44 %	230.42 %	103.01 %
Average loans	$10,921,795	$10,163,119	$7,864,851	$6,858,193	$6,109,928
Net loan charge-offs to average loans	0.38 %	0.21 %	0.24 %	0.29 %	0.52 %

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

[2] This ratio includes acquired loans that are recorded at fair value through an acquisition adjustment, which incorporates credit risk as of the acquisition date with no allowance for credit losses being established at that time.

As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses is established as necessary to reflect credit deterioration. 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.

[3] This item is a non-GAAP measure. For a discussion of non-GAAP financial measures, see the section of this Item 7 titled "Non-GAAP Financial Information and Reconciliations."

Table of Contents

Activity in the Allowance for Credit Losses

The allowance for credit losses was $103.4 million as of December 31, 2018 compared to $96.7 million as of December 31, 2017, driven primarily by loan growth.The decrease in the allowance for credit losses to total loans to 0.90% as of December 31, 2018 from 0.93% as of December 31, 2017 was due primarily to loans acquired in the Northern States transaction.

The allowance for credit losses increased to $96.7 million as of December 31, 2017 from $87.1 million as of December 31, 2016, and $74.9 million as of December 31, 2015, driven primarily by loan growth and the impact of establishing an allowance on acquired loans. The decrease in the allowance for credit losses to total loans to 0.93% as of December 31, 2017 from 1.06% as of December 31, 2016 was due primarily to loans acquired in the Standard transaction.

The allowance for credit losses remained consistent at $74.9 million as of December 31, 2015 compared to $74.5 million as of December 31, 2014. This stability in the allowance for credit losses reflects the sustained improvement in our non-performing loan levels and the related credit metrics.

Net loan charge-offs to average loans increased to 0.38% for 2018 compared to 0.21% for 2017 and 0.24% for 2016. 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.

Allocation of the Allowance for Credit Losses

Table 22

Allocation of Allowance for Credit Losses

(Dollar amounts in thousands)

	As of December 31,									
	2018	% of Total Loans[1]	2017	% of Total Loans[1]	2016	% of Total Loans[1]	2015	% of Total Loans[1]	2014	% of Total Loans[1]
Commercial, industrial, and agricultural	$63,276	39.8	$55,791	37.9	$40,709	39.0	$37,074	40.7	$31,177	38.9
Commercial real estate:										
Office, retail, and industrial	7,900	15.9	10,996	19.0	17,595	19.2	13,124	19.5	13,053	22.2
Multi-family	2,464	6.7	2,534	6.5	3,261	7.4	2,469	7.4	2,387	8.4
Construction	2,181	5.6	3,501	5.2	3,586	5.4	1,533	3.0	3,503	3.1
Other commercial real estate	5,881	11.9	7,121	13.0	8,306	11.9	6,682	13.0	9,533	13.3
Total commercial real estate	18,426	40.1	24,152	43.7	32,748	43.9	23,808	42.9	28,476	47.0
Consumer	21,717	20.1	16,786	18.4	13,626	17.1	13,973	16.4	14,857	14.1
Total allowance for credit losses	$103,419	100.0	$96,729	100.0	$87,083	100.0	$74,855	100.0	$74,510	100.0

[1] Percentages represent total loans in each category to total loans.

INVESTMENT IN BANK-OWNED LIFE INSURANCE

We previously purchased life insurance policies on the lives of certain directors and officers and are the sole owner and beneficiary of the policies. We invested in these BOLI policies to provide an efficient form of funding for long-term retirement and other employee benefit costs. Therefore, our BOLI policies are intended to be long-term investments to provide funding for long-term liabilities. We record these BOLI policies as a separate line item in the Consolidated Statements of Financial Condition at each policy's respective cash surrender value ("CSV") with changes recorded as a component of noninterest income in the Consolidated Statements of Income. As of December 31, 2018, the CSV of BOLI assets totaled $296.7 million. Income and proceeds for BOLI policies are not subject to income taxation.

As of December 31, 2018, 52.3% of our total BOLI portfolio is invested in general account life insurance distributed among fifteen insurance carriers, all of which carry investment grade ratings. This general account life insurance typically includes a feature guaranteeing minimum returns. The remaining 47.7% is in separate account life insurance, which is managed by third-party investment advisors under pre-determined investment guidelines. Stable value protection is a feature available for separate account life insurance policies that is designed to protect a policy's CSV from market fluctuations, within limits, on underlying investments. Our entire separate account portfolio has stable value protection purchased from a highly rated financial institution. To the extent fair values on individual contracts fall below 80% of their CSV, the CSV of the specific contracts may be reduced or the underlying assets may be transferred to short-duration investments, resulting in lower earnings.

For the years ended December 31, 2018, 2017, and 2016, we had BOLI income of $5.8 million, $5.9 million, and $3.6 million, respectively.

GOODWILL

The carrying amount of goodwill was $728.8 million as of December 31, 2018 and $697.6 million as of December 31, 2017. Goodwill increased by $31.2 million from December 31, 2017, which consisted of $29.3 million related to the Northern States acquisition, and a $1.9 million measurement period adjustment related to finalizing the fair values of assets acquired and liabilities assumed in the Premier acquisition. For additional detail regarding goodwill, see Note 9 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Goodwill is tested annually for impairment or when events or circumstances indicate a need to perform interim tests, as described in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. During 2018, we performed our annual impairment test of goodwill at October 1, 2018 and determined that goodwill was not impaired at that date and there was no indication that goodwill was impaired as of December 31, 2018.

DEFERRED TAX ASSETS

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

Table 23
Deferred Tax Assets
(Dollar amounts in thousands)

	As of December 31,			% Change	
	2018	2017	2016	2018-2017	2017-2016
Net DTAs	$60,129	$64,736	$100,207	(7.1)	(35.4)

Management assessed whether it is more likely than not that all or some portion of the DTAs will not be realized. This assessment considered whether, in the periods of reversal, the DTAs can be realized through carryback to income in prior years, future reversals of existing deferred tax liabilities, and future taxable income, including taxable income resulting from the application of future tax planning strategies. The assessment also considered positive and negative evidence, including pre-tax income during the current and prior two years, actual performance compared to budget, trends in non-performing assets and corporate performing potential problem loans, the Company's capital position, and any unsettled circumstances that could impact future earnings. Based on this assessment, management determined that it is more likely than not that our DTAs will be fully realized and no valuation allowance is required as of December 31, 2018.

Net DTAs decreased in 2018 due primarily to additional 2017 tax return deductions partially offset by net DTAs acquired as part of the Northern States acquisition. Net DTAs decreased in 2017 due primarily to the downward revaluation of DTAs by $26.6 million related to federal income tax reform, partly offset by a $2.8 million benefit due to changes in the Illinois income tax rates. In addition, accelerated tax gains associated with the disposition of assets resulting from the sale-leaseback transaction and securities valuation adjustments, partially offset by the utilization of net operating loss and credit carryforwards contributed to the decrease.

FUNDING AND LIQUIDITY MANAGEMENT

Liquidity measures the ability to meet current and future cash flows as they become due. Our approach to liquidity management is to obtain funding sources at a minimum cost to meet fluctuating deposit, withdrawal, and loan demand needs. Our liquidity policy establishes parameters to maintain flexibility in responding to changes in liquidity needs over a 12-month forward-looking period, including the requirement to formulate a quarterly liquidity compliance plan for review by the Bank's Board of Directors. The compliance plan includes an analysis that measures projected needs to purchase and sell funds and incorporates a set of projected balance sheet assumptions that are updated quarterly.

Based on these assumptions, we determine our total cash liquidity on hand and excess collateral capacity from pledging, unused federal funds purchased lines, and other unused borrowing capacity, such as FHLB advances, resulting in a calculation of our total liquidity capacity. Our total policy-directed liquidity requirement is to have funding sources available to cover 50.0% of non-collateralized, non-FDIC insured, non-maturity deposits. Based on our projections as of December 31, 2018, we expect to have liquidity capacity in excess of policy guidelines for the forward twelve-month period.

The liquidity needs of First Midwest Bancorp, Inc. on an unconsolidated basis (the "Parent Company") consist primarily of operating expenses, debt service payments, and dividend payments to our stockholders, which totaled $91.4 million for the year ended December 31, 2018. The primary source of liquidity for the Parent Company is dividends from subsidiaries. The Parent Company had $56.5 million in junior subordinated debentures, $147.3 million in subordinated notes, and cash and interest-bearing deposits of $158.0 million as of December 31, 2018. On September 27, 2016, the Company entered into a loan agreement with U.S. Bank National Association providing for a $50.0 million short-term, unsecured revolving credit facility. On September 26, 2018, the Company entered into a second amendment to this credit facility, which extends the maturity to September 26, 2019. As of December 31, 2018, no amount was outstanding under the facility. The Parent Company has the ability to enhance its liquidity position by raising capital or incurring debt.

Total deposits and borrowed funds as of December 31, 2018 are summarized in Notes 10 and 11 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. The following table provides a comparison of average funding sources over the last three years. We believe that average balances, rather than period-end balances, are more meaningful in analyzing funding sources because of the normal fluctuations that may occur on a daily or monthly basis within funding categories.

Table 24
Funding Sources - Average Balances
(Dollar amounts in thousands)

	Years Ended December 31,						% Change	
	2018	% of Total	2017	% of Total	2016	% of Total	2018-2017	2017-2016
Demand deposits	$3,600,369	28.5	$3,520,737	29.7	$2,711,687	28.4	2.3	29.8
Savings deposits	2,031,001	16.1	2,039,986	17.2	1,629,917	17.1	(0.4)	25.2
NOW accounts	2,088,317	16.5	1,990,021	16.8	1,634,029	17.1	4.9	21.8
Money market accounts	1,794,363	14.2	1,925,273	16.3	1,639,746	17.2	(6.8)	17.4
Core deposits	9,514,050	75.3	9,476,017	80.0	7,615,379	79.8	0.4	24.4
Time deposits	1,938,497	15.3	1,539,383	13.0	1,211,554	12.7	25.9	27.1
Brokered deposits	41,033	0.3	19,448	0.2	19,104	0.2	111.0	1.8
Total time deposits	1,979,530	15.6	1,558,831	13.2	1,230,658	12.9	27.0	26.7
Total deposits	11,493,580	90.9	11,034,848	93.2	8,846,037	92.7	4.2	24.7
Securities sold under agreements to repurchase	114,281	0.9	120,700	1.0	123,898	1.3	(5.3)	(2.6)
Federal funds purchased	6,178	0.1	—	—	—	—	—	—
FHLB advances	826,077	6.5	501,391	4.2	373,344	3.9	64.8	34.3
Other borrowings	—	—	—	—	321	—	—	(100.0)
Total borrowed funds	946,536	7.5	622,091	5.2	497,563	5.2	52.2	25.0
Senior and subordinated debt	197,564	1.6	194,891	1.6	197,515	2.1	1.4	(1.3)
Total funding sources	$12,637,680	100.0	$11,851,830	100.0	$9,541,115	100.0	6.6	24.2

Average Funding Sources

Total average funding sources of $12.6 billion for 2018 increased by $785.9 million, or 6.6%, from 2017. The increase resulted primarily from FHLB advances as well as the continued success of time deposit marketing initiatives. In addition, funding sources acquired in the Northern States acquisition in the fourth quarter of 2018 contributed to the increase.

Total average funding sources of $11.9 billion for 2017 increased by $2.3 billion, or 24.2%, from 2016. The rise in average core deposits resulted primarily from $1.7 billion in core deposits assumed in the Standard acquisition, as well as organic growth.

Time Deposits

Table 25

Maturities of Time Deposits Greater Than $100,000

(Dollar amounts in thousands)

	As of December 31, 2018
Three months or less	$227,594
Greater than three months to six months	218,798
Greater than six months to twelve months	428,589
Greater than twelve months	317,259
Total	$1,192,240

Borrowed Funds

Table 26

Borrowed Funds

(Dollar amounts in thousands)

	2018		2017		2016	
	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %
At period-end:						
Securities sold under agreements to repurchase	$121,079	—	$124,884	0.07	$129,008	0.05
Federal funds purchased	—	—	—	—	—	—
FHLB advances	785,000	—	590,000	1.22	750,000	0.60
Total borrowed funds	$906,079	—	$714,884	1.02	$879,008	0.52
Average for the year-to-date period:						
Securities sold under agreements to repurchase	$114,281	0.09	$120,700	0.07	$123,898	0.08
Federal funds purchased	6,178	1.94	—	—	—	—
FHLB advances	826,077	1.84	501,391	1.80	373,344	1.66
Other borrowings	—	—	—	—	321	3.74
Total borrowed funds	$946,536	1.63	$622,091	1.46	$497,563	1.27
Maximum amount outstanding at the end of any day during the period:						
Securities sold under agreements to repurchase	$128,553		$140,764		$174,266	
Federal funds purchased	140,000		—		—	
FHLB advances	1,105,000		940,000		750,000	
Other borrowings	—		—		2,400	

Average borrowed funds totaled $946.5 million, $622.1 million, and $497.6 million for 2018, 2017, and 2016, respectively. The increase in 2018 from 2017 and in 2017 from 2016 was due primarily to higher levels of FHLB advances. The weighted-average rate on FHLB advances for the year-to-date periods was impacted by the hedging of $740.0 million, $415.0 million, and $325.0 million of FHLB advances as of December 31, 2018, 2017, and 2016, respectively, using interest rate swaps through which the Company receives variable amounts and pays fixed amounts. The weighted-average interest rate paid on these interest rate swaps was 1.92%, 2.17%, and 2.19% as of December 31, 2018, 2017, and 2016, respectively. For further discussion of interest rate swaps, see Note 19 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

On September 27, 2016, the Company entered into a loan agreement with U.S. Bank National Association providing for a $50.0 million short-term, unsecured revolving credit facility. On September 26, 2018, the Company entered into a second amendment to this credit facility, which extends the maturity to September 26, 2019. Advances will bear interest at a rate equal to one-month LIBOR plus 1.75%, adjusted on a monthly basis, and the Company must pay an unused facility fee equal to 0.35% per annum on a quarterly basis. As of December 31, 2018, no amount was outstanding under the facility.

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

Senior and Subordinated Debt

Average senior and subordinated debt increased by $2.7 million, or 1.4%, from 2017 to 2018. The increase resulted from the acquisition of Northern States Statutory Trust I, as part of the Northern States acquisition completed during the fourth quarter of 2018. Average senior and subordinated debt decreased $2.6 million, or 1.3%, from 2016 to 2017. The decrease resulted from the timing of the maturity and repayment of $38.5 million of 5.850% subordinated notes on April 1, 2016 and $115.0 million of the Company's 5.875% senior notes on November 22, 2016, which were partly offset by the issuance and sale of $150.0 million aggregate principal amount of its 5.875% subordinated notes due 2026, issued on September 29, 2016. See Note 12 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for additional discussion regarding these transactions.

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

Through our normal course of operations, we enter into certain contractual obligations and other commitments. These obligations generally relate to the funding of operations through deposits or debt issuances, as well as leases for premises and equipment. As a financial services provider, we routinely enter into commitments to extend credit. While contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn. These commitments are subject to the same credit policies and approval process used for our loans.

The following table presents our significant fixed and determinable contractual obligations and significant commitments as of December 31, 2018. Further discussion of the nature of each obligation is included in the referenced note of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 27

Contractual Obligations, Commitments, Off-Balance Sheet Risk, and Contingent Liabilities

(Dollar amounts in thousands)

		Payments Due In				
	Note Reference	One Year or Less	Greater Than One to Three Years	Greater Than Three to Five Years	Greater Than Five Years	Total
Core deposits (no stated maturity)	10	$9,543,208	$ —	$ —	$ —	$9,543,208
Time deposits	10	1,907,914	596,134	36,679	177	2,540,904
Borrowed funds	11	906,079	—	—	—	906,079
Subordinated debt	12	—	—	—	203,808	203,808
Operating leases	8	15,811	33,756	34,067	117,806	201,440
Pension liability	16	5,589	9,681	8,805	34,196	58,271
Uncertain tax positions liability	15	N/M	N/M	N/M	N/M	16,350
Commitments to extend credit	20	N/M	N/M	N/M	N/M	2,841,638
Letters of credit	20	N/M	N/M	N/M	N/M	112,728

N/M – Not meaningful.

MANAGEMENT OF CAPITAL

Capital Measurements

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

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

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 7 titled "Non-GAAP Financial Information and Reconciliations."

Table 28
Capital Measurements
(Dollar amounts in thousands)

	As of December 31,		As of December 31, 2018		
	2018	2017	Regulatory Minimum For Well-Capitalized	Excess Over Required Minimums	
Bank regulatory capital ratios					
Total capital to risk-weighted assets	11.39%	10.95%	10.00%	14 %	$178,305
Tier 1 capital to risk-weighted assets	10.58%	10.13%	8.00 %	32 %	$331,830
CET1 to risk-weighted assets	10.58%	10.13%	6.50 %	63 %	$524,539
Tier 1 capital to average assets	9.41 %	9.10 %	5.00 %	88 %	$637,119
Company regulatory capital ratios					
Total capital to risk-weighted assets	12.62%	12.15%	N/A	N/A	N/A
Tier 1 capital to risk-weighted assets	10.20%	10.10%	N/A	N/A	N/A
CET1 to risk-weighted assets	10.20%	9.68 %	N/A	N/A	N/A
Tier 1 capital to average assets	8.90 %	8.99 %	N/A	N/A	N/A
Company tangible common equity ratios[1][2]					
Tangible common equity to tangible assets	8.59 %	8.33 %	N/A	N/A	N/A
Tangible common equity, excluding accumulated other comprehensive income, to tangible assets	8.95 %	8.58 %	N/A	N/A	N/A
Tangible common equity to risk-weighted assets	9.81 %	9.31 %	N/A	N/A	N/A

N/A – Not applicable.

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

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

Overall, the Company's regulatory capital ratios increased compared to December 31, 2017 as a result of strong earnings, partially offset by the Northern States acquisition in the fourth quarter of 2018 and the impact of loan growth and securities purchases on risk-weighted assets. In addition, Tier 1 capital ratios were impacted by the phase-out of Tier 1 treatment of the Company's trust-preferred securities due to the Company surpassing $15 billion in total consolidated assets in 2018.

The Board reviews the Company's capital plan each quarter, considering the current and expected operating environment as well as evaluating various capital alternatives. For further details of the regulatory capital requirements and ratios as of December 31, 2018 and 2017 for the Company and the Bank, see Note 18 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Stock Repurchase Programs

The Company maintains a Board-approved stock repurchase program by which shares of Company common stock may be repurchased. Shares repurchased, whether as part of or outside of the Board-approved program, are held as treasury stock and are available for issuance in connection with our qualified and nonqualified retirement plans, share-based compensation plans, and other general corporate purposes. We reissued 138,324 treasury shares in 2018 and 133,907 treasury shares in 2017 pursuant to these plans.

Dividends

The Company's Board declared a quarterly cash dividend of $0.09 per share for the first quarter of 2016 and for each of the quarters through the first quarter of 2017. The Company increased the quarterly dividend to $0.10 per share for each of the quarters from the second quarter of 2017 through the fourth quarter of 2017. The Company increased the quarterly dividend to $0.11 per share in the first quarter of 2018 through the third quarter of 2018. The dividend for the fourth quarter of 2018 increased to $0.12, which represents the 144th consecutive cash dividend paid by the Company since its inception in 1983.

QUARTERLY EARNINGS

Table 29

Quarterly Earnings Performance[1]

(Dollar amounts in thousands, except per share data)

	2018				2017			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income	$159,527	$149,532	$142,088	$131,345	$129,585	$129,916	$126,516	$123,699
Interest expense	20,898	17,505	14,685	12,782	10,254	10,023	8,933	8,502
Net interest income	138,629	132,027	127,403	118,563	119,331	119,893	117,583	115,197
Provision for loan losses	9,811	11,248	11,614	15,181	8,024	10,109	8,239	4,918
Noninterest income	36,462	35,666						