FIRST MIDWEST BANCORP INC
Form 10-Q
November 02, 2015

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

FORM 10-Q
(Mark One)

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

or

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

Commission File Number 0-10967

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

As of October 30, 2015, there were 77,949,334 shares of common stock, $.01 par value, outstanding.

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

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$125,279	$117,315
Interest-bearing deposits in other banks	822,264	488,947
Trading securities, at fair value	17,038	17,460
Securities available-for-sale, at fair value	1,151,418	1,187,009
Securities held-to-maturity, at amortized cost	23,723	26,555
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost	38,748	37,558
Loans, excluding covered loans	6,874,480	6,657,418
Covered loans	51,219	79,435
Allowance for loan and covered loan losses	(72,500)	(72,694)
Net loans	6,853,199	6,664,159
Other real estate owned ("OREO"), excluding covered OREO	31,129	26,898
Covered OREO	906	8,068
Federal Deposit Insurance Corporation ("FDIC") indemnification asset	6,106	8,452
Premises, furniture, and equipment, net	127,443	131,109
Investment in bank-owned life insurance ("BOLI")	208,666	206,498
Goodwill and other intangible assets	331,250	334,199
Accrued interest receivable and other assets	197,877	190,912
Total assets	$9,935,046	$9,445,139
Liabilities		
Noninterest-bearing deposits	$2,671,793	$2,301,757
Interest-bearing deposits	5,624,657	5,586,001
Total deposits	8,296,450	7,887,758
Borrowed funds	169,943	137,994
Senior and subordinated debt	201,123	200,869
Accrued interest payable and other liabilities	119,861	117,743
Total liabilities	8,787,377	8,344,364
Stockholders' Equity		
Common stock	882	882
Additional paid-in capital	445,037	449,798
Retained earnings	944,209	899,516
Accumulated other comprehensive loss, net of tax	(15,818)	(15,855)
Treasury stock, at cost	(226,641)	(233,566)
Total stockholders' equity	1,147,669	1,100,775
Total liabilities and stockholders' equity	$9,935,046	$9,445,139

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

Shares authorized	1,000	150,000	1,000	150,000
Shares issued	—	88,228	—	88,228
Shares outstanding	—	77,942	—	77,695
Treasury shares	—	10,286	—	10,533

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest Income				
Loans	$75,522	$68,713	$224,739	$192,892
Investment securities	7,723	7,465	23,839	23,489
Other short-term investments	1,047	684	2,739	2,174
Total interest income	84,292	76,862	251,317	218,555
Interest Expense				
Deposits	2,329	2,806	7,256	7,914
Borrowed funds	928	9	1,064	561
Senior and subordinated debt	3,133	3,016	9,411	9,047
Total interest expense	6,390	5,831	17,731	17,522
Net interest income	77,902	71,031	233,586	201,033
Provision for loan and covered loan losses	4,100	10,727	16,652	17,509
Net interest income after provision for loan and covered loan losses	73,802	60,304	216,934	183,524
Noninterest Income				
Service charges on deposit accounts	10,519	9,902	29,676	26,895
Wealth management fees	7,222	6,721	21,669	19,730
Card-based fees	6,868	6,646	20,223	17,950
Mortgage banking income	1,402	1,125	3,964	3,199
Other service charges, commissions, and fees	7,107	5,266	17,800	13,943
Other income	1,372	923	5,220	3,778
Net securities gains	524	2,570	1,551	8,160
Gains on sales of properties	—	3,954	—	3,954
Loss on early extinguishment of debt	—	—	—	(2,059)
Total noninterest income	35,014	37,107	100,103	95,550
Noninterest Expense				
Salaries and employee benefits	41,361	35,471	122,371	103,523
Net occupancy and equipment expense	9,406	8,639	29,464	25,702
Professional services	6,172	5,692	16,603	16,772
Technology and related costs	3,673	3,253	10,887	9,431
Net OREO expense	1,290	1,406	4,355	4,531
Other expenses	12,463	12,104	36,793	34,461
Acquisition and integration related expenses	—	3,748	—	4,578
Total noninterest expense	74,365	70,313	220,473	198,998
Income before income tax expense	34,451	27,098	96,564	80,076
Income tax expense	11,167	8,549	30,824	25,363
Net income	$23,284	$18,549	$65,740	$54,713
Per Common Share Data				
Basic earnings per common share	$0.30	$0.25	$0.84	$0.73
Diluted earnings per common share	$0.30	$0.25	$0.84	$0.73
Dividends declared per common share	$0.09	$0.08	$0.27	$0.23
Weighted-average common shares outstanding	77,106	74,341	77,038	74,270
Weighted-average diluted common shares outstanding	77,119	74,352	77,051	74,282

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$23,284	$18,549	$65,740	$54,713
Securities available-for-sale				
Unrealized holding gains (losses):				
Before tax	6,126	(2,693)	748	22,028
Tax effect	(2,454)	1,003	(312)	(8,776)
Net of tax	3,672	(1,690)	436	13,252
Reclassification of net gains included in net income:				
Before tax	524	2,570	1,551	8,160
Tax effect	(214)	(1,051)	(634)	(3,337)
Net of tax	310	1,519	917	4,823
Net unrealized holding gains (losses)	3,362	(3,209)	(481)	8,429
Derivative instruments				
Unrealized holding gains (losses):				
Before tax	3,420	(629)	870	(827)
Tax effect	(1,368)	257	(352)	338
Net of tax	2,052	(372)	518	(489)
Total other comprehensive income (loss)	5,414	(3,581)	37	7,940
Total comprehensive income	$28,698	$14,968	$65,777	$62,653

	Accumulated Unrealized Loss on Securities Available-for-Sale	Accumulated Unrealized Loss on Derivative Instruments	Unrecognized Net Pension Costs	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2013	$(20,419)	$—	$(6,373)	$(26,792)
Other comprehensive income (loss)	8,429	(489)	—	7,940
Balance at September 30, 2014	$(11,990)	$(489)	$(6,373)	$(18,852)
Balance at December 31, 2014	$(2,950)	$(1,138)	$(11,767)	$(15,855)
Other comprehensive (loss) income	(481)	518	—	37
Balance at September 30, 2015	$(3,431)	$(620)	$(11,767)	$(15,818)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2013	75,071	$858	$414,293	$853,740	$(26,792)	$(240,657)	$1,001,442
Comprehensive income	—	—	—	54,713	7,940	—	62,653
Common dividends declared ($0.23 per common share)	—	—	—	(17,324)	—	—	(17,324)
Share-based compensation expense	—	—	4,461	—	—	—	4,461
Restricted stock activity	215	—	(9,833)	—	—	7,938	(1,895)
Treasury stock issued to benefit plans	9	—	(132)	—	—	471	339
Balance at September 30, 2014	75,295	$858	$408,789	$891,129	$(18,852)	$(232,248)	$1,049,676
Balance at December 31, 2014	77,695	$882	$449,798	$899,516	$(15,855)	$(233,566)	$1,100,775
Comprehensive income	—	—	—	65,740	37	—	65,777
Common dividends declared ($0.27 per common share)	—	—	—	(21,047)	—	—	(21,047)
Purchase of treasury stock	(7)	—	—	—	—	(120)	(120)
Share-based compensation expense	—	—	5,459	—	—	6,764	12,223
Restricted stock activity	255	—	(10,108)	—	—	—	(10,108)
Treasury stock purchased for benefit plans	(1)	—	(112)	—	—	281	169
Balance at September 30, 2015	77,942	$882	$445,037	$944,209	$(15,818)	$(226,641)	$1,147,669

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
Net cash provided by operating activities	$94,292	$88,575
Investing Activities		
Proceeds from maturities, repayments, and calls of securities available-for-sale	216,900	125,244
Proceeds from sales of securities available-for-sale	57,255	24,947
Purchases of securities available-for-sale	(241,300)	(16,411)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	4,016	3,814
Purchases of securities held-to-maturity	(1,184)	(1,998)
Net purchases of FHLB stock	(1,190)	(427)
Net increase in loans	(214,357)	(291,561)
Premiums paid for BOLI, net of claims	1,095	(73)
Proceeds from sales of OREO	13,820	14,293
Proceeds from sales of premises, furniture, and equipment	195	3,893
Purchases of premises, furniture, and equipment	(6,591)	(7,885)
Cash received from acquisitions, net of cash paid	—	139,486
Net cash used in investing activities	(171,341)	(6,678)
Financing Activities		
Net increase in deposit accounts	408,692	119,440
Net increase in borrowed funds	31,949	23,085
Purchase of treasury stock	(120)	—
Payment for the termination of FHLB advances	—	(116,609)
Cash dividends paid	(20,132)	(16,556)
Restricted stock activity	(2,853)	(2,739)
Excess tax benefit related to share-based compensation	794	824
Net cash provided by financing activities	418,330	7,445
Net increase in cash and cash equivalents	341,281	89,342
Cash and cash equivalents at beginning of period	606,262	587,241
Cash and cash equivalents at end of period	$947,543	$676,583
Supplemental Disclosures of Cash Flow Information:		
Income taxes paid	$12,787	$7,262
Interest paid to depositors and creditors	14,931	14,714
Dividends declared, but unpaid	7,137	6,028
Non-cash transfers of loans to OREO	11,956	13,277
Non-cash transfer of loans held-for-investment to loans held-for-sale	15,068	70,183

See accompanying notes to the unaudited condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Basis of Presentation – The accompanying unaudited condensed consolidated interim financial statements ("consolidated financial statements") of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, were prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and reflect all adjustments that management deems necessary for the fair presentation of the financial position and results of operations for the periods presented. The results of operations for the quarter and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.
The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry. The accompanying consolidated financial statements do not include certain information and note disclosures required by GAAP for complete annual financial statements. Therefore, these financial statements should be read in conjunction with the Company's 2014 Annual Report on Form 10-K ("2014 10-K"). The Company uses the accrual basis of accounting for financial reporting purposes. Certain reclassifications were made to prior year amounts to conform to the current year presentation.
Principles of Consolidation – The accompanying consolidated financial statements include the financial position and results of operations of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions. Assets held in a fiduciary or agency capacity are not assets of the Company or its subsidiaries and are not included in the consolidated financial statements.
Use of Estimates – The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates and assumptions are based on the best available information, actual results could differ from those estimates.
The accounting policies related to business combinations, loans, the allowance for credit losses, the FDIC indemnification asset, and derivative financial instruments are presented below. For a summary of all other significant accounting policies, see Note 1, "Summary of Significant Accounting Policies," in the Company's 2014 10-K.
Business Combinations – Business combinations are accounted for under the acquisition method of accounting. Assets acquired and liabilities assumed are recorded at their estimated fair values as of the date of acquisition, with any excess of the purchase price of the acquisition over the fair value of the identifiable net tangible and intangible assets acquired recorded as goodwill. Alternatively, a gain is recorded if the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid. The results of operations of the acquired business are included in the Condensed Consolidated Statements of Income from the effective date of the acquisition.
Loans – Loans held-for-investment are loans that the Company intends to hold until they are paid in full and are carried at the principal amount outstanding, including certain net deferred loan origination fees. Interest income on loans is accrued based on principal amounts outstanding. Loan origination fees, commitment fees, and certain direct loan origination costs are deferred, and the net amount is amortized as a yield adjustment over the contractual life of the related loans or commitments and included in interest income. Fees related to standby letters of credit are amortized into fee income over the contractual life of the commitment. Other credit-related fees are recognized as fee income when earned. Loans held-for-sale are carried at the lower of aggregate cost or fair value and included in other assets in the Consolidated Statements of Financial Condition.
Acquired and Covered Loans – Covered loans consists of loans acquired by the Company in FDIC-assisted transactions, the majority of which are covered by loss share agreements with the FDIC (the "FDIC Agreements"), under which the FDIC reimburses the Company for the majority of the losses and eligible expenses related to these assets during the coverage period. Acquired loans consist of all other loans that were acquired in business combinations that are not covered by FDIC Agreements. Covered loans are reported separately in the financial statements and acquired loans are included within loans held-for-investment.
Acquired and covered loans are separated into (i) non-purchased credit impaired ("Non-PCI") and (ii) purchased credit impaired ("PCI") loans. Non-PCI loans include loans that did not have evidence of credit deterioration since

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

Receivables - Troubled Debt Restructurings by Creditors: In January of 2014, the Financial Accounting Standards Board ("FASB") issued guidance to clarify when an in substance repossession or foreclosure occurs and an entity is considered to have received physical possession of the residential real estate property such that a loan receivable should be derecognized and the real estate property recognized. Additionally, the guidance requires interim and annual disclosure of the amount of foreclosed residential real estate property held by the entity and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The guidance is effective for annual and interim periods beginning after December 15, 2014. The adoption of this guidance on January 1, 2015 did not materially impact the Company's financial condition, results of operations, or liquidity.

Receivables - Troubled Debt Restructurings by Creditors: In August of 2014, the FASB issued guidance that requires an entity to derecognize a mortgage loan and recognize a separate other receivable upon foreclosure if (i) the loan has a government guarantee that is not separable from the loan before foreclosure, (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on that guarantee, and the creditor has the ability to recover under that claim, and (iii) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The separate other receivable is to be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The guidance is effective for annual and interim reporting periods beginning after December 15, 2014. The adoption of this guidance on January 1, 2015 did not materially impact the Company's financial condition, results of operations, or liquidity.

Accounting Pronouncements Pending Adoption

Revenue from Contracts with Customers: In May of 2014, the FASB issued guidance that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance was initially effective for annual and interim reporting periods beginning on or after December 15, 2016. In August of 2015, the FASB issued guidance that defers the effective date by one year. The deferral causes the guidance to be effective for annual and interim reporting periods beginning on or after December 15, 2017, and must be applied either retrospectively or using the modified retrospective approach. Early adoption is permitted, but not before the original effective date. Management is evaluating the new guidance, but does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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

Simplifying the Presentation of Debt Issuance Costs: In April of 2015, the FASB issued guidance to clarify the presentation of debt issuance costs within the balance sheet. Additionally, the guidance requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. The guidance is effective for annual and interim periods beginning after December 15, 2015. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

Amendments to Consolidation Analysis: In February 2015, the FASB issued guidance that updates current accounting for the consolidation of certain legal entities. This guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, affects the consolidation analysis of reporting entities that are involved with VIEs, and provides certain exceptions from consolidation guidance for certain reporting entities. This guidance is effective for annual and interim periods beginning after December 15, 2015. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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

3. ACQUISITIONS

Completed Acquisitions

Popular Community Bank

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

Great Lakes Financial Resources, Inc.

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

National Machine Tool Financial Corporation

On September 26, 2014, the Bank completed the acquisition of National Machine Tool Financial Corporation ("National Machine Tool"), now known as First Midwest Equipment Finance Co., which provides equipment leasing and commercial financing alternatives to traditional bank financing. On the date of acquisition, the Bank acquired approximately $5.9 million in assets, excluding goodwill, which primarily consisted of direct financing leases, lease loans, and other assets, at a purchase price of $3.1 million paid in cash. Goodwill recorded as a result of the acquisition totaled $4.0 million. The assets acquired and liabilities assumed, both intangible and tangible, were recorded at their estimated fair values as of the September 26, 2014 acquisition date and have been accounted for under the acquisition method of accounting. The fair value adjustments associated with this transaction were finalized during the third quarter of 2015 and there were no retrospective adjustments.

Pending Acquisitions

The Peoples' Bank of Arlington Heights

On September 21, 2015, the Company entered into a definitive agreement to acquire Peoples Bancorp, Inc. and its wholly owned banking subsidiary, The Peoples' Bank of Arlington Heights ("Peoples' Bank"). As part of the acquisition, the Company will acquire two locations in Arlington Heights, Illinois and approximately $57 million in loans and will assume approximately $95 million in deposits. The acquisition is expected to close before the end of 2015, subject to customary regulatory approvals, approval by the stockholders of Peoples Bancorp, Inc., and certain closing conditions.

4. SECURITIES

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

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

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

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

Securities Portfolio
(Dollar amounts in thousands)

	As of September 30, 2015				As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale								
U.S. treasury securities	$1,999	$—	$—	$1,999	$—	$—	$—	$—
U.S. agency securities	18,289	337	(3)	18,623	30,297	144	(10)	30,431
Collateralized mortgage obligations ("CMOs")	545,992	3,765	(3,282)	546,475	538,882	2,256	(6,982)	534,156
Other mortgage-backed securities ("MBSs")	164,326	3,290	(235)	167,381	155,443	4,632	(310)	159,765
Municipal securities	375,323	6,880	(649)	381,554	414,255	10,583	(1,018)	423,820
Trust preferred collateralized debt obligations ("CDOs")	48,159	37	(16,326)	31,870	48,502	152	(14,880)	33,774
Corporate debt securities	—	—	—	—	1,719	83	—	1,802
Equity securities	3,446	93	(23)	3,516	3,224	72	(35)	3,261
Total available-for-sale securities	$1,157,534	$14,402	$(20,518)	$1,151,418	$1,192,322	$17,922	$(23,235)	$1,187,009
Securities Held-to-Maturity								
Municipal securities	$23,723	$—	$(15)	$23,708	$26,555	$1,115	$—	$27,670
Trading Securities				$17,038				$17,460

Remaining Contractual Maturity of Securities
(Dollar amounts in thousands)

	As of September 30, 2015			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$135,762	$132,787	$2,223	$2,222
After one year to five years	246,191	240,797	8,727	8,721

After five years to ten years	13,658	13,358	4,476	4,473
After ten years	48,159	47,104	8,297	8,292
Securities that do not have a single contractual maturity date	713,764	717,372	—	—
Total	$1,157,534	$1,151,418	$23,723	$23,708

The carrying value of securities available-for-sale that were pledged to secure deposits or for other purposes as permitted or required by law totaled $1.0 billion at September 30, 2015 and $779.4 million at December 31, 2014. No securities held-to-maturity were pledged as of September 30, 2015 or December 31, 2014.

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

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gains (losses) on sales of securities:				
Gross realized gains	$524	$2,570	$1,689	$8,188
Gross realized losses	—	—	(138)	—
Net realized gains on sales of securities	524	2,570	1,551	8,188
Non-cash impairment charges:				
Other-than-temporary securities impairment ("OTTI")	—	—	—	(28)
Net realized gains	$524	$2,570	$1,551	$8,160

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

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

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

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

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

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

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

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

		Less Than 12 Months		Greater Than 12 Months		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of September 30, 2015							
U.S. agency securities	1	$2,037	$3	$—	$—	$2,037	$3
CMOs	53	38,105	156	197,119	3,126	235,224	3,282
MBSs	6	20,003	64	9,699	171	29,702	235
Municipal securities	109	11,540	96	43,657	553	55,197	649
CDOs	8	1,693	172	28,444	16,154	30,137	16,326
Equity securities	1	—	—	2,319	23	2,319	23
Total	178	$73,378	$491	$281,238	$20,027	$354,616	$20,518
As of December 31, 2014							
U.S. agency securities	1	$1,943	$10	$—	$—	$1,943	$10
CMOs	87	61,321	559	284,327	6,423	345,648	6,982
MBSs	11	1,113	1	39,043	309	40,156	310
Municipal securities	91	1,317	9	53,987	1,009	55,304	1,018
CDOs	4	—	—	22,791	14,880	22,791	14,880
Equity securities	1	—	—	2,270	35	2,270	35
Total	195	$65,694	$579	$402,418	$22,656	$468,112	$23,235

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

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

5. LOANS

Loans Held-for-Investment

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

Loan Portfolio

(Dollar amounts in thousands)

	As of September 30, 2015	December 31, 2014
Commercial and industrial	$2,392,860	$2,253,556
Agricultural	393,732	358,249
Commercial real estate:		
Office, retail, and industrial	1,414,077	1,478,379
Multi-family	539,308	564,421
Construction	192,086	204,236
Other commercial real estate	869,748	887,897
Total commercial real estate	3,015,219	3,134,933
Total corporate loans	5,801,811	5,746,738
Home equity	647,223	543,185
1-4 family mortgages	294,261	291,463
Installment	131,185	76,032
Total consumer loans	1,072,669	910,680
Total loans, excluding covered loans	6,874,480	6,657,418
Covered loans [(1)]	51,219	79,435
Total loans	$6,925,699	$6,736,853
Deferred loan fees included in total loans	$3,846	$3,922
Overdrawn demand deposits included in total loans	4,962	3,438

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

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

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

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Loan Sales

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

Loan Sales
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Corporate loans				
Proceeds from sales	$—	$—	$945	$650
Less book value of loans sold	—	—	945	650
Net gains on sales of corporate loans	—	—	—	—
1-4 family mortgage loans				
Proceeds from sales	43,340	32,611	132,367	117,549
Less book value of loans sold:				
Loans originated with intent to sell	42,069	26,384	113,566	62,319
Loans held-for-investment	120	5,302	15,068	52,384
Total book value of loans sold	42,189	31,686	128,634	114,703
Net gains on sales of 1-4 family mortgages	1,151	925	3,733	2,846
Total net gains on loan sales	$1,151	$925	$3,733	$2,846

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

6. ACQUIRED AND COVERED LOANS

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

The following table presents acquired and covered PCI and Non-PCI loans as of September 30, 2015 and December 31, 2014.

Acquired and Covered Loans
(Dollar amounts in thousands)

	As of September 30, 2015			As of December 31, 2014		
	PCI	Non-PCI	Total	PCI	Non-PCI	Total
Acquired loans	$32,942	$541,461	$574,403	$28,712	$714,836	$743,548
Covered loans	28,971	22,248	51,219	54,682	24,753	79,435
Total acquired and covered loans	$61,913	$563,709	$625,622	$83,394	$739,589	$822,983

Non-PCI acquired loans that are renewed are no longer classified as acquired loans. These loans totaled $59.2 million at September 30, 2015.

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

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

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balance	$7,335	$10,276	$8,452	$16,585
Amortization	(321)	(650)	(1,174)	(2,784)
Change in expected reimbursements from the FDIC for changes in expected credit losses	487	(857)	2,207	(325)
Payments received from the FDIC	(1,395)	(70)	(3,379)	(4,777)
Ending balance	$6,106	$8,699	$6,106	$8,699

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

Changes in Accretable Yield
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balances	$20,658	$35,152	$28,244	$36,792
Additions	—	1,265	—	1,265
Accretion	(2,366)	(3,346)	(9,364)	(10,277)
Other [(1)]	336	(5,215)	(252)	76
Ending balance	$18,628	$27,856	$18,628	$27,856

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

7. PAST DUE LOANS, ALLOWANCE FOR CREDIT LOSSES, IMPAIRED LOANS, AND TDRS
Past Due and Non-accrual Loans
The following table presents an aging analysis of the Company's past due loans as of September 30, 2015 and December 31, 2014. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (the majority of which are past due) and loans 90 days or more past due and still accruing interest, as of each balance sheet date.
Aging Analysis of Past Due Loans and Non-performing Loans by Class
(Dollar amounts in thousands)

	Aging Analysis (Accruing and Non-accrual)					Non-performing Loans	
	Current	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	Non-accrual Loans	90 Days Past Due Loans, Still Accruing Interest
As of September 30, 2015							
Commercial and industrial	$2,380,931	$6,937	$4,992	$11,929	$2,392,860	$6,438	$900
Agricultural	393,574	71	87	158	393,732	112	—
Commercial real estate:							
Office, retail, and industrial	1,398,173	9,642	6,262	15,904	1,414,077	6,961	—
Multi-family	535,085	1,100	3,123	4,223	539,308	1,046	2,269
Construction	188,561	467	3,058	3,525	192,086	3,332	—
Other commercial real estate	858,597	5,867	5,284	11,151	869,748	5,898	897
Total commercial real estate	2,980,416	17,076	17,727	34,803	3,015,219	17,237	3,166
Total corporate loans	5,754,921	24,084	22,806	46,890	5,801,811	23,787	4,066
Home equity	640,783	3,464	2,976	6,440	647,223	5,201	214
1-4 family mortgages	290,066	2,643	1,552	4,195	294,261	3,320	152
Installment	130,292	766	127	893	131,185	—	127
Total consumer loans	1,061,141	6,873	4,655	11,528	1,072,669	8,521	493
Total loans, excluding covered loans	6,816,062	30,957	27,461	58,418	6,874,480	32,308	4,559
Covered loans	48,743	250	2,226	2,476	51,219	1,303	1,372
Total loans	$6,864,805	$31,207	$29,687	$60,894	$6,925,699	$33,611	$5,931
As of December 31, 2014							
Commercial and industrial	$2,230,947	$19,505	$3,104	$22,609	$2,253,556	$22,693	$205
Agricultural	355,982	1,934	333	2,267	358,249	360	—
Commercial real estate:							
Office, retail, and industrial	1,463,724	2,340	12,315	14,655	1,478,379	12,939	76
Multi-family	562,625	1,261	535	1,796	564,421	754	83
Construction	197,255	—	6,981	6,981	204,236	6,981	—
Other commercial real estate	876,609	5,412	5,876	11,288	887,897	6,970	438
Total commercial real estate	3,100,213	9,013	25,707	34,720	3,134,933	27,644	597
Total corporate loans	5,687,142	30,452	29,144	59,596	5,746,738	50,697	802
Home equity	535,587	3,216	4,382	7,598	543,185	6,290	145

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

Allowance for Credit Losses

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

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

	Commercial, Industrial, and Agricultural	Office, Retail, and Industrial	Multi-Family	Construction	Other Commercial Real Estate	Consumer	Covered Loans	Reserve for Unfunded Commitments	Total Allowance
Quarter ended September 30, 2015									
Beginning balance	$ 33,729	$ 11,345	$ 2,451	$ 1,890	$ 6,367	$ 10,820	$ 4,861	$ 1,816	$ 73,279
Charge-offs	(1,948)	(563)	(68)	—	(598)	(1,172)	(8)	—	(4,357)
Recoveries	347	106	1	114	506	213	7	—	1,294
Net charge-offs	(1,601)	(457)	(67)	114	(92)	(959)	(1)	—	(3,063)
Provision for loan and covered loan losses and other	3,247	967	226	(559)	(181)	1,144	(744)	(591)	3,509
Ending balance	$ 35,375	$ 11,855	$ 2,610	$ 1,445	$ 6,094	$ 11,005	$ 4,116	$ 1,225	$ 73,725
Quarter ended September 30, 2014									
Beginning balance	$ 29,194	$ 11,831	$ 2,048	$ 4,885	$ 8,585	$ 12,440	$ 9,343	$ 1,616	$ 79,942
Charge-offs	(9,763)	(2,514)	(26)	(157)	(1,363)	(3,148)	(135)	—	(17,106)
Recoveries	716	55	—	—	108	150	130	—	1,159
Net charge-offs	(9,047)	(2,459)	(26)	(157)	(1,255)	(2,998)	(5)	—	(15,947)
Provision for loan and covered loan losses and other	10,458	265	(65)	(3,130)	189	3,699	(689)	—	10,727
Ending balance	$ 30,605	$ 9,637	$ 1,957	$ 1,598	$ 7,519	$ 13,141	$ 8,649	$ 1,616	$ 74,722
Nine months ended September 30, 2015									
Beginning balance	$ 29,458	$ 10,992	$ 2,249	$ 2,297	$ 8,327	$ 12,145	$ 7,226	$ 1,816	$ 74,510
Charge-offs	(13,524)	(2,613)	(565)	(15)	(2,442)	(2,723)	(634)	—	(22,516)
Recoveries	1,993	460	8	334	1,902	853	120	—	5,670
Net charge-offs	(11,531)	(2,153)	(557)	319	(540)	(1,870)	(514)	—	(16,846)
Provision for loan and covered loan	17,448	3,016	918	(1,171)	(1,693)	730	(2,596)	(591)	16,061

losses and other									
Ending balance	$ 35,375	$ 11,855	$ 2,610	$ 1,445	$ 6,094	$ 11,005	$ 4,116	$ 1,225	$ 73,725
Nine months ended September 30, 2014									
Beginning balance	$ 30,381	$ 10,405	$ 2,017	$ 6,316	$ 10,817	$ 13,010	$ 12,559	$ 1,616	$ 87,121
Charge-offs	(15,542)	(7,108)	(383)	(1,052)	(3,695)	(7,005)	(659)	—	(35,444)
Recoveries	3,135	403	3	160	341	502	992	—	5,536
Net charge-offs	(12,407)	(6,705)	(380)	(892)	(3,354)	(6,503)	333	—	(29,908)
Provision for loan and covered loan losses and other	12,631	5,937	320	(3,826)	56	6,634	(4,243)	—	17,509
Ending balance	$ 30,605	$ 9,637	$ 1,957	$ 1,598	$ 7,519	$ 13,141	$ 8,649	$ 1,616	$ 74,722

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

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

	Loans				Allowance for Credit Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total
As of September 30, 2015								
Commercial, industrial, and agricultural	$3,480	$2,777,887	$5,225	$2,786,592	$926	$ 33,913	$536	$35,375
Commercial real estate:								
Office, retail, and industrial	5,923	1,403,781	4,373	1,414,077	648	11,177	30	11,855
Multi-family	802	535,649	2,857	539,308	—	2,581	29	2,610
Construction	1,872	185,984	4,230	192,086	—	1,033	412	1,445
Other commercial real estate	3,976	859,138	6,634	869,748	—	5,850	244	6,094
Total commercial real estate	12,573	2,984,552	18,094	3,015,219	648	20,641	715	22,004
Total corporate loans	16,053	5,762,439	23,319	5,801,811	1,574	54,554	1,251	57,379
Consumer	—	1,063,046	9,623	1,072,669	—	10,767	238	11,005
Total loans, excluding covered loans	16,053	6,825,485	32,942	6,874,480	1,574	65,321	1,489	68,384
Covered loans	—	22,248	28,971	51,219	—	298	3,818	4,116
Reserve for unfunded commitments	—	—	—	—	—	1,225	—	1,225
Total loans	$16,053	$6,847,733	$61,913	$6,925,699	$1,574	$ 66,844	$5,307	$73,725
As of December 31, 2014								
Commercial, industrial, and agricultural	$19,796	$2,588,141	$3,868	$2,611,805	$2,249	$ 27,209	$—	$29,458
Commercial real estate:								
Office, retail, and industrial	12,332	1,458,918	7,129	1,478,379	271	10,721	—	10,992
Multi-family	939	561,400	2,082	564,421	—	2,249	—	2,249
Construction	6,671	195,094	2,471	204,236	—	2,297	—	2,297
Other commercial real estate	3,266	880,087	4,544	887,897	11	8,316	—	8,327
Total commercial real estate	23,208	3,095,499	16,226	3,134,933	282	23,583	—	23,865
Total corporate loans	43,004	5,683,640	20,094	5,746,738	2,531	50,792	—	53,323
Consumer	—	902,062	8,618	910,680	—	11,822	323	12,145
Total loans, excluding	43,004	6,585,702	28,712	6,657,418	2,531	62,614	323	65,468

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

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Loans Individually Evaluated for Impairment

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

Impaired Loans Individually Evaluated by Class
(Dollar amounts in thousands)

	As of September 30, 2015				As of December 31, 2014			
	Recorded Investment In				Recorded Investment In			
	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial and industrial	$2,244	$1,236	$4,281	$926	$666	$19,130	$35,457	$2,249
Agricultural	—	—	—	—	—	—	—	—
Commercial real estate:								
Office, retail, and industrial	4,415	1,508	11,421	648	9,623	2,709	18,340	271
Multi-family	802	—	942	—	939	—	1,024	—
Construction	1,872	—	1,979	—	6,671	—	7,731	—
Other commercial real estate	3,976	—	4,695	—	2,752	514	4,490	11
Total commercial real estate	11,065	1,508	19,037	648	19,985	3,223	31,585	282
Total impaired loans individually evaluated for impairment	$13,309	$2,744	$23,318	$1,574	$20,651	$22,353	$67,042	$2,531

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The following table presents the average recorded investment and interest income recognized on impaired loans by class for the quarters and nine months ended September 30, 2015 and 2014. PCI loans are excluded from this disclosure.

Average Recorded Investment and Interest Income Recognized on Impaired Loans by Class
(Dollar amounts in thousands)

	Quarters Ended September 30,			
	2015		2014	
	Average Recorded Balance	Interest Income Recognized [(1)]	Average Recorded Balance	Interest Income Recognized [(1)]
Commercial and industrial	$5,968	$37	$20,137	$57
Agricultural	—	—	—	—
Commercial real estate:				
Office, retail, and industrial	8,814	4	15,873	3
Multi-family	925	12	1,155	—
Construction	2,995	118	5,792	—
Other commercial real estate	3,442	15	5,234	22
Total commercial real estate	16,176	149	28,054	25
Total impaired loans	$22,144	$186	$48,191	$82

	Nine Months Ended September 30,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized [(1)]	Average Recorded Investment	Interest Income Recognized [(1)]
Commercial and industrial	$10,457	$113	$15,222	$204
Agricultural	—	—	—	—
Commercial real estate:				
Office, retail, and industrial	10,158	37	20,671	150
Multi-family	868	13	1,321	—
Construction	4,833	118	5,537	—
Other commercial real estate	3,222	34	6,701	137
Total commercial real estate	19,081	202	34,230	287
Total impaired loans	$29,538	$315	$49,452	$491

(1) Recorded using the cash basis of accounting.

Credit Quality Indicators

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

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

	Pass	Special Mention [1] [4]	Substandard [2] [4]	Non-accrual [3]	Total
As of September 30, 2015					
Commercial and industrial	$2,247,010	$90,414	$48,998	$6,438	$2,392,860
Agricultural	388,034	—	5,586	112	393,732
Commercial real estate:					
Office, retail, and industrial	1,335,648	37,420	34,048	6,961	1,414,077
Multi-family	527,520	6,147	4,595	1,046	539,308
Construction	173,821	5,181	9,752	3,332	192,086
Other commercial real estate	829,347	24,140	10,363	5,898	869,748
Total commercial real estate	2,866,336	72,888	58,758	17,237	3,015,219
Total corporate loans	$5,501,380	$163,302	$113,342	$23,787	$5,801,811
As of December 31, 2014					
Commercial and industrial	$2,115,170	$84,615	$31,078	$22,693	$2,253,556
Agricultural	357,595	294	—	360	358,249
Commercial real estate:					
Office, retail, and industrial	1,393,885	38,891	32,664	12,939	1,478,379
Multi-family	553,255	6,363	4,049	754	564,421
Construction	178,992	5,776	12,487	6,981	204,236
Other commercial real estate	829,003	32,517	19,407	6,970	887,897
Total commercial real estate	2,955,135	83,547	68,607	27,644	3,134,933
Total corporate loans	$5,427,900	$168,456	$99,685	$50,697	$5,746,738

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

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

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

(4) Total special mention and substandard loans includes accruing TDRs of $870,000 as of September 30, 2015 and $1.8 million as of December 31, 2014.

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

	Performing	Non-accrual	Total
As of September 30, 2015			
Home equity	$642,022	$5,201	$647,223
1-4 family mortgages	290,941	3,320	294,261
Installment	131,185	—	131,185
Total consumer loans	$1,064,148	$8,521	$1,072,669
As of December 31, 2014			
Home equity	$536,895	$6,290	$543,185
1-4 family mortgages	288,522	2,941	291,463
Installment	75,989	43	76,032
Total consumer loans	$901,406	$9,274	$910,680

TDRs

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

TDRs by Class
(Dollar amounts in thousands)

	As of September 30, 2015			As of December 31, 2014		
	Accruing	Non-accrual [(1)]	Total	Accruing	Non-accrual [(1)]	Total
Commercial and industrial	$297	$1,063	$1,360	$269	$18,799	$19,068
Commercial real estate:						
Office, retail, and industrial	166	—	166	586	—	586
Multi-family	601	192	793	887	232	1,119
Other commercial real estate	346	—	346	433	183	616
Total commercial real estate	1,113	192	1,305	1,906	415	2,321
Total corporate loans	1,410	1,255	2,665	2,175	19,214	21,389
Home equity	501	681	1,182	651	506	1,157
1-4 family mortgages	860	430	1,290	878	184	1,062
Total consumer loans	1,361	1,111	2,472	1,529	690	2,219
Total loans	$2,771	$2,366	$5,137	$3,704	$19,904	$23,608

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

TDRs are included in the calculation of the allowance for credit losses in the same manner as impaired loans. There were $769,000 in specific reserves related to TDRs as of September 30, 2015 and there were $1.8 million in specific reserves related to TDRs as of December 31, 2014.

The following table presents a summary of loans that were restructured during the quarters and nine months ended September 30, 2015, and 2014.

Loans Restructured During the Period
(Dollar amounts in thousands)

	Number of Loans	Pre-Modification Recorded Investment	Funds Disbursed	Interest and Escrow Capitalized	Charge-offs	Post-Modification Recorded Investment
Quarter ended September 30, 2015						
Home equity	1	$120	$—	$—	$—	$120
1-4 family mortgages	2	325	—	—	—	325
Total loans restructured during the period	3	$445	$—	$—	$—	$445
Quarter ended September 30, 2014						
Commercial and industrial	5	$23,015	$—	$—	$—	$23,015
Office, retail, and industrial	1	417	—	—	—	417
Total loans restructured during the period	6	$23,432	$—	$—	$—	$23,432
Nine months ended September 30, 2015						
Home equity	1	$120	$—	$—	$—	$120
1-4 family mortgages	2	325	—	—	—	325
Total loans restructured during the period	3	$445	$—	$—	$—	$445
Nine months ended September 30, 2014						
Commercial and industrial	5	$23,015	$—	$—	$—	$23,015
Office, retail, and industrial	1	417	—	—	—	417
Home equity	1	75	—	—	—	75
Total loans restructured during the period	7	$23,507	$—	$—	$—	$23,507

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

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

TDR Rollforward

(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Accruing				
Beginning balance	$3,067	$5,697	$3,704	$23,770
Additions	120	417	120	492
Net payments received	(355)	(109)	(746)	(1,219)
Returned to performing status	—	—	—	(18,821)
Net transfers from non-accrual	(61)	(556)	(307)	1,227
Ending balance	2,771	5,449	2,771	5,449
Non-accrual				
Beginning balance	2,070	1,700	19,904	4,083
Additions	325	23,015	325	23,015
Net payments received	(29)	(135)	(15,483)	(292)
Charge-offs	(61)	(8,159)	(2,687)	(8,345)
Transfers to OREO	—	—	—	(257)
Net transfers to accruing	61	556	307	(1,227)
Ending balance	2,366	16,977	2,366	16,977
Total TDRs	$5,137	$22,426	$5,137	$22,426

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

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

8. EARNINGS PER COMMON SHARE
The table below displays the calculation of basic and diluted earnings per share.
Basic and Diluted Earnings per Common Share
(Amounts in thousands, except per share data)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$23,284	$18,549	$65,740	$54,713
Net income applicable to non-vested restricted shares	(226)	(242)	(703)	(697)
Net income applicable to common shares	$23,058	$18,307	$65,037	$54,016
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding (basic)	77,106	74,341	77,038	74,270
Dilutive effect of common stock equivalents	13	11	13	12
Weighted-average diluted common shares outstanding	77,119	74,352	77,051	74,282
Basic earnings per common share ("EPS")	$0.30	$0.25	$0.84	$0.73
Diluted EPS	$0.30	$0.25	$0.84	$0.73
Anti-dilutive shares not included in the computation of diluted earnings per common share [1]	751	1,155	822	1,215

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

9. INCOME TAXES
The following table presents income tax expense and the effective income tax rate for the quarters and nine months ended September 30, 2015 and 2014.
Income Tax Expense
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income before income tax expense	$34,451	$27,098	$96,564	$80,076
Income tax expense:				
Federal income tax expense	$9,036	$6,714	$24,956	$19,719
State income tax expense	2,131	1,835	5,868	5,644
Total income tax expense	$11,167	$8,549	$30,824	$25,363
Effective income tax rate	32.4 %	31.5 %	31.9 %	31.7 %

Federal income tax expense and the related effective income tax rate are influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax income and state income taxes. State income tax expense and the related effective tax rate are driven by the amount of state tax-exempt income in relation to pre-tax income and state tax rules related to consolidated/combined reporting and sourcing of income and expense. The increase in total income tax expense resulted primarily from higher levels of income subject to tax at statutory rates, partly offset by decreases in state statutory rates.
The Company's accounting policies for the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Note 1, "Summary of Significant Accounting Policies" and Note 15, "Income Taxes" to the Consolidated Financial Statements in the Company's 2014 10-K.

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES
In the ordinary course of business, the Company enters into derivative transactions as part of its overall interest rate risk management strategy. The significant accounting policies related to derivative instruments and hedging activities are presented in Note 1, "Summary of Significant Accounting Policies."
Fair Value Hedges
The Company hedges the fair value of fixed rate commercial real estate loans using interest rate swaps through which the Company pays fixed amounts and receives variable amounts. These derivative contracts are designated as fair value hedges.
Fair Value Hedges
(Dollar amounts in thousands)

	As of			
	September 30, 2015		December 31, 2014	
Gross notional amount outstanding	$11,918		$12,793	
Derivative liability fair value	(819	)	(1,032	)
Weighted-average interest rate received	2.11	%	2.07	%
Weighted-average interest rate paid	6.36	%	6.37	%
Weighted-average maturity (in years)	2.21		2.95	
Fair value of assets needed to settle derivative transactions [1]	$841		$1,057	

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

Hedge ineffectiveness is recognized in other noninterest income in the Condensed Consolidated Statements of Income. For the quarters and nine months ended September 30, 2015 and 2014 gains or losses related to fair value hedge ineffectiveness were not material.
Cash Flow Hedges
As of September 30, 2015, the Company hedged $710.0 million of certain corporate variable rate loans using interest rate swaps through which the Company receives fixed amounts and pays variable amounts. The Company also hedged $510.0 million of borrowed funds using forward starting interest rate swaps through which the Company receives variable amounts and pays fixed amounts. These transactions allow the Company to add stability to net interest income and manage its exposure to interest rate movements. The forward starting interest rate swaps begin at various dates between June 2015 and March 2018 and mature between June 2019 and March 2020. Forward starting interest rate swaps of $62.5 million and $200.0 million began during the second and third quarters of 2015, respectively. These derivative contracts are designated as cash flow hedges.
Cash Flow Hedges
(Dollar amounts in thousands)

	As of			
	September 30, 2015		December 31, 2014	
Gross notional amount outstanding	$1,220,000		$650,000	
Derivative asset fair value	12,784		1,166	
Derivative liability fair value	(13,844	)	(3,096	)
Weighted-average interest rate received	1.23	%	1.63	%
Weighted-average interest rate paid	0.72	%	0.16	%
Weighted-average maturity (in years)	4.16		4.52	

The effective portion of gains or losses on cash flow hedges is recorded in accumulated other comprehensive loss on an after-tax basis and is subsequently reclassified to interest income or expense in the period that the forecasted hedge impacts earnings. Hedge effectiveness is determined using a regression analysis at the inception of the hedge relationship and on an ongoing basis. For the quarter and nine months ended September 30, 2015, there were no material gains or losses related to cash flow hedge ineffectiveness. As of September 30, 2015, the Company estimates that $5.2 million will be reclassified from accumulated other comprehensive income as an increase to interest income over the next twelve months.

Other Derivative Instruments

The Company also enters into derivative transactions with its commercial customers and simultaneously enters into an offsetting interest rate derivative transaction with a third party. This transaction allows the Company's customers to effectively convert a variable rate loan into a fixed rate loan. Due to the offsetting nature of these transactions, the Company does not apply hedge accounting treatment. The Company's credit exposure on these derivative transactions results primarily from counterparty credit risk. The credit valuation adjustment ("CVA") is a fair value adjustment to the derivative to account for this risk. As of September 30, 2015 and December 31, 2014, the CVA was not material. Transaction fees related to commercial customer derivative instruments of $1.2 million and $2.7 million were recorded in noninterest income for the quarter and nine months ended September 30, 2015, respectively. There were $874,000 and $1.3 million of transaction fees recorded for the quarter and nine months ended September 30, 2014, respectively.

Other Derivative Instruments
(Dollar amounts in thousands)

	As of September 30, 2015	December 31, 2014
Gross notional amount outstanding	$685,270	$527,893
Derivative asset fair value	13,367	7,852
Derivative liability fair value	(13,367)	(7,852)
Fair value of assets needed to settle derivative transactions [1]	13,764	8,130

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

The Company occasionally enters into risk participation agreements with counterparty banks to transfer or assume a portion of the credit risk related to customer transactions. The amounts of these instruments were not material for any periods presented. The Company had no other derivative instruments as of September 30, 2015 or December 31, 2014. The Company does not enter into derivative transactions for purely speculative purposes.

Credit Risk

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

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

Fair Value of Offsetting Derivatives
(Dollar amounts in thousands)

	As of September 30, 2015		As of December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
Gross amounts recognized	$26,151	$28,030	$9,018	$11,980
Less: amounts offset in the Consolidated Statements of Financial Condition	—	—	—	—
Net amount presented in the Consolidated Statements of Financial Condition [1]	26,151	28,030	9,018	11,980
Gross amounts not offset in the Consolidated Statements of Financial Condition:				
Offsetting derivative positions	(12,788)	(12,788)	(1,195)	(1,195)
Cash collateral pledged	—	(15,242)	—	(10,785)
Net credit exposure	$13,363	$—	$7,823	$—

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

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

11. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Commitments and Guarantees

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

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

	As of September 30, 2015	December 31, 2014
Commitments to extend credit:		
Commercial, industrial, and agricultural	$1,253,880	$1,299,683
Commercial real estate	288,930	170,573
Home equity	336,786	317,783
Other commitments [1]	201,646	194,556
Total commitments to extend credit	$2,081,242	$1,982,595
Standby letters of credit	$102,996	$110,639
Recourse on assets sold:		
Unpaid principal balance of loans sold	$199,748	$185,910
Carrying value of recourse obligation [2]	76	155

(1) Other commitments includes installment and overdraft protection program commitments.
(2) Included in other liabilities in the Consolidated Statements of Financial Condition.

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

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

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

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

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

Legal Proceedings

In the ordinary course of business, there were certain legal proceedings pending against the Company and its subsidiaries at September 30, 2015. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management does not expect that any liabilities arising from pending legal matters will have a material adverse effect on the Company's financial position, results of operations, or cash flows.

12. FAIR VALUE

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

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

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

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

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

Assets and Liabilities Required to be Measured at Fair Value on a Recurring Basis
The following table provides the fair value for assets and liabilities required to be measured at fair value on a recurring basis in the Consolidated Statements of Financial Condition by level in the fair value hierarchy.
Recurring Fair Value Measurements
(Dollar amounts in thousands)

	As of September 30, 2015			As of December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Trading securities:						
Money market funds	$2,366	$—	$—	$1,725	$—	$—
Mutual funds	14,672	—	—	15,735	—	—
Total trading securities	17,038	—	—	17,460	—	—
Securities available-for-sale:						
U.S. treasury securities	—	1,999	—	—	—	—
U.S. agency securities	—	18,623	—	—	30,431	—
CMOs	—	546,475	—	—	534,156	—
MBSs	—	167,381	—	—	159,765	—
Municipal securities	—	381,554	—	—	423,820	—
CDOs	—	—	31,870	—	—	33,774
Corporate debt securities	—	—	—	—	1,802	—
Equity securities	—	3,516	—	—	3,261	—
Total available-for-sale securities	—	1,119,548	31,870	—	1,153,235	33,774
Mortgage servicing rights (1)	—	—	1,798	—	—	1,728
Derivative assets (1)	—	26,151	—	—	9,018	—
Liabilities:						
Derivative liabilities (2)	$—	$28,030	$—	$—	$11,980	$—

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

The following sections describe the specific valuation techniques and inputs used to measure financial assets and liabilities at fair value.
Trading Securities
The Company's trading securities consist of diversified investment securities held in a grantor trust and are invested in money market and mutual funds. The fair value of these money market and mutual funds is based on quoted market prices in active exchange markets and is classified in level 1 of the fair value hierarchy.
Securities Available-for-Sale
The Company's available-for-sale securities are primarily fixed income instruments that are not quoted on an exchange, but may be traded in active markets. The fair values are based on quoted prices in active markets or market prices for similar securities obtained from external pricing services or dealer market participants and are classified in level 2 of the fair value hierarchy. Quarterly, the Company evaluates the methodologies used by its external pricing services to estimate the fair value of these securities to determine whether the valuations represent an exit price in the Company's principal markets.
CDOs are classified in level 3 of the fair value hierarchy. The Company estimates the fair values for each CDO using discounted cash flow analyses with the assistance of a structured credit valuation firm. This methodology is based on credit analysis and historical financial data for each of the issuers underlying the CDOs (the "Issuers"). These estimates are highly subjective and sensitive to several significant, unobservable inputs. The cash flows for each Issuer are then discounted to present values using LIBOR plus an adjustment to reflect the impact of market factors. Finally, the discounted cash flows for each Issuer are aggregated to derive the estimated fair value for the specific CDO.

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

Significant Unobservable Inputs Used in the Valuation of CDOs

	As of September 30, 2015
Probability of prepayment	2.4% - 15.4%
Probability of default	17.7% - 54.8%
Loss given default	88.2% - 96.5%
Probability of deferral cure	21.7% - 56.8%

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

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

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

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

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

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balance	$32,004	$18,436	$33,774	$18,309
Change in other comprehensive loss [1]	(62)	(65)	(1,560)	1,571
Paydowns	(72)	(2)	(344)	(1,511)
Ending balance	$31,870	$18,369	$31,870	