FIRST MIDWEST BANCORP INC
Form 10-Q
May 04, 2016

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 March 31, 2016

or

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

Commission File Number 0-10967

(Exact name of registrant as specified in its charter)

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

One Pierce Place, Suite 1500
Itasca, Illinois 60143-1254
(Address of principal executive offices) (zip code)

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

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 April 29, 2016, there were 81,327,746 shares of common stock, $.01 par value, outstanding.

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

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$135,049	$114,587
Interest-bearing deposits in other banks	171,312	266,615
Trading securities, at fair value	17,408	16,894
Securities available-for-sale, at fair value	1,625,579	1,306,636
Securities held-to-maturity, at amortized cost	21,051	23,152
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, at cost	40,916	39,306
Loans	7,822,555	7,161,715
Allowance for loan losses	(77,150)	(73,630)
Net loans	7,745,405	7,088,085
Other real estate owned ("OREO")	29,649	27,782
Premises, furniture, and equipment, net	141,323	122,278
Investment in bank-owned life insurance ("BOLI")	218,873	209,601
Goodwill and other intangible assets	369,979	339,277
Accrued interest receivable and other assets	212,378	178,463
Total assets	$10,728,922	$9,732,676
Liabilities		
Noninterest-bearing deposits	$2,627,530	$2,414,454
Interest-bearing deposits	6,153,288	5,683,284
Total deposits	8,780,818	8,097,738
Borrowed funds	387,411	165,096
Senior and subordinated debt	201,293	201,208
Accrued interest payable and other liabilities	134,835	122,366
Total liabilities	9,504,357	8,586,408
Stockholders' Equity		
Common stock	913	882
Additional paid-in capital	493,153	446,672
Retained earnings	964,250	953,516
Accumulated other comprehensive loss, net of tax	(15,041)	(28,389)
Treasury stock, at cost	(218,710)	(226,413)
Total stockholders' equity	1,224,565	1,146,268

Total liabilities and stockholders' equity	$10,728,922	$9,732,676

	March 31, 2016 (Unaudited)		December 31, 2015	
	Preferred Shares	Common Shares	Preferred Shares	Common Shares
Par value	$ —	$ 0.01	$—	$0.01
Shares authorized	1,000	150,000	1,000	150,000
Shares issued	—	91,274	—	88,228
Shares outstanding	—	81,298	—	77,952
Treasury shares	—	9,976	—	10,276

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended March 31,	
	2016	2015
Interest Income		
Loans	$78,455	$73,397
Investment securities	8,558	8,293
Other short-term investments	535	779
Total interest income	87,548	82,469
Interest Expense		
Deposits	2,385	2,525
Borrowed funds	1,316	18
Senior and subordinated debt	3,133	3,144
Total interest expense	6,834	5,687
Net interest income	80,714	76,782
Provision for loan losses	7,593	6,552
Net interest income after provision for loan losses	73,121	70,230
Noninterest Income		
Service charges on deposit accounts	9,473	9,271
Wealth management fees	7,559	7,014
Card-based fees	6,718	6,402
Mortgage banking income	1,368	1,123
Other service charges, commissions, and fees	8,476	4,831
Net securities gains	887	512
Other income	1,445	1,948
Total noninterest income	35,926	31,101
Noninterest Expense		
Salaries and employee benefits	44,594	40,716
Net occupancy and equipment expense	9,697	10,436
Professional services	5,920	5,109
Technology and related costs	3,701	3,687
Net OREO expense	664	1,204
Other expenses	12,993	11,505
Acquisition and integration related expenses	5,020	—
Total noninterest expense	82,589	72,657
Income before income tax expense	26,458	28,674
Income tax expense	8,496	8,792
Net income	$17,962	$19,882
Per Common Share Data		
Basic earnings per common share	$0.23	$0.26
Diluted earnings per common share	$0.23	$0.26
Dividends declared per common share	$0.09	$0.09
Weighted-average common shares outstanding	77,980	76,918
Weighted-average diluted common shares outstanding	77,992	76,930

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended March 31,	
	2016	2015
Net income	$17,962	$19,882
Securities available-for-sale		
Unrealized holding gains:		
Before tax	18,873	6,312
Tax effect	(7,546)	(2,528)
Net of tax	11,327	3,784
Reclassification of net gains included in net income:		
Before tax	887	512
Tax effect	(355)	(209)
Net of tax	532	303
Net unrealized holding gains	10,795	3,481
Derivative instruments		
Unrealized holding gains (losses):		
Before tax	4,275	(719)
Tax effect	(1,722)	288
Net of tax	2,553	(431)
Total other comprehensive income	13,348	3,050
Total comprehensive income	$31,310	$22,932

	Accumulated Unrealized Gain on Securities Available-for-Sale	Accumulated Unrealized (Loss) Gain on Derivative Instruments	Unrecognized Net Pension Costs	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2014	$ (2,950)	$ (1,138)	$ (11,767)	$ (15,855)
Other comprehensive income (loss)	3,481	(431)	—	3,050
Balance at March 31, 2015	$ 531	$ (1,569)	$ (11,767)	$ (12,805)
Balance at December 31, 2015	$ (10,271)	$ (2,468)	$ (15,650)	$ (28,389)
Other comprehensive income	10,795	2,553	—	13,348
Balance at March 31, 2016	$ 524	$ 85	$ (15,650)	$ (15,041)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2014	77,695	$ 882	$449,798	$899,516	$ (15,855)	$(233,566)	$1,100,775
Net income	—	—	—	19,882	—	—	19,882
Other comprehensive income	—	—	—	—	3,050	—	3,050
Common dividends declared ($0.09 per common share)	—	—	—	(7,011)	—	—	(7,011)
Restricted stock activity	264	—	(9,784)	—	—	7,311	(2,473)
Treasury stock issued to benefit plans	(2)	—	(25)	—	—	52	27
Share-based compensation expense	—	—	1,700	—	—	—	1,700
Balance at March 31, 2015	77,957	$ 882	$441,689	$912,387	$ (12,805)	$(226,203)	$1,115,950
Balance at December 31, 2015	77,952	$ 882	$446,672	$953,516	$ (28,389)	$(226,413)	$1,146,268
Net income	—	—	—	17,962	—	—	17,962
Other comprehensive income	—	—	—	—	13,348	—	13,348
Common dividends declared ($0.09 per common share)	—	—	—	(7,228)	—	—	(7,228)
Acquisition, net of issuance costs	3,042	31	54,865	—	—	—	54,896
Common stock issued	4	—	59	—	—	—	59
Restricted stock activity	303	—	(10,282)	—	—	7,736	(2,546)
Treasury stock issued to benefit plans	(3)	—	—	—	—	(33)	(33)
Share-based compensation expense	—	—	1,839	—	—	—	1,839
Balance at March 31, 2016	81,298	$ 913	$493,153	$964,250	$ (15,041)	$(218,710)	$1,224,565

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)

	Three Months Ended March 31,	
	2016	2015
Net cash provided by operating activities	$9,934	$34,750
Investing Activities		
Proceeds from maturities, repayments, and calls of securities available-for-sale	68,235	58,236
Proceeds from sales of securities available-for-sale	31,453	36,193
Purchases of securities available-for-sale	(276,265)	(53,974)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	3,973	1,720
Purchases of securities held-to-maturity	(8)	(1,026)
Net purchases of FHLB stock	(61)	(1,190)
Net increase in loans	(268,179)	(75,795)
Proceeds from claims on BOLI, net of premiums paid	(22)	191
Proceeds from sales of OREO	1,640	2,708
Proceeds from sales of premises, furniture, and equipment	675	195
Purchases of premises, furniture, and equipment	(2,921)	(1,215)
Net cash received from acquisitions	57,347	—
Net cash used in investing activities	(384,133)	(33,957)
Financing Activities		
Net increase in deposit accounts	88,159	26,921
Net increase (decrease) in borrowed funds	219,899	(6,794)
Cash dividends paid	(6,885)	(6,218)
Restricted stock activity	(2,113)	(2,700)
Excess tax benefit related to share-based compensation	298	793
Net cash provided by financing activities	299,358	12,002
Net (decrease) increase in cash and cash equivalents	(74,841)	12,795
Cash and cash equivalents at beginning of period	381,202	606,262
Cash and cash equivalents at end of period	$306,361	$619,057
Supplemental Disclosures of Cash Flow Information:		
Income taxes paid	$2,421	$3,096
Interest paid to depositors and creditors	3,563	2,862
Dividends declared, but unpaid	7,593	7,011
Common stock issued for acquisitions, net of issuance costs	54,896	—
Non-cash transfers of loans to OREO	942	1,038
Non-cash transfer of loans held-for-investment to loans held-for-sale	25,125	4,200

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 ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.
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 2015 Annual Report on Form 10-K ("2015 10-K"). The Company uses the accrual basis of accounting for financial reporting purposes. Certain reclassifications were made to prior year amounts to conform to the current year presentation.
Use of Estimates – The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates and assumptions are based on the best available information, actual results could differ from those estimates.
Principles of Consolidation – The accompanying consolidated financial statements include the financial position and results of operations of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions. Assets held in a fiduciary or agency capacity are not assets of the Company or its subsidiaries and are not included in the consolidated financial statements.
The accounting policies related to business combinations, loans, the allowance for credit losses, and derivative financial instruments are presented below. For a summary of all other significant accounting policies, see Note 1, "Summary of Significant Accounting Policies," in the Company's 2015 10-K.
Business Combinations – Business combinations are accounted for under the acquisition method of accounting. Assets acquired and liabilities assumed are recorded at their estimated fair values as of the date of acquisition, with any excess of the purchase price of the acquisition over the fair value of the identifiable net tangible and intangible assets acquired recorded as goodwill. Alternatively, a gain is recorded if the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid. The results of operations of the acquired business are included in the Condensed Consolidated Statements of Income from the effective date of the acquisition.
Loans – Loans held-for-investment are loans that the Company intends to hold until they are paid in full and are carried at the principal amount outstanding, including certain net deferred loan origination fees. Loan origination fees, commitment fees, and certain direct loan origination costs are deferred, and the net amount is amortized as a yield adjustment over the contractual life of the related loans or commitments and included in interest income. Fees related to 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. The Company's net investment in direct financing leases is included in loans and consists of future minimum lease payments and estimated residual values, net of unearned income. Interest income on loans is accrued based on principal amounts outstanding. Loans held-for-sale are carried at the lower of aggregate cost or fair value and included in other assets in the Consolidated Statements of Financial Condition.
Acquired and Covered Loans – Covered loans consists of loans acquired by the Company in Federal Deposit Insurance Corporation ("FDIC")-assisted transactions, which are covered by loss share agreements with the FDIC (the "FDIC Agreements"), under which the FDIC reimburses the Company for the majority of the losses and eligible expenses related to these assets during the coverage period. Acquired loans consist of all other loans that were acquired in business combinations that are not covered by FDIC Agreements. Covered loans and acquired loans are included within loans held-for-investment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amendments to Consolidation Analysis: In February 2015, the Financial Accounting Standards Board ("FASB") issued guidance that updates current accounting for the consolidation of certain legal entities. This guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, affects the consolidation analysis of reporting entities that are involved with VIEs, and provides certain exceptions from consolidation guidance for certain reporting entities. This guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 did not materially impact the Company's financial condition, results of operations, or liquidity.

Simplifying the Presentation of Debt Issuance Costs: In April of 2015, the FASB issued guidance to clarify the presentation of debt issuance costs within the balance sheet. Additionally, the guidance requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. The guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 did not materially impact the Company's financial condition, results of operations, or liquidity.

Accounting Pronouncements Pending Adoption

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

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. Early adoption is permitted. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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

Leases: In February of 2016, the FASB issued guidance to increase transparency and comparability across entities for leasing arrangements. This guidance requires lessees to recognized assets and liabilities for most leases. For lessors, this guidance modifies the lease classification criteria and the accounting for sales-type and direct financing leases. In addition, this guidance clarifies criteria for the determination of whether a contract is or contains a lease. This guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted.

Management is evaluating the new guidance and the impact to the Company's financial condition, results of operations, and liquidity.

Contingent Put and Call Options in Debt Instruments: In March of 2016, the FASB issued final guidance clarifying the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. Entities are required to apply the guidance to existing debt instruments (or hybrid financial instruments that are determined to have a debt host) using a modified retrospective transition method as of the period of adoption. This guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted.

Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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

Accounting for Employee Share-based Payments: In March of 2016, the FASB issued guidance to simplify the accounting for employee share-based payment transactions. The guidance requires entities to recognize the income tax effects of awards in the income statement when the awards vest or are settled. In addition, the guidance allows entities to repurchase more of an employee's shares than it can under current guidance for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. This guidance is effective for annual and interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted. Management is evaluating the new guidance, but does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

3. ACQUISITIONS

The National Bank & Trust Company of Sycamore

On March 8, 2016, the Company completed the acquisition of NI Bancshares Corporation ("NI Bancshares"), the holding company for The National Bank & Trust Company of Sycamore. As part of the acquisition, the Company acquired all assets and assumed all liabilities of NI Bancshares, which included ten banking offices in northern Illinois and over $700.0 million in trust assets under management. The merger consideration was a combination of Company common stock and cash, at a purchase price of $70.1 million. Goodwill of $20.8 million associated with the acquisition was recorded by the Company. 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.

The Peoples' Bank of Arlington Heights

On December 3, 2015, the Company completed the acquisition of Peoples Bancorp, Inc. ("Peoples") and its wholly owned banking subsidiary, The Peoples' Bank of Arlington Heights. With the acquisition, the Company acquired all assets and assumed all liabilities of Peoples, which included two banking offices in Arlington Heights, Illinois, at a purchase price of $16.8 million paid in cash. The Company recorded goodwill of $7.5 million associated with the acquisition. The Company is finalizing the fair values of the assets and liabilities acquired. As a result, the fair value adjustments associated with these accounts and goodwill are preliminary and may change.

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

Acquisition Activity
(Dollar amounts in thousands)

	NI Bancshares March 8, 2016	Peoples December 3, 2015
Assets		
Cash and due from banks and interest-bearing deposits in other banks	$ 72,533	$ 781
Securities available-for-sale	125,843	41,492
Securities held-to-maturity	1,864	—
FHLB and FRB stock	1,549	558
Loans	397,018	53,917
OREO	2,863	515
Investment in BOLI	8,384	—
Goodwill	20,762	7,544
Other intangible assets	10,925	580
Premises, furniture, and equipment	20,019	2,215
Accrued interest receivable and other assets	16,004	2,911
Total assets	$ 677,764	$ 110,513
Liabilities		
Noninterest-bearing deposits	$ 130,909	$ 15,869
Interest-bearing deposits	464,012	75,944
Total deposits	594,921	91,813
Borrowed funds	2,416	1,200
Intangible liabilities	230	—
Accrued interest payable and other liabilities	10,115	672
Total liabilities	607,682	93,685
Consideration Paid		
Common stock (2016 - 3,042,494 shares issued at $18.059 per share), net of $48,000 in issuance costs	54,896	—
Cash paid	15,186	16,828
Total consideration paid	70,082	16,828
	$ 677,764	$ 110,513

Expenses related to the acquisition and integration of the transactions above totaled $5.0 million and $1.4 million during the quarters ended March 31, 2016 and December 31, 2015, respectively, are reported as a separate component within noninterest expense in the Condensed Consolidated Statements of Income. These acquisitions were not considered material to the Company's financial statements; therefore, pro forma financial data and related disclosures are not included.

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 March 31, 2016				As of December 31, 2015			
	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	$32,548	$230	$(6)	$32,772	$17,000	$15	$(35)	$16,980
U.S. agency securities	178,745	1,852	(42)	180,555	86,461	351	(169)	86,643
Collateralized mortgage obligations ("CMOs")	805,533	8,113	(1,974)	811,672	695,198	1,072	(9,085)	687,185
Other mortgage-backed securities ("MBSs")	235,287	3,466	(114)	238,639	152,481	1,920	(871)	153,530
Municipal securities	321,485	6,684	(159)	328,010	321,437	6,443	(310)	327,570
Trust-preferred collateralized debt obligations ("CDOs")	48,301	44	(17,588)	30,757	48,287	34	(16,792)	31,529
Equity securities	3,204	107	(137)	3,174	3,282	86	(169)	3,199
Total securities available-for-sale	$1,625,103	$20,496	$(20,020)	$1,625,579	$1,324,146	$9,921	$(27,431)	$1,306,636
Securities Held-to-Maturity								
Municipal securities	$21,051	$—	$(3,548)	$17,503	$23,152	$—	$(3,098)	$20,054
Trading Securities				$17,408				$16,894

Remaining Contractual Maturity of Securities
(Dollar amounts in thousands)

	As of March 31, 2016			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$84,634	$83,325	$3,205	$2,665
After one year to five years	444,106	437,239	7,038	5,852
After five years to ten years	4,038	3,976	3,131	2,603
After ten years	48,301	47,554	7,677	6,383
Securities that do not have a single contractual maturity date	1,044,024	1,053,485	—	—
Total	$1,625,103	$1,625,579	$21,051	$17,503

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

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

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

	Quarters Ended March 31,	
	2016	2015
Gains on sales of securities:		
Gross realized gains	$930	$650
Gross realized losses	(43)	(138)
Net realized gains on sales of securities	887	512
Non-cash impairment charges:		
Other-than-temporary securities impairment ("OTTI")	—	—
Net realized gains	$887	$512

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 securities available-for-sale held by the Company for the quarters ended March 31, 2016 and 2015. 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 March 31,	
	2016	2015
Beginning balance	$23,709	$23,880
OTTI included in earnings [1]:		
Reduction for sales of securities [2]	—	(171)
Ending balance	$23,709	$23,709

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

(2) This reduction was driven by the sale of one CMO with a carrying value of $1.3 million during the quarter ended March 31, 2015.

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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 March 31, 2016 and December 31, 2015.

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

		Less Than 12 Months		12 Months or Longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of March 31, 2016							
Securities Available-for-Sale							
U.S. treasury securities	2	$3,995	$ 6	$—	$ —	$3,995	$ 6
U.S. agency securities	6	20,804	42	—	—	20,804	42
CMOs	47	22,710	62	146,426	1,912	169,136	1,974
MBSs	9	9,927	66	7,292	48	17,219	114
Municipal securities	48	15,634	129	6,640	30	22,274	159
CDOs	8	6,623	1,708	22,272	15,880	28,895	17,588
Equity securities	2	485	120	2,350	17	2,835	137
Total	122	$80,178	$ 2,133	$184,980	$ 17,887	$265,158	$ 20,020
Securities Held-To-Maturity							
Municipal securities	16	$17,503	$ 3,548	$—	$ —	$17,503	$ 3,548
As of December 31, 2015							
Securities Available-for-Sale							
U.S. treasury securities	4	$7,946	$ 35	$—	$ —	$7,946	$ 35
U.S. agency securities	10	30,620	169	—	—	30,620	169
CMOs	133	309,787	3,110	257,362	5,975	567,149	9,085
MBSs	27	63,028	427	31,980	444	95,008	871
Municipal securities	68	8,135	65	24,227	245	32,362	310
CDOs	8	8,034	971	21,642	15,821	29,676	16,792
Equity securities	2	485	120	2,305	49	2,790	169
Total	252	$428,035	$ 4,897	$337,516	$ 22,534	$765,551	$ 27,431
Securities Held-To-Maturity							
Municipal securities	19	$20,054	$ 3,098	$—	$ —	$20,054	$ 3,098

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

The unrealized losses on CDOs as of March 31, 2016 reflect changes in market activity for these securities. Management does not believe these unrealized losses represent OTTI related to credit deterioration. In addition, the Company does not intend to sell the CDOs with unrealized losses 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 14, "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 March 31, 2016	December 31, 2015
Commercial and industrial	$2,634,391	$ 2,524,726
Agricultural	422,231	387,440
Commercial real estate:		
Office, retail, and industrial	1,566,395	1,395,454
Multi-family	562,065	528,324
Construction	260,743	216,882
Other commercial real estate	1,060,302	931,190
Total commercial real estate	3,449,505	3,071,850
Total corporate loans	6,506,127	5,984,016
Home equity	683,171	653,468
1-4 family mortgages	390,887	355,854
Installment	213,979	137,602
Total consumer loans	1,288,037	1,146,924
Covered loans	28,391	30,775
Total loans	$7,822,555	$ 7,161,715
Deferred loan fees included in total loans	$4,379	$ 5,191
Overdrawn demand deposits included in total loans	2,858	2,810

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

It is the Company's policy to review each prospective credit to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state lending laws, the Company's lending standards, and credit monitoring and remediation procedures. A discussion of risk characteristics relevant to each portfolio segment is presented in Note 5, "Loans" to the Consolidated Financial Statements in the Company's 2015 10-K.

Loan Sales

The following table presents loan sales for the quarters ended March 31, 2016 and 2015.

Loan Sales
(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2016	2015
Corporate loan sales		
Proceeds from sales	$9,588	$5,285
Less book value of loans sold	9,130	5,145
Net gains on sales of corporate loans [1]	458	140
1-4 family mortgage loan sales		
Proceeds from sales	39,507	35,582
Less book value of loans sold	38,680	34,496
Net gains on sales of 1-4 family mortgages [2]	827	1,086
Total net gains on loan sales	$1,285	$1,226

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

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

The Company retained servicing responsibilities for a portion of the 1-4 family mortgage loans sold and collects servicing fees equal to a percentage of the outstanding principal balance. The Company also retained limited recourse for credit losses on the sold 1-4 family mortgage loans. A description of the recourse obligation is presented in Note 13, "Commitments, Guarantees, and Contingent Liabilities."

6. ACQUIRED AND COVERED LOANS

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

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

Acquired and Covered Loans
(Dollar amounts in thousands)

	As of March 31, 2016			As of December 31, 2015		
	PCI	Non-PCI	Total	PCI	Non-PCI	Total
Acquired loans	$71,944	$875,684	$947,628	$50,286	$534,506	$584,792
Covered loans	9,732	18,659	28,391	9,919	20,856	30,775
Total acquired and covered loans	$81,676	$894,343	$976,019	$60,205	$555,362	$615,567

Acquired Non-PCI loans that are renewed are no longer classified as acquired loans. These loans totaled $63.7 million and $61.6 million as of March 31, 2016 and December 31, 2015, respectively.

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

Rollforwards of the carrying value of the FDIC indemnification asset for the quarters ended March 31, 2016 and 2015 are presented in the following table.

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

	Quarters Ended March 31,	
	2016	2015
Beginning balance	$3,903	$8,452
Amortization	(280)	(458)
Change in expected reimbursements from the FDIC for changes in expected credit losses	216	934
Net payments to (from) the FDIC	1,841	(388)
Ending balance	$5,680	$8,540

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

Changes in Accretable Yield
(Dollar amounts in thousands)

	Quarters Ended March 31,	
	2016	2015
Beginning balances	$24,912	$28,244
Additions	3,981	—
Accretion	(1,546)	(2,663)
Other [(1)]	(89)	839
Ending balance	$27,258	$26,420

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

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7. PAST DUE LOANS, ALLOWANCE FOR CREDIT LOSSES, IMPAIRED LOANS, AND TDRS
Past Due and Non-accrual Loans
The following table presents an aging analysis of the Company's past due loans as of March 31, 2016 and December 31, 2015. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (the majority of which are past due) and loans 90 days or more past due and still accruing interest, as of each balance sheet date.
Aging Analysis of Past Due Loans and Non-performing Loans by Class
(Dollar amounts in thousands)

	Aging Analysis (Accruing and Non-accrual)					Non-performing Loans	
	Current	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	Non-accrual Loans	90 Days Past Due Loans, Still Accruing Interest
As of March 31, 2016							
Commercial and industrial	$2,622,308	$9,288	$2,795	$12,083	$2,634,391	$5,364	$ 561
Agricultural	421,730	228	273	501	422,231	295	—
Commercial real estate:							
Office, retail, and industrial	1,552,465	9,375	4,555	13,930	1,566,395	10,910	219
Multi-family	557,740	3,751	574	4,325	562,065	410	346
Construction	258,615	1,749	379	2,128	260,743	778	—
Other commercial real estate	1,050,707	2,623	6,972	9,595	1,060,302	5,555	3,382
Total commercial real estate	3,419,527	17,498	12,480	29,978	3,449,505	17,653	3,947
Total corporate loans	6,463,565	27,014	15,548	42,562	6,506,127	23,312	4,508
Home equity	678,013	3,075	2,083	5,158	683,171	4,635	261
1-4 family mortgages	386,624	2,566	1,697	4,263	390,887	3,436	272
Installment	212,242	1,295	442	1,737	213,979	—	442
Total consumer loans	1,276,879	6,936	4,222	11,158	1,288,037	8,071	975
Covered loans	27,380	316	695	1,011	28,391	507	352
Total loans	$7,767,824	$34,266	$20,465	$54,731	$7,822,555	$31,890	$ 5,835
As of December 31, 2015							
Commercial and industrial	$2,516,197	$4,956	$3,573	$8,529	$2,524,726	$5,587	$ 857
Agricultural	387,109	245	86	331	387,440	355	—
Commercial real estate:							
Office, retail, and industrial	1,386,383	2,647	6,424	9,071	1,395,454	6,875	4
Multi-family	526,625	541	1,158	1,699	528,324	796	548
Construction	216,377	—	505	505	216,882	905	—
Other commercial real estate	922,531	3,575	5,084	8,659	931,190	5,611	661
Total commercial real estate	3,051,916	6,763	13,171	19,934	3,071,850	14,187	1,213
Total corporate loans	5,955,222	11,964	16,830	28,794	5,984,016	20,129	2,070
Home equity	647,175	3,247	3,046	6,293	653,468	5,310	216
1-4 family mortgages	350,980	2,680	2,194	4,874	355,854	3,416	528
Installment	136,780	753	69	822	137,602	20	69
Total consumer loans	1,134,935	6,680	5,309	11,989	1,146,924	8,746	813
Covered loans	29,808	405	562	967	30,775	555	174
Total loans	$7,119,965	$19,049	$22,701	$41,750	$7,161,715	$29,430	$ 3,057

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 ended March 31, 2016 and 2015 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 March 31, 2016									
Beginning balance	$ 37,074	$ 13,116	$ 2,462	$ 1,440	$ 6,088	$ 11,812	$ 1,638	$ 1,225	$ 74,855
Charge-offs	(1,898)	(524)	(204)	(126)	(1,445)	(992)	—	—	(5,189)
Recoveries	502	103	25	15	151	320	—	—	1,116
Net charge-offs	(1,396)	(421)	(179)	(111)	(1,294)	(672)	—	—	(4,073)
Provision for loan losses and other	2,058	1,717	257	1,104	1,773	754	(70)	—	7,593
Ending balance	$ 37,736	$ 14,412	$ 2,540	$ 2,433	$ 6,567	$ 11,894	$ 1,568	$ 1,225	$ 78,375
Quarter ended March 31, 2015									
Beginning balance	$ 29,458	$ 10,992	$ 2,249	$ 2,297	$ 8,327	$ 12,145	$ 7,226	$ 1,816	$ 74,510
Charge-offs	(7,449)	(156)	(28)	—	(1,317)	(800)	(303)	—	(10,053)
Recoveries	792	322	4	17	266	321	75	—	1,797
Net charge-offs	(6,657)	166	(24)	17	(1,051)	(479)	(228)	—	(8,256)
Provision for loan losses and other	9,295	(327)	130	(238)	(978)	(11)	(1,319)	—	6,552
Ending balance	$ 32,096	$ 10,831	$ 2,355	$ 2,076	$ 6,298	$ 11,655	$ 5,679	$ 1,816	$ 72,806

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

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

	Loans				Allowance for Credit Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	PCI	Total
As of March 31, 2016								
Commercial, industrial, and agricultural	$2,717	$3,042,504	$11,401	$3,056,622	$852	$ 36,089	$795	$37,736
Commercial real estate:								
Office, retail, and industrial	9,683	1,543,068	13,644	1,566,395	1,783	11,061	1,568	14,412
Multi-family	402	548,891	12,772	562,065	—	2,443	97	2,540
Construction	34	255,249	5,460	260,743	—	2,126	307	2,433
Other commercial real estate	3,972	1,039,822	16,508	1,060,302	—	5,882	685	6,567
Total commercial real estate	14,091	3,387,030	48,384	3,449,505	1,783	21,512	2,657	25,952
Total corporate loans	16,808	6,429,534	59,785	6,506,127	2,635	57,601	3,452	63,688
Consumer	—	1,275,878	12,159	1,288,037	—	11,504	390	11,894
Covered loans	—	18,659	9,732	28,391	—	192	1,376	1,568
Reserve for unfunded commitments	—	—	—	—	—	1,225	—	1,225
Total loans	$16,808	$7,724,071	$81,676	$7,822,555	$2,635	$ 70,522	$5,218	$78,375
As of December 31, 2015								
Commercial, industrial, and agricultural	$2,871	$2,902,361	$6,934	$2,912,166	$883	$ 35,378	$813	$37,074
Commercial real estate:								
Office, retail, and industrial	6,162	1,376,789	12,503	1,395,454	715	10,833	1,568	13,116
Multi-family	800	526,037	1,487	528,324	—	2,367	95	2,462
Construction	178	212,671	4,033	216,882	—	1,160	280	1,440
Other commercial real estate	3,665	913,161	14,364	931,190	—	5,367	721	6,088
Total commercial real estate	10,805	3,028,658	32,387	3,071,850	715	19,727	2,664	23,106
Total corporate loans	13,676	5,931,019	39,321	5,984,016	1,598	55,105	3,477	60,180
Consumer	—	1,135,959	10,965	1,146,924	—	11,425	387	11,812
Covered loans	—	20,856	9,919	30,775	—	248	1,390	1,638
Reserve for unfunded commitments	—	—	—	—	—	1,225	—	1,225
Total loans	$13,676	$7,087,834	$60,205	$7,161,715	$1,598	$ 68,003	$5,254	$74,855

Loans Individually Evaluated for Impairment

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

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

	As of March 31, 2016				As of December 31, 2015			
	Recorded Investment In				Recorded Investment In			
	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial and industrial	$1,561	$ 1,156	$4,240	$ 852	$1,673	$ 1,198	$4,592	$ 883
Agricultural	—	—	—	—	—	—	—	—
Commercial real estate:								
Office, retail, and industrial	3,168	6,515	14,837	1,783	4,654	1,508	12,083	715
Multi-family	402	—	402	—	800	—	941	—
Construction	34	—	34	—	178	—	299	—
Other commercial real estate	3,972	—	5,640	—	3,665	—	4,403	—
Total commercial real estate	7,576	6,515	20,913	1,783	9,297	1,508	17,726	715
Total impaired loans individually evaluated for impairment	$9,137	$ 7,671	$25,153	$ 2,635	$10,970	$ 2,706	$22,318	$ 1,598

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

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

	Quarters Ended March 31,			
	2016		2015	
	Average Recorded Balance	Interest Income Recognized (1)	Average Recorded Balance	Interest Income Recognized (1)
Commercial and industrial	$2,794	$ 38	$14,947	$ 70
Agricultural	—	—	—	—
Commercial real estate:				
Office, retail, and industrial	7,923	48	11,502	29
Multi-family	601	1	812	—
Construction	106	—	6,671	—
Other commercial real estate	3,819	19	3,002	11
Total commercial real estate	12,449	68	21,987	40
Total impaired loans	$15,243	$ 106	$36,934	$ 110

(1) Recorded using the cash basis of accounting.

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Credit Quality Indicators

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

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

	Pass	Special Mention (1) (4)	Substandard (2) (4)	Non-accrual (3)	Total
As of March 31, 2016					
Commercial and industrial	$2,466,027	$121,950	$ 41,050	$ 5,364	$2,634,391
Agricultural	380,551	33,122	8,263	295	422,231
Commercial real estate:					
Office, retail, and industrial	1,482,996	38,809	33,680	10,910	1,566,395
Multi-family	551,807	5,869	3,979	410	