FIRST MIDWEST BANCORP INC
Form 10-Q
November 07, 2014

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, 2014
	or
[ ]	Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _________ to __________.

Commission File Number 0-10967

FIRST MIDWEST BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

One Pierce Place, Suite 1500
Itasca, Illinois 60143-9768
(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 [ ] (Do not check if a smaller reporting company)	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 November 3, 2014, there were 75,295,023 shares of common stock, $.01 par value, outstanding.

FIRST MIDWEST BANCORP, INC.

FORM 10-Q

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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)

Assets	September 30, 2014 (Unaudited)	December 31, 2013
Cash and due from banks	$125,977	$110,417
Interest-bearing deposits in other banks	550,606	476,824
Trading securities, at fair value	17,928	17,317
Securities available-for-sale, at fair value	997,420	1,112,725
Securities held-to-maturity, at amortized cost	26,776	44,322
Federal Home Loan Bank (“FHLB”) and Federal Reserve Bank stock, at cost	35,588	35,161
Loans, excluding covered loans	6,428,204	5,580,005
Covered loans	90,875	134,355
Allowance for loan and covered loan losses	(73,106)	(85,505)
Net loans	6,445,973	5,628,855
Other real estate owned (“OREO”), excluding covered OREO	29,165	32,473
Covered OREO	9,277	8,863
Federal Deposit Insurance Corporation (“FDIC”) indemnification asset	8,699	16,585
Premises, furniture, and equipment	123,473	120,204
Investment in bank-owned life insurance (“BOLI”)	195,270	193,167
Goodwill and other intangible assets	322,664	276,366
Accrued interest receivable and other assets	207,535	180,128
Total assets	$9,096,351	$8,253,407
Liabilities		
Noninterest-bearing deposits	$2,295,679	$1,911,602
Interest-bearing deposits	5,320,454	4,854,499
Total deposits	7,616,133	6,766,101
Borrowed funds	132,877	224,342
Senior and subordinated debt	191,028	190,932
Accrued interest payable and other liabilities	106,637	70,590
Total liabilities	8,046,675	7,251,965
Stockholders’ Equity		
Common stock	858	858
Additional paid-in capital	408,789	414,293
Retained earnings	891,129	853,740
Accumulated other comprehensive loss, net of tax	(18,852)	(26,792)
Treasury stock, at cost	(232,248)	(240,657)
Total stockholders’ equity	1,049,676	1,001,442
Total liabilities and stockholders’ equity	$9,096,351	$8,253,407

	September 30, 2014		December 31, 2013	
	Preferred Shares	Common Shares	Preferred Shares	Common Shares
Par Value	$—	$0.01	$—	$0.01

Shares authorized	1,000	150,000	1,000	100,000
Shares issued	—	85,787	—	85,787
Shares outstanding	—	75,295	—	75,071
Treasury shares	—	10,492	—	10,716

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,	
	2014	2013	2014	2013
Interest Income				
Loans, excluding covered loans	$66,117	$60,614	$185,753	$179,156
Covered loans	2,596	3,142	7,139	10,742
Investment securities	7,465	7,742	23,489	22,755
Other short-term investments	684	831	2,174	2,474
Total interest income	76,862	72,329	218,555	215,127
Interest Expense				
Deposits	2,806	2,837	7,914	9,160
Borrowed funds	9	390	561	1,217
Senior and subordinated debt	3,016	3,436	9,047	10,306
Total interest expense	5,831	6,663	17,522	20,683
Net interest income	71,031	65,666	201,033	194,444
Provision for loan and covered loan losses	10,727	4,770	17,509	16,257
Net interest income after provision for loan and covered loan losses	60,304	60,896	183,524	178,187
Noninterest Income				
Service charges on deposit accounts	9,902	9,472	26,895	27,267
Wealth management fees	6,721	6,018	19,730	17,983
Card-based fees	6,646	5,509	17,950	16,132
Mortgage banking income	1,125	1,273	3,199	4,251
Other service charges, commissions, and fees	5,266	5,532	13,943	13,937
Gains on sales of properties	3,954	—	3,954	—
Net securities gains	2,570	33,801	8,160	34,017
BOLI income (loss)	767	(13,028)	2,030	(12,428)
Other income	156	1,682	1,748	4,116
Gain on termination of FHLB forward commitments	—	7,829	—	7,829
Loss on extinguishment of debt	—	—	(2,059)	—
Total noninterest income	37,107	58,088	95,550	113,104
Noninterest Expense				
Salaries and employee benefits	35,933	34,270	103,985	103,760
Net occupancy and equipment expense	8,702	7,982	25,765	23,922
Professional services	7,098	5,517	19,004	16,330
Technology and related costs	4,316	2,984	10,494	8,351
Other expenses	14,264	13,949	39,750	39,580
Total noninterest expense	70,313	64,702	198,998	191,943
Income before income tax expense	27,098	54,282	80,076	99,348
Income tax expense	8,549	24,959	25,363	39,207
Net income	$18,549	$29,323	$54,713	$60,141
Per Common Share Data				
Basic earnings per common share	$0.25	$0.39	$0.73	$0.80
Diluted earnings per common share	$0.25	$0.39	$0.73	$0.80
Dividends declared per common share	$0.08	$0.04	$0.23	$0.09
Weighted-average common shares outstanding	74,341	74,023	74,270	73,969

Weighted-average diluted common shares outstanding	74,352	74,034	74,282	73,978

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,	
	2014	2013	2014	2013
Net income	$18,549	$29,323	$54,713	$60,141
Securities available-for-sale				
Unrealized holding (losses) gains:				
Before tax	(2,693)	6,211	22,028	5,359
Tax effect	1,003	(1,993)	(8,776)	(2,151)
Net of tax	(1,690)	4,218	13,252	3,208
Reclassification of net gains included in net income:				
Before tax	2,570	33,801	8,160	34,017
Tax effect	(1,051)	(13,825)	(3,337)	(13,913)
Net of tax	1,519	19,976	4,823	20,104
Net unrealized holding (losses) gains	(3,209)	(15,758)	8,429	(16,896)
Derivative instruments				
Unrealized holding losses:				
Before tax	(629)	—	(827)	—
Tax effect	257	—	338	—
Net of tax	(372)	—	(489)	—
Unrecognized net pension costs				
Unrealized holding gains:				
Before tax	—	—	—	10,997
Tax effect	—	—	—	(4,498)
Net of tax	—	—	—	6,499
Total other comprehensive (loss) income	(3,581)	(15,758)	7,940	(10,397)
Total comprehensive income	$14,968	$13,565	$62,653	$49,744

	Accumulated Unrealized Gain (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, 2012	$1,115	$—	$(16,775)	$(15,660)
Other comprehensive (loss) income	(16,896)	—	6,499	(10,397)
Balance at September 30, 2013	$(15,781)	$—	$(10,276)	$(26,057)
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)

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, 2012	74,840	$858	$418,318	$786,453	$(15,660)	$(249,076)	$940,893
Comprehensive income (loss)	—	—	—	60,141	(10,397)	—	49,744
Common dividends declared ($0.09 per common share)	—	—	—	(6,759)	—	—	(6,759)
Share-based compensation expense	—	—	4,366	—	—	—	4,366
Restricted stock activity	236	—	(9,915)	—	—	8,379	(1,536)
Treasury stock issued to benefit plans	(2)	—	(92)	—	—	109	17
Balance at September 30, 2013	75,074	$858	$412,677	$839,835	$(26,057)	$(240,588)	$986,725
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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2014	2013
Net cash provided by operating activities	$88,575	$104,383
Investing Activities		
Proceeds from maturities, prepayments, and calls of securities available-for-sale	125,244	178,256
Proceeds from sales of securities available-for-sale	24,947	69,428
Purchases of securities available-for-sale	(16,411)	(326,143)
Proceeds from maturities, prepayments, and calls of securities held-to-maturity	3,814	7,084
Purchases of securities held-to-maturity	(1,998)	(2,636)
Net (purchases) redemption of FHLB and Federal Reserve Bank stock	(427)	12,071
Net increase in loans	(291,561)	(233,844)
BOLI income, net of claims	(73)	(2)
Proceeds from sales of OREO	14,293	20,715
Proceeds from sales of premises, furniture, and equipment	3,893	1,425
Purchases of premises, furniture, and equipment	(7,885)	(6,586)
Cash received from acquisitions, net of cash paid	139,486	—
Net cash used in investing activities	(6,678)	(280,232)
Financing Activities		
Net increase in deposit accounts	119,440	330,953
Increase in borrowed funds	23,085	26,074
(Payment for) proceeds from the termination of FHLB advances and forward commitments	(116,609)	7,829
Cash dividends paid	(16,556)	(4,502)
Restricted stock activity	(2,739)	(1,588)
Excess tax benefit related to share-based compensation	824	55
Net cash provided by financing activities	7,445	358,821
Net increase in cash and cash equivalents	89,342	182,972
Cash and cash equivalents at beginning of period	587,241	716,266
Cash and cash equivalents at end of period	$676,583	$899,238
Supplemental Disclosures of Cash Flow Information:		
Income taxes paid (refunded)	$7,262	$(1,779)
Interest paid to depositors and creditors	14,714	17,715
Dividends declared, but unpaid	6,028	3,006
Non-cash transfers of loans to OREO	13,277	15,877
Non-cash transfer of loans held-for-investment to loans held-for-sale	70,183	1,275
Non-cash transfer of an investment from other assets to securities available-for-sale	—	2,787

See accompanying notes to the unaudited condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying unaudited condensed consolidated interim financial statements 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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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 quarterly statements do not include certain information and footnote disclosures required by GAAP for complete annual financial statements. Therefore, these financial statements should be read in conjunction with the Company's 2013 Annual Report on Form 10-K ("2013 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 condensed 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 condensed consolidated financial statements.

Use of Estimates – The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed 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, please refer to Note 1, "Summary of Significant Accounting Policies," in the Company's 2013 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 net tangible and intangible assets acquired recorded as goodwill. Alternatively, a gain is recorded if the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid. The results of operations of the acquired business are included in the Consolidated Statements of Income from the effective date of the acquisition.
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 - Acquired loans consist primarily of loans that were acquired in business combinations. Covered loans consist 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. No allowance for credit losses is recorded on acquired and covered loans at the acquisition date since business combination accounting requires that they are recorded at fair value.

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. 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. Other key considerations included past performance of the institutions' credit underwriting standards, completeness and accuracy of credit files, maintenance of risk ratings, and age of appraisals. Leases and revolving loans do not qualify to be accounted for as PCI loans.

The acquisition adjustment related to Non-PCI loans is amortized into interest income over the contractual life of the related loans. As the acquisition adjustment is accreted into income over future periods, an allowance for credit losses will be established as necessary to reflect credit deterioration.

PCI loans are accounted for prospectively 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 rating. 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 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 establishing an allowance for loan and covered loan losses.

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 loan is sufficiently collateralized such that full repayment of both principal and interest is expected and is in the process of collection within a reasonable period 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 both 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.

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.

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.

Allowance for Covered Loan Losses – The Company's allowance for covered loan losses reflects the difference between the carrying value and the 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 of 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. 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 – 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 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 effective 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 EVENTS

Equity Matters

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

Recent Accounting Pronouncements

Income Taxes: In January of 2014, the Financial Accounting Standards Board ("FASB") issued guidance that requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date or, if the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2013, and must be applied prospectively. The adoption of this guidance on January 1, 2014 did not impact the Company's financial condition, results of operations, or liquidity.

Receivables - Troubled Debt Restructurings by Creditors: In January of 2014, the 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 and can be applied retrospectively or prospectively. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

Reporting Discontinued Operations: In April of 2014, the FASB issued guidance that requires an entity to report a disposal of a component of an entity or a group of components of an entity in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component of an entity or group of components of an entity (i) meets the criteria to be classified as held for sale, (ii) is disposed of by sale, or (iii) is disposed of other than by sale. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2014, and must be applied prospectively. Management does not expect the adoption of this guidance will materially impact the Company's financial condition, results of operations, or liquidity.

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 is effective for annual and interim reporting periods beginning on or after December 15, 2016, and must be applied either retrospectively or using the modified retrospective approach. 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.

Transfers and Servicing: In June of 2014, the FASB issued guidance that requires repurchase-to-maturity transactions to be accounted for as secured borrowings. The guidance also requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. If the derecognition criteria are met, the initial transfer will generally be accounted for as a sale and the repurchase agreement will generally be accounted for as a secured borrowing. The guidance is effective for annual and interim reporting periods beginning after December 15, 2014. 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.

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. 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 the annual period ending after December 15, 2016, and for annual and interim periods thereafter. 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, First Midwest Bank (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 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 Company is finalizing the fair values of loans and intangible assets and liabilities. As a result, the fair value adjustments associated with these accounts and goodwill, which are included in the following table, are preliminary and may change.

Popular Acquisition
(Dollar amounts in thousands)

	August 8, 2014
Assets	
Cash and due from banks	$142,276
Loans:	
Commercial, industrial, and agricultural	76,680
Commercial real estate:	
Office, retail, and industrial	194,312
Multi-family	192,464
Other commercial real estate	57,111
Total commercial real estate	443,887
Consumer	28,819
Total loans	549,386
Goodwill	36,906
Intangible assets	8,003
Premises, furniture, and equipment	4,647
Accrued interest receivable and other assets	1,849
Total assets	$743,067
Liabilities	
Deposits:	
Demand deposits	$163,299
Savings deposits	91,205
NOW accounts	100,852
Money market deposits	181,730
Time deposits	194,786
Total deposits	731,872
Intangible liabilities	10,631
Accrued interest payable and other liabilities	564
Total liabilities	$743,067

Expenses related to the acquisition of Popular totaled $2.2 million and $2.8 million during the quarter and nine months ended September 30, 2014, respectively, and are reported within noninterest expense. The acquisition was not considered material to the Company's financial statements; therefore, pro forma financial data and related disclosures are not included.

National Machine Tool Financial Corporation

On September 26, 2014, the Bank completed the acquisition of National Machine Tool Financial Corporation ("National Machine Tool"). National Machine Tool provides equipment leasing and financing alternatives to traditional bank financing. On the date of acquisition, the Bank acquired approximately $4.4 million in direct financing leases, lease loans, and other assets.

Pending Acquisitions

Great Lakes Financial Resources, Inc.

On July 7, 2014, the Company entered into a definitive agreement to acquire the south suburban Chicago-based Great Lakes Financial Resources, Inc. ("Great Lakes"), the holding company for Great Lakes Bank, National Association. As part of the acquisition, the Company will acquire eight locations and approximately $234 million in loans and will assume approximately $490 million in deposits. The merger consideration will be a combination of Company common stock and cash, with an overall transaction value of approximately $58.0 million, subject to certain adjustments based on the price of the Company's common stock prior to closing. The Company received approval for this acquisition from the Federal Reserve, and the acquisition is expected to close before the end of 2014, subject to approval by the stockholders of Great Lakes 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 positive 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 that allow plan participants to direct amounts into a variety of securities, including Company stock. Net trading (losses) gains represent changes in the fair value of the trading securities portfolio and are included in other noninterest income in the Condensed Consolidated Statements of Income.

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)

	September 30, 2014				December 31, 2013			
	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. agency securities	$500	$—	$—	$500	$500	$—	$—	$500
Collateralized mortgage obligations ("CMOs")	424,946	1,578	(9,977)	416,547	490,962	1,427	(16,621)	475,768
Other mortgage-backed securities ("MBSs")	117,271	4,045	(827)	120,489	135,097	3,349	(2,282)	136,164
Municipal securities	423,904	12,517	(1,349)	435,072	457,318	9,673	(5,598)	461,393
Trust preferred collateralized debt obligations ("CDOs")	45,021	—	(26,652)	18,369	46,532	—	(28,223)	18,309
Corporate debt securities	3,724	122	—	3,846	12,999	1,930	—	14,929
Equity securities	2,575	77	(55)	2,597	3,706	2,046	(90)	5,662
Total available-for-sale securities	$1,017,941	$18,339	$(38,860)	$997,420	$1,147,114	$18,425	$(52,814)	$1,112,725
Securities Held-to-Maturity								
Municipal securities	$26,776	$990	$—	$27,766	$44,322	$—	$(935)	$43,387
Trading Securities				$17,928				$17,317

Remaining Contractual Maturity of Securities
(Dollar amounts in thousands)

	September 30, 2014			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$65,157	$63,042	$3,425	$3,552
After one year to five years	80,964	78,335	8,505	8,819
After five years to ten years	196,380	190,004	5,703	5,914
After ten years	130,648	126,406	9,143	9,481
Securities that do not have a single contractual maturity date	544,792	539,633	—	—
Total	$1,017,941	$997,420	$26,776	$27,766

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 $816.1 million at September 30, 2014 and $755.3 million at December 31, 2013. No securities held-to-maturity were pledged as of September 30, 2014 or December 31, 2013.

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. The following table presents net realized gains on securities.

Securities Gains (Losses)
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gains on sales of securities:				
Gross realized gains	$2,570	$34,205	$8,188	$34,421
Gross realized losses	—	—	—	—
Net realized gains on sales of securities	2,570	34,205	8,188	34,421
Non-cash impairment charges:				
Other-than-temporary securities impairment ("OTTI")	—	(404)	(28)	(404)
Net non-cash impairment charges	—	(404)	(28)	(404)
Net realized gains	$2,570	$33,801	$8,160	$34,017
Net trading (losses) gains [(1)]	$(356)	$882	$366	$2,132

(1) All net trading (losses) gains relate to trading securities still held as of September 30, 2014 and September 30, 2013 and are included in other income in the Condensed Consolidated Statement of Income.

Net realized gains on sales of securities for the third quarter and first nine months of 2014 were $2.6 million and $8.2 million, respectively. During the third quarter of 2014, the Company sold certain corporate bonds and other investments at gains of $2.6 million. Net securities gains for the nine months ended September 30, 2014 also consisted of the sale of a non-accrual CDO at a gain of $3.5 million, sales of municipal securities at gains of $468,000, and the sale of other investments at a gain of $1.6 million.

The non-cash impairment charges for the nine months ended September 30, 2014 in the table above relates to OTTI charges on certain CMOs. For the quarter and nine months ended September 30, 2013, non-cash impairment charges relates to OTTI on municipal securities and CDOs. Accounting guidance requires that the credit portion of an OTTI charge be recognized through income. If a decline in fair value below carrying value is not attributable to credit deterioration and the Company does not intend to sell the security or believe it would not be more likely than not required to sell the security prior to recovery, the Company records the non-credit related portion of the decline in fair value in other comprehensive (loss) income.

The following table presents a rollforward of life-to-date OTTI recognized in earnings related to all available-for-sale securities held by the Company for the quarters and nine months ended September 30, 2014 and 2013. 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,	
	2014	2013	2014	2013
Beginning balance	$23,880	$32,053	$32,422	$38,803
OTTI included in earnings [(1)]:				
Losses on securities that previously had OTTI	—	—	28	—
Losses on securities that did not previously have OTTI	—	404	—	404
Reduction for sales of securities [(2)]	—	(39)	(8,570)	(6,789)

Ending balance	$23,880	$32,418	$23,880	$32,418

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

(2) During the nine months ended September 30, 2014, one CDO with a carrying value of $1.3 million was sold. In addition, one CDO with a carrying value of zero was sold during the nine months ended September 30, 2013. These CDOs had OTTI of $8.6 million and $6.8 million, respectively, that were 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, 2014 and December 31, 2013.

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, 2014							
CMOs	59	$15,653	$139	$312,418	$9,838	$328,071	$9,977
Other MBSs	11	173	2	41,570	825	41,743	827
Municipal securities	92	1,318	8	57,298	1,341	58,616	1,349
CDOs	5	—	—	18,369	26,652	18,369	26,652
Equity securities	1	—	—	2,238	55	2,238	55
Total	168	$17,144	$149	$431,893	$38,711	$449,037	$38,860
As of December 31, 2013							
CMOs	67	$338,064	$14,288	$57,269	$2,333	$395,333	$16,621
Other MBSs	19	57,311	2,281	356	1	57,667	2,282
Municipal securities	154	65,370	3,245	27,565	2,353	92,935	5,598
CDOs	6	—	—	18,309	28,223	18,309	28,223
Equity securities	1	2,168	90	—	—	2,168	90
Total	247	$462,913	$19,904	$103,499	$32,910	$566,412	$52,814

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 individual unrealized loss as of September 30, 2014 represents an OTTI related to credit deterioration. The unrealized losses associated with these securities are not believed to be attributed to credit quality, but rather to changes in interest rates and temporary market movements. In addition, the Company does not intend to sell the securities with unrealized losses, 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, 2014 reflect the illiquidity of these structured investment vehicles. 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. The Company estimates the fair value of these securities using discounted cash flow analyses with the assistance of a structured credit valuation firm. For additional discussion of the CDO valuation methodology, refer to 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)

	September 30, 2014	December 31, 2013
Commercial and industrial	$2,208,166	$1,830,638
Agricultural	347,511	321,702
Commercial real estate:		
Office, retail, and industrial	1,422,522	1,353,685
Multi-family	559,689	332,873
Construction	193,445	186,197
Other commercial real estate	871,825	807,071
Total commercial real estate	3,047,481	2,679,826
Total corporate loans	5,603,158	4,832,166
Home equity	517,446	427,020
1-4 family mortgages	238,172	275,992
Installment	69,428	44,827
Total consumer loans	825,046	747,839
Total loans, excluding covered loans	6,428,204	5,580,005
Covered loans [(1)]	90,875	134,355
Total loans	$6,519,079	$5,714,360
Deferred loan fees included in total loans	$4,163	$4,656
Overdrawn demand deposits included in total loans	3,632	5,047

(1) For information on covered loans, refer to Note 6, “Acquired and Covered Loans.”

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

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 4, “Loans,” in the Company’s 2013 10-K.

Loan Sales
The table below summarizes the Company's loan sales for the quarter and nine months ended September 30, 2014 and 2013.

Loan Sales
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
1-4 family mortgage loans				
Proceeds from sales	$32,611	$37,060	$117,549	$122,067
Less book value of loans sold:				
Loans originated with intent to sell	26,384	32,485	62,319	32,807
Loans held-for-investment	5,302	3,592	52,384	85,271
Total book value of loans sold	31,686	36,077	114,703	118,078
Net gains on sales of 1-4 family mortgages	$925	$983	$2,846	$3,989

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

Acquired loans consist primarily of loans that were acquired in business combinations that are not covered by the FDIC Agreements. These loans are included in loans, excluding covered loans, in the Consolidated Statements of Financial Condition. Covered loans consist of loans acquired by the Company in four FDIC-assisted transactions. Most loans and OREO acquired in three of those transactions are covered by the FDIC Agreements. 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 PCI and Non-PCI, loans as of September 30, 2014 and December 31, 2013.

Acquired and Covered Loans
(Dollar amounts in thousands)

	September 30, 2014			December 31, 2013		
	PCI	Non-PCI	Total	PCI	Non-PCI	Total
Acquired loans	$20,937	$539,454	$560,391	$15,608	$17,024	$32,632
Covered loans	64,015	26,860	90,875	103,525	30,830	134,355
Total acquired and covered loans	$84,952	$566,314	$651,266	$119,133	$47,854	$166,987

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, 2014 and December 31, 2013.

A rollforward of the carrying value of the FDIC indemnification asset for the quarters and nine months ended September 30, 2014 and 2013 is presented in the following table.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Beginning balance	$10,276	$23,158	$16,585	$37,051
Amortization	(650)	(116)	(2,784)	(2,348)
Change in expected reimbursements from the FDIC for changes in expected credit losses	(857)	(999)	(325)	(3,453)
Payments received from the FDIC	(70)	(3,965)	(4,777)	(13,172)
Ending balance	$8,699	$18,078	$8,699	$18,078

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,	
	2014	2013	2014	2013
Beginning balances	$35,152	$47,104	$36,792	$51,498
Accretion	(3,346)	(3,410)	(10,277)	(11,752)
Additions	1,265	—	1,265	—
Other [(1)]	(5,215)	(3,128)	76	820
Ending balance	$27,856	$40,566	$27,856	$40,566

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

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, 2014 and December 31, 2013. 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
September 30, 2014							
Commercial and industrial	$2,197,785	$6,216	$4,165	$10,381	$2,208,166	$19,696	$1,256
Agricultural	347,179	—	332	332	347,511	361	—
Commercial real estate:							
Office, retail, and industrial	1,401,990	1,842	18,690	20,532	1,422,522	16,963	3,840
Multi-family	557,852	641	1,196	1,837	559,689	1,536	—
Construction	186,363	—	7,082	7,082	193,445	7,082	—
Other commercial real estate	861,061	4,461	6,303	10,764	871,825	7,912	150
Total commercial real estate	3,007,266	6,944	33,271	40,215	3,047,481	33,493	3,990
Total corporate loans	5,552,230	13,160	37,768	50,928	5,603,158	53,550	5,246
Home equity	509,530	3,525	4,391	7,916	517,446	5,834	587
1-4 family mortgages	234,672	1,935	1,565	3,500	238,172	3,235	126
Installment	66,997	428	2,003	2,431	69,428	1,909	103
Total consumer loans	811,199	5,888	7,959	13,847	825,046	10,978	816
Total loans, excluding covered loans	6,363,429	19,048	45,727	64,775	6,428,204	64,528	6,062
Covered loans	73,370	954	16,551	17,505	90,875	10,905	7,031
Total loans	$6,436,799	$20,002	$62,278	$82,280	$6,519,079	$75,433	$13,093
December 31, 2013							
Commercial and industrial	$1,814,660	$6,872	$9,106	$15,978	$1,830,638	$11,767	$393
Agricultural	321,156	134	412	546	321,702	519	—
Commercial real estate:							
Office, retail, and industrial	1,335,027	2,620	16,038	18,658	1,353,685	17,076	1,315
Multi-family	330,960	318	1,595	1,913	332,873	1,848	—
Construction	180,083	23	6,091	6,114	186,197	6,297	—
Other commercial real estate	795,462	5,365					