Regional Management Corp.
Form 10-K
February 23, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 001-35477

Regional Management Corp.

(Exact name of registrant as specified in its charter)

Delaware	**57-0847115**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
509 West Butler Road	
Greenville, South Carolina	**29607**
(Address of principal executive offices)	**(Zip Code)**

(864) 422-8011

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.10 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. x

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

Large accelerated filer	¨	Accelerated filer	x
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 Act). Yes ¨ No x

As of June 30, 2015 (the last business day of the registrant s most recently completed second fiscal quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was $207,885,471 based upon the closing sale price as reported on the New York Stock Exchange. See Part II, Item 5 of this Annual Report on Form 10-K for additional information.

As of February 18, 2016, there were 12,841,729 shares of the registrant s common stock outstanding.

Documents Incorporated by Reference

Certain information required by Part III of this Annual Report on Form 10-K is incorporated herein by reference to the Proxy Statement for the registrant s 2016 Annual Meeting of Stockholders, which is expected to be filed pursuant to Regulation 14A within 120 days after the end of the registrant s fiscal year ended December 31, 2015.

REGIONAL MANAGEMENT CORP.

ANNUAL REPORT ON FORM 10-K

Fiscal Year Ended December 31, 2015

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including, but not limited to, certain statements and disclosures contained in Item 1, Business, Item 1A, Risk Factors, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. These forward-looking statements include, but are not limited to, statements about our strategies, future operations, future financial position, future revenues, projected costs, expectations regarding demand and acceptance for our financial products, growth opportunities and trends in the market in which we operate, prospects, plans and objectives of management, representations, and contentions, and are not historical facts. Forward-looking statements typically are identified by the use of terms such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, potential, continue, and similar words, although some forward-looking statements are expressed differently. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Forward-looking statements included herein represent management s current judgment and expectations, but our actual results, events, and performance could differ materially from the plans, intentions, and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including without limitation, the risks set forth in Item 1A, Risk Factors in this Annual Report on Form 10-K. We do not intend to update any of these forward-looking statements or publicly announce the results of or any revisions to these forward-looking statements, other than as is required under the federal securities laws.

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements, including the notes thereto.

PART I

ITEM 1. *BUSINESS.*

Overview

Regional Management Corp. (together with its subsidiaries, Regional, the Company, we, us, and our) was incorporated in South Carolina on March 25, 1987, and converted into a Delaware corporation on August 23, 2011. We are a diversified specialty consumer finance company providing a broad array of loan products primarily to customers with limited access to consumer credit from banks, thrifts, credit card companies, and other traditional lenders. We began operations in 1987 with four branches in South Carolina and have expanded our branch network to 331 locations with approximately 349,300 active accounts primarily across Alabama, Georgia, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia as of December 31, 2015. Most of our loan products are secured and each is structured on a fixed rate, fixed term basis with fully amortizing equal monthly installment payments, repayable at any time without penalty. Our loans are sourced through our multiple channel platform that includes our branches, direct mail campaigns, independent and franchise automobile dealerships, online credit application networks, retailers, and our consumer website. We operate an integrated branch model in which nearly all loans, regardless of origination channel, are serviced through our branch network, providing us with frequent in-person contact with our customers, which we believe improves our credit performance and customer loyalty. Our goal is to consistently and soundly grow our finance receivables and manage our portfolio risk while providing our customers with attractive and easy-to-understand loan products that serve their varied financial needs.

Our diversified product offerings include:

- *Small Loans* We offer small installment loans ranging from $500 to $2,500, with terms of up to 36 months, which are typically secured by non-essential household goods. We originate these loans

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through our branches, via our consumer website, by customer referrals, and through direct mail campaigns. Our direct mail campaigns include convenience checks sent to pre-screened individuals who are able to enter into a loan by cashing or depositing these checks. As of December 31, 2015, we had approximately 274,700 small loans outstanding representing $338.2 million in finance receivables or an average of approximately $1,200 per loan. In 2015, 2014, and 2013, interest and fee income from small loans contributed $139.2 million, $134.7 million, and $98.0 million, respectively, to our total revenue.

Large Loans We offer large installment loans through our branches ranging from $2,501 to $20,000, with terms of between 18 and 60 months. Our large loans are secured by either a vehicle, which may be an automobile, motorcycle, boat, or all-terrain vehicle, and/or non-essential household goods. As of December 31, 2015, we had approximately 37,700 large loans outstanding representing $146.6 million in finance receivables or an average of approximately $3,900 per loan. In 2015, 2014, and 2013, interest and fee income from large loans contributed $25.7 million, $11.5 million, and $12.5 million, respectively, to our total revenue.

Automobile Loans We offer automobile loans of up to $27,500, generally with terms of between 36 and 72 months, that are secured by the purchased vehicle. Our automobile loans are offered through a network of dealers in our geographic footprint. Our automobile loans include both direct loans, which are sourced through a dealership and closed at one of our branches, and indirect loans, which are originated and closed at a dealership in our network without the need for the customer to visit one of our branches. As of December 31, 2015, we had approximately 13,700 automobile loans outstanding representing $116.1 million in finance receivables or an average of approximately $8,500 per loan. In 2015, 2014, and 2013, interest and fee income from automobile loans contributed $26.1 million, $33.4 million, and $36.2 million, respectively, to our total revenue.

Retail Loans We offer indirect retail loans of up to $7,500, with terms of between 6 and 48 months, which are secured by the purchased item. These loans are offered through a network of retailers within and, to a limited extent, outside of our geographic footprint. As of December 31, 2015, we had approximately 23,200 retail loans outstanding representing $27.6 million in finance receivables or an average of approximately $1,200 per loan. In 2015, 2014, and 2013, interest and fee income from retail loans contributed $4.8 million, $5.2 million, and $5.6 million, respectively, to our total revenue.

Optional Credit Insurance Products We offer our customers optional payment protection insurance relating to many of our loan products. In 2015, insurance income, net, was $11.7 million, or 5.4% of our total revenue.

We have one reportable segment, which is the consumer finance segment. Our other revenue generating activities, including insurance operations, are performed in the existing branch network in conjunction with or as a complement to the lending operations. For financial information regarding the results of our only reportable segment, the consumer finance segment, for each of the last three fiscal years, refer to Item 6, Selected Financial Data and Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Our Industry

We operate in the consumer finance industry serving the large population of non-prime and underbanked consumers who have limited access to credit from banks, thrifts, credit card companies, and other traditional lenders. According to the Federal Deposit Insurance Corporation (FDIC), there were approximately 51 million adults living in underbanked households in the United States in 2013, up from 43 million in 2009. While the number of non-prime consumers in the United States has grown, the supply of consumer credit to this demographic by traditional lenders has contracted. Following deregulation of the U.S. banking industry in the 1980s, many banks and finance companies that traditionally provided small denomination consumer credit refocused their businesses on larger loans with lower comparative origination costs and lower charge-off rates.

We believe the large number of potential customers in our target market, combined with the decline in available consumer credit, provides an attractive market opportunity for our diversified product offerings installment lending, automobile lending, and retail lending.

Installment Lending. Installment lending to non-prime and underbanked consumers is one of the most highly fragmented sectors of the consumer finance industry. Providers of installment loans, such as Regional, generally offer loans with longer terms and lower interest rates than other alternatives available to underbanked consumers, such as title, payday, and pawn lenders.

Automobile Lending. Automobile finance comprises one of the largest consumer finance markets in the United States. The automobile loan sector is generally segmented by the credit characteristics of the borrower. Automobile loans are typically initiated or arranged through automobile dealers nationwide who rely on financing to drive their automobile sales.

Retail Lending. The retail industry represents a large consumer market in which retailers often do not provide their own financing, but instead partner with large banks and credit card companies that generally limit their lending activities to prime borrowers. As a result, non-prime customers often do not qualify for financing from these traditional lenders.

Our Business Model and Operations

Integrated Branch Model. Our branch network, with 331 locations across 9 states as of December 31, 2015, serves as the foundation of our multiple channel platform and the primary point of contact with our approximately 349,300 active accounts. By integrating underwriting and loan servicing at the branch level, our employees are able to maintain a relationship with our customers throughout the life of a loan. For loans originated at a branch, underwriting decisions are typically made by our local branch manager. Our branch managers combine our company-wide underwriting standards and flexibility within our guidelines to consider each customer s unique circumstances. This tailored branch-level underwriting approach allows us to both reject certain marginal loans that would otherwise be approved solely based on a credit report or automated loan approval system, as well as to selectively extend loans to customers with prior credit challenges who might otherwise be denied credit. In addition, nearly all loans, regardless of origination channel, are serviced through our branches, which allows us to maintain frequent, in-person contact with our customers. We believe this frequent-contact, relationship-driven lending model provides greater insight into potential payment difficulties and allows us to assess the borrowing needs of our customers and offer new loan products as their credit profiles evolve.

Multiple Channel Platform. We offer a diversified range of loan products through our multiple channel platform, which enables us to reach existing and new customers throughout our markets. We began building our strategically located branch network over 25 years ago and have expanded to 331 branches as of December 31, 2015. Our automobile loans are offered through a network of dealers in our geographic footprint. We offer direct automobile loans, which are sourced through a dealership and closed at one of our branches, and indirect automobile loans, which are closed at the dealership without the need for the customer to visit a branch. In addition, we have relationships with retailers that offer our retail loans in their stores at the point of sale. Our direct mail campaigns include pre-screened convenience check mailings and mailings of preapproved offers, prequalified offers, and invitations to apply, which enable us to market our products to hundreds of thousands of customers in a cost-effective manner. Finally, we have developed our consumer website to promote our products and facilitate loan applications and originations. We believe that our multiple channel platform provides us with a competitive advantage by giving us broad access to our existing customers and multiple avenues to attract new customers.

Attractive Products for Customers with Limited Access to Credit. Our flexible loan products, ranging from $500 to $27,500 with terms of up to 72 months, are competitively priced, easy to understand, and incorporate features designed to meet the varied financial needs and credit profiles of a broad array of consumers. This product diversity distinguishes us from monoline competitors and provides us with the ability to offer our customers new loan products as their credit profiles evolve, building customer loyalty and increasing the overall value of customer relationships.

We believe that the rates on our products are significantly more attractive than many other credit options available to our customers, such as payday, pawn, or title loans. We also differentiate ourselves from such alternative financial service providers by reporting our customers payment performance to credit bureaus. This practice provides our customers with the opportunity to improve their credit score by establishing a responsible payment history with us and ultimately to gain access to a wider range of credit options, including our own. We believe this opportunity for our customers to improve their credit history, combined with our diversity of products with competitive pricing and terms, distinguishes us in the consumer finance market and provides us with a competitive advantage.

Demonstrated Organic Growth. We have grown our finance receivables by 104.5% from $307.4 million at December 31, 2011 to $628.4 million at December 31, 2015. Our growth has come from both expanding our branch network and developing new channels and products. From 2011 to 2015, we grew our year-end branch count from 170 branches to 331 branches, a compound annual growth rate (CAGR) of 18.1%. We opened 31 new branches in 2015, and we have also grown our existing branch revenues. Historically, our branches have rapidly increased their outstanding finance receivables during the early years of operations and generally have quickly achieved profitability.

We have also grown by adding new channels and products, which are serviced at the local branch level. We introduced direct automobile purchase loans in 1998, and in late 2010, we expanded our product offerings to include indirect automobile purchase loans. Indirect automobile purchase loans allow customers to obtain a loan at a dealership without visiting one of our branches. Net loan originations from our convenience check program have grown from $55.3 million in 2011 to $179.5 million in 2015, a CAGR of 34.2%, as we have increased the volume of our convenience check marketing campaigns. We also introduced a consumer website enabling customers to complete a loan application online. Since the launch of our website in late 2008, we have received more than 164,000 web applications resulting in $40.9 million of gross loan originations.

Established Portfolio Performance. Despite the challenges posed by the sharp economic downturn beginning in 2008, our annual net charge-off rates between 2008 and 2013 remained consistent, ranging from 6.3% to 8.6% of our average finance receivables. In 2014, due to branch staffing issues in the first half of the year and convenience check credit quality deterioration in our mail campaigns between April and September, we experienced an uncharacteristically high annual net charge-off rate of 11.1% of our average finance receivables. In late 2014 and early 2015, we hired a Chief Risk Officer and other personnel focused on credit risk management, established a Credit Committee to oversee direct mail campaign underwriting and origination processes, implemented additional policies and internal control procedures related to the audit of direct mail campaign files, and improved upon early-stage delinquency reporting and communication. Through these initiatives and others, we reduced our annual net charge-off rate to 8.8% in 2015. We plan to carefully manage our credit exposure going forward as we grow our business, develop new products, and enter new markets.

We generally do not make loans to customers with limited stability as represented by length of time at their current employer and at their current residence, although we consider numerous other factors in evaluating a potential customer s creditworthiness, such as unencumbered income, debt-to-income ratios, and a credit report detailing the applicant s credit history. Our underwriting standards focus on our customers ability to affordably make loan payments out of their discretionary income, with the value of pledged collateral serving as a credit enhancement rather than the primary underwriting criterion. Portfolio performance is improved by our regular in-person contact with customers at our branches, which helps us anticipate repayment problems before they occur and allows us to work with customers to develop solutions prior to default, using repossession only as a last option. In addition, our centralized management information system enables regular monitoring of branch portfolio metrics. Our state operations vice presidents and district supervisors monitor loan underwriting, delinquencies, and charge-offs of each branch in their respective regions. In addition, the compensation received by our branch managers and assistant managers has a significant performance component and is closely tied to credit quality, among other defined performance targets. We believe our frequent-contact, relationship-driven lending model, combined with regular monitoring and alignment of employee incentives, improves our overall credit performance.

Experienced Management Team. Our executive and senior operations management teams consist of individuals highly experienced in installment lending and other consumer finance services. In 2014, we appointed a new Chief Executive Officer and a new President and Chief Operating Officer with more than 30 years and 25 years, respectively, of consumer finance experience. Also in 2015, we appointed a Chief Risk Officer with nearly 20 years of financial and consumer lending experience, including significant expertise in credit risk management. As of December 31, 2015, our state operations vice presidents averaged more than 25 years of industry experience and more than six years of service at Regional, while our district supervisors averaged 23 years of industry experience and six years of service with Regional. Our executive and senior operations management team members intend to leverage their experience and expertise in consumer lending to grow our business, deliver high-quality service to our customers, and carefully manage our credit risk.

Our Strategies

Grow Our Branch Network. We intend to continue growing the loan volume, revenue, and profitability of our existing branches, opening new branches within our existing geographic footprint, and expanding our operations into new states. Establishing local contact with our customers through the expansion of our branch network is key to our frequent-contact, relationship-driven lending model and is embodied in our marketing tagline: Your Hometown Credit Source.

Existing Branches We intend to continue increasing same-store revenues by further building relationships in the communities in which we operate and capitalizing on opportunities to offer our customers new loan products as their credit profiles evolve. From 2011 to 2015, we opened or acquired 161 new branches, and we expect revenues at these branches will grow faster than our overall same-store revenue growth rate as they mature.

New Branches We believe there is sufficient demand for consumer finance services to continue our pattern of new branch openings and branch acquisitions in the states where we currently operate, allowing us to capitalize on our existing infrastructure and experience in these markets. We also analyze detailed demographic and market data to identify favorable locations for new branches. Opening new branches allows us to generate direct lending in the branches, as well as to create new origination opportunities by establishing relationships with automobile dealerships and retailers in the community.

New States We intend to explore opportunities for growth in several states outside of our existing geographic footprint that enjoy favorable operating environments, such as Kentucky, Louisiana, Mississippi, and Missouri. We do not expect to expand into states with unfavorable operating environments even if those states are demographically attractive for our business. In 2011, we opened our first branch in Oklahoma; in 2012, we opened our first branch in New Mexico; in 2013, we opened our first branch in Georgia; and in 2015, we opened our first branch in Virginia.

We also believe that the highly fragmented nature of the consumer finance industry and the evolving competitive, regulatory, and economic environment provide attractive opportunities for growth through acquisition.

Expand and Capitalize on Our Diverse Channels and Products. We intend to continue to expand and capitalize on our multiple channel platform and broad array of offerings as follows:

Direct Mail Programs We plan to continue to improve our screening criteria and tracking for direct mail campaigns, which we believe will enable us to improve response rates and credit performance.

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Since 2011, we have more than tripled the annual number of convenience checks that we have mailed, and we have diversified our direct mail campaign efforts. In 2015, we mailed over 4.5 million convenience checks, 3.6 million prequalified loan offers, and 2.0 million invitations to apply. We intend to continue increasing the size of our direct mail campaigns to grow our loan portfolio. This effort will add new customers, increase volume at our branches, and create opportunities to offer new loan products to our existing customers. In addition, we mail convenience checks in new markets as soon as new branches are open, which we believe helps our new branches more quickly develop a customer base and build finance receivables.

Automobile Loans We source our automobile loans through a network of dealers in our geographic footprint. We have hired dedicated marketing personnel to develop relationships with these dealers and to expand our automobile financing network. We will also seek to capture a larger percentage of the financing activity of dealers in our existing network by continuing to improve our relationships with dealers, maintaining the competitiveness of the products we offer, and reducing our response time to loan applications.

Retail Loans Our retail loans are offered through a network of retailers. We intend to continue to grow our network of retailers by having our dedicated marketing personnel continue to solicit new retailers, obtain referrals through relationships with our existing retail partners, and to a lesser extent, reach retailers through trade shows, mail programs, and industry associations.

Online Sourcing To serve customers who want to reach us over the Internet, we developed a new channel in late 2008 by making an online loan application available on our consumer website. We intend to continue to develop and expand our online marketing efforts and increase traffic to our consumer website through the use of tools such as search engine optimization and paid online advertising. At the end of 2015, we began testing an extension to our online functionality and will continue this effort in 2016.

We believe the expansion of our channels and products, supported by the growth of our branch network, will provide us with opportunities to reach new customers as well as to offer new loan products to our existing customers as their credit profiles evolve. We plan to continue to develop and introduce new products that are responsive to the needs of our customers in the future.

Focus on Sound Underwriting and Credit Control. In response to the credit quality deterioration in our convenience check mail campaigns in 2014, we have renewed our focus on sound underwriting and credit control. In late 2014 and early 2015, we hired a Chief Risk Officer and other personnel focused on credit risk management, established a Credit Committee to oversee direct mail campaign underwriting and origination processes, implemented additional policies and internal control procedures related to the audit of direct mail campaigns, and improved upon early-stage delinquency reporting and communication. These efforts are reflected in a sequential reduction of our net charge-off rate from 11.1% in 2014 to 8.8% in 2015.

Our philosophy is to emphasize sound underwriting standards focused on a customer s prior credit payment history and ability to affordably make loan payments, to work with customers experiencing payment difficulties, and to use repossession only as a last option, once other options have been exhausted. For example, we permit customers to defer payments or refinance delinquent loans under limited circumstances. Only on an exception basis do we offer customers experiencing payment difficulties the opportunity to change their loan terms to help them reduce the monthly payment that they owe. A deferral extends the due date of the loan by one month and allows the customer to maintain his or her credit rating in good standing. In addition to deferrals, we also allow customers to refinance loans. We limit the refinancing of delinquent loans to those customers who otherwise satisfy our credit standards (other than with respect to the delinquency). We believe that refinancing delinquent loans for certain deserving customers who have made periodic payments allows us to help customers resolve temporary financial setbacks and repair or sustain their credit. During 2015, we refinanced only $5.4 million of loans that were 60 days or more contractually past due, representing approximately 0.5% of our total loan volume for fiscal 2015. As of December 31, 2015, the outstanding gross balance of such refinancings was only $3.5 million, or 0.4% of gross finance receivables as of such date.

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We carefully evaluate each potential customer s creditworthiness by examining the individual s unencumbered income or debt-to-income credit ratio, length of current employment, duration of residence, and a credit report detailing the applicant s credit history. Our loan approval process is based on the customer s creditworthiness rather than the value of collateral pledged. Loan amounts are established based on underwriting standards designed to allow customers to affordably make their loan payments out of their discretionary income. Each of our branches is equipped to perform immediate background, employment, and credit checks, and approve loan applications promptly while the customer waits. Our employees verify the applicant s employment and credit histories through telephone checks with employers, other employment references, supporting documentation such as paychecks and earnings summaries, and a variety of third-party credit reporting agencies.

Each individual we solicit for a convenience check loan has been pre-screened through a major credit bureau or data aggregator against our underwriting criteria. In addition to screening each potential convenience check recipient s credit score and bankruptcy history, we also use a proprietary model that assesses approximately 25 to 30 different attributes of potential recipients.

Our branch employees will perform an in-person appraisal of any vehicle collateral pledged for a direct loan using our multipoint checklist and will use one or more third-party valuation sources, such as the National Automobile Dealers Association Appraisal Guides, to determine an estimate of the collateral s value. Regardless of the value of the vehicle or other collateral, we will not lend in excess of our assessment of the borrower s ability to repay. We perfect all first-lien security interests in each pledged vehicle by retaining the title to the collateral in our files until the loan is fully repaid. In certain states, we offer loans secured by second-lien security interests on vehicles, in which case we instead seek to perfect our security interest by recording our lien on the title.

In the event we do elect to repossess a vehicle, we use third-party vendors in the vast majority of circumstances. We then sell our repossessed vehicle inventory through public sales conducted by independent automobile auction organizations or, to a lesser extent, private sales after the required post-repossession waiting period. Any excess proceeds from the sale of the collateral are returned to the customer. We work with customers experiencing payment difficulties to help them find a solution and view repossession of the collateral only as a last option.

In accordance with our philosophy, we intend to continue to refine our underwriting standards to assess an individual s creditworthiness and ability to repay a loan. In recent years, we have implemented several new programs to continue to improve our underwriting standards and loan collection rates, including those initiatives described above. Our management information system enables us to regularly review loan volumes, collections, and delinquencies. We believe this central oversight, combined with our branch-level servicing, improves credit performance. We plan to continue to develop strategies and custom credit models utilizing our historical loan performance data and credit bureau attributes to further improve our underwriting standards and loan collection rates as we expand.

Our Products

Small Loans. We originate small loans ranging from $500 to $2,500 through our branches, which we refer to as our branch small loans, and through our convenience check program, which we refer to as our convenience checks. Our small loans are standardized to reduce documentation and related processing costs and to comply with federal and state lending laws. They are payable in fixed rate, fully amortizing equal monthly installments with terms of up to 36 months, and are repayable at any time without penalty. In 2015, the average originated net loan size and term for our small installment loans were $1,411 and 16 months, respectively. The weighted-average yield we earned on our portfolio of small loans was 43.9% in 2015. The interest rates, fees and other charges, maximum principal amounts, and maturities for our small loans vary from state to state, depending upon relevant laws and regulations.

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Branch Small Loans. Our branch small loans are made to customers who visit one of our branches and complete a standardized credit application. Customers may also complete and submit a loan application by phone or on our consumer website before closing the loan in one of our branches. We require our customers to submit a list of non-essential household goods and pledge these goods as collateral. We do not perfect our security interests by filing UCC financing statements with respect to these goods and instead typically collect a non-recording insurance fee and obtain non-recording insurance.

Convenience Checks. Our convenience check loans are originated through direct mail campaigns to pre-screened individuals. These campaigns are often timed to coincide with seasonal demand for loans to finance vacations, back-to-school needs, and holiday spending. We also launch convenience check campaigns in conjunction with opening new branches to help build an initial customer base. Customers can cash or deposit convenience checks at their convenience, thereby agreeing to the terms of the loan as prominently set forth on the check and accompanying disclosures. When a customer enters into a loan by cashing or depositing the convenience check, our personnel gather additional information on the borrower to assist us in servicing the loan and offering other products to meet the customer s financing needs.

The following table sets forth the composition of our finance receivables for small loans by state at December 31st of each year from 2011 through 2015:

	At December 31,				
	2011	**2012**	**2013**	**2014**	**2015**
South Carolina	40%	31%	26%	25%	23%
Texas	29%	31%	29%	29%	31%
North Carolina	21%	21%	16%	15%	15%
Alabama	4%	9%	14%	13%	13%
Tennessee	6%	7%	8%	8%	7%
Oklahoma		1%	5%	7%	7%
New Mexico			2%	3%	3%
Georgia					1%
Virginia					
Total	100%	100%	100%	100%	100%

The following table sets forth the total number of small loans, finance receivables, and average per loan for our small loans by state at December 31, 2015:

	Total Number of Loans	**Finance Receivables (In thousands)**	**Average Per Loan**
South Carolina	59,509	$ 76,379	$ 1,283
Texas	91,246	104,673	1,147
North Carolina	40,800	51,520	1,263
Alabama	34,984	44,213	1,264
Tennessee	20,142	23,675	1,175
Oklahoma	17,800	24,492	1,376
New Mexico	8,322	11,471	1,378
Georgia	1,859	1,732	932
Virginia	1	2	2,000
Total	274,663	$ 338,157	$ 1,231

Large Loans. We also offer large loans through our branches in amounts ranging from $2,501 to $20,000. Our large loans are payable in fixed rate, fully amortizing equal monthly installments with terms of 18 to 60

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months, and are repayable at any time without penalty. We require our large loans to be secured by a vehicle, which may be an automobile, motorcycle, boat, or all-terrain vehicle, or non-essential household goods. In 2015, our average originated net loan size and term for large loans were $4,303 and 36 months, respectively. The weighted-average yield we earned on our portfolio of large loans was 27.6% for 2015.

A potential customer applies for a large loan by visiting one of our branches, where he or she is interviewed by one of our employees who evaluates the customer s creditworthiness, including a review of a credit bureau report, before extending a loan.

The following table sets forth the composition of our finance receivables for large loans by state at December 31st of each year from 2011 through 2015:

	At December 31,				
	2011	2012	2013	2014	2015
South Carolina	49%	30%	28%	25%	22%
Texas	9%	6%	4%	10%	22%
North Carolina	27%	22%	28%	27%	18%
Alabama	7%	35%	30%	26%	17%
Tennessee	8%	7%	9%	8%	7%
Oklahoma			1%	2%	7%
New Mexico				2%	7%
Georgia					
Virginia					
Total	100%	100%	100%	100%	100%

The following table sets forth the total number of large loans, finance receivables, and average per loan for our large loans by state at December 31, 2015:

	Total Number of Loans	Finance Receivables (In thousands)	Average Per Loan
South Carolina	7,362	$ 30,853	$ 4,191
Texas	8,588	32,065	3,734
North Carolina	7,600	26,034	3,426
Alabama	6,576	25,603	3,893
Tennessee	2,481	10,922	4,402
Oklahoma	2,523	10,808	4,284
New Mexico	2,602	10,212	3,925
Georgia	11	56	5,091
Virginia			
Total	37,743	$ 146,553	$ 3,883

Automobile Loans. Our automobile loans are offered through a network of dealers in our geographic footprint. These loans are offered in amounts up to $27,500 and are secured by the purchased vehicle. They are payable in fixed rate, fully amortizing equal monthly installments with terms generally of 36 to 72 months, and are repayable at any time without penalty. In 2015, our average originated net loan size and term for automobile loans were $11,572 and 53 months, respectively. The weighted-average yield we earned on our portfolio of automobile loans was 19.0% for 2015.

Direct Automobile Loans. We have business relationships with dealerships throughout our geographic footprint that offer our loans to their customers in need of financing. These dealers will contact one of

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our local branches to initiate a loan application when they have identified a customer who meets our written underwriting standards. Applications for direct automobile loans may also be received through one of the online credit application networks in which we participate, such as DealerTrack and RouteOne. We will review the application and requested loan terms and propose modifications, if necessary, before providing initial approval and inviting the dealer and the customer to come to a local branch to close the loan. Our branch employees interview the customer to verify information in the dealer s credit application, obtain a credit bureau report on the customer, and inspect the vehicle to confirm that the customer s order accurately describes the vehicle before closing the loan.

Indirect Automobile Loans. Since late 2010, we have also offered indirect automobile loans, which allow customers and dealers to complete a loan at the dealership without the need to visit one of our branches. We typically offer indirect loans through larger franchise and independent dealers within our geographic footprint. These larger dealers collect credit applications from their customers and either forward the applications to us specifically or, more commonly, submit the applications to numerous potential lenders through online credit application networks, such as DealerTrack and RouteOne. After receiving an indirect automobile loan application, it is processed by our centralized underwriting department or, to a lesser extent, our branches and supervisors. Once the loan is approved, the dealer closes the loan on a standardized retail installment sales contract at the point of sale. Subsequently, we purchase the loan and then service it locally through our branch network.

The following table sets forth the composition of our finance receivables for automobile loans by state at December 31st of each year from 2011 through 2015:

			At December 31,		
	2011	**2012**	**2013**	**2014**	**2015**
South Carolina	55%	48%	42%	42%	45%
Texas	13%	19%	22%	23%	18%
North Carolina	26%	26%	26%	24%	23%
Alabama	2%	4%	5%	5%	7%
Tennessee	4%	3%	3%	2%	2%
Oklahoma			1%	2%	3%
New Mexico					
Georgia			1%	2%	2%
Virginia					
Total	100%	100%	100%	100%	100%

The following table sets forth the total number of automobile loans, finance receivables, and average per loan for our automobile loans by state at December 31, 2015:

	Total Number of Loans	**Finance Receivables (In thousands)**	**Average Per Loan**
South Carolina	6,362	$ 52,071	$ 8,185
Texas	2,217	21,333	9,622
North Carolina	3,295	26,807	8,136
Alabama	863	7,925	9,183
Tennessee	313	2,240	7,157
Oklahoma	366	2,917	7,970
New Mexico	51	500	9,804
Georgia	245	2,316	9,453
Virginia			
Total	13,712	$ 116,109	$ 8,468

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Retail Loans. In late 2009, we began offering loans to finance the purchase of furniture, appliances, and other retail products. Our retail loans are indirect installment loans structured as retail installment sales contracts that are offered in amounts of up to $7,500. They are payable in fixed rate, fully amortizing equal monthly installments with terms of between six and 48 months, and are repayable at any time without penalty. In 2015, our average originated net loan size and term for retail loans were $1,626 and 23 months, respectively. The weighted-average yield we earned on our portfolio of retail loans was 18.8% for 2015.

Our retail loans provide financing to customers who may not qualify for prime financing from traditional lenders. As compared to other sources of non-prime financing, our retail loans often offer more attractive interest rates and terms to customers. Our retail loans are indirect loans made through a retailer at the point of sale without the need for the customer to visit one of our branches, similar to our indirect automobile loans. We partner with retailers that offer our retail loans directly to their customers. In recent years, in an effort to expand our relationship with existing retailer partners, we began offering retail loans in states outside of our nine-state brick-and-mortar footprint that are serviced centrally from our headquarters in Greenville, South Carolina. By providing a source of non-prime financing, we are often able to help our retail partners complete sales to customers who otherwise may not have been able to finance their purchase.

Our retail partners typically submit applications to us online while the customer waits. If a customer is not accepted by a retailer s prime financing provider, we will evaluate the customer s credit based on the same application data, without the need for the customer to complete an additional application. Underwriting for our retail loans is conducted through RMC Retail, a centralized underwriting team.

We individually evaluate the creditworthiness of potential retail loan customers using the same information and resources used for our other loan products, including a credit bureau report, before providing a credit decision to the retailer within ten minutes. If we approve the loan, the retailer completes our standardized retail installment sales contract, which includes a security interest in the purchased item. The servicing of nearly all such loans are performed within our branches, with only out-of-footprint retail loans being serviced centrally from our headquarters in Greenville, South Carolina.

The following table sets forth the composition of our finance receivables for retail loans by state at December 31st of each year from 2011 through 2015:

	At December 31,				
	2011	2012	2013	2014	2015
South Carolina	10%	8%	6%	6%	4%
Texas	59%	63%	61%	62%	69%
North Carolina	25%	15%	15%	14%	10%
Alabama	3%	5%	5%	3%	2%
Tennessee	1%	4%	4%	2%	1%
Oklahoma			3%	7%	8%
New Mexico			1%	1%	2%
Georgia					
Virginia					
Other	2%	5%	5%	5%	4%
Total	100%	100%	100%	100%	100%

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The following table sets forth the total number of retail loans, the finance receivables, and average per loan for our retail loans by state at December 31, 2015:

	Total Number of Loans	Finance Receivables (In thousands)	Average Per Loan
South Carolina	932	$ 1,099	$ 1,179
Texas	15,650	19,008	1,215
North Carolina	2,594	2,888	1,113
Alabama	467	465	996
Tennessee	452	414	916
Oklahoma	1,699	2,175	1,280
New Mexico	525	593	1,130
Georgia	9	21	2,333
Virginia			
Other	831	962	1,158
Total	23,159	$ 27,625	$ 1,193

Optional Credit Insurance Products. We offer our customers a number of different optional insurance products in connection with our loans. We do not sell insurance to non-borrowers. The insurance products we offer customers are voluntary and not a condition of the loan. Our insurance products, including the types of products offered and their terms and conditions, vary from state to state in compliance with applicable laws and regulations. Premiums and other charges for credit insurance and similar payment protection products are set at, or below, authorized statutory rates and are stated separately in our disclosure to customers, as required by the federal Truth in Lending Act and by various applicable state laws. In 2015, insurance income, net, was $11.7 million, or 5.4% of our total revenue.

We market and sell insurance policies as an agent for an unaffiliated third-party insurance company. The policies are then ceded to our wholly-owned reinsurance subsidiary, RMC Reinsurance, Ltd., which then bears the full risk of the policy. For the sale of insurance policies, we, as agent, write policies only within the limitations established by our agency contracts with the unaffiliated third-party insurance company.

Credit Life Insurance, Credit Accident and Health Insurance, and Involuntary Unemployment Insurance. We market and sell optional credit life insurance, credit accident and health insurance, and involuntary unemployment insurance in connection with our loans in selected markets. Credit life insurance provides for the payment in full of the borrower s credit obligation to the lender in the event of the borrower s death. Credit accident and health insurance provides for the repayment of certain loan installments to the lender that come due during an insured s period of income interruption resulting from disability from illness or injury. Involuntary unemployment insurance provides for repayment of certain loan installments in the event the borrower is no longer employed as the result of a qualifying event, such as a layoff or reduction in workforce. All customers purchasing these types of insurance from us sign a statement affirming that they understand that their purchase of insurance is not a condition of our granting the loan. In addition, customers may cancel purchased insurance within 30 days of the date of purchase and receive a full refund of the insurance premium. Customers are paid a partial refund in the event of an early payoff or loan refinancing.

Property Insurance. We also require that our customers provide proof of acceptable insurance for any personal property securing a loan. Customers can provide proof of such insurance purchased from a third party (such as homeowners or renters insurance) or can purchase the property insurance that we offer. The Company also collects a state-allowed fee for collateral protection and purchases non-recording insurance in lieu of recording and perfecting the Company s security interest in the assets pledged on certain loans. In addition to offering property insurance on the household goods used as collateral for our loan products, we also offer, in select markets, vehicle single interest insurance that provides coverage on automobiles used as collateral on small and large loans. This affords the borrower flexibility with regards to the requirement to maintain full coverage on the vehicle while also protecting the collateral used to secure the loan.

Reinsurance. The optional credit insurance and property insurance risks are ceded by the non-affiliated insurance company that issued the policies to RMC Reinsurance, a wholly-owned subsidiary of Regional Management Corp.

Collateral Protection Collision Insurance. Before we originate an automobile loan, we require the borrower to provide proof of acceptable liability and collision insurance on the vehicle securing the loan. While we do not offer automobile insurance to our customers, we will obtain collateral protection collision insurance (CPI) on behalf of customers who permit their other insurance coverage to lapse. If we obtain CPI for a vehicle, the customer has the opportunity to provide proof of insurance to cancel the CPI and receive a refund of all unearned premiums.

Insurance policy premiums, claims and expenses are included in the company s results of operations as insurance income, net in the income statement.

Our Branches

Our branches are generally conveniently located in visible, high traffic locations, such as shopping centers. We do not need to keep large amounts of cash at our branches because we disburse the vast majority of loan proceeds by check, rather than by cash payment. As a result, our branches have an open, welcoming, and hospitable layout.

The following table sets forth the number of branches as of the dates indicated:

	At December 31,				
	2011	**2012**	**2013**	**2014**	**2015**
South Carolina	69	69	70	70	72
Texas	44	56	67	83	98
North Carolina	24	26	29	34	36
Alabama	14	42	49	49	50
Tennessee	18	20	21	21	21
Oklahoma	1	6	21	27	28
New Mexico		2	4	13	18
Georgia			3	3	7
Virginia					1
Total	170	221	264	300	331

During the period presented in the table above, we grew by 161 net branches. In 2015, we opened 31 new branches. In evaluating whether to locate a branch in a particular community, we examine several factors, including the demographic profile of the community, demonstrated demand for consumer finance, the regulatory and political climate, and the availability of suitable employees to staff, manage, and supervise the new branch. We also look for a concentration of automobile dealers and retailers to build our sales finance business.

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The following table sets forth the average finance receivables per branch based on maturity, excluding acquired branches:

Age of Branch (As of December 31, 2015)	Average Finance Receivables Per Branch as of December 31, 2015 (In thousands)	Percentage Increase From Prior Age Category	Number of Branches
Branches open less than one year	$ 597		31
Branches open one to three years	$ 1,500	151.2%	81
Branches open three to five years	$ 1,750	16.7%	80
Branches open five years or more	$ 2,393	36.8%	139

The average contribution to operating income from our branches has historically increased as our branches mature. The following table sets forth the average operating income contribution per branch for the year ended December 31, 2015, based on maturity of the branch, excluding acquired branches.

Age of Branch (As of December 31, 2015)	Average Branch Operating Income (Loss) Contribution (In thousands)	Percentage Increase From Prior Age Category	Number of Branches
Branches open less than one year	$ (8)		31
Branches open one to three years	$ 170	2,115.4%	81
Branches open three to five years	$ 227	33.9%	80
Branches open five years or more	$ 415	82.3%	139

We calculate the average branch contribution as total revenues generated by the branch less the expenses directly attributable to the branch, including the provision for losses and operating expenses such as personnel, lease, and interest expenses. General corporate overhead, including management salaries, are not attributable to any individual branch. Accordingly, the sum of branch contributions from all of our branches is greater than our income before taxes.

Payment and Loan Servicing

We have implemented company-wide payment and loan servicing policies and practices, which are designed to maintain consistent portfolio performance and to facilitate regulatory compliance. Our district supervisors and state vice presidents oversee the training of each branch employee in these policies and practices, which include standard procedures for communicating with customers in our branches, over the telephone, and by mail. Our corporate procedures require the maintenance of a log of servicing activity for each account. Our state vice presidents, district supervisors, and internal audit teams regularly review these records to ensure compliance with our company procedures, which are designed to comply with applicable regulatory requirements.

Our corporate policies also include encouraging customers to visit our branches to make payments. Encouraging payment at the branch allows us to maintain regular contact with our customers and further develop our overall relationship with them. We believe that the development and continual reinforcement of personal relationships with customers improves our ability to monitor their creditworthiness, reduces credit risk, and generates opportunities to offer them new loan products as their credit profiles evolve. To reduce late payment risk, branch employees encourage customers to inform us in advance of expected payment problems.

Branch employees also promptly contact customers following the first missed payment and thereafter remain in close contact with such customers, including through phone calls and letters. We use third-party skip tracing services to locate delinquent customers in the event that our branch employees are unable to do so. In certain cases, we seek a legal judgment against delinquent customers.

We obtain security interests for most of our loans, and we perfect the security interests in vehicles securing our loans. Our district supervisors and internal audit teams regularly review collateral documentation to confirm compliance with our guidelines. We perfect all first-lien security interests in each pledged vehicle by retaining the title to the collateral in our files until the loan is fully repaid. In certain states, we offer loans secured by second-lien security interests on vehicles, in which case we instead seek to perfect our security interest by recording our lien on the title. We only initiate repossession efforts when an account is seriously delinquent, we have exhausted other means of collection, and in the opinion of management, the customer is unlikely to make further payments. We sell substantially all repossessed vehicles through public sales conducted by independent automobile auction organizations, after the required post-repossession waiting period. Losses on the sale of repossessed collateral are charged to the allowance for credit losses.

In certain cases, we permit our existing customers to refinance their loans. Our refinancings of existing loans are divided into three categories: refinancings of loans in an amount greater than the original loan amount, renewals of existing loans at or below the original loan amount, and renewals of existing loans that are 60 or more days contractually past due, which represented 31.5%, 26.8%, and 0.5%, respectively, of our loan originations in 2015. Any refinancing of a loan in an amount greater than the original amount generally requires an underwriting review to determine a customer s qualification for the increased loan amount. Furthermore, we obtain a new credit report and may complete a new application on renewals of existing loans if they have not completed one within the prior year. We allow customers to refinance delinquent loans on a limited basis if those customers otherwise satisfy our credit standards (other than with respect to the delinquency). We believe that refinancing delinquent loans for certain deserving customers who have made periodic payments allows us to help customers resolve temporary financial setbacks and repair or sustain their credit. During 2015, we refinanced only $5.4 million of loans that were 60 or more days contractually past due, and as of December 31, 2015, the outstanding balance of such refinancings was only $3.5 million, or 0.4% of gross finance receivables as of such date.

Accounts are charged off at 180 days contractually delinquent. We continue to service charged-off loans centrally, and until 2015, we had not sold any of our charged-off accounts to third-party debt purchasers, nor had we placed any debt with third-party collection agencies. In December 2015, we executed our first sale of existing charged-off accounts to a third party and, in connection with this transaction, we committed to selling the flow of loans charged-off between November 2015 and October 2016. For details of this transaction, see Part II, Item 8. Financial Statements and Supplementary Data, Note 3. We updated our charge-off policy during the fourth quarter of 2014, and we will continue to review our practices relating to our handling of charged-off accounts.

Information Technology

Since 1999, we have used a loan servicing software package developed and owned by ParaData Financial Systems and have invested in customizing the ParaData software to improve the management of our specific processes and product types. The system provides management information and control capabilities, including monitoring of all loans made, collections, delinquencies, and other functions. ParaData does not have a robust loan origination functionality. While we believe that the ParaData loan management system is adequate for our current business needs, we are evaluating loan origination software to add this important automated functionality to our business.

In addition, we rely on DealerTrack, Route One, Teledata Communications Inc., and other third-party software vendors to provide access to loan applications and/or on-screen applications.

Competition

The consumer finance industry is highly fragmented, with numerous competitors. The competition we face for each of our loan products is distinct.

Small and Large Loans. The installment loan industry is highly fragmented in the nine states in which we operate. We compete with several large competitors operating greater than 800 branch locations each, as well as a handful of private competitors with between 100 and 250 branches in certain of the states in which we operate. We believe that the majority of our competitors are independent operators with generally less than 100 branches. We believe that competition between installment consumer loan companies occurs primarily on the basis of price, breadth of loan product offerings, flexibility of loan terms offered, and the quality of customer service provided. While underbanked customers may also use alternative financial services providers, such as title lenders, payday lenders, and pawn shops, their products offer different terms and typically carry substantially higher interest rates and fees than our installment loans. Accordingly, we believe alternative financial services providers are not an attractive alternative for customers who meet our underwriting standards, which are generally stricter than the underwriting standards of alternative financial services providers. Our small and large loans also compete with pure online lenders, peer-to-peer lenders, and issuers of non-prime credit cards.

Automobile Loans. In the automobile loan industry, we compete with numerous financial service companies, including non-prime auto lenders, dealers that provide financing, captive finance companies owned by automobile manufacturers, banks, and credit unions. Competition among automobile lenders is fierce and is largely on the basis of interest rates charged, the quality of credit accepted, the flexibility of loan terms offered, the speed of approval, and the quality of customer service provided. Much of the automobile loan marketplace has evolved to processing loan applications generated at dealers through online credit application networks such as DealerTrack or RouteOne where prompt service and response times to dealers and their customers are essential to compete in this market.

Retail Loans. In recent years, the retail loan industry has seen an increasing number of lenders dedicated to serving non-prime retail loans enter the market. We also face competition from rent-to-own financing providers and credit card companies. Our retail loans are typically made at competitive rates, and competition is largely on the same basis as automobile loans. Point-of-sale financing decisions must be made rapidly while the customer is on the sales floor. We endeavor to provide responses to customers in less than ten minutes, and we staff RMC Retail, our centralized retail loan underwriting team, with multiple shifts seven days per week during peak retail shopping hours to ensure rapid response times.

Seasonality

Our loan volume and the contractual delinquency of our finance receivable portfolio follow seasonal trends. Demand for our loans is typically highest during the third and fourth quarters, which we believe is largely due to customers borrowing money for back-to-school and holiday spending. With the exception of automobile loans, loan demand has generally been the lowest during the first quarter, which we believe is largely due to the timing of income tax refunds. During the remainder of the year, we typically experience loan growth from general operations. In addition, we typically generate higher loan volumes in the second half of the year from direct mail campaigns, which are timed to coincide with seasonal consumer demand. Also, delinquencies have generally been lower in the first half of the year than during the second half of the year. Consequently, we experience significant seasonal fluctuations in our operating results and cash needs.

Employees

As of December 31, 2015, we had 1,421 employees, none of whom were represented by labor unions. We consider our relations with our personnel to be good. We experience a high level of turnover among our entry-level employees, which we believe is typical of the consumer finance industry.

Staff and Training. Local branches are generally staffed with three to four employees. The branch manager oversees operations of the branch and is responsible for approving loan applications. Each branch has one or two assistant managers who contact delinquent customers, review loan applications, and prepare operational reports. Generally, each branch also has a customer service representative who takes loan applications, processes loan applications, processes payments, and assists in the preparation of operational reports, collection efforts, and marketing activities. Larger volume branches may employ additional assistant managers and customer service representatives. New employees train during the first year of employment on an operating manual that outlines our operating policies and procedures. In addition, each employee is required to complete a curriculum of compliance training modules within the first 180 days of employment. Effective July 2015, employees are also required to re-certify on certain compliance modules each year. Our training of assistant managers focuses on developing the skills necessary to allow for the future promotion of the assistant managers to branch managers.

Monitoring and Supervision. We have oversight structures and procedures in place to ensure compliance with our operational standards and policies and the applicable regulatory requirements in each state. All of our loans, other than indirect automobile and retail loans, are prepared using our loan management software, which is programmed to compute fees, interest rates, and other loan terms in compliance with our underwriting standards and applicable regulations. We work with our regulatory counsel to develop standardized forms and agreements for each state, ensuring consistency and compliance.

Our loan operations are organized by geography. We have two state vice presidents to oversee Texas; one state vice president to oversee North Carolina and Tennessee; one state vice president to oversee New Mexico and Oklahoma; one state vice president to oversee Alabama; one state vice president to oversee Georgia; one state vice president to oversee South Carolina; and one state vice president to oversee Virginia. Several levels of management monitor and supervise the operations of each of our branches. Branch managers are directly responsible for the performance of their respective branches. District supervisors are responsible for the performance of between six and 11 branches in their districts, communicating with the branch managers of each of their branches at least weekly, and visiting each branch at least monthly. Our state vice presidents monitor the performance of all of the branches in their respective states, primarily through communications with district supervisors. These state vice presidents communicate with the district supervisors of each of their districts at least weekly and visit each of their branches at least annually, or more often as necessary. Our information technology platform enables us to monitor our portfolio regularly, which we believe improves our credit performance.

The majority of our branches undergo an internal audit every year, and every branch undergoes an internal audit at least every two years. These audits, conducted by dedicated internal audit staff, include a review of compliance with state and federal laws and regulations, as well as a review of operations. The review of operations includes a review of adherence to policies and procedures concerning cash management, loan approval processes, and all other policies and procedures concerning branch operations, such as servicing procedures. Branches are rated at four different levels, and the timing of audits is impacted by the rating received. Other factors impacting the timing of branch audits include, but are not limited to, the date the branch opened, the timing of new managers commencing employment at the branch, and the results of branch examinations conducted by state regulators. Our branch employees compensation is directly impacted by the internal audit rating assigned to the branch.

We have a scorecard program to systematically monitor a range of operating metrics at each branch on a monthly basis. Our scorecard system currently tracks different dimensions of operations, including the performance of each branch on a series of credit metrics. Senior management receives daily delinquency, loan volume, charge-off, and other statistical reports consolidated by state and has access to these daily reports. At least three times each year, district supervisors audit the operations of each branch in their district and submit standardized reports detailing their findings to senior management. State vice presidents meet with the executive management team once per quarter to review branch scorecard results as well as to discuss other operational and financial performance results against our targets. Remedial plans are put in place to correct any underperformance.

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Government Regulation

Consumer finance companies are subject to extensive regulation, supervision, and licensing under various state and federal statutes, ordinances, and regulations. Many of these regulations impose detailed constraints on the terms of our loans and the retail installment sales contracts that we purchase, lending forms, and operations. The software that we use to originate loans is designed to ensure compliance with all applicable lending regulations.

State Lending Regulation. In general, state statutes establish maximum loan amounts and interest rates and the types and maximum amounts of fees and insurance premiums that may be charged for both direct and indirect lending. Specific allowable charges vary by state. For example, statutes in Texas allow for indexing the maximum small loan amounts to the Consumer Price Index and set maximum rates for automobile loans based on the age of the vehicle. Except in the states of North Carolina, New Mexico, and Virginia, our direct loan products are pre-computed loans in which the finance charge is determined at the time of the loan origination and is a combination of origination or acquisition fees, account maintenance fees, monthly account handling fees, and other charges permitted by the relevant state laws. Direct loans in North Carolina, New Mexico, and Virginia are structured as simple interest loans as prescribed by state law.

In addition, state laws regulate the keeping of books and records and other aspects of the operation of consumer finance companies, and state and federal laws regulate account collection practices. Generally, state regulations also establish minimum capital requirements for each local branch. State agency approval is required to open new branches, and each of our branches is separately licensed under the laws of the state in which the branch is located. Licenses granted by the regulatory agencies in these states are subject to renewal every year and may be revoked for failure to comply with applicable state and federal laws and regulations. In the states in which we currently operate, licenses may be revoked only after an administrative hearing. We believe we are in compliance with state law and regulations applicable to our lending operations in each state.

We and our operations are regulated by several state agencies, including the Consumer Finance Division of the South Carolina State Board of Financial Institutions, the South Carolina Department of Consumer Affairs, the North Carolina Office of the Commissioner of Banks, the Texas Office of the Consumer Credit Commissioner, the Tennessee Department of Financial Institutions, the Alabama State Banking Department, the Oklahoma Department of Consumer Credit, the New Mexico Regulation and Licensing Department, Financial Institutions Division, the Georgia Industrial Loan Division of the Office of Insurance and Safety Fire Commissioner, and the Virginia Bureau of Financial Institutions of the State Corporation Commission. These state regulatory agencies regularly audit our branches and operations.

Insurance Regulation. Premiums and charges for credit insurance and similar payment protection products are set at or below authorized statutory rates and are stated separately in our disclosure to customers, as required by the federal Truth in Lending Act and by various applicable state laws.

We are also subject to state regulations governing insurance agents in the states in which we sell insurance. State insurance regulations require that insurance agents be licensed and limit the premium amount charged for such insurance. Our captive insurance subsidiary is regulated by the insurance authorities of the Turks and Caicos Islands of the British West Indies, where the subsidiary is organized and domiciled.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). At the federal level, Congress enacted comprehensive financial regulatory reform legislation on July 21, 2010. A significant focus of the new law, known as the Dodd-Frank Act, is heightened consumer protection. The Dodd-Frank Act established a new body, called the Consumer Financial Protection Bureau (the CFPB), which has regulatory, supervisory, and enforcement powers over providers of consumer financial products and services, including explicit supervisory authority to examine and require registration of non-depository lenders and promulgate rules that can affect the practices and activities of lenders.

Although the Dodd-Frank Act expressly provides that the CFPB has no authority to establish usury limits, some consumer advocacy groups have suggested that various forms of alternative financial services or specific features of consumer loan products should be a regulatory priority, and it is possible that at some time in the future the CFPB could propose and adopt rules making such lending services materially less profitable or impractical, which may include installment finance loans or other products that we offer.

The Dodd-Frank Act also gives the CFPB the authority to examine and regulate large nondepository financial companies and gives the CFPB authority over anyone deemed by rule to be a larger participant of a market for other consumer financial products or services. The CFPB contemplates regulating the installment lending industry as part of the consumer credit and related activities market. However, this so-called larger participant rule will not impose substantive consumer protection requirements, but rather will provide to the CFPB the authority to supervise larger participants in certain markets, including by requiring reports and conducting examinations to ensure, among other things, that they are complying with existing federal consumer financial law. While the CFPB has defined a larger participant standard for certain markets, such as the debt collection, automobile finance, and consumer reporting markets, it has not yet acted to define larger participant in the traditional installment lending market. The rule will likely cover only the largest installment lenders, and we do not yet know whether the definition of larger participant will cover us. We do not meet the definition of larger participant in the automobile finance market.

In addition to the grant of certain regulatory powers to the CFPB, the Dodd-Frank Act gives the CFPB authority to pursue administrative proceedings or litigation for violations of federal consumer financial laws. In these proceedings, the CFPB can obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties.

Other Federal Laws and Regulations. In addition to the Dodd-Frank Act and state and local laws and regulations, numerous other federal laws and regulations affect our lending operations. These laws include the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Gramm-Leach-Bliley Act, and in each case the regulations thereunder, and the Federal Trade Commission s Credit Practices Rule. These laws require us to provide complete disclosure of the principal terms of each loan to the borrower, prior to the consummation of the loan transaction, prohibit misleading advertising, protect against discriminatory lending practices, and proscribe unfair credit practices.

Under the Truth in Lending Act and Regulation Z promulgated thereunder, we must disclose certain material terms related to a credit transaction, including, but not limited to, the annual percentage rate, finance charge, amount financed, total of payments, the number and amount of payments, and payment due dates to repay the indebtedness. Under the Equal Credit Opportunity Act and Regulation B promulgated thereunder, we cannot discriminate against any credit applicant on the basis of any protected category, such as race, color, religion, national origin, sex, marital status, or age. We are also required to make certain disclosures regarding consumer rights and advise customers whose credit applications are not approved of the reasons for the rejection. Under the Fair Credit Reporting Act, we must provide certain information to customers whose credit applications are not approved on the basis of a report obtained from a consumer reporting agency, promptly update any credit information reported to a credit reporting agency about a customer, and have a process by which customers may inquire about credit information furnished by us to a consumer reporting agency. Under the Gramm-Leach-Bliley Act, we must protect the confidentiality of our customers nonpublic personal information and disclose information on our privacy policy and practices, including with regard to the sharing of customers nonpublic personal information with third parties. This disclosure must be made to customers at the time the customer relationship is established and, in some cases, at least annually thereafter. The Federal Trade Commission s Credit Practices Rule limits the types of property we may accept as collateral to secure a consumer loan. Violations of these statutes and regulations may result in actions for damages, claims for refund of payments made, certain fines and penalties, injunctions against certain practices, and the potential forfeiture of rights to repayment of loans.

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Additional Information

The Company s principal internet address is *www.regionalmanagement.com*. The information contained on, or that can be accessed through, the Company s website is not incorporated by reference into this Annual Report on Form 10-K. The Company has included its website address as a factual reference and does not intend it as an active link to its website. The Company provides its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and all amendments to those reports, free of charge on *www.regionalmanagement.com*, as soon as reasonably practicable after they are electronically filed, or furnished to, the Securities and Exchange Commission.

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ITEM 1A. *RISK FACTORS.*

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. The following discussion highlights some of the risks which may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider, but the risks described below are not the only risks facing our company. Additional risks and uncertainties not presently known to us, which we currently deem immaterial, or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties occurs, continues, or worsens, our business, financial condition, and operating results would likely suffer. You should carefully consider the risks described below together with the other information set forth in this Annual Report on Form 10-K.

Risks Related to Our Business

We have grown significantly in recent years, and our delinquency and charge-off rates and overall results of operations may be adversely affected if we do not manage our growth effectively.

We have experienced substantial growth in recent years, opening or acquiring 43 branches in 2013, 36 in 2014, and 31 in 2015, and we intend to continue our growth strategy in the future. As we increase the number of branches we operate, we will be required to find new, or relocate existing, employees to operate our branches and allocate resources to train and supervise those employees. The success of a branch depends significantly on the manager overseeing its operations and on our ability to enforce our underwriting standards and implement controls over branch operations. Recruiting suitable managers for new branches can be challenging, particularly in remote areas and in areas where we face significant competition. Furthermore, the annual turnover among our branch managers was approximately 26% in 2014 and 25% in 2015, and turnover rates of managers in our new branches may be similar or higher. Increasing the number of branches that we operate may divide the attention of our senior management or strain our ability to adapt our infrastructure and systems to accommodate our growth. If we are unable to promote, relocate, or recruit suitable managers, oversee their activities effectively, and otherwise appropriately and effectively staff our branches, our delinquency and charge-off rates may increase and our overall results of operations may be adversely impacted.

We face significant risks in implementing our growth strategy, some of which are outside of our control.

We intend to continue our growth strategy, which is based on opening and acquiring branches in existing and new markets and introducing new products and channels. Our ability to execute this growth strategy is subject to significant risks, some of which are beyond our control, including:

- the inherent uncertainty regarding general economic conditions;
- the prevailing laws and regulatory environment of each state in which we operate or seek to operate and, to the extent applicable, federal laws and regulations, which are subject to change at any time;
- the degree of competition in new markets and its effect on our ability to attract new customers;
- our ability to identify attractive locations for new branches;
- our ability to recruit qualified personnel, particularly in remote areas and in areas where we face a great deal of competition; and
- our ability to obtain adequate financing for our expansion plans.

For example, North Carolina requires a needs and convenience assessment of a new lending license and location prior to the granting of the license, which adds time and expense to opening new locations. In addition, certain states into which we may expand limit the number of lending licenses granted. There can be no assurance that if we apply for a license for a new branch, whether in one of the states where we currently operate or in a

state into which we would like to expand, we would be granted a license to operate. We also cannot be certain that any such license, even if granted, would be obtained in a timely manner or without burdensome conditions or limitations. In addition, we may not be able to obtain and maintain the regulatory approvals, government permits, or licenses that may be required.

We face strong direct and indirect competition.

The consumer finance industry is highly competitive, and the barriers to entry for new competitors are relatively low in the markets in which we operate. We compete for customers, locations, employees, and other important aspects of our business with many other local, regional, national, and international financial institutions, many of which have greater financial resources than we do.

Our installment loan operations compete with other installment lenders as well as with alternative financial services providers (such as payday and title lenders, check advance companies, and pawnshops), online or peer-to-peer lenders, issuers of non-prime credit cards, and other competitors. We believe that future regulatory developments in the consumer finance industry may cause lenders that currently focus on alternative financial services to begin to offer installment loans. In addition, if companies in the installment loan business attempt to provide more attractive loan terms than is standard across the industry, we may lose customers to those competitors. In installment loans, we compete primarily on the basis of price, breadth of loan product offerings, flexibility of loan terms offered, and the quality of customer service provided.

Our automobile purchase loan operations compete with numerous financial services providers, including non-prime auto lenders, dealers that provide financing, captive finance companies owned by automobile manufacturers, banks, and credit unions. Our retail purchase loan operations compete with non-prime retail lenders, store and third-party credit cards, prime lending sources, rent-to-own finance providers, and other competitors. For automobile purchase loans and retail purchase loans, we compete primarily on the basis of interest rates charged, the quality of credit accepted, the flexibility of loan terms offered, the speed of approval, and the quality of customer service provided.

If we fail to compete successfully, we could face lower sales and may decide or be compelled to materially alter our lending terms to our customers, which could result in decreased profitability.

Our business could suffer if we are unsuccessful in making, continuing, and growing relationships with automobile dealers and retailers, or if the dealers and retailers with whom we have relationships experience a decline or disruption in their sales volumes.

Our automobile purchase loans and retail purchase loans are reliant on our relationships with automobile dealers and retailers. In particular, our automobile purchase loan operations depend in large part upon our ability to establish and maintain relationships with reputable dealers who direct customers to our branches or originate loans at the point of sale, which we subsequently purchase. Although we have relationships with certain automobile dealers, none of our relationships are exclusive, some of them are newly established, and they may be terminated at any time. If, due to economic reasons, competition, or otherwise, we are unable to establish and maintain relationships with reputable dealers, our business, results of operations, and financial condition may be adversely affected.

Our retail purchase loan business model is based on our ability to enter into agreements with individual retailers to provide financing to customers in their stores. If a competitor were to offer better service or more attractive loan products to our retailer partners, it is possible that our retail partners would terminate their relationships with us. If we are unable to continue to grow our existing relationships and develop new relationships, our results of operations, financial condition, and ability to continue to expand could be adversely affected.

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Even with good relationships with automobile dealers and retailers, our ability to originate automobile purchase loans and retail purchase loans is dependent, in large part, on the underlying consumer demand for automobiles and retail goods. Automobile and retail sales are subject to fluctuation as a result of general economic trends and other factors. If sales volumes at the automobile dealerships and retailers with whom we have relationships decrease in the future as a result of general economic trends or due to any other factors, we may experience a corresponding decrease in the volume of such loans that we originate. In such circumstances, we may experience an adverse effect on our business, results of operations, and financial condition.

A substantial majority of our revenue is generated by our branches in South Carolina, Texas, and North Carolina.

Our branches in South Carolina, Texas, and North Carolina accounted for 27%, 30%, and 13%, respectively, of our revenue in 2015. Furthermore, all of our operations are in five Southeastern, one mid-Atlantic, and three Southwestern states. As a result, we are highly susceptible to adverse economic conditions in those areas. The unemployment rates in some states in our footprint are among the highest in the country. High unemployment rates may reduce the number of qualified borrowers to whom we will extend loans, which would result in reduced loan originations. Adverse economic conditions may increase delinquencies and charge-offs and decrease our overall loan portfolio quality. If any of the adverse regulatory or legislative events described in this Risk Factors section were to occur in South Carolina, Texas, or North Carolina, it could materially adversely affect our business, results of operations, and financial condition. For example, if interest rates in South Carolina, which currently are not capped, were to be capped, our business, results of operations, and financial condition would be materially and adversely affected.

Regular turnover among our managers and other employees at our branches makes it more difficult for us to operate our branches and increases our costs of operations, which could have an adverse effect on our business, results of operations, and financial condition.

Our workforce is comprised primarily of employees who work on an hourly basis. In certain areas where we operate, there is significant competition for employees. In the past, we have lost employees and candidates to competitors who have been willing to pay higher compensation than we pay. Our ability to continue to expand our operations depends on our ability to attract, train, and retain a large and growing number of qualified employees. The turnover among all of our branch employees was approximately 38% in 2013, 44% in 2014, and 44% in 2015. This turnover increases our cost of operations and makes it more difficult to operate our branches. Our customer service representative and assistant manager roles have historically experienced high turnover. We may not be able to retain and cultivate personnel at these ranks for future promotion to branch manager. If our employee turnover rates increase above historical levels or if unanticipated problems arise from our high employee turnover and we are unable to readily replace such employees, our business, results of operations, financial condition, and ability to continue to expand could be adversely affected.

The departure, transition, or replacement of key personnel could significantly impact the results of our operations. If we cannot continue to hire and retain high quality employees, our business and financial results may be negatively affected.

Our future success significantly depends on the continued service and performance of our key management personnel. Competition for these employees is intense. Our operating results could be adversely affected by higher employee turnover or increased salary and benefit costs. Like most businesses, our employees are important to our success and we are dependent in part on our ability to retain the services of our key management, operational, finance, and administrative personnel. We have built our business on a set of core values, and we attempt to hire employees who are committed to these values. We want to hire and retain employees who will fit our culture of providing exceptional service to our customers. In order to compete and to continue to grow, we must attract, retain, and motivate employees, including those in executive, senior management, and operational positions. As our employees gain experience and develop their knowledge and skills, they become highly desired by other businesses. Therefore, to retain our employees, we must provide a

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satisfying work environment and competitive compensation and benefits. If costs to retain our skilled employees increase, then our business and financial results may be negatively affected.

Our continued growth is also dependent, in part, on the skills, experience, and efforts of our senior management, including but not limited to, Michael R. Dunn, our Chief Executive Officer, and Jody L. Anderson, our President and Chief Operating Officer. Since late 2014, we have experienced departures of members of our senior management, including C. Glynn Quattlebaum, who was a co-founder, President, and Chief Operating Officer and served on our Board of Directors, Thomas F. Fortin, who was our Chief Executive Officer and served on our Board of Directors, and A. Michelle Masters, who was our Senior Vice President of Strategic Operations and Initiatives. We may not be successful in retaining the members of our senior management team or our other key employees. While we have entered into employment agreements with Mr. Dunn and Mr. Anderson, Mr. Dunn is 64 years old, is nearing the age of retirement, and his employment agreement expires at the end of 2016. The loss of the services of Mr. Dunn, Mr. Anderson, or any member of our senior management or key team members, including state vice presidents, or the inability to attract additional qualified personnel as needed, could have an adverse effect on our business, financial condition, and results of operations. We also depend on our district supervisors to supervise, train, and motivate our branch employees. These supervisors have significant experience with our company and within our industry, and would be difficult to replace. If we lose a district supervisor to a competitor, we could also be at risk of losing other employees and customers. In addition, the process of identifying management successors creates uncertainty and could become a distraction to our senior management and our Board of Directors, and we may not be successful in attracting qualified candidates to replace key positions when necessary. The identification and recruitment of candidates to fill senior management positions, when necessary, and the resulting transition process may be disruptive to our business and operations.

Our convenience check strategy exposes us to certain risks.

A significant portion of our growth in our small installment loans has been achieved through our direct mail campaigns, which involve mailing to pre-screened recipients convenience checks, which customers can sign and cash or deposit, thereby agreeing to the terms of the loan, which are disclosed on the front and back of the check and in the accompanying disclosures. We use convenience checks to seed new branch openings and attract new customers and those with better credit in our geographic footprint. In 2014 and 2015, loans initiated through convenience checks represented 18.8% and 16.8%, respectively, of the value of our originated loans. We expect that convenience checks will continue to represent a meaningful portion of our small installment loan originations in the future. There are several risks associated with the use of convenience checks, including the following:

- it is more difficult to maintain sound underwriting standards with convenience check customers, and these customers have historically presented a higher risk of default than customers that originate loans in our branches, as we do not meet convenience check customers prior to soliciting them and extending a loan to them, and we may not be able to verify certain elements of their financial condition, including their current employment status or life circumstances;
- we rely on credit information from a third-party credit bureau that is more limited than a full credit report to pre-screen potential convenience check recipients, which may not be as effective or may be inaccurate or outdated;
- we face limitations on the number of potential borrowers who meet our lending criteria within proximity to our branches;
- we may not be able to continue to access the demographic and credit file information that we use to generate our mailing lists due to expanded regulatory or privacy restrictions;
- convenience checks pose a risk of fraud;
- we depend on one bank to issue and clear our convenience checks, and any failure by that bank to properly process the convenience checks could limit the ability of a recipient to cash the check and enter into a loan with us;

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- customers may opt out of direct mail solicitations and solicitations based on their credit file or may otherwise prohibit us from soliciting them; and

- postal rates and piece printing rates may continue to rise.

For example, in 2014 we experienced a convenience check credit quality deterioration in our direct mail campaigns. We responded to these issues by hiring a Chief Risk Officer and other personnel focused on credit risk management, establishing a Credit Committee to oversee direct mail campaign underwriting and origination processes, implementing additional policies and internal control procedures related to the audit of direct mail campaign files, and improving upon early-stage delinquency reporting and communication. Despite these efforts, we may experience future issues relating to our credit checks and other processes associated with our direct mail strategy. Our expected increase in the use of convenience checks will further increase our exposure to, and the magnitude of, these risks.

A reduction in demand for our products and failure by us to adapt to such reduction could adversely affect our business and results of operations.

The demand for the products we offer may be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences or financial conditions, regulatory restrictions that decrease customer access to particular products, or the availability of competing products. For example, we are highly dependent upon selecting and maintaining attractive branch locations. These locations are subject to local market conditions, including the employment available in the area, housing costs, traffic patterns, crime, and other demographic influences, any of which may quickly change. Should we fail to adapt to significant changes in our customers demand for, or access to, our products, our revenues could decrease significantly and our operations could be harmed. Even if we do make changes to existing products or introduce new products to fulfill customer demand, customers may resist or may reject such products. Moreover, the effect of any product change on the results of our business may not be fully ascertainable until the change has been in effect for some time, and by that time it may be too late to make further modifications to such product without causing further harm to our business, results of operations, and financial condition.

We may attempt to pursue acquisitions or strategic alliances which may be unsuccessful.

We may attempt to achieve our business objectives through acquisitions and strategic alliances. We compete with other companies for these opportunities, including companies with greater financial resources, and we cannot be certain that we will be able to effect acquisitions or strategic alliances on commercially reasonable terms, or at all. Furthermore, most acquisition targets that we have pursued previously have been significantly smaller than us. We do not have extensive experience with integrating larger acquisitions. In pursuing these transactions, we may experience, among other things:

- overvaluing potential targets;

- difficulties in integrating any acquired companies, branches, or products into our existing business, including integration of account data into our information systems;

- inability to realize the benefits we anticipate in a timely fashion, or at all;

- attrition of key personnel from acquired businesses;

- unexpected losses due to the acquisition of loan portfolios with loans originated using less stringent underwriting criteria;

- significant costs, charges, or writedowns; or unforeseen operating difficulties that require significant financial and managerial resources that would otherwise be available for the ongoing development and expansion of our existing operations.

We are exposed to credit risk in our lending activities.

Our ability to collect on loans depends on the willingness and repayment ability of our borrowers. Any material adverse change in the ability or willingness of a significant portion of our borrowers to meet their obligations to us, whether due to changes in general economic conditions, the cost of consumer goods, interest rates, natural disasters, acts of war or terrorism, or other causes over which we have no control, or to changes or events affecting our borrowers such as unemployment, major medical expenses, divorce, or death, would have a material adverse impact on our earnings and financial condition. Further, a substantial majority of our borrowers are non-prime borrowers, who are more likely to be affected, and more severely affected, by adverse macroeconomic conditions. We cannot be certain that our credit administration personnel, policies, and procedures will adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio.

We may be limited in our ability to collect on our loan portfolio, and the security interests securing a significant portion of our loan portfolio are not perfected, which may increase our credit losses.

Legal and practical limitations may limit our ability to collect on our loan portfolio, resulting in increased credit losses, decreased revenues, and decreased earnings. State and federal laws and regulations restrict our collection efforts. Most of our loan portfolio is secured, but a significant portion of such security interests have not been and will not be perfected, which means that we cannot be certain that such security interests will be given first priority over other creditors. The amounts that we are able to recover from the repossession and sale of collateral typically do not cover the outstanding loan balance and costs of recovery. In cases where we repossess a vehicle securing a loan, we generally sell our repossessed automobile inventory through public sales conducted by independent automobile auction organizations after the required post-repossession waiting period. There is approximately a 30-day period between the time we repossess a vehicle or other property and the time it is sold at auction. In certain instances, we may sell repossessed collateral other than vehicles through our branches after the required post-repossession waiting period and appropriate receipt of valid bids. The proceeds we receive from such sales depend upon various factors, including the supply of, and demand for, used vehicles and other property at the time of sale. During periods of economic slowdown or recession, such as have existed in the United States for much of the past several years, there may be less demand for used vehicles and other property that we desire to resell.

Further, a significant portion of our loan portfolio is not secured by perfected security interests, including small installment loans and retail purchase loans. The lack of perfected security interests is one of several factors that may make it more difficult for us to collect on our loan portfolio. During 2015, net charge-offs as a percentage of average finance receivables on our small installment loans, which are typically secured by unperfected interests in personal property, were 11.8%, while net charge-offs as a percentage of average finance receivables for our large installment loans and automobile purchase loans, which are typically secured by perfected interests in an automobile or other vehicle, for the same periods were 2.7% and 6.6%, respectively. Additionally, for those of our loans which are unsecured, borrowers may choose to repay obligations under other indebtedness before repaying loans to us because such borrowers have no collateral at risk. Lastly, given the relatively small size of our loans, the costs of collecting loans may be high relative to the amount of the loan. As a result, many collection practices that are legally available, such as litigation, may be financially impracticable. These factors may increase our credit losses, which would have a material adverse effect on our results of operations and financial condition.

In addition, there is an inherent risk that a portion of the retail installment contracts that we hold will be in default or be subject to certain claims or defenses that the borrower may assert against the originator of the contract, or us as the holder of the contract. We face the risk that if high unemployment or adverse economic developments occur or continue in one or more of our markets, a large number of retail installment contracts will become defaulted. In addition, most of the borrowers under these contracts have some negative credit history. There can be no assurance that our allowance for credit losses will prove sufficient to cover actual losses in the future on these contracts.

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Our policies and procedures for underwriting, processing, and servicing loans are subject to potential failure or circumvention, which may adversely affect our results of operations.

A substantial portion of our underwriting activities and our credit extension decisions are made at our local branches. We train our employees individually onsite in the branch to make loans that conform to our underwriting standards. Such training includes critical aspects of state and federal regulatory compliance, cash handling, account management, and customer relations. Although we have standardized employee manuals, we primarily rely on our district supervisors, with oversight by our state vice presidents, branch auditors, and headquarters personnel, to train and supervise our branch employees, rather than centralized training programs. Therefore, the quality of training and supervision may vary from district to district and branch to branch depending upon the amount of time apportioned to training and supervision and individual interpretations of our operations policies and procedures. In addition, we sometimes rely on third-party service providers in connection with loan underwriting and origination. Any error or failure by a third-party service provider in providing loan underwriting and origination services may cause us to originate loans to borrowers that do not meet our underwriting standards. We cannot be certain that every loan is made in accordance with our underwriting standards and rules. We have in the past experienced some instances of loans extended that varied from our underwriting standards. Variances in underwriting standards and lack of supervision could expose us to greater delinquencies and charge-offs than we have historically experienced.

In addition, underwriting decisions are based on information provided by customers, counterparties, and other third parties, including credit bureaus and data aggregators, the inaccuracy or incompleteness of which may adversely affect our results of operations. In deciding whether to extend credit or enter into other transactions with customers and counterparties, we rely on such information furnished to us by or on behalf of customers, counterparties, and other third parties, including financial information. We also rely on representations of customers and counterparties as to the accuracy and completeness of that information. Our earnings and our financial condition could be negatively impacted to the extent the information furnished to us by and on behalf of customers, counterparties, and other third parties is not correct or complete.

Employee misconduct could harm us by subjecting us to significant legal liability, regulatory scrutiny, and reputational harm.

Our reputation is critical to maintaining and developing relationships with our existing and potential customers and third parties with whom we do business. There is a risk that our employees could engage in misconduct that adversely affects our business. For example, if an employee were to engage or be accused of engaging in illegal or suspicious activities, we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial condition, customer relationships, and ability to attract future customers. Employee misconduct could prompt regulators to allege or to determine, based upon such misconduct, that we have not established adequate supervisory systems and procedures to inform employees of applicable rules or to detect and deter violations of such rules. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent misconduct may not be effective in all cases. Misconduct by our employees, or even unsubstantiated allegations, could result in a material adverse effect on our reputation and our business.

Our risk management efforts may not be effective.

We could incur substantial losses and our business operations could be disrupted if we are unable to effectively identify, manage, monitor, and mitigate financial risks, such as credit risk, interest rate risk, prepayment risk, liquidity risk, and other market-related risks, as well as operational risks related to our business, assets, and liabilities. Our risk management policies, procedures, and techniques may not be sufficient to identify all of the risks we are exposed to, mitigate the risks we have identified, or identify additional risks to which we may become subject in the future.

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We may be unsuccessful in maintaining effective internal controls over financial reporting.

Controls and procedures are particularly important for consumer finance companies. Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud or material error. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurance that the objectives of the system are met. Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) requires management of public companies to develop and implement internal controls over financial reporting and evaluate the effectiveness thereof. Under standards established by the Public Company Accounting Oversight Board, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting. Any failure to implement current internal controls or required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations.

In November 2014, we identified a material weakness in our internal control over financial reporting related to controls over the credit risk associated with the origination of direct mail loans. In addition, we have in the past identified significant deficiencies in our internal control over financial reporting. We remediated the material weakness identified in November 2014 effective as of December 31, 2015.

If additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future or if our controls and procedures fail or are circumvented, our consolidated financial statements may contain material misstatements, we could be required to restate our financial results, we may be unable to produce accurate and timely financial statements, and we may be unable to maintain compliance with applicable stock exchange listing requirements, any of which could have a material adverse effect on our business, results of operations, financial condition, and stock price. The discovery of a material weakness and the disclosure of that fact, even if quickly remediated, could reduce the market value of shares of our common stock. Additionally, the existence of any material weakness or significant deficiency requires management to devote significant time and incur significant expense to remediate any such material weaknesses or significant deficiency, and management may not be able to remediate any such material weaknesses or significant deficiency in a timely manner. Undetected material weaknesses in our internal controls could lead to financial statement restatements, which could have a material adverse effect on our business, financial condition, and results of operation.

If our estimates of reserves for credit losses are not adequate to absorb actual losses, our provision for credit losses would increase, which would adversely affect our results of operations.

We maintain an allowance for credit losses for all loans we make. To estimate the appropriate level of credit loss reserves, we consider known and relevant internal and external factors that affect loan collectability, including the total amount of loans outstanding, historical loan charge-offs, delinquency rates and trends, our current collection patterns, and economic trends. Our methodology for establishing our reserves for credit losses is based in large part on our historic loss experience. If customer behavior changes as a result of economic or other conditions and if we are unable to predict how the unemployment rate and general economic uncertainty may affect our credit loss reserves, our provision may be inadequate. During fiscal 2015, our provision for credit losses was $47.3 million, and we had net charge-offs of $50.4 million related to losses on our loans. As of December 31, 2015, our finance receivables were $628.4 million. Maintaining the adequacy of our allowance for credit losses may require that we make significant and unanticipated increases in our provisions for credit losses, which would materially affect our results of operations. Our credit loss reserves, however, are estimates, and if actual credit losses are materially greater than our credit loss reserves, our financial condition and results of operations could be adversely affected. Neither state regulators nor federal regulators regulate our allowance for credit losses.

If assumptions or estimates we use in preparing our financial statements are incorrect or are required to change, our reported results of operations and financial condition may be adversely affected.

We are required to use certain assumptions and estimates in preparing our financial statements under U.S. Generally Accepted Accounting Principles (GAAP), including in determining allowances for loan losses, fair value of financial instruments, asset impairment, reserves related to litigation and other legal matters, valuation of income and other taxes and regulatory exposures. In addition, significant assumptions and estimates are involved in determining certain disclosures required under GAAP, including those involving the fair value of our financial instruments. If the assumptions or estimates underlying our financial statements are incorrect, the actual amounts realized on transactions and balances subject to those estimates will be different, and this could have a material adverse effect on our results of operations and financial condition.

In addition, the Financial Accounting Standards Board (FASB) is currently reviewing or proposing changes to several financial accounting and reporting standards that govern key aspects of our financial statements, including areas where assumptions or estimates are required. As a result of changes to financial accounting or reporting standards, whether promulgated or required by the FASB or other regulators, we could be required to change certain of the assumptions or estimates we previously used in preparing our financial statements, which could negatively impact how we record and report our results of operations and financial condition generally. For additional information on the key areas for which assumptions and estimates are used in preparing our financial statements, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Note 1 (Nature of Business and Significant Accounting Policies) of our audited Consolidated Financial Statements.

Our use of derivatives exposes us to credit and market risk.

From time to time, we enter into derivative transactions for economic hedging purposes, such as managing our exposure to interest rate risk. By using derivative instruments, we are exposed to credit and market risk, including the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost, default risk, and the risk of insolvency or other inability of the counterparty to a particular derivative transaction to perform its obligations. For additional information, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

Interest rates on automobile purchase and retail purchase loans are determined at competitive market interest rates, and we may fail to adequately set interest rates, which may adversely affect our business.

Over recent years, we have expanded our automobile purchase loan business and our retail purchase loan business, and we plan to continue to expand those businesses in the future. Unlike installment loans, which in certain states are typically made at or near the maximum interest rates permitted by law, automobile purchase loans and retail purchase loans are often made at competitive market interest rates, which are governed by laws for installment sales contracts. If we fail to set interest rates at a level that adequately reflects market rates or the credit risks of our customers, or if we set interest rates at a level too low to sustain our profitability, our business, results of operations, and financial condition could be adversely affected.

Failure of third-party service providers upon which we rely could adversely affect our business.

We rely on certain third-party service providers. In particular, we currently rely on one key vendor to print and mail our convenience checks for our direct mail marketing campaigns, and we rely on certain other third-party service providers in connection with loan underwriting and origination. Our reliance on these and other third parties can expose us to risks. For example, an error by our former convenience check vendor during 2010 and our current convenience check vendor during 2015 resulted in checks being misdirected, requiring us in some cases to notify state regulators and to refund certain interest and fee amounts, and exposing us to increased credit risk. If any of our third-party service providers, including our convenience check vendors and those third

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parties providing services in connection with loan underwriting and origination, are unable to provide their services timely, accurately, and effectively, or at all, it could have a material adverse effect on our business, financial condition, and results of operations and cash flows.

We depend to a substantial extent on borrowings under our senior revolving credit facility to fund our liquidity needs.

We have a senior revolving credit facility committed through September 2018 that allows us to borrow up to $538.0 million, assuming we are in compliance with a number of covenants and conditions. The credit facility also has an accordion provision that allows for the expansion of the facility to up to $600.0 million. The senior revolving credit facility is collateralized by certain of our assets, including substantially all of our finance receivables and equity interests of the majority of our subsidiaries. As of December 31, 2015, the amount outstanding under our senior revolving credit facility was $338.3 million and we had $199.7 million of unused capacity on the credit facility (subject to certain covenants and conditions). During fiscal 2015, the maximum amount of borrowings outstanding under the facility at one time was $403.1 million. We use our senior revolving credit facility as a source of liquidity, including for working capital and to fund the loans we make to our customers. If our existing sources of liquidity become insufficient to satisfy our financial needs or our access to these sources becomes unexpectedly restricted, we may need to try to raise additional debt or equity in the future. If such an event were to occur, we can give no assurance that such alternate sources of liquidity would be available to us on favorable terms or at all. In addition, we cannot be certain that we will be able to replace the amended and restated senior revolving credit facility when it matures on favorable terms or at all. If any of these events occur, our business, results of operations, and financial condition could be adversely affected.

Macroeconomic conditions could have a material adverse effect on our business, financial position, results of operations, and cash flows, and may increase loan defaults and affect the value and liquidity of your investment.

We are not insulated from the pressures and potentially negative consequences of financial crises and similar risks beyond our control that have in the past and may in the future affect the capital and credit markets, the broader economy, the financial services industry, or the segment of that industry in which we operate.

Beginning in 2007, the global economy experienced a significant recession, as well as a severe, ongoing disruption in the credit markets and a material and adverse effect on the jobs market and individual borrowers. While the United States economy may technically have come out of this recession, the recovery is fragile and may not be sustainable for any specific period of time, and could slip back into an even more significant recession. Our financial performance generally, and in particular the ability of our borrowers to make payments on outstanding loans, is highly dependent upon the business and economic environments in the markets where we operate and in the United States as a whole.

During an economic downturn or recession, credit losses in the financial services industry generally increase and demand for credit products often decreases. Declining asset values, defaults on consumer loans, and the lack of market and investor confidence, as well as other factors, all combine to decrease liquidity during an economic downturn. As a result of these factors, some banks and other lenders have suffered significant losses during economic downturns, and the strength and liquidity of many financial institutions worldwide has weakened due to the most recent economic crisis. Additionally, during an economic downturn, our loan servicing costs and collection costs may increase as we may have to expend greater time and resources on these activities. Our underwriting criteria, policies and procedures, and product offerings may not sufficiently protect our growth and profitability during a sustained period of economic downturn or recession. Any renewed economic downturn will adversely affect the financial resources of our customers and may result in the inability of our customers to make principal and interest payments on, or refinance, the outstanding debt when due.

In addition, periods of economic slowdown or recession are typically accompanied by decreased consumer demand for automobiles and other retail goods. Our ability to originate automobile purchase loans and retail

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purchase loans depends, in large part, on the underlying demand for such products. Further, our business is focused on customers who generally do not qualify for conventional automobile or retail financing, and customers in this demographic are more likely to be affected, and more severely affected, by an economic downturn. Accordingly, our business, financial position, results of operations and cash flows may be adversely impacted during any economic downturn or recession.

Should economic conditions worsen, they may adversely affect the credit quality of our loans. In the event of increased default by borrowers under the loans, and/or a decrease in the volume of the loans we originate, our business, results of operations, and financial condition could be adversely affected.

We are subject to interest rate risk resulting from general economic conditions and policies of various governmental and regulatory agencies.

Interest rate risk arises from the possibility that changes in interest rates will affect our results of operations and financial condition. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Furthermore, market conditions or regulatory restrictions on interest rates we charge may prevent us from passing any increases in interest rates along to our customers. We originate finance receivables at either prevailing market rates or at statutory limits. Subject to statutory limits, our ability to react to changes in prevailing market rates is dependent upon the speed at which our customers pay off or renew loans in our existing loan portfolio, which allows us to originate new loans at prevailing market rates. Our loan portfolio turns over approximately 1.5 times per year from cash payments, renewals, and charged-off loans. Because our automobile loans have longer maturities and typically are not refinanced prior to maturity, the rate of turnover of the loan portfolio may change as these loans change as a percentage of our portfolio.

In addition, rising interest rates will increase our cost of capital by influencing the amount of interest we pay on our senior revolving credit facility or any other floating interest rate obligations we may incur, which would increase our operating costs and decrease our operating margins. Interest payable on our senior revolving credit facility is variable, based on LIBOR with a LIBOR floor of 1.00%, and could increase in the future.

Our insurance operations are subject to a number of risks and uncertainties, including claims.

We market and sell optional credit life, credit accident and health, credit personal property, and credit involuntary unemployment insurance in connection with our loans in selected markets as an agent for an unaffiliated third-party insurance company. The policies are then ceded to our wholly-owned reinsurance subsidiary, RMC Reinsurance, Ltd., which then bears the full risk of the policies. Insurance claims and policyholder liabilities are difficult to predict and may exceed the related reserves set aside for claims and associated expenses for claims adjudication. In addition, in 2016, we plan to transition our insurance business to a new unaffiliated third-party insurance company. The transition is complex and will include, among other things, the retraining of our branch network and the reprogramming of our loan management system to appropriately calculate premium amounts and to generate required disclosures on a state-by-state basis. Any failure to timely transition our insurance operations to the new unaffiliated third-party insurance company will result in our inability to offer our insurance products in certain states, which will have a material and adverse effect on our business, results of operations, and financial condition.

Other risks relating to our insurance operations include changes to laws and regulations applicable to us, as well as changes to the regulatory environment. Examples include changes to laws or regulations affecting capital and reserve requirements; frequency and type of regulatory monitoring and reporting; consumer privacy, use of customer data, and data security; benefits or loss ratio requirements; insurance producer licensing or appointment requirements; required disclosures to consumers; and collateral protection insurance (i.e., insurance purchased at the borrower s expense on the borrower s loan collateral for the periods of time the borrower fails to adequately, as required by his or her loan, insure that collateral). Because our borrowers do not affirmatively consent to

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collateral protection insurance at the time it is purchased and, hence, do not directly agree to the amount charged for it, regulators may in the future prohibit us from providing this insurance. Moreover, our insurance operation is dependent on our lending operation for its sole source of business and product distribution. If our lending operations discontinue offering insurance products, our insurance operations would have no method of distribution, and our business, results of operations, and financial condition may be adversely affected.

Our revolving credit agreement contains restrictions and limitations that could affect our ability to operate our business.

The credit agreement governing our senior revolving credit facility contains a number of covenants that could adversely affect our business and the flexibility to respond to changing business and economic conditions or opportunities. Among other things, these covenants limit our ability to:

- incur or guarantee additional indebtedness;
- purchase large loan portfolios in bulk;
- pay dividends or make distributions on our capital stock or make certain other restricted payments;
- sell assets, including our loan portfolio or the capital stock of our subsidiaries;
- enter into transactions with our affiliates;
- offer certain loan products;
- create or incur liens; and
- consolidate, merge, sell, or otherwise dispose of all or substantially all of our assets.

In addition, the credit agreement imposes certain obligations on us relating to our underwriting standards, recordkeeping and servicing of our loans, and our loss reserves and charge-off policies. It also requires us to maintain certain financial ratios, including an interest coverage ratio and a borrowing base ratio. If we were to breach any covenants or obligations under the credit agreement and such breaches were to result in an event of default, our lenders could cause all amounts outstanding to become due and payable, subject to applicable grace periods. This could trigger cross-defaults under existing and future debt instruments, and materially and adversely affect our financial condition and ability to continue operating our business as a going concern.

We rely on information technology products developed, owned, and supported by third parties, including our competitors. Our ability to manage our business and monitor results is highly dependent upon these information technology products. A failure of these products and systems or of the implementation of new information technology products and systems could disrupt our business.

In the operation of our business, we are highly dependent upon a variety of information technology products, including our loan management system, which allows us to record, document, and manage our loan portfolio. We currently use a loan management software package developed and owned by ParaData Financial Systems (ParaData), a wholly owned subsidiary of World Acceptance Corporation, one of our primary competitors. Over the years, we have tailored this software to meet our specific needs. We depend on the willingness and ability of ParaData to continue to provide customized solutions and support our evolving products and business model. In the future, ParaData may not be willing or able to modify the loan management software to meet our needs, or it could alter the program without notice to us or cease to adequately support it. ParaData could also decide in the future to refuse to provide support for its software to us on commercially reasonable terms, or at all. If any of these events were to occur, we would be forced to migrate to an alternative software package, which could materially affect our business, results of operations, and financial condition.

We rely on DealerTrack, Route One, Teledata Communications Inc., and other third-party software vendors to provide access to loan applications and/or screen applications. There can be no assurance that these

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third party providers will continue to provide us information in accordance with our lending guidelines or that they will continue to provide us lending leads at all. If this occurs, our credit losses, business, results of operations, and financial condition may be adversely affected.

Security breaches in our branches or acts of theft, fraud, or violence could adversely affect our financial condition and results of operations.

Nearly all of our account payments occur at our branches, either in person or by mail, and frequently consist of cash payments, which we deposit at local banks throughout the day. This business practice exposes us daily to the potential for employee theft of funds or, alternatively, to theft and burglary due to the cash we maintain in our branches. Despite controls and procedures to prevent such losses, we have in the past sustained losses due to employee fraud (including collusion) and theft. We are also susceptible to break-ins at our branches, where money and/or customer records could be taken. A breach in the security of our branches or in the safety of our employees could result in employee injury, loss of funds or records, and adverse publicity, and could result in a loss of customer business or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

Security breaches, cyber-attacks, failures in our information systems, or fraudulent activity could result in damage to our operations or lead to reputational damage.

We also rely heavily on communications and information systems to conduct our business. Each branch is part of an information network that is designed to permit us to maintain adequate cash inventory, reconcile cash balances on a daily basis, and report revenues and expenses to our headquarters. Any failure, interruption, or breach in security of these systems, including any failure of our back-up systems, hardware failures, or an inability to access data maintained offsite, could result in failures or disruptions in our customer relationship management, general ledger, loan, and other systems and could result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation, possible financial liability, and other adverse consequences, any of which could have a material adverse effect on our financial condition and results of operations. Furthermore, we may not be able to detect immediately any such breach, which may increase the losses that we would suffer. In addition, our existing insurance policies would not reimburse us for all of the damages that we might incur as a result of a breach.

A security breach or cyber-attack on our computer systems could interrupt or damage our operations or harm our reputation. Despite the implementation of security measures, our systems may still be vulnerable to data theft, computer viruses, programming errors, attacks by third parties, or similar disruptive problems. If we were to experience a security breach or cyber-attack, we could be required to incur substantial costs and liabilities, including, among other things, the following:

- expenses to rectify the consequences of the security breach or cyber-attack;
- liability for stolen assets or information;
- costs of repairing damage to our systems;
- lost revenue and income resulting from any system downtime caused by such breach or attack;
- increased costs of cyber security protection;
- costs of incentives we may be required to offer to our customers or business partners to retain their business; and
- damage to our reputation causing customers and investors to lose confidence in our company.

In addition, any compromise of security or a cyber-attack could deter consumers from entering into transactions that require them to provide confidential information to us. Further, if confidential customer

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information or information belonging to our business partners is misappropriated from our computer systems, we could be sued by those who assert that we did not take adequate precautions to safeguard our systems and confidential data belonging to our customers or business partners, which could subject us to liability and result in significant legal fees and expenses of defending these claims. As a result, any compromise of security of our computer systems or cyber-attack could have a material adverse effect on our business, prospects, results of operations, and financial condition.

We may not be able to make technological improvements as quickly as some of our competitors, which could harm our competitive ability and adversely affect our business, prospects, results of operations, and financial condition.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. We rely on our integrated branch network as the foundation of our multiple channel platform and the primary point of contact with our active accounts. However, to serve customers who want to reach us over the Internet, we developed a new channel in late 2008 by making an online loan application available on our consumer website, and in late 2015, we began testing end-to-end origination of unsecured consumer loans via our website. Our future success and, in particular, the success of our online sourcing, will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demand for convenience, as well as to create additional efficiencies in our operations. If we fail to effectively implement new technology-driven products and services as quickly as some of our competitors or if we fail to be successful in marketing these products to our customers, our business, prospects, results of operations, and financial condition may be harmed.

Our centralized headquarters functions and branch operations are susceptible to disruption by catastrophic events, which could have a material adverse effect on our business, results of operations, and financial condition.

Our headquarters buildings are located in Greenville, South Carolina. Our information systems and administrative and management processes are primarily provided to our branches from this centralized location, and our separate data management facility is located in the same city. These processes could be disrupted if a catastrophic event, such as a tornado, power outage, or act of terror, affected Greenville. Any such catastrophic event or other unexpected disruption of our headquarters or data management facility could have a material adverse effect on our business, results of operations, and financial condition.

We may be required to repurchase certain finance receivables if these finance receivables fail to meet certain criteria or characteristics or under other circumstances, which could adversely affect our results of operations, financial condition, and liquidity.

On December 11, 2015, we and our wholly-owned subsidiary, Regional Management Receivables, LLC (RMR), entered into a credit agreement with Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC as administrative agent. This credit agreement provides for a $75.7 million amortizing loan to RMR that is secured by certain retail installment contracts and promissory notes secured by new or used automobiles, light-duty trucks, minivans, sport utility vehicles, and other passenger vehicles (excluding motorcycles) which were originated (either directly or indirectly) by certain of our subsidiaries (the Receivables). On the closing date of the transactions contemplated by the credit agreement, RMR made certain representations and warranties about the quality and nature of the Receivables. The amortizing loan requires RMR to pay the administrative agent a release fee for the release of certain Receivables as collateral under certain circumstances, including circumstances in which the representations and warranties made by RMR concerning the quality and characteristics of the Receivables are inaccurate.

As a result of the current market environment, we believe that many purchasers of loans and other counterparties to transactions like those provided for in the amortizing loan and other similar securitization

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transactions are particularly aware of the conditions under which originators must indemnify for or repurchase finance receivables, and may benefit from enforcing any available repurchase remedies. If we are required to repurchase Receivables that we have sold or pledged, this could adversely affect our results of operations, financial condition, and liquidity.

Risks Related to Regulation and Legal Proceedings

Our business products and activities are strictly and comprehensively regulated at the local, state, and federal level.

Our business is subject to numerous local, state, and federal laws and regulations. These regulations impose significant costs and limitations on the way we conduct and expand our business, and these costs and limitations may increase in the future if such laws and regulations are changed. These laws and regulations govern or affect, among other things:

- the interest rates that we may charge customers;
- terms of loans, including fees, maximum amounts, and minimum durations;
- the number of simultaneous or consecutive loans and required waiting periods between loans;
- disclosure practices, including posting of fees;
- currency and suspicious activity reporting;
- recording and reporting of certain financial transactions;
- privacy of personal customer information;
- the types of products and services that we may offer;
- collection practices;
- approval of licenses; and
- locations of our branches.

Changes to statutes, regulations, or regulatory policies, including the interpretation, implementation, and enforcement of statutes, regulations, or policies, could affect us in substantial and unpredictable ways, including limiting the types of financial services and products that we may offer and increasing the ability of competitors to offer competing financial services and products. Compliance with laws and regulations requires us to invest increasingly significant portions of our resources in compliance planning and training, monitoring tools, and personnel, and requires the time and attention of management. These costs divert capital and focus away from efforts intended to grow our business. Because these laws and regulations are complex and often subject to interpretation, or because of a result of unintended errors, we may, from time to time, inadvertently violate these laws, regulations, and policies, as each is interpreted by our regulators. If we do not successfully comply with laws, regulations, or policies, our compliance costs could increase, our operations could be limited, and we may suffer damage to our reputation. If more restrictive laws, rules, and regulations are enacted or more restrictive judicial and administrative interpretations of those laws are issued, compliance with the laws could become more expensive or difficult. Furthermore, changes in these laws and regulations could require changes in the way we conduct our business, and we cannot predict the impact such changes would have on our profitability.

Our primary regulators are the state regulators for the states in which we operate: Alabama, Georgia, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia. We operate each of our branches under licenses granted to us by these state regulators. State regulators may enter our branches and conduct audits of our records and practices at any time, with or without notice. If we fail to observe, or are not able to comply with, applicable legal requirements, we may be forced to discontinue certain product offerings, which could adversely impact our business, results of operations, and financial condition. In addition, violation of these laws and regulations could result in fines and other civil and/or criminal penalties, including the suspension or revocation of our branch licenses, rendering us unable to operate in one or more locations. All of the states in which we operate have laws governing the interest rate and fees that we can charge and required disclosure statements, among other restrictions. Violation of these laws could involve penalties requiring the forfeiture of principal and/or interest and fees that we have charged. Depending on the nature and scope of a violation, fines and other penalties for noncompliance of applicable requirements could be significant and could have a material adverse effect on our business, results of operation, and financial condition.

Licenses to open new branches are granted in the discretion of state regulators. Accordingly, licenses may be denied unexpectedly or for reasons outside of our control. This could hinder our ability to implement our business plans in a timely manner or at all.

As we enter new markets and develop new products, we may become subject to additional state and federal regulations. For example, although we intend to expand into new states, we may encounter unexpected regulatory or other difficulties in these new states or markets, which may prevent us from growing in new states or markets. Similarly, while we intend to grow our retail purchase and indirect automobile purchase loan operations, we may encounter unexpected regulatory or other difficulties. As a result, we may not be able to successfully execute our strategies to grow our revenue and earnings.

Changes in laws and regulations or interpretations of laws and regulations could negatively impact our business, results of operations, and financial condition.

The laws and regulations directly affecting our lending activities are under review and are subject to change, especially as a result of current economic conditions, changes in the make-up of the current executive and legislative branches, and the political focus on issues of consumer and borrower protection. In addition, consumer advocacy groups and various other media sources continue to advocate for governmental and regulatory action to prohibit or severely restrict various financial products, including the loan products we offer.

Any changes in such laws and regulations, or the implementation, interpretation, or enforcement of such laws and regulations, could force us to modify, suspend, or cease part or, in the worst case, all of our existing operations. It is also possible that the scope of federal regulations could change or expand in such a way as to preempt what has traditionally been state law regulation of our business activities. The enactment of one or more of such regulatory changes could materially and adversely affect our business, results of operations, and prospects.

State and federal legislatures and regulators may also seek to impose new requirements or interpret or enforce existing requirements in new ways. Changes in current laws or regulations or the implementation of new laws or regulations in the future may restrict our ability to continue our current methods of operation or expand our operations. Additionally, these laws and regulations could subject us to liability for prior operating activities or lower or eliminate the profitability of operations going forward by, among other things, reducing the amount of interest and fees we charge in connection with our loans. If these or other factors lead us to close our branches in a state, in addition to the loss of net revenues attributable to that closing, we would incur closing costs such as lease cancellation payments and we would have to write off assets that we could no longer use. If we were to suspend rather than permanently cease our operations in a state, we would also have continuing costs associated with maintaining our branches and our employees in that state, with little or no revenues to offset those costs.

In addition to state and federal laws and regulations, our business is subject to various local rules and regulations, such as local zoning regulations. Local zoning boards and other local governing bodies have been increasingly restricting the permitted locations of consumer finance companies. Any future actions taken to require special use permits for, or impose other restrictions on, our ability to provide products could adversely affect our ability to expand our operations or force us to attempt to relocate existing branches. If we were forced to relocate any of our branches, in addition to the costs associated with the relocation, we may be required to hire new employees in the new areas, which may adversely impact the operations of those branches. Relocation of an existing branch may also hinder our collection abilities, as our business model relies in part on the location of our branches being close to where our customers live in order to successfully collect on outstanding loans.

Changes in laws or regulations may have a material adverse effect on all aspects of our business in a particular state and on our overall business, results of operations, and financial condition.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) authorizes the Consumer Financial Protection Bureau (the CFPB) to adopt rules that could potentially have a serious impact on our ability to offer short-term consumer loans and have a material adverse effect on our operations and financial performance.

Title X of the Dodd-Frank Act establishes the CFPB, which became operational on July 21, 2011. Under the Dodd-Frank Act, the CFPB has regulatory, supervisory, and enforcement powers over providers of consumer financial products that we offer, including explicit supervisory authority to examine and require registration of installment lenders such as ourselves. Included in the powers afforded to the CFPB is the authority to adopt rules describing specified acts and practices as being unfair, deceptive, or abusive, and hence unlawful. Specifically, the CFPB has the authority to declare an act or practice abusive if it, among other things, materially interferes with the ability of a consumer to understand a term or condition of a consumer financial product or service or takes unreasonable advantage of a lack of understanding on the part of the consumer of the product or service. Although the Dodd-Frank Act expressly provides that the CFPB has no authority to establish usury limits, some consumer advocacy groups have suggested that certain forms of alternative consumer finance products, such as installment loans, should be a regulatory priority, and it is possible that at some time in the future, the CFPB could propose and adopt rules making such lending or other products that we may offer materially less profitable or impractical. Further, the CFPB may target specific features of loans or loan practices, such as refinancings, by rulemaking that could cause us to cease offering certain products or engaging in certain practices. It is possible that the CFPB will adopt rules that specifically restrict refinancings of existing loans. Our refinancings of existing loans are divided into three categories: refinancings of loans in an amount greater than the original loan amount, renewals of existing loans at or below the original loan amount, and renewals of existing loans that are 60 or more days past due, which represented 31.5%, 26.8%, and 0.5%, respectively, of our loan originations in 2015. Any such rules could have a material adverse effect on our business, results of operation, and financial condition. The CFPB could also adopt rules imposing new and potentially burdensome requirements and limitations with respect to any of our current or future lines of business, which could have a material adverse effect on our operations and financial performance.

The Dodd-Frank Act also gives the CFPB the authority to examine and regulate entities it classifies as a larger participant of a market for other consumer financial products or services. The rule will likely cover only the largest installment lenders. We do not yet know whether the definition of larger participant in the installment lending market will cover us. In June 2015, the CFPB adopted a rule defining larger participants of the automobile financing market as nonbank lenders that have at least 10,000 aggregate annual originations. In addition, this rule defined the term financial product or service to include refinancings and certain automobile leases but to exclude title loans. While our automobile purchase loan originations at this time do not qualify us as a larger participant in the automobile financing market, the continued expansion of our automobile lending operations may in the future cause us to qualify as a larger participant in the automobile financing market.

In March 2015, the CFPB announced that it was considering proposing rules under its unfair, deceptive, and abusive acts and practices rulemaking authority relating to payday, vehicle title, and similar loans. The proposal would cover short-term loans with a contractual term of 45 days or less, as well as longer-term loans with a term of longer than 45 days with an all in annualized percentage rate of interest in excess of 36% in which the lender has either a non-purchase money security interest in the consumer s vehicle or certain rights to collect repayment from the consumer s bank account or paycheck. While we do not originate loans with a contractual term of 45 days or less, we do originate longer-term loans with an all in annual percentage rate of

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interest in excess of 36% and take a non-purchase money security interest in a vehicle. The proposals would require a lender, as a condition of making a covered longer-term loan, to first make a good-faith reasonable determination that the consumer has the ability to repay the covered longer-term loan without reborrowing or defaulting. The proposals would require lenders to verify income, major financial obligations, and borrowing history. Lenders would also be required to determine that a consumer is able to make all projected payments under the covered longer-term loan as those payments are due, while still fulfilling other major financial obligations and meeting living expenses. This ability to repay assessment would apply to both the initial longer-term loan and to any subsequent refinancing. In addition, the proposals would include a rebuttable presumption that customers seeking to refinance a covered longer-term loan lack an ability to repay if certain conditions exist at the time of the proposed refinancing. The proposals are subject to several procedural requirements and to possible change before any final rules would be issued and implemented, and we cannot predict what the ultimate rulemaking will provide. These proposals, if and when implemented in final rulemaking, may require changes to our practices and procedures regarding such loans that could materially and adversely affect our ability to make such loans, the cost of making such loans, our ability to, or frequency with which we are able to, refinance any such covered loans, or the profitability of such loans.

The CFPB is also conducting supervisory audits of large vehicle lenders and has indicated it intends to study and take action with respect to possible Equal Credit Opportunity Act disparate impact credit discrimination in indirect vehicle finance. If the CFPB enters into a consent decree with one or more lenders on disparate impact claims, it could negatively impact the business of the affected lenders, and potentially the business of dealers and other lenders in the vehicle finance market. This impact on dealers and lenders could increase our regulatory compliance requirements and associated costs.

In October 2015, the CFPB announced that it is considering proposing rules to regulate the use of arbitration agreements in consumer financial products or services. The proposal would apply to installment loans, credit cards, checking and deposit accounts, prepaid cards, money transfer services, auto title loans, small dollar or payday loans, and several other types of financial products or services. The proposal would require any arbitration agreement subject to the rule to provide explicitly that the arbitration agreement is inapplicable to cases filed in court on behalf of a class unless and until class certification is denied or the class claims are dismissed. The proposal also would require persons subject to the rulemaking, and who continue to use arbitration agreements, to submit information on initial claim filings and awards to the CFPB. Such claims or awards information could ultimately be published by the CFPB. These proposals may have a direct material impact on our operations by increasing our litigation costs and requiring us to incur expenses related to the modification of our contracts to comply with the rule. In addition, any publication of claims or awards involving us could result in reputational damage.

In addition to the Dodd-Frank Act s grant of regulatory powers to the CFPB, the Dodd-Frank Act gives the CFPB authority to pursue administrative proceedings or litigation for violations of federal consumer financial laws. In these proceedings, the CFPB can obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties ranging from a maximum of $5,000 per day for minor violations of federal consumer financial laws (including the CFPB s own rules) to $25,000 per day for reckless violations and $1 million per day for knowing violations. If we are subject to such administrative proceedings, litigation, orders, or monetary penalties in the future, this could have a material adverse effect on our operations and financial performance. Also, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations under Title X, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the kind of cease and desist orders available to the CFPB (but not for civil penalties). If the CFPB or one or more state officials find that we have violated the foregoing laws, they could exercise their enforcement powers in ways that would have a material adverse effect on us.

In January 2012, the CFPB launched a federal supervision program for nonbanks that offer or provide consumer financial products or services. Under the CFPB s nonbank supervision program, the CFPB conducts individual examinations and requires reports from businesses to determine what businesses require greater focus by the CFPB. The frequency and scope of any such examinations will depend on the CFPB s analysis of risks posed to consumers based on factors such as a particular nonbank s volume of business, types of products or services, and the extent of state oversight. In conducting an investigation, the CFPB may issue a civil investigative demand (a CID) requiring a target company to prepare and submit, among other items, documents, written reports, answers to interrogatories, and deposition testimony. If the CFPB issues a CID to us or otherwise commences an investigation of our company, the required response could result in substantial costs and a diversion of our management s attention and resources. In addition, the market price of our common stock could decline as a result of the initiation of a CFPB investigation of our company or even the perception that such an investigation could occur, even in the absence of any finding by the CFPB that we have violated any state or federal law.

We sell certain of our loans, including, in some instances, charged-off loans and loans where the borrower is in default. This practice could subject us to heightened regulatory scrutiny, which may expose us to legal action, cause us to incur losses, and/or limit or impede our collection activity.

On December 23, 2015, we sold approximately $112 million of our existing charged-off loan portfolio and committed to the sale of the forward flow of accounts charged off between November 2015 and October 2016. As part of our business model, we may purchase and sell other finance receivables in the future, including loans that have been charged-off and loans where the borrower is in default. The CFPB and other regulators recently have significantly increased their scrutiny of debt sales, especially delinquent and charged-off debt. The CFPB has criticized sellers of debt for insufficient documentation to support and verify the validity or amount of the debt. It has also criticized debt collectors for, among other things, collection tactics, attempting to collect debts that are no longer valid, misrepresenting the amount of the debt, and not having sufficient documentation to verify the validity or amount of the debt. Accordingly, our sales of loans could expose us to lawsuits or fines by regulators if we do not have sufficient documentation to support and verify the validity and amount of the loans underlying the transactions, or if we or purchasers of our loans use collection methods that are viewed as unfair, deceptive, or abusive. In addition, our collections could suffer and we may incur additional expenses if we are required to change collection practices or stop collecting on certain debts as a result of a lawsuit or action on the part of regulators.

In addition, our $75.7 million amortizing asset-backed loan resembles a securitization of asset-backed securities transaction. The Dodd-Frank Act may adversely affect the securitization market because it requires, among other things, that a securitizer generally retain not less than 5% of the credit risk for certain types of securitized assets that are transferred, sold, or conveyed through issuance of asset-backed securities. These regulations and others may result in additional costs or limit our ability to securitize loans or engage in similar transactions in the future.

Our use of third-party vendors is subject to increasing regulatory attention.

Recently, the CFPB and other regulators have issued regulatory guidance that has focused on the need for financial institutions to perform increased due diligence and ongoing monitoring of third-party vendor relationships, thus increasing the scope of management involvement and decreasing the benefit that we receive from using third-party vendors. Moreover, if regulators conclude that we have not met the heightened standards for oversight of our third-party vendors, we could be subject to enforcement actions, civil monetary penalties, supervisory orders to cease and desist, or other remedial actions, which could have an adverse effect on our business, financial condition, and operating results

We are subject to government regulations concerning our hourly and our other employees, including minimum wage, overtime, and health care laws.

We are subject to applicable rules and regulations relating to our relationship with our employees, including minimum wage and break requirements, health benefits, unemployment and sales taxes, overtime, and working conditions and immigration status. Legislated increases in the federal minimum wage and increases in additional labor cost components, such as employee benefit costs, workers compensation insurance rates, compliance costs and fines, as well as the cost of litigation in connection with these regulations, would increase our labor costs. Unionizing and collective bargaining efforts have received increased attention nationwide in recent periods. Should our employees become represented by unions, we would be obligated to bargain with those unions with respect to wages, hours, and other terms and conditions of employment, which is likely to increase our labor costs. Moreover, as part of the process of union organizing and collective bargaining, strikes and other work stoppages may occur, which would cause disruption to our business. Similarly, many employers nationally in similar retail environments have been subject to actions brought by governmental agencies and private individuals under wage-hour laws on a variety of claims, such as improper classification of workers as exempt from overtime pay requirements and failure to pay overtime wages properly, with such actions sometimes brought as class actions. These actions can result in material liabilities and expenses. Should we be subject to employment litigation, such as actions involving wage-hour, overtime, break, and working time, it may distract our management from business matters and result in increased labor costs. In addition, we currently sponsor employer-subsidized premiums for major medical programs for eligible personnel who elect health care coverage through our insurance programs. As a result of regulatory changes, we may not be able to continue to offer health care coverage to our employees on affordable terms or at all and subsequently may face increased difficulty in hiring and retaining employees. If we are unable to locate, attract, train, or retain qualified personnel, or if our costs of labor increase significantly, our business, results of operations, and financial condition may be adversely affected.

Rising health care costs and continuing uncertainties concerning the effect of implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 and similar laws may have a material adverse effect on our business and financial performance.

Despite our efforts to control costs while still providing competitive health care benefits to our employees, significant increases in health care costs continue to occur, and we can provide no assurance that our cost containment efforts in this area will be effective. In March 2010, the federal Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Affordability Reconciliation Act of 2010 became law. While we have performed an analysis regarding the anticipated impact of these laws on our cost structure, we may be unable to accurately predict the impact of this federal health care legislation on our health care benefit costs due to continued uncertainty with respect to implementation of such legislation. Significant increases in costs due either to the PPACA or general health care cost increases are likely and could adversely impact our operating results, as there is no assurance that we will be able to absorb, pass through, and/or offset the costs of such legislation.

Our stock price or results of operations could be adversely affected by media and public perception of installment and automobile loans and of legislative and regulatory developments affecting activities within the installment and automobile lending sector.

Consumer advocacy groups and various media sources continue to criticize alternative financial services providers (such as payday and title lenders, check advance companies, and pawnshops). These critics frequently characterize such alternative financial services providers as predatory or abusive toward consumers. If these persons were to criticize the products that we offer, it could result in further regulation of our business and could negatively impact our relationships with existing borrowers and efforts to attract new borrowers. Furthermore, our industry is highly regulated, and announcements regarding new or expected governmental and regulatory action in the alternative financial services sector may adversely impact our stock price and perceptions of our business even if such actions are not targeted at our operations and do not directly impact us.

Legal proceedings to which we are subject or may become subject may have a material adverse impact on our financial position and results of operations.

Like many companies in our industry, we are from time to time involved in various legal proceedings and subject to claims and other actions related to our business activities brought by borrowers and others, including, for example, the securities class action lawsuit described in Item 3, Legal Proceedings of this Annual Report on Form 10-K. All such legal proceedings are inherently unpredictable and, regardless of the merits of the claims, litigation is often expensive, time-consuming, disruptive to our operations and resources, and distracting to management. If resolved against us, such legal proceedings could result in excessive verdicts and judgments, injunctive relief, equitable relief, and other adverse consequences that may affect our financial condition and how we operate our business. Similarly, if we settle such legal proceedings, it may affect our financial condition and how we operate our business. Future court decisions, alternative dispute resolution awards, business expansion, or legislative activity may increase our exposure to litigation and regulatory investigations. In some cases, substantial non-economic remedies or punitive damages may be sought. Although we maintain liability insurance coverage, there can be no assurance that such coverage will cover any particular verdict, judgment, or settlement that may be entered against us, that such coverage will prove to be adequate, or that such coverage will continue to remain available on acceptable terms, if at all. For example, we and our primary insurance carrier may in the future be required to negotiate an allocation between denied and acknowledged claims in the securities class action lawsuit. If in the securities class action lawsuit or any other legal proceeding we incur liability that exceeds our insurance coverage or that is not within the scope of the coverage in legal proceedings brought against us, it could have a material adverse effect on our business, financial condition, and results of operations.

Current and proposed regulation related to consumer privacy, data protection, and information security could increase our costs.

We are subject to a number of federal and state consumer privacy, data protection, and information security laws and regulations. Moreover, various federal and state regulatory agencies require us to notify customers in the event of a security breach. Federal and state legislators and regulators are increasingly pursuing new guidance, laws, and regulations. Compliance with current or future customer privacy, data protection, and information security laws and regulations could result in higher compliance, technology, or other operating costs. Any violations of these laws and regulations may require us to change our business practices or operational structure, and could subject us to legal claims, monetary penalties, sanctions, and the obligation to indemnify and/or notify customers or take other remedial actions.

Risks Related to the Ownership of Our Common Stock

If securities or industry analysts do not publish research or reports about our business, or if they downgrade their recommendations regarding our common stock, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our common stock price may decline. If analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our common stock price or trading volume to decline and our common stock to be less liquid.

The market price of shares of our common stock may continue to be volatile, which could cause the value of your investment to decline.

The market price of our common stock has been highly volatile and could be subject to wide fluctuations. Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market, or political conditions, could reduce the market price of shares of our common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly operating results, additions or departures of key management personnel, failure to meet analysts earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or

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proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or investment community, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures, or capital commitments, adverse publicity about the industries we participate in, or individual scandals, and in response the market price of shares of our common stock could decrease significantly.

In the past several years, stock markets have experienced extreme price and volume fluctuations. In the past, following periods of volatility in the overall market and the market price of a company s securities, Securities and Exchange Commission investigations and securities class action litigation have sometimes been instituted against these companies. We currently are subject to a securities class action lawsuit described in Item 3, Legal Proceedings of this Annual Report on Form 10-K. The securities class action lawsuit and any further legal proceedings of this nature that may be instituted against us could result in substantial costs and a diversion of our management s attention and resources.

We have no current plans to pay cash dividends on our common stock for the foreseeable future.

We do not expect to pay cash dividends for the foreseeable future. Instead, we intend to retain future earnings, if any, for future operation, expansion, for our share repurchase program, and debt repayment. The declaration, amount, and payment of any future cash dividends on shares of common stock will be at the sole discretion of our Board of Directors. Our Board of Directors may take into account general and economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax, and regulatory restrictions and implications on the payment of cash dividends by us to our stockholders or by our subsidiaries to us, and such other factors as our Board of Directors may deem relevant. In addition, our ability to pay cash dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur, including our senior revolving credit facility. As a result, investors may need to rely on sales of their common stock after price appreciation, which may not occur, as the only way to realize future gains on their investment.

Your stock ownership may be diluted by the future issuance of additional common stock in connection with our incentive plans, acquisitions, or otherwise.

We have approximately 987 million shares of common stock authorized but unissued. Our amended and restated certificate of incorporation authorizes us to issue these shares of common stock and options, rights, warrants, and appreciation rights relating to common stock for the consideration and on the terms and conditions established by our Board of Directors in its sole discretion, whether in connection with acquisitions or otherwise. On April 22, 2015, our stockholders approved the Regional Management Corp. 2015 Long-Term Incentive Plan (the 2015 Plan). Subject to adjustments as provided in the 2015 Plan, the maximum aggregate number of shares of our common stock that may be issued under the 2015 Plan may not exceed the sum of (a) 350,000 shares plus (b) any shares (i) remaining available for the grant of awards as of the effective date under the 2007 Management Incentive Plan (the 2007 Plan) or the 2011 Stock Incentive Plan (the 2011 Plan), and/or (ii) subject to an award granted under the 2007 Plan or the 2011 Plan, which award is forfeited, cancelled, terminated, expires or lapses. We have 566,683 shares available for issuance under the 2015 Plan, as of February 18, 2016. In addition, our Board may recommend in the future that our stockholders approve new stock plans. Any common stock that we issue, including under our 2015 Plan or other equity incentive plans that we may adopt in the future, would dilute the percentage ownership held by our stockholders. In addition, the market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to issue equity securities in the future at a time and at a price that we deem appropriate.

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We are an emerging growth company, and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As a result of these exemptions, our stockholders may not have access to certain information that they may deem important.

We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, including if the market value of our common stock held by non-affiliates exceeds $700 million as of any June 30th before that time, in which case we would no longer be an emerging growth company as of the following December 31st. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

The requirements of being a public company may strain our resources and distract our management.

As a public company, we are subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the Exchange Act), and requirements of the Sarbanes-Oxley Act . These requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly, and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, we will need to commit significant resources, hire additional staff, and provide additional management oversight. We will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. In addition, sustaining our growth also will require us to commit additional management, operational, and financial resources to identify new professionals to join our firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management s attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows. We expect to incur significant annual expenses related to these steps and, among other things, additional directors and officers liability insurance, director fees, reporting requirements, transfer agent fees, hiring additional accounting, legal, and administrative personnel, increased auditing and legal fees, and similar expenses.

Anti-takeover provisions in our charter documents and applicable state law might discourage or delay acquisition attempts for us that you might consider favorable.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our Board of Directors. Among other things, these provisions:

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of common stock;

- prohibit stockholder action by written consent, which will require all stockholder actions to be taken at a meeting of our stockholders;

- provide that the Board of Directors is expressly authorized to make, alter, or repeal our bylaws and that our stockholders may only amend our bylaws with the approval of 80% or more of all of the outstanding shares of our capital stock entitled to vote; and

- establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, a Texas regulation requires, under certain circumstances, the approval of the Texas Consumer Credit Commissioner for the acquisition, directly or indirectly, of 10% or more of the voting or common stock of a consumer finance company. The overall effect of this law, and similar laws in other states, is to make it more difficult to acquire a consumer finance company than it might be to acquire control of a nonregulated corporation.

Furthermore, as a Delaware corporation, we are also subject to provisions of Delaware law, which may impair a takeover attempt that our stockholders may find beneficial. These anti-takeover provisions and other provisions under Delaware law could discourage, delay, or prevent a transaction involving a change in control of our company, including actions that our stockholders may deem advantageous, or negatively affect the trading price of our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

Our amended and restated certificate of incorporation contains a provision renouncing our interest and expectancy in certain corporate opportunities identified by our affiliates.

Certain of our stockholders, directors, and their affiliates are in the business of providing buyout capital and growth capital to developing companies and may acquire interests in businesses that directly or indirectly compete with certain portions of our business. Our amended and restated certificate of incorporation provides for the allocation of certain corporate opportunities between us, on the one hand, and certain of our stockholders, on the other hand. As set forth in our amended and restated certificate of incorporation, neither such stockholders, nor any director, officer, stockholder, member, manager, or employee of such stockholders, will have any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. Therefore, a director or officer of our company who also serves as a director, officer, member, manager, or employee of such stockholders may pursue certain acquisition opportunities that may be complementary to our business and, as a result, such acquisition opportunities may not be available to us. These potential conflicts of interest could have a material adverse effect on our business, financial condition, results of operations, or prospects if attractive corporate opportunities are allocated by such stockholders to themselves or their other affiliates instead of to us.

ITEM 1B. *UNRESOLVED STAFF COMMENTS.*

None.

ITEM 2. *PROPERTIES.*

Our home office buildings are located in Greenville, South Carolina. Of the approximately 26,500 total square feet comprising our home office buildings, we own approximately 8,100 square feet and we lease approximately 18,400 square feet. Each of our 338 branches, as of February 1, 2016, is leased under fixed term lease agreements. As of February 1, 2016, our branches are located throughout South Carolina, Texas, North Carolina, Tennessee, Alabama, Oklahoma, New Mexico, Georgia, and Virginia, and the average branch size is approximately 1,500 square feet.

In the opinion of management, our properties have been well-maintained, are in sound operating condition, and contain all equipment and facilities necessary to operate at present levels. We believe all of our facilities are

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suitable and adequate for our present purposes. Our only reportable segment, which is our consumer finance segment, uses the properties described in this Item 2, Properties. In order to accommodate the Company s growth, management is evaluating the relocation of the Company s home office operations to a larger facility in Greenville County, South Carolina in 2016.

ITEM 3. ***LEGAL PROCEEDINGS.***

On May 30, 2014, a securities class action lawsuit was filed in the United States District Court for the Southern District of New York against the Company and certain of its current and former directors, executive officers, and shareholders (collectively, the Defendants). The complaint alleged violations of the Securities Act of 1933 (1933 Act Claims) and sought unspecified compensatory damages and other relief on behalf of a purported class of purchasers of the Company s common stock in the September 2013 and December 2013 secondary public offerings. On August 25, 2014, Waterford Township Police & Fire Retirement System and City of Roseville Employees Retirement System were appointed as lead plaintiffs (collectively, the Plaintiffs). An amended complaint was filed on November 24, 2014. In addition to the 1933 Act Claims, the amended complaint also added claims for violations of the Securities Exchange Act of 1934 (1934 Act Claims) seeking unspecified compensatory damages on behalf of a purported class of purchasers of the Company s common stock between May 2, 2013 and October 30, 2014, inclusive. On January 26, 2015, the Defendants filed motions to dismiss the amended complaint in its entirety. In response, the Plaintiffs sought and were granted leave to file an amended complaint. On February 27, 2015, the Plaintiffs filed a second amended complaint. Like the prior amended complaint, the second amended complaint asserts 1933 Act Claims and 1934 Act Claims and seeks unspecified compensatory damages. The Defendants motions to dismiss the second amended complaint were filed on April 28, 2015, the Plaintiffs opposition was filed on June 12, 2015, and the Defendants reply was filed on July 13, 2015. The motions remain under consideration by the Court. The Company believes that the claims against it are without merit and intends to defend against the litigation vigorously.

The Company s primary insurance carrier during the applicable time period has (i) denied coverage for the 1933 Act Claims and (ii) acknowledged coverage of the Company and other insureds for the 1934 Act Claims under a reservation of rights and subject to the terms and conditions of the applicable insurance policy. The parties plan to negotiate an allocation between denied and acknowledged claims.

We are also involved in various legal proceedings and related actions that have arisen in the ordinary course of our business that have not been fully adjudicated. Our management does not believe that these matters, when ultimately concluded and determined, will have a material adverse effect on our financial condition, liquidity, or results of operations.

ITEM 4. ***MINE SAFETY DISCLOSURES.***

Not applicable.

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PART II

ITEM 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.***

Market Information

Our common stock has been listed on the New York Stock Exchange (the NYSE) under the symbol RM since March 28, 2012. Prior to that time, there was no public market for our common stock. The following table sets forth for the periods indicated the high and low intra-day sale prices of our common stock on the NYSE. The last reported sale price of our common stock on the NYSE on February 18, 2016, was $13.76 per share.

	High	Low
Fiscal Year Ended December 31, 2015		
First Quarter	$ 16.56	$ 13.79
Second Quarter	19.24	13.45
Third Quarter	20.27	14.25
Fourth Quarter	17.62	13.90
Fiscal Year Ended December 31, 2014		
First Quarter	$ 36.23	$ 23.77
Second Quarter	25.07	13.93
Third Quarter	19.60	14.75
Fourth Quarter	18.37	11.16

Holders

As of February 12, 2016, there were 11 registered holders of our common stock. As of February 12, 2016, there were approximately 1,578 beneficial holders of our common stock.

Non-Affiliate Ownership

For purposes of calculating the aggregate market value of shares of our common stock held by non-affiliates as set forth on the cover page of this Annual Report on Form 10-K, we have assumed that all outstanding shares are held by non-affiliates, except for shares held by each of our executive officers, directors, and 5% or greater stockholders as of June 30, 2015. In the case of 5% or greater stockholders, we have not deemed such stockholders to be affiliates unless there are facts and circumstances which would indicate that such stockholders exercise any control over our company or unless they hold 10% or more of our outstanding common stock. These assumptions should not be deemed to constitute an admission that all executive officers, directors, and 5% or greater stockholders are, in fact, affiliates of our company, or that there are no other persons who may be deemed to be affiliates of our company. Further information concerning shareholdings of our officers, directors, and principal stockholders is included or incorporated by reference in Part III, Item 12 of this Annual Report on Form 10-K.

Dividend Policy

We did not pay any cash dividends in fiscal 2015 or fiscal 2014. We have no current plans to pay any cash dividends on our common stock for the foreseeable future and instead currently intend to retain earnings, if any, for future operations, expansion, our share repurchase program, and debt repayment.

The declaration, amount, and payment of any future cash dividends on shares of common stock will be at the sole discretion of our Board of Directors. Our Board of Directors may take into account general and economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax, and regulatory restrictions and implications on the payment of cash dividends by us to our stockholders or by our subsidiaries to us, and such other factors as

our Board of Directors may deem relevant. In addition, our amended and restated senior revolving credit facility includes a provision restricting our ability to pay dividends on our common stock based upon, among other things, our net income and hypothetical availability under the credit facility. Likewise, our $75.7 million amortizing asset-backed loan restricts our wholly-owned subsidiary, Regional Management Receivables, LLC, from paying dividends to us, subject to certain exceptions.

Equity Compensation Plan Information

The following table gives information about the common stock that may be issued upon the exercise of options, warrants, and rights under all of our existing equity compensation plans as of December 31, 2015.

Plan Category	(a) Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights ($)	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Security Holders			
2007 Management Incentive Plan(1)	287,527	5.46	
2011 Stock Incentive Plan(2)	590,416(4)	16.75(5)	
2015 Long-Term Incentive Plan(3)	351,338(6)	15.33(5)	560,860
Equity Compensation Plans Not Approved by Security Holders			
Total:	1,229,281	13.36	560,860

(1) Regional Management Corp. 2007 Management Incentive Plan, as amended (the 2007 Plan). On April 22, 2015, the Company s stockholders approved the Regional Management Corp. 2015 Long-Term Incentive Plan (the 2015 Plan), at which time all shares then available for issuance under the 2007 Plan rolled over to the 2015 Plan. Awards may no longer be granted under the 2007 Plan. However, awards that are outstanding under the 2007 Plan will continue in accordance with their respective terms.

(2) Regional Management Corp. 2011 Stock Incentive Plan, as amended (the 2011 Plan). On April 22, 2015, the Company s stockholders approved the 2015 Plan, at which time all shares then available for issuance under the 2011 Plan rolled over to the 2015 Plan. Awards may no longer be granted under the 2011 Plan. However, awards that are outstanding under the 2011 Plan will continue in accordance with their respective terms.

(3) Regional Management Corp. 2015 Long-Term Incentive Plan. As of February 18, 2016, 566,683 shares remain available for issuance under the 2015 Plan, which allows for grants of incentive stock options, non-qualified stock options, stock appreciation rights, unrestricted shares, restricted shares, restricted stock units, phantom stock awards, and awards that are valued in whole or in part by reference to, or otherwise based on the fair market value of shares, including performance-based awards.

(4) Includes 42,547 restricted stock units outstanding under the 2011 Plan. There is no exercise price associated with these restricted stock units.

(5) Calculation excludes shares subject to restricted stock unit awards.

(6) Includes 142,997 restricted stock units outstanding under the 2015 Plan. There is no exercise price associated with these restricted stock units.

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Stock Performance Graph

This performance graph shall not be deemed soliciting material or to be filed with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended (the Securities Act).

The following graph shows a comparison from March 28, 2012 (the date our common stock commenced trading on the NYSE) through December 31, 2015, of the cumulative total return for our common stock, the NYSE Composite Index, and the NYSE Financial Sector Index. The graph assumes that $100 was invested at the market close on March 28, 2012, in the common stock of the Company, the NYSE Composite Index, and the NYSE Financial Sector Index, and data for the NYSE Composite Index and the NYSE Financial Sector Index assumes reinvestments of dividends. The stock price performance of the following graph is not necessarily indicative of future stock price performance.

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ITEM 6. ***SELECTED FINANCIAL DATA.***

The selected consolidated historical financial data set forth below for the years ended December 31, 2011, 2012, 2013, 2014, and 2015 are derived from audited consolidated financial statements. We derived the selected historical consolidated statement of income data for each of the years ended December 31, 2013, 2014, and 2015 and the selected historical consolidated balance sheet data as of December 31, 2014 and 2015 from our audited consolidated financial statements, which appear in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K. We have derived the selected historical consolidated statement of income data for the years ended December 31, 2011 and 2012 and the selected historical consolidated balance sheet data as of December 31, 2011, 2012, and 2013 from our audited financial statements, which do not appear elsewhere in this Annual Report on Form 10-K.

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements, the related notes, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected for any future period.

	Year Ended December 31,				
In thousands, except per share data	**2015**	**2014**	**2013**	**2012**	**2011**
Consolidated Statements of Income Data:					
Revenue					
Interest and fee income	$ 195,794	$ 184,797	$ 152,343	$ 119,035	$ 91,513
Insurance income, net, and other income	21,512	19,922	18,286	16,662	13,824
Total revenue	217,306	204,719	170,629	135,697	105,337
Expenses					
Provision for credit losses	47,348	69,057	39,192	27,765	17,854
General and administrative expenses	115,598	96,776	71,039	55,558	40,835
Consulting and advisory fees(1)				1,451	975
Interest expense					
Senior and other debt	16,221	14,947	14,144	10,580	8,306
Mezzanine debt(1)				1,030	4,037
Total interest expense	16,221	14,947	14,144	11,610	12,343
Total expenses	179,167	180,780	124,375	96,384	72,007
Income before income taxes	38,139	23,939	46,254	39,313	33,330
Income taxes	14,774	9,137	17,460	14,561	12,290
Net income	$ 23,365	$ 14,802	$ 28,794	$ 24,752	$ 21,040
Earnings per Share Data:					
Basic earnings per share	$ 1.82	$ 1.17	$ 2.29	$ 2.12	$ 2.25
Diluted earnings per share	$ 1.79	$ 1.14	$ 2.23	$ 2.07	$ 2.19
Weighted-average shares used in computing basic earnings per share	12,849	12,701	12,572	11,695	9,337
Weighted-average shares used in computing diluted earnings per share	13,074	12,951	12,894	11,981	9,621
Consolidated Balance Sheet Data (at period end):					
Finance receivables(2)	$ 628,444	$ 546,192	$ 544,684	$ 439,474	$ 307,373
Allowance for credit losses	(37,452)	(40,511)	(30,089)	(23,616)	(19,300)
Net finance receivables(3)	$ 590,992	$ 505,681	$ 514,595	$ 415,858	$ 288,073
Total assets	629,065	530,270	533,888	434,517	303,988
Long-term debt	411,177	341,419	362,750	292,380	231,823
Total liabilities	423,838	351,947	372,715	305,313	239,859
Temporary equity(4)					12,000
Total stockholders equity	$ 205,227	178,323	161,173	129,204	52,129

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(1) On March 21, 2007, Palladium Equity Partners III, L.P. and Parallel 2005 Equity Fund, LP (which we sometimes refer to herein as our sponsors) acquired the majority of our outstanding common stock. In connection with the acquisition transaction, we issued $25.0 million of mezzanine debt at an interest rate of 18.375%, plus related fees, which we refinanced in 2007 and again in 2010 with Palladium Equity Partners III, L.P. and certain of our individual owners. Additionally, we paid the sponsors annual advisory fees of $675,000 in the aggregate and paid certain individual owners annual consulting fees of $450,000 in the aggregate, in each case, plus certain expenses. Following the closing of our initial public offering on April 2, 2012, we repaid the mezzanine debt in full with proceeds from the initial public offering and we terminated the consulting and advisory agreements following the payment of certain termination fees.

(2) Finance receivables equal the total amount due from the customer, net of unearned finance charges and insurance commissions.

(3) Net finance receivables equal the total amount due from the customer, net of unearned finance charges, insurance commissions, and allowance for credit losses.

(4) That certain Shareholders Agreement, among us and certain of our stockholders, dated March 21, 2007, as amended and restated on March 12, 2012, provided that the individual owners had the right to put their stock back to us if an initial public offering did not occur by May 21, 2012. We valued the put option at the original purchase price of $12.0 million. The put option terminated upon the consummation of our initial public offering.

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

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by reference to our audited consolidated financial statements and the related notes that appear elsewhere in this Annual Report on Form 10-K. These discussions contain forward-looking statements reflecting our current expectations that involve risks and uncertainties. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, expectations regarding demand and acceptance for our financial products, growth opportunities and trends in the market in which we operate, prospects, and plans and objectives of management. The words anticipates, believes, estimates, expects, intends, may, plans, projects, will, would, and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions, and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including without limitation, the risks set forth elsewhere in this Annual Report on Form 10-K. The forward-looking information we have provided in this Annual Report on Form 10-K pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update or revise such statements, except as required by the federal securities laws.

Overview

We are a diversified specialty consumer finance company providing a broad array of loan products primarily to customers with limited access to consumer credit from banks, thrifts, credit card companies, and other traditional lenders. We began operations in 1987 with four branches in South Carolina and have expanded our branch network to 331 locations in the states of Alabama, Georgia, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia as of December 31, 2015. Most of our loan products are secured, and each is structured on a fixed rate, fixed term basis with fully amortizing equal monthly installment payments, repayable at any time without penalty. Our loans are sourced through our multiple channel platform that includes our branches, direct mail campaigns, automobile dealerships, retailers, and our consumer website. We operate an integrated branch model in which nearly all loans, regardless of origination channel, are serviced through our branch network, providing us with frequent in-person contact with our customers, which we believe improves our credit performance and customer loyalty. Our goal is to consistently and soundly grow our finance receivables and manage our portfolio risk while providing our customers with attractive and easy-to-understand loan products that serve their varied financial needs.

Our diversified product offerings include:

Small Loans Our small loan portfolio is comprised of branch small loan and convenience check receivables. As of December 31, 2015, we had approximately 274.7 thousand small loans outstanding, representing $338.2 million in finance receivables. This includes 117.0 thousand branch small installment loans and 157.7 thousand convenience check loans, representing $157.8 million and $180.4 million in finance receivables, respectively.

Large Loans As of December 31, 2015, we had approximately 37.7 thousand large installment loans outstanding, representing $146.6 million in finance receivables.

Automobile Loans As of December 31, 2015, we had approximately 13.7 thousand automobile purchase loans outstanding, representing $116.1 million in finance receivables. This includes 7.0 thousand indirect automobile loans and 6.7 thousand direct automobile loans, representing $63.4 million and $52.8 million in finance receivables, respectively.

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Retail Loans As of December 31, 2015, we had approximately 23.2 thousand retail purchase loans outstanding, representing $27.6 million in finance receivables.

Insurance Products We offer optional payment protection insurance to our direct loan customers.

Branch small loans, convenience checks, and large loans are our core products and will be the drivers of our future growth. Our primary sources of revenue are interest and fee income from our loan products, of which interest and fees relating to branch small loans, convenience checks, and automobile loans have historically been the largest component. In addition to interest and fee income from loans, we derive revenue from optional insurance products purchased by customers of our direct loan products.

Factors Affecting Our Results of Operations

Our business is driven by several factors affecting our revenues, costs, and results of operations, including the following:

Quarterly Information and Seasonality. Our loan volume and the contractual delinquency of our finance receivable portfolio follow seasonal trends. Demand for our loans is typically highest during the third and fourth quarters, which we believe is largely due to customers borrowing money for back-to-school and holiday spending. With the exception of automobile loans, loan demand has generally been the lowest during the first quarter, which we believe is largely due to the timing of income tax refunds. During the remainder of the year, we typically experience loan growth from general operations. In addition, we typically generate higher loan volumes in the second half of the year from direct mail campaigns, which are timed to coincide with seasonal consumer demand. Also, delinquencies have generally been lower in the first half of the year than during the second half of the year. Consequently, we experience significant seasonal fluctuations in our operating results and cash needs.

Growth in Loan Portfolio. The revenue that we derive from interest and fees is largely driven by the balance of loans that we originate and purchase. We originated or purchased approximately 127.9 thousand, 143.5 thousand, and 172.9 thousand new borrower loan accounts during 2015, 2014, and 2013, respectively. Average finance receivables grew 32.2% from $361.1 million in 2012 to $477.4 million in 2013, grew 10.9% to $529.5 million in 2014, and grew 8.2% to $572.8 million in 2015. We source our loans through our branches and our direct mail program, as well as through automobile dealerships, retail partners, and our website. Our loans are made almost exclusively in geographic markets served by our network of branches. Increasing the number of loans per branch, the average size of each loan, and the number of branches we operate allows us to increase the number of loans that we are able to service. We opened or acquired 31, 36, and 43 new branches in 2015, 2014, and 2013, respectively. We believe we have the opportunity to add as many as 700 additional branches in states where it is currently favorable for us to conduct business, and we have plans to continue to grow our branch network.

Product Mix. We charge different interest rates and fees and are exposed to different credit risks with respect to the various types of loans we offer. Our product mix also varies to some extent by state, and we may further diversify our product mix in the future.

Asset Quality and Allowance for Credit Losses. Our results of operations are highly dependent upon the quality of our loan portfolio. We recorded a $47.3 million provision for credit losses during 2015 (or 8.3% of average finance receivables), a $69.1 million provision for credit losses during 2014 (or 13.0% as a percentage of average finance receivables), and a $39.2 million provision for credit losses during 2013 (or 8.2% of average finance receivables). The quality of our loan portfolio is the result of our ability to enforce sound underwriting standards, maintain diligent servicing of the portfolio, and respond to changing economic conditions as we grow our loan portfolio. In 2014, due to branch staffing issues and convenience check credit quality deterioration in our mail campaigns, we experienced an unusually high net charge-off rate. In late 2014 and 2015, we created a new credit risk function and have been making changes to improve our credit underwriting guidelines. We believe that these changes have impacted, and will continue to impact, our business and results of operations, including through lower refinancing volumes, lower delinquency levels, and improved credit quality in our portfolio. We will continue to monitor how these changes impact our business and results of operations, and will make further revisions to our credit underwriting guidelines when appropriate.

We evaluate losses in each of our loan categories in establishing the allowance for credit losses. The following table sets forth our allowance for credit losses compared to the related finance receivables:

	As of December 31, 2015			As of December 31, 2014		
In thousands	**Finance Receivables**	**Allowance for Credit Losses**	**Allowance as Percentage of Related Finance Receivables**	**Finance Receivables**	**Allowance for Credit Losses**	**Allowance as Percentage of Related Finance Receivables**
Branch small loans	$ 157,755	$ 9,456	6.0%	$ 128,217	$ 6,960	5.4%
Convenience checks	180,402	12,079	6.7%	191,316	18,320	9.6%
Large loans	146,553	5,593	3.8%	46,147	1,980	4.3%
Automobile loans	116,109	8,828	7.6%	154,382	11,776	7.6%
Retail loans	27,625	1,496	5.4%	26,130	1,475	5.6%
Total	$ 628,444	$ 37,452	6.0%	$ 546,192	$ 40,511	7.4%

The allowance for credit losses calculation uses the net charge-off rate for the most recent six months (branch small loans and convenience checks), ten months (retail loans), and twelve months (large loans and automobile loans) as a percentage of the most recent month-end balance of loans as a key data point in estimating the allowance. In 2015, large loans were updated to use a twelve month effective life rather than ten. As we continue to grow our large loan portfolio, we are originating longer term loans, thus increasing the effective life of large loans. We believe that the primary underlying factors driving the provision for credit losses for each of these loan types are our underwriting standards, the general economic conditions in the areas in which we conduct business, portfolio growth, and the effectiveness of our collection efforts. In addition, the market for repossessed automobiles at auction is another underlying factor that we believe influences the provision for credit losses for automobile purchase loans and, to a lesser extent, large loans. We monitor these factors, the amount and past due status of delinquencies, and the slow file (which consists of all loans one or more days past due) to identify trends that might require us to modify the allowance for credit losses. Our provision was impacted in 2014 by a charge to augment our allowance for credit losses, necessitated by a higher-than-normal proportion of lower credit quality convenience check loans originated in our summer convenience check campaigns.

Interest Rates. Our costs of funds are affected by changes in interest rates, and the interest rate that we pay on our senior revolving credit facility is a variable rate. A previous interest rate cap matured unused in March 2014. In April 2015, we entered into new interest rate cap contracts to replace the matured interest rate cap. The interest rate cap contracts have an aggregate notional principal amount of $150.0 million with a 2.5% strike rate against one-month LIBOR and mature in April 2018.

Operating Costs. Our financial results are impacted by the costs of operating our branch offices and corporate functions. Those costs are included in general and administrative expenses on our consolidated statements of income. Two of our operating metrics are our efficiency ratios, which are calculated by dividing the sum of general and administrative expenses by total revenue (our revenue efficiency ratio) or average finance receivables (our receivable efficiency ratio). Our revenue efficiency ratio was 53.2% in 2015 compared to 47.3% in 2014, and our receivable efficiency ratio was 20.2% in 2015, compared to 18.3% in 2014. While these ratios are relatively in line with industry standards, we have a number of initiatives underway that we believe will improve our operating leverage over the next couple of years, including acceptance of electronic payments, reducing the amount of time it takes to originate a loan, and increasing our average loans outstanding per branch.

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Components of Results of Operations

Interest and Fee Income. Our interest and fee income consists primarily of interest earned on outstanding loans. We cease accruing interest on a loan when the customer is contractually past due 90 days. Interest accrual resumes when the customer makes at least one full payment and the account is less than 90 days contractually past due. If the account is charged off, the interest accrual is reversed as a reduction of interest and fee income during the period the charge-off occurs.

Most states allow certain fees in connection with lending activities, such as loan origination fees, acquisition fees, and maintenance fees. Some states allow for higher fees while keeping interest rates lower. Loan fees are additional charges to the customer and are included in the Truth in Lending disclosure we make to our customers. The fees may or may not be refundable to the customer in the event of an early payoff, depending on state law. Fees are accrued to income over the life of the loan on the constant yield method.

Insurance Income. Our insurance income consists of revenue from the sale of various optional credit insurance products and other payment protection products offered to customers who obtain loans directly from us. We do not sell insurance to non-borrowers. We offer optional credit life insurance, credit accident and health insurance, and involuntary unemployment insurance. The type and terms of our optional credit insurance products vary from state to state based on applicable laws and regulations. In addition, we require property insurance on any personal property securing loans and offer customers the option of providing proof of such insurance purchased from a third party in lieu of purchasing property insurance from us. We also collect a fee for collateral protection and purchase non-recording insurance in lieu of recording and perfecting our security interest in the assets pledged on certain loans. We also require proof of insurance for any vehicles securing loans, and we have the option to obtain automobile collision insurance on behalf of customers who permit their insurance coverage to lapse. We also offer, in select markets, vehicle single interest insurance, which provides coverage on automobiles used as collateral on small and large loans. This affords the borrower flexibility with regards to the requirement of maintaining full coverage on the vehicle while also protecting the collateral used to secure the loan.

We issue insurance certificates as agents on behalf of an unaffiliated insurance company and then remit to the unaffiliated insurance company the premiums we collect (net of refunds on prepaid loans and net of commission on new business). The unaffiliated insurance company cedes life insurance premiums to our wholly-owned insurance subsidiary, RMC Reinsurance, Ltd. (RMC Reinsurance), as written and non-life premiums as earned. We maintain a cash reserve for life insurance claims in an amount determined by the unaffiliated insurance company. As of December 31, 2015, we had pledged a $2.9 million letter of credit to the unaffiliated insurance company to secure payment of life insurance claims and unearned premium refunds. The unaffiliated insurance company maintains the reserves for non-life claims. Insurance income includes all of the above-described insurance premiums, claims, and expenses.

Other Income. Our other income consists primarily of late charges assessed on customers who fail to make a payment within a specified number of days following the due date of the payment. In addition, fees for extending the due date of a loan and returned check charges are also included in other income.

Provision for Credit Losses. Provisions for credit losses are charged to income in amounts that we judge as sufficient to maintain an allowance for credit losses at an adequate level to provide for estimated losses on the related finance receivable portfolio. Credit loss experience, delinquency of finance receivables, portfolio growth, the value of underlying collateral, and management s judgment are factors used in assessing the overall adequacy of the allowance and the resulting provision for credit losses. Our provision for credit losses fluctuates so that we maintain an adequate credit loss allowance that reflects our estimate of losses over the effective life of our loan portfolios. Therefore, changes in our charge-off rates may result in changes to our provision for credit losses. Future adjustments to the allowance may be necessary if there are significant changes in economic conditions or portfolio performance.

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General and Administrative Expenses. Our general and administrative expenses are comprised of four categories: personnel, occupancy, marketing, and other. We measure our general and administrative expenses as a percentage of total revenue, which we refer to as our revenue efficiency ratio, and as a percentage of average finance receivables, which we refer to as our receivable efficiency ratio.

Our personnel expenses are the largest component of our general and administrative expenses and consist primarily of the salaries, bonuses, benefits, and related payroll taxes associated with all of our branch, field, and home office employees.

Our occupancy expenses consist primarily of the cost of renting our branches, all of which are leased, as well as the utility, telecommunication, software, data processing, and other non-personnel costs associated with operating our branches.

Our marketing expenses consist primarily of costs associated with our direct mail campaigns (including postage and costs associated with selecting recipients) and maintaining our website, as well as telephone directory advertisements and some local marketing by branches. These costs are expensed as incurred.

Other expenses consist primarily of legal, audit, consulting, director compensation, bank service charges, office supplies, and credit bureau charges.

Our general and administrative expenses have increased as a result of the additional legal, accounting, insurance, occupancy, and other expenses associated with being a growing public company. Due to the increase in home office employees, we have been increasing and expect to continue to increase the amount of home office space that we lease, which will increase occupancy expense. Additionally, in connection with our efforts to expand and enhance internet lending and improve our loan management system, we expect technology costs to increase in 2016. We also expect compliance costs to continue to increase due to the regulatory environment in the consumer finance industry, and we expect legal costs to continue to remain elevated as a result of the securities class action lawsuit discussed in Part I, Item 3. Legal Proceedings. For a discussion regarding how risks and uncertainties associated with legal proceedings and the current regulatory environment may impact our future expenses, net income, and overall financial condition, see Part I, Item 1A. Risk Factors.

Interest Expense. Our interest expense consists primarily of interest payable, unused line fees, and amortization of debt issuance costs in respect of long-term debt. Interest expense also includes costs attributable to the interest rate caps that we use to manage our interest rate risk. Changes in the fair value of the interest rate caps are reflected in interest expense.

Income Taxes. Income taxes consist primarily of state and federal income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of future tax rate changes are recognized in the period when the enactment of new rates occurs.

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Results of Operations

The following table summarizes our results of operations, both in dollars and as a percentage of total revenue:

	Year Ended December 31,					
	2015		2014		2013	
In thousands	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenue						
Interest and fee income	$ 195,794	90.1%	$ 184,797	90.3%	$ 152,343	89.3%
Insurance income, net	11,654	5.4%	10,673	5.2%	11,470	6.7%
Other income	9,858	4.5%	9,249	4.5%	6,816	4.0%
Total revenue	217,306	100.0%	204,719	100.0%	170,629	100.0%
Expenses						
Provision for credit losses	47,348	21.8%	69,057	33.7%	39,192	23.0%
Personnel	69,247	31.9%	55,383	27.1%	39,868	23.4%
Occupancy	17,775	8.2%	15,575	7.6%	11,748	6.9%
Marketing	7,017	3.2%	6,330	3.1%	3,980	2.3%
Other	21,559	9.9%	19,488	9.5%	15,443	9.0%
Total general and administrative	115,598	53.2%	96,776	47.3%	71,039	41.6%
Interest expense	16,221	7.4%	14,947	7.3%	14,144	8.3%
Income before income taxes	38,139	17.6%	23,939	11.7%	46,254	27.1%
Income taxes	14,774	6.8%	9,137	4.5%	17,460	10.2%
Net income	$ 23,365	10.8%	$ 14,802	7.2%	$ 28,794	16.9%

The following table summarizes our results of operations, both in dollars and as a percentage of average receivables:

	Year Ended December 31,					
	2015		2014		2013	
In thousands	Amount	% of Average Receivables	Amount	% of Average Receivables	Amount	% of Average Receivables
Revenue						
Interest and fee income	$ 195,794	34.2%	$ 184,797	34.9%	$ 152,343	31.9%
Insurance income, net	11,654	2.0%	10,673	2.0%	11,470	2.4%
Other income	9,858	1.7%	9,249	1.8%	6,816	1.4%
Total revenue	217,306	37.9%	204,719	38.7%	170,629	35.7%
Expenses						
Provision for credit losses	47,348	8.3%	69,057	13.0%	39,192	8.2%
Personnel	69,247	12.1%	55,383	10.5%	39,868	8.4%
Occupancy	17,775	3.1%	15,575	2.9%	11,748	2.5%
Marketing	7,017	1.2%	6,330	1.2%	3,980	0.8%

Other	21,559	3.8%	19,488	3.7%	15,443	3.2%
Total general and administrative	115,598	20.2%	96,776	18.3%	71,039	14.9%
Interest expense	16,221	2.7%	14,947	2.9%	14,144	2.9%
Income before income taxes	38,139	6.7%	23,939	4.5%	46,254	9.7%
Income taxes	14,774	2.6%	9,137	1.7%	17,460	3.7%
Net income	$ 23,365	4.1%	$ 14,802	2.8%	$ 28,794	6.0%

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Comparison of December 31, 2015, Versus December 31, 2014

The following discussion and table describe the changes in finance receivables by product type:

Branch Small Loans Branch small loans outstanding increased by $29.5 million, or 23.0%, to $157.8 million at December 31, 2015, from $128.2 million at December 31, 2014. The growth in receivables in branches opened in 2014 and 2015 contributed to the growth in overall branch small loans outstanding.

Convenience Checks Convenience checks outstanding decreased by $10.9 million, or 5.7%, to $180.4 million at December 31, 2015, from $191.3 million at December 31, 2014, primarily due to the higher-than-normal proportion of lower credit quality loans originated during the 2014 summer direct mail campaigns and the conversion of convenience check loans to large loans.

Large Loans Large loans outstanding increased by $100.4 million, or 217.6%, to $146.6 million at December 31, 2015, from $46.1 million at December 31, 2014. The increase was primarily due to the addition of expertise in this product type, increased marketing, and the conversion of many convenience check loans to large loans.

Automobile Loans Automobile loans outstanding decreased by $38.3 million, or 24.8%, to $116.1 million at December 31, 2015, from $154.4 million at December 31, 2014. This decrease was due to our strategic decision to constrain capital in the highly competitive automobile category. In August 2014, our AutoCredit Source branches were re-branded as Regional Finance branches, and we began to offer all loan products in these branches with less focus on indirect automobile loans. We anticipate that the automobile loan portfolio will remain relatively flat in the short-term as we refine our business practices in this product category.

Retail Loans Retail loans outstanding increased $1.5 million, or 5.7%, to $27.6 million at December 31, 2015, from $26.1 million at December 31, 2014. The increase in retail loans outstanding resulted from the additional relationships we established with new retailers, as well as an expansion of volume through our existing relationships.

Finance Receivables by Product

In thousands	**2015**	**2014**	**YoY $ Inc (Dec)**	**YoY % Inc (Dec)**				
Branch small loans	$ 157,755	$ 128,217	$ 29,538	23.0%				
Convenience checks	180,402	191,316	(10,914)	(5.7)%				
Large loans	146,553	46,147	100,406	217.6%				
Total core loans	484,710	365,680	119,030	32.6%				
Automobile loans	116,109	154,382	(38,273)	(24.8)%				
Retail loans	27,625	26,130	1,495	5.7%				
Total finance receivables	$ 628,444	$ 546,192	$ 82,252	15.1%				
Number of branches at period end	331	300	31	10.3%				
Average finance receivables per branch	$ 1,899	$						
Municipal securities (3)	3,366	5.08%	10,950	4.97%	8,041	5.16%	21,965	5.89%
Total securities	$ 202,570	2.27%	$ 450,430	2.82%	$ 316,696	4.41%	$ 221,740	4.38%

N/M Not meaningful.

(1) Based on amortized cost.

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

(3) Yields on municipal securities are reflected on a tax-equivalent basis, assuming a federal income tax rate of 35%. The maturity date of bonds is based on contractual maturity, unless the bond, based on current market prices, is deemed to have a high probability that the call will be exercised, in which case the call date is used as the maturity date.

(4) Yields on corporate debt and equity securities are reflected on a tax-equivalent basis, assuming a federal income tax rate of 35%. Maturity dates are based on contractual maturity or repricing characteristics.

LOAN PORTFOLIO AND CREDIT QUALITY

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

Portfolio Composition

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 86.6% of total loans outstanding at December 31, 2013. The corporate loan component consists of commercial and industrial, agricultural, and commercial real estate lending categories. Consistent with our emphasis on relationship banking, the majority of our loans are made to our core, multi-relationship customers. The customers usually maintain deposit relationships and utilize our other banking services, such as cash management or wealth management services.

To maximize loan income within an acceptable level of risk, we have certain lending policies and procedures that management reviews on a regular basis. In addition, management is provided with frequent reports related to loan production, loan quality, credit concentrations, loan delinquencies, and non-performing and performing potential problem loans to mitigate and monitor potential and current risks in the portfolio. We do not offer any sub-prime products, and we have policies to limit our exposure to any single borrower.

Commercial, Industrial, and Agricultural Loans

Our commercial and industrial loans are a diverse group of loans to middle market businesses generally located in the Chicago metropolitan area with purposes that range from supporting seasonal working capital needs to term financing of equipment. The underwriting for these loans is based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may incorporate a personal guarantee.

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Agricultural loans are generally provided to meet seasonal production, equipment, and farm real estate borrowing needs of individual and corporate crop and livestock producers. As part of the underwriting process, the Company examines projected cash flows, financial statement stability, and the value of the underlying collateral. Seasonal crop production loans are repaid by the liquidation of the financed crop that is typically covered by crop insurance. Equipment and real estate term loans are repaid by the farming operation.

Commercial Real Estate Loans

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. The repayment of commercial real estate loans depends on the successful operation of the property securing the loan or the business conducted on the property securing the loan. This category of loans may be more adversely affected by conditions in the real estate market. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography, and risk rating criteria. The mix of properties securing the loans in our commercial real estate portfolio are balanced between owner-occupied and investor categories and are diverse in terms of type and geographic location within the Company's markets.

Construction loans are generally based on estimates of costs and value associated with the completed projects and are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analyses of absorption and lease rates, and financial analyses of the developers and property owners. Sources of repayment may be permanent loans from long-term lenders, sales of developed property, or an interim loan commitment until permanent financing is obtained. Generally, construction loans have a higher risk profile than other real estate loans since repayment is impacted by real estate values, interest rate changes, governmental regulation of real property, demand and supply of alternative real estate, the availability of long-term financing, and changes in general economic conditions.

Consumer Loans

Consumer loans are centrally underwritten using a credit scoring model developed by the Fair Isaac Corporation ("FICO"). It uses a risk-based system to determine the probability that a borrower may default on financial obligations to the lender. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. The home equity category consists mainly of revolving lines of credit secured by junior liens on owner-occupied real estate. Loan-to-value ratios on home equity loans and 1-4 family mortgages are based on the current appraised value of the collateral.

Table 10
Loan Portfolio
(Dollar amounts in thousands)

	As of December 31,									
	2013	% of Total	2012	% of Total	2011	% of Total	2010	% of Total	2009	% of Total
Commercial and industrial	$ 1,830,638	32.8	$ 1,631,474	31.5	$ 1,458,446	28.7	$ 1,465,903	28.7	$ 1,438,063	27.6
Agricultural	321,702	5.8	268,618	5.2	243,776	4.8	227,756	4.5	209,945	4.0
Commercial real estate:										
Office	459,202	8.2	474,717	9.1	444,368	8.7	396,836	7.8	394,228	7.6
Retail	392,576	7.0	368,796	7.1	334,034	6.6	328,751	6.4	331,803	6.4
Industrial	501,907	9.0	489,678	9.4	520,680	10.2	478,026	9.4	486,934	9.3
Multi-family	332,873	6.0	285,481	5.5	288,336	5.7	349,862	6.9	333,961	6.4
Construction	186,197	3.3	186,416	3.6	250,745	4.9	339,162	6.6	545,437	10.5
Other commercial real estate	807,071	14.5	773,121	14.9	888,146	17.4	856,357	16.8	798,983	15.4
Total commercial real estate	2,679,826	48.0	2,578,209	49.6	2,726,309	53.5	2,748,994	53.9	2,891,346	55.6
Total corporate loans	4,832,166	86.6	4,478,301	86.3	4,428,531	87.0	4,442,653	87.1	4,539,354	87.2
Home equity	427,020	7.7	390,033	7.5	416,194	8.2	445,243	8.7	470,523	9.1
1-4 family mortgages	275,992	4.9	282,948	5.5	201,099	4.0	160,890	3.2	139,983	2.7
Installment	44,827	0.8	38,394	0.7	42,289	0.8	51,774	1.0	53,386	1.0
Total consumer loans	747,839	13.4	711,375	13.7	659,582	13.0	657,907	12.9	663,892	12.8
Total loans, excluding covered loans	5,580,005	100.0	5,189,676	100.0	5,088,113	100.0	5,100,560	100.0	5,203,246	100.0
Covered loans	134,355		197,894		260,502		371,729		146,319	
Total loans	$ 5,714,360		$ 5,387,570		$ 5,348,615		$ 5,472,289		$ 5,349,565	

2013 Compared to 2012

Total loans, excluding covered loans, of $5.6 billion as of December 31, 2013 reflected growth of $390.3 million, or 7.5%, from December 31, 2012. The loan portfolio benefited from well-balanced corporate loan growth reflecting credits of varying size and diverse geographic locations within our markets and includes an increase of 12.2% in commercial and industrial loans, 19.8% in agricultural loans, 16.6% in multi-family loans, and 6.4% in retail loans. The 13.3% increase in commercial and industrial and agricultural loan categories reflects the impact of greater resource investments and expansion into specialized lending areas, such as agri-business and asset-based lending.

Consumer loans represented 13.4% of loans, excluding covered loans. In response to market conditions, we purchased $51.9 million of high-quality, shorter duration home equity loans and sold $147.4 million of 1-4 family mortgage loans during 2013.

Covered loans decreased $63.5 million, or 32.1%, from December 31, 2012, reflecting the expected decline in this portfolio.

2012 Compared to 2011

Total loans of $5.4 billion as of December 31, 2012 grew $39.0 million from December 31, 2011. Excluding covered loans, net charge-offs, loans disposed through bulk loan sales, and loans acquired in an FDIC-assisted transaction, our loan portfolio increased by approximately 6.5% from December 31, 2011. The increase in commercial and industrial loans was driven by the targeted redistribution of the loan portfolio from commercial real estate into this category, significant investments in high level sales staff, and refocusing current staff away from remediation activities. Strong origination efforts primarily contributed to growth in 1-4 family mortgages, in addition to loans acquired in an FDIC-assisted transaction. A decrease in the construction portfolio was driven by efforts to reduce lending exposure to this category.

The decrease in covered loans of $62.6 million, or 24.0%, from December 31, 2011 reflects the continued decline in this portfolio.

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Comparisons of Prior Years (2011, 2010, and 2009)

Total loans of $5.3 billion as of December 31, 2011 declined $123.7 million, or 2.3%, from $5.5 billion as of December 31, 2010. The continued decline in covered loan balances accounted for the majority of this reduction. Total loans, excluding covered loans, as of December 31, 2011 were stable compared to December 31, 2010. The office, retail, industrial, and other commercial real estate portfolios exhibited 6.2% growth during this period, substantially in the form of owner-occupied business relationships. Offsetting this growth, we continued to reduce our exposure to the higher risk construction category during 2011.

Total loans were $5.5 billion as of December 31, 2010, an increase of $122.7 million, or 2.3%, from December 31, 2009. The increase was driven by the addition of covered loans acquired through FDIC-assisted transactions, which more than offset declines in the construction category. Total loans, excluding covered loans, of $5.1 billion as of December 31, 2010 declined $102.7 million, or 2.0%, from December 31, 2009, reflecting charge-offs of $147.1 million and the stressed economic conditions of 2010. Growth of 1.9% in commercial and industrial loans, 4.8% in multi-family loans, and 7.2% in other commercial real estate lending more than offset the 37.8% decline in the construction portfolio that resulted from our continued efforts to remediate problem credits in this category.

Covered loans grew to $371.7 million at December 31, 2010 compared to $146.3 million at December 31, 2009 from the completion of two FDIC-assisted transactions.

The following table provides commercial real estate loan detail for the three years ended December 31, 2013.

Table 11
Commercial Real Estate Loans
(Dollar amounts in thousands)

	As of December 31,					
	2013	% of Total	2012	% of Total	2011	% of Total
Office, retail, and industrial:						
Office	$ 459,202	17.1	$ 474,717	18.4	$ 444,368	16.3
Retail	392,576	14.7	368,796	14.3	334,034	12.3
Industrial	501,907	18.7	489,678	19.0	520,680	19.1
Total office, retail, and industrial	1,353,685	50.5	1,333,191	51.7	1,299,082	47.7
Multi-family	332,873	12.4	285,481	11.1	288,336	10.5
Construction	186,197	7.0	186,416	7.2	250,745	9.2
Other commercial real estate:						
Rental properties	112,887	4.2	121,174	4.7	127,085	4.7
Service stations and truck stops	83,237	3.1	114,521	4.4	128,931	4.7
Warehouses and storage	122,325	4.6	110,367	4.3	129,491	4.7
Hotels	62,451	2.3	74,098	2.9	73,889	2.7
Restaurants	79,809	3.0	80,430	3.1	78,867	2.9
Automobile dealers	37,504	1.4	45,121	1.8	35,777	1.3
Recreational	56,327	2.1	41,058	1.6	34,708	1.3
Religious	32,614	1.2	29,196	1.1	24,097	0.9
Multi-use properties	118,351	4.4	63,120	2.4	155,585	5.7
Other	101,566	3.8	94,036	3.7	99,716	3.7
Total other commercial real estate	807,071	30.1	773,121	30.0	888,146	32.6
Total commercial real estate	$ 2,679,826	100.0	$ 2,578,209	100.0	$ 2,726,309	100.0
Owner occupied commercial real estate loans, excluding multi-family and construction loans	$ 933,151		$ 963,375		$ 988,587	
Owner occupied as a percent of total	43.2%		45.7%		45.2%	

Commercial real estate loans represent 48.0% of loans, excluding covered loans, and totaled $2.7 billion at December 31, 2013, an increase of $101.6 million, or 3.9%, from December 31, 2012, due primarily to an increase in the multi-family and multi-use properties portfolios.

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Over half of our commercial real estate loans consist of loans for industrial buildings, office buildings, and retail shopping centers. The mix of properties securing the loans in our commercial real estate portfolio continue to be balanced between owner-occupied and investor categories as of December 31, 2013.

Maturity and Interest Rate Sensitivity of Corporate Loans

The following table summarizes the maturity distribution of our corporate loan portfolio as of December 31, 2013, as well as the interest rate sensitivity of the loans that have maturities in excess of one year. For additional discussion of interest rate sensitivity, refer to Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of this Form 10-K.

Table 12
Maturities and Sensitivities of Corporate Loans to Changes in Interest Rates
(Dollar amounts in thousands)

	Maturity Due In			
	One Year or Less	**Greater Than One to Five Years**	**Greater Than Five Years**	**Total**
Commercial, industrial, and agricultural	$ 1,036,248	$ 958,941	$ 157,151	$ 2,152,340
Commercial real estate	753,207	1,682,040	244,579	2,679,826
Total corporate loans	$ 1,789,455	$ 2,640,981	$ 401,730	$ 4,832,166
Loans by interest rate type:				
Fixed interest rates	$ 634,426	$ 1,703,024	$ 246,034	$ 2,583,484
Floating interest rates	1,155,029	937,957	155,696	2,248,682
Total corporate loans	$ 1,789,455	$ 2,640,981	$ 401,730	$ 4,832,166

As of December 31, 2013, the composition of our corporate loans between fixed and floating interest rates was 53.5% and 46.5%, respectively.

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Non-Performing Assets and Performing Potential Problem Loans

The following table presents our loan portfolio by performing and non-performing status.

Table 13
Loan Portfolio by Performing/Non-Performing Status
(Dollar amounts in thousands)

	Total Loans	Current	Accruing 30-89 Days Past Due	Accruing 90 Days Past Due	TDRs	Non-accrual
As of December 31, 2013						
Commercial and industrial	$ 1,830,638	$ 1,805,516	$ 6,424	$ 393	$ 6,538	$ 11,767
Agricultural	321,702	321,123	60			519
Commercial real estate:						
Office	459,202	455,547	1,200	731		1,724
Retail	392,576	385,234	939	272	624	5,507
Industrial	501,907	481,766	337	312	9,647	9,845
Multi-family	332,873	329,669	318		1,038	1,848
Construction	186,197	179,877	23			6,297
Other commercial real estate	807,071	789,517	4,817	258	4,326	8,153
Total commercial real estate	2,679,826	2,621,610	7,634	1,573	15,635	33,374
Total corporate loans	4,832,166	4,748,249	14,118	1,966	22,173	45,660
Home equity	427,020	413,912	4,355	1,102	787	6,864
1-4 family mortgages	275,992	267,497	1,939	548	810	5,198
Installment	44,827	42,329	330	92		2,076
Total consumer loans	747,839	723,738	6,624	1,742	1,597	14,138
Total loans, excluding covered loans	5,580,005	5,471,987	20,742	3,708	23,770	59,798
Covered loans	134,355	93,100	2,232	18,081		20,942
Total loans	$ 5,714,360	$ 5,565,087	$ 22,974	$ 21,789	$ 23,770	$ 80,740

	Total Loans	Current	Accruing 30-89 Days Past Due	Accruing 90 Days Past Due	TDRs	Non-accrual
As of December 31, 2012						
Commercial and industrial	$ 1,631,474	$ 1,598,342	$ 4,534	$ 2,138	$ 519	$ 25,941
Agricultural	268,618	266,991	79	375		1,173
Commercial real estate:						
Office	474,717	471,242	871	197		2,407
Retail	368,796	358,945	2,415	626		6,810
Industrial	489,678	475,416	255			14,007
Multi-family	285,481	283,415	479	153		1,434
Construction	186,416	180,931				5,485
Other commercial real estate	773,121	749,114	1,053	1,534	5,206	16,214
Total commercial real estate	2,578,209	2,519,063	5,073	2,510	5,206	46,357
Total corporate loans	4,478,301	4,384,396	9,686	5,023	5,725	73,471

Home equity	390,033	375,804	6,349	1,651	40	6,189
1-4 family mortgages	282,948	270,784	4,241	1,947	1,102	4,874
Installment	38,394	35,936	2,390	68		
Total consumer loans	711,375	682,524	12,980	3,666	1,142	11,063
Total loans, excluding covered loans	5,189,676	5,066,920	22,666	8,689	6,867	84,534
Covered loans	197,894	145,751	6,514	31,447		14,182
Total loans	$ 5,387,570	$ 5,212,671	$ 29,180	$ 40,136	$ 6,867	$ 98,716

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The following table provides a comparison of our non-performing assets and past due loans for the five years ended December 31, 2013.

Table 14
Non-Performing Assets and Past Due Loans
(Dollar amounts in thousands)

	As of December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Non-performing assets, excluding covered loans and covered OREO					
Non-accrual loans	$ 59,798	$ 84,534	$ 187,325	$ 211,782	$ 244,215
90 days or more past due loans	3,708	8,689	9,227	4,244	4,079
Total non-performing loans	63,506	93,223	196,552	216,026	248,294
Accruing TDRs	23,770	6,867	17,864	22,371	30,553
OREO	32,473	39,953	33,975	31,069	57,137
Total non-performing assets	$ 119,749	$ 140,043	$ 248,391	$ 269,466	$ 335,984
30-89 days past due loans	$ 20,742	$ 22,666	$ 27,495	$ 23,646	$ 37,912
Non-accrual loans to total loans	1.07%	1.63%	3.68%	4.15%	4.69%
Non-performing loans to total loans	1.14%	1.80%	3.86%	4.24%	4.77%
Non-performing assets to loans plus OREO	2.13%	2.68%	4.85%	5.25%	6.39%
Non-performing covered loans and covered OREO[(1)]					
Non-accrual loans	$ 20,942	$ 14,182	$ 19,879	$	$
90 days or more past due loans	18,081	31,447	43,347	84,350	30,286
Total non-performing loans	39,023	45,629	63,226	84,350	30,286
OREO	8,863	13,123	23,455	22,370	8,981
Total non-performing assets	$ 47,886	$ 58,752	$ 86,681	$ 106,720	$ 39,267
30-89 days past due loans	$ 2,232	$ 6,514	$ 4,232	$ 18,445	$ 22,988
Non-performing assets, including covered loans and covered OREO					
Non-accrual loans	$ 80,740	$ 98,716	$ 207,204	$ 211,782	$ 244,215
90 days or more past due loans	21,789	40,136	52,574	88,594	34,365
Total non-performing loans	102,529	138,852	259,778	300,376	278,580
Accruing TDRs	23,770	6,867	17,864	22,371	30,553
OREO	41,336	53,076	57,430	53,439	66,118
Total non-performing assets	$ 167,635	$ 198,795	$ 335,072	$ 376,186	$ 375,251
30-89 days past due loans	$ 22,974	$ 29,180	$ 31,727	$ 42,091	$ 60,900
Non-accrual loans to total loans	1.41%	1.83%	3.87%	3.87%	4.57%
Non-performing loans to total loans	1.79%	2.58%	4.86%	5.49%	5.21%
Non-performing assets to loans plus OREO	2.91%	3.65%	6.20%	6.81%	6.93%
Interest income not recognized in the financial statements related to non-accrual loans for 2013					$ 4,046

(1)

Covered loans and covered OREO are covered by FDIC Agreements that substantially mitigate the risk of loss. Past due covered loans in the tables above are determined by borrower performance compared to contractual terms, but are generally considered accruing loans since they continue to perform in accordance with our expectations of cash flows. For a discussion of covered loans and covered OREO, refer to Note 5 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

As of December 31, 2013, non-performing assets, excluding covered loans and covered OREO, were $119.7 million, declining by 14.5% compared to December 31, 2012. Non-performing assets, excluding covered loans and covered OREO, represented 2.13% of total loans plus OREO as of December 31, 2013 compared to 2.68% as of December 31, 2012 and 4.85% as of December 31, 2011. Improvement in non-performing assets and related credit metrics resulted primarily from management's continued focus on credit remediation.

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The significant decrease in non-performing assets, excluding covered loans and covered OREO, from December 31, 2011 to December 31, 2012 was driven mainly by a decline in non-accrual loans, which reflects the aggressive remediation actions taken by management during 2012, including the bulk loan sales. In addition, the return of accruing TDRs to performing status contributed to the positive variance.

From December 31, 2010 to December 31, 2011, gross reductions of non-performing assets resulted primarily from non-accrual loans that were sold, paid-off, or transferred to held-for-sale and OREO properties sold during 2011.

Non-accrual Loans

Non-accrual loans, excluding covered loans, declined by 29.3% to $59.8 million as of December 31, 2013 from $84.5 million as of December 31, 2012. The improvement in non-performing loans was driven primarily by the reclassification of two corporate loan relationships totaling $19.3 million from non-accrual to accruing TDR status. These loans continue to perform in accordance with their modified terms, which are at market rates, and are expected to move to the performing loan portfolio by the end of the first quarter of 2014.

The decrease in non-accrual loans from December 31, 2011 to December 31, 2012 resulted from the bulk loan sales, payments, charge-offs, and transfers to OREO, which more than offset the amount of loans downgraded from performing to non-accrual status during 2012.

A discussion of our accounting policies for non-accrual loans is contained in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

TDRs

Loan modifications may be performed at the request of the individual borrower and may include reductions in interest rates, changes in payments, and extensions of maturity dates. We occasionally restructure loans at other than market rates or terms to enable the borrower to work through financial difficulties for a period of time, and these restructures remain classified as TDRs for the remaining terms of the loans. A discussion of our accounting policies for TDRs is contained in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

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Table 15
TDRs by Type
(Dollar amounts in thousands)

	December 31, 2013			December 31, 2012			December 31, 2011		
	Number of Loans		Amount	Number of Loans		Amount	Number of Loans		Amount
Commercial and industrial	10	$	8,659	6	$	3,064	20	$	2,348
Agricultural	-		-	-		-	-		-
Commercial real estate:									
Office	-		-	-		-	-		-
Retail	2		624	-		-	2		1,742
Industrial	3		9,647	2		2,407	-		-
Multi-family	5		1,291	1		150	9		12,865
Construction	-		-	-		-	1		14,006
Other commercial real estate	7		4,617	7		9,855	9		11,644
Total commercial real estate loans	17		16,179	10		12,412	21		40,257
Total corporate loans	27		24,838	16		15,476	41		42,605
Home equity	18		1,299	7		274	25		1,564
1-4 family mortgages	14		1,716	16		2,041	26		3,382
Installment	-		-	-		-	1		155
Total consumer loans	32		3,015	23		2,315	52		5,101
Total TDRs	59	$	27,853	39	$	17,791	93	$	47,706
Accruing TDRs	39	$	23,770	19	$	6,867	57	$	17,864
Non-accrual TDRs	20		4,083	20		10,924	36		29,842
Total TDRs	59	$	27,853	39	$	17,791	93	$	47,706
Charge-offs on TDRs		$	1,880		$	10,003		$	8,890
Specific reserves related to TDRs			1,952			2,794			94

At December 31, 2013, TDRs totaled $27.9 million, increasing $10.1 million, or 56.6%, from December 31, 2012. The December 31, 2013 total includes $23.8 million in loans that are accruing interest, and the majority were restructured at market terms. After a sufficient period of performance under the modified terms, the loans restructured at market rates will be reclassified to performing status.

Accruing TDRs rose $16.9 million from December 31, 2012 driven primarily by the reclassification of two corporate loan relationships totaling $19.3 million from non-accrual TDR to accruing TDR status based on restructuring actions and continued performance of these loans in accordance with their modified terms. New accruing loan restructures of $4.8 million also contributed to the variance. These increases were partially offset by the transfer of $1.1 million from accruing TDRs to non-accrual TDR status, and the return of $5.5 million of accruing TDRs to performing status in the calendar year subsequent to restructure due to restructuring at market terms and sustained payment performance in accordance with the modified terms.

At December 31, 2013, non-accrual TDRs totaled $4.1 million compared to $10.9 million at December 31, 2012. TDRs are reported as non-accrual if they are not yet performing in accordance with their modified terms or they have not yet exhibited sufficient performance under their modified terms. The decrease in non-accrual TDRs from December 31, 2012 was driven by the reclassification of non-accrual TDRs to accruing TDR status discussed above, which was offset by $15.6 million of new non-accrual loan restructures.

Performing Potential Problem Loans

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

Table 16
Performing Potential Problem Loans
(Dollar amounts in thousands)

	December 31, 2013			December 31, 2012		
	Special Mention (1)	Substandard (2)	Total (3)	Special Mention (1)	Substandard (2)	Total (3)
Commercial and industrial	$ 23,679	$ 14,135	$ 37,814	$ 37,833	$ 8,418	$ 46,251
Agricultural	344	-	344	331	-	331
Commercial real estate:						
Office, retail, and industrial	27,871	23,538	51,409	57,271	16,746	74,017
Multi-family	2,794	499	3,293	1,921	-	1,921
Construction	8,309	17,642	25,951	26,210	25,762	51,972
Other commercial real estate	14,567	22,576	37,143	14,056	30,051	44,107
Total commercial real estate	53,541	64,255	117,796	99,458	72,559	172,017
Total performing potential problem corporate loans	$ 77,564	$ 78,390	$ 155,954	$ 137,622	$ 80,977	$ 218,599

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

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

(3) Total performing potential problem loans excludes $2.8 million of accruing TDRs as of December 31, 2013 and $448,000 of accruing TDRs as of December 31, 2012.

Performing potential problem loans totaled $156.0 million as of December 31, 2013, down $62.6 million, or 28.7%, from $218.6 million as of December 31, 2012, reflecting management's proactive focus on credit remediation. As of December 31, 2013, approximately 45% of performing potential problem loans was comprised of 9 corporate loan relationships each having balances greater than $5.0 million. Management has specific monitoring plans for each of these corporate loan relationships.

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Loan Sales

The following table summarizes loan sales for the three years ended December 31, 2013.

Table 17
Loan Sales
(Dollar amounts in thousands)

	Proceeds	Book Value	Charge-offs [1]	Net Gains [2]
Loan sales in 2013 by class:				
Commercial and industrial	$ 469	$ 1,044	$ (575)	$ -
Office, retail, and industrial	806	1,791	(985)	-
1-4 family mortgages	152,130	147,413	-	4,717
Total loan sales in 2013	$ 153,405	$ 150,248	$ (1,560)	$ 4,717
Loan sales in 2012 by class:				
Commercial and industrial	$ 19,705	$ 47,225	$ (22,508)	$ (5,012)
Agricultural	3,605	8,720	(4,356)	(759)
Commercial real estate:				
Office, retail, and industrial	35,488	49,345	(23,696)	9,839
Multi-family	3,151	4,043	(1,859)	967
Construction	9,074	18,274	(7,540)	(1,660)
Other commercial real estate	26,664	46,838	(21,825)	1,651
Total commercial real estate	74,377	118,500	(54,920)	10,797
Home equity	829	1,561	(773)	41
1-4 family mortgages	52,749	50,484	(90)	2,355
Total consumer loans	53,578	52,045	(863)	2,396
Total loan sales in 2012	$ 151,265	$ 226,490	$ (82,647)	$ 7,422
Loan sales in 2011 by class:				
Commercial and industrial	$ 3,120	$ 4,226	$ (1,106)	$ -
Commercial real estate:				
Office, retail, and industrial	551	997	(446)	-
Construction	8,691	11,864	(3,173)	-
Total commercial real estate	9,242	12,861	(3,619)	-
Total loan sales in 2011	$ 12,362	$ 17,087	$ (4,725)	$ -

(1) Amount represents charge-offs to the allowance for loan and covered loan losses at the time the loans were identified for sale.

(2) The net gains on the bulk loan sales represent gains realized subsequent to the transfer to held-for-sale and are included as a separate component of noninterest income in the Consolidated Statements of Income. Net gains on mortgage loan sales are included in mortgage banking income in the Consolidated Statements of Income.

We recognized gains of $4.7 million on the sale of $147.4 million of 1-4 family mortgage loans during the year ended December 31, 2013, of which $36.6 million were originated with the intent to sell. Additionally, we sold $2.8 million of other non-performing loans and recorded charge-offs of $1.6 million.

During the third quarter of 2012, we identified certain non-performing and performing potential problem loans for accelerated disposition through multiple bulk loan sales and recorded charge-offs of $80.3 million. The bulk loan sales of $172.5 million in original carrying value were completed in the fourth quarter of 2012, resulting in proceeds of $94.5 million and a gain of $5.2 million. In addition to the bulk loan sales, we sold $50.3 million of mortgage loans during 2012, resulting in gains of $2.3 million.

During the year ended December 31, 2011, we sold $17.1 million of non-performing loans and recorded charge-offs of $4.7 million.

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OREO

OREO consists of properties acquired as the result of borrower defaults on loans. OREO, excluding covered OREO, was $32.5 million at December 31, 2013, a $7.5 million decrease from December 31, 2012. A discussion of our accounting policies for OREO is contained in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

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

	December 31, 2013		December 31, 2012		December 31, 2011	
	Number of Properties	Amount	Number of Properties	Amount	Number of Properties	Amount
Single-family homes	29	$ 2,257	15	$ 2,054	5	$ 985
Land parcels:						
Raw land	6	4,037	5	3,244	8	8,316
Farm land	-	-	1	207	-	-
Commercial lots	17	11,649	22	12,355	19	5,944
Single-family lots	22	3,101	29	4,970	25	7,677
Total land parcels	45	18,787	57	20,776	52	21,937
Multi-family units	4	346	10	796	4	3,083
Commercial properties	23	11,083	32	16,327	16	7,970
Total OREO properties, excluding covered OREO	101	32,473	114	39,953	77	33,975
Covered OREO	48	8,863	62	13,123	46	23,455
Total OREO properties	149	$ 41,336	176	$ 53,076	123	$ 57,430

OREO Activity

The following table summarizes disposals of OREO for the two years ended December 31, 2013.

Table 19
OREO Disposals, Transfers, and Write-Downs
(Dollar amounts in thousands)

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	OREO	Covered OREO	Total	OREO	Covered OREO	Total
OREO sales						
Proceeds from sales	$ 15,274	$ 10,523	$ 25,797	$ 26,792	$ 23,774	$ 50,566
Less: Basis of properties sold	(16,805)	(10,493)	(27,298)	(27,907)	(23,301)	(51,208)
Net losses (gains) on sales of OREO	$ 1,531	$ (30)	$ 1,501	$ 1,115	$ (473)	$ 642
OREO transfers and write-downs						
Premises transferred to OREO at fair value	$ -	$ -	$ -	$ 1,833	$ -	$ 1,833
OREO valuation adjustments	2,220	187	2,407	3,945	299	4,244

OREO sales, excluding covered OREO, totaled $16.8 million for the year ended December 31, 2013. These sales consisted of 74 properties with the majority classified as single-family homes and commercial properties. Net losses on sales of OREO in 2013, excluding covered OREO, were impacted by a $1.2 million loss on the sale of a special-purpose property. In 2012, OREO sales, excluding covered OREO, represented 103 properties, comprised primarily of single family homes, residential lots, and commercial properties.

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Allowance for Credit Losses

Methodology for the Allowance for Credit Losses

The allowance for credit losses is comprised of the allowance for loan and 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 inherently subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, and consideration of current economic trends.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk ratings by regulatory authorities. Management believes that the allowance for credit losses of $87.1 million is an appropriate estimate of credit losses inherent in the loan portfolio as of December 31, 2013.

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

Table 20
Allowance for Credit Losses and
Summary of Credit Loss Experience
(Dollar amounts in thousands)

	Years ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Change in allowance for credit losses					
Beginning balance	$ 102,812	$ 121,962	$ 145,072	$ 144,808	$ 93,869
Loan charge-offs:					
Commercial, industrial, and agricultural	12,094	64,668	32,750	37,130	57,083
Office, retail, and industrial	4,744	34,968	8,193	10,322	7,869
Multi-family	1,029	3,361	14,584	2,788	3,485
Construction	1,916	27,811	20,211	63,967	66,665
Other commercial real estate	4,784	36,474	15,396	28,869	18,413
Consumer	9,414	10,910	10,531	10,640	14,523
Total loan charge-offs	33,981	178,192	101,665	153,716	168,038
Recoveries of loan charge-offs:					
Commercial, industrial, and agricultural	3,797	3,393	3,493	5,227	1,899
Office, retail, and industrial	228	577	79	612	13
Multi-family	584	275	410	363	2
Construction	1,032	451	2,964	770	803
Other commercial real estate	1,646	125	508	494	116
Consumer	1,071	784	430	740	472
Total recoveries of loan charge-offs	8,358	5,605	7,884	8,206	3,305
Net loan charge-offs, excluding covered loan charge-offs	25,623	172,587	93,781	145,510	164,733
Net covered loan charge-offs	4,575	4,615	9,911	1,575	-
Net loan and covered loan charge-offs	30,198	177,202	103,692	147,085	164,733
Provision for loan and covered loan losses:					
Provision for loan losses	11,185	142,364	69,682	145,774	215,672
Provision for covered loan losses	5,222	24,945	51,267	27,009	-
Less: expected reimbursement from the FDIC	(150)	(9,257)	(40,367)	(25,434)	-
Net provision for covered loan losses	5,072	15,688	10,900	1,575	-
Total provision for loan and covered loan losses	16,257	158,052	80,582	147,349	215,672
Reduction in reserve for unfunded commitments [(1)]	(1,750)	-	-	-	-
Total provision for loan and covered loan losses and other	14,507	158,052	80,582	147,349	215,672
Ending balance	$ 87,121	$ 102,812	$ 121,962	$ 145,072	$ 144,808

(1)

Included in other noninterest expense in the Consolidated Statements of Income.

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	Years ended December 31,				
	2013	2012	2011	2010	2009
Allowance for credit losses					
Allowance for loan losses	$ 72,946	$ 87,384	$ 118,473	$ 142,572	$ 144,808
Allowance for covered loan losses	12,559	12,062	989	-	-
Total allowance for loan and covered loan losses	85,505	99,446	119,462	142,572	144,808
Reserve for unfunded commitments	1,616	3,366	2,500	2,500	-
Total allowance for credit losses	$ 87,121	$ 102,812	$ 121,962	$ 145,072	$ 144,808
Amounts and ratios, excluding covered loans					
Average loans	$ 5,307,493	$ 5,204,718	$ 5,101,621	$ 5,191,154	$ 5,348,979
Net loan charge-offs to average loans, annualized	0.48%	3.32%	1.84%	2.80%	3.08%
Allowance for credit losses at end of period as a percent of:					
Total loans	1.34%	1.75%	2.38%	2.84%	2.78%
Non-accrual loans	124.69%	107.35%	64.58%	68.50%	59.30%
Non-performing loans	117.41%	97.35%	61.55%	67.15%	58.32%
Amounts and ratios, including covered loans					
Average loans	$ 5,475,110	$ 5,435,670	$ 5,421,943	$ 5,440,752	$ 5,377,028
Net loan charge-offs to average loans	0.55%	3.26%	1.91%	2.70%	3.06%
Allowance for credit losses at end of period as a percent of:					
Total loans	1.52%	1.91%	2.28%	2.65%	2.71%
Non-accrual loans	107.90%	104.15%	58.86%	68.50%	59.30%
Non-performing loans	84.97%	74.00%	46.95%	48.30%	51.98%

Activity in the Allowance for Credit Losses

The allowance for credit losses was $87.1 million as of December 31, 2013, a decline of $15.7 million from December 31, 2012. The allowance for credit losses represented 1.52% of total loans, including covered loans, at December 31, 2013 compared to 1.91% at December 31, 2012.

The provision for loan and covered loan losses was $16.3 million for 2013 compared to $158.1 million for 2012 and $80.6 million for 2011. The provision for loan and covered loan losses was elevated for the year ended December 31, 2012 due primarily to the additional provision of $62.3 million recorded as a result of moving $172.5 million of loans to held-for-sale status and recording charge-offs of $80.3 million in anticipation of the bulk loan sales.

Net loan charge-offs, excluding covered loan charge-offs, during the year ended December 31, 2013, decreased significantly compared to the prior periods presented. The $147.0 million decline in net charge-offs from the year ended December 31, 2012 reflected improved credit quality due to management's accelerated credit remediation actions that occurred during the third and fourth quarters of 2012, including the bulk loan sales. Net loan charge-offs, excluding covered loan charge-offs, of $25.6 million at December 31, 2013 are at the lowest level in over five years.

Covered loan charge-offs reflect the decline in estimated cash flows of certain acquired loans. Management re-estimates cash flows periodically, and the present value of any decreases in expected cash flows from the FDIC is recorded as either a charge-off in that period or an allowance for covered loan losses is established. Any increases in expected cash flows are recorded through prospective yield adjustments over the remaining lives of the specific loans.

Allocation of the Allowance for Credit Losses

Table 21
Allocation of Allowance for Credit Losses
(Dollar amounts in thousands)

	As of December 31,									
	2013	% of Total Loans (1)	2012	% of Total Loans (1)	2011	% of Total Loans (1)	2010	% of Total Loans (1)	2009	% of Total Loans (1)
Commercial, industrial, and agricultural	$ 30,381	38.6	$ 36,761	36.7	$ 46,017	33.5	$ 49,545	33.2	$ 54,452	31.6
Commercial real estate:										
Office, retail, and industrial	10,405	24.2	11,432	25.6	16,012	25.5	20,758	23.6	20,164	23.3
Multi-family	2,017	6.0	3,575	5.5	5,067	5.7	3,996	6.9	4,555	6.4
Construction	6,712	3.3	10,241	3.6	17,935	4.9	32,624	6.6	37,468	10.5
Other commercial real estate	11,187	14.5	14,699	14.9	21,099	17.4	25,178	16.8	16,694	15.4
Total commercial real estate	30,321	48.0	39,947	49.6	60,113	53.5	82,556	53.9	78,881	55.6
Consumer	13,860	13.4	14,042	13.7	14,843	13.0	12,971	12.9	11,475	12.8
Total, excluding allowance for covered loan losses	74,562	100.0	90,750	100.0	120,973	100.0	145,072	100.0	144,808	100.0
Covered loans	12,559		12,062		989		-		-	
Total allowance for credit losses	$ 87,121		$ 102,812		$ 121,962		$ 145,072		$ 144,808	

(1) Percentages represent total loans in each category to total loans, excluding covered loans.

The allowance for credit losses declined by 15.3% from $102.8 million as of December 31, 2012 to $87.1 million as of December 31, 2013, reflecting reductions across all categories. During 2013, the lower level of the allowance for credit losses reflects the significant improvement in non-performing loans, performing potential problem loans, and credit metrics driven by management's continued proactive focus on credit remediation.

During 2012, declines in non-accrual and performing potential problem loans from accelerated credit remediation actions, including the impact of the bulk loan sales, resulted in improved credit metrics and a decline in our estimate of credit losses inherent in the loan portfolio. The allowance for covered loan losses increased $11.1 million from 2011 to reflect the difference between the carrying value and the discounted present value of the estimated cash flows of the covered impaired loans.

In 2011, we decreased our allowance for loan and covered loan losses for all categories of loans, excluding multi-family loans and covered loans. The increase in the allowance for loan losses allocated to multi-family loans reflected management's estimate of potential losses on smaller-balance loans in this portfolio.

INVESTMENT IN BANK-OWNED LIFE INSURANCE

We previously purchased life insurance policies on the lives of certain directors and officers and are the sole owner and beneficiary of the policies. We invested in these BOLI policies to provide an efficient form of funding for long-term retirement and other employee benefit costs. Therefore, our BOLI policies are intended to be long-term investments to provide funding for long-term liabilities. We record these BOLI policies as a separate line item in the Consolidated Statements of Financial Condition at each policy's respective CSV with changes recorded as a component of noninterest income in the Consolidated Statements of Income. As of December 31, 2013, the CSV of BOLI assets totaled $193.2 million.

As of December 31, 2013, 31.6% of our total BOLI portfolio is invested in general account life insurance distributed among ten insurance carriers, all of which carry investment grade ratings. This general account life insurance typically includes a feature guaranteeing minimum returns. The remaining 68.4% is in separate account life insurance, which is managed by third party investment advisors under pre-determined investment guidelines. Stable value protection is a feature available for separate account life insurance policies that is designed to protect a policy's CSV from market fluctuations, within limits, on underlying investments. Our entire separate account portfolio has stable value protection purchased from a highly rated financial institution. To the extent fair values on individual contracts fall below 80%, the CSV of the specific contracts may be reduced or the underlying assets may be transferred to short-duration investments, resulting in lower earnings.

For the year ended December 31, 2013, we had a BOLI loss of $11.8 million compared to prior year BOLI income of $1.3 million. During 2013, we voluntarily modified approximately $100 million of certain lower-yielding BOLI policies, which resulted in a $13.3 million write-down of the CSV. This action gives us the flexibility to reinvest these assets in longer duration securities at higher yields to enhance future BOLI income.

GOODWILL

Goodwill is included in goodwill and other intangible assets in the Consolidated Statements of Financial Condition. The carrying amount of goodwill was $264.1 million at December 31, 2013 and $265.5 million at December 31, 2012. Goodwill decreased $1.4 million from December 31, 2012 as a result of the sale of our investment in Textura, which was completed during the year ended December 31, 2013. For a detailed discussion of the sale, refer to the section titled "Performance Overview" of this Item 7. Goodwill is tested annually for impairment or when events or circumstances indicate a need to perform interim tests, as described in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. During 2013, we performed our annual impairment test of goodwill at October 1, 2013 and determined that goodwill was not impaired at that date.

DEFERRED TAX ASSETS

Deferred tax assets and liabilities are recognized for the future tax consequences attributed to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. For additional discussion of income taxes, see Notes 1 and 14 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. Income tax expense and benefits recorded due to changes in uncertain tax positions are also described in Note 14.

Table 22
Deferred Tax Assets
(Dollar amounts in thousands)

	December 31,			% Change	
	2013	**2012**	**2011**	**2013-2012**	**2012-2011**
Net deferred tax assets	$ 107,624	$ 133,605	$ 102,624	(19.4)	30.2

Management assessed whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. This assessment considered whether in the periods of reversal, the deferred tax assets can be realized through carryback to income in prior years, future reversals of existing deferred tax liabilities, and future taxable income, including taxable income resulting from the application of future tax planning strategies. The assessment also considered positive and negative evidence, including pre-tax income and loss during the current and prior two years, pre-tax, pre-provision operating earnings during that period, actual performance compared to budget, trends in non-performing assets and performing potential problem loans, the Company's capital position, and any unsettled circumstances that could impact future earnings. Based on this assessment, management determined that it is more likely than not that our deferred tax assets will be fully realized and no valuation allowance is required as of December 31, 2013.

Deferred tax assets decreased in 2013 compared to 2012, resulting primarily from the utilization of federal net operating losses, which was partially offset by an increase in alternative minimum tax credit carryforwards.

The increase in deferred tax assets in 2012 was attributed primarily to higher federal and state net operating loss carry forwards, offset partially by a reduction in the allowance for loan and covered loan losses for which there is a zero tax basis.

FUNDING AND LIQUIDITY MANAGEMENT

Liquidity measures the ability to meet current and future cash flows as they become due. Our approach to liquidity management is to obtain funding sources at a minimum cost to meet fluctuating deposit, withdrawal, and loan demand needs. Our liquidity policy establishes parameters to maintain flexibility in responding to changes in liquidity needs over a 12-month forward-looking period, including the requirement to formulate a quarterly liquidity compliance plan for review by the Bank's Board of Directors. The compliance plan includes an analysis that measures projected needs to purchase and sell funds. The analysis incorporates a set of projected balance sheet assumptions that are updated at least quarterly. Based on these assumptions, we determine our total cash liquidity on hand and excess collateral capacity from pledging, unused federal funds purchased lines, and other unused borrowing capacity, such as FHLB advances, resulting in a calculation of our total liquidity capacity. Our total policy-directed liquidity requirement is to have funding sources available to cover 66.7% of non-collateralized, non-FDIC insured, non-maturity deposits. Based on our projections as of December 31, 2013, we expect to have liquidity capacity in excess of policy guidelines for the forward twelve-month period.

The liquidity needs of First Midwest Bancorp, Inc. on an unconsolidated basis (the "Parent Company") consist primarily of operating expenses, debt service payments, and dividend payments to our stockholders, which totaled $46.6 million for the year ended December 31, 2013. The primary source of liquidity for the Parent Company is dividends from subsidiaries. The Parent Company had $37.8 million in junior subordinated debentures, $38.5 million in subordinated notes, $114.6 million in senior notes, and cash and interest-bearing deposits of $13.1 million at December 31, 2013. At the end of 2013, the Parent Company did not have any unused short-term credit facilities available to fund cash flows. The Parent Company has the ability to enhance its liquidity position by raising capital or incurring debt.

Total deposits and borrowed funds as of December 31, 2013 are summarized in Notes 9 and 10 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. The following table provides a comparison of average funding sources over the last three years. We believe that average balances, rather than period-end balances, are more meaningful in analyzing funding sources because of the inherent fluctuations that may occur on a monthly basis within most funding categories.

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Table 23
Funding Sources - Average Balances
(Dollar amounts in thousands)

	Years Ended December 31,						% Change	
	2013	% of Total	2012	% of Total	2011	% of Total	2013-2012	2012-2011
Demand deposits	$ 1,889,247	26.2	$ 1,762,968	25.0	$ 1,498,900	21.5	7.2	17.6
Savings deposits	1,126,561	15.6	1,038,379	14.7	934,937	13.4	8.5	11.1
NOW accounts	1,170,928	16.2	1,090,446	15.4	1,091,184	15.7	7.4	(0.1)
Money market accounts	1,306,625	18.1	1,216,173	17.2	1,230,090	17.7	7.4	(1.1)
Transactional deposits	5,493,361	76.1	5,107,966	72.3	4,755,111	68.3	7.5	7.4
Time deposits	1,286,700	17.8	1,502,230	21.3	1,773,188	25.4	(14.3)	(15.3)
Brokered deposits	20,188	0.3	26,776	0.4	18,821	0.3	(24.6)	42.3
Total time deposits	1,306,888	18.1	1,529,006	21.7	1,792,009	25.7	(14.5)	(14.7)
Total deposits	6,800,249	94.2	6,636,972	94.0	6,547,120	94.0	2.5	1.4
Securities sold under agreements to repurchase	90,891	1.3	79,924	1.1	117,065	1.7	13.7	(31.7)
Federal funds purchased	5	-	-	-	603	-	100.0	(100.0)
FHLB advances	114,565	1.6	113,719	1.6	148,034	2.1	0.7	(23.2)
Total borrowed funds	205,461	2.9	193,643	2.7	265,702	3.8	6.1	(27.1)
Senior and subordinated debt	212,896	2.9	231,273	3.3	150,285	2.2	(7.9)	53.9
Total funding sources	$ 7,218,606	100.0	$ 7,061,888	100.0	$ 6,963,107	100.0	2.2	1.4

Average Funding Sources

Average funding sources totaled $7.2 billion for 2013, increasing $156.7 million from 2012. This growth resulted primarily from a rise in transactional deposits, which more than offset a reduction in higher-costing time deposits.

For 2012, average funding sources increased $98.8 million from 2011 driven primarily by growth in transactional deposits and the issuance of senior debt, which was partially offset by reductions in higher-costing time deposits and borrowed funds.

Time Deposits

Table 24
Maturities of Time Deposits Greater Than $100,000
(Dollar amounts in thousands)

	Total
Three months or less	$ 66,342
Greater than three months to six months	64,609
Greater than six months to twelve months	102,646
Greater than twelve months	153,261
Total	$ 386,858

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Borrowed Funds

A discussion of borrowed funds is presented in the next table.

Table 25
Borrowed Funds
(Dollar amounts in thousands)

	2013		2012		2011	
	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %	Amount	Weighted-Average Rate %
At December 31:						
Securities sold under agreements to repurchase	$ 109,792	0.03	$ 71,403	0.02	$ 92,871	0.02
Federal funds purchased	-	-	-	-	-	-
FHLB advances	114,550	1.34	114,581	1.72	112,500	2.13
Total borrowed funds	$ 224,342	0.70	$ 185,984	1.06	$ 205,371	1.17
Average for the year:						
Securities sold under agreements to repurchase	$ 90,891	0.03	$ 79,924	0.02	$ 117,065	0.02
Federal funds purchased	5	-	-	-	603	0.22
FHLB advances	114,565	1.38	113,719	1.76	148,034	1.84
Total borrowed funds	$ 205,461	0.78	$ 193,643	1.04	$ 265,702	1.03
Maximum amount outstanding at any day during the year:						
Securities sold under agreements to repurchase	$ 110,797		$ 103,591		$ 174,810	
Federal funds purchased	2,000		-		175,000	
FHLB advances	114,581		114,593		302,500	
Weighted-average maturity of FHLB advances	29.3 months		20.8 months		19.3 months	

Average borrowed funds totaled $205.5 million for 2013, increasing $11.8 million, or 6.1%, from 2012 following a decrease of $72.1 million, or 27.1%, from 2011 to 2012. In 2012, we reduced funding costs by using the proceeds from securities sales and maturities to reduce our level of borrowed funds and time deposits, resulting in a more favorable product mix.

The average and maximum daily balances for securities sold under agreements to repurchase and FHLB advances were consistent with 2012. In 2011, the maximum daily balance for federal funds purchased resulted from a test of the federal funds line, which may be done occasionally to ensure availability.

We make interchangeable use of repurchase agreements, FHLB advances, and federal funds purchased to supplement deposits.

Senior and Subordinated Debt

Average senior and subordinated debt decreased $18.4 million, or 7.9%, in 2013 compared to 2012 as a result of the repurchase and retirement of $24.0 million of junior subordinated debentures. Refer to Note 11 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K for additional discussion regarding this transaction.

The $81.0 million increase in average senior and subordinated debt from 2011 to 2012 was driven by the senior debt issuance of $115.0 million in the fourth quarter of 2011, which was used, in combination with existing liquid assets, to fund the redemption of the Series B preferred stock issued to the Treasury. This increase was partially offset by the repurchase and retirement of $25.4 million of junior subordinated debentures and $12.0 million of subordinated notes during 2012.

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

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

The following table presents our significant fixed and determinable contractual obligations and significant commitments as of December 31, 2013. Further discussion of the nature of each obligation is included in the referenced note of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Table 26
Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Items
(Dollar amounts in thousands)

		Payments Due In				
	Note Reference	One Year or Less	Greater Than One to Three Years	Greater Than Three to Five Years	Greater Than Five Years	Total
Transactional deposits (no stated maturity)	9	$ 5,558,318	$ -	$ -	$ -	$ 5,558,318
Time deposits	9	785,458	338,466	83,545	314	1,207,783
Borrowed funds	10	109,792	39,550	75,000	-	224,342
Subordinated debt	11	-	153,136	-	37,796	190,932
Operating leases	7	3,774	7,156	5,920	4,059	20,909
Pension liability	15	5,857	10,408	9,044	18,450	43,759
Uncertain tax positions liability	14	N/M	N/M	N/M	N/M	279
Commitments to extend credit	20	N/M	N/M	N/M	N/M	1,661,081
Letters of credit	20	N/M	N/M	N/M	N/M	110,453

N/M Not meaningful.

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MANAGEMENT OF CAPITAL

Capital Measurements

A strong capital structure is required under applicable banking regulations and is crucial in maintaining investor confidence, accessing capital markets, and enabling us to take advantage of future growth opportunities. Our capital policy requires that the Company and the Bank maintain capital ratios in excess of the minimum regulatory guidelines. It serves as an internal discipline in analyzing business risks and internal growth opportunities and sets targeted levels of return on equity. Under regulatory capital adequacy guidelines, the Company and the Bank are subject to various capital requirements set and administered by the federal banking agencies. These requirements specify minimum capital ratios, defined as Tier 1 and total capital as a percentage of assets and off-balance sheet items that were weighted according to broad risk categories and a leverage ratio calculated as Tier 1 capital as a percentage of adjusted average assets. We manage our capital ratios for both the Company and the Bank to consistently maintain these measurements in excess of the Federal Reserve's minimum levels considered to be "well-capitalized," which is the highest capital category established.

The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve to be categorized as "well-capitalized." All regulatory mandated ratios for characterization as "well-capitalized" were exceeded as of December 31, 2013 and 2012. See the "Supervision and Regulation" section included in Item 1, "Business," of this Form 10-K for information on our minimum capital requirements.

All other ratios presented in the table below are capital adequacy metrics used and relied on by investors and industry analysts; however, they are non-GAAP financial measures for SEC purposes. These non-GAAP measures are valuable indicators of a financial institution's capital strength since they eliminate intangible assets from stockholders' equity and retain the effect of accumulated other comprehensive loss in stockholders' equity. Reconciliations of the components of those ratios to GAAP are also presented in the table below.

Table 27
Capital Measurements
(Dollar amounts in thousands)

	December 31, 2013	December 31, 2012	Regulatory Minimum For Well-Capitalized	Excess Over Required Minimums at December 31, 2013	
Reconciliation of capital components to regulatory requirements:					
Total regulatory capital, as defined in federal regulations	$ 841,787	$ 755,264			
Tier 1 capital, as defined in federal regulations	$ 741,414	$ 652,480			
Trust preferred securities included in Tier 1 capital	(36,690)	(59,965)			
Tier 1 common capital	$ 704,724	$ 592,515			
Risk-weighted assets, as defined in federal regulations	$ 6,794,666	$ 6,348,523			
Average assets, as defined in federal regulations	8,075,888	7,768,967			
Regulatory capital ratios:					
Total capital to risk-weighted assets	12.39%	11.90%	10.00%	24%	$ 162,321
Tier 1 capital to risk-weighted assets	10.91%	10.28%	6.00%	82%	333,734
Tier 1 leverage to average assets	9.18%	8.40%	5.00%	84%	337,620
Tier 1 common capital to risk-weighted assets (1)	10.37%	9.33%	N/A(2)	N/A(2)	N/A(2)
Reconciliation of capital components to GAAP:					
Total stockholder's equity	$ 1,001,442	$ 940,893			
Goodwill and other intangible assets	(276,366)	(281,059)			
Tangible common equity	725,076	659,834			
Accumulated other comprehensive loss	26,792	15,660			
Tangible common equity, excluding accumulated other comprehensive loss	$ 751,868	$ 675,494			
Total assets	$ 8,253,407	$ 8,099,839			
Goodwill and other intangible assets	(276,366)	(281,059)			
Tangible assets	$ 7,977,041	$ 7,818,780			
Tangible common equity ratios:					
Tangible common equity to tangible assets	9.09%	8.44%	N/A(2)	N/A(2)	N/A(2)
Tangible common equity, excluding other accumulated comprehensive loss, to tangible assets	9.43%	8.64%	N/A(2)	N/A(2)	N/A(2)
Tangible common equity to risk-weighted assets	10.67%	10.39%	N/A(2)	N/A(2)	N/A(2)

N/A Not applicable.

(1) Excludes the impact of trust-preferred securities.

(2) Ratio is not subject to formal Federal Reserve regulatory guidance.

The improvement in regulatory capital ratios from December 31, 2012 resulted from strong earnings and the continued increase in allowable deferred tax assets, which more than offset the impact of loan growth, the increase in dividends paid, and the repurchase and retirement of $24.0 million of 6.95% junior subordinated debentures, which qualified as Tier 1 capital.

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The Board reviews the Company's capital plan each quarter, considering the current and expected operating environment as well as an evaluation of various capital alternatives. For further details of the regulatory capital requirements and ratios as of December 31, 2013 and 2012 for the Company and the Bank, see Note 18 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Basel III Capital Rules

In July of 2013, the Company's primary federal regulator, the Federal Reserve, published final rules establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules are discussed in the "Supervision and Regulation" section in Item 1, "Business" of this Form 10-K.

Stock Repurchase Programs

Shares repurchased are held as treasury stock and are available for issuance in connection with our Dividend Reinvestment Plan, qualified and nonqualified retirement plans, share-based compensation plans, and other general corporate purposes. We reissued 125,901 treasury shares in 2013 and 133,560 treasury shares in 2012 to fund these plans.

Dividends

The Board declared quarterly stock dividends of $0.01 per share from 2011 through the first quarter of 2013. The Company increased the dividend to $0.04 per share during the second quarter of 2013 and approved another increase in the fourth quarter of 2013 to $0.07 per share.

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FOURTH QUARTER 2013 vs. FOURTH QUARTER 2012

Table 28
Quarterly Earnings Performance [(1)]
(Dollar amounts in thousands, except per share data)

	2013				2012			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income	$ 72,120	$ 72,329	$ 71,753	$ 71,045	$ 74,199	$ 75,584	$ 75,518	$ 75,268
Interest expense	(6,432)	(6,663)	(6,823)	(7,197)	(7,677)	(8,324)	(8,814)	(10,086)
Net interest income	65,688	65,666	64,930	63,848	66,522	67,260	66,704	65,182
Provision for loan and covered loan losses	-	(4,770)	(5,813)	(5,674)	(5,593)	(111,791)	(22,458)	(18,210)
Fee-based revenues	26,712	27,804	26,008	25,758	26,846	25,035	23,076	23,993
Net securities gains (losses)	147	33,801	216	-	88	(217)	151	(943)
BOLI income (loss)	584	(13,028)	319	281	355	300	404	248
Gain on termination of FHLB forward commitments	-	7,829	-	-	-	-	-	-
Other income	1,370	1,682	898	1,536	460	727	406	1,135
(Losses) gains on early extinguishment of debt	(1,034)	-	-	-	(814)	-	-	256
Gain on bulk loan sales	-	-	-	-	5,153	-	-	-
Gain on acquisitions	-	-	-	-	-	3,289	-	-
Noninterest expense	(64,794)	(64,702)	(62,427)	(64,814)	(73,607)	(70,123)	(61,157)	(62,613)
Income (loss) before income tax (expense) benefit	28,673	54,282	24,131	20,935	19,410	(85,520)	7,126	9,048
Income tax (expense) benefit	(9,508)	(24,959)	(7,955)	(6,293)	(6,194)	36,993	(761)	(1,156)
Net income (loss)	19,165	29,323	16,176	14,642	13,216	(48,527)	6,365	7,892
Net (income) loss applicable to non-vested restricted shares	(260)	(416)	(219)	(212)	(194)	715	(76)	(139)
Net income (loss) applicable to common shares	$ 18,905	$ 28,907	$ 15,957	$ 14,430	$ 13,022	$ (47,812)	$ 6,289	$ 7,753
Basic earnings (loss) per common share	$ 0.26	$ 0.39	$ 0.22	$ 0.20	$ 0.18	$ (0.65)	$ 0.09	$ 0.11
Diluted earnings (loss) per common share	$ 0.26	$ 0.39	$ 0.22	$ 0.20	$ 0.18	$ (0.65)	$ 0.09	$ 0.11
Dividends declared per common share	$ 0.07	$ 0.04	$ 0.04	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Return on average common equity	7.53%	11.66%	6.66%	6.17%	5.50%	(19.36)%	2.59%	3.21%
Return on average assets	0.91%	1.38%	0.79%	0.74%	0.65%	(2.35)%	0.32%	0.40%
Net interest margin tax-equivalent	3.62%	3.63%	3.70%	3.77%	3.84%	3.83%	3.88%	3.88%

(1) All ratios are presented on an annualized basis.

Net income applicable to common shares for the fourth quarter of 2013 was $18.9 million, or $0.26 per share, compared to net income applicable to common shareholders of $13.0 million, or $0.18 per share, for the fourth quarter of 2012.

Compared to the fourth quarter of 2012, total fee-based revenues remained stable. Growth in fee income generated by sales of capital market products to commercial clients and wealth management fees resulting from new customer relationships and improved market performance were offset by lower levels of mortgage banking income.

In addition, during the fourth quarter of 2013, the Company repurchased and retired $24.0 million of 6.95% junior subordinated debentures, which resulted in a pre-tax loss of $1.0 million. This action will reduce future annual interest expense by $1.6 million.

Total noninterest expense for the fourth quarter of 2013 decreased 12.0% compared to the fourth quarter of 2012 driven primarily by declines in professional services expense and other expenses, which were partially offset by increases in net OREO expense and advertising and promotions expense. In addition, no adjusted amortization of the FDIC indemnification asset was required for the fourth quarter of 2013 compared to $2.7 million for the fourth

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quarter of 2012, which also contributed to the decrease. Adjusted amortization of the FDIC indemnification asset is based on management's current estimates of future cash flows on covered loans and OREO and expected reimbursements from the FDIC for covered losses.

During the fourth quarter of 2012, professional services were elevated due primarily to expenses related to the completion of the bulk loan sales, higher personnel recruitment expenses, and the accelerated recognition of certain capitalized consulting costs. The decline in other expenses compared to the fourth quarter of 2012 reflects a $770,000 reduction in the reserve for unfunded commitments in the fourth quarter of 2013. In addition, the fourth quarter of 2012 was elevated as a result of a $1.3 million valuation adjustment on a former banking office.

The fourth quarter of 2012 reflects higher gains on sales of OREO properties compared to the fourth quarter of 2013, driving higher net OREO expense. An increase in advertising and promotions expense from the fourth quarter of 2012 was driven by the launch of our "Bank with Momentum" branding campaign during the second quarter of 2013, and reflects the return to a more normalized level of expense.

Table 29
Quarterly Operating Earnings [(1)]
(Dollar amounts in thousands)

	2013				2012			
	Fourth	**Third**	**Second**	**First**	**Fourth**	**Third**	**Second**	**First**
Income (loss) before income taxes	$ 28,673	$ 54,282	$ 24,131	$ 20,935	$ 19,410	$ (85,520)	$ 7,126	$ 9,048
Provision for loan and covered loan losses	-	4,770	5,813	5,674	5,593	111,791	22,458	18,210
Pre-tax, pre-provision earnings	28,673	59,052	29,944	26,609	25,003	26,271	29,584	27,258
Adjustments to Pre-tax, Pre-Provision Earnings								
Net securities (gains) losses	(147)	(33,801)	(216)	-	(88)	217	(151)	943
Net losses (gains) on sales and valuation adjustments of OREO, excess properties, and assets held-for-sale	1,763	1,652	(288)	781	1,864	3,280	2,527	303
Net losses (gains) on early extinguishment of debt	1,034	-	-	-	814	-	-	(256)
Severance-related costs	483	233	511	980	-	840		315
BOLI modification loss	-	13,312	-	-	-	-	-	-
Gain on termination of FHLB forward commitments	-	(7,829)	-	-	-	-	-	-
Net gain on bulk loan sales	-	-	-	-	(2,639)	-	-	-
Losses (gains) on acquisitions, net of integration costs	-	-	-	-	588	(3,074)	-	-
Adjusted amortization of FDIC indemnification asset	-	-	750	750	2,705	4,000	-	-
Total adjustments	3,133	(26,433)	757	2,511	3,244	5,263	2,376	1,305
Pre-tax, pre-provision operating earnings	$ 31,806	$ 32,619	$ 30,701	$ 29,120	$ 28,247	$ 31,534	$ 31,960	$ 28,563

(1) The Company's accounting and reporting policies conform to GAAP and general practice within the banking industry. As a supplement to GAAP, the Company has provided this non-GAAP performance result, which the Company believes is useful because it assists investors in assessing the Company's operating performance. This non-GAAP measure should not be considered an alternative to GAAP.

Pre-tax, pre-provision operating earnings of $31.8 million for the fourth quarter of 2013 increased $3.6 million, or 12.6%, compared to the fourth quarter of 2012. This increase resulted primarily from lower noninterest expense, which was partially offset by a decrease in net interest income and noninterest income.

Compared to the fourth quarter of 2012, average interest-earning assets grew $316.2 million from an increase in loans, investment securities, and other interest-earning assets.

Average funding sources for the fourth quarter of 2013 were $165.6 million higher than the fourth quarter of 2012, driven primarily by a 6.8% increase in average demand and interest-bearing transactional deposits, which more than offset lower levels of time deposits.

Tax-equivalent net interest margin for the current quarter was 3.62%, declining 22 basis points compared to the fourth quarter of 2012. Loan yields declined on new and renewing loans as a result of greater customer preference for floating rate loans. The decrease in the loan yield during the fourth quarter of 2013 was mitigated by a higher rate earned on certain investment securities. Additionally, an improved funding mix and lower rates paid on time deposits offset the decline in the loan yield compared to the prior year period.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with GAAP and are consistent with predominant practices in the financial services industry. Critical accounting policies are those policies that management believes are the most important to our financial position and results of operations. Application of critical accounting policies requires management to make estimates, assumptions, and judgments based on information available as of the date of the financial statements that affect the amounts reported in the financial statements and accompanying notes. Future changes in information may affect these estimates, assumptions, and judgments, which may affect the amounts reported in the financial statements.

The most significant of our accounting policies are presented in Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K. Along with the disclosures presented in the other financial statement notes and in this discussion, these policies provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, judgments, and estimates, management determined that our accounting policies for the allowance for credit losses, evaluation of impairment of securities, and income taxes are considered to be our critical accounting policies.

Allowance for Credit Losses

The determination of the allowance for credit losses is inherently subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, consideration of current economic trends, and other factors, all of which are susceptible to significant change. Credit exposures 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 established through the provision for loan and covered loan losses charged to expense. The amount charged to operating expense depends on a number of factors, including historic loan growth, changes in the composition of the loan portfolio, net charge-off levels, and our assessment of the allowance for loan and covered loan losses. For a full discussion of our methodology for determining the allowance for credit losses, see Note 1 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Valuation of Securities

The fair values of securities, excluding CDOs, are based on quoted prices obtained from third party pricing services or dealer market participants where a ready market for such securities exists. We estimate fair value on CDOs using a cash flow model with the assistance of a structured credit valuation firm since an active market does not exist for these securities. The valuation for each of the CDOs relies on independently verifiable historical financial data. The valuation firm performs a credit analysis of each of the entities comprising the collateral underlying each CDO to estimate the entities' likelihood of default on their trust-preferred obligations. Cash flows are modeled based on the contractual terms of the CDO and discounted to their present values to derive the estimated fair value of the individual CDO, as well as any credit loss or impairment. We believe the model uses reasonable assumptions to estimate fair values where no market exists for these investments.

On a quarterly basis, we assess securities with unrealized losses to determine whether OTTI has occurred. In evaluating OTTI, the Company considers many factors including the severity and duration of the impairment; the financial condition and near-term prospects of the issuer, including external credit ratings and recent downgrades for debt securities; intent to hold the security until its value recovers; and the likelihood that the Company would be required to sell the securities before a recovery in value, which may be at maturity. The term "other-than-temporary" is not intended to indicate that the decline is permanent. It indicates that the prospects for near-term recovery are not necessarily favorable or there is a lack of evidence to support fair values greater than or equal to the carrying value of the investment. Securities for which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value with the write-down recorded as a realized loss and included in net securities gains (losses), but only to the extent the impairment is related to credit deterioration. The amount of the impairment related to other factors is recognized in other comprehensive (loss) income unless management intends to sell the security in a short period of time or believes it is more likely than not that it will be required to sell the security prior to full recovery. For additional discussion on securities, see Notes 1 and 3 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

Income Taxes

We determine our income tax expense based on management's judgments and estimates regarding permanent differences in the treatment of specific items of income and expense for financial statement and income tax purposes. These permanent differences result in an effective tax rate that differs from the federal statutory rate. In addition, we recognize deferred tax assets and liabilities in the Consolidated Statements of Financial Condition based on management's judgment and estimates regarding timing differences in the recognition of income and expenses for financial statement and income tax purposes.

We also assess the likelihood that any deferred tax assets will be realized through the reduction or refund of taxes in future periods and establish a valuation allowance for those assets for which recovery is not more likely than not. In making this assessment, management makes judgments and estimates regarding the ability to realize the asset through carryback to taxable income in prior years, the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies. Management believes that it is more likely than not that deferred tax assets included in the accompanying Consolidated Statements of Financial Condition will be fully realized, although there is no guarantee that those assets will be recognizable in future periods. For additional discussion of income taxes, see Notes 1 and 14 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The disclosures set forth in this item are qualified by Item 1A. Risk Factors and the section captioned "Cautionary Statement Regarding Forward-Looking Statements" included in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this report, and other cautionary statements set forth elsewhere in this report.

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is our primary market risk and is the result of repricing, basis, and option risk. Repricing risk represents timing mismatches in our ability to alter contractual rates earned on interest-earning assets or paid on interest-bearing liabilities in response to changes in market interest rates. Basis risk refers to the potential for changes in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the spread between the rate earned on a loan or investment and the rate paid to fund that investment. Option risk arises from the "embedded options" present in many financial instruments, such as loan prepayment options or deposit early withdrawal options. These provide customers opportunities to take advantage of directional changes in interest rates and could have an adverse impact on our margin performance.

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

Net Interest Income Sensitivity

The analysis of net interest income sensitivity assesses the magnitude of changes in net interest income over a twelve-month measurement period resulting from immediate changes in interest rates using multiple rate scenarios. These scenarios include, but are not limited to, a flat or unchanged rate environment, immediate increases of 100, 200, and 300 basis points, and an immediate decrease of 100 basis points. Due to the low interest rate environment as of December 31, 2013 and 2012, management determined that an immediate decrease in interest rates greater than 100 basis points was not meaningful.

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

Our balance sheet is asset sensitive based on repricing and maturity characteristics and simulation analysis assumptions. The Bank's current simulation analysis indicates we would benefit from rising interest rates. Interest-earning assets consist of short and long-term products. As of December 31, 2013, 53% of the loan portfolio consisted of fixed rate loans and 47% were floating rate loans. Investments, consisting of securities and interest-bearing deposits in other banks, are more heavily weighted toward fixed rate securities at 72% of the total compared to 28% for floating rate interest-bearing deposits in other banks. Fixed rate loans are most sensitive to the 3-5 year portion of the yield curve and the Bank limits its loans with maturities that extend beyond 5 years. The majority of floating rate loans are indexed to the short-term Prime or LIBOR rates. The amount of floating rate loans with interest rate floors was $807.3 million, or 34%, of the floating rate loan portfolio as of December 31, 2013. On the liability side of the balance sheet, 80% of deposits are demand deposits and interest-bearing transactional deposits, which either do not pay interest or the interest rates are expected to rise at a slower pace than short-term interest rates.

Analysis of Net Interest Income Sensitivity

(Dollar amounts in thousands)

	Immediate Change in Rates			
	+300	**+200**	**+100**	**-100**
December 31, 2013:				
Dollar change	$ 45,209	$ 28,307	$ 11,925	$ (11,791)
Percent change	17.3%	10.8%	4.6%	(4.5)%
December 31, 2012:				
Dollar change	$ 31,488	$ 18,351	$ 7,707	$ (11,747)
Percent change	12.4%	7.2%	3.0%	(4.6)%

The sensitivity of estimated net interest income to an instantaneous parallel shift in interest rate changes is reflected as both dollar and percent changes. This table illustrates that an instantaneous 200 basis point rise in interest rates as of December 31, 2013 would increase net interest income $28.3 million, or 10.8%, over the next twelve months compared to no change in interest rates. This same measure was $18.4 million, or 7.2%, as of December 31, 2012.

Overall, in rising interest rate scenarios, interest rate risk volatility was more positive at December 31, 2013 compared to December 31, 2012. During 2013, floating rate loan balances increased, funded through an increase in interest-bearing transactional deposits, which are less rate sensitive. In addition, the number of commercial floating rate loans with floors decreased as a percentage of the portfolio, resulting in loan yields that will increase more significantly with rising interest rates compared to the prior year. While net interest income is projected to decline in a decreasing interest rate environment, we believe the risk of a significant decrease in interest rates is minimal.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Responsibility for Financial Statements

To Our Stockholders:

The accompanying consolidated financial statements were prepared by management, which is responsible for the integrity and objectivity of the data presented. In the opinion of management, the financial statements, which necessarily include amounts based on management's estimates and judgments, have been prepared in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and has expressed its unqualified opinion on these financial statements.

The Audit Committee of the Board of Directors, which oversees the Company's financial reporting process on behalf of the Board of Directors, is composed entirely of independent directors (as defined by the listing standards of NASDAQ). The Audit Committee meets periodically with management, the independent accountants, and the internal auditors to review matters relating to the Company's financial statements, compliance with legal and regulatory requirements relating to financial reporting and disclosure, annual financial statement audit, engagement of independent accountants, internal audit function, and system of internal controls. The internal auditors and the independent accountants periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

/s/ MICHAEL L. SCUDDER	/s/ PAUL F. CLEMENS
Michael L. Scudder President and Chief Executive Officer March 3, 2014	Paul F. Clemens Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of First Midwest Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of First Midwest Bancorp, Inc. (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Chicago, Illinois
March 3, 2014

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

	December 31, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 110,417	$ 149,420
Interest-bearing deposits in other banks	476,824	566,846
Trading securities, at fair value	17,317	14,162
Securities available-for-sale, at fair value	1,112,725	1,082,403
Securities held-to-maturity, at amortized cost (fair value 2013 $43,387; 2012 $36,023)	44,322	34,295
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank stock, at cost	35,161	47,232
Loans, excluding covered loans	5,580,005	5,189,676
Covered loans	134,355	197,894
Allowance for loan and covered loan losses	(85,505)	(99,446)
Net loans	5,628,855	5,288,124
Other real estate owned ("OREO"), excluding covered OREO	32,473	39,953
Covered OREO	8,863	13,123
Federal Deposit Insurance Corporation ("FDIC") indemnification asset	16,585	37,051
Premises, furniture, and equipment	120,204	121,596
Investment in bank-owned life insurance ("BOLI")	193,167	206,405
Goodwill and other intangible assets	276,366	281,059
Accrued interest receivable and other assets	180,128	218,170
Total assets	$ 8,253,407	$ 8,099,839
Liabilities		
Noninterest-bearing deposits	$ 1,911,602	$ 1,762,903
Interest-bearing deposits	4,854,499	4,909,352
Total deposits	6,766,101	6,672,255
Borrowed funds	224,342	185,984
Senior and subordinated debt	190,932	214,779
Accrued interest payable and other liabilities	70,590	85,928
Total liabilities	7,251,965	7,158,946
Stockholders' Equity		
Common stock	858	858
Additional paid-in capital	414,293	418,318
Retained earnings	853,740	786,453
Accumulated other comprehensive loss, net of tax	(26,792)	(15,660)
Treasury stock, at cost	(240,657)	(249,076)
Total stockholders' equity	1,001,442	940,893
Total liabilities and stockholders' equity	$ 8,253,407	$ 8,099,839

December 31, 2013		December 31, 2012	
Preferred Shares	**Common Shares**	**Preferred Shares**	**Common Shares**

Par value	None	$ 0.01	None	$ 0.01
Shares authorized	1,000	100,000	1,000	100,000
Shares issued	-	85,787	-	85,787
Shares outstanding	-	75,071	-	74,840
Treasury shares	-	10,716	-	10,947

See accompanying notes to the consolidated financial statements.

FIRST MIDWEST BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

	Years ended December 31,		
	2013	2012	2011
Interest Income			
Loans, excluding covered loans	$ 239,224	$ 248,752	$ 252,865
Covered loans	13,804	15,873	28,904
Investment securities taxable	12,249	12,670	14,115
Investment securities tax-exempt	18,644	20,253	22,544
Other short-term investments	3,326	3,021	3,083
Total interest income	287,247	300,569	321,511
Interest Expense			
Deposits	11,901	18,052	27,256
Borrowed funds	1,607	2,009	2,743
Senior and subordinated debt	13,607	14,840	9,892
Total interest expense	27,115	34,901	39,891
Net interest income	260,132	265,668	281,620
Provision for loan and covered loan losses	16,257	158,052	80,582
Net interest income after provision for loan and covered loan losses	243,875	107,616	201,038
Noninterest Income			
Service charges on deposit accounts	36,526	36,699	37,879
Card-based fees	21,649	20,852	19,593
Wealth management fees	24,185	21,791	20,324
Mortgage banking income	5,306	2,689	454
Merchant servicing fees	10,953	10,806	10,911
Other service charges, commissions, and fees	7,663	4,486	5,021
Net securities gains (losses)	34,164	(921)	2,410
BOLI (loss) income	(11,844)	1,307	2,231
Gain on termination of FHLB forward commitments	7,829	-	-
Gain on bulk loan sales	-	5,153	-
Other income	4,452	7,086	3,114
Total noninterest income	140,883	109,948	101,937
Noninterest Expense			
Salaries and wages	112,631	105,231	101,703
Retirement and other employee benefits	26,119	25,524	27,071
Net occupancy and equipment expense	31,832	32,699	32,953
Professional services	21,922	29,614	26,356
Technology and related costs	11,335	11,846	10,905
Net OREO expense	8,547	10,521	16,293
FDIC premiums	6,438	6,926	7,990
Advertising and promotions	7,754	5,073	6,198
Merchant card expense	8,780	8,584	8,643
Adjusted amortization of FDIC indemnification asset	1,500	6,705	-
Other expenses	19,879	24,777	23,792
Total noninterest expense	256,737	267,500	261,904

Income (loss) before income tax expense (benefit)		128,021		(49,936)		41,071
Income tax expense (benefit)		48,715		(28,882)		4,508
Net income (loss)		79,306		(21,054)		36,563
Preferred dividends and accretion on preferred stock		-		-		(10,776)
Net (income) loss applicable to non-vested restricted shares		(1,107)		306		(350)
Net income (loss) applicable to common shares	$	78,199	$	(20,748)	$	25,437
Per Common Share Data						
Basic earnings (loss) per common share	$	1.06	$	(0.28)	$	0.35
Diluted earnings (loss) per common share		1.06		(0.28)		0.35
Weighted-average common shares outstanding		73,984		73,665		73,289
Weighted-average diluted common shares outstanding		73,994		73,666		73,289

See accompanying notes to the consolidated financial statements.

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FIRST MIDWEST BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Years Ended December 31, 2013	2012	2011
Net income (loss)	$ 79,306	$ (21,054)	$ 36,563
Securities available-for-sale			
Unrealized holding (losses) gains:			
Before tax	(2,054)	1,513	34,303
Tax effect	711	(588)	(13,427)
Net of tax	(1,343)	925	20,876
Reclassification of net gains (losses) included in net income (loss):			
Before tax	34,164	(921)	2,410
Tax effect	(13,973)	377	(986)
Net of tax	20,191	(544)	1,424
Net unrealized holding (losses) gains	(21,534)	1,469	19,452
Unrecognized net pension costs			
Unrealized holding gains (losses):			
Before tax	17,600	(6,520)	(8,860)
Tax effect	(7,198)	2,667	3,871
Net of tax	10,402	(3,853)	(4,989)
Total other comprehensive (loss) income	(11,132)	(2,384)	14,463
Total comprehensive income (loss)	$ 68,174	$ (23,438)	$ 51,026

	Accumulated Unrealized (Loss) Gain on Securities Available-for-Sale	Unrecognized Net Pension Costs	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2010	$ (19,806)	$ (7,933)	$ (27,739)
Other comprehensive income (loss)	19,452	(4,989)	14,463
Balance at December 31, 2011	(354)	(12,922)	(13,276)
Other comprehensive income (loss)	1,469	(3,853)	(2,384)
Balance at December 31, 2012	1,115	(16,775)	(15,660)
Other comprehensive (loss) income	(21,534)	10,402	(11,132)
Balance at December 31, 2013	$ (20,419)	$ (6,373)	$ (26,792)

See accompanying notes to the consolidated financial statements.

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

	Common Shares Out-standing	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2010	74,096	$ 190,882	$ 858	$ 437,550	$ 787,678	$ (27,739)	$ (277,184)	$ 1,112,045
Comprehensive income	-	-	-	-	36,563	14,463	-	51,026
Common dividends declared ($0.04 per common share)	-	-	-	-	(2,978)	-	-	(2,978)
Preferred dividends declared ($44.86 per preferred share)	-	-	-	-	(8,658)	-	-	(8,658)
Accretion on preferred stock	-	2,118	-	-	(2,118)	-	-	-
Redemption of preferred stock	-	(193,000)	-	-	-	-	-	(193,000)
Redemption of common stock warrant	-	-	-	(910)	-	-	-	(910)
Share-based compensation expense	-	-	-	6,362	-	-	-	6,362
Restricted stock activity	335	-	-	(14,895)	-	-	13,507	(1,388)
Treasury stock issued to benefit plans	4	-	-	(106)	-	-	194	88
Balance at December 31, 2011	74,435	-	858	428,001	810,487	(13,276)	(263,483)	962,587
Comprehensive loss	-	-	-	-	(21,054)	(2,384)	-	(23,438)
Common dividends declared ($0.04 per common share)	-	-	-	-	(2,980)	-	-	(2,980)
Share-based compensation expense	-	-	-	6,004	-	-	-	6,004
Restricted stock activity	408	-	-	(15,604)	-	-	14,284	(1,320)
Treasury stock (purchased for) issued to benefit plans	(3)	-	-	(83)	-	-	123	40
Balance at December 31, 2012	74,840	-	858	418,318	786,453	(15,660)	(249,076)	940,893
Comprehensive income (loss)	-	-	-	-	79,306	(11,132)	-	68,174
Common dividends declared ($0.16 per common share)	-	-	-	-	(12,019)	-	-	(12,019)
Share-based compensation expense	-	-	-	5,903	-	-	-	5,903
Restricted stock activity	234	-	-	(9,814)	-	-	8,276	(1,538)
Treasury stock (purchased for) issued to benefit plans	(3)	-	-	(114)	-	-	143	29
Balance at December 31, 2013	75,071	$ -	$ 858	$ 414,293	$ 853,740	$ (26,792)	$ (240,657)	$ 1,001,442

See accompanying notes to the consolidated financial statements.

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

	Years ended December 31,		
	2013	2012	2011
Operating Activities			
Net income (loss)	$ 79,306	$ (21,054)	$ 36,563
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan and covered loan losses	16,257	158,052	80,582
Depreciation of premises, furniture, and equipment	11,038	10,874	10,995
Net amortization of premium on securities	9,174	22,433	10,314
Net securities (gains) losses	(34,164)	921	(2,410)
Gains on sales of loans	(4,717)	(7,422)	-
Gain on termination of FHLB forward commitments	(7,829)	-	-
Gain on FDIC-assisted transaction	-	(3,289)	-
Net losses on early extinguishment of debt	1,034	558	-
Net losses on sales and valuation adjustments of OREO	3,908	4,886	9,686
Net (gains) losses on sales and valuation adjustments of premises, furniture, and equipment	(79)	2,695	1,252
BOLI loss (income)	11,844	(1,307)	(2,231)
Net pension cost	2,169	2,813	3,911
Share-based compensation expense	5,903	6,004	6,362
Tax (expense) benefit related to share-based compensation	(10)	170	(179)
Net decrease (increase) in net deferred tax assets	33,467	(29,279)	2,160
Amortization of other intangible assets	3,278	3,372	3,802
Originations of mortgage loans held-for-sale	(40,681)	-	-
Proceeds from sales of mortgage loans held-for-sale	37,788	-	236
Net (increase) decrease in trading securities	(3,155)	307	813
Net decrease in accrued interest receivable and other assets	30,696	10,117	7,801
Net (decrease) increase in accrued interest payable and other liabilities	(21,859)	8,973	(2,536)
Net cash provided by operating activities	133,368	169,824	167,121
Investing Activities			
Proceeds from maturities, repayments, and calls of securities available-for-sale	219,458	362,481	271,511
Proceeds from sales of securities available-for-sale	78,636	153,668	188,556
Purchases of securities available-for-sale	(335,442)	(588,429)	(391,282)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	7,043	66,215	83,113
Purchases of securities held-to-maturity	(17,070)	(48,999)	(62,251)
Redemption of FHLB stock	12,071	11,918	3,151
Proceeds from bulk loan sales	-	94,470	-
Net increase in loans	(351,616)	(272,618)	(14,297)
Proceeds from claims on BOLI, net of purchases	1,394	1,137	2,588
Proceeds from sales of OREO	25,797	50,566	37,731
Proceeds from sales of premises, furniture, and equipment	1,463	6,768	5,542
Purchases of premises, furniture, and equipment	(11,030)	(8,764)	(11,018)
Proceeds received from the FDIC in FDIC-assisted transactions	-	21,996	-
Other net cash proceeds received in FDIC-assisted transactions	-	4,984	-
Net cash (used in) provided by investing activities	(369,296)	(144,607)	113,344
Financing Activities			
Net cash proceeds received in acquisition of deposits	-	-	106,499
Net increase (decrease) in deposit accounts	93,846	120,362	(139,037)
Net increase (decrease) in borrowed funds	38,358	(29,343)	(98,603)
(Payments for the retirement) proceeds from the issuance of subordinated debt	(24,094)	(37,033)	114,387
Proceeds received from the termination of FHLB forward commitments	7,829	-	-
Redemption of preferred stock and related common stock warrant	-	-	(193,910)
Cash dividends paid	(7,508)	(2,977)	(12,838)
Restricted stock activity	(1,607)	(1,469)	(1,256)
Excess tax benefit (expense) related to share-based compensation	79	(21)	47

Net cash provided by (used in) financing activities	106,903	49,519	(224,711)
Net (decrease) increase in cash and cash equivalents	(129,025)	74,736	55,754
Cash and cash equivalents at beginning of year	716,266	641,530	585,776
Cash and cash equivalents at end of year	$ 587,241	$ 716,266	$ 641,530
Supplemental Disclosures of Cash Flow Information:			
Income taxes paid (refunded)	$ 4,945	$ (6,845)	$ (12,388)
Interest paid to depositors and creditors	27,599	36,036	40,429
Dividends declared, but unpaid	5,260	749	746
Non-cash transfers of loans held-for-investment to loans held-for-sale	1,925	93,714	12,320
Non-cash transfers of loans held-for-sale to loans held-for-investment	-	1,957	-
Non-cash transfers of loans to OREO	17,965	47,628	52,249
Non-cash transfer of an investment from other assets to securities available-for-sale	2,787	-	-
Non-cash transfers of premises, furniture, and equipment to OREO	-	1,833	-
Non-cash transfers of OREO to premises, furniture, and equipment	-	-	841

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations First Midwest Bancorp, Inc. (the "Company") is a bank holding company that was incorporated in Delaware in 1982 and began operations on March 31, 1983. The Company is headquartered in Itasca, Illinois and has operations located primarily in the suburban metropolitan Chicago area, as well as central and western Illinois, eastern Iowa, and northwestern Indiana. The Company operates three wholly owned subsidiaries: First Midwest Bank (the "Bank"), Catalyst Asset Holdings, LLC ("Catalyst"), and Parasol Investment Management, LLC ("Parasol"). The Bank conducts the majority of the Company's operations. Catalyst manages a portion of the Company's non-performing assets. Parasol serves in an advisory capacity to certain wealth management accounts with the Bank.

The Company is engaged in commercial and retail banking and offers a comprehensive selection of financial products and services, including lending, depository, wealth management, and other related financial services tailored to the needs of its individual, business, institutional, and governmental customers.

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.

Basis of Presentation The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practice within the banking industry. 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.

The following is a summary of the Company's significant accounting policies.

Business Combinations Business combinations are accounted for under the purchase method of accounting. The net assets of the acquired business are recorded at their estimated fair values as of the date of acquisition, with any excess of the cost over the fair value of the identifiable intangible assets recorded as goodwill. The results of operations of the acquired business are included in the Consolidated Statements of Income from the effective date of the acquisition.

Cash and Cash Equivalents For purposes of the Consolidated Statements of Cash Flows, management defines cash and cash equivalents to include cash and due from banks, interest-bearing deposits in other banks, and other short-term investments, if any, such as federal funds sold and securities purchased under agreements to resell.

Securities Securities are classified as held-to-maturity, trading, or available-for-sale at the time of purchase.

Securities Held-to-Maturity Securities classified as held-to-maturity are securities for which management has the positive intent and ability to hold to maturity. These securities are stated at cost and adjusted for amortization of premiums and accretion of discounts over the estimated lives of the securities using the effective interest method.

Trading Securities The Company's trading securities consist of diversified investment securities 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. The accounts of the grantor trust are consolidated with the accounts of the Company in its consolidated financial statements. Trading securities are reported at fair value. Net trading gains (losses) represent changes in the fair value of the trading securities portfolio and are included in other noninterest income in the Consolidated Statements of Income. The corresponding deferred compensation obligation is also reported at fair value with unrealized gains and losses recognized as a component of compensation expense. Other than the securities held in the grantor trust, the Company does not carry any securities for trading purposes.

Securities Available-for-Sale All other securities are classified as available-for-sale. Securities available-for-sale 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.

The historical cost of debt securities is adjusted for amortization of premiums and accretion of discounts over the estimated life of the security using the effective interest method. Amortization of premiums and accretion of discounts are included in interest income.

Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in net securities gains (losses) in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. On a quarterly basis, the Company individually assesses securities with unrealized losses to determine whether there were any events or circumstances indicating that an other-than-temporary impairment ("OTTI") has occurred. In evaluating OTTI, the Company considers many factors, including (i) the severity and duration of the impairment; (ii) the financial condition and near-term prospects of the issuer, including external credit ratings and recent downgrades for debt securities; (iii) its intent to hold the security until its value recovers; and (iv) the likelihood that it will be required to sell the security before a recovery in value, which may be at maturity. If management intends to sell the security or believes it is more likely than not that it will be required to sell the security prior to full recovery, an OTTI charge will be recognized through income as a realized loss and included in net securities gains (losses) in the Consolidated Statements of Income. If management does not expect to sell the security or believes it is not more likely than not that it will be required to sell the security prior to full recovery, the OTTI is separated into the amount related to credit deterioration, which is recognized through income as a realized loss, and the amount resulting from other factors, which is recognized in other comprehensive (loss) income.

FHLB and Federal Reserve Bank Stock The Company, as a member of the FHLB and Federal Reserve Bank, is required to maintain an investment in the capital stock of the FHLB and Federal Reserve Bank. No ready market exists for these stocks, and they have no quoted market values. The stock is redeemable at par by the Federal Reserve Bank and FHLB and is, therefore, carried at cost and periodically evaluated for impairment.

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.

Purchased Impaired Loans Purchased impaired loans include acquired loans that had evidence of credit deterioration since origination and 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 and indicators included past performance of the failed institutions' credit underwriting standards, completeness and accuracy of credit files, maintenance of risk ratings, and age of appraisals. Lease and revolving loans do not qualify to be accounted for as purchased impaired loans, due to their nature. Purchased impaired loans are recorded at fair value on the acquisition date, and are accounted for prospectively based on estimates of expected cash flows. No allowance for credit losses is recorded on these loans at the acquisition date. 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 future cash flows can be reasonably estimated. The non-accretable yield represents the difference between contractually required payments and the cash flows expected to be collected at acquisition.

Subsequent increases in cash flows are recognized as interest income prospectively. The present value of any decreases in expected 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.

Purchased impaired loans are generally considered accruing loans unless reasonable estimates of the timing and amount of future cash flows cannot be determined. Loans without reasonable 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 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 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. Purchased impaired loans are not reported as impaired loans provided that estimates of the timing and amount of future cash flows can be reasonably determined.

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) and 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 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 discounted present value of the estimated cash flows of the covered purchased impaired loans. On a periodic basis, the adequacy of this allowance is determined through a re-estimation of cash flows on all of the outstanding covered purchased impaired loans using either a probability of default/loss given default ("PD/LGD") methodology or a specific review methodology. The PD/LGD model is an expected loss model that estimates 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.

OREO OREO consists of properties acquired through foreclosure in partial or total satisfaction of defaulted loans. At initial transfer into OREO, properties are recorded at fair value, less estimated selling costs. Subsequently, OREO is carried at the lower of the cost basis or fair value, less estimated selling costs. OREO also includes excess properties that the Company no longer intends to utilize. Those properties are transferred to OREO at the lower of their historical cost, less accumulated depreciation, or fair value, which represents the current appraised value of the properties, less selling costs. OREO write-downs occurring at the transfer date are charged against the allowance for loan and covered loan losses. Subsequent to the initial transfer, the carrying values of OREO may be adjusted to reflect reductions in value resulting from new appraisals, new list prices, changes in market conditions, or changes in disposition strategies. These valuation adjustments, along with expenses related to maintenance of the properties, are included in net OREO expense in the Consolidated Statements of Income.

FDIC Indemnification Asset The majority of loans and OREO acquired through FDIC-assisted transactions 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. 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 cash flows expected to be received from the FDIC. These cash flows are estimated by multiplying estimated losses on purchased impaired loans and OREO by the reimbursement rates in the FDIC Agreements.

The balance of the FDIC indemnification asset is adjusted periodically to reflect changes in estimated 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.

Depreciable Assets Premises, furniture, and equipment are stated at cost, less accumulated depreciation. Depreciation expense is determined by the straight-line method over the estimated useful lives of the assets. Useful lives range from 3 to 10 years for furniture and equipment and 25 to 40 years for premises. Leasehold improvements are amortized over the shorter of the life of the asset or the lease term. Gains on dispositions are included in other noninterest income, and losses on dispositions are included in other noninterest expense in the Consolidated Statements of Income. Maintenance and repairs are charged to operating expenses as incurred, while improvements that extend the useful life of assets are capitalized and depreciated over the estimated remaining life.

Long-lived depreciable assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of a long-lived asset are less than its carrying value. In that event, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis. Impairment losses are recorded in other noninterest expense in the Consolidated Statements of Income.

BOLI BOLI represents life insurance policies on the lives of certain Company directors and officers for which the Company is the sole owner and beneficiary. These policies are recorded as an asset in the Consolidated Statements of Financial Condition at their cash surrender value ("CSV") or the current amount that could be realized if settled. The change in CSV and insurance proceeds received are included as a component of noninterest income in the Consolidated Statements of Income.

Goodwill and Other Intangible Assets Goodwill represents the excess of the purchase price over the fair value of net assets acquired using the purchase method of accounting. Goodwill is not amortized. Instead, impairment testing is conducted annually or more often if events or circumstances between annual tests indicate that there may be impairment.

Impairment testing is performed using a two-step process. If, after assessing certain qualitative factors, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the two-step impairment test is not necessary. If the Company concludes otherwise, then the first step is performed. In the first step, management compares its estimate of the fair value of a reporting unit, which is based on a discounted cash flow analysis, with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step is not required. If necessary, the second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined by assigning the value of a reporting unit to all of the assets and liabilities of that unit, including any other identifiable intangible assets. An impairment loss is recognized if the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill.

Other intangible assets represent purchased assets that lack physical substance, but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Identified intangible assets that have a finite useful life are amortized over that life in a manner that reflects the estimated decline in the economic value of the identified intangible asset. All of the Company's other intangible assets have finite lives and are amortized over varying periods not exceeding 13 years.

Intangible assets are reviewed at least annually to determine whether there were any events or circumstances that indicate the recorded amount is not recoverable from projected undiscounted net operating cash flows. If the projected undiscounted net operating cash flows are less than the carrying amount, a loss is recognized to reduce the carrying amount to fair value and the amortization period may also be reduced. Unamortized intangible assets associated with disposed assets are included in the determination of the gain or loss on the sale of the disposed assets.

Wealth Management Assets held in a fiduciary or agency capacity for customers are not included in the consolidated financial statements as they are not assets of the Company or its subsidiaries. Fee income is recognized on an accrual basis and is included as a component of noninterest income in the Consolidated Statements of Income.

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 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 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. The unrealized gain or loss is reclassified into earnings in the same period the hedged transaction affects 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.

Comprehensive Income (Loss) Comprehensive income (loss) is the total of reported net income (loss) and other comprehensive (loss) income ("OCI"). OCI includes all other revenues, expenses, gains, and losses that are not reported in net income under GAAP. The Company includes the following items, net of tax, in other comprehensive (loss) income in the Consolidated Statements of Comprehensive Income: (i) changes in unrealized gains or losses on securities available-for-sale, (ii) changes in the fair value of derivatives designated as cash flow hedges (when applicable), and (iii) changes in unrecognized net pension costs related to the Company's pension plan.

Treasury Stock Treasury stock acquired is recorded at cost and is carried as a reduction of stockholders' equity in the Consolidated Statements of Financial Condition. Treasury stock issued is valued based on the "last in, first out" inventory method. The difference between the consideration received on issuance and the carrying value is charged or credited to additional paid-in capital.

Share-Based Compensation The Company accounts for share-based compensation using the modified prospective transition method and recognizes share-based compensation expense based on the estimated fair value of the option or award at the grant or modification date. Share-based compensation expense is included in salaries and wages in the Consolidated Statements of Income.

Income Taxes The Company files income tax returns in the U.S. federal jurisdiction and in Illinois, Indiana, Iowa, and Wisconsin. The provision for income taxes is based on income in the consolidated financial statements, rather than amounts reported on the Company's income tax return.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established for any deferred tax asset for which recovery or settlement is not more likely than not. The effect of a change in tax rates on deferred tax assets and liabilities is recognized as income or expense in the period that includes the enactment date.

Earnings per Common Share ("EPS") EPS is computed using the two-class method. Basic EPS is computed by dividing net income (loss) applicable to common shares by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Participating securities include non-vested restricted stock awards and restricted stock units, which contain nonforfeitable rights to dividends or dividend equivalents. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

Segment Disclosures The Company has one reportable segment. The Company's chief operating decision maker evaluates the operations of the Company using consolidated information for purposes of allocating resources and assessing performance. Therefore, segment disclosures are not required.

2. RECENT EVENTS

2012 Acquisition

On August 3, 2012, the Company acquired substantially all of the assets of the former Waukegan Savings Bank in an FDIC-assisted transaction generating a pre-tax gain of $3.3 million. The $46.3 million of acquired loans are not subject to FDIC Agreements. The transaction also included $72.7 million in deposits, which were comprised of $41.5 million in transactional deposits and $31.2 million in time deposits. As a result of the transaction, the Company recorded $781,000 in core deposit intangibles.

Adopted Accounting Guidance

Disclosures about Offsetting Assets and Liabilities: In December of 2011, the Financial Accounting Standards Board ("FASB") issued guidance on the presentation of offsetting assets and liabilities on the balance sheet, which was further clarified in January 2013. This guidance requires an entity to disclose both the gross information and net information regarding instruments and transactions eligible for offset, such as derivatives, sale and repurchase agreements, and securities borrowing and lending arrangements. The adoption of this guidance on January 1, 2013 did not impact the Company's financial condition, results of operations, or liquidity.

Technical Corrections and Improvements: In October of 2012, the FASB issued guidance to update the Accounting Standards Codification (the "Codification") on a variety of topics, which include source literature amendments, guidance clarification and reference corrections, and relocated guidance. In addition, the standard includes amendments to conform terminology and clarifies certain fair value guidance in the Codification. Amendments that did not have transition guidance were effective immediately, and amendments subject to transition guidance were adopted on January 1, 2013. The adoption did not have a material impact on the Company's financial condition, results of operations, or liquidity.

Comprehensive Income: In February of 2013, the FASB issued guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component on either the face of the income statement or as a separate disclosure in the notes to the financial statements. The Company provides disclosures related to amounts reclassified out of accumulated other comprehensive loss in the Consolidated Statements of Comprehensive Income. The adoption of this guidance on January 1, 2013 did not impact the Company's financial condition, results of operations, or liquidity.

Derivatives and Hedging: In July of 2013, the FASB issued guidance permitting the Federal Funds Effective Swap Rate, also known as the Overnight Index Swap ("OIS") rate, to be included as a benchmark interest rate for hedge accounting purposes. Previously, the United States Department of the Treasury ("Treasury") and the London Interbank Offered Rate ("LIBOR") were the only permitted benchmark interest rates. In addition, the standard eliminated the restriction on designating different benchmark interest rates for similar hedges. The adoption of this guidance on July 17, 2013 did not impact the Company's financial condition, results of operations, or liquidity.

Recently Issued Accounting Guidance

Income Taxes: In January of 2014, the 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. Management 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 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

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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.

3. SECURITIES

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

Securities Portfolio

(Dollar amounts in thousands)

	December 31,							
	2013				2012			
	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	$ 508	$ -	$ -	$ 508
Collateralized mortgage obligations ("CMOs")	490,962	1,427	(16,621)	475,768	397,146	3,752	(515)	400,383
Other mortgage-backed securities ("MBSs")	135,097	3,349	(2,282)	136,164	117,785	5,183	(68)	122,900
Municipal securities	457,318	9,673	(5,598)	461,393	495,906	24,623	(486)	520,043
Trust preferred collateralized debt obligations ("CDOs")	46,532	-	(28,223)	18,309	46,533	-	(34,404)	12,129
Corporate debt securities	12,999	1,930	-	14,929	13,006	2,333	-	15,339
Equity securities:								
Hedge fund investment	1,208	1,971	-	3,179	1,231	385	-	1,616
Other equity securities	2,498	75	(90)	2,483	8,459	1,026	-	9,485
Total equity securities	3,706	2,046	(90)	5,662	9,690	1,411	-	11,101
Total available- for-sale securities	$ 1,147,114	$ 18,425	$ (52,814)	$ 1,112,725	$ 1,080,574	$ 37,302	$ (35,473)	$ 1,082,403
Securities Held-to-Maturity								
Municipal securities	$ 44,322	$ -	$ (935)	$ 43,387	$ 34,295	$ 1,728	$ -	$ 36,023
Trading Securities				$ 17,317				$ 14,162

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Remaining Contractual Maturity of Securities

(Dollar amounts in thousands)

	December 31, 2013			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 12,879	$ 12,326	$ 3,366	$ 3,295
After one year to five years	86,727	83,002	10,950	10,719
After five years to ten years	232,362	222,383	8,041	7,871
After ten years	185,381	177,420	21,965	21,502
Securities that do not have a single contractual maturity date	629,765	617,594	-	-
Total	$ 1,147,114	$ 1,112,725	$ 44,322	$ 43,387

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 $755.3 million at December 31, 2013 and $675.3 million at December 31, 2012. No securities held-to-maturity were pledged as of December 31, 2013 or 2012.

Excluding securities issued or backed by the U.S. government and its agencies and U.S. government-sponsored enterprises, there were no investments in securities from one issuer that exceeded 10% of total stockholders' equity as of December 31, 2013 or 2012.

The following table presents net realized gains (losses) on securities.

Securities Gains (Losses)

(Dollar amounts in thousands)

	Years ended December 31,		
	2013	2012	2011
Gains (losses) on sales of securities:			
Gross realized gains	$ 34,572	$ 3,045	$ 4,103
Gross realized losses	-	(297)	(757)
Net realized gains on securities sales	34,572	2,748	3,346
Non-cash impairment charges:			
OTTI	(408)	(3,728)	(1,464)
Portion of OTTI recognized in other comprehensive (loss) income	-	59	528
Net non-cash impairment charges	(408)	(3,669)	(936)
Net realized gains (losses)	$ 34,164	$ (921)	$ 2,410
Net trading gains (losses) (1)	$ 3,189	$ 1,627	$ (691)
Net non-cash impairment charges:			
Municipal	$ 402	$ -	$ -
CMOs	6	1,443	-
CDOs	-	2,226	936
Total	$ 408	$ 3,669	$ 936

(1) All net trading gains (losses) relate to trading securities still held as of December 31, 2013, 2012, and 2011 and are included in other income in the Consolidated Statements of Income.

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Net gains realized on securities sales for the years ended December 31, 2013, 2012, and 2011 were $34.6 million, $2.7 million, and $3.3 million, respectively. During 2013, the Company sold its investment in an equity security which resulted in a $34.0 million gain.

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.

In deriving the credit component of the impairment on the CDOs, projected cash flows were discounted at the contractual rate and compared to the fair values computed by discounting future projected cash flows at LIBOR plus an adjustment to reflect the higher risk inherent in these securities given their complex structures and the impact of market factors. The following table presents the cumulative amount of OTTI on CDOs related to credit deterioration recognized by year in earnings.

OTTI on CDOs

(Dollar amounts in thousands)

	Years Ended December 31,			
Number	**2013**	**2012**	**2011**	**Life-to-Date**
1	$ -	$ -	$ -	$ 10,360
2	-	1,534	525	9,402
3	-	692	411	2,262
4	-	-	-	1,078
5	-	-	-	8,570
6	-	-	-	243
7	-	-	-	6,750
	$ -	$ 2,226	$ 936	$ 38,665

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 years ended December 31, 2013, 2012, and 2011.

Changes in OTTI Recognized in Earnings

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	**2012**	**2011**
Beginning balance	$ 38,803	$ 36,525	$ 35,589
OTTI included in earnings [(1)]:			
Losses on securities that previously had OTTI	-	2,278	936
Losses on securities that did not previously have OTTI	408	1,391	-
Reduction for securities sales [(2)]	(6,789)	(1,391)	-
Ending balance	$ 32,422	$ 38,803	$ 36,525

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

(2) During the year ended December 31, 2013, one CDO with a carrying value of zero was sold, resulting in a gain of $101,000. This CDO had OTTI of $6.8 million that was previously recognized in earnings.

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The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of December 31, 2013 and 2012.

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 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
As of December 31, 2012							
CMOs	19	$ 102,939	$ 421	$ 12,796	$ 94	$ 115,735	$ 515
Other MBSs	6	7,210	55	176	13	7,386	68
Municipal securities	49	28,903	459	1,238	27	30,141	486
CDOs	6	-	-	12,129	34,404	12,129	34,404
Total	80	$ 139,052	$ 935	$ 26,339	$ 34,538	$ 165,391	$ 35,473

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 December 31, 2013 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 December 31, 2013 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 21, "Fair Value."

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4. LOANS

Loans Held-for-Investment

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

Loan Portfolio

(Dollar amounts in thousands)

	December 31, 2013	December 31, 2012
Commercial and industrial	$ 1,830,638	$ 1,631,474
Agricultural	321,702	268,618
Commercial real estate:		
Office, retail, and industrial	1,353,685	1,333,191
Multi-family	332,873	285,481
Construction	186,197	186,416
Other commercial real estate	807,071	773,121
Total commercial real estate	2,679,826	2,578,209
Total corporate loans	4,832,166	4,478,301
Home equity	427,020	390,033
1-4 family mortgages	275,992	282,948
Installment	44,827	38,394
Total consumer loans	747,839	711,375
Total loans, excluding covered loans	5,580,005	5,189,676
Covered loans [(1)]	134,355	197,894
Total loans	$ 5,714,360	$ 5,387,570
Deferred loan fees included in total loans	$ 4,656	$ 5,941
Overdrawn demand deposits included in total loans	5,047	4,451

(1) For information on covered loans, refer to Note 5, "Acquired Loans."

The Company primarily lends to small 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.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate its business. As part of the underwriting process, the Company examines current and projected cash flows to determine the ability of the borrower to repay its obligation. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of the borrower may not be as expected, and the collateral securing these loans may fluctuate in value due to economic or other factors. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may incorporate a personal guarantee. Some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans substantially depend on the ability of the borrower to collect amounts due from its customers.

Agricultural loans are generally provided to meet seasonal production, equipment, and farm real estate borrowing needs of individual and corporate crop and livestock producers. As part of the underwriting process, the Company examines projected cash flows, financial statement stability, and the value of the underlying collateral. Seasonal crop production loans are repaid by the liquidation of the financed crop that is typically covered by crop insurance. Equipment and real estate term loans are repaid by profits generated by the farming operation.

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Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. The repayment of commercial real estate loans largely depends on the successful operation of the property or the business conducted on the property securing the loan. This category of loans may be more adversely affected by conditions in the real estate market. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography, and risk rating criteria. The mix of properties securing the loans in our commercial real estate portfolio are balanced between owner-occupied and investor categories and are diverse in terms of type and geographic location within the Company's markets.

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analyses of absorption and lease rates, and financial analyses of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the completed project. Sources of repayment for these loans may be permanent loans from long-term lenders, sales of developed property, or an interim loan commitment until permanent financing is obtained. Generally, construction loans have a higher risk profile than other real estate loans since repayment is impacted by real estate values, interest rate changes, governmental regulation of real property, demand and supply of alternative real estate, the availability of long-term financing, and changes in general economic conditions.

Consumer loans are centrally underwritten using a credit scoring model developed by the Fair Isaac Corporation "FICO". It uses a risk-based system to determine the probability that a borrower may default on financial obligations to the lender. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. Loan-to-value ratios on home equity and 1-4 family mortgages are based on the current value of the appraised collateral.

The carrying value of loans that were pledged to secure liabilities as of December 31, 2013 and 2012 are presented below.

Carrying Value of Loans Pledged

(Dollar amounts in thousands)

	December 31,	
	2013	**2012**
Loans pledged to secure:		
FHLB advances	$ 1,632,069	$ 721,141
Federal Reserve Bank's Discount Window Primary Credit Program	766,870	2,097,021
Total	$ 2,398,939	$ 2,818,162

Loan Sales

The following table presents loan sales for the years ended December 31, 2013, 2012, and 2011.

Loan Sales

(Dollar amounts in thousands)

	Proceeds	Book Value	Charge-offs [1]	Net Gains [2]
Loan sales in 2013				
Mortgage loans	$ 152,130	$ 147,413	$ -	$ 4,717
Non-performing loans	1,275	2,835	(1,560)	-
Total loan sales in 2013	$ 153,405	$ 150,248	$ (1,560)	$ 4,717
Loan sales in 2012				
Bulk loan sales	$ 94,470	$ 169,577	$ (80,260)	$ 5,153
Mortgage loans	52,595	50,326	-	2,269
Non-performing loans	4,200	6,587	(2,387)	-
Total loan sales in 2012	$ 151,265	$ 226,490	$ (82,647)	$ 7,422
Loan sales in 2011				
Non-performing loans	$ 12,362	$ 17,087	$ (4,725)	$ -

(1) Amount represents charge-offs to the allowance for loan and covered loan losses at the time the loans were identified for sale.

(2) The net gains on the bulk loan sales represent gains realized subsequent to the transfer to held-for-sale and are included as a separate component of noninterest income in the Consolidated Statements of Income. Net gains on mortgage loan sales are included in mortgage banking income in the Consolidated Statements of Income.

Mortgage Loan Sales

During the year ended December 31, 2013, a gain of $4.7 million was recognized on the sale of $147.4 million of mortgage loans, of which $36.6 million were originated with the intent to sell. For the year ended December 31, 2012, the Company sold $50.3 million of mortgage loans, resulting in a gain of $2.3 million. The Company retained servicing responsibilities on the majority of mortgages sold and collects servicing fees equal to a percentage of the outstanding principal balance of the loans being serviced. The Company also retained limited recourse for credit losses on the sold loans. A description of the recourse obligation is presented in Note 20, "Commitments, Guarantees, and Contingent Liabilities."

Bulk Loan Sales

During the third quarter of 2012, the Company identified certain non-performing and performing potential problem loans for accelerated disposition through bulk loan sales and transferred them into the held-for-sale category at the lower of the recorded investment or the estimated fair value, which resulted in charge-offs of $80.3 million and a provision for loan and covered loan losses of $62.3 million. The fair value was determined by the estimated bid price of the potential sale.

The bulk loan sales were completed in the fourth quarter of 2012, and net gains realized on the sales are included as a separate component of noninterest income in the Consolidated Statements of Income.

5. ACQUIRED LOANS

Since 2009, the Company acquired the majority of the assets and assumed the deposits of four financial institutions in FDIC-assisted transactions. In three of those transactions, most loans and OREO are covered by the FDIC Agreements. The significant accounting policies related to purchased impaired loans and the related FDIC indemnification asset are presented in Note 1, "Summary of Significant Accounting

Policies."

Acquired Loans

(Dollar amounts in thousands)

	December 31, 2013			December 31, 2012		
	Covered	Non-Covered	Total	Covered	Non-Covered	Total
Purchased impaired loans	$ 103,525 [1]	$ 15,608	$ 119,133	$ 154,762 [1]	$ 18,198	$ 172,960
Other loans [2]	30,830	17,024	47,854	43,132	22,480	65,612
Total acquired loans	$ 134,355	$ 32,632	$ 166,987	$ 197,894	$ 40,678	$ 238,572

(1) At acquisition, the Company made an election to account for certain covered loans as purchased impaired loans. These loans totaled $24.6 million at December 31, 2013 and $28.1 million at December 31, 2012.

(2) These loans did not meet the criteria to be accounted for as purchased impaired loans.

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 is in compliance with those requirements as of December 31, 2013, 2012, and 2011.

Changes in the FDIC Indemnification Asset

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	2012	2011
Beginning balance	$ 37,051	$ 65,609	$ 95,899
Amortization	(2,984)	(14,098)	(11,495)
Change in expected reimbursements from the FDIC for changes in expected credit losses	(1,242)	3,338	39,096
Payments received from the FDIC	(16,240)	(17,798)	(57,891)
Ending balance	$ 16,585	$ 37,051	$ 65,609

Changes in the accretable yield for purchased impaired loans were as follows.

Changes in Accretable Yield

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	2012	2011
Beginning balance	$ 51,498	$ 52,147	$ 63,616
Additions		7,224	
Accretion	(15,016)	(20,632)	(36,827)
Other [1]	310	12,759	25,358
Ending balance	$ 36,792	$ 51,498	$ 52,147

(1) Amount represents an increase in the estimated cash flows to be collected over the remaining estimated life of the underlying portfolio.

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6. 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 December 31, 2013 and 2012. 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
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	6,244	11,609	807,071	8,153	258
Total commercial real estate	2,641,532	8,326	29,968	38,294	2,679,826	33,374	1,573
Total corporate loans	4,777,348	15,332	39,486	54,818	4,832,166	45,660	1,966
Home equity	415,791	4,830	6,399	11,229	427,020	6,864	1,102
1-4 family mortgages	268,912	2,046	5,034	7,080	275,992	5,198	548
Installment	42,350	330	2,147	2,477	44,827	2,076	92
Total consumer loans	727,053	7,206	13,580	20,786	747,839	14,138	1,742
Total loans, excluding covered loans	5,504,401	22,538	53,066	75,604	5,580,005	59,798	3,708
Covered loans	94,211	2,232	37,912	40,144	134,355	20,942	18,081
Total loans	$ 5,598,612	$ 24,770	$ 90,978	$ 115,748	$ 5,714,360	$ 80,740	$ 21,789
December 31, 2012							
Commercial and industrial	$ 1,614,167	$ 4,883	$ 12,424	$ 17,307	$ 1,631,474	$ 25,941	$ 2,138
Agricultural	267,077	79	1,462	1,541	268,618	1,173	375
Commercial real estate:							
Office, retail, and industrial	1,306,526	4,130	22,535	26,665	1,333,191	23,224	823
Multi-family	283,634	761	1,086	1,847	285,481	1,434	153
Construction	181,090		5,326	5,326	186,416	5,485	
Other commercial real estate	755,103	1,053	16,965	18,018	773,121	16,214	1,534
Total commercial real estate	2,526,353	5,944	45,912	51,856	2,578,209	46,357	2,510

Total corporate loans	4,407,597	10,906	59,798	70,704	4,478,301	73,471	5,023
Home equity	376,801	6,482	6,750	13,232	390,033	6,189	1,651
1-4 family mortgages	272,270	4,472	6,206	10,678	282,948	4,874	1,947
Installment	35,936	2,390	68	2,458	38,394		68
Total consumer loans	685,007	13,344	13,024	26,368	711,375	11,063	3,666
Total loans, excluding covered loans	5,092,604	24,250	72,822	97,072	5,189,676	84,534	8,689
Covered loans	147,462	6,517	43,915	50,432	197,894	14,182	31,447
Total loans	$ 5,240,066	$ 30,767	$ 116,737	$ 147,504	$ 5,387,570	$ 98,716	$ 40,136

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. Refer to 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 years ended December 31, 2013, 2012, and 2011 is presented in the table below.

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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
December 31, 2013									
Beginning balance	$ 36,761	$ 11,432	$ 3,575	$ 9,223	$ 13,531	$ 12,862	$ 12,062	$ 3,366	$ 102,812
Charge-offs	(12,094)	(4,744)	(1,029)	(1,916)	(4,784)	(9,414)	(4,599)		(38,580)
Recoveries	3,797	228	584	1,032	1,646	1,071	24		8,382
Net charge-offs	(8,297)	(4,516)	(445)	(884)	(3,138)	(8,343)	(4,575)		(30,198)
Provision for loan and covered loan losses and other	1,917	3,489	(1,113)	(2,023)	424	8,491	5,072	(1,750)	14,507
Ending Balance	$ 30,381	$ 10,405	$ 2,017	$ 6,316	$ 10,817	$ 13,010	$ 12,559	$ 1,616	$ 87,121
December 31, 2012									
Beginning balance	$ 46,017	$ 16,012	$ 5,067	$ 17,795	$ 19,451	$ 14,131	$ 989	$ 2,500	$ 121,962
Charge-offs	(64,668)	(34,968)	(3,361)	(27,811)	(36,474)	(10,910)	(4,615)		(182,807)
Recoveries	3,393	577	275	451	125	784			5,605
Net charge-offs	(61,275)	(34,391)	(3,086)	(27,360)	(36,349)	(10,126)	(4,615)		(177,202)
Provision for loan and covered loan losses and other	52,019	29,811	1,594	18,788	30,429	8,857	15,688	866	158,052
Ending balance	$ 36,761	$ 11,432	$ 3,575	$ 9,223	$ 13,531	$ 12,862	$ 12,062	$ 3,366	$ 102,812
December 31, 2011									
Beginning balance	$ 49,545	$ 20,758	$ 3,996	$ 32,140	$ 23,655	$ 12,478	$	$ 2,500	$ 145,072
Charge-offs	(32,750)	(8,193)	(14,584)	(20,211)	(15,396)	(10,531)	(9,911)		(111,576)
Recoveries	3,493	79	410	2,964	508	430			7,884
Net charge-offs	(29,257)	(8,114)	(14,174)	(17,247)	(14,888)	(10,101)	(9,911)		(103,692)
Provision for loan and covered loan losses and other	25,729	3,368	15,245	2,902	10,684	11,754	10,900		80,582
Ending balance	$ 46,017	$ 16,012	$ 5,067	$ 17,795	$ 19,451	$ 14,131	$ 989	$ 2,500	$ 121,962

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The table below provides a breakdown of loans and the related allowance for credit losses by portfolio segment.

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	Purchased Impaired	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Impaired	Total
December 31, 2013								
Commercial, industrial, and agricultural	$ 13,178	$ 2,137,440	$ 1,722	$ 2,152,340	$ 4,046	$ 26,335	$ -	$ 30,381
Commercial real estate:								
Office, retail, and industrial	26,348	1,327,337	-	1,353,685	214	10,191	-	10,405
Multi-family	1,296	331,445	132	332,873	18	1,999	-	2,017
Construction	5,712	180,485	-	186,197	178	6,138	-	6,316
Other commercial real estate	9,298	793,703	4,070	807,071	704	10,113	-	10,817
Total commercial real estate	42,654	2,632,970	4,202	2,679,826	1,114	28,441	-	29,555
Total corporate loans	55,832	4,770,410	5,924	4,832,166	5,160	54,776	-	59,936
Consumer	-	738,155	9,684	747,839	-	13,010	-	13,010
Total loans, excluding covered loans	55,832	5,508,565	15,608	5,580,005	5,160	67,786	-	72,946
Covered loans:								
Purchased impaired loans	-	-	103,525	103,525	-	-	11,857	11,857
Other loans	-	30,830	-	30,830	-	702	-	702
Total covered loans	-	30,830	103,525	134,355	-	702	11,857	12,559
Reserve for unfunded commitments	-	-	-	-	-	1,616	-	1,616
Total loans	$ 55,832	$ 5,539,395	$ 119,133	$ 5,714,360	$ 5,160	$ 70,104	$ 11,857	$ 87,121
December 31, 2012								
Commercial, industrial, and agricultural	$ 23,731	$ 1,874,464	$ 1,897	$ 1,900,092	$ 9,404	$ 27,357	$ -	$ 36,761
Commercial real estate:								
Office, retail, and industrial	21,736	1,311,455	-	1,333,191	971	10,461	-	11,432
Multi-family	642	284,718	121	285,481	-	3,575	-	3,575
Construction	4,916	181,500	-	186,416	90	9,133	-	9,223
Other commercial real estate	15,284	753,671	4,166	773,121	1,157	12,374	-	13,531
Total commercial real estate	42,578	2,531,344	4,287	2,578,209	2,218	35,543	-	37,761
Total corporate loans	66,309	4,405,808	6,184	4,478,301	11,622	62,900	-	74,522
Consumer	-	699,361	12,014	711,375	-	12,862	-	12,862
Total loans, excluding covered loans	66,309	5,105,169	18,198	5,189,676	11,622	75,762	-	87,384
Covered loans:								

Purchased impaired loans	-	-	154,762	154,762	-	-	11,134	11,134
Other loans	-	43,132	-	43,132	-	928	-	928
Total covered loans	-	43,132	154,762	197,894	-	928	11,134	12,062
Reserve for unfunded commitments	-	-	-	-	-	3,366	-	3,366
Total loans	$ 66,309	$ 5,148,301	$ 172,960	$ 5,387,570	$ 11,622	$ 80,056	$ 11,134	$ 102,812

Loans Individually Evaluated for Impairment

The following table presents loans individually evaluated for impairment by class of loan as of December 31, 2013 and 2012. Purchased impaired loans are excluded from this disclosure.

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Impaired Loans Individually Evaluated by Class

(Dollar amounts in thousands)

	December 31, 2013				December 31, 2012			
	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	$ 10,047	$ 3,131	$ 25,887	$ 4,046	$ 5,636	$ 18,095	$ 39,834	$ 9,404
Agricultural	-	-	-	-	-	-	-	-
Commercial real estate:								
Office, retail, and industrial	23,872	2,476	35,868	214	14,504	7,232	29,631	971
Multi-family	1,098	198	1,621	18	642	-	2,406	-
Construction	4,586	1,126	10,037	178	4,040	876	11,983	90
Other commercial real estate	7,553	1,745	11,335	704	5,218	10,066	23,907	1,157
Total commercial real estate	37,109	5,545	58,861	1,114	24,404	18,174	67,927	2,218
Total impaired loans individually evaluated for impairment	$ 47,156	$ 8,676	$ 84,748	$ 5,160	$ 30,040	$ 36,269	$ 107,761	$ 11,622

The average recorded investment and interest income recognized on impaired loans by class for the three years ended December 31, 2013 is presented in the following table.

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

(Dollar amounts in thousands)

	Years Ended December 31,					
	2013		2012		2011	
	Average Recorded Balance	Interest Income Recognized (1)	Average Recorded Balance	Interest Income Recognized (1)	Average Recorded Balance	Interest Income Recognized (1)
Commercial and industrial	$ 20,925	$ 205	$ 45,101	$ 94	$ 44,449	$ 326
Agricultural	-	-	1,138	-	1,515	-
Commercial real estate:						
Office, retail, and industrial	24,802	18	32,439	2	33,038	81
Multi-family	1,116	8	6,226	-	13,619	44
Construction	5,932	-	31,202	1	62,513	69
Other commercial real estate	13,141	31	35,715	38	17,180	76
Total commercial real estate	44,991	57	105,582	41	126,350	270
Total impaired loans	$ 65,916	$ 262	$ 151,821	$ 135	$ 172,314	$ 596

(1) Recorded using the cash basis of accounting.

Credit Quality Indicators

Corporate loans and commitments are assessed for credit risk and assigned ratings based on various characteristics, such as the borrower's cash flow, leverage, and collateral. Ratings for commercial credits are reviewed periodically. The following tables present credit quality indicators by class for corporate and consumer loans, excluding covered loans, as of December 31, 2013 and 2012.

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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
December 31, 2013					
Commercial and industrial	$ 1,780,194	$ 23,806	$ 14,871	$ 11,767	$ 1,830,638
Agricultural	320,839	344	-	519	321,702
Commercial real estate:					
Office, retail, and industrial	1,284,394	28,677	23,538	17,076	1,353,685
Multi-family	326,901	3,214	910	1,848	332,873
Construction	153,949	8,309	17,642	6,297	186,197
Other commercial real estate	761,465	14,877	22,576	8,153	807,071
Total commercial real estate	2,526,709	55,077	64,666	33,374	2,679,826
Total corporate loans	$ 4,627,742	$ 79,227	$ 79,537	$ 45,660	$ 4,832,166
December 31, 2012					
Commercial and industrial	$ 1,558,932	$ 37,833	$ 8,768	$ 25,941	$ 1,631,474
Agricultural	267,114	331	-	1,173	268,618
Commercial real estate:					
Office, retail, and industrial	1,235,950	57,271	16,746	23,224	1,333,191
Multi-family	282,126	1,921	-	1,434	285,481
Construction	128,959	26,210	25,762	5,485	186,416
Other commercial real estate	712,702	14,056	30,149	16,214	773,121
Total commercial real estate	2,359,737	99,458	72,657	46,357	2,578,209
Total corporate loans	$ 4,185,783	$ 137,622	$ 81,425	$ 73,471	$ 4,478,301

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

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

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

(4) Total special mention and substandard loans includes accruing TDRs of $2.8 million as of December 31, 2013 and $448,000 as of December 31, 2012.

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Consumer Credit Quality Indicators by Class, Excluding Covered Loans

(Dollar amounts in thousands)

	Performing	Non-accrual	Total
December 31, 2013			
Home equity	$ 420,156	$ 6,864	$ 427,020
1-4 family mortgages	270,794	5,198	275,992
Installment	42,751	2,076	44,827
Total consumer loans	$ 733,701	$ 14,138	$ 747,839
December 31, 2012			
Home equity	$ 383,844	$ 6,189	$ 390,033
1-4 family mortgages	278,074	4,874	282,948
Installment	38,394	-	38,394
Total consumer loans	$ 700,312	$ 11,063	$ 711,375

TDRs

TDRs are generally performed at the request of the individual borrower and may include forgiveness of principal, reduction in interest rates, changes in payments, and maturity date extensions. The table below presents TDRs by class as of December 31, 2013 and 2012. Refer to Note 1, "Summary of Significant Accounting Policies," for the accounting policy for TDRs.

TDRs by Class

(Dollar amounts in thousands)

	As of December 31, 2013			As of December 31, 2012		
	Accruing	Non-accrual (1)	Total	Accruing	Non-accrual (1)	Total
Commercial and industrial	$ 6,538	$ 2,121	$ 8,659	$ 519	$ 2,545	$ 3,064
Agricultural	-	-	-	-	-	-
Commercial real estate:						
Office, retail, and industrial	10,271	-	10,271	-	2,407	2,407
Multi-family	1,038	253	1,291	-	150	150
Construction	-	-	-	-	-	-
Other commercial real estate	4,326	291	4,617	5,206	4,649	9,855
Total commercial real estate	15,635	544	16,179	5,206	7,206	12,412
Total corporate loans	22,173	2,665	24,838	5,725	9,751	15,476
Home equity	787	512	1,299	40	234	274
1-4 family mortgages	810	906	1,716	1,102	939	2,041
Installment	-	-	-	-	-	-
Total consumer loans	1,597	1,418	3,015	1,142	1,173	2,315
Total loans	$ 23,770	$ 4,083	$ 27,853	$ 6,867	$ 10,924	$ 17,791

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

TDRs are included in the calculation of the allowance for credit losses in the same manner as impaired loans. TDRs had related specific reserves totaling $2.0 million as of December 31, 2013 and $2.8 million as of December 31, 2012.

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The following table presents a summary of loans that were restructured during the years ended December 31, 2013, 2012, and 2011.

TDRs Restructured During the Period

(Dollar amounts in thousands)

	Number of Loans	Pre-Modification Recorded Investment	Funds Disbursed	Interest and Escrow Capitalized	Charge-offs	Post-Modification Recorded Investment
Year Ended December 31, 2013						
Commercial and industrial	7	$ 14,439	$ -	$ 2	$ -	$ 14,441
Office, retail, and industrial	6	2,275	30	-	-	2,305
Multi-family	5	1,274	-	57	-	1,331
Construction	2	508	-	-	-	508
Other commercial real estate	5	526	-	-	-	526
Home equity	13	1,189	-	-	-	1,189
1-4 family mortgages	1	132	-	4	-	136
Total TDRs restructured in 2013	39	$ 20,343	$ 30	$ 63	$ -	$ 20,436
Year Ended December 31, 2012						
Commercial and industrial	5	$ 3,277	$ -	$ -	$ 170	$ 3,107
Office, retail, and industrial	2	2,416	-	-	-	2,416
Other commercial real estate	5	1,070	-	-	125	945
Home equity	1	19	-	-	-	19
1-4 family mortgages	4	563	-	4	-	567
Total TDRs restructured in 2012	17	$ 7,345	$ -	$ 4	$ 295	$ 7,054
Year Ended December 31, 2011						
Commercial and industrial	10	$ 886	$ -	$ 7	$ -	$ 893
Office, retail, and industrial	3	3,407	293	9	-	3,709
Multi-family	1	14,107	-	-	3,000	11,107
Construction	1	17,508	-	-	-	17,508
Other commercial real estate	1	174	-	74	-	248
Home equity	9	523	-	15	-	538
1-4 family mortgages	11	1,440	-	79	-	1,519
Installment	1	151	-	4	-	155
Total TDRs restructured in 2011	37	$ 38,196	$ 293	$ 188	$ 3,000	$ 35,677

Accruing TDRs that do not perform in accordance with their modified terms are transferred to non-accrual. The following table presents TDRs that had payment defaults during the years ended December 31, 2013 and 2012 where the default occurred within twelve months of the restructure date.

TDRs That Defaulted Within Twelve Months of the Restructured Date

(Dollar amounts in thousands)

	Years Ended December 31,					
	2013		2012		2011	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	1	$ 350	-	$ -	1	$ 128
Office, retail, and industrial	-	-	2	837	1	397
Other commercial real estate	3	354	2	717	-	-
Home equity	-	-	-	-	1	83
1-4 family mortgages	-	-	1	62	2	331
Total	4	$ 704	5	$ 1,616	5	$ 939

A rollforward of the carrying value of TDRs for the years ended December 31, 2013, 2012, and 2011 is presented in the following table.

TDR Rollforward

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	2012	2011
Accruing			
Beginning balance	$ 6,867	$ 17,864	$ 22,371
Additions	4,847	2,504	17,921
Net payments received	(723)	(205)	(1,957)
Returned to performing status	(5,529)	(16,619)	(25,697)
Net transfers from non-accrual	18,308	3,323	5,226
Ending balance	23,770	6,867	17,864
Non-accrual			
Beginning balance	10,924	29,842	33,753
Additions	15,589	4,550	17,756
Net payments received	(1,359)	(1,761)	(7,123)
Charge-offs	(1,880)	(10,003)	(8,890)
Transfers to OREO	(77)	(6,778)	(428)
Loans sold	(806)	(1,603)	-
Net transfers to accruing	(18,308)	(3,323)	(5,226)
Ending balance	4,083	10,924	29,842
Total TDRs	$ 27,853	$ 17,791	$ 47,706

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. TDRs that were returned to performing status totaled $5.5 million, $16.6 million, and $25.7 million for the years ended December 31, 2013, 2012, and 2011, respectively. Loans that were not restructured at market rates and terms, that are not in compliance with the modified terms, or for which there is a concern about the future ability of the borrower to meet its obligations under the modified terms, continue to be separately reported as restructured until paid in full or charged-off.

As of December 31, 2013, there were $180,000 in commitments to lend additional funds to borrowers with TDRs, and there were no commitments as of December 31, 2012.

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7. PREMISES, FURNITURE, AND EQUIPMENT

The following table summarizes the Company's premises, furniture, and equipment by category.

Premises, Furniture, and Equipment

(Dollar amounts in thousands)

	December 31,	
	2013	**2012**
Land	$ 48,590	$ 49,744
Premises	139,336	143,441
Furniture and equipment	81,002	75,481
Total cost	268,928	268,666
Accumulated depreciation	(152,751)	(148,738)
Net book value of premises, furniture, and equipment	116,177	119,928
Assets held-for-sale	4,027	1,668
Total premises, furniture, and equipment	$ 120,204	$ 121,596

	Years Ended December 31,		
	2013	**2012**	**2011**
Depreciation expense on premises, furniture, and equipment	$ 11,038	$ 10,874	$ 10,995
Valuation adjustments on excess properties and assets held-for-sale	-	2,597	1,111

Operating Leases

As of December 31, 2013, the Company was obligated to utilize certain premises and equipment under certain non-cancelable operating leases, which expire at various dates through the year ended December 31, 2024. Many of these leases contain renewal options, and certain leases provide options to purchase the leased property during or at the expiration of the lease period at specific prices. Some leases contain escalation clauses calling for rentals to be adjusted for increased real estate taxes and other operating expenses, or proportionately adjusted for increases in consumer or other price indices. The following summary reflects the future minimum payments by year required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2013.

Future Minimum Operating Lease Payments

(Dollar amounts in thousands)

	Total
Year ending December 31,	
2014	$ 3,774
2015	3,592
2016	3,564
2017	3,013
2018	2,907
2019 and thereafter	4,059
Total minimum lease payments	$ 20,909

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	Years Ended December 31,		
	2013	2012	2011
Lease expense charged to operations [(1)]	$ 3,123	$ 3,379	$ 4,193
Rental income from premises leased to others [(2)]	531	931	1,136

(1) Includes amounts paid under short-term cancelable leases and included in net occupancy and equipment expense in the Consolidated Statements of Income.

(2) Included as a reduction to net occupancy and equipment expense in the Consolidated Statements of Income.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's annual goodwill impairment test was performed as of October 1, 2013. It was determined that no impairment existed as of that date. Goodwill is tested for impairment at the reporting unit level. All of our goodwill is allocated to First Midwest Bancorp, Inc., which is the Company's only applicable reporting unit for purposes of testing goodwill impairment. The carrying amount of goodwill was $264.1 million at December 31, 2013 and $265.5 million at December 31, 2012. Goodwill decreased $1.4 million from the prior year as a result of the sale of an equity method investment during the year ended December 31, 2013. For a discussion of the accounting policies for goodwill and other intangible assets, refer to Note 1, "Summary of Significant Accounting Policies."

The Company's other intangible assets are core deposit intangibles, which are being amortized over their estimated useful lives. The Company's annual impairment testing was performed as of November 30, 2013 by comparing the carrying value of other intangible assets with our anticipated discounted future cash flows, and it was determined that no impairment existed as of that date.

Other Intangible Assets

(Dollar amounts in thousands)

	Years Ended December 31,								
	2013			2012			2011		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Beginning balance	$ 33,775	$ 18,193	$ 15,582	$ 34,318	$ 16,145	$ 18,173	$ 42,832	$ 22,276	$ 20,556
Additions	-	-	-	781	-	781	1,419	-	1,419
Amortization expense	-	3,278	(3,278)	-	3,372	(3,372)	-	3,802	(3,802)
Fully amortized assets	-	-	-	(1,324)	(1,324)	-	(9,933)	(9,933)	-
Ending balance	$ 33,775	$ 21,471	$ 12,304	$ 33,775	$ 18,193	$ 15,582	$ 34,318	$ 16,145	$ 18,173
Weighted-average remaining life (in years)			5.9			6.4			6.9
Estimated useful lives (in years)			3.3 to 12.8			3.3 to 12.8			3.3 to 12.6

Scheduled Amortization of Other Intangible Assets

(Dollar amounts in thousands)

	Total
Year ending December 31,	
2014	$ 2,689
2015	2,500
2016	2,424
2017	1,643
2018	719
2019 and thereafter	2,329
Total	$ 12,304

9. DEPOSITS

The following table presents the Company's deposits by type.

Summary of Deposits

(Dollar amounts in thousands)

	December 31, 2013	December 31, 2012
Demand deposits	$ 1,911,602	$ 1,762,903
Savings deposits	1,135,155	1,092,545
NOW accounts	1,220,693	1,160,680
Money market deposits	1,290,868	1,256,179
Time deposits less than $100,000	820,925	963,850
Time deposits greater than $100,000	386,858	436,098
Total deposits	$ 6,766,101	$ 6,672,255

The following table provides maturity information related to the Company's time deposits.

Scheduled Maturities of Time Deposits

(Dollar amounts in thousands)

	Total
Year ending December 31,	
2014	$ 785,458
2015	232,131
2016	106,335
2017	52,826
2018	30,719
2019 and thereafter	314
Total	$ 1,207,783

10. BORROWED FUNDS

The following table summarizes the Company's borrowed funds by funding source.

Summary of Borrowed Funds

(Dollar amounts in thousands)

	December 31, 2013	December 31, 2012
Securities sold under agreements to repurchase	$ 109,792	$ 71,403
FHLB advances	114,550	114,581
Total borrowed funds	$ 224,342	$ 185,984

Securities sold under agreements to repurchase are treated as financings, and the obligations to repurchase securities sold are included as a liability in the Consolidated Statements of Financial Condition. Repurchase agreements are secured by the Treasury, and U.S. agency securities and are held in third party pledge accounts, if required. The securities underlying the agreements remain in the respective asset accounts. As of December 31, 2013, the Company did not have amounts at risk under repurchase agreements with any individual counterparty or group of counterparties that exceeded 10% of stockholders' equity.

The Bank is a member of the FHLB and has access to term financing from the FHLB. These advances are secured by designated assets that may include qualifying residential and multi-family mortgages, home equity loans, and municipal and mortgage-backed securities. At December 31, 2013, all advances from the FHLB have a fixed rate with interest payable monthly.

Maturity and Rate Schedule for FHLB Advances

(Dollar amounts in thousands)

	December 31, 2013			December 31, 2012		
Maturity Date		Advance Amount	Rate %		Advance Amount	Rate %
January 21, 2014	$	-	-	$	37,500	1.15
January 20, 2015		-	-		25,000	1.94
January 20, 2015		-	-		50,000	2.02
February 23, 2015		37,500	0.80		-	-
August 20, 2015		2,050	1.92		2,081	1.92
February 22, 2017		25,000	1.56		-	-
February 22, 2017		50,000	1.60		-	-
	$	114,550	1.34	$	114,581	1.72

Short-Term Credit Lines Available for Use

(Dollar amounts in thousands)

	December 31,			
		2013		2012
Available federal funds lines [1]	$	681,100	$	500,600
Federal Reserve Bank's Discount Window Primary Credit Program		632,498		1,625,826

(1) Subject to the liquidity position of other banks.

None of the Company's borrowings have any related compensating balance requirements that restrict the use of Company assets.

11. SENIOR AND SUBORDINATED DEBT

The following table presents the Company's senior and subordinated debt by issuance.

Senior and Subordinated Debt

(Dollar amounts in thousands)

	December 31,			
		2013		2012
5.875% senior notes due in 2016				
Principal amount	$	115,000	$	115,000
Discount		(355)		(477)
Total senior notes due in 2016		114,645		114,523
5.85% subordinated notes due in 2016				
Principal amount		38,500		38,500
Discount		(9)		(14)
Total subordinated notes due in 2016		38,491		38,486
6.95% junior subordinated debentures due in 2033				
Principal amount		37,825		61,820

Discount		(29)		(50)
Total junior subordinated debentures		37,796		61,770
Total senior and subordinated debt	$	190,932	$	214,779

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Debt Retirement

During the fourth quarter of 2013, the Company repurchased and retired $24.0 million of junior subordinated debentures at a premium of 3.5%. This transaction resulted in the recognition of a pre-tax loss of $1.0 million and is included in other noninterest income in the Consolidated Statements of Income.

During the first quarter of 2012, the Company repurchased and retired $21.1 million of junior subordinated debentures at a discount of 2.3%. During the fourth quarter of 2012, the Company repurchased and retired $4.3 million of junior subordinated debentures at a premium of 3.0% and $12.0 million of subordinated notes at a premium of 5.0%. Net pre-tax losses for these transactions totaled $558,000.

12. MATERIAL TRANSACTIONS AFFECTING STOCKHOLDERS' EQUITY

Redemption of Preferred Shares

In response to the financial crises affecting the financial markets and the banking system in 2008, the Treasury announced several initiatives under the Troubled Asset Relief Program ("TARP") intended to help stabilize the banking industry. As part of this program, the Company issued to the Treasury a total of 193,000 preferred shares and a warrant to purchase up to 1,305,230 shares of the Company's common stock in exchange for $193.0 million in cash.

In November of 2011, the Company redeemed all of the $193.0 million of preferred shares issued to the Treasury. The redemption was funded through a combination of existing liquid assets and the proceeds from a $115.0 million senior debt issuance. In December of 2011, the Company redeemed the Treasury's common stock warrant for $900,000, which concluded the Company's participation in the TARP.

The Company paid total dividends to the Treasury of $8.7 million in 2011.

Quarterly Dividend on Common Shares

The Board of Directors of First Midwest Bancorp, Inc. ("the Board") declared quarterly stock dividends of $0.01 per share from 2011 through the first quarter of 2013. The Company increased the dividend to $0.04 per share during the second quarter of 2013 and to $0.07 per share during the fourth quarter of 2013.

There were no additional material transactions that affected stockholders' equity during the three years ended December 31, 2013.

13. EARNINGS PER COMMON SHARE

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

Basic and Diluted Earnings (Loss) per Common Share

(Amounts in thousands, except per share data)

	Years Ended December 31,		
	2013	2012	2011
Net income (loss)	$ 79,306	$ (21,054)	$ 36,563
Preferred dividends	-	-	(8,658)
Accretion on preferred stock [1]	-	-	(2,118)
Net (income) loss applicable to participating securities	(1,107)	306	(350)
Net income (loss) applicable to common shares	$ 78,199	$ (20,748)	$ 25,437
Weighted-average common shares outstanding:			
Weighted-average common shares outstanding (basic)	73,984	73,665	73,289
Dilutive effect of common stock equivalents	10	1	-
Weighted-average diluted common shares outstanding	73,994	73,666	73,289
Basic earnings (loss) per common share	$ 1.06	$ (0.28)	$ 0.35
Diluted earnings (loss) per common share	1.06	(0.28)	0.35
Anti-dilutive shares not included in the computation of diluted earnings per common share [2]	1,462	1,759	3,511

(1) Includes $1.5 million in accelerated amortization related to the redemption of preferred stock during the year ended December 31, 2011.

(2) This amount represents outstanding stock options (and a common stock warrant during the year ended December 31, 2011) for which the exercise price is greater than the average market price of the Company's common stock.

14. INCOME TAXES

Components of Income Tax Expense (Benefit)

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	2012	2011
Current income tax expense:			
Federal	$ 4,744	$ -	$ 1,929
State	10,504	1	419
Total	15,248	1	2,348
Deferred income tax expense (benefit):			
Federal	31,572	(23,728)	1,605
State	1,895	(5,155)	555
Total	33,467	(28,883)	2,160
Total income expense (benefit)	$ 48,715	$ (28,882)	$ 4,508

Federal income tax expense (benefit) and the related effective income tax rate are influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax income (loss) and state income taxes. State income tax expense (benefit) and the related effective income tax rate are driven by the amount of state tax-exempt income in relation to pre-tax income (loss) and state tax rules related to consolidated/combined reporting and sourcing of income and expense.

Income tax expense totaled $48.7 million for the year ended December 31, 2013 compared to an income tax benefit of $28.9 million for the year ended December 31, 2012 and income tax expense of $4.5 million for the year ended

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December 31, 2011. The rise in income tax expense in 2013 was the result of an increase in income subject to tax at statutory rates and to a non-deductible BOLI modification loss recorded in the third quarter of 2013. The decrease in income tax expense from 2011 to 2012 was driven primarily by a decrease in income subject to tax at statutory rates and to a $1.6 million tax benefit recorded in first quarter 2011 related to changes in the Illinois tax rate.

Differences between the amounts reported in the consolidated financial statements and the tax basis of assets and liabilities result in temporary differences for which deferred tax assets and liabilities were recorded.

Deferred Tax Assets and Liabilities

(Dollar amounts in thousands)

	December 31, 2013	December 31, 2012
Deferred tax assets:		
Alternative minimum tax ("AMT") and other credit carryforwards	$ 19,184	$ 13,379
Federal net operating loss ("NOL") carryforwards	14,579	54,770
Allowance for credit losses	30,492	31,762
Unrealized losses on securities	21,374	23,737
OREO	6,541	4,949
State NOL carryforwards	15,859	17,287
Other	19,049	15,047
Total deferred tax assets	127,078	160,931
Deferred tax liabilities:		
Purchase accounting adjustments and intangibles	(16,977)	(15,402)
Deferred loan fees	(1,984)	(2,565)
Accrued retirement benefits	(7,095)	(5,151)
FHLB stock dividends	(1,222)	(2,167)
Depreciation	(2,111)	(2,049)
Cancellation of indebtedness income	(5,340)	(5,340)
Other	(3,107)	(5,548)
Total deferred tax liabilities	(37,836)	(38,222)
Deferred tax valuation allowance	-	-
Net deferred tax assets	89,242	122,709
Tax effect of adjustments related to other comprehensive (loss) income	18,382	10,896
Net deferred tax assets including adjustments	$ 107,624	$ 133,605
Net operating loss carryforwards available to offset future taxable income:		
Federal gross NOL carryforwards, begin to expire in 2032	$ 41,654	$ 156,486
Illinois gross NOL carryforwards, begin to expire in 2018	290,076	297,448
Indiana gross NOL carryforwards, begin to expire in 2022	16,112	31,170
Other credits [1]	19,184	13,379

(1) Consists of AMT credits, which have an indefinite life, and other credits, which have a 20-year life. Approximately $3.1 million of other credits will begin to expire during the year ended December 31, 2028.

Net deferred tax assets are included in other assets in the accompanying Consolidated Statements of Financial Condition. Management believes that it is more likely than not that net deferred tax assets will be fully realized and no valuation allowance is required.

Components of Effective Tax Rate

	Years Ended December 31,		
	2013	2012	2011
Statutory federal income tax rate	35.0%	35.0%	35.0%
Tax-exempt income, net of interest expense disallowance	(6.2)%	16.8%	(21.3)%
State income tax, net of federal income tax effect	6.4%	7.0%	(0.3)%
Net other	2.9%	(1.0)%	(2.4)%
Effective tax rate	38.1%	57.8%	11.0%

The change in effective tax rate from the year ended December 31, 2012 to the year ended December 31, 2013 was the result of an increase in income subject to tax at statutory rates and a non-deductible BOLI modification loss recorded in the third quarter of 2013. The change in effective tax rate from the year ended December 31, 2011 to the year ended December 31, 2012 was driven primarily by a decrease in income subject to tax at statutory rates and to a $1.6 million tax benefit recorded in the first quarter of 2011 related to changes in the Illinois tax rate.

As of December 31, 2013, 2012, and 2011, the Company's retained earnings included an appropriation for an acquired thrift's tax bad debt reserves of approximately $2.5 million for which no provision for federal or state income taxes has been made. If, in the future, this portion of retained earnings was distributed as a result of the liquidation of the Company or its subsidiaries, federal and state income taxes would be imposed at the then applicable rates.

Uncertainty in Income Taxes

The Company files income tax returns in the U.S federal jurisdiction and in Illinois, Indiana, Iowa, and Wisconsin. The Internal Revenue Service completed audits of the Company's 2006-2010 federal income tax returns during 2012. Audits of the Company's 2006-2007 Illinois income tax returns were closed during 2011. Audits of the Company's 2008-2009 Illinois income tax returns were closed during 2012. None of these audits resulted in significant adjustments.

Federal income tax returns filed by the Company for 2008, 2010, 2011 and 2012 are subject to examination by federal income tax authorities. The Company is no longer subject to examination by Illinois, Indiana, Iowa and Wisconsin tax authorities for years prior to 2009.

Rollforward of Unrecognized Tax Benefits

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	2012	2011
Beginning balance	$ -	$ 368	$ 429
Additions for tax positions relating to the current year	279	-	-
Additions for tax positions relating to prior years	-	-	226
Reductions for tax positions relating to prior years	-	-	(80)
Reductions for settlements with taxing authorities	-	(368)	(207)
Ending balance	$ 279	$ -	$ 368
Interest and penalties not included above [1]:			
Interest (benefit) expense, net of tax effect, and penalties	$ -	$ (52)	$ 44
Accrued interest and penalties, net of tax effect, at end of year	-	-	52

(1) Included in income tax expense (benefit) in the Consolidated Statements of Income.

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The Company does not anticipate that the amount of uncertain tax positions will significantly increase or decrease in the next 12 months. Included in the balance at December 31, 2013 are tax positions totaling $181,000 that would favorably affect the Company's effective tax rate if recognized in future periods.

15. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Company has a defined contribution retirement savings plan (the "Profit Sharing Plan"), which gives qualified employees the option to make contributions up to 45% of their pre-tax base salary (15% for certain highly compensated employees) through salary deductions under Section 401(k) of the Internal Revenue Code. At the employees' direction, employee contributions are invested among a variety of investment alternatives. For certain employees who make voluntary contributions to the Profit Sharing Plan, the Company contributes an amount annually equal to 2% of the employee's eligible compensation. The Profit Sharing Plan also permits the Company to distribute a discretionary profit-sharing component up to 15% of the employee's compensation. The Company's matching contribution vests immediately, while the discretionary component vests over six years.

Profit Sharing Plan

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	**2012**	**2011**
Profit sharing expense [1]	$ 2,914	$ 2,532	$ 2,897
Company dividends received by the Profit Sharing Plan	$ 159	$ 71	$ 72
Company shares held by the Profit Sharing Plan at the end of the year:			
Number of shares	1,426,708	1,743,085	1,806,262
Fair value	$ 25,010	$ 21,823	$ 18,297

(1) Included in retirement and other employee benefits in the Consolidated Statements of Income.

Pension Plan

The Company sponsors a defined benefit retirement plan (the "Pension Plan") that provides for retirement benefits based on years of service and compensation levels of the participants. The Pension Plan covers employees who met certain eligibility requirements and were hired before April 1, 2007, the date it was amended to eliminate new enrollment of new participants. During the second quarter of 2013, the Board of Directors approved an amendment to freeze benefit accruals under the Pension Plan effective on January 1, 2014. As a result of the Pension Plan amendment, the Company recorded an immaterial curtailment loss and remeasured the Pension Plan obligations and assets as of June 30, 2013. Based on December 31, 2013 actuarial assumptions, the amendment decreased the pension obligation by $9.9 million and increased other comprehensive (loss) income by $5.9 million, after tax. These actions reduced 2013 pension expense by approximately $1.0 million.

Actuarially determined pension costs are charged to current operations and included in retirement and other employee benefits in the Consolidated Statements of Income. The Company's funding policy is to contribute amounts to the Pension Plan that are sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 plus additional amounts as the Company deems appropriate.

Pension Plan Cost and Obligations

(Dollar amounts in thousands)

	December 31,			
	2013		2012	
Accumulated benefit obligation	$	61,292	$	62,326
Change in projected benefit obligation:				
Beginning balance	$	72,855	$	63,011
Service cost		2,600		2,862
Interest cost		2,414		2,720
Curtailment		(9,947)		-
Actuarial (gain) loss		(1,494)		9,331
Benefits paid		(5,136)		(5,069)
Ending balance	$	61,292	$	72,855
Change in fair value of plan assets:				
Beginning balance	$	63,501	$	62,990
Actual return on plan assets		9,005		5,580
Benefits paid		(5,136)		(5,069)
Employer contributions		7,000		-
Ending balance	$	74,370	$	63,501
Funded status recognized in the Consolidated Statements of Financial Condition:				
Noncurrent asset (liability)	$	13,078	$	(9,354)
Amounts recognized in accumulated other comprehensive loss:				
Prior service cost	$	-	$	1
Net loss		10,784		28,383
Net amount recognized	$	10,784	$	28,384
Actuarial losses included in accumulated other comprehensive loss as a percent of:				
Accumulated benefit obligation		17.6%		45.5%
Fair value of plan assets		14.5%		44.7%
Amounts expected to be amortized from accumulated other comprehensive loss into net periodic benefit cost in the next fiscal year:				
Prior service cost	$	-	$	1
Net loss		215		2,358
Net amount expected to be recognized	$	215	$	2,359
Weighted-average assumptions at the end of the year used to determine the actuarial present value of the projected benefit obligation:				
Discount rate		4.30%		3.40%
Rate of compensation increase		N/A(1)		2.50%

N/A Not applicable.

(1) The rate of compensation increase is no longer applicable in determining the present value of the projected benefit obligation due to the amendment to freeze benefit accruals, which is discussed above.

Expected amortization of net actuarial losses To the extent the cumulative actuarial losses included in accumulated other comprehensive loss exceed 10% of the greater of the accumulated benefit obligation or the market-related value of the Pension Plan assets, it is the Company's policy to amortize the Pension Plan's net actuarial losses into income over the future working life of the Pension Plan participants. In connection with the freeze of benefit accruals under the Pension Plan, the Company changed its policy to amortize net actuarial losses into income over the average remaining life expectancy of the Pension Plan participants in the second quarter of

2013. Actuarial losses included in accumulated other comprehensive loss as of December 31, 2013 exceeded 10% of the accumulated benefit obligation and the fair value of Pension Plan assets. The amortization of net actuarial losses is a component of the net periodic benefit cost. Amortization of the net actuarial losses and prior service cost included in other comprehensive (loss) income is not expected to have a material impact on the Company's future results of operations, financial position, or liquidity.

Net Periodic Benefit Pension Cost

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	**2012**	**2011**
Components of net periodic benefit cost:			
Service cost	$ 2,600	$ 2,862	$ 2,725
Interest cost	2,414	2,720	3,032
Expected return on plan assets	(4,299)	(4,456)	(4,110)
Recognized net actuarial loss	1,453	1,684	976
Amortization of prior service cost	1	3	3
Other [(1)]	-	-	1,285
Net periodic cost	2,169	2,813	3,911
Other changes in plan assets and benefit obligations recognized as a charge to other comprehensive (loss) income:			
Net gain (loss) for the period	16,146	(8,207)	(11,124)
Amortization of prior service cost	1	4	4
Amortization of net loss	1,453	1,683	2,260
Total unrealized gain (loss)	17,600	(6,520)	(8,860)
Total recognized in net periodic pension cost and other comprehensive (loss) income	$ 15,431	$ (9,333)	$ (12,771)
Weighted-average assumptions used to determine the net periodic cost:			
Discount rate	3.40%	4.40%	5.50%
Expected return on plan assets	7.25%	7.25%	7.50%
Rate of compensation increase	2.50%	2.50%	3.00%

(1) The 2011 amount represents the correction of a 2010 actuarial Pension Plan expense calculation related to the valuation of future early retirement benefits.

Pension Plan Asset Allocation

(Dollar amounts in thousands)

	Target Allocation	Fair Value of Plan Assets [(1)]	Percentage of Plan Assets 2013	2012
Asset Category:				
Equity securities	50 - 60%	$ 46,925	63%	59%
Fixed income	30 - 48%	22,175	30%	35%
Cash equivalents	2 - 10%	5,270	7%	6%
Total		$ 74,370	100%	100%

(1) Additional information regarding the fair value of Pension Plan assets at December 31, 2013 can be found in Note 21, "Fair Value."

As of December 31, 2013, the equity securities category allocation was outside the target range due to improved market performance. Subsequent to December 31, 2013, the Pension Plan assets were rebalanced and all asset categories were within the target allocation.

Expected long-term rate of return The expected long-term rate of return on Pension Plan assets represents the average rate of return expected to be earned over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Company considers long-term returns of historical market data and projections of future returns for each asset category, as well as historical actual returns on the Pension Plan assets with the assistance of its independent actuarial consultant. Using this reference data, the Company develops a forward-looking return expectation for each asset category and a weighted-average expected long-term rate of return based on the target asset allocation.

Investment policy and strategy The investment objective of the Pension Plan is to maximize the return on Pension Plan assets over a long-term horizon to satisfy the Pension Plan obligations. In establishing its investment policies and asset allocation strategies, the Company considers expected returns and the volatility associated with different strategies. The policy established by the Company's Retirement Plan Committee provides for growth of capital with a moderate level of volatility by investing assets according to the target allocations stated above and reallocating those assets as needed to stay within those allocations. Investments are weighted toward publicly traded securities. Investment strategies that include alternative asset classes, such as private equity hedge funds and real estate, are generally avoided. Under the advisement of a certified investment advisor, the Committee reviews the investment policy on a quarterly basis to determine if any adjustments to the policy or investment strategy are necessary.

Based on the amendment to freeze benefit accruals under the Pension Plan effective January 1, 2014, the Company does not anticipate making a contribution to the Pension Plan in 2014. Estimated future pension benefit payments for fiscal years ending December 31, 2014 through 2023 are as follows.

Estimated Future Pension Benefit Payments

(Dollar amounts in thousands)

	Total
Year ending December 31,	
2014	$ 5,857
2015	5,333
2016	5,075
2017	4,810
2018	4,234
2019-2023	18,450

16. SHARE-BASED COMPENSATION

Share-Based Plans

Omnibus Stock and Incentive Plan (the "Omnibus Plan") In 1989, the Board adopted the Omnibus Plan, which allows for the grant of both incentive and non-statutory ("nonqualified") stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance units, and performance shares to certain key employees.

Since the inception of the Omnibus Plan through the end of 2008, certain key employees were granted nonqualified stock options. The option exercise price is set at the fair value of the Company's common stock on the grant date. The fair value is defined as the average of the high and low stock price on the grant date. All options have a term of ten years from the grant date, include reload features, and are non-transferable except to immediate family members, family trusts, or partnerships.

Since 2008, the Company grants restricted stock awards instead of nonqualified stock options to certain key employees. Both stock options and restricted stock awards vest over three years with 50% vesting after two years from the grant date and the remaining 50% vesting three years after the grant date provided the employee remains employed by the Company during this period (subject to accelerated vesting in the event of change-in-control or upon certain terminations of employment, as set forth in the applicable award agreement).

Nonemployee Directors Stock Plan (the "Directors Plan") In 1997, the Board adopted the Directors Plan, which provides for the grant of equity awards to non-management Board members. Until 2008, only non-qualified stock options were issued under the Directors Plan. The exercise price of the options is equal to the fair value of the Company's common stock on the grant date. All options have a term of 10 years from the grant date.

In 2008, the Company amended the Directors Plan to allow for the grant of restricted stock awards. The awards are restricted to transfer, but are not restricted to dividend payment and voting rights. Both the options and the awards vest one year from the grant date subject to accelerated vesting in the event of retirement, death, disability, or change-in-control, as defined in the Directors Plan.

Both the Omnibus Plan and the Directors Plan, and material amendments, were submitted to and approved by the stockholders of the Company. The Company issues treasury shares to satisfy stock option exercises and restricted stock award releases.

Shares of Common Stock Available Under Share-Based Plans

	December 31, 2013	
	Shares Authorized	**Shares Available For Grant**
Omnibus Plan	8,631,641	2,254,022
Directors Plan	481,250	66,634

Salary Stock Awards The Company also periodically issues salary stock awards to certain executive officers. This stock is fully vested as of the grant date. The issuance of salary stock awards is included in share-based compensation expense, but does not reduce the number of shares issued and outstanding under the Omnibus Plan as the issuance is not considered part of the share-based plans referenced above.

Salary Stock Awards Granted

	Years ended December 31,		
	2013	**2012**	**2011**
Shares granted	8,693	10,983	45,889
Weighted-average price	$ 14.30	$ 11.51	$ 10.10

Stock Options

Nonqualified Stock Option Transactions

(Amounts in thousands, except per share data)

	Year Ended December 31, 2013			
	Number of Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term [1]**	**Aggregate Intrinsic Value [2]**
Options outstanding beginning balance	1,718	$ 32.42		
Expired	(282)	29.49		
Options outstanding ending balance	1,436	$ 32.99	2.24	$ 230
Exercisable at the end of the year	1,436	$ 32.99	2.24	$ 230

(1) Represents the average remaining contractual life in years.

(2) Aggregate intrinsic value represents the total pre-tax intrinsic value that would have been received by the option holders if they had exercised their options on December 31, 2013. Intrinsic value equals the difference between the Company's average of the high and low stock price on the last trading day of the year and the option exercise price, multiplied by the number of shares. This amount will fluctuate with changes in the fair value of the Company's common stock.

Stock Option Valuation Assumptions The Company estimates the fair value of stock options at the grant date using a Black-Scholes option-pricing model that utilizes the assumptions outlined in the following table. No stock options were granted during the years ended December 31, 2013 or 2012. An immaterial amount of stock options were granted during the year ended December 31, 2011.

No stock options were exercised and no stock option award modifications were made during the three years ended December 31, 2013.

Restricted Stock Awards and Restricted Stock Units

Restricted Stock Transactions

(Amounts in thousands, except per share data)

	Year Ended December 31, 2013			
	Restricted Stock Awards		Restricted Stock Units	
	Number of Shares/Units	Weighted Average Grant Date Fair Value	Number of Shares/Units	Weighted Average Grant Date Fair Value
Non-vested awards beginning balance	1,087	$ 11.87	62	$ 11.69
Granted	428	13.01	159	13.01
Vested	(378)	12.50	(8)	12.50
Forfeited	(90)	12.06	(10)	12.06
Non-vested awards ending balance	1,047	$ 12.10	203	$ 12.68

Other Restricted Stock Award/Unit Information

	Years Ended December 31,		
	2013	2012	2011
Weighted-average grant date fair value of restricted stock awards/units granted during the year	$ 13.01	$ 11.35	$ 12.08
Total fair value of restricted stock awards/unit vested during the year	4,917	4,921	4,268
Income tax benefit realized from the vesting/release of restricted stock awards/units	1,966	1,884	1,828

No restricted stock awards/unit modifications were made during the periods presented.

Compensation Expense

The Company recognizes share-based compensation expense based on the estimated fair value of the option or award at the grant or modification date. Share-based compensation expense is included in salaries and wages in the Consolidated Statements of Income.

Effect of Recording Share-Based Compensation Expense

(Dollar amounts in thousands)

	Years ended December 31,		
	2013	2012	2011
Restricted stock award/unit expense	$ 5,779	$ 5,877	$ 5,607
Salary stock award expense	124	127	464
Stock option expense			291
Total share-based compensation expense	5,903	6,004	6,362
Income tax benefit	2,414	2,456	2,602
Share-based compensation expense, net of tax	$ 3,489	$ 3,548	$ 3,760
Unrecognized compensation expense	$ 6,327	$ 5,674	$ 4,784
Weighted-average amortization period remaining (in years)	1.2	1.1	1.0

17. STOCKHOLDER RIGHTS PLAN

On February 15, 1989, the Board adopted a Stockholder Rights Plan. Pursuant to that plan, the Company declared a dividend, paid March 1, 1989, of one right ("Right") for each outstanding share of Company common stock held on record on March 1, 1989 pursuant to a Rights Agreement dated February 15, 1989. The Rights Agreement was amended and restated on November 15, 1995 and again on June 18, 1997 to exclude an acquisition. The Rights Agreement was further amended on December 9, 2008 to clarify certain items. As amended, each Right entitles the registered holder to purchase from the Company 1/100 of a share of Series A Preferred Stock for a price of $150, subject to adjustment. The Rights will be exercisable only if a person or group acquires, or announces the intention to acquire, 10% or more of the Company's outstanding shares of common stock. The Company is entitled to redeem each Right for $0.01, subject to adjustment, at any time prior to the earlier of the tenth business day following the acquisition by any person or group of 10% or more of the outstanding shares of the common stock or the expiration date of the Rights. The Rights Agreement will expire on November 15, 2015.

As a result of the Rights Agreement, 600,000 of the 1,000,000 shares of authorized preferred stock were reserved for issuance as Series A Preferred Stock.

18. REGULATORY AND CAPITAL MATTERS

The Company and its subsidiaries are subject to various regulatory requirements that impose restrictions on cash, loans or advances, and dividends. The Bank is also required to maintain reserves against deposits. Reserves are held either in the form of vault cash or noninterest-bearing balances maintained with the Federal Reserve Bank and are based on the average daily balances and statutory reserve ratios prescribed by the type of deposit account. Reserve balances totaling $68.7 million at December 31, 2013 and $50.9 million at December 31, 2012 were maintained in accordance with these requirements.

Under current Federal Reserve regulations, the Bank is limited in the amount it may loan or advance to First Midwest Bancorp, Inc. on an unconsolidated basis (the "Parent Company") and its non-bank subsidiaries. Loans or advances to a single subsidiary may not exceed 10%, and loans to all subsidiaries may not exceed 20% of the Bank's capital stock and surplus, as defined. Loans from subsidiary banks to non-bank subsidiaries, including the Parent Company, are also required to be collateralized.

The principal source of cash flow for the Parent Company is dividends from the Bank. Various federal and state banking regulations and capital guidelines limit the amount of dividends that the Bank may pay to the Parent Company. Without prior regulatory approval, the Bank can initiate aggregate dividend payments in 2014 equal to its net profits for 2014, as defined by statute, less $7.4 million up to the date of any such dividend declaration. Future payment of dividends by the Bank depends on individual regulatory capital requirements and levels of profitability.

The Company and the Bank are also subject to various capital requirements set up and administered by federal banking agencies. Under capital adequacy guidelines, the Company and the Bank must meet specific guidelines

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that involve quantitative measures given the risk levels of assets and certain off-balance sheet items calculated under regulatory accounting practices ("risk-weighted assets"). The capital amounts and classification are also subject to qualitative judgments by the regulators regarding components of capital and assets, risk weightings, and other factors.

The Federal Reserve, the primary regulator of the Company and the Bank, establishes minimum capital requirements that must be met by member institutions. As defined in the regulations, quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to adjusted average assets. Failure to meet minimum capital requirements could result in actions by regulators that could have a material adverse effect on the Company's financial statements.

As of December 31, 2013, the Company and the Bank met all capital adequacy requirements. As of December 31, 2013, the most recent regulatory notification classified the Bank as "well-capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes would change the Bank's classification.

The following table outlines the Company's and the Bank's measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve to be categorized as adequately capitalized and as "well-capitalized."

Summary of Capital Ratios

(Dollar amounts in thousands)

	Actual		Adequately Capitalized		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Capital	**Ratio %**	**Capital**	**Ratio %**	**Capital**	**Ratio %**
As of December 31, 2013:						
Total capital (to risk-weighted assets):						
First Midwest Bancorp, Inc.	$ 841,787	12.39	$ 543,573	8.00	$ 679,467	10.00
First Midwest Bank	897,255	13.86	517,721	8.00	647,152	10.00
Tier 1 capital (to risk-weighted assets):						
First Midwest Bancorp, Inc.	741,414	10.91	271,787	4.00	407,680	6.00
First Midwest Bank	816,286	12.61	258,861	4.00	388,291	6.00
Tier 1 leverage (to average assets):						
First Midwest Bancorp, Inc.	741,414	9.18	242,277	3.00	403,794	5.00
First Midwest Bank	816,286	10.24	239,065	3.00	398,442	5.00
As of December 31, 2012:						
Total capital (to risk-weighted assets):						
First Midwest Bancorp, Inc.	$ 755,264	11.90	$ 507,882	8.00	$ 634,852	10.00
First Midwest Bank	859,018	13.76	499,390	8.00	624,237	10.00
Tier 1 capital (to risk-weighted assets):						
First Midwest Bancorp, Inc.	652,480	10.28	253,941	4.00	380,911	6.00
First Midwest Bank	780,631	12.51	249,695	4.00	374,542	6.00
Tier 1 leverage (to average assets):						
First Midwest Bancorp, Inc.	652,480	8.40	233,069	3.00	388,448	5.00
First Midwest Bank	780,631	10.09	232,071	3.00	386,785	5.00

In July of 2013, the Federal Reserve published final rules (the "Basel III Capital Rules") that revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision. The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with the final rules entire requirement phased in on January 1, 2019.

The Basel III Capital Rules (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) narrowly define CET1 by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments compared to existing regulations. Bank holding companies with less than $15 billion in consolidated assets as of December 31, 2009, such as the Company, are permitted to include trust-preferred securities in Additional Tier 1 Capital on a permanent basis and without any phase-out. As of December 31, 2013, the Company had $36.7 million of trust-preferred securities included in Tier 1 capital.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company and the Bank to maintain the following:

- A minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation).

- A minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation).

- A minimum ratio of Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (resulting in a minimum total capital ratio of 10.5% upon full implementation).

- A minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets.

The Basel III Capital Rules also provide for a number of deductions from and adjustments to CET1 beginning on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). Examples of these include the requirement that mortgage servicing rights, deferred tax assets depending on future taxable income, and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, the Company and the Bank, may make a one-time permanent election to continue to exclude these items, and the Company and the Bank expect to make such an election.

Finally, the Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50%, and 100%) to a much larger and more risk-sensitive number of categories depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures, resulting in higher risk weights for a variety of asset categories.

The Company and the Bank believe they would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect as of December 31, 2013.

19. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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Fair Value Hedges

(Dollar amounts in thousands)

	December 31, 2013	December 31, 2012
Notional amount outstanding	$ 14,730	$ 15,860
Derivative liability fair value	(1,472)	(2,270)
Weighted-average interest rate received	2.08%	2.12%
Weighted-average interest rate paid	6.39%	6.39%
Weighted-average maturity (in years)	3.76	4.76
Cash pledged to collateralize net unrealized losses with counterparties [(1)]	$ 1,583	$ 2,516
Fair value of assets needed to settle derivative transactions [(2)]	1,502	2,301

(1) No other collateral was required to be pledged.

(2) This amount represents the fair value of assets needed to settle derivative transactions if credit risk related contingent factors were triggered.

Hedge ineffectiveness is recognized in other noninterest income in the Consolidated Statements of Income. For the years ended December 31, 2013, 2012, and 2011, gains or losses related to fair value hedge ineffectiveness were not material.

The Company also enters into derivative transactions with its commercial customers and simultaneously enters into an offsetting interest rate derivative transaction with a third-party. This transaction allows the Company's customers to effectively convert a variable rate loan into a fixed rate loan. Due to the offsetting nature of these transactions, the Company does not apply hedge accounting treatment. Transaction fees related to commercial customer derivative instruments of $2.8 million were recorded in noninterest income for the year ended December 31, 2013. There were no transaction fees related to commercial customer derivative instruments for the years ended December 31, 2012 or 2011.

Other Derivative Instruments

(Dollar amounts in thousands)

	December 31, 2013	December 31, 2012
Notional amount outstanding	$ 128,319	$
Derivative asset fair value	2,235	
Derivative liability fair value	(2,235)	
Cash pledged to collateralize net unrealized losses with counterparties [(1)]	1,420	
Fair value of assets needed to settle derivative transactions [(2)]	1,305	

(1) No other collateral was required to be pledged.

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

Derivative instruments are inherently subject to credit risk, which represents the Company's risk of loss when the counterparty to a derivative contract fails to perform according to the terms of the agreement. Credit risk is managed by limiting and collateralizing the aggregate amount of net unrealized losses by transaction, monitoring the size and the maturity structure of the derivatives, and applying uniform credit standards. Company policy establishes limits on credit exposure to any single counterparty. In addition, the Company established bilateral collateral agreements with derivative counterparties that provide for exchanges of marketable securities or cash to collateralize either party's net losses above a stated minimum threshold. At December 31, 2013 and 2012, these collateral agreements covered 100% of the fair value of the Company's outstanding fair value hedges. Derivative assets and liabilities are presented gross, rather than net, of pledged collateral amounts.

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As of December 31, 2013 and 2012, the Company's derivative instruments generally contained provisions that require the Company's debt to remain above a certain credit rating by each of the major credit rating agencies or that the Company maintain certain capital levels. If the Company's debt were to fall below that credit rating or the Company's capital were to fall below the required levels, it would be in violation of those provisions, and the counterparties to the derivative instruments could terminate the swap transaction and demand cash settlement of the derivative instrument in an amount equal to the derivative liability fair value. As of December 31, 2013 and 2012, the Company was not in violation of these provisions.

The Company's derivative portfolio also includes other derivative instruments that do not receive hedge accounting treatment consisting of commitments to originate 1-4 family mortgage loans and foreign exchange contracts. In addition, the Company occasionally enters into risk participation agreements with counterparty banks to transfer or assume a portion of the credit risk related to customer transactions. The amounts of these instruments were not material for any period presented. The Company had no other derivative instruments as of December 31, 2013 and 2012. The Company does not enter into derivative transactions for purely speculative purposes.

20. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Commitments and Guarantees

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

Contractual or Notional Amounts of Financial Instruments

(Dollar amounts in thousands)

	December 31,			
		2013		**2012**
Commitments to extend credit:				
Commercial and industrial	$	897,483	$	737,973
Commercial real estate		167,792		168,105
Construction		12,756		18,986
Home equity lines		270,230		258,156
Credit card lines		32,553		25,459
Overdraft protection program [(1)]		170,956		176,328
All other commitments		109,311		105,344
Total commitments	$	1,661,081	$	1,490,351
Letters of credit:				
Commercial real estate	$	39,275	$	52,145
Construction		4,496		5,696
All other		66,682		57,996
Total letters of credit	$	110,453	$	115,837
Unamortized fees associated with letters of credit [(2)(3)]	$	582	$	740
Remaining weighted-average term, in months		9.83		13.20
Remaining lives, in years		0.1 to 14.7		0.1 to 11.6
Recourse on assets sold:				
Unpaid principal balance of assets sold	$	170,330	$	50,110
Carrying value of recourse obligation [(2)]		162		55

(1) Federal regulations regarding electronic fund transfers require customers to affirmatively consent to the institution's overdraft service for automated teller machine and one-time debit card transactions before overdraft fees may be assessed on the account. Customers are provided a specific line for the amount they may overdraw.

(2)

Included in other liabilities in the Consolidated Statements of Financial Condition.

(3) The Company is amortizing these amounts into income over the commitment period.

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

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

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

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

As a result of the sale of certain 1-4 family mortgage loans, the Company is contractually obligated to repurchase any non-performing loans or loans that do not meet underwriting requirements at recorded value. In accordance with the sales agreements, there is no limitation to the maximum potential future payments or expiration of the Company's recourse obligation. No loans were required to be repurchased during the years ended December 31, 2013 or 2012.

During 2012, the Company entered into two forward commitments with the FHLB to borrow $250 million for a five year period beginning in 2014 at a weighted average interest rate of 2.0%. The Company terminated these forward commitments during the third quarter of 2013, resulting in a gain of $7.8 million recorded as a component of noninterest income in the Consolidated Statement of Income.

Legal Proceedings

In 2011, the Bank was named in a purported class action lawsuit filed in the Circuit Court of Cook County, Illinois on behalf of certain of the Bank's customers who incurred overdraft fees. The lawsuit was based on the Bank's practices relating to debit card transactions, and alleged that these practices resulted in customers being assessed excessive overdraft fees. The plaintiffs sought an unspecified amount of damages and other relief, including restitution. No class was ever certified. The Bank filed a motion to dismiss the plaintiffs' complaint and, on January 23, 2013, the Circuit Court entered an order granting the Bank's motion and dismissed the complaint with prejudice. The plaintiffs appealed the Circuit Court's ruling. The plaintiffs subsequently filed a motion to dismiss their appeal, and the Appellate Court of Illinois entered an order dismissing the appeal on January 21, 2014.

There are certain other legal proceedings pending or threatened against the Company and its subsidiaries. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management believes that any liabilities arising from pending legal matters are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

21. FAIR VALUE

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

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs require significant management judgment or estimation, some of which use model-based techniques and may be internally developed.

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

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

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

Recurring Fair Value Measurements

(Dollar amounts in thousands)

	December 31, 2013			**December 31, 2012**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets:						
Trading securities:						
Money market funds	$ 1,847	$ -	$ -	$ 1,554	$ -	$ -
Mutual funds	15,470	-	-	12,608	-	-
Total trading securities	17,317	-	-	14,162	-	-
Securities available-for-sale:						
U.S. agency securities	-	500	-	-	508	-
CMOs	-	475,768	-	-	400,383	-
Other MBSs	-	136,164	-	-	122,900	-
Municipal securities	-	461,393	-	-	520,043	-
CDOs	-	-	18,309	-	-	12,129
Corporate debt securities	-	14,929	-	-	15,339	-
Hedge fund investment	-	3,179	-	-	1,616	-
Other equity securities	44	2,439	-	43	9,442	-
Total securities available-for-sale	44	1,094,372	18,309	43	1,070,231	12,129
Mortgage servicing rights [(1)]	-	-	1,893	-	-	985

Derivative assets [1]		-		2,235		-		-		-	-
Liabilities:											
Derivative liabilities [2]	$	-	$	3,707	$	-	$	-	$	2,270	$ -

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

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

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

Trading Securities

The Company's trading securities consist of diversified investment securities held in a grantor trust and are invested in money market and mutual funds. The fair value of these money market and mutual funds is based on quoted market prices in active exchange markets and is classified in level 1 of the fair value hierarchy.

Securities Available-for-Sale

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

The Company's hedge fund investment is classified in level 2 of the fair value hierarchy. The fair value is derived from monthly and annual financial statements provided by hedge fund management. The majority of the hedge fund's investment portfolio is held in securities that are freely tradable and are listed on national securities exchanges.

CDOs are classified in level 3 of the fair value hierarchy. The Company estimates the fair values for each CDO using discounted cash flow analyses with the assistance of a structured credit valuation firm. This methodology relies on credit analysis and review of historical financial data for each of the issuers of the securities underlying the individual CDO (the "Issuers") to estimate the cash flows. These estimates are highly subjective and sensitive to several significant, unobservable inputs, including prepayment assumptions, default probabilities, loss given default assumptions, and deferral cure probabilities. The cash flows for each Issuer are then discounted to present values using LIBOR plus an adjustment to reflect the higher risk inherent in these securities given their complex structures and the impact of market factors. Finally, the discounted cash flows for each Issuer are aggregated to derive the estimated fair value for the specific CDO. Information for each CDO, as well as the significant unobservable assumptions, is presented in the following table.

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Characteristics of CDOs and Significant Unobservable Inputs
Used in the Valuation of CDOs as of December 31, 2013

(Dollar amounts in thousands)

	CDO Number					
	1	2	3	4	5	6
Characteristics:						
Class	C-1	C-1	C-1	B1	C	C
Original par	$ 17,500	$ 15,000	$ 15,000	$ 15,000	$ 10,000	$ 6,500
Amortized cost	7,140	5,598	12,377	13,922	1,317	6,178
Fair value	4,499	480	4,233	5,351	1,626	2,120
Lowest credit rating (Moody's)	Ca	Ca	Ca	Ca	C	Ca
Number of underlying Issuers	43	55	59	59	55	77
Percent of Issuers currently performing	83.7%	80.0%	78.0%	54.2%	65.5%	68.8%
Current deferral and default percent (1)	8.7%	11.4%	11.3%	34.8%	36.1%	27.5%
Expected future deferral and default percent (2)	12.1%	12.9%	15.1%	28.2%	21.6%	14.1%
Excess subordination percent (3)	-	-	-	-	-	3.5%
Discount rate risk adjustment (4)	14.0%	15.0%	14.0%	13.0%	14.0%	12.5%
Significant unobservable inputs, weighted average of Issuers:						
Probability of prepayment	15.4%	7.6%	4.8%	6.1%	5.3%	2.2%
Probability of default	18.2%	23.5%	21.7%	27.8%	38.2%	30.8%
Loss given default	88.0%	83.2%	88.9%	92.9%	92.9%	95.4%
Probability of deferral cure	50.6%	38.6%	26.3%	53.4%	39.2%	57.1%

(1) Represents actual deferrals and defaults, net of recoveries, as a percent of the original collateral.

(2) Represents expected future deferrals and defaults, net of recoveries, as a percent of the remaining performing collateral. The probability of future defaults is derived for each Issuer based on a credit analysis. The associated assumed loss given default is based on historical default and recovery information provided by a nationally recognized credit rating agency and is assumed to be 90% for banks, 85% for insurance companies, and 100% for Issuers that have already defaulted.

(3) Represents additional defaults that the CDO can absorb before the security experiences any credit impairment. The excess subordination percentage is calculated by dividing the amount of potential additional loss that can be absorbed (before the receipt of all expected future principal and interest payments is affected) by the total balance of performing collateral.

(4) Cash flows are discounted at LIBOR plus this adjustment to reflect the higher risk inherent in these securities.

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

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

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

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Management monitors the valuation results of each CDO on a quarterly basis, which includes an analysis of historical pricing trends for these types of securities, overall economic conditions (such as tracking LIBOR curves), and the performance of the Issuers' industries. Management also reviews market activity for the same or similar tranches of the CDOs, when available. Annually, management validates significant assumptions by reviewing detailed back-testing performed by the structured credit valuation firm.

A rollforward of the carrying value of CDOs for the three years ended December 31, 2013 is presented in the following table.

Rollforward of Carrying Value of CDOs

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	2012	2011
Beginning balance	$ 12,129	$ 13,394	$ 14,858
Total income (loss):			
OTTI included in earnings [1]	-	(2,226)	(936)
Included in other comprehensive (loss) income [2]	6,180	961	(528)
Ending balance [3]	$ 18,309	$ 12,129	$ 13,394
Change in unrealized losses recognized in earnings related to securities still held at end of period	$ -	$ (2,226)	$ (936)

(1) Included in net securities gains (losses) in the Consolidated Statements of Income and related to securities still held at the end of the period.

(2) Included in unrealized holding (losses) gains in the Consolidated Statements of Comprehensive Income.

(3) There were no purchases, issuances, or settlements of CDOs during the periods presented. One CDO with a carrying value of zero was sold during the year ended December 31, 2013, resulting in a gain of $101,000.

Mortgage Servicing Rights

The Company services mortgage loans owned by third parties and collects servicing fees equal to a percentage of the outstanding principal balance of the loans being serviced. Mortgage servicing rights are recorded at fair value and included in other assets in the Consolidated Statements of Financial Condition. Therefore, the Company determines the fair value of mortgage servicing rights by estimating the present value of future cash flows associated with the mortgage loans being serviced. Key economic assumptions used in measuring the fair value of mortgage servicing rights at December 31, 2013 included prepayment speeds, maturities, and discount rates. While market-based data is used to determine the assumptions, the Company incorporates its own estimates of the assumptions market participants would use in determining the fair value of mortgage servicing rights, which results in a level 3 classification in the fair value hierarchy.

A rollforward of the carrying value of mortgage servicing rights for the three years ended December 31, 2013 is presented in the following table.

Carrying Value of Mortgage Servicing Rights

(Dollar amounts in thousands)

	Years Ended December 31,		
	2013	2012	2011
Beginning balance	$ 985	$ 929	$ 942
New mortgage servicing rights	1,060	347	-
Total gains (losses) included in earnings [1]:			
Changes in valuation inputs and assumptions	63	(72)	179
Other changes in fair value [2]	(215)	(219)	(192)
Ending balance	$ 1,893	$ 985	$ 929
Contractual servicing fees earned during the year [1]	$ 418	$ 209	$ 235
Total amount of loans being serviced for the benefit of others at the end of the year	214,458	109,730	78,594

(1) Included in mortgage banking income in the Consolidated Statements of Income and relate to assets still held at the end of the year.

(2) Primarily represents changes in expected cash flows over time due to payoffs and paydowns.

Derivative Assets and Derivative Liabilities

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

Pension Plan Assets

Although Pension Plan assets are not consolidated in the Company's Consolidated Statements of Financial Condition, they are required to be measured at fair value on an annual basis. The fair value of Pension Plan assets is presented in the following table by level in the fair value hierarchy.

Annual Fair Value Measurements for Pension Plan Assets

(Dollar amounts in thousands)

	December 31, 2013			December 31, 2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Pension plan assets:						
Mutual funds [1]	$ 23,896	$ -	$ 23,896	$ 16,009	$ -	$ 16,009
U.S. government and government agency securities	7,261	8,930	16,191	7,295	6,510	13,805
Corporate bonds	-	5,984	5,984	-	8,653	8,653
Common stocks	17,261	-	17,261	15,001	-	15,001
Common trust funds	-	11,038	11,038	-	10,033	10,033
Total pension plan assets	$ 48,418	$ 25,952	$ 74,370	$ 38,305	$ 25,196	$ 63,501

(1) Includes mutual funds, money market funds, cash, cash equivalents, and accrued interest.

Mutual funds, certain U.S. government agency securities, and common stocks are based on quoted market prices in active exchange markets and classified in level 1 of the fair value hierarchy. Corporate bonds, certain U.S. government agency, and U.S. Treasury securities are valued at quoted prices from independent sources that are based on observable market trades or observable prices for similar bonds where a price for the identical bond is not observable and, therefore, are classified in level 2 of the fair value hierarchy. Common trust funds are valued at quoted redemption values on the last business day of the Pension Plan's year end and are classified in level 2 of the fair value hierarchy. There were no Pension Plan assets classified in level 3 of the fair value hierarchy.

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

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

Non-Recurring Fair Value Measurements

(Dollar amounts in thousands)

	December 31, 2013			December 31, 2012		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Collateral-dependent impaired loans	$ -	$ -	$ 16,613	$ -	$ -	$ 61,454
OREO [(1)]	-	-	13,347	-	-	11,956
Loans held-for-sale [(2)]	-	-	4,739	-	-	-
Assets held-for-sale [(3)]	-	-	4,027	-	-	1,668

(1) Includes OREO and covered OREO with fair value adjustments subsequent to initial transfer.

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

(3) Included in premises, furniture, and equipment in the Consolidated Statements of Financial Condition.

Collateral-Dependent Impaired Loans

Certain collateral-dependent impaired loans are subject to fair value adjustments to reflect the difference between the carrying value of the loan and the value of the underlying collateral. The fair values of collateral-dependent impaired loans are primarily determined by current appraised values of the underlying collateral. Based on the age and/or type, appraisals may be adjusted in the range of 0% - 20%. In certain cases, an internal valuation may be used when the underlying collateral is located in areas where comparable sales data is limited or unavailable. Accordingly, collateral-dependent impaired loans are classified in level 3 of the fair value hierarchy.

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

OREO

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

Loans Held-for-Sale

As of December 31, 2013, loans held-for-sale consisted of 1-4 family mortgage loans and one commercial real estate loan. These loans were transferred to the held-for-sale category at the contract price and, accordingly, are classified in level 3 of the fair value hierarchy. The Company had no loans held-for-sale as of December 31, 2012.

Assets Held-for-Sale

Assets held-for-sale consist of former branches that are no longer in operation, which were transferred into the held-for-sale category at the lower of their fair value or their recorded investment. Based on the valuation methods used to determine the fair value of assets held-for-sale, they are classified in level 3 of the fair value hierarchy.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are subject to annual impairment testing, which requires a significant degree of management judgment and the use of significant unobservable inputs. As discussed in Note 8, "Goodwill and Other Intangible Assets," the annual impairment tests indicated no impairment existed.

If the testing had resulted in impairment, the Company would have classified goodwill and other intangible assets as a level 3 non-recurring fair value measurement. Additional information regarding goodwill, other intangible assets, and impairment policies can be found in Note 1, "Summary of Significant Accounting Policies," and Note 8, "Goodwill and Other Intangible Assets."

Financial Instruments Not Required to be Measured at Fair Value

For certain financial instruments that are not required to be measured at fair value in the Consolidated Statements of Financial Condition, the Company must disclose the estimated fair values and the level within the fair value hierarchy as shown in the following table.

Fair Value Measurements of Other Financial Instruments

(Dollar amounts in thousands)

		December 31, 2013		December 31, 2012	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and due from banks	1	$ 110,417	$ 110,417	$ 149,420	$ 149,420
Interest-bearing deposits in other banks	2	476,824	476,824	566,846	566,846
Securities held-to-maturity	2	44,322	43,387	34,295	36,023
FHLB and Federal Reserve Bank stock	2	35,161	35,161	47,232	47,232
Net loans	3	5,628,855	5,544,146	5,288,124	5,305,286
FDIC indemnification asset	3	16,585	7,829	37,051	27,040
Investment in BOLI	3	193,167	193,167	206,405	206,405
Accrued interest receivable	3	25,735	25,735	27,535	27,535
Other interest-earning assets	3	6,550	6,809	9,923	10,640
Liabilities:					
Deposits	2	$ 6,766,101	$ 6,765,404	$ 6,672,255	$ 6,674,510
Borrowed funds	2	224,342	226,839	185,984	189,074
Senior and subordinated debt	1	190,932	201,147	214,779	216,686
Accrued interest payable	2	2,400	2,400	2,884	2,884

Management uses various methodologies and assumptions to determine the estimated fair values of the financial instruments in the table above. The fair value estimates are made at a discrete point in time based on relevant market information and consider management's judgments regarding future expected economic conditions, loss experience, and specific risk characteristics of the financial instruments.

Short-Term Financial Assets and Liabilities For financial instruments with a shorter-term or with no stated maturity, prevailing market rates, and limited credit risk, the carrying amounts approximate fair value. Those financial instruments include cash and due from banks, interest-bearing deposits in other banks, other short-term investments, accrued interest receivable, and accrued interest payable.

Securities Held-to-Maturity The fair value of securities held-to-maturity is estimated using the present value of future cash flows of the remaining maturities of the securities.

FHLB and Federal Reserve Bank Stock The carrying amounts approximate fair value.

Net Loans Net loans includes loans, covered loans, and the allowance for loan and covered loan losses. The fair value of loans is estimated using the present value of the future cash flows of the remaining maturities of the loans. Prepayment assumptions that consider the Company's historical experience and current economic and lending conditions were included. The discount rate was based on the LIBOR yield curve with adjustments for liquidity and credit risk. The primary impact of credit risk on the fair value of the loan portfolio was accommodated through the use of the allowance for loan and covered loan losses, which is believed to represent the current fair value of estimated inherent losses for purposes of the fair value calculation.

The fair value of the covered loan portfolio is determined by discounting the estimated cash flows at a market interest rate, which is derived from LIBOR swap rates over the life of those loans. The estimated cash flows are derived from the contractual terms of the covered loans, net of any projected credit losses. For valuation purposes, these loans are placed into groups with similar characteristics and risk factors, where appropriate. The timing and amount of credit losses for each group are estimated using historical default and loss experience, current collateral valuations, borrower credit scores, and internal risk ratings. For individually significant loans or credit relationships, the estimated fair value is determined by a specific loan level review utilizing appraised values for collateral and projections of the timing and amount of cash flows.

FDIC Indemnification Asset The fair value of the FDIC indemnification asset is calculated by discounting the cash flows expected to be received from the FDIC. The future cash flows are estimated by multiplying expected losses on covered loans and covered OREO by the reimbursement rates in the FDIC Agreements.

Investment in BOLI The fair value of BOLI approximates the carrying amount as both are based on each policy's respective CSV, which is the amount the Company would receive from liquidation of these investments. The CSV is derived from monthly reports provided by the managing brokers and is determined using the Company's initial insurance premium and earnings of the underlying assets, offset by management fees.

Other Interest-Earning Assets The fair value of other interest-earning assets is estimated using the present value of the future cash flows of the remaining maturities of the assets.

Deposits The fair values disclosed for demand deposits, savings deposits, NOW accounts, and money market deposits are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair value for fixed-rate time deposits was estimated using the future cash flows discounted based on the LIBOR yield curve, plus or minus the spread associated with current pricing.

Borrowed Funds The fair value of FHLB advances is estimated by discounting the agreements based on maturities using the rates currently offered for FHLB advances of similar remaining maturities adjusted for prepayment penalties that would be incurred if the borrowings were paid off on the measurement date. The carrying amounts of securities sold under agreements to repurchase approximate their fair value due to their short-term nature.

Senior and Subordinated Debt The fair value of senior and subordinated debt was determined using quoted market prices.

Commitments to Extend Credit and Letters of Credit The Company estimated the fair value of lending commitments outstanding to be immaterial based on the following factors: (i) the limited interest rate exposure of the commitments outstanding due to their variable nature, (ii) the short-term nature of the commitment periods, (iii) termination clauses provided in the agreements, and (iv) the market rate of fees charged.

22. RELATED PARTY TRANSACTIONS

The Company, through the Bank, makes loans and has transactions with certain of its directors and executive officers. All of these loans and transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral requirements, for comparable transactions with unrelated persons and did not involve more than the normal risk of collectability or present unfavorable features. For the years ended December 31, 2013 and 2012, loans to directors and executive officers totaled $27.6 million and $10.2 million, respectively, and were not greater than 5% of stockholders' equity.

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23. CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

The following represents the condensed financial statements of First Midwest Bancorp, Inc., the Parent Company.

Statements of Financial Condition

(Parent Company only)
(Dollar amounts in thousands)

	December 31, 2013	December 31, 2012
Assets		
Cash and interest-bearing deposits	$ 13,071	$ 20,970
Investments in and advances to subsidiaries	1,120,745	1,092,681
Goodwill	8,943	10,358
Other assets	77,948	58,132
Total assets	$ 1,220,707	$ 1,182,141
Liabilities and Stockholders' Equity		
Senior and subordinated debt	$ 190,932	$ 214,779
Accrued expenses and other liabilities	28,333	26,469
Stockholders' equity	1,001,442	940,893
Total liabilities and stockholders' equity	$ 1,220,707	$ 1,182,141

Statements of Income

(Parent Company only)
(Dollar amounts in thousands)

	Years ended December 31, 2013	2012	2011
Income			
Dividends from subsidiaries	$ 54,200	$ 38,000	$ 104,000
Interest income	1,067	619	259
Net losses on early extinguishment of debt	(1,034)	(558)	-
Securities transactions and other	37,485	1,982	(189)
Total income	91,718	40,043	104,070
Expenses			
Interest expense	13,607	14,840	9,892
Salaries and employee benefits	15,198	13,232	10,865
Other expenses	5,792	5,740	4,756
Total expenses	34,597	33,812	25,513
Income before income tax (expense) benefit and equity in undistributed income (loss) of subsidiaries	57,121	6,231	78,557
Income tax (expense) benefit	(962)	13,070	10,414
Income before undistributed income (loss) of subsidiaries	56,159	19,301	88,971
Equity in undistributed income (loss) of subsidiaries	23,147	(40,355)	(52,408)

Net income (loss)	79,306	(21,054)	36,563
Preferred dividends and accretion on preferred stock	-	-	(10,776)
Net (income) loss applicable to non-vested restricted shares	(1,107)	306	(350)
Net income (loss) applicable to common shares	$ 78,199	$ (20,748)	$ 25,437

Statements of Cash Flows

(Parent Company only)

(Dollar amounts in thousands)

	Years ended December 31,		
	2013	2012	2011
Operating Activities			
Net income (loss)	$ 79,306	$ (21,054)	$ 36,563
Adjustments to reconcile net income (loss) income to net cash provided by operating activities:			
Equity in undistributed (income) loss of subsidiaries	(23,147)	40,355	52,408
Depreciation of premises, furniture, and equipment	7	6	9
Net gains on sales of securities	(34,119)	-	-
Net losses on early extinguishment of debt	1,034	558	-
Share-based compensation expense	5,903	6,004	6,362
Tax (expense) benefit related to share-based compensation	(10)	170	(179)
Net decrease (increase) in other assets	1,084	(6,207)	(10,290)
Net (decrease) increase in other liabilities	(1,624)	1,366	4,618
Net cash provided by operating activities	28,434	21,198	89,491
Investing Activities			
Purchases of securities available-for-sale	(46,532)	(5,811)	-
Proceeds from sales and maturities of securities available-for-sale	43,329	-	14
Proceeds from sales of premises, furniture, and equipment	-	-	103
Purchase of premises, furniture, and equipment	-	(18)	(16)
Capital injection into non-bank subsidiary	-	-	(363)
Net cash used in investing activities	(3,203)	(5,829)	(262)
Financing Activities			
(Payments for retirement) proceeds from the issuance of subordinated debt	(24,094)	(37,033)	114,387
Redemption of preferred stock and related common stock warrant	-	-	(193,910)
Cash dividends paid	(7,508)	(2,977)	(12,838)
Restricted stock activity	(1,607)	(1,469)	(1,256)
Excess tax benefit (expense) related to share-based compensation	79	(21)	47
Net cash used in financing activities	(33,130)	(41,500)	(93,570)
Net decrease in cash and cash equivalents	(7,899)	(26,131)	(4,341)
Cash and cash equivalents at beginning of year	20,970	47,101	51,442
Cash and cash equivalents at end of year	$ 13,071	$ 20,970	$ 47,101

24. SUBSEQUENT EVENTS

On January 21, 2014, the Company entered into a $35.0 million short-term, unsecured revolving line of credit with a correspondent bank. Interest is payable at a rate equal to one-month LIBOR plus 1.75%, adjusted on a monthly basis. The line of credit will mature on January 20, 2015. No amount was outstanding through the date the consolidated financial statements were issued.

The Company evaluated the impact of events that occurred subsequent to December 31, 2013 through the date its consolidated financial statements were issued. Based on this evaluation, management does not believe there are any other subsequent events that occurred that would require further disclosure or adjustment to the consolidated financial statements.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 and 15d-15 of the Securities and Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, the President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2013 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth in "Internal Control   Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that the Company's internal control over financial reporting as of December 31, 2013 is effective based on the specified criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2013. The report, which expresses an unqualified opinion on the Company's internal control over financial reporting as of December 31, 2013, is included in this Item under the heading "Attestation Report of Independent Registered Public Accounting Firm."

Attestation Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of First Midwest Bancorp, Inc.

We have audited First Midwest Bancorp, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of the Company as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of the Company and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Chicago, Illinois
March 3, 2014

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The Company's executive officers are elected annually by the Board, and the Bank's executive officers are elected annually by the Bank's Board of Directors. Certain information regarding the Company's and the Bank's executive officers is set forth below.

Name (Age)	**Position or Employment for Past Five Years**	**Executive Officer Since**
Michael L. Scudder (53)	President and Chief Executive Officer of the Company since 2008; Chairman since 2011 and Vice Chairman from 2010 to 2011 of the Bank's Board of Directors; Chief Executive Officer of the Bank since 2010 and prior thereto, President, Chief Operating Officer and various other senior management positions with the Bank.	2002
Kent S. Belasco (63)	Executive Vice President and Chief Information and Operations Officer of the Bank since 2011; prior thereto, Executive Vice President and Chief Information Officer of the Bank.	2004
Victor P. Carapella (64)	Executive Vice President and Director of Commercial Banking since 2011; prior thereto, Executive Vice President and Commercial Banking Group Manager of the Bank.	2008
Nicholas J. Chulos (54)	Executive Vice President, Corporate Secretary, and General Counsel since 2012; prior thereto, Partner of Krieg DeVault, LLP.	2012
Paul F. Clemens (61)	Executive Vice President and Chief Financial Officer of the Company and the Bank.	2006
Robert P. Diedrich (50)	Executive Vice President and Director of Wealth Management of the Bank since 2011; prior thereto, President of the Wealth Management Division of First Midwest Bank.	2004
Caryn J. Guinta (63)	Executive Vice President and Director of Employee Resources of the Bank since 2005.	2013
James P. Hotchkiss (57)	Executive Vice President and Treasurer of the Company and the Bank since 2004.	2004
Kimberly J. McGarry (39)	Senior Vice President and Chief Accounting Officer of the Company and Bank since 2010; prior thereto, Senior Manager in the Assurance Services practice of Ernst & Young LLP.	2013
Kevin L. Moffitt (54)	Executive Vice President and Chief Risk Officer of the Company and the Bank since 2011; prior thereto, Executive Vice President and Audit Services Director of the Company since 2009; prior thereto, Vice President and Head of Internal Audit at Nuveen Investments, Inc.	2009
Thomas M. Prame (44)	Executive Vice President and Director of Retail Banking of the Bank since 2012; prior thereto, Executive Vice President, Sales and Service at RBS/Citizen's Bank.	2012

Name (Age)	Position or Employment for Past Five Years	Executive Officer Since
Mark G. Sander (55)	President and Chief Operating Officer of the Bank and Senior Executive Vice President and Chief Operating Officer of the Company since 2011; prior thereto, Executive Vice President and head of Commercial Banking for Associated Banc-Corp and its subsidiary, Associated Bank, since 2009; and prior thereto, leader of Commercial Banking for the Midwest Region at Bank of America.	2011
Michael C. Spitler (60)	Executive Vice President and Chief Credit Officer of the Bank since 2013; prior thereto, Executive Vice President and Commercial Chief Credit Officer for Busey Bank since 2011; prior thereto, Senior Vice President and Managing Senior Credit Officer for Fifth Third Bank; and prior thereto, Senior Vice President and Chief Credit Officer for Fifth Third Bank.	2013

The information required in response to this item will be contained in the Company's definitive Proxy Statement relating to its 2014 Annual Meeting of Stockholders to be held on May 21, 2014 and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this item will be contained in the Company's definitive Proxy Statement relating to its 2014 Annual Meeting of Stockholders to be held on May 21, 2014 and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required in response to this item will be contained in the Company's definitive Proxy Statement relating to its 2014 Annual Meeting of Stockholders to be held on May 21, 2014 and is incorporated herein by reference.

Equity Compensation Plans

The following table sets forth information, as of December 31, 2013, relating to equity compensation plans of the Company pursuant to which options, restricted stock, restricted stock units, or other rights to acquire shares may be granted from time to time.

Equity Compensation Plan Information

Equity Compensation Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Approved by security holders [1]	1,436,670	$ 32.99	2,320,656
Not approved by security holders [2]	5,241	17.69	-
Total	1,441,911	32.93	2,320,656

(1) Includes all outstanding options and awards under the Company's Omnibus Stock and Incentive Plan and the Non-Employee Directors' Stock Plan (the "Plans"). Additional information and details about the Plans are also disclosed in Notes 1 and 16 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

(2)

Represents shares underlying deferred stock units credited under the Company's Nonqualified Retirement Plan ("NQ Plan"), payable on a one-for-one basis in shares of common stock.

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The NQ Plan is a defined contribution deferred compensation plan under which participants are credited with deferred compensation equal to contributions and benefits that would have accrued to the participant under the Company's tax-qualified plans, but for limitations under the Internal Revenue Code, and to amounts of salary and annual bonus that the participant elected to defer. Participant accounts are deemed to be invested in separate investment accounts under the NQ Plan with similar investment alternatives as those available under the Company's tax-qualified savings and profit sharing plan, including an investment account deemed invested in shares of common stock. The accounts are adjusted to reflect the investment return related to such deemed investments. Except for the 5,241 shares set forth in the table above, all amounts credited under the NQ Plan are paid in cash.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required in response to this item will be contained in the Company's definitive Proxy Statement relating to its 2014 Annual Meeting of Stockholders to be held on May 21, 2014 and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required in response to this item will be contained in the Company's definitive Proxy Statement relating to its 2014 Annual Meeting of Stockholders to be held on May 21, 2014 and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

(1) **Financial Statements**

The following consolidated financial statements of the Registrant and its subsidiaries are filed as a part of this document under Item 8, "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA."

Report of Independent Registered Public Accounting Firm.

Consolidated Statements of Financial Condition as of December 31, 2013 and 2012.

Consolidated Statements of Income for the years ended December 31, 2013, 2012, and 2011.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012, and 2011.

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2013, 2012, and 2011.

Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012, and 2011.

Notes to the Consolidated Financial Statements.

(a)

(2) **Financial Statement Schedules**

The schedules for the Registrant and its subsidiaries are omitted because of the absence of conditions under which they are required, or because the information is set forth in the consolidated financial statements or the notes thereto.

(a)

(3) **Exhibits**

See Exhibit Index beginning on the following page.

EXHIBIT INDEX

Exhibit Number	Description of Documents
3.1	Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.
3.2	Restated By-Laws of the Company is incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2012.
4.1	Amended and Restated Rights Agreement dated November 15, 1995, is incorporated herein by reference to Exhibits (1) through (3) of the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on November 21, 1995.
4.2	First Amendment to Rights Agreement dated June 18, 1997, is incorporated herein by reference to Exhibit 4 of the Company's Amendment No. 2 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on June 30, 1997.
4.3	Second Amendment to Rights Agreement dated November 14, 2005, is incorporated herein by reference to Exhibit 4.1 of the Company's Amendment No. 3 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on November 17, 2005.
4.4	Third Amendment to Rights Agreement dated December 3, 2008, is incorporated herein by reference to Exhibit 4.4 of the Company's Amendment No. 4 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on December 9, 2008.
4.5	Form of Common Stock Certificate is incorporated herein by reference to Exhibit 1 of the Company's Registration Statement on Form 8-A, filed with the Securities and Exchange Commission on March 7, 1983.
4.6	Certificate of Designation for Fixed Rate Cumulative Perpetual Preferred Stock Series B dated December 5, 2008 is incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 9, 2008.
4.7	Senior Debt Indenture dated November 22, 2011, by and between the Company and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 22, 2011.
4.8	Subordinated Debt Indenture dated March 1, 2006, by and between the Company and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 3, 2006.
4.9	Amended and Restated Declaration of Trust of First Midwest Capital Trust I dated August 21, 2009 is incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2009.
4.10	Supplemental Indenture between the Company and Wilmington Trust Company, as trustee, dated August 21, 2009 is incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2009.
4.11	Series A Capital Securities Guarantee Agreement dated November 18, 2003 is incorporated herein by reference to Exhibit 4.6 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2004.
4.12	Form of Indemnification Agreement between the Company and certain officers and directors of the Company is incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.

10.1 Form of Senior Executive Officer Letter Agreement under the Troubled Asset Relief Plan Capital Purchase Program by and between the Company and the United States Department of the Treasury dated December 5, 2008, is incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 9, 2008.

10.2 Short-term Incentive Compensation Plan is incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2012.

10.3 First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Addendum A to the Company's Proxy Statement filed with the Securities and Exchange Commission on April 9, 2013.

10.4 First Midwest Bancorp, Inc. Amended and Restated Non-Employee Directors Stock Plan dated May 21, 2008 is incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.

10.5 Restated First Midwest Bancorp, Inc. Nonqualified Stock Option-Gain Deferral Plan effective January 1, 2008 is incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2008.

10.6 Restated First Midwest Bancorp, Inc. Deferred Compensation Plan for Non-employee Directors effective January 1, 2008, is incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2008.

10.7 Restated First Midwest Bancorp, Inc. Nonqualified Retirement Plan effective January 1, 2008, is incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2008.

10.8 Form of Non-Employee Director Restricted Stock Award Agreement between the Company and non-employee directors of the Company pursuant to the First Midwest Bancorp, Inc. Amended and Restated Non-Employee Directors Stock Plan is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities Exchange Commission on May 28, 2008.

10.9 Form of Nonqualified Stock Option Award Agreement between the Company and directors of the Company pursuant to the First Midwest Bancorp, Inc. Non-Employee Directors Stock Option Plan is incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities Exchange Commission on May 12, 2008.

10.10 Form of Nonqualified Stock Option Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2008.

10.11 Form of Restricted Stock Unit Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan.

10.12 Form of Restricted Stock Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan.

10.13 Form of Troubled Asset Relief Plan Compliant Restricted Share Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010.

10.14 Form of Indemnification Agreement between the Company and certain officers and directors of the Company is incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 9, 2007.

10.15 Employment Agreement between the Company and its Chief Executive Officer is incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.

10.16 Employment Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.

10.17 Employment Agreement between the Company and its Retail Banking Director is incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.

10.18 Form of Class II Employment Agreement between the Company and certain of its officers is incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.

10.19 Form of Class III Employment Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010.

10.20 Form of Tier II Employment Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.

10.21 Form of Tier III Employment Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.

10.22 Form of Commission Tier III Employment Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012.

10.23 Form of Amendment to the Employment Agreement between the Company and its Chief Executive Officer and to the Class II Employment Agreements between the Company and certain of its officers is incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.

10.24 Amendment to the Employment Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.

10.25 Form of Confidentiality and Restrictive Covenants Agreement between the Company and its Chief Executive Officer and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.

10.26 Form of Confidentiality and Restrictive Covenants Agreement between the Company and certain officers of the Company is incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013.

10.27 Form of Restricted Stock Unit grant between the Company and certain retirement-eligible officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan is incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2011.

10.28 Nonqualified Stock Option Letter Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.

10.29 Restricted Stock Letter Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.

10.30 Supplemental Salary Stock Compensation Award Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.

10.31	Compensation Award Agreement between the Company and its Chief Operating Officer is incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2011.
10.32	Loan Agreement between the Company and U.S. Bank National Association dated January 21, 2014 is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2014.
10.33	First Midwest Savings and Profit Sharing Plan as Amended and Restated effective January 1, 2008 is incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.
10.34	Form of Performance Shares Award Agreement between the Company and certain officers of the Company pursuant to the First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan.
11	Statement re: Computation of Per Share Earnings The computation of basic and diluted earnings per common share is included in Note 13 of the Company's Notes to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" on Form 10-K for the year ended December 31, 2013.
12	Statement re: Computation of Ratio of Earnings to Fixed Charges.
14.1	Code of Ethics and Standards of Conduct of the Company is incorporated herein by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2008.
14.2	Code of Ethics for Senior Financial Officers of the Company is incorporated herein by reference to Exhibit 14.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2008.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company's Annual Report on Form 10-K for the year ended December 31, 2013.
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company's Annual Report on Form 10-K for the year ended December 31, 2013.
32.1 (1)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Company's Annual Report on Form 10-K for the year ended December 31, 2013.
32.2 (1)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Company's Annual Report on Form 10-K for the year ended December 31, 2013.
101	Interactive Data File.

(1) Furnished, not filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST MIDWEST BANCORP, INC.
Registrant

By /s/ MICHAEL L. SCUDDER

Michael L. Scudder
President, Chief Executive Officer, and Director

March 3, 2014

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities indicated on March 3, 2014.

Signatures	
/s/ ROBERT P. O'MEARA Robert P. O'Meara	Chairman of the Board
/s/ MICHAEL L. SCUDDER Michael L. Scudder	President, Chief Executive Officer, and Director
/s/ PAUL F. CLEMENS Paul F. Clemens	Executive Vice President, Chief Financial Officer, and Principal Accounting Officer
/s/ BARBARA A. BOIGEGRAIN Barbara A. Boigegrain	Director
/s/ JOHN F. CHLEBOWSKI, JR. John F. Chlebowski, Jr.	Director
/s/ BROTHER JAMES GAFFNEY, FSC Brother James Gaffney, FSC	Director
/s/ PHUPINDER S. GILL Phupinder S. Gill	Director
/s/ PETER J. HENSELER Peter J. Henseler	Director

/s/ PATRICK J. MCDONNELL Patrick J. McDonnell	Director
/s/ ELLEN A. RUDNICK Ellen A. Rudnick	Director
/s/ MICHAEL J. SMALL Michael J. Small	Director
/s/ JOHN L. STERLING John L. Sterling	Director
/s/ J. STEPHEN VANDERWOUDE J. Stephen Vanderwoude	Director