WINTRUST FINANCIAL CORP
Form 10-Q
May 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 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 001-35077

WINTRUST FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Illinois	36-3873352
(State of incorporation or organization)	(I.R.S. Employer Identification No.)

9700 W. Higgins Road, Suite 800
Rosemont, Illinois 60018
(Address of principal executive offices)

(847) 939-9000
(Registrant's telephone number, including area code)

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 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 þ 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 þ No ¨

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock — no par value, 47,420,182 shares, as of April 30, 2015

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PART I
ITEM 1. FINANCIAL STATEMENTS
WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share data)	(Unaudited) March 31, 2015	December 31, 2014	(Unaudited) March 31, 2014
Assets			
Cash and due from banks	$286,743	$225,136	$330,262
Federal funds sold and securities purchased under resale agreements	4,129	5,571	12,476
Interest bearing deposits with banks	697,799	998,437	540,964
Available-for-sale securities, at fair value	1,721,030	1,792,078	1,949,697
Trading account securities	7,811	1,206	1,068
Federal Home Loan Bank and Federal Reserve Bank stock	92,948	91,582	78,524
Brokerage customer receivables	25,287	24,221	26,884
Mortgage loans held-for-sale, at fair value	446,355	351,290	215,231
Loans, net of unearned income, excluding covered loans	14,953,059	14,409,398	13,133,160
Covered loans	209,694	226,709	312,478
Total loans	15,162,753	14,636,107	13,445,638
Less: Allowance for loan losses	94,446	91,705	92,275
Less: Allowance for covered loan losses	1,878	2,131	3,447
Net loans	15,066,429	14,542,271	13,349,916
Premises and equipment, net	559,281	555,228	531,763
FDIC indemnification asset	10,224	11,846	60,298
Accrued interest receivable and other assets	537,117	501,882	549,705
Trade date securities receivable	488,063	485,534	182,600
Goodwill	420,197	405,634	373,725
Other intangible assets	18,858	18,811	18,050
Total assets	$20,382,271	$20,010,727	$18,221,163
Liabilities and Shareholders’ Equity			
Deposits:			
Non-interest bearing	$3,779,609	$3,518,685	$2,773,922
Interest bearing	13,159,160	12,763,159	12,355,123
Total deposits	16,938,769	16,281,844	15,129,045
Federal Home Loan Bank advances	416,036	733,050	387,672
Other borrowings	187,006	196,465	231,086
Subordinated notes	140,000	140,000	—
Junior subordinated debentures	249,493	249,493	249,493
Trade date securities payable	2,929	3,828	—
Accrued interest payable and other liabilities	316,964	336,225	283,724
Total liabilities	18,251,197	17,940,905	16,281,020
Shareholders’ Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series C - $1,000 liquidation value; 126,427 shares issued and outstanding at March 31, 2015, 126,467 shares issued and outstanding at December 31, 2014, and 126,477 shares issued and outstanding at March, 31, 2014	126,427	126,467	126,477
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at March 31, 2015, December 31, 2014, and March 31, 2014;	47,475	46,881	46,332

47,474,721 shares issued at March 31, 2015, 46,881,108 shares issued at December 31, 2014, and 46,332,213 shares issued at March 31, 2014			
Surplus	1,156,542	1,133,955	1,122,233
Treasury stock, at cost, 85,113 shares at March 31, 2015, 76,053 shares at December 31, 2014, and 73,253 shares at March 31, 2014	(3,948)	(3,549)	(3,380)
Retained earnings	835,669	803,400	705,234
Accumulated other comprehensive loss	(31,091)	(37,332)	(56,753)
Total shareholders’ equity	2,131,074	2,069,822	1,940,143
Total liabilities and shareholders’ equity	$20,382,271	$20,010,727	$18,221,163

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share data)	Three Months Ended March 31, 2015	March 31, 2014
Interest income		
Interest and fees on loans	$154,676	$147,030
Interest bearing deposits with banks	316	249
Federal funds sold and securities purchased under resale agreements	2	4
Available-for-sale securities	14,400	13,114
Trading account securities	13	9
Federal Home Loan Bank and Federal Reserve Bank stock	769	711
Brokerage customer receivables	181	209
Total interest income	170,357	161,326
Interest expense		
Interest on deposits	11,814	11,923
Interest on Federal Home Loan Bank advances	2,156	2,643
Interest on other borrowings	788	750
Interest on subordinated notes	1,775	—
Interest on junior subordinated debentures	1,933	2,004
Total interest expense	18,466	17,320
Net interest income	151,891	144,006
Provision for credit losses	6,079	1,880
Net interest income after provision for credit losses	145,812	142,126
Non-interest income		
Wealth management	18,100	16,813
Mortgage banking	27,800	16,428
Service charges on deposit accounts	6,297	5,346
Gains (losses) on available-for-sale securities, net	524	(33)
Fees from covered call options	4,360	1,542
Trading losses, net	(477)	(652)
Other	7,937	6,085
Total non-interest income	64,541	45,529
Non-interest expense		
Salaries and employee benefits	90,130	79,934
Equipment	7,836	7,403
Occupancy, net	12,351	10,993
Data processing	5,448	4,715
Advertising and marketing	3,907	2,816
Professional fees	4,664	3,454
Amortization of other intangible assets	1,013	1,163
FDIC insurance	2,987	2,951
OREO expense, net	1,411	3,976
Other	17,571	13,910
Total non-interest expense	147,318	131,315
Income before taxes	63,035	56,340
Income tax expense	23,983	21,840
Net income	$39,052	$34,500
Preferred stock dividends and discount accretion	1,581	1,581

Net income applicable to common shares	$37,471	$32,919
Net income per common share—Basic	$0.79	$0.71
Net income per common share—Diluted	$0.76	$0.68
Cash dividends declared per common share	$0.11	$0.10
Weighted average common shares outstanding	47,239	46,195
Dilutive potential common shares	4,233	4,509
Average common shares and dilutive common shares	51,472	50,704

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)	Three Months Ended March 31, 2015	March 31, 2014
Net income	$39,052	$34,500
Unrealized gains on securities		
Before tax	26,276	22,526
Tax effect	(10,331)	(8,804)
Net of tax	15,945	13,722
Less: Reclassification of net gains (losses) included in net income		
Before tax	524	(33)
Tax effect	(206)	13
Net of tax	318	(20)
Net unrealized gains on securities	15,627	13,742
Unrealized losses on derivative instruments		
Before tax	(561)	(98)
Tax effect	220	39
Net unrealized losses on derivative instruments	(341)	(59)
Foreign currency translation adjustment		
Before tax	(12,290)	(9,959)
Tax effect	3,245	2,559
Net foreign currency translation adjustment	(9,045)	(7,400)
Total other comprehensive income	6,241	6,283
Comprehensive income	$45,293	$40,783

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at December 31, 2013	$126,477	$46,181	$1,117,032	$(3,000)	$676,935	$ (63,036)	$1,900,589
Net income	—	—	—	—	34,500	—	34,500
Other comprehensive income, net of tax	—	—	—	—	—	6,283	6,283
Cash dividends declared on common stock	—	—	—	—	(4,620)	—	(4,620)
Dividends on preferred stock	—	—	—	—	(1,581)	—	(1,581)
Stock-based compensation	—	—	1,681	—	—	—	1,681
Common stock issued for:							
Exercise of stock options and warrants	—	77	2,464	(271)	—	—	2,270
Restricted stock awards	—	41	111	(109)	—	—	43
Employee stock purchase plan	—	13	587	—	—	—	600
Director compensation plan	—	20	358	—	—	—	378
Balance at March 31, 2014	$126,477	$46,332	$1,122,233	$(3,380)	$705,234	$ (56,753)	$1,940,143
Balance at December 31, 2014	$126,467	$46,881	$1,133,955	$(3,549)	$803,400	$ (37,332)	$2,069,822
Net income	—	—	—	—	39,052	—	39,052
Other comprehensive income, net of tax	—	—	—	—	—	6,241	6,241
Cash dividends declared on common stock	—	—	—	—	(5,202)	—	(5,202)
Dividends on preferred stock	—	—	—	—	(1,581)	—	(1,581)
Stock-based compensation	—	—	2,271	—	—	—	2,271
Conversion of Series C preferred stock to common stock	(40)	1	39	—	—	—	—
Common stock issued for:							
Acquisitions	—	422	18,582	—	—	—	19,004
Exercise of stock options and warrants	—	52	535	(130)	—	—	457
Restricted stock awards	—	84	329	(269)	—	—	144
Employee stock purchase plan	—	15	666	—	—	—	681
Director compensation plan	—	20	165	—	—	—	185
Balance at March 31, 2015	$126,427	$47,475	$1,156,542	$(3,948)	$835,669	$ (31,091)	$2,131,074

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Three Months Ended March 31, 2015	March 31, 2014
Operating Activities:		
Net income	$39,052	$34,500
Adjustments to reconcile net income to net cash (used for) provided by operating activities		
Provision for credit losses	6,079	1,880
Depreciation and amortization	7,895	7,753
Stock-based compensation expense	2,271	1,681
Tax (expense) benefit from stock-based compensation arrangements	(623)	3
Excess tax benefits from stock-based compensation arrangements	(471)	(156)
Net amortization of premium on securities	845	233
Mortgage servicing rights fair value change, net	514	253
Originations and purchases of mortgage loans held-for-sale	(941,651)	(527,272)
Proceeds from sales of mortgage loans held-for-sale	867,194	658,588
Increase in trading securities, net	(6,605)	(571)
Net (increase) decrease in brokerage customer receivables	(1,066)	4,069
Gains on mortgage loans sold	(20,608)	(12,220)
(Gains) losses on available-for-sale securities, net	(524)	33
Losses on sales of premises and equipment, net	81	795
Net (gains) losses on sales and fair value adjustments of other real estate owned	(549)	2,460
(Increase) decrease in accrued interest receivable and other assets, net	(21,291)	27,584
Decrease in accrued interest payable and other liabilities, net	(48,874)	(37,348)
Net Cash (Used for) Provided by Operating Activities	(118,331)	162,265
Investing Activities:		
Proceeds from maturities of available-for-sale securities	122,163	98,007
Proceeds from sales of available-for-sale securities	635,532	14,800
Purchases of available-for-sale securities	(629,008)	(349,979)
Net cash received for acquisitions	12,004	—
Proceeds from sales of other real estate owned	11,733	20,362
(Payments provided to) proceeds received from the FDIC related to reimbursements on covered assets	(2,056)	9,669
Net decrease (increase) in interest bearing deposits with banks	300,706	(45,390)
Net increase in loans	(407,522)	(227,040)
Purchases of premises and equipment, net	(5,902)	(7,596)
Net Cash Provided by (Used for) Investing Activities	37,650	(487,167)
Financing Activities:		
Increase in deposit accounts	486,960	460,551
Decrease in other borrowings, net	(20,327)	(24,018)
Decrease in Federal Home Loan Bank advances, net	(321,565)	(30,000)
Excess tax benefits from stock-based compensation arrangements	471	156
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	2,489	3,668
Common stock repurchases	(399)	(380)
Dividends paid	(6,783)	(6,201)

Net Cash Provided by Financing Activities	140,846	403,776
Net Increase in Cash and Cash Equivalents	60,165	78,874
Cash and Cash Equivalents at Beginning of Period	230,707	263,864
Cash and Cash Equivalents at End of Period	$290,872	$342,738

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(1) Basis of Presentation
The consolidated financial statements of Wintrust Financial Corporation and Subsidiaries (“Wintrust” or “the Company”) presented herein are unaudited, but in the opinion of management reflect all necessary adjustments of a normal or recurring nature for a fair presentation of results as of the dates and for the periods covered by the consolidated financial statements.
The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 (“2014 Form 10-K”). Operating results reported for the three-month periods are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.
The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management’s expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of our significant accounting policies are included in Note 1 - “Summary of Significant Accounting Policies” of the Company’s 2014 Form 10-K.
(2) Recent Accounting Developments

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued ASU No. 2014-01, “Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,” to provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that invest in affordable housing projects that qualify for the low-income housing tax credit. This ASU permits a new accounting treatment, if certain conditions are met, which allows the Company to amortize the initial cost of an investment in proportion to the amount of tax credits and other tax benefits received with recognition of the investment performance in income tax expense. The Company adopted this new guidance beginning January 1, 2015. The guidance did not have a material impact on the Company's consolidated financial statements.

Repossession of Residential Real Estate Collateral

In January 2014, the FASB issued ASU No. 2014-04, “Receivables - Troubled Debt Restructurings by Creditors (Topic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,” to address diversity in practice and clarify guidance regarding the accounting for an in-substance repossession or foreclosure of residential real estate collateral. This ASU clarifies that an in-substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor. Additionally, this ASU requires disclosure of both the amount of foreclosed residential real estate property held by the Company and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The Company adopted this new guidance beginning January 1, 2015. The guidance did not have a material impact on the Company's consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, which created "Revenue from Contracts with Customers (Topic 606), to clarify the principles for recognizing revenue and develop a common revenue standard for customer contracts. This ASU provides guidance regarding how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount

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that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also added a new subtopic to the codification, ASC 340-40, "Other Assets and Deferred Costs: Contracts with Customers" to provide guidance on costs related to obtaining and fulfilling a customer contract. Furthermore, the new standard requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. At this time, the guidance is effective for fiscal years beginning after December 15, 2016. In April 2015, the FASB proposed to defer the effective date by one year, which would result in the guidance becoming effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Extraordinary and Unusual Items

In January 2015, the FASB issued ASU No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items,” to eliminate the concept of extraordinary items related to separately classifying, presenting and disclosing certain events and transactions that meet the criteria for that concept. This guidance is effective for fiscal years beginning after December 15, 2015 and is to be applied either prospectively or retrospectively. The Company does not expect this guidance to have a material impact on the Company’s consolidated financial statements.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance is effective for fiscal years beginning after December 15, 2015 and is to be applied retrospectively. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," to clarify the the presentation of debt issuance costs within the balance sheet. This ASU requires that an entity present debt issuance costs related to a recognized debt liability on the balance sheet as a direct deduction from the carrying amount of that debt liability, not as a separate asset. The ASU does not affect the current guidance for the recognition and measurement for these debt issuance costs. This guidance is effective for fiscal years beginning after December 15, 2015 and is to be applied retrospectively. The Company does not expect this guidance to have a material impact on the Company’s consolidated financial statements.

(3) Business Combinations

Non-FDIC Assisted Bank Acquisitions

On January 16, 2015 the Company acquired Delavan Bancshares, Inc. ("Delavan"). Delavan was the parent company of Community Bank CBD, which had four banking locations. Community Bank CBD was merged into the Company's wholly-owned subsidiary Town Bank. The Company acquired assets with a fair value of approximately $223.9 million, including approximately $128.0 million of loans, and assumed liabilities with a fair value of approximately $185.6 million, including approximately $170.2 million of deposits. Additionally the Company recorded goodwill of $16.7 million on the acquisition.

On August 8, 2014, the Company, through its wholly-owned subsidiary Town Bank, acquired eleven branch offices and deposits of Talmer Bank & Trust. Subsequent to this date, the Company acquired loans from these branches as well. In total, the Company acquired assets with a fair value of approximately $361.3 million, including approximately $41.5 million of loans, and assumed liabilities with a fair value of approximately $361.3 million, including approximately $354.9 million of deposits. Additionally, the Company recorded goodwill of $9.7 million on the acquisition.

On July 11, 2014 the Company, through its wholly-owned subsidiary Town Bank, acquired the Pewaukee, Wisconsin branch of THE National Bank. The Company acquired assets with a fair value of approximately $94.1 million, including approximately $75.0 million of loans, and assumed deposits with a fair value of approximately $36.2 million. Additionally, the Company recorded goodwill of $16.3 million on the acquisition.

On May 16, 2014, the Company, through its wholly-owned subsidiary Hinsdale Bank and Trust Company ("Hinsdale Bank") acquired the Stone Park branch office and certain related deposits of Urban Partnership Bank ("UPB"). The Company assumed liabilities with a fair value of approximately $5.5 million, including approximately $5.4 million of deposits. Additionally, the Company recorded goodwill of $678,000 on the acquisition.

See Note 17 - Subsequent Events for discussion regarding the Company's announced acquisitions of Community Financial Shares, Inc ("CFIS"), North Bank and Suburban Illinois Bancorp, Inc. ("Suburban").

FDIC-Assisted Transactions

Since 2010, the Company acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of nine financial institutions in FDIC-assisted transactions. Loans comprise the majority of the assets acquired in nearly all of these FDIC-assisted transactions since 2010, most of which are subject to loss sharing agreements with the FDIC whereby the FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned (“OREO”), and certain other assets. Additionally, the loss share agreements with the FDIC require the Company to reimburse the FDIC in the event that actual losses on covered assets are lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to these loss-sharing agreements as “covered loans” and uses the term “covered assets” to refer to covered loans, covered OREO and certain other covered assets. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.

The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as an FDIC indemnification asset in the Consolidated Statements of Condition. The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The fair value for loans reflected expected credit losses at the acquisition date. Therefore, the Company will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration subsequent to the acquisition date. See Note 7 — Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion of the allowance on covered loans.

The loss share agreements with the FDIC cover realized losses on loans, foreclosed real estate and certain other assets. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets are recorded as FDIC indemnification assets on the Consolidated Statements of Condition. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the FDIC indemnification assets. Reductions to expected losses, to the extent such reductions to expected losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the FDIC indemnification assets. Although these assets are contractual receivables from the FDIC, there are no contractual interest rates. Additional expected losses, to the extent such expected losses result in recognition of an allowance for covered loan losses, will increase the FDIC indemnification asset. The corresponding accretion is recorded as a component of non-interest income on the Consolidated Statements of Income.

The following table summarizes the activity in the Company’s FDIC indemnification asset during the periods indicated:

(Dollars in thousands)	Three Months Ended March 31, 2015	March 31, 2014
Balance at beginning of period	$11,846	$85,672
Additions from acquisitions	—	—
Additions from reimbursable expenses	1,575	1,282
Amortization	(1,260)	(1,603)
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(3,993)	(15,384)

Payments provided to (received from) the FDIC	2,056	(9,669)
Balance at end of period	$10,224	$60,298

Specialty Finance Acquisition

On April 28, 2014, the Company, through its wholly-owned subsidiary, First Insurance Funding of Canada, Inc., acquired Policy Billing Services Inc. and Equity Premium Finance Inc., two affiliated Canadian insurance premium funding and payment services companies. Through this transaction, the Company acquired approximately $7.4 million of premium finance receivables. The Company recorded goodwill of approximately $6.5 million on the acquisition.

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Purchased Credit Impaired ("PCI") Loans

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. Expected future cash flows at the purchase date in excess of the fair value of loans are recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable (“accretable yield”). The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference and represents probable losses in the portfolio.

In determining the acquisition date fair value of PCI loans, and in subsequent accounting, the Company aggregates these purchased loans into pools of loans by common risk characteristics, such as credit risk rating and loan type. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses.

The Company purchased a portfolio of life insurance premium finance receivables in 2009. These purchased life insurance premium finance receivables are valued on an individual basis with the accretable component being recognized into interest income using the effective yield method over the estimated remaining life of the loans. The non-accretable portion is evaluated each quarter and if the loans’ credit related conditions improve, a portion is transferred to the accretable component and accreted over future periods. In the event a specific loan prepays in whole, any remaining accretable and non-accretable discount is recognized in income immediately. If credit related conditions deteriorate, an allowance related to these loans will be established as part of the provision for credit losses. See Note 6—Loans, for more information on PCI loans.

(4) Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Company considers cash and cash equivalents to include cash on hand, cash items in the process of collection, non-interest bearing amounts due from correspondent banks, federal funds sold and securities purchased under resale agreements with original maturities of three months or less.

(5) Available-For-Sale Securities

The following tables are a summary of the available-for-sale securities portfolio as of the dates shown:

	March 31, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$273,173	$148	$(1,847)	$271,474
U.S. Government agencies	665,177	5,348	(8,732)	661,793
Municipal	264,949	6,485	(1,522)	269,912
Corporate notes:				
Financial issuers	129,360	1,965	(1,321)	130,004
Other	3,759	52	(1)	3,810
Mortgage-backed: [(1)]				
Mortgage-backed securities	280,679	5,983	(2,529)	284,133
Collateralized mortgage obligations	45,299	435	(276)	45,458
Equity securities	48,717	5,979	(250)	54,446
Total available-for-sale securities	$1,711,113	$26,395	$(16,478)	$1,721,030

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(Dollars in thousands)	December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$388,713	$84	$(6,992)	$381,805
U.S. Government agencies	686,106	4,113	(21,903)	668,316
Municipal	234,951	5,318	(1,740)	238,529
Corporate notes:				
Financial issuers	129,309	2,006	(1,557)	129,758
Other	3,766	55	—	3,821
Mortgage-backed: (1)				
Mortgage-backed securities	271,129	5,448	(4,928)	271,649
Collateralized mortgage obligations	47,347	249	(535)	47,061
Equity securities	46,592	4,872	(325)	51,139
Total available-for-sale securities	$1,807,913	$22,145	$(37,980)	$1,792,078

(Dollars in thousands)	March 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$354,109	$263	$(14,194)	$340,178
U.S. Government agencies	874,845	3,286	(49,856)	828,275
Municipal	175,028	3,439	(3,167)	175,300
Corporate notes:				
Financial issuers	129,413	2,306	(1,735)	129,984
Other	4,986	100	(3)	5,083
Mortgage-backed: (1)				
Mortgage-backed securities	371,825	3,919	(13,188)	362,556
Collateralized mortgage obligations	55,190	356	(799)	54,747
Equity securities	50,570	3,543	(539)	53,574
Total available-for-sale securities	$2,015,966	$17,212	$(83,481)	$1,949,697

(1) Consisting entirely of residential mortgage-backed securities, none of which are subprime.

The following table presents the portion of the Company's available-for-sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at March 31, 2015:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$198,297	$(1,847)	$—	$—	$198,297	$(1,847)
U.S. Government agencies	163,928	(2,158)	259,346	(6,574)	423,274	(8,732)
Municipal	41,611	(500)	37,899	(1,022)	79,510	(1,522)
Corporate notes:						
Financial issuers	9,968	(31)	44,667	(1,290)	54,635	(1,321)
Other	999	(1)	—	—	999	(1)
Mortgage-backed:						

Mortgage-backed securities	16,725	(92)	127,433	(2,437)	144,158	(2,529)
Collateralized mortgage obligations	1,015	(1)	10,502	(275)	11,517	(276)
Equity securities	—	—	8,611	(250)	8,611	(250)
Total	$432,543	$(4,630)	$488,458	$(11,848)	$921,001	$(16,478)

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The Company conducts a regular assessment of its investment securities to determine whether securities are other-than-temporarily impaired considering, among other factors, the nature of the securities, credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows, market conditions and the Company’s ability to hold the securities through the anticipated recovery period.

The Company does not consider securities with unrealized losses at March 31, 2015 to be other-than-temporarily impaired. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily agency bonds, treasury notes and mortgage-backed securities. Unrealized losses recognized on agency bonds, treasury notes and mortgage-backed securities are the result of increases in yields for similar types of securities which also have a longer duration and maturity.

The following table provides information as to the amount of gross gains and gross losses realized and proceeds received through the sales of available-for-sale investment securities:

	Three months ended March 31,	
(Dollars in thousands)	2015	2014
Realized gains	$553	$55
Realized losses	(29)	(88)
Net realized gains (losses)	$524	$(33)
Other than temporary impairment charges	—	—
Gains (losses) on available-for-sale securities, net	$524	$(33)
Proceeds from sales of available-for-sale securities	$635,532	$14,800

The amortized cost and fair value of securities as of March 31, 2015, December 31, 2014 and March 31, 2014, by contractual maturity, are shown in the following table. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Mortgage-backed securities are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties:

	March 31, 2015		December 31, 2014		March 31, 2014	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$151,585	$151,854	$285,596	$285,889	$203,749	$203,942
Due in one to five years	249,861	250,483	172,647	172,885	338,130	338,980
Due in five to ten years	837,926	836,598	331,389	325,644	344,296	330,546
Due after ten years	97,046	98,058	653,213	637,811	652,206	605,352
Mortgage-backed	325,978	329,591	318,476	318,710	427,015	417,303
Equity securities	48,717	54,446	46,592	51,139	50,570	53,574
Total available-for-sale securities	$1,711,113	$1,721,030	$1,807,913	$1,792,078	$2,015,966	$1,949,697

Securities having a carrying value of $1.1 billion at March 31, 2015, $1.1 billion at December 31, 2014 and $1.2 billion at March 31, 2014, were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At March 31, 2015, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders’ equity.

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(6) Loans

The following table shows the Company's loan portfolio by category as of the dates shown:

(Dollars in thousands)	March 31, 2015		December 31, 2014		March 31, 2014	
Balance:						
Commercial	$4,211,932		$3,924,394		$3,439,197	
Commercial real-estate	4,710,486		4,505,753		4,262,255	
Home equity	709,283		716,293		707,748	
Residential real-estate	495,925		483,542		426,769	
Premium finance receivables—commercial	2,319,623		2,350,833		2,208,361	
Premium finance receivables—life insurance	2,375,654		2,277,571		1,929,334	
Consumer and other	130,156		151,012		159,496	
Total loans, net of unearned income, excluding covered loans	$14,953,059		$14,409,398		$13,133,160	
Covered loans	209,694		226,709		312,478	
Total loans	$15,162,753		$14,636,107		$13,445,638	
Mix:						
Commercial	28	%	26	%	26	%
Commercial real-estate	31		31		32	
Home equity	5		5		5	
Residential real-estate	3		3		3	
Premium finance receivables—commercial	15		16		17	
Premium finance receivables—life insurance	16		16		14	
Consumer and other	1		1		1	
Total loans, net of unearned income, excluding covered loans	99	%	98	%	98	%
Covered loans	1		2		2	
Total loans	100	%	100	%	100	%

The Company's loan portfolio is generally comprised of loans to consumers and small to medium-sized businesses located within the geographic market areas that the banks serve. The premium finance receivables portfolios are made to customers throughout the United States and Canada. The Company strives to maintain a loan portfolio that is diverse in terms of loan type, industry, borrower and geographic concentrations. Such diversification reduces the exposure to economic downturns that may occur in different segments of the economy or in different industries.

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $48.1 million at March 31, 2015, $46.9 million at December 31, 2014 and $40.3 million at March 31, 2014, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as PCI loans are recorded net of credit discounts. See "Acquired Loan Information at Acquisition" below.

Total loans, excluding PCI loans, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $(3.7) million at March 31, 2015, $330,000 at December 31, 2014 and $(6.2) million at March 31, 2014. The net credit balances at March 31, 2015 and March 31, 2014 are primarily the result of purchase accounting adjustments related to acquisitions in 2015 and 2014.

It is the policy of the Company to review each prospective credit in order to determine the appropriateness and, when required, the adequacy of security or collateral necessary to obtain when making a loan. The type of collateral, when required, will vary from liquid assets to real estate. The Company seeks to ensure access to collateral, in the event of default, through adherence to state lending laws and the Company's credit monitoring procedures.

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Acquired Loan Information at Acquisition—PCI Loans

As part of our previous acquisitions, we acquired loans for which there was evidence of credit quality deterioration since origination (PCI loans) and we determined that it was probable that the Company would be unable to collect all contractually required principal and interest payments. The following table presents the unpaid principal balance and carrying value for these acquired loans:

	March 31, 2015		December 31, 2014	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	$277,163	$222,837	$285,809	$227,229
Life insurance premium finance loans acquisition	394,632	389,048	399,665	393,479

The following table provides estimated details as of the date of acquisition on loans acquired in 2015 with evidence of credit quality deterioration since origination:

(Dollars in thousands)	Delavan
Contractually required payments including interest	$15,791
Less: Nonaccretable difference	1,442
Cash flows expected to be collected (1)	14,349
Less: Accretable yield	898
Fair value of PCI loans acquired	13,451

(1) Represents undiscounted expected principal and interest cash at acquisition.

See Note 7—Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion regarding the allowance for loan losses associated with PCI loans at March 31, 2015.

Accretable Yield Activity - PCI Loans

Changes in expected cash flows may vary from period to period as the Company periodically updates its cash flow model assumptions for PCI loans. The factors that most significantly affect the estimates of gross cash flows expected to be collected, and accordingly the accretable yield, include changes in the benchmark interest rate indices for variable-rate products and changes in prepayment assumptions and loss estimates. The following table provides activity for the accretable yield of PCI loans:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
(Dollars in thousands)	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$77,485	$1,617	$107,655	$8,254
Acquisitions	898	—	—	—
Accretable yield amortized to interest income	(5,504)	(601)	(7,770)	(1,771)
Accretable yield amortized to indemnification asset (1)	(3,576)	—	(5,648)	—
Reclassification from non-accretable difference (2)	1,103	—	8,580	—
Increases (decreases) in interest cash flows due to payments and changes in interest rates	(1,224)	—	(5,143)	78
Accretable yield, ending balance (3)	$69,182	$1,016	$97,674	$6,561

(1) Represents the portion of the current period accreted yield, resulting from lower expected losses, applied to reduce the loss share indemnification asset.

(2) Reclassification is the result of subsequent increases in expected principal cash flows.

(3)

As of March 31, 2015, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $15.8 million. The remainder of the accretable yield related to bank acquisitions is expected to be amortized to interest income.

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Accretion to interest income from loans acquired in bank acquisitions totaled $5.5 million and $7.8 million in the first quarter of 2015 and 2014, respectively. These amounts include accretion from both covered and non-covered loans, and are included together within interest and fees on loans in the Consolidated Statements of Income.

(7) Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans
The tables below show the aging of the Company's loan portfolio at March 31, 2015, December 31, 2014 and March 31, 2014:

As of March 31, 2015 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$5,586	$—	$4,756	$16,949	$2,457,174	$2,484,465
Franchise	—	—	—	457	225,305	225,762
Mortgage warehouse lines of credit	—	—	—	—	186,372	186,372
Community Advantage—homeowners association	—	—	—	—	108,382	108,382
Aircraft	—	—	291	389	6,295	6,975
Asset-based lending	—	—	—	4,819	805,866	810,685
Tax exempt	—	—	—	—	205,195	205,195
Leases	—	—	65	517	171,432	172,014
Other	—	—	—	—	2,735	2,735
PCI - commercial (1)	—	612	—	—	8,735	9,347
Total commercial	5,586	612	5,112	23,131	4,177,491	4,211,932
Commercial real-estate:						
Residential construction	—	—	—	—	46,796	46,796
Commercial construction	—	—	—	992	209,039	210,031
Land	2,646	—	—	1,942	84,454	89,042
Office	8,243	—	171	3,144	731,568	743,126
Industrial	3,496	—	61	1,719	599,050	604,326
Retail	4,975	—	—	2,562	734,990	742,527
Multi-family	1,750	—	393	3,671	649,589	655,403
Mixed use and other	8,872	—	808	10,847	1,532,036	1,552,563
PCI - commercial real-estate (1)	—	18,120	4,639	3,242	40,671	66,672
Total commercial real-estate	29,982	18,120	6,072	28,119	4,628,193	4,710,486
Home equity	7,665	—	693	2,825	698,100	709,283
Residential real estate	14,248	—	753	8,735	469,826	493,562
PCI - residential real estate (1)	—	266	—	84	2,013	2,363
Premium finance receivables						
Commercial insurance loans	15,902	8,062	4,476	19,392	2,271,791	2,319,623
Life insurance loans	—	—	8,994	5,415	1,972,197	1,986,606
PCI - life insurance loans (1)	—	—	—	—	389,048	389,048
Consumer and other	236	91	111	634	129,084	130,156
Total loans, net of unearned income, excluding covered loans	$73,619	$27,151	$26,211	$88,335	$14,737,743	$14,953,059
Covered loans	7,079	16,434	558	6,128	179,495	209,694
	$80,698	$43,585	$26,769	$94,463	$14,917,238	$15,162,753

Total loans, net of unearned income

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

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As of December 31, 2014 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$9,132	$474	$3,161	$7,492	$2,213,105	$2,233,364
Franchise	—	—	308	1,219	231,789	233,316
Mortgage warehouse lines of credit	—	—	—	—	139,003	139,003
Community Advantage—homeowners association	—	—	—	—	106,364	106,364
Aircraft	—	—	—	—	8,065	8,065
Asset-based lending	25	—	1,375	2,394	802,608	806,402
Tax exempt	—	—	—	—	217,487	217,487
Leases	—	—	77	315	159,744	160,136
Other	—	—	—	—	11,034	11,034
PCI - commercial (1)	—	365	202	138	8,518	9,223
Total commercial	9,157	839	5,123	11,558	3,897,717	3,924,394
Commercial real-estate						
Residential construction	—	—	250	76	38,370	38,696
Commercial construction	230	—	—	2,023	185,513	187,766
Land	2,656	—	—	2,395	86,779	91,830
Office	7,288	—	2,621	1,374	694,149	705,432
Industrial	2,392	—	—	3,758	617,820	623,970
Retail	4,152	—	116	3,301	723,919	731,488
Multi-family	249	—	249	1,921	603,323	605,742
Mixed use and other	9,638	—	2,603	9,023	1,443,853	1,465,117
PCI - commercial real-estate (1)	—	10,976	6,393	4,016	34,327	55,712
Total commercial real-estate	26,605	10,976	12,232	27,887	4,428,053	4,505,753
Home equity	6,174	—	983	3,513	705,623	716,293
Residential real-estate	15,502	—	267	6,315	459,224	481,308
PCI - residential real-estate (1)	—	549	—	—	1,685	2,234
Premium finance receivables						
Commercial insurance loans	12,705	7,665	5,995	17,328	2,307,140	2,350,833
Life insurance loans	—	—	13,084	339	1,870,669	1,884,092
PCI - life insurance loans (1)	—	—	—	—	393,479	393,479
Consumer and other	277	119	293	838	149,485	151,012
Total loans, net of unearned income, excluding covered loans	$70,420	$20,148	$37,977	$67,778	$14,213,075	$14,409,398
Covered loans	7,290	17,839	1,304	4,835	195,441	226,709
Total loans, net of unearned income	$77,710	$37,987	$39,281	$72,613	$14,408,516	$14,636,107

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

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As of March 31, 2014 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$11,112	$387	$2,235	$16,150	$1,965,425	$1,995,309
Franchise	—	—	—	75	221,026	221,101
Mortgage warehouse lines of credit	—	—	—	—	60,809	60,809
Community Advantage—homeowners association	—	—	—	—	91,414	91,414
Aircraft	—	—	—	—	8,840	8,840
Asset-based lending	670	—	—	10,573	729,425	740,668
Tax exempt	—	—	—	—	177,973	177,973
Leases	—	—	—	—	121,986	121,986
Other	—	—	—	—	10,261	10,261
PCI - commercial (1)	—	1,079	—	865	8,892	10,836
Total commercial	11,782	1,466	2,235	27,663	3,396,051	3,439,197
Commercial real-estate:						
Residential construction	—	—	680	27	35,690	36,397
Commercial construction	844	—	—	—	150,786	151,630
Land	2,405	—	2,682	3,438	99,445	107,970
Office	6,970	—	1,672	8,868	633,655	651,165
Industrial	6,101	—	1,114	2,706	615,139	625,060
Retail	9,540	—	217	3,089	664,584	677,430
Multi-family	1,327	—	—	3,820	570,616	575,763
Mixed use and other	6,546	—	6,626	10,744	1,337,320	1,361,236
PCI - commercial real-estate (1)	—	21,073	2,791			