WINTRUST FINANCIAL CORP
Form 10-Q
May 09, 2013
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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, 2013

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, 37,039,332 shares, as of April 30, 2013

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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, 2013	December 31, 2012	(Unaudited) March 31, 2012
Assets			
Cash and due from banks	$199,575	$284,731	$146,014
Federal funds sold and securities purchased under resale agreements	13,626	30,297	14,588
Interest-bearing deposits with other banks (no balance restricted for securitization investors at March 31, 2013 and December 31, 2012, and a balance restricted for securitization investors of $529,418 at March 31, 2012)	685,302	1,035,743	900,755
Available-for-sale securities, at fair value	1,870,831	1,796,076	1,869,344
Trading account securities	1,036	583	1,140
Federal Home Loan Bank and Federal Reserve Bank stock	76,601	79,564	88,216
Brokerage customer receivables	25,614	24,864	31,085
Mortgage loans held-for-sale, at fair value	370,570	385,033	339,600
Mortgage loans held-for-sale, at lower of cost or market	10,352	27,167	10,728
Loans, net of unearned income, excluding covered loans	11,900,312	11,828,943	10,717,384
Covered loans	518,661	560,087	691,220
Total loans	12,418,973	12,389,030	11,408,604
Less: Allowance for loan losses	110,348	107,351	111,023
Less: Allowance for covered loan losses	12,272	13,454	17,735
Net loans (no balance restricted for securitization investors at March 31, 2013 and December 31, 2012, and a balance restricted for securitization investors of $156,132 at March 31, 2012)	12,296,353	12,268,225	11,279,846
Premises and equipment, net	504,803	501,205	434,700
FDIC indemnification asset	170,696	208,160	263,212
Accrued interest receivable and other assets	485,746	511,617	463,394
Goodwill	343,632	345,401	307,295
Other intangible assets	19,510	20,947	22,101
Total assets	$17,074,247	$17,519,613	$16,172,018
Liabilities and Shareholders' Equity			
Deposits:			
Non-interest bearing	$2,243,440	$2,396,264	$1,901,753
Interest bearing	11,719,317	12,032,280	10,764,100
Total deposits	13,962,757	14,428,544	12,665,853
Notes payable	31,911	2,093	52,639
Federal Home Loan Bank advances	414,032	414,122	466,391
Other borrowings	256,244	274,411	411,037
Secured borrowings—owed to securitization investors	—	—	428,000
Subordinated notes	15,000	15,000	35,000
Junior subordinated debentures	249,493	249,493	249,493
Trade date securities payable	1,250	—	—
Accrued interest payable and other liabilities	317,872	331,245	175,684
Total liabilities	15,248,559	15,714,908	14,484,097
Shareholders' Equity:			

Preferred stock, no par value; 20,000,000 shares authorized:			
Series A - $1,000 liquidation value; 50,000 shares issued and outstanding at March 31, 2013, December 31, 2012 and March 31, 2012	49,941	49,906	49,802
Series C - $1,000 liquidation value; 126,500 shares issued and outstanding at March 31, 2013, December 31, 2012 and March 31, 2012	126,500	126,500	126,500
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at March 31, 2013 and December 31, 2012 and 60,000,000 shares authorized at March 31, 2012; 37,272,279 shares issued at March 31, 2013, 37,107,684 shares issued at December 31, 2012, and 36,521,562 shares issued at March 31, 2012	37,272	37,108	36,522
Surplus	1,040,098	1,036,295	1,008,326
Treasury stock, at cost, 258,572 shares at March 31, 2013, 249,329 shares at December 31, 2012, and 232,182 shares at March 31, 2012	(8,187)	(7,838)	(6,559)
Retained earnings	581,131	555,023	478,160
Accumulated other comprehensive (loss) income	(1,067)	7,711	(4,830)
Total shareholders’ equity	1,825,688	1,804,705	1,687,921
Total liabilities and shareholders’ equity	$17,074,247	$17,519,613	$16,172,018

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
(In thousands, except per share data)	2013	2012
Interest income		
Interest and fees on loans	$142,114	$143,555
Interest bearing deposits with banks	569	248
Federal funds sold and securities purchased under resale agreements	15	12
Securities	8,752	11,847
Trading account securities	5	9
Federal Home Loan Bank and Federal Reserve Bank stock	684	604
Brokerage customer receivables	174	211
Total interest income	152,313	156,486
Interest expense		
Interest on deposits	14,504	18,030
Interest on Federal Home Loan Bank advances	2,764	3,584
Interest on notes payable and other borrowings	1,154	3,102
Interest on secured borrowings—owed to securitization investors	—	2,549
Interest on subordinated notes	59	169
Interest on junior subordinated debentures	3,119	3,157
Total interest expense	21,600	30,591
Net interest income	130,713	125,895
Provision for credit losses	15,687	17,400
Net interest income after provision for credit losses	115,026	108,495
Non-interest income		
Wealth management	14,828	12,401
Mortgage banking	30,145	18,534
Service charges on deposit accounts	4,793	4,208
Gains on available-for-sale securities, net	251	816
Fees from covered call options	1,639	3,123
Gain on bargain purchases, net	—	840
Trading (losses) gains, net	(435)	146
Other	6,158	6,955
Total non-interest income	57,379	47,023
Non-interest expense		
Salaries and employee benefits	77,513	69,030
Equipment	6,184	5,400
Occupancy, net	8,853	8,062
Data processing	4,599	3,618
Advertising and marketing	2,040	2,006
Professional fees	3,221	3,604
Amortization of other intangible assets	1,120	1,049
FDIC insurance	3,444	3,357
OREO (income) expense, net	(1,620)	7,178
Other	14,765	14,455
Total non-interest expense	120,119	117,759
Income before taxes	52,286	37,759
Income tax expense	20,234	14,549

Net income	$32,052	$23,210
Preferred stock dividends and discount accretion	$2,616	$1,246
Net income applicable to common shares	$29,436	$21,964
Net income per common share—Basic	$0.80	$0.61
Net income per common share—Diluted	$0.65	$0.50
Cash dividends declared per common share	$0.09	$0.09
Weighted average common shares outstanding	36,976	36,207
Dilutive potential common shares	12,463	7,530
Average common shares and dilutive common shares	49,439	43,737

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
(In thousands)	2013	2012
Net income	$32,052	$23,210
Unrealized losses on securities		
Before tax	(7,455)	(3,219)
Tax effect	2,806	1,276
Net of tax	(4,649)	(1,943)
Less: Reclassification of net gains included in net income		
Before tax	251	816
Tax effect	(100)	(327)
Net of tax	151	489
Net unrealized losses on securities	(4,800)	(2,432)
Unrealized gains on derivative instruments		
Before tax	1,474	796
Tax effect	(586)	(316)
Net unrealized gains on derivative instruments	888	480
Foreign currency translation adjustment		
Before tax	(6,304)	—
Tax effect	1,438	—
Net foreign currency translation adjustment	(4,866)	—
Total other comprehensive loss	(8,778)	(1,952)
Comprehensive income	$23,274	$21,258

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 income (loss)	Total shareholders’ equity
Balance at December 31, 2011	$49,768	$35,982	$1,001,316	$(112)	$459,457	$ (2,878)	$1,543,533
Net income	—	—	—	—	23,210	—	23,210
Other comprehensive loss, net of tax	—	—	—	—	—	(1,952)	(1,952)
Cash dividends declared on common stock	—	—	—	—	(3,261)	—	(3,261)
Dividends on preferred stock	—	—	—	—	(1,212)	—	(1,212)
Accretion on preferred stock	34	—	—	—	(34)	—	—
Stock-based compensation	—	—	2,289	—	—	—	2,289
Issuance of Series C preferred stock	126,500	—	(3,810)	—	—	—	122,690
Common stock issued for:							
Exercise of stock options and warrants	—	407	7,822	(5,592)	—	—	2,637
Restricted stock awards	—	94	(94)	(855)	—	—	(855)
Employee stock purchase plan	—	17	465	—	—	—	482
Director compensation plan	—	22	338	—	—	—	360
Balance at March 31, 2012	$176,302	$36,522	$1,008,326	$(6,559)	$478,160	$ (4,830)	$1,687,921
Balance at December 31, 2012	$176,406	$37,108	$1,036,295	$(7,838)	$555,023	$ 7,711	$1,804,705
Net income	—	—	—	—	32,052	—	32,052
Other comprehensive loss, net of tax	—	—	—	—	—	(8,778)	(8,778)
Cash dividends declared on common stock	—	—	—	—	(3,328)	—	(3,328)
Dividends on preferred stock	—	—	—	—	(2,581)	—	(2,581)
Accretion on preferred stock	35	—	—	—	(35)	—	—
Stock-based compensation	—	—	2,413	—	—	—	2,413
Common stock issued for:							
Exercise of stock options and warrants	—	9	320	(214)	—	—	115
Restricted stock awards	—	111	90	(135)	—	—	66
Employee stock purchase plan	—	13	628	—	—	—	641
Director compensation plan	—	31	352	—	—	—	383
Balance at March 31, 2013	$176,441	$37,272	$1,040,098	$(8,187)	$581,131	$ (1,067)	$1,825,688

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
(In thousands)	2013	2012
Operating Activities:		
Net income	$32,052	$23,210
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	15,687	17,400
Depreciation and amortization	6,782	5,627
Stock-based compensation expense	2,413	2,289
Tax benefit from stock-based compensation arrangements	200	12
Excess tax benefits from stock-based compensation arrangements	(222)	(643)
Net amortization (accretion) of premium on securities	3,424	(2,092)
Mortgage servicing rights fair value change and amortization, net	(273)	(514)
Originations and purchases of mortgage loans held-for-sale	(974,432)	(714,655)
Proceeds from sales of mortgage loans held-for-sale	1,033,129	699,315
Bank owned life insurance income, net of claims	(846)	(919)
(Increase) decrease in trading securities, net	(453)	1,350
Net increase in brokerage customer receivables	(750)	(3,160)
Gains on mortgage loans sold	(27,419)	(14,464)
Gains on available-for-sale securities, net	(251)	(816)
Gain on bargain purchases, net	—	(840)
Loss on sales of premises and equipment, net	1	12
Net (gain) loss on sales and fair value adjustments of other real estate owned	(2,658)	5,496
Decrease in accrued interest receivable and other assets, net	32,914	10,040
Decrease in accrued interest payable and other liabilities, net	(19,617)	(11,689)
Net Cash Provided by Operating Activities	99,681	14,959
Investing Activities:		
Proceeds from maturities of available-for-sale securities	67,941	280,110
Proceeds from sales of available-for-sale securities	41,056	737,369
Purchases of available-for-sale securities	(192,379)	(952,853)
Net cash received for acquisitions	—	8,191
Divestiture of operations	(149,100)	—
Proceeds from sales of other real estate owned	30,641	25,768
Proceeds received from the FDIC related to reimbursements on covered assets	13,932	82,278
Net decrease (increase) in interest-bearing deposits with banks	350,441	(151,033)
Net increase in loans	(52,143)	(221,051)
Purchases of premises and equipment, net	(6,508)	(8,501)
Net Cash Provided by (Used for) Investing Activities	103,881	(199,722)
Financing Activities:		
(Decrease) increase in deposit accounts	(314,618)	269,326
Increase (decrease) in other borrowings, net	11,576	(34,141)
Decrease in Federal Home Loan Bank advances, net	—	(8,000)
Excess tax benefits from stock-based compensation arrangements	222	643
Debt defeasance	—	(172,848)
Net proceeds from issuance of Series C preferred stock	—	122,690
	1,354	8,699

Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants		
Common stock repurchases	(349)	(6,447)
Dividends paid	(3,574)	(4,261)
Net Cash (Used for) Provided by Financing Activities	(305,389)	175,661
Net Decrease in Cash and Cash Equivalents	(101,827)	(9,102)
Cash and Cash Equivalents at Beginning of Period	315,028	169,704
Cash and Cash Equivalents at End of Period	$213,201	$160,602

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, 2012 (“2012 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 2012 Form 10-K.

(2) Recent Accounting Developments

Accumulated Other Comprehensive Income Reporting by Component

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” which adds disclosures to make reporting of accumulated other comprehensive income more informative. Specifically, the new guidance requires a Company to identify amounts reclassified out of other comprehensive income by component. The guidance is effective for fiscal years beginning after December 15, 2012. The Company has included the required disclosures in this Form 10-Q by disclosing the reclassification amounts related to its securities, derivatives and foreign currency translation components. Other than requiring additional disclosures, adoption of this guidance did not have a material impact on our consolidated financial statements. See Note 17 - Shareholders' Equity and Earnings Per Share, for further information.

Balance Sheet Offsetting

In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” to address the disclosure requirements within ASU No. 2011-11 "Disclosures about Offsetting Assets and Liabilities". ASU 2011-11 requires disclosure showing the Company's gross and net positions for derivatives and financial transactions that are either offset in accordance with GAAP or are subject to a master netting or similar agreement. The guidance is effective for fiscal years beginning on or after January 1, 2013. The Company has included required disclosures for the current and comparative periods as required by the new guidance. Other than requiring additional disclosures, adoption of this guidance did not have a material impact on our consolidated financial statements. See Note 14 - Derivative Financial Instruments, for further information.

Subsequent Accounting for Indemnification Assets

In October 2012, the FASB issued ASU No. 2012-06, “Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution,” to address the diversity in practice and interpret guidance related to the subsequent measurement of an indemnification asset recognized in a government-assisted acquisition. These indemnification assets are recorded by the Company as FDIC indemnification assets on the Consolidated Statements of Condition. This ASU clarifies existing guidance by asserting that subsequent changes in expected cash flows related to an indemnification asset should be amortized over the shorter of the life of the indemnification agreement or the life of the underlying loan. This guidance is to be applied with respect to changes in cash flows on existing indemnification agreements as well as prospectively to new indemnification agreements. The guidance is effective for fiscal years beginning after December 15, 2012. As of January 1, 2013, the Company is accounting for its FDIC

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indemnification assets in accordance with ASU No. 2012-06. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

(3) Business Combinations

FDIC-Assisted Transactions

In 2010 and 2011, the Company acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of six financial institutions in FDIC-assisted transactions.

Since February 2012, the Company has acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of three financial institutions in FDIC-assisted transactions. The following table presents details related to the three recent transactions:

(Dollars in thousands)	Charter National	Second Federal	First United Bank
Date of acquisition	February 10, 2012	July 20, 2012	September 28, 2012
Fair value of assets acquired, at the acquisition date	$92,355	$171,625	$ 328,408
Fair value of loans acquired, at the acquisition date	45,555	—	77,964
Fair value of liabilities assumed, at the acquisition date	91,570	171,582	321,734
Fair value of reimbursable losses, at the acquisition date(1)	13,164	—	67,190
Gain on bargain purchase recognized	785	43	6,675

(1) As no assets subject to loss sharing agreements were acquired in the acquisition of Second Federal, there was no fair value of reimbursable losses.

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.

On their respective acquisition dates in 2012, the Company announced that its wholly-owned subsidiary banks, Old Plank Trail Community Bank, N.A. ("Old Plank Trail Bank"), Hinsdale Bank and Trust Company ("Hinsdale Bank") and Barrington Bank and Trust Company, N.A. ("Barrington"), acquired certain assets and liabilities and the banking operations of First United Bank of Crete, Illinois ("First United Bank"), Second Federal Savings and Loan Association of Chicago ("Second Federal") and Charter National Bank and Trust (“Charter National”), respectively, in FDIC-assisted transactions. 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 also separately measured from the related loans and foreclosed real estate and 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. Additions to expected losses will require an increase to the allowance for loan losses and a corresponding increase to the FDIC indemnification assets. The corresponding accretion is recorded as a component of non-interest income on the Consolidated Statements of Income.

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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, 2013	March 31, 2012
Balance at beginning of period	$208,160	$344,251
Additions from acquisitions	—	13,164
Additions from reimbursable expenses	5,033	6,864
Amortization	(2,468)	(1,576)
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(26,097)	(17,213)
Payments received from the FDIC	(13,932)	(82,278)
Balance at end of period	$170,696	$263,212

Divestiture of Previous FDIC-Assisted Acquisition

On February 1, 2013, the Company completed the divestiture of the deposits and current banking operations of Second Federal to Self-Help Federal Credit Union. Through this transaction, the Company divested approximately $149 million of related deposits.

Other Recent Bank Acquisitions

On December 12, 2012, the Company acquired HPK. HPK is the parent company of Hyde Park Bank, which operated two banking locations in the Hyde Park neighborhood of Chicago, Illinois. As part of this transaction, Hyde Park Bank was merged into Beverly Bank. The Company acquired assets with a fair value of approximately $371.6 million, including approximately $118.5 million of loans, and assumed liabilities with a fair value of approximately $344.1 million, including approximately $243.8 million of deposits. Additionally, the Company recorded goodwill of $12.6 million on the acquisition.

On April 13, 2012, the Company acquired a branch of Suburban Bank & Trust Company ("Suburban") located in Orland Park, Illinois. Through this transaction, the Company acquired approximately $52 million of deposits and $3 million of loans. The Company recorded goodwill of $1.5 million on the branch acquisition.

Specialty Finance Acquisition

On June 8, 2012, the Company completed its acquisition of Macquarie Premium Funding Inc., the Canadian insurance premium funding business of Macquarie Group. Through this transaction, the Company acquired approximately $213 million of gross premium finance receivables. The Company recorded goodwill of approximately $21.9 million on the acquisition.

Wealth Management Acquisitions

On March 30, 2012, the Company's wholly-owned subsidiary, The Chicago Trust Company, N.A. ("CTC"), acquired the trust operations of Suburban. Through this transaction, CTC acquired trust accounts having assets under administration of approximately $160 million, in addition to land trust accounts. The Company recorded goodwill of $1.8 million on the trust operations acquisition.

Purchased loans with evidence of credit quality deterioration since origination

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 purchased impaired 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.

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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 loans acquired with evidence of credit quality deterioration since origination.
(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.

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(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, 2013			
(Dollars in thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
U.S. Treasury	$220,215	$190	$(2,760)	$217,645
U.S. Government agencies	975,386	2,960	(4,631)	973,715
Municipal	107,947	2,628	(316)	110,259
Corporate notes and other:				
Financial issuers	136,761	2,569	(2,280)	137,050
Other	11,628	195	—	11,823
Mortgage-backed: (1)				
Mortgage-backed securities	294,728	7,360	(3,194)	298,894
Collateralized mortgage obligations	68,496	897	(5)	69,388
Other equity securities	52,413	745	(1,101)	52,057
Total available-for-sale securities	$1,867,574	$17,544	$(14,287)	$1,870,831

	December 31, 2012			
(Dollars in thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
U.S. Treasury	$220,226	$198	$(937)	$219,487
U.S. Government agencies	986,186	4,839	(986)	990,039
Municipal	107,868	2,899	(296)	110,471
Corporate notes and other:				
Financial issuers	142,205	2,452	(3,982)	140,675
Other	13,911	220	—	14,131
Mortgage-backed: (1)				
Mortgage-backed securities	188,485	8,805	(30)	197,260
Collateralized mortgage obligations	73,386	928	—	74,314
Other equity securities	52,846	215	(3,362)	49,699
Total available-for-sale securities	$1,785,113	$20,556	$(9,593)	$1,796,076

	March 31, 2012			
(Dollars in thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
U.S. Treasury	$23,063	$128	$(2)	$23,189
U.S. Government agencies	682,847	4,082	(4,149)	682,780
Municipal	67,970	1,963	(18)	69,915
Corporate notes and other:				
Financial issuers	148,492	2,569	(9,044)	142,017
Other	26,475	329	(5)	26,799
Mortgage-backed: (1)				
Mortgage-backed securities	846,380	11,866	(806)	857,440
Collateralized mortgage obligations	28,423	286	(1)	28,708
Other equity securities	42,664	111	(4,279)	38,496

Total available-for-sale securities	$1,866,314	$21,334	$(18,304)	$1,869,344

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

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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, 2013:

	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	$197,422	$(2,760)	$—	$—	$197,422	$(2,760)
U.S. Government agencies	510,371	(4,629)	6,032	(2)	516,403	(4,631)
Municipal	19,977	(314)	463	(2)	20,440	(316)
Corporate notes and other:						
Financial issuers	4,606	(37)	73,696	(2,243)	78,302	(2,280)
Other	—	—	—	—	—	—
Mortgage-backed:						
Mortgage-backed securities	158,142	(3,194)	—	—	158,142	(3,194)
Collateralized mortgage obligations	13,616	(5)	—	—	13,616	(5)
Other equity securities	5,920	(80)	24,379	(1,021)	30,299	(1,101)
Total	$910,054	$(11,019)	$104,570	$(3,268)	$1,014,624	$(14,287)

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, 2013 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 corporate securities of financial issuers and auction rate securities included in other equity securities. The corporate securities of financial issuers in this category were comprised of seven fixed-to-floating rate bonds and three trust-preferred securities, all of which continue to be considered investment grade. Additionally, a review of the issuers indicated that they all have strong capital ratios.

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)	2013	2012
Realized gains	$313	$828
Realized losses	(62)	(12)
Net realized gains	$251	$816
Other than temporary impairment charges	—	—
Gains on available-for-sale securities, net	$251	$816
Proceeds from sales of available-for-sale securities	$41,056	$737,369

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The amortized cost and fair value of securities as of March 31, 2013, December 31, 2012 and March 31, 2012, 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, 2013		December 31, 2012		March 31, 2012	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$247,388	$247,836	$188,594	$189,015	$79,980	$80,351
Due in one to five years	337,431	338,633	419,588	419,654	496,724	494,391
Due in five to ten years	357,677	356,871	361,037	362,135	106,545	105,856
Due after ten years	509,441	507,152	501,177	503,999	265,598	264,102
Mortgage-backed	363,224	368,282	261,871	271,574	874,803	886,148
Other equity securities	52,413	52,057	52,846	49,699	42,664	38,496
Total available-for-sale securities	$1,867,574	$1,870,831	$1,785,113	$1,796,076	$1,866,314	$1,869,344

At March 31, 2013, December 31, 2012 and March 31, 2012, securities having a carrying value of $1.1 billion were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At March 31, 2013, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders’ equity.

(6) Loans

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

(Dollars in thousands)	March 31, 2013		December 31, 2012		March 31, 2012	
Balance:						
Commercial	$2,872,695		$2,914,798		$2,544,456	
Commercial real-estate	3,990,465		3,864,118		3,585,760	
Home equity	759,218		788,474		840,364	
Residential real-estate	360,652		367,213		361,327	
Premium finance receivables—commercial	1,997,160		1,987,856		1,512,630	
Premium finance receivables—life insurance	1,753,512		1,725,166		1,693,763	
Indirect consumer	69,245		77,333		67,445	
Consumer and other	97,365		103,985		111,639	
Total loans, net of unearned income, excluding covered loans	$11,900,312		$11,828,943		$10,717,384	
Covered loans	518,661		560,087		691,220	
Total loans	$12,418,973		$12,389,030		$11,408,604	
Mix:						
Commercial	23	%	24	%	22	%
Commercial real-estate	32		31		32	
Home equity	6		6		7	
Residential real-estate	3		3		3	
Premium finance receivables—commercial	16		16		13	
Premium finance receivables—life insurance	14		14		15	
Indirect consumer	1		1		1	
Consumer and other	1		1		1	
Total loans, net of unearned income, excluding covered loans	96	%	96	%	94	%
Covered loans	4		4		6	

Total loans	100 %	100 %	100 %

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Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $40.0 million at March 31, 2013, $41.1 million at December 31, 2012 and $36.8 million at March 31, 2012, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as the covered loans acquired in the FDIC-assisted acquisitions are recorded net of credit discounts. See "Acquired Loan Information at Acquisition" below.

Indirect consumer loans include auto, boat and other indirect consumer loans. Total loans, excluding loans acquired with evidence of credit quality deterioration since origination, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $10.5 million at March 31, 2013, $13.2 million at December 31, 2012 and $12.6 million at March 31, 2012.

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 on a national basis and the majority of the indirect consumer loans were generated through a network of local automobile dealers. As a result, 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.

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.

Acquired Loan Information at Acquisition—Loans with evidence of credit quality deterioration since origination

As part of our previous acquisitions, we acquired loans for which there was evidence of credit quality deterioration since origination 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, 2013		December 31, 2012	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	$612,702	$462,129	$674,868	$503,837
Life insurance premium finance loans acquisition	519,757	499,731	536,503	514,459

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 loans acquired with evidence of credit quality deterioration since origination at March 31, 2013.

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Accretable Yield Activity

Changes in expected cash flows may vary from period to period as the Company periodically updates its cash flow model assumptions for loans acquired with evidence of credit quality deterioration since origination. 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 loans acquired with evidence of credit quality deterioration since origination:

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
(Dollars in thousands)	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$143,224	$13,055	$173,120	$18,861
Acquisitions	(78)	—	2,288	—
Accretable yield amortized to interest income	(9,577)	(2,019)	(14,892)	(3,737)
Accretable yield amortized to indemnification asset (1)	(8,706)	—	(21,377)	—
Reclassification from non-accretable difference (2)	5,412	—	41,601	—
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(8,550)	182	1,482	724
Accretable yield, ending balance (3)	$121,725	$11,218	$182,222	$15,848

(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, 2013, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $42.9 million. The remainder of the accretable yield related to bank acquisitions is expected to be amortized to interest income.

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(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, 2013, December 31, 2012 and March 31, 2012:

As of March 31, 2013 (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	$17,717	$—	$1,150	$16,710	$1,533,999	$1,569,576
Franchise	125	—	—	76	194,310	194,511
Mortgage warehouse lines of credit	—	—	—	—	131,970	131,970
Community Advantage—homeowners association	—	—	—	—	82,763	82,763
Aircraft	—	—	—	—	14,112	14,112
Asset-based lending	531	—	483	5,518	680,723	687,255
Municipal	—	—	—	—	89,508	89,508
Leases	—	—	—	844	97,186	98,030
Other	—	—	—	—	127	127
Purchased non-covered commercial (1)	—	449	—	—	4,394	4,843
Total commercial	18,373	449	1,633	23,148	2,829,092	2,872,695
Commercial real-estate						
Residential construction	3,094	—	945	—	33,044	37,083
Commercial construction	1,086	—	9,521	—	151,751	162,358
Land	17,976	—	—	11,563	104,039	133,578
Office	3,564	—	8,990	4,797	567,333	584,684
Industrial	7,137	—	—	986	587,402	595,525
Retail	7,915	—	6,970	5,953	565,963	586,801
Multi-family	2,088	—	1,036	4,315	505,346	512,785
Mixed use and other	18,947	—	1,573	13,560	1,288,754	1,322,834
Purchased non-covered commercial real-estate (1)	—	1,866	251	3,333	49,367	54,817
Total commercial real-estate	61,807	1,866	29,286	44,507		