WINTRUST FINANCIAL CORP
Form 10-Q
May 08, 2014
Table of Contents

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, 2014

OR

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

For the transition period from to

Commission File Number 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, 46,541,444 shares, as of April 30, 2014

Table of Contents

TABLE OF CONTENTS

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

(In thousands, except share data)	(Unaudited) March 31, 2014	December 31, 2013	(Unaudited) March 31, 2013
Assets			
Cash and due from banks	$330,262	$253,408	$199,575
Federal funds sold and securities purchased under resale agreements	12,476	10,456	13,626
Interest-bearing deposits with other banks	540,964	495,574	685,302
Available-for-sale securities, at fair value	1,949,697	2,176,290	1,870,831
Trading account securities	1,068	497	1,036
Federal Home Loan Bank and Federal Reserve Bank stock	78,524	79,261	76,601
Brokerage customer receivables	26,884	30,953	25,614
Mortgage loans held-for-sale	215,231	334,327	380,922
Loans, net of unearned income, excluding covered loans	13,133,160	12,896,602	11,900,312
Covered loans	312,478	346,431	518,661
Total loans	13,445,638	13,243,033	12,418,973
Less: Allowance for loan losses	92,275	96,922	110,348
Less: Allowance for covered loan losses	3,447	10,092	12,272
Net loans	13,349,916	13,136,019	12,296,353
Premises and equipment, net	531,763	531,947	504,803
FDIC indemnification asset	60,298	85,672	170,696
Accrued interest receivable and other assets	549,705	569,619	485,746
Trade date securities receivable	182,600	—	—
Goodwill	373,725	374,547	343,632
Other intangible assets	18,050	19,213	19,510
Total assets	$18,221,163	$18,097,783	$17,074,247
Liabilities and Shareholders' Equity			
Deposits:			
Non-interest bearing	$2,773,922	$2,721,771	$2,243,440
Interest bearing	12,355,123	11,947,018	11,719,317
Total deposits	15,129,045	14,668,789	13,962,757
Notes payable	182	364	31,911
Federal Home Loan Bank advances	387,672	417,762	414,032
Other borrowings	230,904	254,740	256,244
Subordinated notes	—	—	15,000
Junior subordinated debentures	249,493	249,493	249,493
Trade date securities payable	—	303,088	1,250
Accrued interest payable and other liabilities	283,724	302,958	317,872
Total liabilities	16,281,020	16,197,194	15,248,559
Shareholders' Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series A - $1,000 liquidation value; No shares issued and outstanding at March 31, 2014 and December 31, 2013, and 50,000 shares issued and outstanding at March 31, 2013	—	—	49,941
Series C - $1,000 liquidation value; 126,477 shares issued and outstanding at March 31, 2014 and December 31, 2013, and 126,500	126,477	126,477	126,500

shares issued and outstanding at March, 31, 2013			
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at March 31, 2014, December 31, 2013, and March 31, 2013; 46,332,213 shares issued at March 31, 2014, 46,181,588 shares issued at December 31, 2013, and 37,272,279 shares issued at March 31, 2013	46,332	46,181	37,272
Surplus	1,122,233	1,117,032	1,040,098
Treasury stock, at cost, 73,253 shares at March 31, 2014, 65,005 shares at December 31, 2013, and 258,572 shares at March 31, 2013	(3,380)	(3,000)	(8,187)
Retained earnings	705,234	676,935	581,131
Accumulated other comprehensive loss	(56,753)	(63,036)	(1,067)
Total shareholders' equity	1,940,143	1,900,589	1,825,688
Total liabilities and shareholders' equity	$18,221,163	$18,097,783	$17,074,247

See accompanying notes to unaudited consolidated financial statements.

1

Table of Contents

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

	Three Months Ended March 31,	
(In thousands, except per share data)	2014	2013
Interest income		
Interest and fees on loans	$147,030	$142,114
Interest bearing deposits with banks	249	569
Federal funds sold and securities purchased under resale agreements	4	15
Securities	13,114	8,752
Trading account securities	9	5
Federal Home Loan Bank and Federal Reserve Bank stock	711	684
Brokerage customer receivables	209	174
Total interest income	161,326	152,313
Interest expense		
Interest on deposits	11,923	14,504
Interest on Federal Home Loan Bank advances	2,643	2,764
Interest on notes payable and other borrowings	750	1,154
Interest on subordinated notes	—	59
Interest on junior subordinated debentures	2,004	3,119
Total interest expense	17,320	21,600
Net interest income	144,006	130,713
Provision for credit losses	1,880	15,687
Net interest income after provision for credit losses	142,126	115,026
Non-interest income		
Wealth management	16,813	14,828
Mortgage banking	16,428	30,145
Service charges on deposit accounts	5,346	4,793
(Losses) gains on available-for-sale securities, net	(33)	251
Fees from covered call options	1,542	1,639
Trading losses, net	(652)	(435)
Other	6,085	6,158
Total non-interest income	45,529	57,379
Non-interest expense		
Salaries and employee benefits	79,934	77,513
Equipment	7,403	6,184
Occupancy, net	10,993	8,853
Data processing	4,715	4,599
Advertising and marketing	2,816	2,040
Professional fees	3,454	3,221
Amortization of other intangible assets	1,163	1,120
FDIC insurance	2,951	3,444
OREO expense (income), net	3,976	(1,620)
Other	13,910	14,765
Total non-interest expense	131,315	120,119
Income before taxes	56,340	52,286
Income tax expense	21,840	20,234
Net income	$34,500	$32,052
Preferred stock dividends and discount accretion	1,581	2,616

Net income applicable to common shares	$32,919	$29,436
Net income per common share—Basic	$0.71	$0.80
Net income per common share—Diluted	$0.68	$0.65
Cash dividends declared per common share	$0.10	$0.09
Weighted average common shares outstanding	46,195	36,976
Dilutive potential common shares	4,509	12,463
Average common shares and dilutive common shares	50,704	49,439

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
(In thousands)	2014	2013
Net income	$34,500	$32,052
Unrealized gains (losses) on securities		
Before tax	22,526	(7,455)
Tax effect	(8,804)	2,806
Net of tax	13,722	(4,649)
Less: Reclassification of net (losses) gains included in net income		
Before tax	(33)	251
Tax effect	13	(100)
Net of tax	(20)	151
Net unrealized gains (losses) on securities	13,742	(4,800)
Unrealized (losses) gains on derivative instruments		
Before tax	(98)	1,474
Tax effect	39	(586)
Net unrealized (losses) gains on derivative instruments	(59)	888
Foreign currency translation adjustment		
Before tax	(9,959)	(6,304)
Tax effect	2,559	1,438
Net foreign currency translation adjustment	(7,400)	(4,866)
Total other comprehensive income (loss)	6,283	(8,778)
Comprehensive income	$40,783	$23,274

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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, 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
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

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
(In thousands)	2014	2013
Operating Activities:		
Net income	$34,500	$32,052
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	1,880	15,687
Depreciation and amortization	7,753	6,782
Stock-based compensation expense	1,681	2,413
Tax benefit from stock-based compensation arrangements	3	200
Excess tax benefits from stock-based compensation arrangements	(156)	(222)
Net amortization of premium on securities	233	3,424
Mortgage servicing rights fair value change, net	253	(273)
Originations and purchases of mortgage loans held-for-sale	(527,272)	(974,432)
Proceeds from sales of mortgage loans held-for-sale	658,588	1,033,129
Increase in trading securities, net	(571)	(453)
Net decrease (increase) in brokerage customer receivables	4,069	(750)
Gains on mortgage loans sold	(12,220)	(27,419)
Losses (gains) on available-for-sale securities, net	33	(251)
Loss on sales of premises and equipment, net	795	1
Net loss (gains) on sales and fair value adjustments of other real estate owned	2,460	(2,658)
Decrease in accrued interest receivable and other assets, net	27,584	32,068
Decrease in accrued interest payable and other liabilities, net	(37,348)	(19,617)
Net Cash Provided by Operating Activities	162,265	99,681
Investing Activities:		
Proceeds from maturities of available-for-sale securities	98,007	67,941
Proceeds from sales of available-for-sale securities	14,800	41,056
Purchases of available-for-sale securities	(349,979)	(192,379)
Divestiture of operations	—	(149,100)
Proceeds from sales of other real estate owned	20,362	30,641
Proceeds received from the FDIC related to reimbursements on covered assets	9,669	13,932
Net (increase) decrease in interest-bearing deposits with banks	(45,390)	350,441
Net increase in loans	(227,040)	(52,143)
Purchases of premises and equipment, net	(7,596)	(6,508)
Net Cash (Used for) Provided by Investing Activities	(487,167)	103,881
Financing Activities:		
Increase (decrease) in deposit accounts	460,551	(314,618)
(Decrease) increase in other borrowings, net	(24,018)	11,576
Decrease in Federal Home Loan Bank advances, net	(30,000)	—
Excess tax benefits from stock-based compensation arrangements	156	222
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	3,668	1,354
Common stock repurchases	(380)	(349)
Dividends paid	(6,201)	(3,574)
Net Cash Provided by (Used for) Financing Activities	403,776	(305,389)
Net Increase (Decrease) in Cash and Cash Equivalents	78,874	(101,827)

Cash and Cash Equivalents at Beginning of Period	263,864	315,028
Cash and Cash Equivalents at End of Period	$342,738	$213,201

See accompanying notes to unaudited consolidated financial statements.

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, 2013 (“2013 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 2013 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 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. This guidance is effective for fiscal years beginning after December 15, 2014 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.

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. This guidance is effective for fiscal years beginning after December 15, 2014. Other than requiring additional disclosures, the Company does not expect adoption of this guidance to have a material impact on the Company's consolidated financial statements.

Table of Contents

(3) Business Combinations

Non-FDIC Assisted Bank Acquisitions

On October 18, 2013, the Company acquired Diamond Bancorp, Inc. ("Diamond"). Diamond was the parent company of Diamond Bank, FSB ("Diamond Bank"), which operated four banking locations in Chicago, Schaumburg, Elmhurst, and Northbrook, Illinois. As part of the transaction, Diamond Bank was merged into North Shore Community Bank & Trust Company ("North Shore Bank"). The Company acquired assets with a fair value of approximately $172.5 million, including approximately $91.7 million of loans, and assumed liabilities with a fair value of approximately $169.1 million, including approximately $140.2 million of deposits. Additionally, the Company recorded goodwill of $8.4 million on the acquisition.

On May 1, 2013, the Company acquired First Lansing Bancorp, Inc. ("FLB"). FLB was the parent company of First National Bank of Illinois ("FNBI"), which operated seven banking locations in the south and southwest suburbs of Chicago, as well as one location in northwest Indiana. As part of this transaction, FNBI was merged into Old Plank Trail Community Bank, N.A. ("Old Plank Trail Bank"). The Company acquired assets with a fair value of approximately $373.4 million, including approximately $123.0 million of loans, and assumed liabilities with a fair value of approximately $334.7 million, including approximately $331.4 million of deposits. Additionally, the Company recorded goodwill of $14.0 million on the acquisition.
See Note 17—Subsequent Events for discussion regarding the Company's announcements in April 2014 of the signing of a definitive agreement to acquire certain branch offices and deposits of Talmer Bank & Trust, and a branch of THE National Bank.

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 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.

Table of Contents

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, 2014	March 31, 2013
Balance at beginning of period	$85,672	$208,160
Additions from acquisitions	—	—
Additions from reimbursable expenses	1,282	5,033
Amortization	(1,603)	(2,468)
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(15,384)	(26,097)
Payments received from the FDIC	(9,669)	(13,932)
Balance at end of period	$60,298	$170,696

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 Savings and Loan Association of Chicago ("Second Federal") to an unaffiliated financial institution. Through this transaction, the Company divested approximately $149 million of related deposits.

Mortgage Banking Acquisitions

On October 1, 2013, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of Surety Financial Services ("Surety") of Sherman Oaks, California. Surety had five offices located in southern California which originated approximately $1.0 billion in the twelve months prior to the acquisition date. The Company recorded goodwill of $9.5 million on the 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. 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.

Table of Contents

(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, 2014			
(Dollars in thousands)	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
Other equity securities	50,570	3,543	(539)	53,574
Total available-for-sale securities	$2,015,966	$17,212	$(83,481)	$1,949,697

	December 31, 2013			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$354,262	$141	$(18,308)	$336,095
U.S. Government agencies	950,086	1,680	(56,078)	895,688
Municipal	154,463	2,551	(4,298)	152,716
Corporate notes:				
Financial issuers	129,362	1,993	(2,411)	128,944
Other	5,994	105	(5)	6,094
Mortgage-backed: (1)				
Mortgage-backed securities	562,708	3,537	(18,047)	548,198
Collateralized mortgage obligations	57,711	258	(942)	57,027
Other equity securities	50,532	1,493	(497)	51,528
Total available-for-sale securities	$2,265,118	$11,758	$(100,586)	$2,176,290

	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:				
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

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

9

Table of Contents

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, 2014:

	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	$—	$—	$185,969	$(14,194)	$185,969	$(14,194)
U.S. Government agencies	463,254	(42,295)	54,128	(7,561)	517,382	(49,856)
Municipal	61,280	(2,683)	9,484	(484)	70,764	(3,167)
Corporate notes:						
Financial issuers	1,327	(10)	57,474	(1,725)	58,801	(1,735)
Other	997	(3)	—	—	997	(3)
Mortgage-backed:						
Mortgage-backed securities	137,042	(1,352)	137,661	(11,836)	274,703	(13,188)
Collateralized mortgage obligations	21,045	(275)	11,944	(524)	32,989	(799)
Other equity securities	8,296	(213)	5,674	(326)	13,970	(539)
Total	$693,241	$(46,831)	$462,334	$(36,650)	$1,155,575	$(83,481)

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, 2014 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 treasury notes, mortgage-backed securities, and agency bonds. Unrealized losses recognized on treasury notes, mortgage backed securities and agency bonds are the result of increases in yields for similar types of securities which 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)	2014	2013
Realized gains	$55	$313
Realized losses	(88)	(62)
Net realized (losses) gains	$(33)	$251
Other than temporary impairment charges	—	—
(Losses) gains on available-for-sale securities, net	$(33)	$251
Proceeds from sales of available-for-sale securities	$14,800	$41,056

Table of Contents

The amortized cost and fair value of securities as of March 31, 2014, December 31, 2013 and March 31, 2013, 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, 2014		December 31, 2013		March 31, 2013	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$203,749	$203,942	$268,847	$269,168	$247,388	$247,836
Due in one to five years	338,130	338,980	358,108	358,357	337,431	