

WINTRUST FINANCIAL CORP

Form 10-Q

November 07, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 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 ☒ 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 ☒ 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 ☒

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 ☒

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, 46,715,099 shares, as of October 31, 2014

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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) September 30, 2014	December 31, 2013	(Unaudited) September 30, 2013
Assets				
Cash and due from banks		\$ 260,694	\$ 253,408	\$ 322,866
Federal funds sold and securities purchased under resale agreements		26,722	10,456	7,771
Interest bearing deposits with banks		620,370	495,574	681,834
Available-for-sale securities, at fair value		1,782,648	2,176,290	1,781,883
Trading account securities		6,015	497	259
Federal Home Loan Bank and Federal Reserve Bank stock		80,951	79,261	76,755
Brokerage customer receivables		26,624	30,953	29,253
Mortgage loans held-for-sale		363,303	334,327	334,345
Loans, net of unearned income, excluding covered loans		14,052,059	12,896,602	12,581,039
Covered loans		254,605	346,431	415,988
Total loans		14,306,664	13,243,033	12,997,027
Less: Allowance for loan losses		91,019	96,922	107,188
Less: Allowance for covered loan losses		2,655	10,092	12,924
Net loans		14,212,990	13,136,019	12,876,915
Premises and equipment, net		555,241	531,947	517,942
FDIC indemnification asset		27,359	85,672	100,313
Accrued interest receivable and other assets		494,213	569,619	576,121
Trade date securities receivable		285,627	—	—
Goodwill		406,604	374,547	357,309
Other intangible assets		19,984	19,213	18,982
Total assets		\$ 19,169,345	\$ 18,097,783	\$ 17,682,548
Liabilities and Shareholders' Equity				
Deposits:				
Non-interest bearing		\$ 3,253,477	\$ 2,721,771	\$ 2,622,518
Interest bearing		12,811,769	11,947,018	12,024,928
Total deposits		16,065,246	14,668,789	14,647,446
Federal Home Loan Bank advances		347,500	417,762	387,852
Other borrowings		51,483	255,104	248,416
Subordinated notes		140,000	—	10,000
Junior subordinated debentures		249,493	249,493	249,493
Trade date securities payable		—	303,088	—
Accrued interest payable and other liabilities		287,115	302,958	265,775
Total liabilities		17,140,837	16,197,194	15,808,982
Shareholders' Equity:				
Preferred stock, no par value; 20,000,000 shares authorized:				
Series C - \$1,000 liquidation value; 126,467 shares issued and outstanding at September 30, 2014, 126,477 shares issued and outstanding at December 31, 2013, and 126,500 shares issued and outstanding at September, 30, 2013		126,467	126,477	126,500
Common stock, no par value; \$1.00 stated value; 100,000,000 shares authorized at September 30, 2014, December 31, 2013, and September		46,766	46,181	39,992

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30, 2013; 46,766,420 shares issued at September 30, 2014, 46,181,588 shares issued at December 31, 2013, and 39,992,300 shares issued at September 30, 2013

Surplus	1,129,975	1,117,032	1,118,550
Treasury stock, at cost, 75,373 shares at September 30, 2014, 65,005 shares at December 31, 2013, and 261,257 shares at September 30, 2013	(3,519)	(3,000)	(8,290)
Retained earnings	771,519	676,935	643,228
Accumulated other comprehensive loss	(42,700)	(63,036)	(46,414)
Total shareholders' equity	2,028,508	1,900,589	1,873,566
Total liabilities and shareholders' equity	\$ 19,169,345	\$ 18,097,783	\$ 17,682,548

See accompanying notes to unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September	September	September	September
(In thousands, except per share data)	30,	30,	30,	30,
	2014	2013	2014	2013
Interest income				
Interest and fees on loans	\$156,534	\$150,810	\$455,548	\$438,907
Interest bearing deposits with banks	409	229	977	1,209
Federal funds sold and securities purchased under resale agreements	12	4	22	23
Available-for-sale securities	12,767	9,224	39,190	27,335
Trading account securities	20	14	34	27
Federal Home Loan Bank and Federal Reserve Bank stock	733	687	2,171	2,064
Brokerage customer receivables	201	200	610	562
Total interest income	170,676	161,168	498,552	470,127
Interest expense				
Interest on deposits	12,298	12,524	35,980	40,703
Interest on Federal Home Loan Bank advances	2,641	2,729	7,989	8,314
Interest on other borrowings	200	910	1,460	3,196
Interest on subordinated notes	1,776	40	2,130	151
Interest on junior subordinated debentures	2,091	3,183	6,137	9,444
Total interest expense	19,006	19,386	53,696	61,808
Net interest income	151,670	141,782	444,856	408,319
Provision for credit losses	5,864	11,114	14,404	42,183
Net interest income after provision for credit losses	145,806	130,668	430,452	366,136
Non-interest income				
Wealth management	17,659	16,057	52,694	46,777
Mortgage banking	26,691	25,682	66,923	87,561
Service charges on deposit accounts	6,084	5,308	17,118	15,136
(Losses) gains on available-for-sale securities, net	(153)	) 75	(522)	) 328
Fees from covered call options	2,107	285	4,893	2,917
Trading gains (losses), net	293	(1,655)	) (1,102)	) 1,170
Other	5,271	8,910	17,579	22,147
Total non-interest income	57,952	54,662	157,583	176,036
Non-interest expense				
Salaries and employee benefits	85,976	78,007	247,873	234,745
Equipment	7,570	6,593	22,196	19,190
Occupancy, net	10,446	9,079	31,289	26,639
Data processing	4,765	4,884	14,023	13,841
Advertising and marketing	3,528	2,772	9,902	7,534
Professional fees	4,035	3,378	11,535	10,790
Amortization of other intangible assets	1,202	1,154	3,521	3,438
FDIC insurance	3,211	3,245	9,358	9,692
OREO expense, net	581	2,499	7,047	3,163
Other	17,186	15,637	46,662	46,522
Total non-interest expense	138,500	127,248	403,406	375,554
Income before taxes	65,258	58,082	184,629	166,618
Income tax expense	25,034	22,519	71,364	64,696

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Net income	\$40,224	\$35,563	\$113,265	\$101,922
Preferred stock dividends and discount accretion	1,581	1,581	4,743	6,814
Net income applicable to common shares	\$38,643	\$33,982	\$108,522	\$95,108
Net income per common share—Basic	\$0.83	\$0.86	\$2.34	\$2.51
Net income per common share—Diluted	\$0.79	\$0.71	\$2.23	\$2.05
Cash dividends declared per common share	\$0.10	\$0.09	\$0.30	\$0.18
Weighted average common shares outstanding	46,639	39,331	46,453	37,939
Dilutive potential common shares	4,241	10,823	4,349	11,763
Average common shares and dilutive common shares	50,880	50,154	50,802	49,702

See accompanying notes to unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September	September	September	September
(In thousands)	30,	30,	30,	30,
	2014	2013	2014	2013
Net income	\$40,224	\$35,563	\$113,265	\$101,922
Unrealized gains (losses) on securities				
Before tax	1,345	(2,419)	49,920	(81,337)
Tax effect	(533)	959	(19,669)	32,106
Net of tax	812	(1,460)	30,251	(49,231)
Less: Reclassification of net (losses) gains included in net income				
Before tax	(153)	75	(522)	328
Tax effect	62	(30)	208	(131)
Net of tax	(91)	45	(314)	197
Net unrealized gains (losses) on securities	903	(1,505)	30,565	(49,428)
Unrealized gains on derivative instruments				
Before tax	971	647	247	4,290
Tax effect	(386)	(257)	(98)	(1,708)
Net unrealized gains on derivative instruments	585	390	149	2,582
Foreign currency translation adjustment				
Before tax	(13,062)	4,970	(13,976)	(9,575)
Tax effect	3,377	(1,065)	3,598	2,296
Net foreign currency translation adjustment	(9,685)	3,905	(10,378)	(7,279)
Total other comprehensive (loss) income	(8,197)	2,790	20,336	(54,125)
Comprehensive income	\$32,027	\$38,353	\$133,601	\$47,797

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, 2012	\$ 176,406	\$ 37,108	\$ 1,036,295	\$(7,838)	\$ 555,023	\$ 7,711	\$ 1,804,705
Net income	—	—	—	—	101,922	—	101,922
Other comprehensive loss, net of tax	—	—	—	—	—	(54,125)	(54,125)
Cash dividends declared on common stock	—	—	—	—	(6,903)	—	(6,903)
Dividends on preferred stock	—	—	—	—	(6,744)	—	(6,744)
Accretion on preferred stock	70	—	—	—	(70)	—	—
Conversion of Series A preferred stock to common stock	(49,976)	1,944	48,032	—	—	—	—
Stock-based compensation	—	—	6,598	—	—	—	6,598
Common stock issued for:							
Acquisitions	—	648	22,422	—	—	—	23,070
Exercise of stock options and warrants	—	79	2,161	(214)	—	—	2,026
Restricted stock awards	—	135	140	(238)	—	—	37
Employee stock purchase plan	—	47	1,801	—	—	—	1,848
Director compensation plan	—	31	1,101	—	—	—	1,132
Balance at September 30, 2013	\$ 126,500	\$ 39,992	\$ 1,118,550	\$(8,290)	\$ 643,228	\$ (46,414)	\$ 1,873,566
Balance at December 31, 2013	\$ 126,477	\$ 46,181	\$ 1,117,032	\$(3,000)	\$ 676,935	\$ (63,036)	\$ 1,900,589
Net income	—	—	—	—	113,265	—	113,265
Other comprehensive income, net of tax	—	—	—	—	—	20,336	20,336
Cash dividends declared on common stock	—	—	—	—	(13,938)	—	(13,938)
Dividends on preferred stock	—	—	—	—	(4,743)	—	(4,743)
Stock-based compensation	—	—	5,754	—	—	—	5,754
Conversion of Series C preferred stock to common stock	(10)	1	9	—	—	—	—
Common stock issued for:							
Exercise of stock options and warrants	—	450	3,797	(313)	—	—	3,934
Restricted stock awards	—	67	151	(206)	—	—	12
Employee stock purchase plan	—	47	2,086	—	—	—	2,133
Director compensation plan	—	20	1,146	—	—	—	1,166
Balance at September 30, 2014	\$ 126,467	\$ 46,766	\$ 1,129,975	\$(3,519)	\$ 771,519	\$ (42,700)	\$ 2,028,508

See accompanying notes to unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Months Ended	
	September 30, 2014	September 30, 2013
Operating Activities:		
Net income	\$ 113,265	\$ 101,922
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	14,404	42,183
Depreciation and amortization	23,952	21,061
Stock-based compensation expense	5,754	6,598
Tax (expense) benefit from stock-based compensation arrangements	(279)	) 188
Excess tax benefits from stock-based compensation arrangements	(339)	) (349)
Net amortization of premium on securities	4,733	1,534
Mortgage servicing rights fair value change, net	706	(1,373)
Originations and purchases of mortgage loans held-for-sale	(2,272,919)	) (2,966,058)
Proceeds from sales of mortgage loans held-for-sale	2,299,103	3,108,405
(Increase) decrease in trading securities, net	(5,518)	) 324
Net decrease (increase) in brokerage customer receivables	4,329	(4,389)
Gains on mortgage loans sold	(55,160)	) (64,492)
Losses (gains) on available-for-sale securities, net	522	(328)
Losses (gains) on sales of premises and equipment, net	664	(375)
Net losses (gains) on sales and fair value adjustments of other real estate owned	2,628	(1,323)
Decrease in accrued interest receivable and other assets, net	78,709	27,170
Decrease in accrued interest payable and other liabilities, net	(55,874)	) (50,290)
Net Cash Provided by Operating Activities	158,680	220,408
Investing Activities:		
Proceeds from maturities of available-for-sale securities	222,434	169,139
Proceeds from sales of available-for-sale securities	578,594	129,537
Purchases of available-for-sale securities	(944,281)	) (240,640)
Net cash received (paid) for acquisitions	228,946	(9,350)
Divestiture of operations	—	(149,100)
Proceeds from sales of other real estate owned	73,940	76,506
Proceeds received from the FDIC related to reimbursements on covered assets	17,652	47,408
Net (increase) decrease in interest bearing deposits with banks	(124,796)	) 412,638
Net increase in loans	(1,011,889)	) (589,402)
Purchases of premises and equipment, net	(30,982)	) (24,239)
Net Cash Used for Investing Activities	(990,382)	) (177,503)
Financing Activities:		
Increase in deposit accounts	1,000,603	39,575
Decrease in other borrowings, net	(203,621)	) (29,009)
Decrease in Federal Home Loan Bank advances, net	(70,000)	) (26,000)
Proceeds from issuance of subordinated notes, net	139,090	—
Repayment of subordinated notes	—	(5,000)
Excess tax benefits from stock-based compensation arrangements	339	349
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	8,043	5,307
Common stock repurchases	(519)) (452)

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Dividends paid	(18,681) (12,066)
Net Cash Provided by (Used for) Financing Activities	855,254	(27,296)
Net Increase in Cash and Cash Equivalents	23,552	15,609	
Cash and Cash Equivalents at Beginning of Period	263,864	315,028	
Cash and Cash Equivalents at End of Period	\$287,416	\$330,637	
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, 2013 (“2013 Form 10-K”). Operating results reported for the three-month and nine-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.

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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 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. This guidance is effective for fiscal years beginning after December 15, 2016. The Company is current evaluating the impact of adopting this new guidance on the consolidated financial statements.

(3) Business Combinations

Non-FDIC Assisted Bank Acquisitions

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.

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 Wintrust Bank (formerly known as North Shore Community Bank & Trust Company). 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 announced acquisition of Delavan Bancshares, Inc. ("Delavan").

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

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“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.

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Balance at beginning of period	\$46,115	\$137,681	\$85,672	\$208,160
Additions from acquisitions	—	—	—	—
Additions from reimbursable expenses	1,584	3,062	4,933	10,922
Amortization	(1,382)	(1,763)	(4,441)	(5,884)
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(12,124)	(12,742)	(41,153)	(65,477)
Payments received from the FDIC	(6,834)	(25,925)	(17,652)	(47,408)
Balance at end of period	\$27,359	\$100,313	\$27,359	\$100,313

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.

Specialty Finance Acquisition

On April 28, 2014, the Company, through its wholly-owned subsidiary, First Insurance Funding of Canada, Inc., completed its acquisition of 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.

Mortgage Banking Acquisitions

On October 1, 2013, the Company, through its wholly-owned subsidiary, Barrington Bank and Trust Company, N.A. ("Barrington Bank"), 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.

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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.

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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:

(Dollars in thousands)	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	\$388,873	\$372	\$(10,984)	) \$378,261
U.S. Government agencies	771,255	3,866	(35,369)	) 739,752
Municipal	184,015	4,969	(1,881)	) 187,103
Corporate notes:				
Financial issuers	129,259	2,252	(1,208)	) 130,303
Other	3,773	79	—	) 3,852
Mortgage-backed: ⁽¹⁾				
Mortgage-backed securities	246,354	4,303	(8,938)	) 241,719
Collateralized mortgage obligations	49,909	357	(763)	) 49,503
Equity securities	47,595	4,958	(398)	) 52,155
Total available-for-sale securities	\$1,821,033	\$21,156	\$(59,541)	) \$1,782,648

(Dollars in thousands)	December 31, 2013			
	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		