WINTRUST FINANCIAL CORP
Form 10-Q
August 08, 2014
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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 June 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 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, 46,589,196 shares, as of July 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) June 30, 2014	December 31, 2013	(Unaudited) June 30, 2013
Assets			
Cash and due from banks	$349,013	$253,408	$224,286
Federal funds sold and securities purchased under resale agreements	7,965	10,456	9,013
Interest bearing deposits with banks	506,871	495,574	440,656
Available-for-sale securities, at fair value	1,824,240	2,176,290	1,843,824
Trading account securities	2,234	497	659
Federal Home Loan Bank and Federal Reserve Bank stock	84,531	79,261	79,354
Brokerage customer receivables	28,199	30,953	26,214
Mortgage loans held-for-sale	363,627	334,327	537,991
Loans, net of unearned income, excluding covered loans	13,749,996	12,896,602	12,516,892
Covered loans	275,154	346,431	454,602
Total loans	14,025,150	13,243,033	12,971,494
Less: Allowance for loan losses	92,253	96,922	106,842
Less: Allowance for covered loan losses	1,667	10,092	14,429
Net loans	13,931,230	13,136,019	12,850,223
Premises and equipment, net	535,281	531,947	512,928
FDIC indemnification asset	46,115	85,672	137,681
Accrued interest receivable and other assets	525,394	569,619	573,709
Trade date securities receivable	292,366	—	—
Goodwill	381,721	374,547	356,871
Other intangible assets	16,894	19,213	20,137
Total assets	$18,895,681	$18,097,783	$17,613,546
Liabilities and Shareholders’ Equity			
Deposits:			
Non-interest bearing	$3,072,430	$2,721,771	$2,450,659
Interest bearing	12,483,946	11,947,018	11,915,195
Total deposits	15,556,376	14,668,789	14,365,854
Notes payable	—	364	1,729
Federal Home Loan Bank advances	580,582	417,762	585,942
Other borrowings	43,716	254,740	252,776
Subordinated notes	140,000	—	10,000
Junior subordinated debentures	249,493	249,493	249,493
Trade date securities payable	—	303,088	577
Accrued interest payable and other liabilities	327,279	302,958	310,515
Total liabilities	16,897,446	16,197,194	15,776,886
Shareholders’ Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series A - $1,000 liquidation value; No shares issued and outstanding at June 30, 2014 and December 31, 2013, and 50,000 shares issued and outstanding at June 30, 2013	—	—	49,976
Series C - $1,000 liquidation value; 126,467 shares issued and outstanding at June 30, 2014, 126,477 shares issued and outstanding at	126,467	126,477	126,500

December 31, 2013, and 126,500 shares issued and outstanding at June, 30, 2013			
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at June 30, 2014, December 31, 2013, and June 30, 2013; 46,626,772 shares issued at June 30, 2014, 46,181,588 shares issued at December 31, 2013, and 37,984,485 shares issued at June 30, 2013	46,627	46,181	37,985
Surplus	1,125,551	1,117,032	1,066,796
Treasury stock, at cost, 73,867 shares at June 30, 2014, 65,005 shares at December 31, 2013, and 259,342 shares at June 30, 2013	(3,449)	(3,000)	(8,214)
Retained earnings	737,542	676,935	612,821
Accumulated other comprehensive loss	(34,503)	(63,036)	(49,204)
Total shareholders’ equity	1,998,235	1,900,589	1,836,660
Total liabilities and shareholders’ equity	$18,895,681	$18,097,783	$17,613,546

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands, except per share data)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Interest income				
Interest and fees on loans	$151,984	$145,983	$299,014	$288,097
Interest bearing deposits with banks	319	411	568	980
Federal funds sold and securities purchased under resale agreements	6	4	10	19
Available-for-sale securities	13,309	9,359	26,423	18,111
Trading account securities	5	8	14	13
Federal Home Loan Bank and Federal Reserve Bank stock	727	693	1,438	1,377
Brokerage customer receivables	200	188	409	362
Total interest income	166,550	156,646	327,876	308,959
Interest expense				
Interest on deposits	11,759	13,675	23,682	28,179
Interest on Federal Home Loan Bank advances	2,705	2,821	5,348	5,585
Interest on notes payable and other borrowings	510	1,132	1,260	2,286
Interest on subordinated notes	354	52	354	111
Interest on junior subordinated debentures	2,042	3,142	4,046	6,261
Total interest expense	17,370	20,822	34,690	42,422
Net interest income	149,180	135,824	293,186	266,537
Provision for credit losses	6,660	15,382	8,540	31,069
Net interest income after provision for credit losses	142,520	120,442	284,646	235,468
Non-interest income				
Wealth management	18,222	15,892	35,035	30,720
Mortgage banking	23,804	31,734	40,232	61,879
Service charges on deposit accounts	5,688	5,035	11,034	9,828
(Losses) gains on available-for-sale securities, net	(336)	2	(369)	253
Fees from covered call options	1,244	993	2,786	2,632
Trading (losses) gains, net	(743)	3,260	(1,395)	2,825
Other	6,223	7,079	12,308	13,237
Total non-interest income	54,102	63,995	99,631	121,374
Non-interest expense				
Salaries and employee benefits	81,963	79,225	161,897	156,738
Equipment	7,223	6,413	14,626	12,597
Occupancy, net	9,850	8,707	20,843	17,560
Data processing	4,543	4,358	9,258	8,957
Advertising and marketing	3,558	2,722	6,374	4,762
Professional fees	4,046	4,191	7,500	7,412
Amortization of other intangible assets	1,156	1,164	2,319	2,284
FDIC insurance	3,196	3,003	6,147	6,447
OREO expense, net	2,490	2,284	6,466	664
Other	15,566	16,120	29,476	30,885
Total non-interest expense	133,591	128,187	264,906	248,306
Income before taxes	63,031	56,250	119,371	108,536
Income tax expense	24,490	21,943	46,330	42,177
Net income	$38,541	$34,307	$73,041	$66,359
Preferred stock dividends and discount accretion	1,581	2,617	3,162	5,233

Net income applicable to common shares	$36,960	$31,690	$69,879	$61,126
Net income per common share—Basic	$0.79	$0.85	$1.51	$1.64
Net income per common share—Diluted	$0.76	$0.69	$1.44	$1.34
Cash dividends declared per common share	$0.10	$—	$0.20	$0.09
Weighted average common shares outstanding	46,520	37,486	46,358	37,231
Dilutive potential common shares	4,402	12,354	4,456	12,363
Average common shares and dilutive common shares	50,922	49,840	50,814	49,594

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net income	$38,541	$34,307	$73,041	$66,359
Unrealized gains (losses) on securities				
Before tax	26,049	(71,463)	48,575	(78,918)
Tax effect	(10,332)	28,341	(19,136)	31,147
Net of tax	15,717	(43,122)	29,439	(47,771)
Less: Reclassification of net (losses) gains included in net income				
Before tax	(336)	2	(369)	253
Tax effect	133	(1)	146	(101)
Net of tax	(203)	1	(223)	152
Net unrealized gains (losses) on securities	15,920	(43,123)	29,662	(47,923)
Unrealized (losses) gains on derivative instruments				
Before tax	(626)	2,169	(724)	3,643
Tax effect	249	(865)	288	(1,451)
Net unrealized (losses) gains on derivative instruments	(377)	1,304	(436)	2,192
Foreign currency translation adjustment				
Before tax	9,045	(8,241)	(914)	(14,545)
Tax effect	(2,338)	1,923	221	3,361
Net foreign currency translation adjustment	6,707	(6,318)	(693)	(11,184)
Total other comprehensive income (loss)	22,250	(48,137)	28,533	(56,915)
Comprehensive income (loss)	$60,791	$(13,830)	$101,574	$9,444

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	—	—	—	—	66,359	—	66,359
Other comprehensive loss, net of tax	—	—	—	—	—	(56,915)	(56,915)
Cash dividends declared on common stock	—	—	—	—	(3,328)	—	(3,328)
Dividends on preferred stock	—	—	—	—	(5,163)	—	(5,163)
Accretion on preferred stock	70	—	—	—	(70)	—	—
Stock-based compensation	—	—	4,628	—	—	—	4,628
Common stock issued for:							
Acquisitions	—	648	22,422	—	—	—	23,070
Exercise of stock options and warrants	—	46	1,301	(214)	—	—	1,133
Restricted stock awards	—	121	140	(162)	—	—	99
Employee stock purchase plan	—	31	1,287	—	—	—	1,318
Director compensation plan	—	31	723	—	—	—	754
Balance at June 30, 2013	$176,476	$37,985	$1,066,796	$(8,214)	$612,821	$ (49,204)	$1,836,660
Balance at December 31, 2013	$126,477	$46,181	$1,117,032	$(3,000)	$676,935	$ (63,036)	$1,900,589
Net income	—	—	—	—	73,041	—	73,041
Other comprehensive income, net of tax	—	—	—	—	—	28,533	28,533
Cash dividends declared on common stock	—	—	—	—	(9,272)	—	(9,272)
Dividends on preferred stock	—	—	—	—	(3,162)	—	(3,162)
Stock-based compensation	—	—	3,754	—	—	—	3,754
Conversion of Series C preferred stock to common stock	(10)	1	9	—	—	—	—
Common stock issued for:							
Exercise of stock options and warrants	—	347	2,472	(313)	—	—	2,506
Restricted stock awards	—	48	127	(136)	—	—	39
Employee stock purchase plan	—	30	1,394	—	—	—	1,424
Director compensation plan	—	20	763	—	—	—	783
Balance at June 30, 2014	$126,467	$46,627	$1,125,551	$(3,449)	$737,542	$ (34,503)	$1,998,235

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Six Months Ended June 30, 2014	June 30, 2013
Operating Activities:		
Net income	$73,041	$66,359
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	8,540	31,069
Depreciation and amortization	15,510	13,874
Stock-based compensation expense	3,754	4,628
Tax (expense) benefit from stock-based compensation arrangements	(61)	223
Excess tax benefits from stock-based compensation arrangements	(226)	(326)
Net amortization of premium on securities	3,419	155
Mortgage servicing rights fair value change, net	712	(1,456)
Originations and purchases of mortgage loans held-for-sale	(1,368,131)	(2,025,231)
Proceeds from sales of mortgage loans held-for-sale	1,371,124	1,954,766
Increase in trading securities, net	(1,737)	(76)
Net decrease (increase) in brokerage customer receivables	2,754	(1,350)
Gains on mortgage loans sold	(32,293)	(55,326)
Losses (gains) on available-for-sale securities, net	369	(253)
Loss on sales of premises and equipment, net	561	—
Net loss (gains) on sales and fair value adjustments of other real estate owned	3,360	(1,926)
Decrease in accrued interest receivable and other assets, net	41,887	33,531
Increase (decrease) in accrued interest payable and other liabilities, net	4,253	(12,930)
Net Cash Provided by Operating Activities	126,836	5,731
Investing Activities:		
Proceeds from maturities of available-for-sale securities	213,384	120,803
Proceeds from sales of available-for-sale securities	196,042	84,459
Purchases of available-for-sale securities	(608,800)	(205,372)
Net cash paid for acquisitions	(7,267)	(9,350)
Divestiture of operations	—	(149,100)
Proceeds from sales of other real estate owned	47,160	40,127
Proceeds received from the FDIC related to reimbursements on covered assets	10,818	21,483
Net (increase) decrease in interest bearing deposits with banks	(11,297)	653,816
Net increase in loans	(822,314)	(530,412)
Purchases of premises and equipment, net	(17,386)	(13,097)
Net Cash (Used for) Provided by Investing Activities	(999,660)	13,357
Financing Activities:		
Increase (decrease) in deposit accounts	882,631	(242,433)
Decrease in other borrowings, net	(211,388)	(22,881)
Increase in Federal Home Loan Bank advances, net	163,000	172,000
Proceeds from issuance of subordinated notes, net	139,090	—
Repayment of subordinated notes	—	(5,000)
Excess tax benefits from stock-based compensation arrangements	226	326
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	5,262	3,457
Common stock repurchases	(449)	(376)

Dividends paid	(12,434)	(5,910)
Net Cash Provided by (Used for) Financing Activities	965,938	(100,817)
Net Increase (Decrease) in Cash and Cash Equivalents	93,114	(81,729)
Cash and Cash Equivalents at Beginning of Period	263,864	315,028
Cash and Cash Equivalents at End of Period	$356,978	$233,299

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 six-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.

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(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.

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 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 $600,000 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

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

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Balance at beginning of period	$60,298	$170,696	$85,672	$208,160
Additions from acquisitions	—	—	—	—
Additions from reimbursable expenses	2,067	2,827	3,349	7,860
Amortization	(1,456)	(1,653)	(3,059)	(4,121)
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(13,645)	(26,638)	(29,029)	(52,735)
Payments received from the FDIC	(1,149)	(7,551)	(10,818)	(21,483)

Balance at end of period	$46,115	$137,681	$46,115	$137,681

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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 $6.4 million at the time of 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.

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:

	June 30, 2014			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$399,031	$354	$(10,970)	$388,415
U.S. Government agencies	798,889	4,458	(37,347)	766,000
Municipal	173,664	4,385	(1,942)	176,107
Corporate notes:				
Financial issuers	129,211	2,402	(1,387)	130,226
Other	4,980	97	—	5,077
Mortgage-backed: (1)				
Mortgage-backed securities	255,082	5,190	(9,097)	251,175
Collateralized mortgage obligations	52,672	389	(673)	52,388
Equity securities	50,594	4,634	(376)	54,852
Total available-for-sale securities	$1,864,123	$21,909	$(61,792)	$1,824,240

	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
Equity securities	50,532	1,493	(497)	51,528
Total available-for-sale securities	$2,265,118	$11,758	$(100,586)	$2,176,290

	June 30, 2013			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$225,200	$134	$(14,359)	$210,975
U.S. Government agencies	996,137	1,976	(39,655)	958,458
Municipal	152,208	1,281	(3,362)	150,127
Corporate notes:				
Financial issuers	133,453	2,290	(2,783)	132,960
Other	8,838	135	—	8,973
Mortgage-backed: (1)				
Mortgage-backed securities	279,925	3,971	(14,866)	269,030
Collateralized mortgage obligations	63,833	434	(530)	63,737
Equity securities	52,437	746	(3,619)	49,564

Total available-for-sale securities	$1,912,031	$10,967	$(79,174)	$1,843,824

(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 June 30, 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	$—	$—	$189,188	$(10,970)	$189,188	$(10,970)
U.S. Government agencies	26,310	(460)	445,927	(36,887)	472,237	(37,347)
Municipal	5,866	(36)	55,190	(1,906)	61,056	(1,942)
Corporate notes:						
Financial issuers	1,326	(3)	57,808	(1,384)	59,134	(1,387)
Other	—	—	—	—	—	—
Mortgage-backed:						
Mortgage-backed securities	6	—	143,712	(9,097)	143,718	(9,097)
Collateralized mortgage obligations	7,043	(130)	14,261	(543)	21,304	(673)
Equity securities	—	—	13,425	(376)	13,425	(376)
Total	$40,551	$(629)	$919,511	$(61,163)	$960,062	$(61,792)

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 June 30, 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 agency bonds, treasury notes and mortgage-backed securities. Unrealized losses recognized on agency bonds, treasury notes and mortgage backed securities are the result of increases in yields for similar types of securities which 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		Six months ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Realized gains	$99	$3	$154	$316
Realized losses	(435)	(1)	(523)	(63)
Net realized (losses) gains	$(336)	$2	$(369)	$253
Other than temporary impairment charges	—	—	—	—
(Losses) gains on available-for-sale securities, net	$(336)	$2	$(369)	$253
Proceeds from sales of available-for-sale securities	$169,753	$43,403	$196,042	$84,459

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The amortized cost and fair value of securities as of June 30, 2014, December 31, 2013 and June 30, 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:

	June 30, 2014		December 31, 2013		June 30, 2013	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$173,991	$174,220	$268,847	$269,168	$284,334	$284,734
Due in one to five years	361,300	362,423	358,108	358,357	320,175	320,189
Due in five to ten years	319,641	310,196	350,372	330,020	382,837	366,341
Due after ten years	650,843	618,986	616,840	561,992	528,490	490,229
Mortgage-backed	307,754	303,563	620,419	605,225	343,758	332,767
Equity securities	50,594	54,852	50,532	51,528	52,437	49,564
Total available-for-sale securities	$1,864,123	$1,824,240	$2,265,118	$2,176,290	$1,912,031	$1,843,824

Securities having a carrying value of $1.1 billion at June 30, 2014, $1.2 billion at December 31, 2013 and $1.1 billion at June 30, 2013, were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At June 30, 2014, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders' equity.

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(6) Loans

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

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Balance:			
Commercial	$3,640,430	$3,253,687	$3,119,931
Commercial real-estate	4,353,472	4,230,035	4,094,628
Home equity	713,642	719,137	758,260
Residential real-estate	451,905	434,992	384,961
Premium finance receivables—commercial	2,378,529	2,167,565	2,165,734
Premium finance receivables—life insurance	2,051,645	1,923,698	1,821,147
Consumer and other	160,373	167,488	172,231
Total loans, net of unearned income, excluding covered loans	$13,749,996	$12,896,602	$12,516,892
Covered loans	275,154	346,431	454,602
Total loans	$14,025,150	$13,243,033	$12,971,494
Mix:			
Commercial	26 %	25 %	24 %
Commercial real-estate	31	32	31
Home equity	5	5	6
Residential real-estate	3	3	3
Premium finance receivables—commercial	17	16	16
Premium finance receivables—life insurance	15	15	14
Consumer and other	1	1	2
Total loans, net of unearned income, excluding covered loans	98 %	97 %	96 %
Covered loans	2	3	4
Total loans	100 %	100 %	100 %

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

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $44.8 million at June 30, 2014, $41.9 million at December 31, 2013 and $41.5 million at June 30, 2013, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as purchased credit impaired ("PCI") loans acquired with evidence of credit quality deterioration since origination are recorded net of credit discounts. See “Acquired Loan Information at Acquisition” below.

Total loans, excluding PCI loans, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $(1.3) million at June 30, 2014, $(9.2) million at December 31, 2013 and $(3.6) million at June 30, 2013. The net credit balances at June 30, 2014, December 31, 2013 and June 30, 2013 are primarily the result of purchase accounting adjustments related to the acquisition of FNBI and Diamond during 2013.

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—PCI Loans

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.

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The following table presents the unpaid principal balance and carrying value for these acquired loans:

	June 30, 2014		December 31, 2013	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	$349,565	$265,522	$453,944	$338,517
Life insurance premium finance loans acquisition	419,805	409,760	437,155	423,906

See Note 7—Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion regarding the allowance for loan losses associated with PCI loans at June 30, 2014.

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 June 30, 2014		Three Months Ended June 30, 2013	
(Dollars in thousands)	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$97,674	$6,561	$121,725	$11,218
Acquisitions	—	—	2,055	—
Accretable yield amortized to interest income	(9,617)	(1,433)	(9,347)	(2,254)
Accretable yield amortized to indemnification asset (1)	(11,161)	—	(11,906)	—
Reclassification from non-accretable difference (2)	17,928	—	30,792	1,007
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(2,722)	51	(2,463)	316
Accretable yield, ending balance (3)	$92,102	$5,179	$130,856	$10,287

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
(Dollars in thousands)	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$107,655	$8,254	$143,224	$13,055
Acquisitions	—	—	1,977	—
Accretable yield amortized to interest income	(17,387)	(3,204)	(18,924)	(4,273)
Accretable yield amortized to indemnification asset (1)	(16,809)	—	(20,612)	—
Reclassification from non-accretable difference (2)	26,508	—	36,204	1,007
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(7,865)	129	(11,013)	498
Accretable yield, ending balance (3)	$92,102	$5,179	$130,856	$10,287

(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 June 30, 2014, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $30.0 million. The remainder of the accretable yield related to

bank acquisitions is expected to be amortized to interest income.

Accretion to interest income from loans acquired in bank acquisitions totaled $9.6 million and $9.3 million in the second quarter of 2014 and 2013, respectively. On a year-to-date basis, accretion to interest income from loans acquired in bank acquisitions totaled $17.4 million for the first six months ended 2014 compared to $18.9 million in the same period of the prior year. These amounts include accretion from both covered and non-covered loans, and are included together within interest and fees on loans in the Consolidated Statements of Income.

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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 June 30, 2014, December 31, 2013 and June 30, 2013:

As of June 30, 2014 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$6,216	$—	$4,165	$21,610	$1,980,489	$2,012,480
Franchise	—	—	—	549	222,907	223,456
Mortgage warehouse lines of credit	—	—	—	1,680	146,531	148,211
Community Advantage—homeowners association	—	—	—	—	94,009	94,009
Aircraft	—	—	—	—	7,847	7,847
Asset-based lending	295	—	—	6,047	772,002	778,344
Tax exempt	—	—	—	—	208,913	208,913
Leases	—	—	—	36	144,399	144,435
Other	—	—	—	—	9,792	9,792
PCI - commercial (1)	—	1,452	—	224	11,267	12,943
Total commercial	6,511	1,452	4,165	30,146	3,598,156	3,640,430
Commercial real-estate:						
Residential construction	—	—	—	18	29,941	29,959
Commercial construction	839	—	—	—	154,220	155,059
Land	2,367	—	614	4,502	98,444	105,927
Office	10,950	—	999	3,911	652,057	667,917
Industrial	5,097	—	899	690	610,954	617,640
Retail	6,909	—	1,334	2,560	686,292	697,095
Multi-family	689	—	244	4,717	630,519	636,169
Mixed use and other	9,470	309	5,384	12,300	1,350,976	1,378,439
PCI - commercial real-estate (1)	—	15,682	155	1,595	47,835	65,267
Total commercial real-estate	36,321	15,991	9,629	30,293	4,261,238	4,353,472
Home equity	5,804	—	1,392	3,324	703,122	713,642
Residential real estate	15,294	—	1,487	1,978	430,364	449,123
PCI - residential real estate (1)	—	988	111	—	1,683	2,782
Premium finance receivables						
Commercial insurance loans	12,298	10,275	12,335	14,672	2,328,949	2,378,529
Life insurance loans	—	649	896	4,783	1,635,557	1,641,885
PCI - life insurance loans (1)	—	—	—	—	409,760	409,760
Consumer and other	1,116	73	558	600	157,828	160,175
PCI - consumer and other (1)	—	—	4	—	194	198
Total loans, net of unearned income, excluding covered loans	$77,344	$29,428	$30,577	$85,796	$13,526,851	$13,749,996
Covered loans	6,690	34,486	4,003	1,482	228,493	275,154
Total loans, net of unearned income	$84,034	$63,914	$34,580	$87,278	$13,755,344	$14,025,150

(1)

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

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As of December 31, 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	$10,143	$—	$4,938	$7,404	$1,813,721	$1,836,206
Franchise	—	—	400	—	219,983	220,383
Mortgage warehouse lines of credit	—	—	—	—	67,470	67,470
Community Advantage—homeowners association	—	—	—	—	90,894	90,894
Aircraft	—	—	—	—	10,241	10,241
Asset-based lending	637	—	388	1,878	732,190	735,093
Tax exempt	—	—	—	—	161,239	161,239
Leases	—	—	—	788	109,043	109,831
Other	—	—	—	—	11,147	11,147
PCI - commercial [(1)]	—	274	156	1,685	9,068	11,183
Total commercial	10,780	274	5,882	11,755	3,224,996	3,253,687
Commercial real-estate						
Residential construction	149	—	—	—	38,351	38,500
Commercial construction	6,969	—	—	505	129,232	136,706
Land	2,814	—	4,224	619	99,128	106,785
Office	10,087	—	2,265	3,862	626,027	642,241
Industrial	5,654	—	585	914	626,785	633,938
Retail	10,862	—	837	2,435	642,125	656,259
Multi-family	2,035	—	—	348	564,154	566,537
Mixed use and other	8,088	230	3,943	15,949	1,344,244	1,372,454
PCI - commercial real-estate [(1)]	—	18,582	3,540	5,238	49,255	76,615
Total commercial real-estate	46,658	18,812	15,394	29,870	4,119,301	4,230,035
Home equity	10,071	—	1,344	3,060	704,662	719,137
Residential real-estate	14,974	—	1,689	5,032	410,430	432,125
PCI - residential real-estate [(1)]	—	1,988	—	—	879	2,867
Premium finance receivables						
Commercial insurance loans	10,537	8,842	6,912	24,094	2,117,180	2,167,565
Life insurance loans	—	—	2,524	1,808	1,495,460	1,499,792
PCI - life insurance loans [(1)]	—	—	—	—	423,906	423,906
Consumer and other	1,137	105	76	1,010	163,956	166,284
PCI - consumer and other [(1)]	—	181	—	—	1,023	1,204
Total loans, net of unearned income, excluding covered loans	$94,157	$30,202	$33,821	$76,629	$12,661,793	$12,896,602
Covered loans	9,425	56,282	5,877	7,937	266,910	346,431
Total loans, net of unearned income	$103,582	$86,484	$39,698	$84,566	$12,928,703	$13,243,033

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

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As of June 30, 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	$15,432	$—	$2,940	$12,111	$1,665,753	$1,696,236
Franchise	—	—	—	450	201,790	202,240
Mortgage warehouse lines of credit	—	—	—	—	174,422	174,422
Community Advantage—homeowners association	—	—	—	—	83,003	83,003
Aircraft	—	—	—	—	13,174	13,174
Asset-based lending	1,816	100	2,305	4,949	676,531	685,701
Tax exempt	—	—	—	—	151,492	151,492
Leases	—	—	—	—	102,409	102,409
Other	—	—	—	—	98	98
PCI - commercial (1)	—	190	—	1,632	9,334	11,156
Total commercial	17,248	290	5,245	19,142	3,078,006	3,119,931
Commercial real-estate:						
Residential construction	2,659	3,263	379	—	32,998	39,299
Commercial construction	7,857	—	1,271	70	128,845	138,043
Land	5,742	—	330	4,141	106,640	116,853
Office	6,324	—	4,210	2,720	584,503	597,757
Industrial	5,773	—	4,597	4,984	600,147	615,501
Retail	7,471	—	1,760	2,031	596,129	607,391
Multi-family	3,337	—	401	3,149	526,681	533,568
Mixed use and other	15,662	—	2,183	10,379	1,350,581	1,378,805
PCI - commercial real-estate (1)	—	6,466	3,430	6,226	51,289	67,411
Total commercial real-estate	54,825	9,729	18,561	33,700	3,977,813	4,094,628
Home equity	12,322	25	2,085	5,821	738,007	758,260
Residential real estate	10,213	—	1,896	1,836	368,696	382,641
PCI - residential real estate (1)	—	—	46	260	2,014	2,320
Premium finance receivables						
Commercial insurance loans	13,605	6,671	6,592	11,386	2,127,480	2,165,734
Life insurance loans	16	1,212	7,896	—	1,337,573	1,346,697
PCI - life insurance loans (1)	—	—	—	—	474,450	474,450
Consumer and other	1,768	217	512	584	168,812	171,893
PCI - consumer and other (1)	—	28	—	—	310	338
Total loans, net of unearned income, excluding covered loans	$109,997	$18,172	$42,833	$72,729	$12,273,161	$12,516,892
Covered loans	3,982	97,000	10,568	4,852	338,200	454,602
Total loans, net of unearned income	$113,979	$115,172	$53,401	$77,581	$12,611,361	$12,971,494

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

Our ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, we operate a credit risk rating system under which our credit management personnel assign a credit risk rating (1 to 10 rating) to each loan at the time of origination and review loans on a regular basis.

Each loan officer is responsible for monitoring his or her loan portfolio, recommending a credit risk rating for each loan in his or her portfolio and ensuring the credit risk ratings are appropriate. These credit risk ratings are then ratified by the bank’s chief credit officer and/or concurrence credit officer. Credit risk ratings are determined by evaluating a number of factors including: a borrower’s financial strength, cash flow coverage, collateral protection and guarantees.

The Company’s Problem Loan Reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the Company’s Managed Asset Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company’s Managed Asset Division, the credit risk rating is reviewed and a portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company’s impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real-estate collateral, an independent third party appraisal is ordered by the Company’s Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.

Through the credit risk rating process, loans are reviewed to determine if they are performing in accordance with the original contractual terms. If the borrower has failed to comply with the original contractual terms, further action may be required by the Company, including a downgrade in the credit risk rating, movement to non-accrual status, a charge-off or the establishment of a specific impairment reserve. If we determine that a loan amount, or portion thereof, is uncollectible, the loan’s credit risk rating is immediately downgraded to an 8 or 9 and the uncollectible amount is charged-off. Any loan that has a partial charge-off continues to be assigned a credit risk rating of an 8 or 9 for the duration of time that a balance remains outstanding. The Company undertakes a thorough and ongoing analysis to determine if additional impairment and/or charge-offs are appropriate and to begin a workout plan for the credit to minimize actual losses.

If, based on current information and events, it is probable that the Company will be unable to collect all amounts due to it according to the contractual terms of the loan agreement, a specific impairment reserve is established. In determining the appropriate charge-off for collateral-dependent loans, the Company considers the results of appraisals for the associated collateral.

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Non-performing loans include all non-accrual loans (8 and 9 risk ratings) as well as loans 90 days past due and still accruing interest, excluding PCI loans. The remainder of the portfolio is considered performing under the contractual terms of the loan agreement. The following table presents the recorded investment based on performance of loans by class, excluding covered loans, per the most recent analysis at June 30, 2014, December 31, 2013 and June 30, 2013:

(Dollars in thousands)	Performing June 30, 2014	December 31, 2013	June 30, 2013	Non-performing June 30, 2014	December 31, 2013	June 30, 2013	Total June 30, 2014	December 31, 2013	Jun 20
Loan Balances:									
Commercial									
Commercial and industrial	$2,006,264	$1,826,063	$1,680,804	$6,216	$10,143	$15,432	$2,012,480	$1,836,206	$1
Franchise	223,456	220,383	202,240	—	—	—	223,456	220,383	20
Mortgage warehouse lines of credit	148,211	67,470	174,422	—	—	—	148,211	67,470	17
Community Advantage—homeowners association	94,009	90,894	83,003	—	—	—	94,009	90,894	83,
Aircraft	7,847	10,241	13,174	—	—	—	7,847	10,241	13,
Asset-based lending	778,049	734,456	683,785	295	637	1,916	778,344	735,093	68
Tax exempt	208,913	161,239	151,492	—	—	—	208,913	161,239	15
Leases	144,435	109,831	102,409	—	—	—	144,435	109,831	10
Other	9,792	11,147	98	—	—	—	9,792	11,147	98
PCI - commercial (1)	12,943	11,183	11,156	—	—	—	12,943	11,183	11,
Total commercial	3,633,919	3,242,907	3,102,583	6,511	10,780	17,348	3,640,430	3,253,687	3,1
Commercial real-estate									
Residential construction	29,959	38,351	33,377	—	149	5,922	29,959	38,500	39,
Commercial construction	154,220	129,737	130,186	839	6,969	7,857	155,059	136,706	13
Land	103,560	103,971	111,111	2,367	2,814	5,742	105,927	106,785	11
Office	656,967	632,154	591,433	10,950	10,087	6,324	667,917	642,241	59
Industrial	612,543	628,284	609,728	5,097	5,654	5,773	617,640	633,938	61
Retail	690,186	645,397	599,920	6,909	10,862	7,471	697,095	656,259	60
Multi-family	635,480	564,502	530,231	689	2,035	3,337	636,169	566,537	53
Mixed use and other	1,368,660	1,364,136	1,363,143	9,779	8,318	15,662	1,378,439	1,372,454	1,3
PCI - commercial real-estate(1)	65,267	76,615	67,411	—	—	—	65,267	76,615	67,
Total commercial real-estate	4,316,842	4,183,147	4,036,540	36,630	46,888	58,088	4,353,472	4,230,035	4,0
Home equity	707,838	709,066	745,913	5,804	10,071	12,347	713,642	719,137	75
Residential real-estate	433,829	417,151	372,428	15,294	14,974	10,213	449,123	432,125	38
PCI - residential real-estate (1)	2,782	2,867	2,320	—	—	—	2,782	2,867	2,3
Premium finance receivables									
Commercial insurance loans	2,355,956	2,148,186	2,145,458	22,573	19,379	20,276	2,378,529	2,167,565	2,1
Life insurance loans	1,641,236	1,499,792	1,345,469	649	—	1,228	1,641,885	1,499,792	1,3
	409,760	423,906	474,450	—	—	—	409,760	423,906	47

PCI - life insurance loans [1]									
Consumer and other	158,986	165,042	169,908	1,189	1,242	1,985	160,175	166,284	17
PCI - consumer and other[1]	198	1,204	338	—	—	—	198	1,204	33
Total loans, net of unearned income, excluding covered loans	$13,661,346	$12,793,268	$12,395,407	$88,650	$103,334	$121,485	$13,749,996	$12,896,602	$1

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. See Note 6 - Loans for further discussion of these purchased loans.

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A summary of activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the three months ended June 30, 2014 and 2013 is as follows:

Three months ended June 30, 2014

(Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 24,689	$ 44,605	$ 10,966	$ 4,691	$ 5,582	$ 1,742	$ 92,275
Other adjustments	(22)	(96)	(1)	(2)	16	—	(105)
Reclassification from (to) allowance for unfunded lending-related commitments	—	(146)	—	—	—	—	(146)
Charge-offs	(2,384)	(2,351)	(730)	(689)	(1,492)	(213)	(7,859)
Recoveries	270	342	122	74	314	153	1,275
Provision for credit losses	3,485	(1,652)	3,561	(341)	1,889	(129)	6,813
Allowance for loan losses at period end	$ 26,038	$ 40,702	$ 13,918	$ 3,733	$ 6,309	$ 1,553	$ 92,253
Allowance for unfunded lending-related commitments at period end	$ —	$ 884	$—	$ —	$ —	$—	$ 884
Allowance for credit losses at period end	$ 26,038	$ 41,586	$ 13,918	$ 3,733	$ 6,309	$ 1,553	$ 93,137
Individually evaluated for impairment	$ 1,927	$ 7,237	$ 636	$ 484	$ —	$ 102	$ 10,386
Collectively evaluated for impairment	24,100	34,349	13,282	3,196	6,309	1,451	82,687
Loans acquired with deteriorated credit quality	11	—	—	53	—	—	64
Loans at period end							
Individually evaluated for impairment	$ 12,397	$ 100,068	$ 6,030	$ 18,680	$ —	$ 1,560	$ 138,735
Collectively evaluated for impairment	3,615,090	4,188,137	707,612	430,443	4,020,414	158,615	13,120,311
Loans acquired with deteriorated credit quality	12,943	65,267	—	2,782	409,760	198	490,950

Three months ended June 30, 2013

(Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 28,952	$ 56,408	$ 12,122	$ 5,140	$ 6,071	$ 1,655	$ 110,348
Other adjustments	(1)	(211)	—	(85)	(12)	—	(309)
Reclassification from (to) allowance for unfunded lending-related commitments	—	65	—	—	—	—	65
Charge-offs	(1,093)	(14,947)	(1,785)	(517)	(1,306)	(128)	(19,776)

Recoveries	268	584	171	18	279	61	1,381
Provision for credit losses	605	10,057	3,697	269	236	269	15,133
Allowance for loan losses at period end	$ 28,731	$ 51,956	$ 14,205	$ 4,825	$ 5,268	$ 1,857	$ 106,842
Allowance for unfunded lending-related commitments at period end	$ —	$ 3,563	$—	$ —	$ —	$—	$ 3,563
Allowance for credit losses at period end	$ 28,731	$ 55,519	$ 14,205	$ 4,825	$ 5,268	$ 1,857	$ 110,405
Individually evaluated for impairment	$ 5,587	$ 7,411	$ 1,060	$ 606	$ —	$ 218	$ 14,882
Collectively evaluated for impairment	23,066	47,994	13,145	4,209	5,268	1,639	95,321
Loans acquired with deteriorated credit quality	78	114	—	10	—	—	202
Loans at period end							
Individually evaluated for impairment	$ 25,495	$ 139,920	$ 13,488	$ 13,629	$ —	$ 1,838	$ 194,370
Collectively evaluated for impairment	3,083,280	3,887,297	744,772	369,012	3,512,431	170,055	11,766,847
Loans acquired with deteriorated credit quality	11,156	67,411	—	2,320	474,450	338	555,675

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Six months ended June 30, 2014 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 23,092	$ 48,658	$ 12,611	$ 5,108	$ 5,583	$ 1,870	$ 96,922
Other adjustments	(37)	(217)	(2)	(4)	7	—	(253)
Reclassification from (to) allowance for unfunded lending-related commitments	—	(164)	—	—	—	—	(164)
Charge-offs	(3,032)	(6,844)	(2,997)	(915)	(2,702)	(386)	(16,876)
Recoveries	587	487	379	205	635	214	2,507
Provision for credit losses	5,428	(1,218)	3,927	(661)	2,786	(145)	10,117
Allowance for loan losses at period end	$ 26,038	$ 40,702	$ 13,918	$ 3,733	$ 6,309	$ 1,553	$ 92,253
Allowance for unfunded lending-related commitments at period end	$ —	$ 884	$ —	$ —	$ —	$ —	$ 884
Allowance for credit losses at period end	$ 26,038	$ 41,586	$ 13,918	$ 3,733	$ 6,309	$ 1,553	$ 93,137

Six months ended June 30, 2013 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 28,794	$ 52,135	$ 12,734	$ 5,560	$ 6,096	$ 2,032	$ 107,351
Other adjustments	(4)	(428)	—	(94)	(12)	—	(538)
Reclassification from (to) allowance for unfunded lending-related commitments	—	(148)	—	—	—	—	(148)
Charge-offs	(5,633)	(18,246)	(4,182)	(2,245)	(2,374)	(257)	(32,937)
Recoveries	563	952	333	23	573	170	2,614
Provision for credit losses	5,011	17,691	5,320	1,581	985	(88)	30,500
Allowance for loan losses at period end	$ 28,731	$ 51,956	$ 14,205	$ 4,825	$ 5,268	$ 1,857	$ 106,842
Allowance for unfunded lending-related commitments at period end	$ —	$ 3,563	$ —	$ —	$ —	$ —	$ 3,563
Allowance for credit losses at period end	$ 28,731	$ 55,519	$ 14,205	$ 4,825	$ 5,268	$ 1,857	$ 110,405

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A summary of activity in the allowance for covered loan losses for the three months ended June 30, 2014 and 2013 is as follows:

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Balance at beginning of period	$3,447	$12,272	$10,092	$13,454
Provision for covered loan losses before benefit attributable to FDIC loss share agreements	(764)	1,246	(7,885)	2,846
Benefit attributable to FDIC loss share agreements	611	(997)	6,308	(2,277)
Net provision for covered loan losses	(153)	249	(1,577)	569
(Decrease) increase in FDIC indemnification asset	(611)	997	(6,308)	2,277
Loans charged-off	(2,189)	(2,266)	(5,053)	(5,057)
Recoveries of loans charged-off	1,173	3,177	4,513	3,186
Net recoveries (charge-offs)	(1,016)	911	(540)	(1,871)
Balance at end of period	$1,667	$14,429	$1,667	$14,429

In conjunction with FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. Additional expected losses, to the extent such expected losses result in the recognition of an allowance for loan losses, will increase the FDIC indemnification asset. The allowance for loan losses for loans acquired in FDIC-assisted transactions is determined without giving consideration to the amounts recoverable through loss share agreements (since the loss share agreements are separately accounted for and thus presented “gross” on the balance sheet). On the Consolidated Statements of Income, the provision for credit losses related to covered loans is reported net of changes in the amount recoverable under the loss share agreements. 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 reduce the FDIC indemnification asset. Additions to expected losses will require an increase to the allowance for loan losses, and a corresponding increase to the FDIC indemnification asset. See “FDIC-Assisted Transactions” within Note 3 – Business Combinations for more detail.

Impaired Loans

A summary of impaired loans, including troubled debt restructurings ("TDRs"), is as follows:

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Impaired loans (included in non-performing and TDRs):			
Impaired loans with an allowance for loan loss required (1)	$91,511	$92,184	$96,519
Impaired loans with no allowance for loan loss required	45,734	70,045	93,629
Total impaired loans (2)	$137,245	$162,229	$190,148
Allowance for loan losses related to impaired loans	$10,298	$8,265	$11,839
TDRs	$88,107	$107,103	$126,196

(1) These impaired loans require an allowance for loan losses because the estimated fair value of the loans or related collateral is less than the recorded investment in the loans.

(2) Impaired loans are considered by the Company to be non-accrual loans, TDRs or loans with principal and/or interest at risk, even if the loan is current with all payments of principal and interest.

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The following tables present impaired loans evaluated for impairment by loan class for the periods ended as follows:

	As of June 30, 2014			For the Six Months Ended June 30, 2014	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$7,220	$ 10,152	$1,631	$8,332	$339
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	270	290	270	275	7
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					
Residential construction	—	—	—	—	—
Commercial construction	2,146	2,156	128	2,150	44
Land	11,687	15,538	363	11,876	378
Office	14,403	15,159	2,664	14,517	335
Industrial	3,349	3,455	227	3,372	76
Retail	14,320	14,733	1,590	14,343	304
Multi-family	2,835	3,349	119	2,857	73
Mixed use and other	27,418	27,565	2,111	28,474	551
Home equity	1,562	1,616	636	1,567	30
Residential real-estate	5,997	6,372	457	5,914	140
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
PCI - life insurance	—	—	—	—	—
Consumer and other	304	364	102	308	8
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$4,222	$ 8,666	$—	$4,591	$219
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	25	1,952	—	150	50
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					

Residential construction	—	—	—	—	—
Commercial construction	1,031	1,031	—	1,051	23
Land	3,917	4,958	—	5,657	131
Office	2,598	2,599	—	2,605	73
Industrial	3,603	3,839	—	3,155	95
Retail	6,422	7,813	—	6,456	188
Multi-family	440	966	—	497	22
Mixed use and other	5,330	7,842	—	5,875	218
Home equity	4,468	6,553	—	4,842	138
Residential real-estate	12,422	15,538	—	12,836	295
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
PCI - life insurance	—	—	—	—	—
Consumer and other	1,256	1,775	—	1,260	53
Total loans, net of unearned income, excluding covered loans	$137,245	$ 164,281	$10,298	$142,960	$3,790

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	As of December 31, 2013			For the Twelve Months Ended December 31, 2013	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$6,297	$ 7,001	$1,078	$6,611	$ 354
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	282	294	282	295	14
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					
Residential construction	—	—	—	—	—
Commercial construction	3,099	3,099	18	3,098	115
Land	10,518	11,871	259	10,323	411
Office	7,792	8,444	1,253	8,148	333
Industrial	3,385	3,506	193	3,638	179
Retail	17,511	17,638	1,253	17,678	724
Multi-family	3,237	3,730	235	2,248	139
Mixed use and other	28,935	29,051	1,366	26,792	1,194
Home equity	3,985	5,238	1,593	4,855	236
Residential real-estate	6,876	7,023	626	6,335	273
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Consumer and other	267	269	109	273	11
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$9,890	$ 16,333	$—	$13,928	$ 1,043
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	354	2,311	—	2,162	121
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					

Residential construction	1,463	1,530	—	1,609	64
Commercial construction	7,710	13,227	—	9,680	722
Land	5,035	8,813	—	5,384	418
Office	10,379	11,717	—	10,925	610
Industrial	5,087	5,267	—	5,160	328
Retail	7,047	8,610	—	8,462	400
Multi-family	608	1,030	—	903	47
Mixed use and other	4,077	6,213	—	5,046	352
Home equity	6,312	7,790	—	6,307	324
Residential real-estate	10,761	13,585	—	9,443	393
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Consumer and other	1,322	1,865	—	1,355	115
Total loans, net of unearned income, excluding covered loans	$162,229	$ 195,455	$8,265	$170,658	$ 8,920

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(Dollars in thousands)	As of June 30, 2013 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Six Months Ended June 30, 2013 Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$11,720	$ 13,429	$4,561	$12,131	$ 434
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—		