WINTRUST FINANCIAL CORP
Form 10-Q
August 08, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-35077

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common Stock — no par value, 39,725,726 shares, as of July 31, 2013

Table of Contents

TABLE OF CONTENTS

		Page
	PART I. — FINANCIAL INFORMATION	
ITEM 1.	Financial Statements	1
ITEM 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	60
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	110
ITEM 4.	Controls and Procedures	112
	PART II. — OTHER INFORMATION	
ITEM 1.	Legal Proceedings	NA
ITEM 1A.	Risk Factors	113
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	113
ITEM 3.	Defaults Upon Senior Securities	NA
ITEM 4.	Mine Safety Disclosures	NA
ITEM 5.	Other Information	NA
ITEM 6.	Exhibits	114
	Signatures	115

Table of Contents

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

(In thousands, except share data)	(Unaudited) June 30, 2013	December 31, 2012	(Unaudited) June 30, 2012
Assets			
Cash and due from banks	$224,286	$284,731	$176,529
Federal funds sold and securities purchased under resale agreements	9,013	30,297	15,227
Interest-bearing deposits with other banks (no balance restricted for securitization investors at June 30, 2013 and December 31, 2012, and a balance restricted for securitization investors of $658,983 at June 30, 2012)	440,656	1,035,743	1,117,888
Available-for-sale securities, at fair value	1,843,824	1,796,076	1,196,702
Trading account securities	659	583	608
Federal Home Loan Bank and Federal Reserve Bank stock	79,354	79,564	92,792
Brokerage customer receivables	26,214	24,864	31,448
Mortgage loans held-for-sale, at fair value	525,027	385,033	511,566
Mortgage loans held-for-sale, at lower of cost or market	12,964	27,167	14,538
Loans, net of unearned income, excluding covered loans	12,516,892	11,828,943	11,202,842
Covered loans	454,602	560,087	614,062
Total loans	12,971,494	12,389,030	11,816,904
Less: Allowance for loan losses	106,842	107,351	111,920
Less: Allowance for covered loan losses	14,429	13,454	20,560
Net loans (no balance restricted for securitization investors at June 30, 2013 and December 31, 2012, and a balance restricted for securitization investors of $29,840 at June 30, 2012)	12,850,223	12,268,225	11,684,424
Premises and equipment, net	512,928	501,205	449,608
FDIC indemnification asset	137,681	208,160	222,568
Accrued interest receivable and other assets	573,709	511,617	710,275
Goodwill	356,871	345,401	330,896
Other intangible assets	20,137	20,947	21,213
Total assets	$17,613,546	$17,519,613	$16,576,282
Liabilities and Shareholders’ Equity			
Deposits:			
Non-interest bearing	$2,450,659	$2,396,264	$2,047,715
Interest bearing	11,915,195	12,032,280	11,009,866
Total deposits	14,365,854	14,428,544	13,057,581
Notes payable	1,729	2,093	2,457
Federal Home Loan Bank advances	585,942	414,122	564,301
Other borrowings	252,776	274,411	375,523
Secured borrowings—owed to securitization investors	—	—	360,825
Subordinated notes	10,000	15,000	15,000
Junior subordinated debentures	249,493	249,493	249,493
Trade date securities payable	577	—	19,025
Accrued interest payable and other liabilities	310,515	331,245	210,003
Total liabilities	15,776,886	15,714,908	14,854,208
Shareholders’ Equity:			

Preferred stock, no par value; 20,000,000 shares authorized:			
Series A - $1,000 liquidation value; 50,000 shares issued and outstanding at June 30, 2013, December 31, 2012 and June 30, 2012	49,976	49,906	49,837
Series C - $1,000 liquidation value; 126,500 shares issued and outstanding at June 30, 2013, December 31, 2012 and June 30, 2012	126,500	126,500	126,500
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at June 30, 2013, December 31, 2012, and June 30, 2012; 37,984,485 shares issued at June 30, 2013, 37,107,684 shares issued at December 31, 2012, and 36,573,468 shares issued at June 30, 2012	37,985	37,108	36,573
Surplus	1,066,796	1,036,295	1,013,428
Treasury stock, at cost, 259,342 shares at June 30, 2013, 249,329 shares at December 31, 2012, and 236,226 shares at June 30, 2012	(8,214)	(7,838)	(7,374)
Retained earnings	612,821	555,023	501,139
Accumulated other comprehensive (loss) income	(49,204)	7,711	1,971
Total shareholders' equity	1,836,660	1,804,705	1,722,074
Total liabilities and shareholders' equity	$17,613,546	$17,519,613	$16,576,282

See accompanying notes to unaudited consolidated financial statements.

1

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2013	2012	2013	2012
Interest income				
Interest and fees on loans	$145,983	$144,100	$288,097	$287,655
Interest bearing deposits with banks	411	203	980	451
Federal funds sold and securities purchased under resale agreements	4	6	19	18
Securities	9,359	10,510	18,111	22,357
Trading account securities	8	10	13	19
Federal Home Loan Bank and Federal Reserve Bank stock	693	641	1,377	1,245
Brokerage customer receivables	188	221	362	432
Total interest income	156,646	155,691	308,959	312,177
Interest expense				
Interest on deposits	13,675	17,273	28,179	35,303
Interest on Federal Home Loan Bank advances	2,821	2,867	5,585	6,451
Interest on notes payable and other borrowings	1,132	2,274	2,286	5,376
Interest on secured borrowings—owed to securitization investors	—	1,743	—	4,292
Interest on subordinated notes	52	126	111	295
Interest on junior subordinated debentures	3,142	3,138	6,261	6,295
Total interest expense	20,822	27,421	42,422	58,012
Net interest income	135,824	128,270	266,537	254,165
Provision for credit losses	15,382	20,691	31,069	38,091
Net interest income after provision for credit losses	120,442	107,579	235,468	216,074
Non-interest income				
Wealth management	15,892	13,393	30,720	25,794
Mortgage banking	31,734	25,607	61,879	44,141
Service charges on deposit accounts	5,035	3,994	9,828	8,202
Gains on available-for-sale securities, net	2	1,109	253	1,925
Fees from covered call options	993	3,114	2,632	6,237
Gain on bargain purchases, net	—	(55)	—	785
Trading gains (losses), net	3,260	(928)	2,825	(782)
Other	7,079	4,701	13,237	11,656
Total non-interest income	63,995	50,935	121,374	97,958
Non-interest expense				
Salaries and employee benefits	79,225	68,139	156,738	137,169
Equipment	6,413	5,466	12,597	10,866
Occupancy, net	8,707	7,728	17,560	15,790
Data processing	4,358	3,840	8,957	7,458
Advertising and marketing	2,722	2,179	4,762	4,185
Professional fees	4,191	3,847	7,412	7,451
Amortization of other intangible assets	1,164	1,089	2,284	2,138
FDIC insurance	3,003	3,477	6,447	6,834
OREO expense, net	2,284	5,848	664	13,026
Other	16,120	15,572	30,885	30,027

Total non-interest expense	128,187	117,185	248,306	234,944
Income before taxes	56,250	41,329	108,536	79,088
Income tax expense	21,943	15,734	42,177	30,283
Net income	$34,307	$25,595	$66,359	$48,805
Preferred stock dividends and discount accretion	$2,617	$2,644	$5,233	$3,890
Net income applicable to common shares	$31,690	$22,951	$61,126	$44,915
Net income per common share—Basic	$0.85	$0.63	$1.64	$1.24
Net income per common share—Diluted	$0.69	$0.52	$1.34	$1.02
Cash dividends declared per common share	$—	$—	$0.09	$0.09
Weighted average common shares outstanding	37,486	36,329	37,231	36,266
Dilutive potential common shares	12,354	7,770	12,363	7,723
Average common shares and dilutive common shares	49,840	44,099	49,594	43,989

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2013	2012	2013	2012
Net income	$34,307	$25,595	$66,359	$48,805
Unrealized (losses) gains on securities				
Before tax	(71,463)	7,959	(78,918)	4,740
Tax effect	28,341	(3,160)	31,147	(1,884)
Net of tax	(43,122)	4,799	(47,771)	2,856
Less: Reclassification of net gains included in net income				
Before tax	2	1,109	253	1,925
Tax effect	(1)	(445)	(101)	(772)
Net of tax	1	664	152	1,153
Net unrealized (losses) gains on securities	(43,123)	4,135	(47,923)	1,703
Unrealized gains on derivative instruments				
Before tax	2,169	936	3,643	1,732
Tax effect	(865)	(371)	(1,451)	(687)
Net unrealized gains on derivative instruments	1,304	565	2,192	1,045
Foreign currency translation adjustment				
Before tax	(8,241)	2,701	(14,545)	2,701
Tax effect	1,923	(600)	3,361	(600)
Net foreign currency translation adjustment	(6,318)	2,101	(11,184)	2,101
Total other comprehensive (loss) income	(48,137)	6,801	(56,915)	4,849
Comprehensive (loss) income	$(13,830)	$32,396	$9,444	$53,654

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 31, 2011	$49,768	$35,982	$1,001,316	$(112)	$459,457	$ (2,878)	$1,543,533
Net income	—	—	—	—	48,805	—	48,805
Other comprehensive income, net of tax	—	—	—	—	—	4,849	4,849
Cash dividends declared on common stock	—	—	—	—	(3,261)	—	(3,261)
Dividends on preferred stock	—	—	—	—	(3,793)	—	(3,793)
Accretion on preferred stock	69	—	—	—	(69)	—	—
Stock-based compensation	—	—	4,639	—	—	—	4,639
Issuance of Series C preferred stock	126,500	—	(3,810)	—	—	—	122,690
Common stock issued for:							
Exercise of stock options and warrants	—	420	7,676	(6,391)	—	—	1,705
Restricted stock awards	—	110	1,692	(871)	—	—	931
Employee stock purchase plan	—	39	1,223	—	—	—	1,262
Director compensation plan	—	22	692	—	—	—	714
Balance at June 30, 2012	$176,337	$36,573	$1,013,428	$(7,374)	$501,139	$ 1,971	$1,722,074
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

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30,	
(In thousands)	2013	2012
Operating Activities:		
Net income	$66,359	$48,805
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Provision for credit losses	31,069	38,091
Depreciation and amortization	13,874	11,442
Stock-based compensation expense	4,628	4,639
Tax benefit from stock-based compensation arrangements	223	1,228
Excess tax benefits from stock-based compensation arrangements	(326)	(800)
Net amortization of premium on securities	155	4,830
Mortgage servicing rights fair value change and amortization, net	(1,456)	(1,920)
Originations and purchases of mortgage loans held-for-sale	(2,025,231)	(1,568,240)
Proceeds from sales of mortgage loans held-for-sale	1,954,766	1,392,580
Bank owned life insurance income, net of claims	(1,748)	(1,424)
(Increase) decrease in trading securities, net	(76)	1,882
Net increase in brokerage customer receivables	(1,350)	(3,523)
Gains on mortgage loans sold	(55,326)	(29,920)
Gains on available-for-sale securities, net	(253)	(1,925)
Gain on bargain purchases, net	—	(785)
Loss on sales of premises and equipment, net	—	471
Net (gain) loss on sales and fair value adjustments of other real estate owned	(1,926)	10,302
Decrease (increase) in accrued interest receivable and other assets, net	35,279	(245,123)
(Decrease) increase in accrued interest payable and other liabilities, net	(12,930)	10,600
Net Cash Provided by (Used for) Operating Activities	5,731	(328,790)
Investing Activities:		
Proceeds from maturities of available-for-sale securities	120,803	410,640
Proceeds from sales of available-for-sale securities	84,459	1,364,546
Purchases of available-for-sale securities	(205,372)	(1,036,877)
Net cash paid for acquisitions	(9,350)	(129,742)
Divestiture of operations	(149,100)	—
Proceeds from sales of other real estate owned	40,127	49,773
Proceeds received from the FDIC related to reimbursements on covered assets	21,483	115,280
Net decrease (increase) in interest-bearing deposits with banks	653,816	(368,166)
Net increase in loans	(530,412)	(487,135)
Purchases of premises and equipment, net	(13,097)	(27,296)
Net Cash Provided by (Used for) Investing Activities	13,357	(108,977)
Financing Activities:		
(Decrease) increase in deposit accounts	(242,433)	609,317
Decrease in other borrowings, net	(22,881)	(341,111)
Increase in Federal Home Loan Bank advances, net	172,000	90,000
Repayment of subordinated notes	(5,000)	(20,000)
Excess tax benefits from stock-based compensation arrangements	326	800
Net proceeds from issuance of Series C preferred stock	—	122,690

Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	3,457	10,646
Common stock repurchases	(376)	(7,262)
Dividends paid	(5,910)	(5,261)
Net Cash (Used for) Provided by Financing Activities	(100,817)	459,819
Net (Decrease) Increase in Cash and Cash Equivalents	(81,729)	22,052
Cash and Cash Equivalents at Beginning of Period	315,028	169,704
Cash and Cash Equivalents at End of Period	$233,299	$191,756

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The consolidated financial statements of Wintrust Financial Corporation and Subsidiaries ("Wintrust" or "the Company") presented herein are unaudited, but in the opinion of management reflect all necessary adjustments of a normal or recurring nature for a fair presentation of results as of the dates and for the periods covered by the consolidated financial statements.

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 ("2012 Form 10-K"). Operating results reported for the three-month 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 2012 Form 10-K.

(2) Recent Accounting Developments

Accumulated Other Comprehensive Income Reporting by Component

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

Balance Sheet Offsetting

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

Subsequent Accounting for Indemnification Assets

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

Table of Contents

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

(3) Business Combinations

FDIC-Assisted Transactions

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

Since January 1, 2012, the Company has acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of three financial institutions in FDIC-assisted transactions. The following table presents details related to the three recent transactions:

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

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

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

On their respective acquisition dates in 2012, the Company announced that its wholly-owned subsidiary banks, Old Plank Trail Community Bank, N.A. ("Old Plank Trail Bank"), Hinsdale Bank and Trust Company ("Hinsdale Bank") and Barrington Bank and Trust Company, N.A. ("Barrington"), acquired certain assets and liabilities and the banking operations of First United Bank of Crete, Illinois ("First United Bank"), Second Federal Savings and Loan Association of Chicago ("Second Federal") and Charter National Bank and Trust (“Charter National”), respectively, in FDIC-assisted transactions. The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as an FDIC indemnification asset in the Consolidated Statements of Condition. The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The fair value for loans reflected expected credit losses at the acquisition date. Therefore, the Company will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration subsequent to the acquisition date. See Note 7 — Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion of the allowance on covered loans.

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

Table of Contents

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, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Balance at beginning of period	$170,696	$263,212	$208,160	$344,251
Additions from acquisitions	—	—	—	13,164
Additions from reimbursable expenses	2,827	6,113	7,860	12,977
Amortization	(1,653)	(1,204)	(4,121)	(2,780)
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(26,638)	(12,551)	(52,735)	(29,764)
Payments received from the FDIC	(7,551)	(33,002)	(21,483)	(115,280)
Balance at end of period	$137,681	$222,568	$137,681	$222,568

Divestiture of Previous FDIC-Assisted Acquisition

On February 1, 2013, the Company completed the divestiture of the deposits and current banking operations of Second Federal to an unaffiliated financial institution. Through this transaction, the Company divested approximately $149 million of related deposits.

Other Recent Bank Acquisitions

On May 1, 2013, the Company completed its acquisition of 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 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.

On December 12, 2012, the Company acquired HPK Financial Corporation ("HPK"). HPK was the parent company of Hyde Park Bank & Trust Company ("Hyde Park Bank"), which operated two banking locations in the Hyde Park neighborhood of Chicago, Illinois. As part of this transaction, Hyde Park Bank was merged into the Company's wholly-owned subsidiary bank, Beverly Bank & Trust Company, N.A. ("Beverly Bank"). The Company acquired assets with a fair value of approximately $371.6 million, including approximately $118.5 million of loans, and assumed liabilities with a fair value of approximately $344.1 million, including approximately $243.8 million of deposits. Additionally, the Company recorded goodwill of $12.6 million on the acquisition.

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

See Note 18—Subsequent Events for discussion regarding the Company's announcement in July 2013 of the signing of a definitive agreement to acquire Diamond Bancorp, Inc. ("Diamond").

Specialty Finance Acquisition

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

Wealth Management Acquisitions

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

Table of Contents

Purchased loans with evidence of credit quality deterioration since origination

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

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

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

(4) Cash and Cash Equivalents

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

Table of Contents

(5) Available-For-Sale Securities
The following tables are a summary of the available-for-sale securities portfolio as of the dates shown:

	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 and other:				
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
Other equity securities	52,437	746	(3,619)	49,564
Total available-for-sale securities	$1,912,031	$10,967	$(79,174)	$1,843,824

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

	June 30, 2012			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$25,054	$191	$(2)	$25,243
U.S. Government agencies	636,117	4,262	(167)	640,212
Municipal	77,397	2,414	(83)	79,728
Corporate notes and other:				
Financial issuers	143,892	2,434	(7,663)	138,663
Other	19,311	253	—	19,564
Mortgage-backed: (1)				
Mortgage-backed securities	205,689	12,889	—	218,578
Collateralized mortgage obligations	36,636	528	—	37,164
Other equity securities	42,726	122	(5,298)	37,550

Total available-for-sale securities	$1,186,822	$23,093	$(13,213)	$1,196,702

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

Table of Contents

The following table presents the portion of the Company's available-for-sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at June 30, 2013:

(Dollars in thousands)	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$190,813	$(14,359)	$—	$—	$190,813	$(14,359)
U.S. Government agencies	625,955	(39,654)	6,024	(1)	631,979	(39,655)
Municipal	85,166	(3,360)	618	(2)	85,784	(3,362)
Corporate notes and other:						
Financial issuers	16,491	(301)	63,459	(2,482)	79,950	(2,783)
Other	—	—	—	—	—	—
Mortgage-backed:						
Mortgage-backed securities	179,965	(14,866)	—	—	179,965	(14,866)
Collateralized mortgage obligations	32,504	(530)	—	—	32,504	(530)
Other equity securities	13,171	(555)	22,337	(3,064)	35,508	(3,619)
Total	$1,144,065	$(73,625)	$92,438	$(5,549)	$1,236,503	$(79,174)

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, 2013 to be other-than-temporarily impaired. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily corporate securities of financial issuers and auction rate securities included in other equity securities. The corporate securities of financial issuers in this category were comprised of six fixed-to-floating rate bonds and three trust-preferred securities, all of which continue to be considered investment grade. Additionally, a review of the issuers indicated that they all have strong capital ratios.

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

(Dollars in thousands)	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Realized gains	$3	$1,109	$316	$1,937
Realized losses	(1)	—	(63)	(12)
Net realized gains	$2	$1,109	$253	$1,925
Other than temporary impairment charges	—	—	—	—
Gains on available-for-sale securities, net	$2	$1,109	$253	$1,925
Proceeds from sales of available-for-sale securities	$43,403	$627,177	$84,459	$1,364,546

Table of Contents

The amortized cost and fair value of securities as of June 30, 2013, December 31, 2012 and June 30, 2012, by contractual maturity, are shown in the following table. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Mortgage-backed securities are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties:

	June 30, 2013		December 31, 2012		June 30, 2012	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$284,334	$284,734	$188,594	$189,015	$67,163	$67,488
Due in one to five years	320,175	320,189	419,588	419,654	467,468	466,553
Due in five to ten years	382,837	366,341	361,037	362,135	110,465	109,780
Due after ten years	528,490	490,229	501,177	503,999	256,675	259,589
Mortgage-backed	343,758	332,767	261,871	271,574	242,325	255,742
Other equity securities	52,437	49,564	52,846	49,699	42,726	37,550
Total available-for-sale securities	$1,912,031	$1,843,824	$1,785,113	$1,796,076	$1,186,822	$1,196,702

Securities having a carrying value of $1.1 billion at June 30, 2013 and December 31, 2012 and $782.8 million at June 30, 2012, were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At June 30, 2013, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders’ equity.

(6) Loans

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

(Dollars in thousands)	June 30, 2013		December 31, 2012		June 30, 2012	
Balance:						
Commercial	$3,120,576		$2,914,798		$2,673,181	
Commercial real-estate	4,093,983		3,864,118		3,666,519	
Home equity	758,260		788,474		820,991	
Residential real-estate	384,961		367,213		375,494	
Premium finance receivables—commercial	2,165,734		1,987,856		1,830,044	
Premium finance receivables—life insurance	1,821,147		1,725,166		1,656,200	
Indirect consumer	64,521		77,333		72,482	
Consumer and other	107,710		103,985		107,931	
Total loans, net of unearned income, excluding covered loans	$12,516,892		$11,828,943		$11,202,842	
Covered loans	454,602		560,087		614,062	
Total loans	$12,971,494		$12,389,030		$11,816,904	
Mix:						
Commercial	24	%	24	%	23	%
Commercial real-estate	31		31		31	
Home equity	6		6		7	
Residential real-estate	3		3		3	
Premium finance receivables—commercial	16		16		15	
Premium finance receivables—life insurance	14		14		14	
Indirect consumer	1		1		1	
Consumer and other	1		1		1	
Total loans, net of unearned income, excluding covered loans	96	%	96	%	95	%
Covered loans	4		4		5	
Total loans	100	%	100	%	100	%

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $41.5 million at June 30, 2013, $41.1 million at December 31, 2012 and $41.9 million at June 30, 2012,

Table of Contents

respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as the covered loans acquired in the FDIC-assisted acquisitions are recorded net of credit discounts. See “Acquired Loan Information at Acquisition” below.

Indirect consumer loans include auto, boat and other indirect consumer loans. Total loans, excluding loans acquired with evidence of credit quality deterioration since origination, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $(3.6) million at June 30, 2013, $13.2 million at December 31, 2012 and $13.8 million at June 30, 2012. The net credit balance at June 30, 2013 is primarily the result of purchase accounting adjustments related to the acquisition of FNBI during the second quarter of 2013.

The Company’s loan portfolio is generally comprised of loans to consumers and small to medium-sized businesses located within the geographic market areas that the banks serve. The premium finance receivables portfolios are made to customers on a national basis and the majority of the indirect consumer loans were generated through a network of local automobile dealers. The Company strives to maintain a loan portfolio that is diverse in terms of loan type, industry, borrower and geographic concentrations. Such diversification reduces the exposure to economic downturns that may occur in different segments of the economy or in different industries.

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

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

As part of our previous acquisitions, we acquired loans for which there was evidence of credit quality deterioration since origination and we determined that it was probable that the Company would be unable to collect all contractually required principal and interest payments.

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

	June 30, 2013		December 31, 2012	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	$549,781	$416,733	$674,868	$503,837
Life insurance premium finance loans acquisition	492,221	474,450	536,503	514,459

For loans acquired with evidence of credit quality deterioration since origination as a result of acquisitions during the six months ended June 30, 2013, the following table provides estimated details on these loans at the date of acquisition:

(Dollars in thousands)	FNBI
Contractually required payments including interest	$32,022
Less: Nonaccretable difference	8,890
Cash flows expected to be collected [(1)]	23,132
Less: Accretable yield	2,055
Fair value of loans acquired with evidence of credit quality deterioration since origination	$21,077

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

See Note 7—Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion regarding the allowance for loan losses associated with loans acquired with evidence of credit quality deterioration since origination at June 30, 2013.

Table of Contents

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, 2013		Three Months Ended June 30, 2012	
(Dollars in thousands)	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$121,725	$11,218	$182,222	$15,848
Acquisitions	2,055	—	—	—
Accretable yield amortized to interest income	(9,347)	(2,254)	(13,387)	(2,749)
Accretable yield amortized to indemnification asset (1)	(11,906)	—	(18,063)	—
Reclassification from non-accretable difference (2)	30,792	1,007	7,590	1,145
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(2,463)	316	13,439	382
Accretable yield, ending balance (3)	$130,856	$10,287	$171,801	$14,626

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
(Dollars in thousands)	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$143,224	$13,055	$173,120	$18,861
Acquisitions	1,977	—	2,288	—
Accretable yield amortized to interest income	(18,924)	(4,273)	(28,279)	(6,486)
Accretable yield amortized to indemnification asset (1)	(20,612)	—	(39,440)	—
Reclassification from non-accretable difference (2)	36,204	1,007	49,191	1,145
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(11,013)	498	14,921	1,106
Accretable yield, ending balance (3)	$130,856	$10,287	$171,801	$14,626

(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, 2013, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $52.2 million. The remainder of the accretable yield related to bank acquisitions is expected to be amortized to interest income.

Table of Contents

(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, 2013, December 31, 2012 and June 30, 2012:

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	$9,933	$1,423,823	$1,452,128
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	7,127	919,106	930,454
Tax exempt	—	—	—	—	151,492	151,492
Leases	—	—	—	—	102,409	102,409
Other	—	—	—	—	98	98
Purchased non-covered commercial (1)	—	190	—	1,632	9,334	11,156
Total commercial	17,248	290	5,245	19,142	3,078,651	3,120,576
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	1,349,936	1,378,160
Purchased non-covered 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	3,977,168	4,093,983
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
Purchased non-covered 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
Purchased life insurance loans (1)	—	—	—	—	474,450	474,450
Indirect consumer	91	217	28	428	63,757	64,521
Consumer and other	1,677	—	484	156	105,055	107,372
Purchased non-covered 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) Purchased 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.

15

Table of Contents

As of December 31, 2012 (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	$19,409	$—	$5,520	$15,410	$1,587,864	$1,628,203
Franchise	1,792	—	—	—	194,603	196,395
Mortgage warehouse lines of credit	—	—	—	—	215,076	215,076
Community Advantage—homeowners association	—	—	—	—	81,496	81,496
Aircraft	—	—	148	—	17,216	17,364
Asset-based lending	536	—	1,126	6,622	564,154	572,438
Tax exempt	—	—	—	—	91,824	91,824
Leases	—	—	—	896	89,547	90,443
Other	—	—	—	—	16,549	16,549
Purchased non-covered commercial (1)	—	496	432	7	4,075	5,010
Total commercial	21,737	496	7,226	22,935	2,862,404	2,914,798
Commercial real-estate						
Residential construction	3,110	—	4	41	37,246	40,401
Commercial construction	2,159	—	885	386	167,525	170,955
Land	11,299	—	632	9,014	113,252	134,197
Office	4,196	—	1,889	3,280	560,346	569,711
Industrial	2,089	—	6,042	4,512	565,294	577,937
Retail	7,792	—	1,372	998	558,734	568,896
Multi-family	2,586	—	3,949	1,040	389,116	396,691
Mixed use and other	16,742	—	6,660	13,349	1,312,503	1,349,254
Purchased non-covered commercial real-estate (1)	—	749	2,663	2,508	50,156	56,076
Total commercial real-estate	49,973	749	24,096	35,128	3,754,172	3,864,118
Home equity	13,423	100	1,592	5,043	768,316	788,474
Residential real-estate	11,728	—	2,763	8,250	343,616	366,357
Purchased non-covered residential real-estate (1)	—	—	200	—	656	856
Premium finance receivables						
Commercial insurance loans	9,302	10,008	6,729	19,597	1,942,220	1,987,856
Life insurance loans	25	—	—	5,531	1,205,151	1,210,707
Purchased life insurance loans (1)	—	—	—	—	514,459	514,459
Indirect consumer	55	189	51	442	76,596	77,333
Consumer and other	1,511	32	167	433	99,010	101,153
Purchased non-covered consumer and other (1)	—	66	32	101	2,633	2,832
Total loans, net of unearned income, excluding covered loans	$107,754	$11,640	$42,856	$97,460	$11,569,233	$11,828,943
Covered loans	1,988	122,350	16,108	7,999	411,642	560,087
Total loans, net of unearned income	$109,742	$133,990	$58,964	$105,459	$11,980,875	$12,389,030

(1) Purchased 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.

16

Table of Contents

As of June 30, 2012 (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	$27,911	$—	$5,557	$17,227	$1,570,366	$1,621,061
Franchise	1,792	—	—	—	176,827	178,619
Mortgage warehouse lines of credit	—	—	—	—	123,804	123,804
Community Advantage—homeowners association	—	—	—	—	73,289	73,289
Aircraft	428	—	—	170	22,205	22,803
Asset-based lending	342	—	172	1,074	487,619	489,207
Tax exempt	—	—	—	—	79,708	79,708
Leases	—	—	—	1	77,805	77,806
Other	—	—	—	—	1,842	1,842
Purchased non-covered commercial (1)	—	486	—	57	4,499	5,042
Total commercial	30,473	486	5,729	18,529	2,617,964	2,673,181
Commercial real-estate:						
Residential construction	892	—	6,041	5,773	32,020	44,726
Commercial construction	3,011	—	13,131	330	140,223	156,695
Land	13,459	—	3,276	6,044	142,490	165,269
Office	4,796	—	891	1,868	562,879	570,434
Industrial	1,820	—	3,158	1,320	591,919	598,217
Retail	8,158	—	1,351	6,657	546,617	562,783
Multi-family	3,312	—	151	1,447	332,871	337,781
Mixed use and other	20,629	—	15,530	16,063	1,126,930	1,179,152
Purchased non-covered commercial real-estate (1)	—	2,232	2,352	1,057	45,821	51,462
Total commercial real-estate	56,077	2,232	45,881	40,559	3,521,770	3,666,519
Home equity	10,583	—	2,182	3,195	805,031	820,991
Residential real estate	9,387	—	3,765	1,558	360,128	374,838
Purchased non-covered residential real estate (1)	—	—	—	—	656	656
Premium finance receivables						
Commercial insurance loans	7,404	5,184	4,796	7,965	1,804,695	1,830,044
Life insurance loans	—	—	—	30	1,111,207	1,111,237
Purchased life insurance loans (1)	—	—	—	—	544,963	544,963
Indirect consumer	132	234	51	312	71,753	72,482
Consumer and other	1,446	—	483	265	105,669	107,863
Purchased non-covered consumer and other (1)	—	—	—	—	68	68
Total loans, net of unearned income, excluding covered loans	$115,502	$8,136	$62,887	$72,413	$10,943,904	$11,202,842
Covered loans	—	145,115	14,658	7,503	446,786	614,062
Total loans, net of unearned income	$115,502	$153,251	$77,545	$79,916	$11,390,690	$11,816,904

(1) Purchased 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.

Table of Contents

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.

Table of Contents

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 loans acquired with evidence of credit quality deterioration since origination. The remainder of the portfolio not classified as non-performing are 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, 2013, December 31, 2012 and June 30, 2012:

(Dollars in thousands)	Performing			Non-performing			Total		
	June 30, 2013	December 31, 2012	June 30, 2012	June 30, 2013	December 31, 2012	June 30, 2012	June 30, 2013	December 31, 2012	Ju 20
Loan Balances:									
Commercial									
Commercial and industrial	$1,436,696	$1,608,794	$1,593,150	$15,432	$19,409	$27,911	$1,452,128	$1,628,203	$
Franchise	202,240	194,603	176,827	—	1,792	1,792	202,240	196,395	1
Mortgage warehouse lines of credit	174,422	215,076	123,804	—	—	—	174,422	215,076	1
Community Advantage—homeowners association	83,003	81,496	73,289	—	—	—	83,003	81,496	7
Aircraft	13,174	17,364	22,375	—	—	428	13,174	17,364	2
Asset-based lending	928,538	571,902	488,865	1,916	536	342	930,454	572,438	4
Tax exempt	151,492	91,824	79,708	—	—	—	151,492	91,824	7
Leases	102,409	90,443	77,806	—	—	—	102,409	90,443	7
Other	98	16,549	1,842	—	—	—	98	16,549	1,
Purchased non-covered commercial (1)	11,156	5,010	5,042	—	—	—	11,156	5,010	5,
Total commercial	3,103,228	2,893,061	2,642,708	17,348	21,737	30,473	3,120,576	2,914,798	2,
Commercial real-estate									
Residential construction	33,377	37,291	43,834	5,922	3,110	892	39,299	40,401	4
Commercial construction	130,186	168,796	153,684	7,857	2,159	3,011	138,043	170,955	1
Land	111,111	122,898	151,810	5,742	11,299	13,459	116,853	134,197	1
Office	591,433	565,515	565,638	6,324	4,196	4,796	597,757	569,711	5
Industrial	609,728	575,848	596,397	5,773	2,089	1,820	615,501	577,937	5
Retail	599,920	561,104	554,625	7,471	7,792	8,158	607,391	568,896	5
Multi-family	530,231	394,105	334,469	3,337	2,586	3,312	533,568	396,691	3
Mixed use and other	1,362,498	1,332,512	1,158,523	15,662	16,742	20,629	1,378,160	1,349,254	1,
Purchased non-covered commercial real-estate (1)	67,411	56,076	51,462	—	—	—	67,411	56,076	5
Total commercial real-estate	4,035,895	3,814,145	3,610,442	58,088	49,973	56,077	4,093,983	3,864,118	3,
Home equity	745,913	774,951	810,408	12,347	13,523	10,583	758,260	788,474	8
Residential real-estate	372,428	354,629	365,451	10,213	11,728	9,387	382,641	366,357	3
Purchased non-covered residential real-estate (1)	2,320	856	656	—	—	—	2,320	856	6
Premium finance receivables	2,145,458	1,968,546	1,817,456	20,276	19,310	12,588	2,165,734	1,987,856	1,

Commercial insurance loans									
Life insurance loans	1,345,469	1,210,682	1,111,237	1,228	25	—	1,346,697	1,210,707	1,
Purchased life insurance loans (1)	474,450	514,459	544,963	—	—	—	474,450	514,459	54
Indirect consumer	64,213	77,089	72,116	308	244	366	64,521	77,333	72
Consumer and other	105,695	99,610	106,417	1,677	1,543	1,446	107,372	101,153	10
Purchased non-covered consumer and other(1)	338	2,832	68	—	—	—	338	2,832	68
Total loans, net of unearned income, excluding covered loans	$12,395,407	$11,710,860	$11,081,922	$121,485	$118,083	$120,920	$12,516,892	$11,828,943	$

(1) Purchased 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.

19

Table of Contents

A summary of activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the three and six months ended June 30, 2013 and 2012 is as follows:

Three months ended June 30, 2013 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	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	$ 277	$ 1,378	$ 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)	(16)	(112)	(19,776)
Recoveries	268	584	171	18	279	17	44	1,381
Provision for credit losses	611	10,051	3,697	269	236	(15)	284	15,133
Allowance for loan losses at period end	$ 28,737	$ 51,950	$ 14,205	$ 4,825	$ 5,268	$ 263	$ 1,594	$ 106,842
Allowance for unfunded lending-related commitments at period end	$ —	$ 3,563	$ —	$ —	$ —	$—	$—	$ 3,563
Allowance for credit losses at period end	$ 28,737	$ 55,513	$ 14,205	$ 4,825	$ 5,268	$ 263	$ 1,594	$ 110,405
Individually evaluated for impairment	5,587	7,411	1,060	606	—	—	218	14,882
Collectively evaluated for impairment	23,072	47,988	13,145	4,209	5,268	263	1,376	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	$ —	$ 54	$ 1,784	$ 194,370
Collectively evaluated for impairment	3,083,925	3,886,652	744,772	369,012	3,512,431	64,467	105,588	11,766,847
Loans acquired with deteriorated credit quality	11,156	67,411	—	2,320	474,450	—	338	555,675

20

Table of Contents

Three months ended June 30, 2012 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses								
Allowance for loan losses at beginning of period	$ 33,219	$ 53,952	$ 7,920	$ 5,551	$ 8,108	$ 643	$ 1,630	$ 111,023
Other adjustments	(1)	(261)	(3)	(7)	—	—	—	(272)
Reclassification to/from allowance for unfunded lending-related commitments	—	175	—	—	—	—	—	175
Charge-offs	(6,046)	(9,226)	(1,732)	(388)	(747)	(33)	(51)	(18,223)
Recoveries	246	174	171	3	171	21	37	823
Provision for credit losses	(435)	8,987	7,522	1,565	990	9	(244)	18,394
Allowance for loan losses at period end	$ 26,983	$ 53,801	$ 13,878	$ 6,724	$ 8,522	$ 640	$ 1,372	$ 111,920
Allowance for unfunded lending-related commitments at period end	$ —	$ 12,903	$ —	$ —	$ —	$—	$—	$ 12,903
Allowance for credit losses at period end	$ 26,983	$ 66,704	$ 13,878	$ 6,724	$ 8,522	$ 640	$ 1,372	$ 124,823
Individually evaluated for impairment	$ 3,259	$ 22,160	$ 3,305	$ 2,273	$ —	$—	$ 451	$ 31,448
Collectively evaluated for impairment	$ 23,724	$ 44,544	$ 10,573	$ 4,451	$ 8,522	$ 640	$ 921	$ 93,375
Loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$—	$—	$—
Loans at period end								
Individually evaluated for impairment	$ 51,951	$ 184,739	$ 12,197	$ 14,125	$ —	$ 107	$ 1,545	$ 264,664
Collectively evaluated for impairment	2,616,188	3,430,318	808,794	360,713	2,941,281	72,375	106,318	10,335,987
Loans acquired with deteriorated credit quality	5,042	51,462	—	656	544,963	—	68	602,191

Six months ended June 30, 2013	Commercial	Home	Residential	Premium	Indirect	Consumer	Total,

(Dollars in thousands)	Commercial	Real-estate	Equity	Real-estate	Finance Receivable	Consumer	and Other	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	$267	$1,765	$107,351
Other adjustments	(4)	(428)	—	(94)	(12)	—	—	(538)
Reclassification to/from allowance for unfunded lending-related commitments	—	(148)	—	—	—	—	—	(148)
Charge-offs	(5,633)	(18,246)	(4,182)	(2,245)	(2,374)	(48)	(209)	(32,937)
Recoveries	563	952	333	23	573	32	138	2,614
Provision for credit losses	5,017	17,685	5,320	1,581	985	12	(100)	30,500
Allowance for loan losses at period end	$ 28,737	$ 51,950	$14,205	$4,825	$5,268	$263	$1,594	$106,842
Allowance for unfunded lending-related commitments at period end	$ —	$ 3,563	$—	$—	$—	$—	$—	$3,563
Allowance for credit losses at period end	$ 28,737	$ 55,513	$14,205	$4,825	$5,268	$263	$1,594	$110,405

21

Table of Contents

Six months ended June 30, 2012 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses								
Allowance for loan losses at beginning of period	$ 31,237	$ 56,405	$7,712	$5,028	$7,214	$645	$2,140	$110,381
Other adjustments	(4)	(483)	(2)	(21)	—	—	—	(510)
Reclassification to/from allowance for unfunded lending-related commitments	45	282	—	—	—	—	—	327
Charge-offs	(9,308)	(17,455)	(4,322)	(563)	(1,597)	(84)	(361)	(33,690)
Recoveries	503	305	333	5	469	51	198	1,864
Provision for credit losses	4,510	14,747	10,157	2,275	2,436	28	(605)	33,548
Allowance for loan losses at period end	$ 26,983	$ 53,801	$13,878	$6,724	$8,522	$640	$1,372	$111,920
Allowance for unfunded lending-related commitments at period end	$ —	$ 12,903	$—	$—	$—	$—	$—	$12,903
Allowance for credit losses at period end	$ 26,983	$ 66,704	$13,878	$6,724	$8,522	$640	$1,372	$124,823

A summary of activity in the allowance for covered loan losses for the three and six months ended June 30, 2013 and 2012 is as follows:

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Balance at beginning of period	$12,272	$17,735	$13,454	$12,977
Provision for covered loan losses before benefit attributable to FDIC loss share agreements	1,246	11,591	2,846	22,820
Benefit attributable to FDIC loss share agreements	(997)	(9,294)	(2,277)	(18,277)
Net provision for covered loan losses	249	2,297	569	4,543
Increase in FDIC indemnification asset	997	9,294	2,277	18,277
Loans charged-off	(2,266)	(8,793)	(5,057)	(15,316)
Recoveries of loans charged-off	3,177	27	3,186	79
Net charge-offs	911	(8,766)	(1,871)	(15,237)
Balance at end of period	$14,429	$20,560	$14,429	$20,560

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.

Table of Contents

Impaired Loans

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

(Dollars in thousands)	June 30, 2013	December 31, 2012	June 30, 2012
Impaired loans (included in non-performing and restructured loans):			
Impaired loans with an allowance for loan loss required (1)	$96,519	$89,983	$161,297
Impaired loans with no allowance for loan loss required	93,629	114,562	103,367
Total impaired loans (2)	$190,148	$204,545	$264,664
Allowance for loan losses related to impaired loans	$11,839	$13,575	$19,127
Troubled debt restructurings	$126,196	$126,473	$172,306

(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.

Table of Contents

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

	As of June 30, 2013			For the Six Months Ended June 30, 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	$11,720	$ 13,429	$4,561	$12,131	$ 434
Franchise	—	—	—	—	—