WINTRUST FINANCIAL CORP
Form 10-Q
November 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 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, 39,933,549 shares, as of October 31, 2013

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

(In thousands, except share data)	(Unaudited) September 30, 2013	December 31, 2012	(Unaudited) September 30, 2012
Assets			
Cash and due from banks	$322,866	$284,731	$186,752
Federal funds sold and securities purchased under resale agreements	7,771	30,297	26,062
Interest-bearing deposits with other banks	681,834	1,035,743	934,430
Available-for-sale securities, at fair value	1,781,883	1,796,076	1,256,768
Trading account securities	259	583	635
Federal Home Loan Bank and Federal Reserve Bank stock	76,755	79,564	80,687
Brokerage customer receivables	29,253	24,864	30,633
Mortgage loans held-for-sale, at fair value	329,186	385,033	548,300
Mortgage loans held-for-sale, at lower of cost or market	5,159	27,167	21,685
Loans, net of unearned income, excluding covered loans	12,581,039	11,828,943	11,489,900
Covered loans	415,988	560,087	657,525
Total loans	12,997,027	12,389,030	12,147,425
Less: Allowance for loan losses	107,188	107,351	112,287
Less: Allowance for covered loan losses	12,924	13,454	21,926
Net loans	12,876,915	12,268,225	12,013,212
Premises and equipment, net	517,942	501,205	461,905
FDIC indemnification asset	100,313	208,160	238,305
Accrued interest receivable and other assets	576,121	511,617	557,884
Trade date securities receivable	—	—	307,295
Goodwill	357,309	345,401	331,634
Other intangible assets	18,982	20,947	22,405
Total assets	$17,682,548	$17,519,613	$17,018,592
Liabilities and Shareholders’ Equity			
Deposits:			
Non-interest bearing	$2,622,518	$2,396,264	$2,162,215
Interest bearing	12,024,928	12,032,280	11,685,750
Total deposits	14,647,446	14,428,544	13,847,965
Notes payable	1,546	2,093	2,275
Federal Home Loan Bank advances	387,852	414,122	414,211
Other borrowings	246,870	274,411	377,229
Secured borrowings—owed to securitization investors	—	—	—
Subordinated notes	10,000	15,000	15,000
Junior subordinated debentures	249,493	249,493	249,493
Trade date securities payable	—	—	412
Accrued interest payable and other liabilities	265,775	331,245	350,707
Total liabilities	15,808,982	15,714,908	15,257,292
Shareholders’ Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series A - $1,000 liquidation value; No shares issued and outstanding at September 30, 2013, and 50,000 shares issued and outstanding at December 31, 2012 and September 30, 2012	—	49,906	49,871

Series C - $1,000 liquidation value; 126,500 shares issued and outstanding at September 30, 2013, December 31, 2012 and September 30, 2012	126,500	126,500	126,500
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at September 30, 2013, December 31, 2012, and September 30, 2012; 39,992,300 shares issued at September 30, 2013, 37,107,684 shares issued at December 31, 2012, and 36,647,154 shares issued at September 30, 2012	39,992	37,108	36,647
Surplus	1,118,550	1,036,295	1,018,417
Treasury stock, at cost, 261,257 shares at September 30, 2013, 249,329 shares at December 31, 2012, and 239,373 shares at September 30, 2012	(8,290)	(7,838)	(7,490)
Retained earnings	643,228	555,023	527,550
Accumulated other comprehensive (loss) income	(46,414)	7,711	9,805
Total shareholders' equity	1,873,566	1,804,705	1,761,300
Total liabilities and shareholders' equity	$17,682,548	$17,519,613	$17,018,592

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2013	2012	2013	2012
Interest income				
Interest and fees on loans	$150,810	$149,271	$438,907	$436,926
Interest bearing deposits with banks	229	362	1,209	813
Federal funds sold and securities purchased under resale agreements	4	7	23	25
Securities	9,224	7,691	27,335	30,048
Trading account securities	14	3	27	22
Federal Home Loan Bank and Federal Reserve Bank stock	687	649	2,064	1,894
Brokerage customer receivables	200	218	562	650
Total interest income	161,168	158,201	470,127	470,378
Interest expense				
Interest on deposits	12,524	16,794	40,703	52,097
Interest on Federal Home Loan Bank advances	2,729	2,817	8,314	9,268
Interest on notes payable and other borrowings	910	2,024	3,196	7,400
Interest on secured borrowings—owed to securitization investors	—	795	—	5,087
Interest on subordinated notes	40	67	151	362
Interest on junior subordinated debentures	3,183	3,129	9,444	9,424
Total interest expense	19,386	25,626	61,808	83,638
Net interest income	141,782	132,575	408,319	386,740
Provision for credit losses	11,114	18,799	42,183	56,890
Net interest income after provision for credit losses	130,668	113,776	366,136	329,850
Non-interest income				
Wealth management	16,057	13,252	46,777	39,046
Mortgage banking	25,682	31,127	87,561	75,268
Service charges on deposit accounts	5,308	4,235	15,136	12,437
Gains on available-for-sale securities, net	75	409	328	2,334
Fees from covered call options	285	2,083	2,917	8,320
Gain on bargain purchases, net	—	6,633	—	7,418
Trading (losses) gains, net	(1,655)	(998)	1,170	(1,780)
Other	8,910	6,204	22,147	17,860
Total non-interest income	54,662	62,945	176,036	160,903
Non-interest expense				
Salaries and employee benefits	78,007	75,280	234,745	212,449
Equipment	6,593	5,888	19,190	16,754
Occupancy, net	9,079	8,024	26,639	23,814
Data processing	4,884	4,103	13,841	11,561
Advertising and marketing	2,772	2,528	7,534	6,713
Professional fees	3,378	4,653	10,790	12,104
Amortization of other intangible assets	1,154	1,078	3,438	3,216
FDIC insurance	3,245	3,549	9,692	10,383
OREO expense, net	2,499	3,808	3,163	16,834
Other	15,637	15,637	46,522	45,664

Total non-interest expense	127,248	124,548	375,554	359,492
Income before taxes	58,082	52,173	166,618	131,261
Income tax expense	22,519	19,871	64,696	50,154
Net income	$35,563	$32,302	$101,922	$81,107
Preferred stock dividends and discount accretion	$1,581	$2,616	$6,814	$6,477
Net income applicable to common shares	$33,982	$29,686	$95,108	$74,630
Net income per common share—Basic	$0.86	$0.82	$2.51	$2.06
Net income per common share—Diluted	$0.71	$0.66	$2.05	$1.70
Cash dividends declared per common share	$0.09	$0.09	$0.18	$0.18
Weighted average common shares outstanding	39,331	36,381	37,939	36,305
Dilutive potential common shares	10,823	12,295	11,763	11,292
Average common shares and dilutive common shares	50,154	48,676	49,702	47,597

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2013	2012	2013	2012
Net income	$35,563	$32,302	$101,922	$81,107
Unrealized (losses) gains on securities				
Before tax	(2,419)	3,921	(81,337)	8,661
Tax effect	959	(1,563)	32,106	(3,447)
Net of tax	(1,460)	2,358	(49,231)	5,214
Less: Reclassification of net gains included in net income				
Before tax	75	409	328	2,334
Tax effect	(30)	(162)	(131)	(934)
Net of tax	45	247	197	1,400
Net unrealized (losses) gains on securities	(1,505)	2,111	(49,428)	3,814
Unrealized gains (losses) on derivative instruments				
Before tax	647	(293)	4,290	1,439
Tax effect	(257)	119	(1,708)	(568)
Net unrealized gains (losses) on derivative instruments	390	(174)	2,582	871
Foreign currency translation adjustment				
Before tax	4,970	8,438	(9,575)	11,139
Tax effect	(1,065)	(2,541)	2,296	(3,141)
Net foreign currency translation adjustment	3,905	5,897	(7,279)	7,998
Total other comprehensive income (loss)	2,790	7,834	(54,125)	12,683
Comprehensive income	$38,353	$40,136	$47,797	$93,790

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders’ equity
Balance at December 31, 2011	$49,768	$35,982	$1,001,316	$(112)	$459,457	$ (2,878)	$1,543,533
Net income	—	—	—	—	81,107	—	81,107
Other comprehensive income, net of tax	—	—	—	—	—	12,683	12,683
Cash dividends declared on common stock	—	—	—	—	(6,537)	—	(6,537)
Dividends on preferred stock	—	—	—	—	(6,374)	—	(6,374)
Accretion on preferred stock	103	—	—	—	(103)	—	—
Stock-based compensation	—	—	7,260	—	—	—	7,260
Issuance of Series C preferred stock	126,500	—	(3,810)	—	—	—	122,690
Common stock issued for:							
Acquisitions	—	26	868	—	—	—	894
Exercise of stock options and warrants	—	439	10,050	(6,391)	—	—	4,098
Restricted stock awards	—	123	(152)	(987)	—	—	(1,016)
Employee stock purchase plan	—	55	1,777	—	—	—	1,832
Director compensation plan	—	22	1,108	—	—	—	1,130
Balance at September 30, 2012	$176,371	$36,647	$1,018,417	$(7,490)	$527,550	$ 9,805	$1,761,300
Balance at December 31, 2012	$176,406	$37,108	$1,036,295	$(7,838)	$555,023	$ 7,711	$1,804,705
Net income	—	—	—	—	101,922	—	101,922
Other comprehensive loss, net of tax	—	—	—	—	—	(54,125)	(54,125)
Cash dividends declared on common stock	—	—	—	—	(6,903)	—	(6,903)
Dividends on preferred stock	—	—	—	—	(6,744)	—	(6,744)
Accretion on preferred stock	70	—	—	—	(70)	—	—
Conversion of Series A preferred stock to common stock	(49,976)	1,944	48,032	—	—	—	—
Stock-based compensation	—	—	6,598	—	—	—	6,598
Common stock issued for:							
Acquisitions	—	648	22,422	—	—	—	23,070
Exercise of stock options and warrants	—	79	2,161	(214)	—	—	2,026
Restricted stock awards	—	135	140	(238)	—	—	37
Employee stock purchase plan	—	47	1,801	—	—	—	1,848
Director compensation plan	—	31	1,101	—	—	—	1,132
Balance at September 30, 2013	$126,500	$39,992	$1,118,550	$(8,290)	$643,228	$ (46,414)	$1,873,566

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
(In thousands)	2013	2012
Operating Activities:		
Net income	$101,922	$81,107
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	42,183	56,890
Depreciation and amortization	21,061	17,624
Stock-based compensation expense	6,598	7,260
Tax benefit from stock-based compensation arrangements	188	1,279
Excess tax benefits from stock-based compensation arrangements	(349)	(868)
Net amortization of premium on securities	1,534	4,745
Mortgage servicing rights fair value change and amortization, net	(1,373)	(3,469)
Originations and purchases of mortgage loans held-for-sale	(2,966,058)	(2,688,002)
Proceeds from sales of mortgage loans held-for-sale	3,108,405	2,498,525
Bank owned life insurance income, net of claims	(2,372)	(2,234)
Decrease in trading securities, net	324	1,855
Net increase in brokerage customer receivables	(4,389)	(2,708)
Gains on mortgage loans sold	(64,492)	(59,984)
Gains on available-for-sale securities, net	(328)	(2,334)
Gain on bargain purchases, net	—	(7,418)
(Gain) loss on sales of premises and equipment, net	(375)	702
Net (gain) loss on sales and fair value adjustments of other real estate owned	(1,323)	12,306
Decrease (increase) in accrued interest receivable and other assets, net	29,542	(13,335)
(Decrease) increase in accrued interest payable and other liabilities, net	(50,290)	140,857
Net Cash Provided by Operating Activities	220,408	42,798
Investing Activities:		
Proceeds from maturities of available-for-sale securities	169,139	473,331
Proceeds from sales of available-for-sale securities	129,537	2,059,154
Purchases of available-for-sale securities	(240,640)	(2,079,665)
Net cash (paid) received for acquisitions	(9,350)	30,220
Divestiture of operations	(149,100)	—
Proceeds from sales of other real estate owned	76,506	65,902
Proceeds received from the FDIC related to reimbursements on covered assets	47,408	152,594
Net decrease (increase) in interest-bearing deposits with banks	412,638	(113,963)
Net increase in loans	(589,402)	(774,437)
Purchases of premises and equipment, net	(24,239)	(45,533)
Net Cash Used for Investing Activities	(177,503)	(232,397)
Financing Activities:		
Increase in deposit accounts	39,575	914,513
Decrease in other borrowings, net	(29,009)	(118,552)
Decrease in Federal Home Loan Bank advances, net	(26,000)	(60,000)
Repayment of subordinated notes	(5,000)	(20,000)
Payoff of secured borrowing	—	(600,000)
Excess tax benefits from stock-based compensation arrangements	349	868
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	5,307	12,143
Common stock repurchases	(452)	(7,378)
Dividends paid	(12,066)	(11,575)
Net Cash (Used for) Provided by Financing Activities	(27,296)	232,709
Net Increase in Cash and Cash Equivalents	15,609	43,110
Cash and Cash Equivalents at Beginning of Period	315,028	169,704
Cash and Cash Equivalents at End of Period	$330,637	$212,814

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 (“2012 Form 10-K”). Operating results reported for the three-month and nine-month periods are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management’s expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of our significant accounting policies are included in Note 1 - “Summary of Significant Accounting Policies” of the Company’s 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 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.

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

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

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

(Dollars in thousands)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Balance at beginning of period	$137,681	$222,568	$208,160	$344,251
Additions from acquisitions	—	65,100	—	78,264
Additions from reimbursable expenses	3,062	5,669	10,922	18,646
Amortization	(1,763)	(1,139)	(5,884)	(3,919)
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(12,742)	(16,579)	(65,477)	(46,343)
Payments received from the FDIC	(25,925)	(37,314)	(47,408)	(152,594)
Balance at end of period	$100,313	$238,305	$100,313	$238,305

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 announcements in October 2013 of the acquisition of certain assets and assumption of certain liabilities of Surety Financial Services ("Surety") and the completion of its previously announced acquisition of 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.

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Purchased loans with evidence of credit quality deterioration since origination

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

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

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

(4) Cash and Cash Equivalents

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

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(5) Available-For-Sale Securities

The following tables are a summary of the available-for-sale securities portfolio as of the dates shown:

	September 30, 2013				
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
U.S. Treasury	$225,190	$150	$(14,438	)	$210,902
U.S. Government agencies	954,050	2,213	(43,574	)	912,689
Municipal	152,010	1,983	(3,346	)	150,647
Corporate notes and other:					
Financial issuers	132,320	2,252	(2,513		