WINTRUST FINANCIAL CORP
Form 10-Q
August 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
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, 51,671,067 shares, as of July 31, 2016

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

(In thousands, except share data)	(Unaudited) June 30, 2016	December 31, 2015	(Unaudited) June 30, 2015
Assets			
Cash and due from banks	$267,551	$271,454	$248,094
Federal funds sold and securities purchased under resale agreements	4,024	4,341	4,115
Interest bearing deposits with banks	693,269	607,782	591,721
Available-for-sale securities, at fair value	637,663	1,716,388	2,162,061
Held-to-maturity securities, at amortized cost ($1.0 billion and $878.1 million fair value at June 30, 2016 and December 31, 2015, respectively)	992,211	884,826	—
Trading account securities	3,613	448	1,597
Federal Home Loan Bank and Federal Reserve Bank stock	121,319	101,581	89,818
Brokerage customer receivables	26,866	27,631	29,753
Mortgage loans held-for-sale	554,256	388,038	497,283
Loans, net of unearned income, excluding covered loans	18,174,655	17,118,117	15,513,650
Covered loans	105,248	148,673	193,410
Total loans	18,279,903	17,266,790	15,707,060
Allowance for loan losses	(114,356)	(105,400)	(100,204)
Allowance for covered loan losses	(2,412)	(3,026)	(2,215)
Net loans	18,163,135	17,158,364	15,604,641
Premises and equipment, net	595,792	592,256	571,498
Lease investments, net	103,749	63,170	13,447
FDIC indemnification asset	—	—	3,429
Accrued interest receivable and other assets	670,014	597,099	533,175
Trade date securities receivable	1,079,238	—	—
Goodwill	486,095	471,761	421,646
Other intangible assets	21,821	24,209	17,924
Total assets	$24,420,616	$22,909,348	$20,790,202
Liabilities and Shareholders' Equity			
Deposits:			
Non-interest bearing	$5,367,672	$4,836,420	$3,910,310
Interest bearing	14,674,078	13,803,214	13,172,108
Total deposits	20,041,750	18,639,634	17,082,418
Federal Home Loan Bank advances	588,055	853,431	435,721
Other borrowings	252,611	265,785	261,674
Subordinated notes	138,915	138,861	138,808
Junior subordinated debentures	253,566	268,566	249,493
Trade date securities payable	40,000	538	—
Accrued interest payable and other liabilities	482,124	390,259	357,106
Total liabilities	21,797,021	20,557,074	18,525,220
Shareholders' Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series C - $1,000 liquidation value; 126,257 shares issued and outstanding at June 30, 2016, 126,287 shares issued and outstanding at December 31, 2015, and 126,312 shares issued and outstanding at June 30, 2015	126,257	126,287	126,312

Series D - $25 liquidation value; 5,000,000 shares issued and outstanding at June 30, 2016, December 31, 2015 and June 30, 2015	125,000	125,000	125,000
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at June 30, 2016, December 31, 2015 and June 30, 2015; 51,708,585 shares issued at June 30, 2016, 48,468,894 shares issued at December 31, 2015 and 47,762,681 shares issued at June 30, 2015	51,708	48,469	47,763
Surplus	1,350,751	1,190,988	1,159,052
Treasury stock, at cost, 89,430 shares at June 30, 2016, 85,615 shares at December 31, 2015, and 85,424 shares at June 30, 2015	(4,145)	(3,973)	(3,964)
Retained earnings	1,008,464	928,211	872,690
Accumulated other comprehensive loss	(34,440)	(62,708)	(61,871)
Total shareholders’ equity	2,623,595	2,352,274	2,264,982
Total liabilities and shareholders’ equity	$24,420,616	$22,909,348	$20,790,202

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands, except per share data)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest income				
Interest and fees on loans	$178,530	$159,823	$351,657	$314,499
Interest bearing deposits with banks	793	305	1,539	621
Federal funds sold and securities purchased under resale agreements	1	1	2	3
Investment securities	16,398	14,071	33,588	28,471
Trading account securities	14	51	25	64
Federal Home Loan Bank and Federal Reserve Bank stock	1,112	785	2,049	1,554
Brokerage customer receivables	216	205	435	386
Total interest income	197,064	175,241	389,295	345,598
Interest expense				
Interest on deposits	13,594	11,996	26,375	23,810
Interest on Federal Home Loan Bank advances	2,984	1,812	5,870	3,968
Interest on other borrowings	1,086	787	2,144	1,575
Interest on subordinated notes	1,777	1,777	3,554	3,552
Interest on junior subordinated debentures	2,353	1,977	4,573	3,910
Total interest expense	21,794	18,349	42,516	36,815
Net interest income	175,270	156,892	346,779	308,783
Provision for credit losses	9,129	9,482	17,163	15,561
Net interest income after provision for credit losses	166,141	147,410	329,616	293,222
Non-interest income				
Wealth management	18,852	18,476	37,172	36,576
Mortgage banking	36,807	36,007	58,542	63,807
Service charges on deposit accounts	7,726	6,474	15,132	12,771
Gains (losses) on investment securities, net	1,440	(24)	2,765	500
Fees from covered call options	4,649	4,565	6,361	8,925
Trading (losses) gains, net	(316)	160	(484)	(317)
Operating lease income, net	4,005	77	6,811	142
Other	11,636	11,278	27,252	19,150
Total non-interest income	84,799	77,013	153,551	141,554
Non-interest expense				
Salaries and employee benefits	100,894	94,421	196,705	184,551
Equipment	9,307	7,855	18,074	15,634
Operating lease equipment depreciation	3,385	59	5,435	116
Occupancy, net	11,943	11,401	23,891	23,752
Data processing	7,138	6,081	13,657	11,529
Advertising and marketing	6,941	6,406	10,720	10,313
Professional fees	5,419	5,074	9,478	9,738
Amortization of other intangible assets	1,248	934	2,546	1,947
FDIC insurance	4,040	3,047	7,653	6,034
OREO expense, net	1,348	841	1,908	2,252
Other	19,306	18,178	34,632	35,749
Total non-interest expense	170,969	154,297	324,699	301,615
Income before taxes	79,971	70,126	158,468	133,161
Income tax expense	29,930	26,295	59,316	50,278

Net income	$50,041	$43,831	$99,152	$82,883
Preferred stock dividends and discount accretion	3,628	1,580	7,256	3,161
Net income applicable to common shares	$46,413	$42,251	$91,896	$79,722
Net income per common share—Basic	$0.94	$0.89	$1.88	$1.68
Net income per common share—Diluted	$0.90	$0.85	$1.80	$1.61
Cash dividends declared per common share	$0.12	$0.11	$0.24	$0.22
Weighted average common shares outstanding	49,140	47,567	48,794	47,404
Dilutive potential common shares	3,965	4,156	3,887	4,220
Average common shares and dilutive common shares	53,105	51,723	52,681	51,624

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income	$50,041	$43,831	$99,152	$82,883
Unrealized gains (losses) on securities				
Before tax	5,968	(53,400)	31,144	(27,124)
Tax effect	(2,244)	20,959	(12,232)	10,628
Net of tax	3,724	(32,441)	18,912	(16,496)
Reclassification of net gains (losses) included in net income				
Before tax	1,440	(24)	2,765	500
Tax effect	(565)	10	(1,086)	(196)
Net of tax	875	(14)	1,679	304
Reclassification of amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale				
Before tax	(3,832)	—	(7,257)	—
Tax effect	1,506	—	2,845	—
Net of tax	(2,326)	—	(4,412)	—
Net unrealized gains (losses) on securities	5,175	(32,427)	21,645	(16,800)
Unrealized (losses) gains on derivative instruments				
Before tax	(523)	215	(45)	(346)
Tax effect	206	(84)	18	136
Net unrealized (losses) gains on derivative instruments	(317)	131	(27)	(210)
Foreign currency adjustment				
Before tax	856	2,072	9,203	(10,218)
Tax effect	(244)	(556)	(2,553)	2,689
Net foreign currency adjustment	612	1,516	6,650	(7,529)
Total other comprehensive income (loss)	5,470	(30,780)	28,268	(24,539)
Comprehensive income	$55,511	$13,051	$127,420	$58,344

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 loss	Total shareholders’ equity
Balance at January 1, 2015	$126,467	$46,881	$1,133,955	$(3,549)	$803,400	$ (37,332)	$2,069,822
Net income	—	—	—	—	82,883	—	82,883
Other comprehensive income, net of tax	—	—	—	—	—	(24,539)	(24,539)
Cash dividends declared on common stock	—	—	—	—	(10,432)	—	(10,432)
Dividends on preferred stock	—	—	—	—	(3,161)	—	(3,161)
Stock-based compensation	—	—	5,286	—	—	—	5,286
Issuance of Series D preferred stock	125,000	—	(3,849)	—	—	—	121,151
Conversion of Series C preferred stock to common stock	(155)	4	151	—	—	—	—
Common stock issued for:							
Acquisitions	—	422	18,749	—	—	—	19,171
Exercise of stock options and warrants	—	312	2,266	(130)	—	—	2,448
Restricted stock awards	—	93	352	(285)	—	—	160
Employee stock purchase plan	—	31	1,360	—	—	—	1,391
Director compensation plan	—	20	782	—	—	—	802
Balance at June 30, 2015	$251,312	$47,763	$1,159,052	$(3,964)	$872,690	$ (61,871)	$2,264,982
Balance at January 1, 2016	$251,287	$48,469	$1,190,988	$(3,973)	$928,211	$ (62,708)	$2,352,274
Net income	—	—	—	—	99,152	—	99,152
Other comprehensive income, net of tax	—	—	—	—	—	28,268	28,268
Cash dividends declared on common stock	—	—	—	—	(11,643)	—	(11,643)
Dividends on preferred stock	—	—	—	—	(7,256)	—	(7,256)
Stock-based compensation	—	—	4,752	—	—	—	4,752
Conversion of Series C preferred stock to common stock	(30)	1	29	—	—	—	—
Common stock issued for:							
New issuance, net of costs	—	3,000	149,823	—	—	—	152,823
Exercise of stock options and warrants	—	97	2,991	—	—	—	3,088
Restricted stock awards	—	87	114	(172)	—	—	29
Employee stock purchase plan	—	29	1,270	—	—	—	1,299
Director compensation plan	—	25	784	—	—	—	809
Balance at June 30, 2016	$251,257	$51,708	$1,350,751	$(4,145)	$1,008,464	$ (34,440)	$2,623,595

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Six Months Ended June 30, 2016	June 30, 2015
Operating Activities:		
Net income	$99,152	$82,883
Adjustments to reconcile net income to net cash used for operating activities		
Provision for credit losses	17,163	15,561
Depreciation, amortization and accretion, net	27,296	17,908
Stock-based compensation expense	4,752	5,286
Excess tax benefits from stock-based compensation arrangements	(267)	(476)
Net amortization of premium on securities	1,840	205
Accretion of discount on loans	(15,849)	(15,887)
Mortgage servicing rights fair value change, net	(4,291)	258
Originations and purchases of mortgage loans held-for-sale	(1,948,890)	(2,121,237)
Proceeds from sales of mortgage loans held-for-sale	1,825,686	2,034,173
Bank owned life insurance, net of claims	(1,729)	(1,470)
Increase in trading securities, net	(3,165)	(391)
Net decrease (increase) in brokerage customer receivables	765	(5,532)
Gains on mortgage loans sold	(43,014)	(58,929)
Gains on investment securities, net	(2,765)	(500)
Gains on early extinguishment of debt	(4,305)	—
Losses on sales of premises and equipment, net	3	403
Net losses on sales and fair value adjustments of other real estate owned	322	430
Increase in accrued interest receivable and other assets, net	(116,118)	(42,642)
Increase in accrued interest payable and other liabilities, net	70,756	17,757
Net Cash Used for Operating Activities	(92,658)	(72,200)
Investing Activities:		
Proceeds from maturities of available-for-sale securities	529,463	335,286
Proceeds from maturities of held-to-maturity securities	319	—
Proceeds from sales and calls of available-for-sale securities	1,071,996	1,134,033
Proceeds from calls of held-to-maturity securities	281,981	—
Purchases of available-for-sale securities	(1,526,467)	(1,353,356)
Purchases of held-to-maturity securities	(350,078)	—
(Purchase) redemption of Federal Home Loan Bank and Federal Reserve Bank stock, net	(19,738)	1,764
Net cash (paid) received for acquisitions	(18,133)	12,004
Proceeds from sales of other real estate owned	19,455	24,444
Proceeds received from the FDIC related to reimbursements on covered assets	420	150
Net (increase) decrease in interest bearing deposits with banks	(81,250)	406,784
Net increase in loans	(942,958)	(949,907)
Redemption of bank owned life insurance	659	2,701
Purchases of premises and equipment, net	(24,235)	(25,478)
Net Cash Used for Investing Activities	(1,058,566)	(411,575)
Financing Activities:		
Increase in deposit accounts	1,302,188	630,785
(Decrease) increase in other borrowings, net	(13,249)	54,645
Decrease in Federal Home Loan Bank advances, net	(271,025)	(293,584)

Proceeds from the issuance of common stock, net	152,823	—
Proceeds from the issuance of preferred stock, net	—	121,151
Redemption of junior subordinated debentures, net	(10,695)	—
Excess tax benefits from stock-based compensation arrangements	267	476
Issuance of common shares resulting from the exercise of stock options and the employee stock purchase plan	5,766	5,812
Common stock repurchases	(172)	(415)
Dividends paid	(18,899)	(13,593)
Net Cash Provided by Financing Activities	1,147,004	505,277
Net (Decrease) Increase in Cash and Cash Equivalents	(4,220)	21,502
Cash and Cash Equivalents at Beginning of Period	275,795	230,707
Cash and Cash Equivalents at End of Period	$271,575	$252,209

See accompanying notes to unaudited consolidated financial statements.

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 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 the Company's significant accounting policies are included in Note 1 - “Summary of Significant Accounting Policies” of the 2015 Form 10-K.

(2) Recent Accounting Developments

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, which created "Revenue from Contracts with Customers (Topic 606)," to clarify the principles for recognizing revenue and develop a common revenue standard for customer contracts. This ASU provides guidance regarding how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also added a new subtopic to the codification, ASC 340-40, "Other Assets and Deferred Costs: Contracts with Customers" to provide guidance on costs related to obtaining and fulfilling a customer contract. Furthermore, the new standard requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. At the time ASU No. 2014-09 was issued, the guidance was effective for fiscal years beginning after December 15, 2016. In July 2015, the FASB approved a deferral of the effective date by one year, which would result in the guidance becoming effective for fiscal years beginning after December 15, 2017.

The FASB has continued to issue various Updates to clarify and improve specific areas of ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," to clarify the implementation guidance within ASU No. 2014-09 surrounding principal versus agent considerations and its impact on revenue recognition. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," to also clarify the implementation guidance within ASU No. 2014-09 related to these two topics. In May 2016, the FASB issued ASU No. 2016-11, "Revenue Recognition (Topic 605) and Derivative and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting," to remove certain areas of SEC Staff Guidance from those specific Topics. Additionally, in May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," to clarify specific aspects of implementation, including the collectibility criterion, exclusion of sale taxes collected from a transaction price, noncash consideration, contract modifications and completed contracts at transition. Like ASU No. 2014-09, this guidance is effective for fiscal years beginning after December 15, 2017.

The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Extraordinary and Unusual Items

In January 2015, the FASB issued ASU No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items,” to eliminate the concept of extraordinary items related to separately classifying, presenting and disclosing certain events and transactions that meet the criteria for that concept. This guidance was effective for fiscal years beginning after December 15, 2015 and did not have a material impact on the Company’s consolidated financial statements.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance was effective for fiscal years beginning after December 15, 2015 and did not have a material impact on the Company's consolidated financial statements.

Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," to clarify the presentation of debt issuance costs within the balance sheet. This ASU requires that an entity present debt issuance costs related to a recognized debt liability on the balance sheet as a direct deduction from the carrying amount of that debt liability, not as a separate asset. The ASU does not affect the current guidance for the recognition and measurement for these debt issuance costs. Additionally, in August 2015, the FASB issued ASU No. 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting," to further clarify the presentation of debt issuance costs related to line-of-credit agreements. This ASU states the SEC would not object to an entity deferring and presenting debt issuance costs related to line-of-credit agreements as an asset on the balance sheet and subsequently amortizing these costs ratably over the term of the agreement, regardless of any outstanding borrowing under the line-of-credit agreement. This guidance was effective for fiscal years beginning after December 15, 2015 and was applied retrospectively within the Company’s consolidated financial statements. For December 31, 2015 and June 30, 2015, the Company reclassified as a direct reduction to the related debt balance $7.8 million and $9.7 million, respectively, of debt issuance costs that were previously presented as accrued interest receivable and other assets on the Consolidated Statements of Condition.

Business Combinations

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments," to simplify the accounting for subsequent adjustments made to provisional amounts recognized at the acquisition date of a business combination. This ASU eliminates the requirement to retrospectively account for these adjustment for all prior periods impacted. The acquirer is required to recognize these adjustments identified during the measurement period in the reporting period in which the adjustment amount is determined. Additionally, the ASU requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment had been recognized at the acquisition date. This guidance was effective for fiscal years beginning after December 15, 2015 and did not have a material impact on the Company’s consolidated financial statements.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," to improve the accounting for financial instruments. This ASU requires equity investments with readily determinable fair values to be measured at fair value with changes recognized in net income regardless of classification. For equity investments without a readily determinable fair value, the value of the investment would be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer instead of fair value, unless a qualitative assessment indicates impairment. Additionally, this ASU requires the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. This guidance is effective for fiscal years beginning after December 15, 2017 and is to be applied prospectively with a cumulative-effect adjustment

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to the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," to improve transparency and comparability across entities regarding leasing arrangements. This ASU requires the recognition of a separate lease liability representing the required lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Additionally, this ASU provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures to the notes of the financial statements. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach, including the option to apply certain practical expedients. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Derivatives

In March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships," to clarify guidance surrounding the effect on an existing hedging relationship of a change in the counterparty to a derivative instrument that has been designated as a hedging instrument. This ASU states that a change in counterparty to such derivative instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and is to be applied either under a prospective or a modified retrospective approach. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Equity Method Investments

In March 2016, the FASB issued ASU No. 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting," to simplify the accounting for investments qualifying for the use of the equity method of accounting. This ASU eliminates the requirement to retroactively adopt the equity method of accounting when an investment qualifies for such method as a result of an increase in the level of ownership interest or degree of influence. The ASU requires the equity method investor add the cost of acquiring the additional interest to the current basis and adopt the equity method of accounting as of that date going forward. Additionally, for available-for-sale equity securities that become qualified for equity method accounting, the ASU requires the related unrealized holding gains or losses included in accumulated other comprehensive income be recognized in earnings at the date the investment qualifies for such accounting. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and is to be applied under a prospective approach. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Employee Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," to simplify the accounting for several areas of share-based payment transactions. This includes the recognition of all excess tax benefits and tax deficiencies as income tax expense instead of surplus, the classification on the statement of cash flows of excess tax benefits and taxes paid when the employer withholds shares for tax-withholding purposes. Additionally, related to forfeitures, the ASU provides the option to estimate the number of awards that are expected to vest or account for forfeitures as they occur. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and is to be applied under a modified retrospective and retrospective approach based upon the specific amendment of the ASU. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Allowance for Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," to replace the current incurred loss methodology for recognizing credit losses, which delays recognition until it is probable a loss has been incurred, with a methodology that reflects an estimate of all expected credit losses and considers additional reasonable and supportable forecasted information when determining credit loss estimates. This impacts the calculation of the allowance for credit losses for all financial assets measured under the amortized cost basis, including purchased credit impaired ("PCI") loans at the time of and subsequent to acquisition. Additionally, credit losses related to available-for-sale debt securities would be recorded through the allowance for credit losses and not as a direct adjustment to the amortized cost of the securities. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements as well as the impact on current systems and processes.

(3) Business Combinations

Non-FDIC Assisted Bank Acquisitions

On March 31, 2016, the Company acquired Generations Bancorp, Inc ("Generations"). Generations was the parent company of Foundations Bank, which had one banking location in Pewaukee, Wisconsin. Foundations Bank was merged into the Company's wholly-owned subsidiary Town Bank. The Company acquired assets with a fair value of approximately $131.0 million, including approximately $67.5 million of loans, and assumed deposits with a fair value of approximately $100.2 million. Additionally, the Company recorded goodwill of $11.4 million on the acquisition.

On July 24, 2015, the Company acquired Community Financial Shares, Inc ("CFIS"). CFIS was the parent company of Community Bank - Wheaton/Glen Ellyn ("CBWGE"), which had four banking locations. CBWGE was merged into the Company's wholly-owned subsidiary Wheaton Bank & Trust Company ("Wheaton Bank"). The Company acquired assets with a fair value of approximately $350.5 million, including approximately $159.5 million of loans, and assumed deposits with a fair value of approximately $290.0 million. Additionally, the Company recorded goodwill of $27.6 million on the acquisition.

On July 17, 2015, the Company acquired Suburban Illinois Bancorp, Inc. ("Suburban"). Suburban was the parent company of Suburban Bank & Trust Company ("SBT"), which operated ten banking locations. SBT was merged into the Company's wholly-owned subsidiary Hinsdale Bank & Trust Company ("Hinsdale Bank"). The Company acquired assets with a fair value of approximately $494.7 million, including approximately $257.8 million of loans, and assumed deposits with a fair value of approximately $416.7 million. Additionally, the Company recorded goodwill of $18.6 million on the acquisition.

On July 1, 2015, the Company, through its wholly-owned subsidiary Wintrust Bank, acquired North Bank, which had two banking locations. The Company acquired assets with a fair value of $117.9 million, including approximately $51.6 million of loans, and assumed deposits with a fair value of approximately $101.0 million. Additionally, the Company recorded goodwill of $6.7 million on the acquisition.

On January 16, 2015, the Company acquired Delavan Bancshares, Inc. ("Delavan"). Delavan was the parent company of Community Bank CBD, which had four banking locations. Community Bank CBD was merged into the Company's wholly-owned subsidiary Town Bank. The Company acquired assets with a fair value of approximately $224.1 million, including approximately $128.0 million of loans, and assumed liabilities with a fair value of approximately $186.4 million, including approximately $170.2 million of deposits. Additionally the Company recorded goodwill of $16.8 million on the acquisition.

FDIC-Assisted Transactions

Since 2010, the Company acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of nine financial institutions in FDIC-assisted transactions. Loans comprise the majority of the assets acquired in nearly all of these FDIC-assisted transactions, 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, clawback provisions within these loss share agreements with the FDIC require the Company to reimburse the FDIC in the event that actual losses on covered assets are lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to these loss sharing agreements as "covered loans" and uses the term "covered assets" to refer to covered loans, covered OREO and certain other covered assets. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.

The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as an FDIC indemnification asset or liability 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.

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The loss share agreements with the FDIC cover realized losses on loans, foreclosed real estate and certain other assets and require the Company to record loss share assets and liabilities that 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 and liabilities are recorded as FDIC indemnification assets and other liabilities, respectively, 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 and, if necessary, increase any loss share liability when necessary reductions exceed the current value of the FDIC indemnification assets. In accordance with the clawback provision noted above, the Company may be required to reimburse the FDIC when actual losses are less than certain thresholds established for each lose share agreement. The balance of these estimated reimbursements in accordance with clawback provisions and any related amortization are adjusted periodically for changes in the expected losses on covered assets. On the Consolidated Statements of Condition, estimated reimbursements from clawback provisions are recorded as a reduction to the FDIC indemnification asset or, if necessary, an increase to the loss share liability, which is included within accrued interest payable and other liabilities. Although these assets are contractual receivables from the FDIC and these liabilities are contractual payables to the FDIC, there are no contractual interest rates. Additional expected losses, to the extent such expected losses result in recognition of an allowance for covered loan losses, will increase the FDIC indemnification asset or reduce the FDIC indemnification liability. The corresponding amortization is recorded as a component of non-interest income on the Consolidated Statements of Income.

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

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Balance at beginning of period	$(10,029)	$10,224	$(6,100)	$11,846
Additions from acquisitions	—	—	—	—
Additions from reimbursable expenses	649	934	731	2,509
Amortization	(92)	(1,206)	(193)	(2,466)
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(2,200)	(4,317)	(5,747)	(8,310)
(Payments received from) provided to the FDIC	(57)	(2,206)	(420)	(150)
Balance at end of period	$(11,729)	$3,429	$(11,729)	$3,429

PCI Loans

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 PCI 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 additional information on PCI loans.

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(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.

(5) Investment Securities

The following tables are a summary of the available-for-sale and held-to-maturity securities portfolios as of the dates shown:

(Dollars in thousands)	June 30, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$122,296	$ 35	$ (1)	$122,330
U.S. Government agencies	69,678	238	—	69,916
Municipal	108,179	3,588	(127)	111,640
Corporate notes:				
Financial issuers	68,097	1,502	(1,411)	68,188
Other	1,500	2	—	1,502
Mortgage-backed: (1)				
Mortgage-backed securities	162,593	4,280	(150)	166,723
Collateralized mortgage obligations	40,419	457	(91)	40,785
Equity securities	51,426	5,544	(391)	56,579
Total available-for-sale securities	$624,188	$ 15,646	$ (2,171)	$637,663
Held-to-maturity securities				
U.S. Government agencies	$789,482	$ 11,861	$ (647)	$800,696
Municipal	202,729	6,967	(213)	209,483
Total held-to-maturity securities	$992,211	$ 18,828	$ (860)	$1,010,179

(Dollars in thousands)	December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$312,282	$ —	$ (5,553)	$306,729
U.S. Government agencies	70,313	198	(275)	70,236
Municipal	105,702	3,249	(356)	108,595
Corporate notes:				
Financial issuers	80,014	1,510	(1,481)	80,043
Other	1,500	4	(2)	1,502
Mortgage-backed: (1)				
Mortgage-backed securities	1,069,680	3,834	(21,004)	1,052,510
Collateralized mortgage obligations	40,421	172	(506)	40,087
Equity securities	51,380	5,799	(493)	56,686
Total available-for-sale securities	$1,731,292	$ 14,766	$ (29,670)	$1,716,388
Held-to-maturity securities				
U.S. Government agencies	$687,302	$ 4	$ (7,144)	$680,162

Municipal	197,524	867	(442)	197,949
Total held-to-maturity securities	$884,826	$ 871	$(7,586)	$878,111

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(Dollars in thousands)	June 30, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$288,196	$ 138	$(7,173)	$281,161
U.S. Government agencies	651,737	2,074	(25,151)	628,660
Municipal	269,562	4,222	(3,994)	269,790
Corporate notes:				
Financial issuers	124,924	1,773	(1,289)	125,408
Other	2,726	9	(2)	2,733
Mortgage-backed: (1)				
Mortgage-backed securities	777,087	4,053	(23,499)	757,641
Collateralized mortgage obligations	42,550	342	(432)	42,460
Equity securities	48,740	5,876	(408)	54,208
Total available-for-sale securities	$2,205,522	$ 18,487	$(61,948)	$2,162,061
Held-to-maturity securities				
U.S. Government agencies	$—	$ —	$—	$—
Municipal	—	—	—	—
Total held-to-maturity securities	$—	$ —	$—	$—

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

In the fourth quarter of 2015, the Company transferred $862.7 million of investment securities with an unrealized loss of $14.4 million from the available-for-sale classification to the held-to-maturity classification. No investment securities were transferred from the available-for-sale classification to the held-to-maturity classification in the first six months of 2016.

The following table presents the portion of the Company's available-for-sale and held-to-maturity securities portfolios which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities						
U.S. Treasury	$2,250	$ (1)	$—	$ —	$2,250	$ (1)
U.S. Government agencies	—	—	—	—	—	—
Municipal	10,789	(16)	7,701	(111)	18,490	(127)
Corporate notes:						
Financial issuers	19,822	(178)	24,727	(1,233)	44,549	(1,411)
Other	—	—	—	—	—	—
Mortgage-backed:						
Mortgage-backed securities	—	—	4,089	(150)	4,089	(150)
Collateralized mortgage obligations	2,528	(15)	6,433	(76)	8,961	(91)
Equity securities	1,897	(121)	8,791	(270)	10,688	(391)
Total available-for-sale securities	$37,286	$ (331)	$51,741	$ (1,840)	$89,027	$ (2,171)

Held-to-maturity securities						
U.S. Government agencies	$134,808	$ (647)	$—	$ —	$134,808	$ (647)
Municipal	12,172	(172)	3,313	(41)	15,485	(213)
Total held-to-maturity securities	$146,980	$ (819)	$3,313	$ (41)	$150,293	$ (860)

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, 2016 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

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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 notes and mortgage-backed securities. Unrealized losses recognized on corporate notes and mortgage-backed securities are the result of increases in yields for similar types of securities.

The following table provides information as to the amount of gross gains and gross losses realized and proceeds received through the sale or call of investment securities:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Realized gains	$1,487	$14	$4,037	$567
Realized losses	(47)	(38)	(1,272)	(67)
Net realized gains (losses)	$1,440	$(24)	$2,765	$500
Other than temporary impairment charges	—	—	—	—
Gains (losses) on investment securities, net	$1,440	$(24)	$2,765	$500
Proceeds from sales and calls of available-for-sale securities	$1,068,795	$498,501	$1,071,996	$1,134,033
Proceeds from calls of held-to-maturity securities	183,738	—	281,981	—

The amortized cost and fair value of securities as of June 30, 2016, December 31, 2015 and June 30, 2015, 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, 2016		December 31, 2015		June 30, 2015	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities						
Due in one year or less	$214,917	$215,290	$160,856	$160,756	$141,792	$141,897
Due in one to five years	113,263	113,395	166,550	166,468	261,285	261,146
Due in five to ten years	28,111	30,870	228,652	225,699	291,451	285,192
Due after ten years	13,459	14,021	13,753	14,182	642,617	619,517
Mortgage-backed	203,012	207,508	1,110,101	1,092,597	819,637	800,101
Equity securities	51,426	56,579	51,380	56,686	48,740	54,208
Total available-for-sale securities	$624,188	$637,663	$1,731,292	$1,716,388	$2,205,522	$2,162,061
Held-to-maturity securities						
Due in one year or less	$—	$—	$—	$—	$—	$—
Due in one to five years	27,505	27,738	19,208	19,156	—	—
Due in five to ten years	68,691	70,121	96,454	96,091	—	—
Due after ten years	896,015	912,320	769,164	762,864	—	—
Total held-to-maturity securities	$992,211	$1,010,179	$884,826	$878,111	$—	$—

Securities having a fair value of $1.4 billion at June 30, 2016 as well as securities having a carrying value of $1.2 billion and $1.1 billion at December 31, 2015 and June 30, 2015, respectively, were pledged as collateral for public deposits, trust deposits, Federal Home Loan Bank ("FHLB") advances, securities sold under repurchase agreements and derivatives. At June 30, 2016, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders’ equity.

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(6) Loans

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

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Balance:			
Commercial	$5,144,533	$4,713,909	$4,330,344
Commercial real estate	5,848,334	5,529,289	4,850,590
Home equity	760,904	784,675	712,350
Residential real estate	653,664	607,451	503,015
Premium finance receivables—commercial	2,478,280	2,374,921	2,460,408
Premium finance receivables—life insurance	3,161,562	2,961,496	2,537,475
Consumer and other	127,378	146,376	119,468
Total loans, net of unearned income, excluding covered loans	$18,174,655	$17,118,117	$15,513,650
Covered loans	105,248	148,673	193,410
Total loans	$18,279,903	$17,266,790	$15,707,060
Mix:			
Commercial	28 %	27 %	27 %
Commercial real estate	31	32	31
Home equity	4	5	5
Residential real estate	4	3	3
Premium finance receivables—commercial	14	14	16
Premium finance receivables—life insurance	17	17	16
Consumer and other	1	1	1
Total loans, net of unearned income, excluding covered loans	99 %	99 %	99 %
Covered loans	1	1	1
Total loans	100 %	100 %	100 %

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

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $64.1 million at June 30, 2016, $56.7 million at December 31, 2015 and $53.7 million at June 30, 2015, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as PCI loans are recorded net of credit discounts. See "Acquired Loan Information at Acquisition" below.

Total loans, excluding PCI loans, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $(5.0) million at June 30, 2016, $(9.2) million at December 31, 2015 and $1.7 million at June 30, 2015. The net credit balance at June 30, 2016 and December 31, 2015, is primarily the result of purchase accounting adjustments related to acquisitions in 2016 and 2015.

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.

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Acquired Loan Information at Acquisition—PCI Loans

As part of the Company's previous acquisitions, the Company acquired loans for which there was evidence of credit quality deterioration since origination (PCI loans) 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, 2016		December 31, 2015	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	$306,706	$256,083	$326,470	$271,260
Life insurance premium finance loans acquisition	295,337	291,602	372,738	368,292

The following table provides estimated details as of the date of acquisition on loans acquired in 2016 with evidence of credit quality deterioration since origination:

(Dollars in thousands)	Foundations
Contractually required payments including interest	$ 20,100
Less: Nonaccretable difference	3,728
Cash flows expected to be collected (1)	$ 16,372
Less: Accretable yield	1,266
Fair value of PCI loans acquired	$ 15,106

(1) Represents undiscounted expected principal and interest cash 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 PCI loans at June 30, 2016.

Accretable Yield Activity - PCI Loans

Changes in expected cash flows may vary from period to period as the Company periodically updates its cash flow model assumptions for PCI loans. 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 PCI loans:

	Three Months Ended	
(Dollars in thousands)	June 30, 2016	June 30, 2015
Accretable yield, beginning balance	$ 59,218	$ 70,198
Acquisitions	125	—
Accretable yield amortized to interest income	(5,199)	(6,315)
Accretable yield amortized to indemnification asset/liability (1)	(1,624)	(4,089)
Reclassification from non-accretable	2,536	1,753

difference [2]				
Increases in interest cash flows due to payments and changes in interest rates	574		2,096	
Accretable yield, ending balance [3]	$	55,630	$	63,643

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(Dollars in thousands)	Six Months Ended June 30, 2016	June 30, 2015
Accretable yield, beginning balance	$63,902	$79,102
Acquisitions	1,266	898
Accretable yield amortized to interest income	(10,656)	(12,420)
Accretable yield amortized to indemnification asset/liability [1]	(3,795)	(7,665)
Reclassification from non-accretable difference [2]	6,729	2,856
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(1,816)	872
Accretable yield, ending balance [3]	$55,630	$63,643

(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, 2016, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $3.3 million. The remainder of the accretable yield related to bank acquisitions is expected to be amortized to interest income.

Accretion to interest income accounted for under ASC 310-30 totaled $5.2 million and $6.3 million in the second quarter of 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, the Company recorded accretion to interest income of $10.7 million and $12.4 million, respectively. These amounts include accretion from both covered and non-covered loans, and are both included within interest and fees on loans in the Consolidated Statements of Income.

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(7) Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans

The tables below show the aging of the Company’s loan portfolio at June 30, 2016, December 31, 2015 and June 30, 2015:

As of June 30, 2016 (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, industrial and other	$ 16,414	$ —	$ 1,412	$ 22,317	$ 3,416,432	$ 3,456,575
Franchise	—	—	560	87	289,258	289,905
Mortgage warehouse lines of credit	—	—	—	—	270,586	270,586
Asset-based lending	—	235	1,899	6,421	834,112	842,667
Leases	387	—	48	—	267,639	268,074
PCI - commercial [1]	—	1,956	630	1,426	12,714	16,726
Total commercial	16,801	2,191	4,549	30,251	5,090,741	5,144,533
Commercial real estate:						
Construction	673	—	46	7,922	396,264	404,905
Land	1,725	—	—	340	103,816	105,881
Office	6,274	—	5,452	4,936	892,791	909,453
Industrial	10,295	—	1,108	719	754,647	766,769
Retail	916	—	535	6,450	889,945	897,846
Multi-family	90	—	2,077	1,275	775,075	778,517
Mixed use and other	4,442	—	4,285	8,007	1,795,931	1,812,665
PCI - commercial real estate [1]	—	27,228	1,663	2,608	140,799	172,298
Total commercial real estate	24,415	27,228	15,166	32,257	5,749,268	5,848,334
Home equity	8,562	—	380	4,709	747,253	760,904
Residential real estate, including PCI	12,413	1,479	1,367	299	638,106	653,664
Premium finance receivables						
Commercial insurance loans	14,497	10,558	6,966	9,456	2,436,803	2,478,280
Life insurance loans	—	—	46,651	11,953	2,811,356	2,869,960
PCI - life insurance loans [1]	—	—	—	—	291,602	291,602
Consumer and other, including PCI	475	226	610	1,451	124,616	127,378
Total loans, net of unearned income, excluding covered loans	$ 77,163	$ 41,682	$ 75,689	$ 90,376	$ 17,889,745	$ 18,174,655
Covered loans	2,651	6,810	697	1,610	93,480	105,248
Total loans, net of unearned income	$ 79,814	$ 48,492	$ 76,386	$ 91,986	$ 17,983,225	$ 18,279,903

As of December 31, 2015 (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, industrial and other	$ 12,704	$ 6	$ 6,749	$ 12,930	$ 3,226,139	$ 3,258,528
Franchise	—	—	—	—	245,228	245,228
Mortgage warehouse lines of credit	—	—	—	—	222,806	222,806
Asset-based lending	8	—	3,864	1,844	736,968	742,684
Leases	—	535	748	4,192	220,599	226,074
PCI - commercial [1]	—	892	—	2,510	15,187	18,589
Total commercial	12,712	1,433	11,361	21,476	4,666,927	4,713,909

Commercial real estate						
Construction	306	—	1,371	1,645	355,338	358,660
Land	1,751	—	—	120	76,546	78,417
Office	4,619	—	764	3,817	853,801	863,001
Industrial	9,564	—	1,868	1,009	715,207	727,648
Retail	1,760	—	442	2,310	863,887	868,399
Multi-family	1,954	—	597	6,568	733,230	742,349
Mixed use and other	6,691	—	6,723	7,215	1,712,187	1,732,816
PCI - commercial real estate (1)	—	22,111	4,662	16,559	114,667	157,999
Total commercial real estate	26,645	22,111	16,427	39,243	5,424,863	5,529,289
Home equity	6,848	—	1,889	5,517	770,421	784,675
Residential real estate, including PCI	12,043	488	2,166	3,903	588,851	607,451
Premium finance receivables						
Commercial insurance loans	14,561	10,294	6,624	21,656	2,321,786	2,374,921
Life insurance loans	—	—	3,432	11,140	2,578,632	2,593,204
PCI - life insurance loans (1)	—	—	—	—	368,292	368,292
Consumer and other, including PCI	263	211	204	1,187	144,511	146,376
Total loans, net of unearned income, excluding covered loans	$ 73,072	$ 34,537	$ 42,103	$ 104,122	$ 16,864,283	$ 17,118,117
Covered loans	5,878	7,335	703	5,774	128,983	148,673
Total loans, net of unearned income	$ 78,950	$ 41,872	$ 42,806	$ 109,896	$ 16,993,266	$ 17,266,790

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

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As of June 30, 2015 (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, industrial and other	$ 4,424	$—	$1,846	$6,027	$2,845,833	$2,858,130
Franchise	905	—	113	396	227,185	228,599
Mortgage warehouse lines of credit	—	—	—	—	213,797	213,797
Asset-based lending	—	—	1,767	7,423	823,265	832,455
Leases	65	—	—	—	187,565	187,630
PCI - commercial [(1)]	—	474	—	233	9,026	9,733
Total commercial	5,394	474	3,726	14,079	4,306,671	4,330,344
Commercial real estate:						
Construction	19	—	—	4	307,122	307,145
Land	2,035	—	1,123	2,399	82,280	87,837
Office	6,360	701	163	2,601	744,992	754,817
Industrial	2,568	—	18	484	624,337	627,407
Retail	2,352	—	896	2,458	744,285	749,991
Multi-family	1,730	—	933	223	665,562	668,448
Mixed use and other	8,119	—	2,405	3,752	1,577,846	1,592,122
PCI - commercial real estate [(1)]	—	15,646	3,490	2,798	40,889	62,823
Total commercial real estate	23,183	16,347	9,028	14,719	4,787,313	4,850,590
Home equity	5,695	—	511	3,365	702,779	712,350
Residential real estate, including PCI	16,631	264	2,494	1,205	482,421	503,015
Premium finance receivables						
Commercial insurance loans	15,156	9,053	5,048	11,071	2,420,080	2,460,408
Life insurance loans	—	351	—	6,823	2,145,981	2,153,155
PCI - life insurance loans [(1)]	—	—	—	—	384,320	384,320
Consumer and other, including PCI	280	110	196	919	117,963	119,468
Total loans, net of unearned income, excluding covered loans	$ 66,339	$26,599	$21,003	$52,181	$15,347,528	$15,513,650
Covered loans	6,353	10,030	1,333	1,720	173,974	193,410
Total loans, net of unearned income	$ 72,692	$36,629	$22,336	$53,901	$15,521,502	$15,707,060

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

The Company's ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, the Company operates 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.

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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.

Non-performing loans include all non-accrual loans (8 and 9 risk ratings) as well as loans 90 days past due and still accruing interest, excluding PCI and covered loans. The remainder of the portfolio is considered performing under the contractual terms of the loan agreement. The following table presents the recorded investment based on performance of loans by class, excluding covered loans, per the most recent analysis at June 30, 2016, December 31, 2015 and June 30, 2015:

	Performing			Non-performing			Total		
(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30 2015
Loan Balances:									
Commercial									
Commercial, industrial and other	$3,440,161	$3,245,818	$2,853,706	$16,414	$12,710	$4,424	$3,456,575	$3,258,528	$2,858
Franchise	289,905	245,228	227,694	—	—	905	289,905	245,228	228,59
Mortgage warehouse lines of credit	270,586	222,806	213,797	—	—	—	270,586	222,806	213,79
Asset-based lending	842,432	742,676	832,455	235	8	—	842,667	742,684	832,45
Leases	267,687	225,539	187,565	387	535	65	268,074	226,074	187,63
PCI - commercial [1]	16,726	18,589	9,733	—	—	—	16,726	18,589	9,733
Total commercial	5,127,497	4,700,656	4,324,950	17,036	13,253	5,394	5,144,533	4,713,909	4,330,3
Commercial real estate									
Construction	404,232	358,354	307,126	673	306	19	404,905	358,660	307,14
Land	104,156	76,666	85,802	1,725	1,751	2,035	105,881	78,417	87,837
Office	903,179	858,382	747,756	6,274	4,619	7,061	909,453	863,001	754,81
Industrial	756,474	718,084	624,839	10,295	9,564	2,568	766,769	727,648	627,40
Retail	896,930	866,639	747,639	916	1,760	2,352	897,846	868,399	749,99
Multi-family	778,427	740,395	666,718	90	1,954	1,730	778,517	742,349	668,44
Mixed use and other	1,808,223	1,726,125	1,584,003	4,442	6,691	8,119	1,812,665	1,732,816	1,592,1
PCI - commercial real estate[1]	172,298	157,999	62,823	—	—	—	172,298	157,999	62,823
Total commercial real estate	5,823,919	5,502,644	4,826,706	24,415	26,645	23,884	5,848,334	5,529,289	4,850,5
Home equity	752,342	777,827	706,655	8,562	6,848	5,695	760,904	784,675	712,35
Residential real estate, including PCI	641,251	595,408	486,384	12,413	12,043	16,631	653,664	607,451	503,01
Premium finance receivables									
Commercial insurance loans	2,453,225	2,350,066	2,436,199	25,055	24,855	24,209	2,478,280	2,374,921	2,460,4
Life insurance loans	2,869,960	2,593,204	2,152,804	—	—	351	2,869,960	2,593,204	2,153,1
PCI - life insurance loans [1]	291,602	368,292	384,320	—	—	—	291,602	368,292	384,32
	126,740	145,963	119,078	638	413	390	127,378	146,376	119,46

Consumer and other, including PCI									
Total loans, net of unearned income, excluding covered loans	$18,086,536	$17,034,060	$15,437,096	$88,119	$84,057	$76,554	$18,174,655	$17,118,117	$15,51

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

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A summary of activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the three and six months ended June 30, 2016 and 2015 is as follows:

Three months ended June 30, 2016 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 38,435	$ 45,263	$ 12,915	$ 5,164	$ 7,205	$ 1,189	$ 110,171
Other adjustments	(59)	(70)	—	(9)	4	—	(134)
Reclassification from allowance for unfunded lending-related commitments	—	(40)	—	—	—	—	(40)
Charge-offs	(721)	(502)	(2,046)	(693)	(1,911)	(224)	(6,097)
Recoveries	121	296	71	31	633	35	1,187
Provision for credit losses	3,878	1,877	443	912	1,883	276	9,269
Allowance for loan losses at period end	$ 41,654	$ 46,824	$ 11,383	$ 5,405	$ 7,814	$ 1,276	$ 114,356
Allowance for unfunded lending-related commitments at period end	$ —	$ 1,070	$—	$ —	$ —	$ —	$ 1,070
Allowance for credit losses at period end	$ 41,654	$ 47,894	$ 11,383	$ 5,405	$ 7,814	$ 1,276	$ 115,426
Individually evaluated for impairment	$ 3,417	$ 2,121	$ 477	$ 625	$ —	$ 5	$ 6,645
Collectively evaluated for impairment	37,571	45,736	10,906	4,720	7,814	1,271	108,018
Loans acquired with deteriorated credit quality	666	37	—	60	—	—	763
Loans at period end							
Individually evaluated for impairment	$ 21,173	$ 49,284	$ 8,562	$ 17,281	$ —	$ 536	$ 96,836
Collectively evaluated for impairment	5,106,634	5,626,752	752,342	632,125	5,348,240	126,842	17,592,935
Loans acquired with deteriorated credit quality	16,726	172,298	—	4,258	291,602	—	484,884

Three months ended June 30, 2015 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 33,726	$ 37,002	$ 12,664	$ 4,096	$ 5,992	$ 966	$ 94,446
Other adjustments	(13)	(81)	—	(5)	6	—	(93)
Reclassification from allowance for unfunded lending-related commitments	—	4	—	—	—	—	4
Charge-offs	(1,243)	(856)	(1,847)	(923)	(1,526)	(115)	(6,510)
Recoveries	285	1,824	39	16	458	34	2,656
Provision for credit losses	145	4,305	1,432	1,835	1,991	(7)	9,701
Allowance for loan losses at period end	$ 32,900	$ 42,198	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 100,204
	$ —	$ 884	$—	$—	$ —	$ —	$ 884

Allowance for unfunded lending-related commitments at period end							
Allowance for credit losses at period end	$ 32,900	$ 43,082	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 101,088
Individually evaluated for impairment	$ 2,282	$ 5,602	$ 808	$ 1,387	$ —	$ 44	$ 10,123
Collectively evaluated for impairment	30,600	37,145	11,480	3,589	6,921	834	90,569
Loans acquired with deteriorated credit quality	18	335	—	43	—	—	396
Loans at period end							
Individually evaluated for impairment	$ 11,921	$ 65,870	$ 5,909	$ 20,459	$ —	$ 418	$ 104,577
Collectively evaluated for impairment	4,308,690	4,721,897	706,441	480,214	4,613,563	119,050	14,949,855
Loans acquired with deteriorated credit quality	9,733	62,823	—	2,342	384,320	—	459,218

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Six months ended June 30, 2016 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 36,135	$ 43,758	$ 12,012	$ 4,734	$ 7,233	$ 1,528	$ 105,400
Other adjustments	(68)	(146)	—	(39)	41	—	(212)
Reclassification from allowance for unfunded lending-related commitments	—	(121)	—	—	—	&#8212	