

WINTRUST FINANCIAL CORP
Form 10-Q
May 09, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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)

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Illinois
(State of incorporation
or organization)

36-3873352
(I.R.S. Employer
Identification No.)

727 North Bank Lane

Lake Forest, Illinois 60045

(Address of principal executive offices)

(847) 615-4096

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock no par value, 36,318,332 shares, as of April 30, 2012

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

	Page
ITEM 1. <u>Financial Statements.</u>	1
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	48
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	92
ITEM 4. <u>Controls and Procedures.</u>	94

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.	NA
ITEM 1A. <u>Risk Factors.</u>	94
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	94
ITEM 3. Defaults Upon Senior Securities.	NA
ITEM 4. Mine Safety Disclosures.	NA
ITEM 5. Other Information.	NA
ITEM 6. <u>Exhibits.</u>	95
<u>Signatures.</u>	96

Table of Contents**PART I****ITEM 1. FINANCIAL STATEMENTS***WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CONDITION*

(In thousands, except share data)	(Unaudited) March 31, 2012	December 31, 2011	(Unaudited) March 31, 2011
Assets			
Cash and due from banks	\$ 146,014	\$ 148,012	\$ 140,919
Federal funds sold and securities purchased under resale agreements	14,588	21,692	33,575
Interest-bearing deposits with other banks (balance restricted for securitization investors of \$529,418 at March 31, 2012, \$272,592 at December 31, 2011, and \$35,630 at March 31, 2011)	900,755	749,287	946,193
Available-for-sale securities, at fair value	1,869,344	1,291,797	1,710,321
Trading account securities	1,140	2,490	2,229
Federal Home Loan Bank and Federal Reserve Bank stock	88,216	100,434	85,144
Brokerage customer receivables	31,085	27,925	25,361
Mortgage loans held-for-sale, at fair value	339,600	306,838	92,151
Mortgage loans held-for-sale, at lower of cost or market	10,728	13,686	2,335
Loans, net of unearned income, excluding covered loans	10,717,384	10,521,377	9,561,802
Covered loans	691,220	651,368	431,299
Total loans	11,408,604	11,172,745	9,993,101
Less: Allowance for loan losses	111,023	110,381	115,049
Less: Allowance for covered loan losses	17,735	12,977	4,844
Net loans (balance restricted for securitization investors of \$156,132 at March 31, 2012, \$411,532 at December 31, 2011, and \$647,793 at March 31, 2011)	11,279,846	11,049,387	9,873,208
Premises and equipment, net	434,700	431,512	369,785
FDIC indemnification asset	263,212	344,251	124,785
Accrued interest receivable and other assets	463,394	444,912	394,292
Trade date securities receivable		634,047	
Goodwill	307,295	305,468	281,940
Other intangible assets	22,101	22,070	12,056
Total assets	\$ 16,172,018	\$ 15,893,808	\$ 14,094,294
Liabilities and Shareholders Equity			
Deposits:			
Non-interest bearing	\$ 1,901,753	\$ 1,785,433	\$ 1,279,256
Interest bearing	10,764,100	10,521,834	9,635,913
Total deposits	12,665,853	12,307,267	10,915,169
Notes payable	52,639	52,822	1,000
Federal Home Loan Bank advances	466,391	474,481	423,500
Other borrowings	411,037	443,753	250,032
Secured borrowings - owed to securitization investors	428,000	600,000	600,000
Subordinated notes	35,000	35,000	50,000
Junior subordinated debentures	249,493	249,493	249,493
Trade date securities payable		47	10,000

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Accrued interest payable and other liabilities	175,684	187,412	141,847
Total liabilities	14,484,097	14,350,275	12,641,041
Shareholders' Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series A - \$1,000 liquidation value; 50,000 shares issued and outstanding at March 31, 2012, December 31, 2011 and March 31, 2011	49,802	49,768	49,672
Series C - \$1,000 liquidation value; 126,500 shares issued and outstanding at March 31, 2012, and no shares issued and outstanding at December 31, 2011 and March 31, 2011	126,500		
Common stock, no par value; \$1.00 stated value; 60,000,000 shares authorized; 36,521,562 shares issued at March 31, 2012, 35,981,950 shares issued at December 31, 2011, and 34,947,251 shares issued at March 31, 2011	36,522	35,982	34,947
Surplus	1,008,326	1,001,316	967,587
Treasury stock, at cost, 232,182 shares at March 31, 2012, 3,601 shares at December 31, 2011, and 1,069 shares at March 31, 2011	(6,559)	(112)	(74)
Retained earnings	478,160	459,457	404,580
Accumulated other comprehensive loss	(4,830)	(2,878)	(3,459)
Total shareholders' equity	1,687,921	1,543,533	1,453,253
Total liabilities and shareholders' equity	\$ 16,172,018	\$ 15,893,808	\$ 14,094,294

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share data)	Three Months Ended March 31,	
	2012	2011
Interest income		
Interest and fees on loans	\$ 143,555	\$ 136,543
Interest bearing deposits with banks	248	936
Federal funds sold and securities purchased under resale agreements	12	32
Securities	11,847	9,540
Trading account securities	9	13
Federal Home Loan Bank and Federal Reserve Bank stock	604	550
Brokerage customer receivables	211	166
Total interest income	156,486	147,780
Interest expense		
Interest on deposits	18,030	23,956
Interest on Federal Home Loan Bank advances	3,584	3,958
Interest on notes payable and other borrowings	3,102	2,630
Interest on secured borrowings - owed to securitization investors	2,549	3,040
Interest on subordinated notes	169	212
Interest on junior subordinated debentures	3,157	4,370
Total interest expense	30,591	38,166
Net interest income	125,895	109,614
Provision for credit losses	17,400	25,344
Net interest income after provision for credit losses	108,495	84,270
Non-interest income		
Wealth management	12,401	10,236
Mortgage banking	18,534	11,631
Service charges on deposit accounts	4,208	3,311
Gains on available-for-sale securities, net	816	106
Gain on bargain purchases	840	9,838
Trading gains (losses)	146	(440)
Other	10,078	6,205
Total non-interest income	47,023	40,887
Non-interest expense		
Salaries and employee benefits	69,030	56,099
Equipment	5,400	4,264
Occupancy, net	8,062	6,505
Data processing	3,618	3,523
Advertising and marketing	2,006	1,614
Professional fees	3,604	3,546
Amortization of other intangible assets	1,049	689
FDIC insurance	3,357	4,518
OREO expenses, net	7,178	5,808

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Other	14,455	11,543
Total non-interest expense	117,759	98,109
Income before taxes	37,759	27,048
Income tax expense	14,549	10,646
Net income	\$ 23,210	\$ 16,402
Preferred stock dividends and discount accretion	\$ 1,246	\$ 1,031
Net income applicable to common shares	\$ 21,964	\$ 15,371
Net income per common share - Basic	\$ 0.61	\$ 0.44
Net income per common share - Diluted	\$ 0.50	\$ 0.36
Cash dividends declared per common share	\$ 0.09	\$ 0.09
Weighted average common shares outstanding	36,207	34,928
Dilutive potential common shares	7,530	7,794
Average common shares and dilutive common shares	43,737	42,722

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)	Three Months Ended	
	2012	March 31, 2011
Net income	\$ 23,210	\$ 16,402
Unrealized gains (losses) on securities		
Before tax	(3,219)	1,370
Tax effect	1,276	(558)
Net of tax	(1,943)	812
Reclassification of net gains included in net income		
Before tax	816	106
Tax effect	(327)	(43)
Net of tax	489	63
Net unrealized gains (losses) on securities	(2,432)	749
Unrealized gains on derivative instruments		
Before tax	796	2,121
Tax effect	(316)	(817)
Net of tax	480	1,304
Total other comprehensive income (loss)	(1,952)	2,053
Comprehensive income	\$ 21,258	\$ 18,455

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders equity
Balance at December 31, 2010	\$ 49,640	\$ 34,864	\$ 965,203	\$	\$ 392,354	\$ (5,512)	\$ 1,436,549
Net income					16,402		16,402
Other comprehensive income, net of tax						2,053	2,053
Cash dividends declared on common stock					(3,145)		(3,145)
Dividends on preferred stock					(999)		(999)
Accretion on preferred stock	32				(32)		
Common stock repurchases				(74)			(74)
Stock-based compensation			1,094				1,094
Common stock issued for:							
Exercise of stock options and warrants		33	546				579
Restricted stock awards		12	(16)				(4)
Employee stock purchase plan		13	423				436
Director compensation plan		25	337				362
Balance at March 31, 2011	\$ 49,672	\$ 34,947	\$ 967,587	\$ (74)	\$ 404,580	\$ (3,459)	\$ 1,453,253
Balance at December 31, 2011	\$ 49,768	\$ 35,982	\$ 1,001,316	\$ (112)	\$ 459,457	\$ (2,878)	\$ 1,543,533
Net income					23,210		23,210
Other comprehensive income, net of tax						(1,952)	(1,952)
Cash dividends declared on common stock					(3,261)		(3,261)
Dividends on preferred stock					(1,212)		(1,212)
Accretion on preferred stock	34				(34)		
Stock-based compensation			2,289				2,289
Issuance of Series C preferred stock	126,500		(3,810)				122,690
Common stock issued for:							
Exercise of stock options and warrants		407	7,822	(5,592)			2,637
Restricted stock awards		94	(94)	(855)			(855)
Employee stock purchase plan		17	465				482
Director compensation plan		22	338				360
Balance at March 31, 2012	\$ 176,302	\$ 36,522	\$ 1,008,326	\$ (6,559)	\$ 478,160	\$ (4,830)	\$ 1,687,921

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Three Months Ended	
	2012	March 31, 2011
Operating Activities:		
Net income	\$ 23,210	\$ 16,402
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	17,400	25,344
Depreciation and amortization	5,627	5,551
Stock-based compensation expense	2,289	1,094
Tax benefit from stock-based compensation arrangements	12	235
Excess tax benefits from stock-based compensation arrangements	(643)	(194)
Net (accretion) amortization of (discount) premium on securities	(2,092)	4,176
Mortgage servicing rights fair value change and amortization, net	(514)	(140)
Originations and purchases of mortgage loans held-for-sale	(714,655)	(562,088)
Proceeds from sales of mortgage loans held-for-sale	699,315	843,209
Bank owned life insurance income, net of claims	(919)	(876)
Decrease in trading securities, net	1,350	2,650
Net increase in brokerage customer receivables	(3,160)	(812)
Gains on mortgage loans sold	(14,464)	(4,160)
Gains on available-for-sale securities, net	(816)	(106)
Gain on bargain purchases	(840)	(9,838)
Debt defeasance costs	848	
Loss on sales of premises and equipment, net	12	
Decrease in accrued interest receivable and other assets, net	107,929	47,043
Decrease in accrued interest payable and other liabilities, net	(11,689)	(16,406)
Net Cash Provided by Operating Activities	108,200	351,084
Investing Activities:		
Proceeds from maturities of available-for-sale securities	280,110	284,469
Proceeds from sales of available-for-sale securities	737,369	50,142
Purchases of available-for-sale securities	(952,853)	(541,199)
Net cash received for acquisitions	8,191	21,371
Net increase in interest-bearing deposits with banks	(151,033)	(56,222)
Net (increase) decrease in loans	(206,246)	17,691
Purchases of premises and equipment, net	(8,501)	(10,557)
Net Cash Used for Investing Activities	(292,963)	(234,305)
Financing Activities:		
Increase (decrease) in deposit accounts	269,326	(100,938)
Decrease in other borrowings, net	(34,141)	(10,808)
Decrease in Federal Home Loan Bank advances, net	(8,000)	
Excess tax benefits from stock-based compensation arrangements	643	194
Net proceeds from issuance of preferred stock	122,690	
Debt defeasance	(172,848)	
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	8,699	905
Common stock repurchases	(6,447)	(74)
Dividends paid	(4,261)	(4,144)

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Net Cash Provided by (Used for) Financing Activities	175,661	(114,865)
Net (Decrease) Increase in Cash and Cash Equivalents	(9,102)	1,914
Cash and Cash Equivalents at Beginning of Period	169,704	172,580
Cash and Cash Equivalents at End of Period	\$ 160,602	\$ 174,494

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles. 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, 2011 (2011 Form 10-K). Operating results reported for the three-month period 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 2011 Form 10-K.

(2) Recent Accounting Developments

Goodwill Impairment Testing

In September 2011, the FASB issued ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which presents a qualitative approach to test goodwill for impairment. This ASU provides entities the option to assess qualitative factors to determine if impairment of goodwill exists. If examination of the qualitative factors yields a determination that it is not more likely than not that impairment exists, then it is not necessary for the Company to perform the two-step impairment test. This guidance is effective for fiscal periods beginning after December 15, 2011. As such, the Company will consider this guidance in conjunction with its goodwill impairment testing in 2012. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which amends the presentation formats permitted for reporting other comprehensive income. This ASU no longer allows other comprehensive income to be presented as part of the statement of changes in shareholder's equity. Entities must present other comprehensive income and its components in a single statement along with net income or in a separate, consecutive statement of other comprehensive income. This guidance is effective for fiscal and interim periods beginning after December 15, 2011. However, in December 2011, the FASB issued ASU No. 2011-12 Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 which deferred the ASU No. 2011-05 provision requiring companies to present reclassification adjustments for each component of other comprehensive income in both net income and other comprehensive income on the face of the financial statements. This deferral does not change the requirement to present items of net income, other comprehensive income and total comprehensive income in either a continuous statement or consecutive statements as of the effective date noted above. The Company adopted ASU No. 2011-05 in the first quarter of 2012 and is including separate consolidated statements of comprehensive income in accordance with the above guidance.

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Amended Guidance for Fair Value Measurement and Disclosure

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, which amends the language used to describe U.S. GAAP requirements for measuring fair value and for disclosing information about fair value measurements. The amended language

Table of Contents

seeks to clarify the application of existing guidance as well as change the measurement and disclosure of a few specific items. The principles changed include measurement of financial instruments that are managed within a portfolio and application of premiums and discounts in fair value measurement. The new guidance will also require additional disclosures including expanded disclosures for measurements categorized within level three of the fair value hierarchy, disclosures for nonfinancial assets at fair value and disclosure displaying the fair value hierarchy by level for items in the statement of financial position that are not measured at fair value but for which a fair value is required to be disclosed. The guidance is effective during interim and annual periods beginning after December 15, 2011. The Company adopted this guidance in the first quarter of 2012 and is including additional disclosures to address the topics presented within this ASU. See Footnote 15 - Fair Value of Assets and Liabilities for the additional disclosures.

Changes to the Effective Control Assessment in Accounting for Transfers

In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements, which amends the criteria used to determine when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. The changes presented in this ASU are intended to improve the accounting for these transactions by removing the criterion requiring the transferor to have the ability to repurchase or redeem the transferred financial assets from the assessment of effective control. The guidance in this update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively. The adoption of this guidance in the first quarter of 2012 did not have a material impact on the Company's consolidated financial statements.

(3) Business Combinations*FDIC-Assisted Transactions*

Since April 2010, the Company has acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of seven financial institutions in FDIC-assisted transactions.

The following table presents details related to these transactions:

(Dollars in thousands)	Lincoln Park	Wheatland	Ravenswood	Community First Bank - Chicago	The Bank of Commerce	First Chicago	Charter National
Date of acquisition	April 23, 2010	April 23, 2010	August 6, 2010	February 4, 2011	March 25, 2011	July 8, 2011	February 10, 2012
Fair value of assets acquired, at the acquisition date	\$ 157,078	\$ 343,870	\$ 173,919	\$ 50,891	\$ 173,986	\$ 768,873	\$ 92,409
Fair value of loans acquired, at the acquisition date	103,420	175,277	97,956	27,332	77,887	330,203	45,555
Fair value of liabilities assumed, at the acquisition date	192,018	415,560	122,943	49,779	168,472	741,508	91,570

Loans comprise the majority of the assets acquired in these 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, 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. On February 10, 2012, the Company announced that its wholly-owned subsidiary bank, Barrington Bank, acquired certain assets and liabilities and the banking operations of Charter National Bank and Trust (Charter National) in an FDIC-assisted transaction. At the acquisition date, the Company estimated the fair value of the reimbursable losses to be approximately \$13.2 million. In 2011, the Company estimated the fair value of the reimbursable losses to be approximately \$273.3 million for the First Chicago Bank & Trust (First Chicago) acquisition, \$48.9 million for The Bank of Commerce (TBOC) acquisition and \$6.7 million for the Community First Bank-Chicago (CFBC) acquisition, at their respective acquisition dates. For the three acquisitions subject to loss share agreements in 2010, the Company estimated the fair value of the reimbursable losses to be approximately \$44.0 million for the Ravenswood Bank (Ravenswood) acquisition, and \$113.8 million for the Lincoln Park Savings Bank (Lincoln Park) and Wheatland Bank (Wheatland) acquisitions. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

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. 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 Charter National acquisition resulted in bargain purchase gain of approximately \$840,000. The 2011 transactions resulted in bargain purchase gains of a total of \$38.0 million, including \$27.4 million for First Chicago, \$8.6 million for TBOC and \$2.0 million for CFBC, and are shown as a component of non-

Table of Contents

interest income on the Company's Consolidated Statements of Income. In 2010, FDIC-assisted transactions resulted in bargain purchase gains of a total of \$33.3 million, including \$6.8 million for Ravenswood, \$22.3 million for Wheatland, and \$4.2 million for Lincoln Park.

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

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

(Dollars in thousands)	Three Months Ended	
	March 31, 2012	March 31, 2011
Balance at beginning of period	\$ 344,251	\$ 118,182
Additions	20,028	51,159
Accretion	(1,576)	359
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(17,213)	(9,406)
Payments received from the FDIC	(82,278)	(35,509)
Balance at end of period	\$ 263,212	\$ 124,785

Other Bank Acquisitions 2011

On September 30, 2011, the Company acquired Elgin State Bancorp, Inc. (ESBI). ESBI was the parent company of Elgin State Bank, which operated three banking locations in Elgin, Illinois. As part of this transaction, Elgin State Bank was merged into the Company's wholly-owned subsidiary bank, St. Charles Bank & Trust Company (St. Charles). St. Charles acquired assets with a fair value of approximately \$263.2 million, including \$146.7 million of loans, and assumed liabilities with a fair value of approximately \$248.4 million, including \$241.1 million of deposits. Additionally, the Company recorded goodwill of \$5.0 million on the acquisition.

Wealth Management Acquisitions

On March 30, 2012, the Company's wholly-owned subsidiary, The Chicago Trust Company, N.A. (CTC), completed its previously announced acquisition of the trust operations of Suburban Bank & Trust Company (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 acquisition. Certain purchase price allocations for the trust operations of Suburban are preliminary. The final allocation is not expected to result in material changes.

On July 1, 2011, the Company acquired Great Lakes Advisors, Inc. (Great Lakes Advisors), a Chicago-based investment manager with approximately \$2.4 billion in assets under management. The Company acquired assets with a fair value of approximately \$26.0 million and assumed liabilities with a fair value of approximately \$8.8 million. The Company recorded goodwill of \$15.7 million on the acquisition.

Mortgage Banking Acquisitions

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

On April 13, 2011, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of River City Mortgage, LLC (River City) of Bloomington, Minnesota. Licensed to originate loans in five states, and with offices in Minnesota, Nebraska and North Dakota, River City originated nearly \$500 million in mortgage loans in 2010.

On February 3, 2011, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of Woodfield Planning Corporation (Woodfield) of Rolling Meadows, Illinois. With offices in Rolling Meadows, Illinois and Crystal Lake, Illinois, Woodfield originated approximately \$180 million in mortgage loans in 2010.

Table of Contents

Purchased loans with evidence of credit quality deterioration since origination

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

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

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

See Note 6 – Loans, for more information on loans acquired with evidence of credit quality deterioration since origination.

(4) Cash and Cash Equivalents

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

Table of Contents**(5) Available-for-sale Securities**

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

(Dollars in thousands)	Amortized Cost	March 31, 2012		Fair Value
		Gross unrealized gains	Gross unrealized losses	
U.S. Treasury	\$ 23,063	\$ 128	\$ (2)	\$ 23,189
U.S. Government agencies	682,847	4,082	(4,149)	682,780
Municipal	67,970	1,963	(18)	69,915
Corporate notes and other:				
Financial issuers	148,492	2,569	(9,044)	142,017
Other	26,475	329	(5)	26,799
Mortgage-backed: ⁽¹⁾				
Agency	846,380	11,866	(806)	857,440
Non-agency CMOs	28,423	286	(1)	28,708
Other equity securities	42,664	111	(4,279)	38,496
Total available-for-sale securities	\$ 1,866,314	\$ 21,334	\$ (18,304)	\$ 1,869,344

(Dollars in thousands)	Amortized Cost	December 31, 2011		Fair Value
		Gross unrealized gains	Gross unrealized losses	
U.S. Treasury	\$ 16,028	\$ 145	\$	\$ 16,173
U.S. Government agencies	760,533	5,596	(213)	765,916
Municipal	57,962	2,159	(23)	60,098
Corporate notes and other:				
Financial issuers	149,229	1,914	(8,499)	142,644
Other	27,070	287	(65)	27,292
Mortgage-backed: ⁽¹⁾				
Agency	206,549	12,078	(15)	218,612
Non-agency CMOs	29,767	175	(3)	29,939
Other equity securities	37,595	48	(6,520)	31,123
Total available-for-sale securities	\$ 1,284,733	\$ 22,402	\$ (15,338)	\$ 1,291,797

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

The following table presents the portion of the Company's available-for-sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at March 31, 2012:

(Dollars in thousands)	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

U.S. Treasury	\$ 1,998	\$ (2)	\$	\$	\$ 1,998	\$ (2)
U.S. Government agencies	349,222	(4,149)			349,222	(4,149)
Municipal	6,249	(18)			6,249	(18)
Corporate notes and other:						
Financial issuers	48,590	(4,654)	51,556	(4,390)	100,146	(9,044)
Other	1,085	(5)			1,085	(5)
Mortgage-backed:						
Agency	657,358	(806)			657,358	(806)
Non-agency CMOs	907	(1)			907	(1)
Other equity securities	26,121	(4,279)			26,121	(4,279)
Total	\$ 1,091,530	\$ (13,914)	\$ 51,556	\$ (4,390)	\$ 1,143,086	\$ (18,304)

Table of Contents

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 March 31, 2012 to be other-than-temporarily impaired. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily corporate securities of financial issuers. The corporate securities of financial issuers in this category were comprised of four fixed-to-floating rate bonds and three trust-preferred securities, all of which continue to be considered investment grade. Additionally, a review of the issuers indicated that they each have strong capital ratios.

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

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Realized gains	\$ 828	\$ 106
Realized losses	(12)	
Net realized gains	\$ 816	\$ 106
Other than temporary impairment charges		
Gains on available- for-sale securities, net	\$ 816	\$ 106
Proceeds from sales of available-for-sale securities	\$ 737,369	\$ 50,142

The amortized cost and fair value of securities as of March 31, 2012 and December 31, 2011, 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:

(Dollars in thousands)	March 31, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 79,980	\$ 80,351	\$ 121,400	\$ 121,662
Due in one to five years	496,724	494,391	532,828	530,632
Due in five to ten years	106,545	105,856	95,279	95,508
Due after ten years	265,598	264,102	261,315	264,321
Mortgage-backed	874,803	886,148	236,316	248,551
Other equity securities	42,664	38,496	37,595	31,123
Total available-for-sale securities	\$ 1,866,314	\$ 1,869,344	\$ 1,284,733	\$ 1,291,797

At March 31, 2012 and December 31, 2011, securities having a carrying value of \$1.1 billion, which include securities traded but not yet settled, were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At March 31, 2012, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders' equity.

Table of Contents**(6) Loans**

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

(Dollars in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Balance:			
Commercial	\$ 2,544,456	\$ 2,498,313	\$ 1,937,561
Commercial real-estate	3,585,760	3,514,261	3,356,562
Home equity	840,364	862,345	891,332
Residential real-estate	361,327	350,289	344,909
Premium finance receivables - commercial	1,512,630	1,412,454	1,337,851
Premium finance receivables - life insurance	1,693,763	1,695,225	1,539,521
Indirect consumer	67,445	64,545	52,379
Consumer and other	111,639	123,945	101,687
Total loans, net of unearned income, excluding covered loans	\$ 10,717,384	\$ 10,521,377	\$ 9,561,802
Covered loans	691,220	651,368	431,299
Total loans	\$ 11,408,604	\$ 11,172,745	\$ 9,993,101
Mix:			
Commercial	22%	22%	19%
Commercial real-estate	32	31	34
Home equity	7	8	9
Residential real-estate	3	3	4
Premium finance receivables - commercial	13	13	13
Premium finance receivables - life insurance	15	15	15
Indirect consumer	1	1	1
Consumer and other	1	1	1
Total loans, net of unearned income, excluding covered loans	94%	94%	96%
Covered loans	6	6	4
Total loans	100%	100%	100%

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were \$36.8 million at March 31, 2012, and \$34.6 million at December 31, 2011 and at March 31, 2011, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as the covered loans acquired in the FDIC-assisted acquisitions starting in 2010 are recorded net of credit discounts. See "Acquired Loan Information at Acquisition" below.

Indirect consumer loans include auto, boat and other indirect consumer loans. Total loans, excluding loans acquired with evidence of credit quality deterioration since origination, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling \$12.6 million at March 31, 2012, \$12.8 million at December 31, 2011 and \$11.5 million at March 31, 2011.

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 Company serves. The premium finance receivables portfolios are made to customers on a national basis and the majority of the indirect consumer loans were generated through a network of local automobile dealers. As a result, 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.

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

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

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

As part of our acquisition of a portfolio of life insurance premium finance loans in 2009 as well as the bank acquisitions starting in 2010, we acquired loans for which there was evidence of credit quality deterioration since origination and we determined that it was probable that the Company would be unable to collect all contractually required principal and interest payments.

Table of Contents

The following table presents the unpaid principal balance and carrying value for loans acquired with evidence of credit quality deterioration since origination:

(Dollars in thousands)	March 31, 2012		December 31, 2011	
	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	849,194	622,859	866,874	596,946
Life insurance premium finance loans acquisition	590,152	560,404	632,878	598,463

For loans acquired with evidence of credit quality deterioration since origination as a result of acquisitions during the three months ended March 31, 2012, the following table provides estimated details on these loans at the date of acquisition:

(Dollars in thousands)	Charter National
Contractually required payments including interest	\$ 40,475
Less: Nonaccretable difference	11,855
Cash flows expected to be collected ⁽¹⁾	28,620
Less: Accretable yield	2,288
Fair value of loans acquired with evidence of credit quality deterioration since origination	\$ 26,332

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

See Note 7 Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion regarding the allowance for loan losses associated with loans acquired with evidence of credit quality deterioration since origination at March 31, 2012.

Accretable Yield Activity

Changes in expected cash flows may vary from period to period as the Company periodically updates its cash flow model assumptions for loans acquired with evidence of credit quality deterioration since origination. The factors that most significantly affect the estimates of gross cash flows expected to be collected, and accordingly the accretable yield, include changes in the benchmark interest rate indices for variable-rate products and changes in prepayment assumptions. The following table provides activity for the accretable yield of loans acquired with evidence of credit quality deterioration since origination:

(Dollars in thousands)	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	\$ 173,120	\$ 18,861	\$ 39,809	\$ 33,315
Acquisitions	2,288		7,107	
Accretable yield amortized to interest income	(14,892)	(3,737)	(7,072)	(9,052)
Accretable yield amortized to indemnification asset ⁽¹⁾	(21,377)		(7,087)	
Reclassification from non-accretable difference ⁽²⁾	41,601		48,844	184

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Increases in interest cash flows due to payments and changes in interest rates	1,482	724	9,731	1,096
Accretable yield, ending balance	\$ 182,222	\$ 15,848	\$ 91,332	\$ 25,543

- (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.*

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

The tables below show the aging of the Company's loan portfolio at March 31, 2012, December 31, 2011 and March 31, 2011:

As of March 31, 2012

(Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	\$ 17,392	\$	\$ 9,210	\$ 24,634	\$ 1,454,783	\$ 1,506,019
Franchise	1,792			100	167,385	169,277
Mortgage warehouse lines of credit					136,438	136,438
Community Advantage - homeowners association					75,786	75,786
Aircraft	260		428	1,189	18,014	19,891
Asset-based lending	391		926	970	472,524	474,811
Municipal					76,885	76,885
Leases				11	77,660	77,671
Other					1,733	1,733
Purchased non-covered commercial ⁽¹⁾		424	1,063		4,458	5,945
Total commercial	19,835	424	11,627	26,904	2,485,666	2,544,456
Commercial real-estate:						
Residential construction	1,807			4,469	49,835	56,111
Commercial construction	2,389		3,100		159,230	164,719
Land	25,306		6,606	6,833	145,297	184,042
Office	8,534		4,310	5,471	542,393	560,708
Industrial	1,864		6,683	10,101	572,255	590,903
Retail	7,323	73		8,797	511,884	528,077
Multi-family	3,708		1,496	4,691	315,043	324,938
Mixed use and other	11,773		17,745	30,689	1,063,733	1,123,940
Purchased non-covered commercial real-estate ⁽¹⁾		2,959	301	1,601	47,461	52,322
Total commercial real-estate	62,704	3,032	40,241	72,652	3,407,131	3,585,760
Home equity	12,881		2,049	6,576	818,858	840,364
Residential real estate	5,329		453	13,530	341,358	360,670
Purchased non-covered residential real estate ⁽¹⁾					657	657
Premium finance receivables						
Commercial insurance loans	7,650	4,619	3,360	17,612	1,479,389	1,512,630
Life insurance loans				389	1,132,970	1,133,359
Purchased life insurance loans ⁽¹⁾					560,404	560,404
Indirect consumer	152	257	53	317	66,666	67,445
Consumer and other	121		20	1,601	109,723	111,465
Purchased non-covered consumer and other ⁽¹⁾					174	174
Total loans, net of unearned income, excluding covered loans	\$ 108,672	\$ 8,332	\$ 57,803	\$ 139,581	\$ 10,402,996	\$ 10,717,384
Covered loans		182,011	20,254	28,249	460,706	691,220
Total loans, net of unearned income	\$ 108,672	\$ 190,343	\$ 78,057	\$ 167,830	\$ 10,863,702	\$ 11,408,604

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

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

Table of Contents

As of December 31, 2011			60-89 days past due	30-59 days past due		
(Dollars in thousands)	Nonaccrual	90+ days and still accruing			Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	\$ 16,154	\$	\$ 7,496	\$ 15,797	\$ 1,411,004	\$ 1,450,451
Franchise	1,792				140,983	142,775
Mortgage warehouse lines of credit					180,450	180,450
Community Advantage - homeowners association					77,504	77,504
Aircraft			709	170	19,518	20,397
Asset-based lending	1,072		749	11,026	452,890	465,737
Municipal					78,319	78,319
Leases				431	71,703	72,134
Other					2,125	2,125
Purchased non-covered commercial ⁽¹⁾		589	74		7,758	8,421
Total commercial	19,018	589	9,028	27,424	2,442,254	2,498,313
Commercial real-estate						
Residential construction	1,993		4,982	1,721	57,115	65,811
Commercial construction	2,158			150	167,568	169,876
Land	31,547		4,100	6,772	136,112	178,531
Office	10,614		2,622	930	540,280	554,446
Industrial	2,002		508	4,863	548,429	555,802
Retail	5,366		5,268	8,651	517,444	536,729
Multi-family	4,736		3,880	347	305,594	314,557
Mixed use and other	8,092		7,163	20,814	1,050,585	1,086,654
Purchased non-covered commercial real-estate ⁽¹⁾		2,198		252	49,405	51,855
Total commercial real-estate	66,508	2,198	28,523	44,500	3,372,532	3,514,261
Home equity	14,164		1,351	3,262	843,568	862,345
Residential real estate	6,619		2,343	3,112	337,522	349,596
Purchased non-covered residential real estate ⁽¹⁾					693	693
Premium finance receivables						
Commercial insurance loans	7,755	5,281	3,850	13,787	1,381,781	1,412,454
Life insurance loans	54			423	1,096,285	1,096,762
Purchased life insurance loans ⁽¹⁾					598,463	598,463
Indirect consumer	138	314	113	551	63,429	64,545
Consumer and other	233		170	1,070	122,393	123,866
Purchased non-covered consumer and other ⁽¹⁾				2	77	79
Total loans, net of unearned income, excluding covered loans	\$ 114,489	\$ 8,382	\$ 45,378	\$ 94,131	\$ 10,258,997	\$ 10,521,377
Covered loans		174,727	25,507	24,799	426,335	651,368
Total loans, net of unearned income	\$ 114,489	\$ 183,109	\$ 70,885	\$ 118,930	\$ 10,685,332	\$ 11,172,745

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

Table of Contents

As of March 31, 2011			90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
(Dollars in thousands)	Nonaccrual						
Loan Balances:							
Commercial							
Commercial and industrial	\$ 24,277	\$ 150	\$ 3,233	\$ 9,201	\$ 1,240,796	\$ 1,277,657	
Franchise	1,792				112,584	114,376	
Mortgage warehouse lines of credit					33,482	33,482	
Community Advantage - homeowners association					75,948	75,948	
Aircraft	74				22,243	22,317	
Asset-based lending			216	2,355	299,328	301,899	
Municipal					60,376	60,376	
Leases	14			88	51,404	51,506	
Other							
Purchased non-covered commercial ⁽¹⁾							
Total commercial	26,157	150	3,449	11,644	1,896,161	1,937,561	
Commercial real-estate							
Residential construction	7,891		1,057	3,587	78,832	91,367	
Commercial construction	1,396	692	2,469	680	116,311	121,548	
Land	26,974		7,366	12,455	183,419	230,214	
Office	17,945		1,705	3,059	534,558	557,267	
Industrial	1,251	524	1,672	8,499	483,690	495,636	
Retail	12,824		4,994	5,810	499,486	523,114	
Multi-family	5,968		1,107	5,059	281,729	293,863	
Mixed use and other	19,752	781	7,187	19,835	995,998	1,043,553	
Purchased non-covered commercial real-estate ⁽¹⁾							
Total commercial real-estate	94,001	1,997	27,557	58,984	3,174,023	3,356,562	
Home equity	11,184		3,366	6,603	870,179	891,332	
Residential real estate	4,909		918	5,174	333,908	344,909	
Purchased non-covered residential real estate ⁽¹⁾							
Premium finance receivables							
Commercial insurance loans	9,550	6,319	4,433	14,428	1,303,121	1,337,851	
Life insurance loans	342		1,130	5,580	857,393	864,445	
Purchased life insurance loans ⁽¹⁾					675,076	675,076	
Indirect consumer	320	310	182	657	50,910	52,379	
Consumer and other	147	1	185	394	100,960	101,687	
Purchased non-covered consumer and other ⁽¹⁾							
Total loans, net of unearned income, excluding covered loans	\$ 146,610	\$ 8,777	\$ 41,220	\$ 103,464	\$ 9,261,731	\$ 9,561,802	
Covered loans		116,298	5,288	24,855	284,858	431,299	
Total loans, net of unearned income	\$ 146,610	\$ 125,075	\$ 46,508	\$ 128,319	\$ 9,546,589	\$ 9,993,101	

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

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

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

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

Table of Contents

portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company's impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company's Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.

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

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

Non-performing loans include all non-accrual loans (8 and 9 risk ratings) as well as loans 90 days past due and still accruing interest, excluding loans acquired with evidence of credit quality deterioration since origination. The remainder of the portfolio not classified as non-performing are considered performing under the contractual terms of the loan agreement. The following table presents the recorded investment based on performance of loans by class, excluding covered loans, per the most recent analysis at March 31, 2012, December 31, 2011, and March 31, 2011:

(Dollars in thousands)	Performing			Non-performing			Total		
	March 31, 2012	December 31, 2011	March 31, 2011	March 31, 2012	December 31, 2011	March 31, 2011	March 31, 2012	December 31, 2011	March 31, 2011
Loan Balances:									
Commercial									
Commercial and industrial	\$ 1,488,627	\$ 1,434,297	\$ 1,253,230	\$ 17,392	\$ 16,154	\$ 24,427	\$ 1,506,019	\$ 1,450,451	\$ 1,277,657
Franchise	167,485	140,983	112,584	1,792	1,792	1,792	169,277	142,775	114,376
Mortgage warehouse lines of credit	136,438	180,450	33,482				136,438	180,450	33,482
Community									
Advantage - homeowners association	75,786	77,504	75,948				75,786	77,504	75,948
Aircraft	19,631	20,397	22,243	260		74	19,891	20,397	22,317
Asset-based lending	474,420	464,665	301,899	391	1,072		474,811	465,737	301,899
Municipal	76,885	78,319	60,376				76,885	78,319	60,376
Leases	77,671	72,134	51,492			14	77,671	72,134	51,506
Other	1,733	2,125					1,733	2,125	
Purchased non-covered commercial ⁽¹⁾	5,945	8,421					5,945	8,421	
Total commercial	2,524,621	2,479,295	1,911,254	19,835	19,018	26,307	2,544,456	2,498,313	1,937,561
Commercial real-estate									
Residential construction	54,304	63,818	83,476	1,807	1,993	7,891	56,111	65,811	91,367
Commercial construction	162,330	167,718	119,460	2,389	2,158	2,088	164,719	169,876	121,548
Land	158,736	146,984	203,240	25,306	31,547	26,974	184,042	178,531	230,214
Office	552,174	543,832	539,322	8,534	10,614	17,945	560,708	554,446	557,267
Industrial	589,039	553,800	493,861	1,864	2,002	1,775	590,903	555,802	495,636
Retail	520,681	531,363	510,290	7,396	5,366	12,824	528,077	536,729	523,114

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Multi-family	321,230	309,821	287,895	3,708	4,736	5,968	324,938	314,557	293,863
Mixed use and other	1,112,167	1,078,562	1,023,020	11,773	8,092	20,533	1,123,940	1,086,654	1,043,553
Purchased non-covered commercial real-estate ⁽¹⁾	52,322	51,855					52,322	51,855	
Total commercial real-estate	3,522,983	3,447,753	3,260,564	62,777	66,508	95,998	3,585,760	3,514,261	3,356,562
Home equity	827,483	848,181	880,148	12,881	14,164	11,184	840,364	862,345	891,332
Residential real estate	355,341	342,977	340,000	5,329	6,619	4,909	360,670	349,596	344,909
Purchased non-covered residential real estate ⁽¹⁾	657	693					657	693	
Premium finance receivables									
Commercial insurance loans	1,500,361	1,399,418	1,321,982	12,269	13,036	15,869	1,512,630	1,412,454	1,337,851
Life insurance loans	1,133,359	1,096,708	864,103		54	342	1,133,359	1,096,762	864,445
Purchased life insurance loans ⁽¹⁾	560,404	598,463	675,076				560,404	598,463	675,076
Indirect consumer	67,036	64,093	51,749	409	452	630	67,445	64,545	52,379
Consumer and other	111,344	123,633	101,539	121	233	148	111,465	123,866	101,687
Purchased non-covered consumer and other ⁽¹⁾	174	79					174	79	
Total loans, net of unearned income, excluding covered loans	\$ 10,603,763	\$ 10,401,293	\$ 9,406,415	\$ 113,621	\$ 120,084	\$ 155,387	\$ 10,717,384	\$ 10,521,377	\$ 9,561,802

(1) Purchased loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30.

Table of Contents

A summary of activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the three months ended March 31, 2012 and 2011 is as follows:

<i>Three Months Ended March 31, 2012</i>	2,509,353	2,509,353	2,509,353	2,509,353	2,509,353	2,509,353	2,509,353	2,509,353	2,509,353
(Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other	2,509,353	Total, Excluding Covered Loans
Allowance for credit losses									
Allowance for loan losses at beginning of period	\$ 31,237	\$ 56,405	\$ 7,712	\$ 5,028	\$ 7,214	\$ 645	\$ 2,140	\$ 110,381	
Other adjustments	\$ (3)	\$ (222)	\$ 1	\$ (14)	\$	\$	\$	\$ (238)	
Reclassification to/from allowance for unfunded lending-related commitments	45	107							152
Charge-offs	(3,262)	(8,229)	(2,590)	(175)	(850)	(51)	(310)	(15,467)	
Recoveries	257	131	162	2	298	30	161	1,041	
Provision for credit losses	4,945	5,760	2,635	710	1,446	19	(361)	15,154	
Allowance for loan losses at period end	\$ 33,219	\$ 53,952	\$ 7,920	\$ 5,551	\$ 8,108	\$ 643	\$ 1,630	\$ 111,023	
Allowance for unfunded lending-related commitments at period end	\$	\$ 13,078	\$	\$	\$	\$	\$	\$ 13,078	
Allowance for credit losses at period end	\$ 33,219	\$ 67,030	\$ 7,920	\$ 5,551	\$ 8,108	\$ 643	\$ 1,630	\$ 124,101	
Individually evaluated for impairment	3,705	25,336	3,056	1,362		7	1	33,467	
Collectively evaluated for impairment	29,514	41,694	4,864	4,189	8,108	636	1,629	90,634	
Loans acquired with deteriorated credit quality									
Loans at period end									
Individually evaluated for impairment	\$ 29,158	\$ 197,221	\$ 14,495	\$ 10,791	\$	\$ 77	\$ 221	\$ 251,963	
Collectively evaluated for impairment	2,509,353	3,336,217	825,869	349,879	2,645,989	67,368	111,244	9,845,919	
Loans acquired with deteriorated credit quality	5,945	52,322		657	560,404		174	619,502	

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

	\$2,509,353	\$2,509,353	\$2,509,353	\$2,509,353	\$2,509,353	\$2,509,353	\$2,509,353	\$2,509,353	\$2,509,353
<i>Three Months Ended March 31, 2011</i>									Total,
(Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other		Excluding Covered Loans
Allowance for credit losses									
Allowance for loan losses at beginning of period	\$ 31,777	\$ 62,618	\$ 6,213	\$ 5,107	\$ 6,319	\$ 526	\$ 1,343	\$	\$ 113,903
Reclassification to/from allowance for unfunded lending-related commitments		2,116							2,116
Charge-offs	(9,140)	(13,342)	(773)	(1,275)	(1,537)	(120)	(160)		(26,347)
Recoveries	266	338	8	2	268	66	53		1,001
Provision for credit losses	5,203	14,390	1,018	1,884	1,640	85	156		24,376
Allowance for loan losses at period end									
	\$ 28,106	\$ 66,120	\$ 6,466	\$ 5,718	\$ 6,690	\$ 557	\$ 1,392	\$	\$ 115,049
Allowance for unfunded lending-related commitments at period end									
	\$	\$ 2,018	\$	\$	\$	\$	\$	\$	\$ 2,018
Allowance for credit losses at period end									
	\$ 28,106	\$ 68,138	\$ 6,466	\$ 5,718	\$ 6,690	\$ 557	\$ 1,392	\$	\$ 117,067
Individually evaluated for impairment	\$ 5,280	\$ 20,123	\$ 1,446	\$ 258	\$	\$ 11	\$ 3	\$	\$ 27,121
Collectively evaluated for impairment	\$ 22,826	\$ 48,015	\$ 5,020	\$ 5,460	\$ 6,690	\$ 546	\$ 1,389	\$	\$ 89,946
Loans acquired with deteriorated credit quality	\$	\$	\$	\$	\$	\$	\$	\$	\$
Loans at period end									
Individually evaluated for impairment	\$ 38,777	\$ 149,203	\$ 11,184	\$ 4,114	\$	\$ 111	\$ 147	\$	\$ 203,536
Collectively evaluated for impairment	1,898,784	3,207,359	880,148	340,795	2,202,296	52,268	101,540		8,683,190
Loans acquired with deteriorated credit quality					675,076				675,076

Table of Contents

A summary of activity in the allowance for covered loan losses for the three months ended March 31, 2012 and 2011 is as follows:

(Dollars in thousands)	Three Months Ended	
	March 31, 2012	March 31, 2011
Balance at beginning of period	\$ 12,977	\$
Provision for covered loan losses before benefit attributable to FDIC loss share agreements	11,229	4,844
Benefit attributable to FDIC loss share agreements	(8,983)	(3,876)
Net provision for covered loan losses	2,246	968
Increase in FDIC indemnification asset	8,983	3,876
Loans charged-off	(6,523)	
Recoveries of loans charged-off	52	
Net charge-offs	(6,471)	
Balance at end of period	\$ 17,735	\$ 4,844

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

Impaired Loans

A summary of impaired loans, including restructured loans, is as follows:

(Dollars in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Impaired loans (included in non-performing and restructured loans):			
Impaired loans with an allowance for loan loss required ⁽¹⁾	\$ 137,805	\$ 115,779	\$ 99,735
Impaired loans with no allowance for loan loss required	114,158	110,759	103,801
Total impaired loans ⁽²⁾	\$ 251,963	\$ 226,538	\$ 203,536
Allowance for loan losses related to impaired loans	\$ 20,989	\$ 21,488	\$ 25,615
Restructured loans	\$ 165,046	\$ 130,518	\$ 96,569

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

(2)

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

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

Table of Contents

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

(Dollars in thousands)	Recorded Investment	As of March 31, 2012 Unpaid Principal Balance	Related Allowance	For the Three Months Ended March 31, 2012	
				Average Recorded Investment	Interest Income Recognized
<u>Impaired loans with a related ASC 310 allowance recorded</u>					
Commercial					
Commercial and industrial	\$ 8,610	\$ 10,151	\$ 3,270	\$ 9,121	\$ 145
Franchise	1,792	1,792	394	1,792	31
Mortgage warehouse lines of credit					
Community Advantage - homeowners association					
Aircraft					
Asset-based lending	258	258	41	266	3
Municipal					
Leases					
Other					
Commercial real-estate					
Residential construction	1,807	1,882	390	1,807	24
Commercial construction	4,632	4,632	989	4,572	55
Land	49,766	53,325	4,785	50,889	584
Office	7,974	8,819	2,357	7,857	123
Industrial	460	487	62	467	6
Retail	23,312	23,337	701	22,861	244
Multi-family	6,532	6,532	1,504	6,511	81
Mixed use and other	18,473	19,324	2,070	18,452	224
Home equity	8,409	8,976	3,056	8,480	116
Residential real estate	5,737	6,156	1,362	5,722	48
Premium finance receivables					
Commercial insurance					
Life insurance					
Purchased life insurance					
Indirect consumer	29	29	7	30	1
Consumer and other	14	15	1	15	1
<u>Impaired loans with no related ASC 310 allowance recorded</u>					
Commercial					
Commercial and industrial	\$ 18,105	\$ 21,708	\$	\$ 16,614	\$ 226
Franchise					
Mortgage warehouse lines of credit					
Community Advantage - homeowners association					
Aircraft	260	260		260	5
Asset-based lending	133	1,452		622	19
Municipal					
Leases					
Other					
Commercial real-estate					
Residential construction	3,031	3,102		2,847	27
Commercial construction	9,788	9,788		9,790	96
Land	14,649	16,952		14,720	196
Office	10,187	11,875		10,499	128
Industrial	3,827	4,051		3,848	49
Retail	14,421	14,562		14,535	191
Multi-family	1,916	1,916		1,919	25
Mixed use and other	26,446	28,934		27,202	374

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Home equity	6,086	7,441	6,539	72
Residential real estate	5,054	5,818	5,056	52
Premium finance receivables				
Commercial insurance				
Life insurance				
Purchased life insurance				
Indirect consumer	48	60	51	1
Consumer and other	207	208	208	2
Total loans, net of unearned income, excluding covered loans	\$ 251,963	\$ 273,842	\$ 20,989	\$ 253,552
				\$ 3,149

Table of Contents

(Dollars in thousands)	As of December 31, 2011			For the Twelve Months Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Impaired loans with a related ASC 310 allowance recorded</u>					
Commercial					
Commercial and industrial	\$ 7,743	\$ 9,083	\$ 2,506	\$ 9,113	\$ 510
Franchise	1,792	1,792	394	1,792	122
Mortgage warehouse lines of credit					
Community Advantage - homeowners association					
Aircraft					
Asset-based lending	785	1,452	178	1,360	81
Municipal					
Leases					
Other					
Commercial real-estate					
Residential construction	1,993	2,068	374	1,993	122
Commercial construction	3,779	3,779	952	3,802	187
Land	27,657	29,602	6,253	29,085	1,528
Office	11,673	13,110	2,873	13,209	709
Industrial	663	676	159	676	46
Retail	13,728	13,732	480	13,300	504
Multi-family	7,149	7,155	1,892	7,216	330
Mixed use and other	20,386	21,337	1,447	21,675	1,027
Home equity	11,828	12,600	2,963	12,318	652
Residential real estate	6,478	6,681	992	6,535	220
Premium finance receivables					
Commercial insurance					
Life insurance					
Purchased life insurance					
Indirect consumer	31	32	5	33	3
Consumer and other	94	95	20	99	7
<u>Impaired loans with no related ASC 310 allowance recorded</u>					
Commercial					
Commercial and industrial	\$ 17,680	\$ 20,365	\$	\$ 21,841	\$ 1,068
Franchise					
Mortgage warehouse lines of credit					
Community Advantage - homeowners association					
Aircraft					
Asset-based lending	287	287		483	25
Municipal					
Leases					
Other					
Commercial real-estate					
Residential construction	4,284	4,338		4,189	175
Commercial construction	9,792	9,792		10,249	426
Land	15,991	23,097		19,139	1,348
Office	9,162	11,421		11,235	550
Industrial	4,569	4,780		4,750	198
Retail	15,841	15,845		15,846	815
Multi-family	2,347	3,040		3,026	127
Mixed use and other	22,359	25,015		24,370	1,297
Home equity	3,950	4,707		4,784	184
Residential real estate	4,314	5,153		4,734	191
Premium finance receivables					
Commercial insurance					
Life insurance					

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Purchased life insurance					
Indirect consumer	44	55	56	6	
Consumer and other	139	141	146	12	
Total loans, net of unearned income, excluding covered loans	\$ 226,538	\$ 251,230	\$ 21,488	\$ 247,054	\$ 12,470

Table of Contents

(Dollars in thousands)	Recorded Investment	As of March 31, 2011		For the Three Months Ended March 31, 2011	
		Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Impaired loans with a related ASC 310 allowance recorded</u>					
Commercial					
Commercial and industrial	\$ 21,700	\$ 28,641	\$ 5,192	\$ 14,678	\$ 267
Franchise					
Mortgage warehouse lines of credit					
Community Advantage - homeowners association					
Aircraft	74	74	74	153	2
Asset-based lending					
Municipal					
Leases	14	14	14	15	
Other					
Commercial real-estate					
Residential construction	4,832	5,748	675	4,834	129
Commercial construction	1,396	1,820	108	1,714	25
Land	20,239	22,467	4,004	20,606	344
Office	14,493	14,511	4,723	14,501	224
Industrial	469	472	143	470	6
Retail	11,081	11,585	3,038	11,067	161
Multi-family	5,968	6,824	2,808	5,993	83
Mixed use and other	12,231	13,471	3,118	12,606	239
Home equity	6,135	6,342	1,446	6,161	72
Residential real estate	1,068	1,068	258	1,068	16
Premium finance receivables					
Commercial insurance					
Life insurance					
Purchased life insurance					
Indirect consumer	28	28	11	28	
Consumer and other	7	8	3	7	
<u>Impaired loans with no related ASC 310 allowance recorded</u>					
Commercial					
Commercial and industrial	\$ 15,197	\$ 19,477	\$	\$ 16,600	\$ 212
Franchise	1,792	1,792		1,792	30
Mortgage warehouse lines of credit					
Community Advantage - homeowners association					
Aircraft					
Asset-based lending					
Municipal					
Leases					
Other					
Commercial real-estate					
Residential construction	6,519	6,660		6,557	70
Commercial construction	377	377		377	4
Land	26,321	37,133		27,027	477
Office	12,334	14,843		13,716	182
Industrial	7,155	7,626		7,511	111
Retail	8,290	10,609		10,006	143
Multi-family	856	856		856	10
Mixed use and other	16,642	19,990		18,387	290
Home equity	5,049	5,476		5,339	71
Residential real estate	3,046	3,046		3,047	38
Premium finance receivables					
Commercial insurance					
Life insurance					

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Purchased life insurance					
Indirect consumer	82	91	84	2	
Consumer and other	141	141	143	3	
Total impaired loans, net of unearned income, excluding covered loans	\$ 203,536	\$ 241,190	\$ 25,615	\$ 205,343	\$ 3,211

Table of Contents

Restructured Loans

At March 31, 2012, the Company had \$165.0 million in loans with modified terms. The \$165.0 million in modified loans represents 182 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability to pay.

The Company's approach to restructuring loans, excluding those acquired with evidence of credit quality deterioration since origination, is built on its credit risk rating system which requires credit management personnel to assign a credit risk rating to each loan. In each case, the loan officer is responsible for recommending a credit risk rating for each loan and ensuring the credit risk ratings are appropriate. These credit risk ratings are then reviewed and approved 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 credit risk rating scale is one through ten with higher scores indicating higher risk. In the case of loans rated six or worse following modification, the Company's Managed Assets Division evaluates the loan and the credit risk rating and determines that the loan has been restructured to be reasonably assured of repayment and of performance according to the modified terms and is supported by a current, well-documented credit assessment of the borrower's financial condition and prospects for repayment under the revised terms.

A modification of a loan, excluding those acquired with evidence of credit quality deterioration since origination, with an existing credit risk rating of six or worse or a modification of any other credit which will result in a restructured credit risk rating of six or worse, must be reviewed for possible TDR classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of these loans is considered to be a TDR if both (1) the borrower is experiencing financial difficulty and (2) for economic or legal reasons, the bank grants a concession to a borrower that it would not otherwise consider. The modification of a loan, excluding those acquired with evidence of credit quality deterioration since origination, where the credit risk rating is five or better both before and after such modification is not considered to be a TDR. Based on the Company's credit risk rating system, it considers that borrowers whose credit risk rating is five or better are not experiencing financial difficulties and therefore, are not considered TDRs.

TDRs are reviewed at the time of modification and on a quarterly basis to determine if a specific reserve is needed. The carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral. Any shortfall is recorded as a specific reserve.

All credits determined to be a TDR will continue to be classified as a TDR in all subsequent periods, unless the borrower has been in compliance with the loan's modified terms for a period of six months (including over a calendar year-end) and the modified interest rate represented a market rate at the time of a restructuring. The Managed Assets Division, in consultation with the respective loan officer, determines whether the modified interest rate represented a current market rate at the time of restructuring. Using knowledge of current market conditions and rates, competitive pricing on recent loan originations, and an assessment of various characteristics of the modified loan (including collateral position and payment history), an appropriate market rate for a new borrower with similar risk is determined. If the modified interest rate meets or exceeds this market rate for a new borrower with similar risk, the modified interest rate represents a market rate at the time of restructuring. Additionally, before removing a loan from TDR classification, a review of the current or previously measured impairment on the loan and any concerns related to future performance by the borrower is conducted. If concerns exist about the future ability of the borrower to meet its obligations under the loans based on a credit review by the Managed Assets Division, the TDR classification is not removed from the loan.

Each restructured loan was reviewed for impairment at March 31, 2012 and approximately \$2.7 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses.

Table of Contents

The tables below present a summary of the post-modification balance of loans restructured during the three months ended March 31, 2012 and 2011, respectively, which represent troubled debt restructurings:

Three months ended March 31, 2012 (Dollars in thousands)	Total ⁽¹⁾		Extension at Below Market Terms		Reduction of Interest Rate		Modification to Interest- only Payments		Forgiveness of Debt	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	3	\$ 118	1	\$ 14		\$	2	\$ 104		\$
Commercial real-estate										
Commercial construction	2	622	2	622	2	622	2	622		
Land	14	27,992	14	27,992	12	27,004	11	22,954		
Office										
Industrial										
Retail	5	8,633	5	8,633	5	8,633	4	8,244		
Mixed use and other	3	1,272	3	1,272	2	1,212	2	1,129		
Residential real estate and other	4	1,046	3	927	1	118	2	844		
Total loans	31	\$ 39,683	28	\$ 39,460	22	\$ 37,589	23	\$ 33,897		\$

(1) Restructured loans may have more than one modification representing a concession. As such, restructured loans during the period may be represented in more than one of the categories noted above.

Three months ended March 31, 2011 (Dollars in thousands)	Total ⁽¹⁾		Extension at Below Market Terms		Reduction of Interest Rate		Modification to Interest- only Payments		Forgiveness of Debt	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	7	\$ 1,685	5	\$ 1,551	4	\$ 582	4	\$ 582	2	\$ 135
Commercial real-estate										
Commercial construction										
Land	1	1,511	1	1,511						
Office	3	2,469	2	2,078	1	390	1	1,295		
Industrial										
Retail	2	3,223	2	3,223	1	1,384	1	1,384		
Mixed use and other										
Mixed use and other	1	284	1	284	1	284				
Residential real estate and other										
Residential real estate and other	1	187			1	187	1	187		
Total loans	15	\$ 9,359	11	\$ 8,647	8	\$ 2,827	7	\$ 3,448	2	\$ 135

(1) Restructured loans may have more than one modification representing a concession. As such, restructured loans during the period may be represented in more than one of the categories noted above.

During the three months ended March 31, 2012, 31 loans totaling \$39.7 million, were determined to be troubled debt restructurings, compared to 15 loans totaling \$9.4 million, in the same period of 2011. Of these loans extended at below market terms, the weighted average extension had a term of approximately seven months during the first three months of 2012 compared to eight months for the first three months of 2011. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 162 basis points and 286 basis points during the three months ending March 31, 2012 and 2011, respectively. Interest-only payment terms were approximately four months and ten months during the three months ending March 31, 2012 and 2011, respectively. Additionally, no principal balances were forgiven during the first quarter of 2012, compared to \$67,000 forgiven during the first quarter of 2011.

Table of Contents

The following table presents a summary of all loans restructured during the twelve months ended March 31, 2012 and 2011, which were in payment default under the restructured terms during the respective periods below:

(Dollars in thousands)	As of March 31, 2012		Three Months Ended March 31, 2012		As of March 31, 2011		Three Months Ended March 31, 2011	
	Total ⁽¹⁾		Payments in Default ⁽²⁾		Total ⁽¹⁾		Payments in Default ⁽²⁾	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial								
Commercial and industrial	20	\$ 5,388	6	\$ 664	38	\$ 15,222	13	\$ 4,230
Commercial real-estate								
Residential construction	1	1,105						
Commercial construction	10	12,762	1	467	3	2,006	1	981
Land	20	34,452	2	1,430	7	7,155	1	347
Office	6	6,401	2	421	8	10,402	1	1,660
Industrial	3	2,110			4	6,373		
Retail	19	27,746	3	4,299	8	7,249	3	3,141
Multi-family	6	4,414			4	3,277	1	633
Mixed use and other	35	29,696	7	6,522	17	14,758	3	2,087
Residential real estate and other	19	6,777	3	721	4	1,527	2	450
Total loans	139	\$ 130,851	24	\$ 14,524	93	\$ 67,969	25	\$ 13,529

(1) Total restructured loans represent all loans restructured during the previous twelve months from the date indicated.

(2) Restructured loans considered to be in payment default are over 30 days past-due subsequent to the restructuring.

(8) Loan Securitization

During the third quarter of 2009, the Company entered into a revolving period securitization transaction sponsored by FIFC. In connection with the securitization, premium finance receivables commercial were transferred to FIFC Premium Funding, LLC (the securitization entity). Principal collections on loans in the securitization entity were used to acquire and transfer additional loans into the securitization entity during the stated revolving period. As of December 31, 2011, the stated revolving period ended and the majority of collections are now being accumulated to pay off the issued instruments as scheduled. Additionally, upon the occurrence of certain events established in the representations and warranties, FIFC may be required to repurchase ineligible loans that were transferred to the entity. The Company's primary continuing involvement includes servicing the loans, retaining an undivided interest (the seller's interest) in the loans, and holding certain retained interests.

Instruments issued by the securitization entity included \$600 million Class A notes that bear an annual interest rate of one-month LIBOR plus 1.45% (the Notes) and have an expected average term of 2.93 years with any unpaid balance due and payable in full on February 17, 2014. At the time of issuance, the Notes were eligible collateral under the Federal Reserve Bank of New York's Term Asset-Backed Securities Loan Facility (TALF). Class B and Class C notes (Subordinated securities), which are recorded in the form of zero coupon bonds, were also issued and were retained by the Company.

This securitization transaction is accounted for as a secured borrowing and the securitization entity is treated as a consolidated subsidiary of the Company under ASC 810, Consolidation. The securitization entity's receivables underlying third-party investors' interests are recorded in loans, net of unearned income, excluding covered loans, an allowance for loan losses was established and the related debt issued is reported in secured borrowings owed to securitization investors. Additionally, the Company's retained interests in the transaction, principally consisting of subordinated securities, cash collateral, and overcollateralization of loans, constitute intercompany positions, which are eliminated in the preparation of the Company's Consolidated Statements of Condition.

Upon transfer of premium finance receivables commercial to the securitization entity, the receivables and certain cash flows derived from them become restricted for use in meeting obligations to the securitization entity's creditors. The securitization entity has ownership of interest-bearing deposit balances that also have restrictions, the amounts of which are reported in interest-bearing deposits with other banks. Investment of the

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

interest-bearing deposit balances is limited to investments that are permitted under the governing documents of the transaction. With the exception of the seller's interest in the transferred receivables, the Company's interests in the securitization entity's assets are generally subordinate to the interests of third-party investors and, as such, may not be realized by the Company if needed to absorb deficiencies in cash flows that are allocated to the investors in the securitization entity's debt.

Table of Contents

The carrying values and classification of the restricted assets and liabilities relating to the securitization activities are shown in the table below.

(Dollars in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Cash collateral accounts	\$ 2,017	\$ 4,427	\$ 1,759
Collections and interest funding accounts	527,401	268,165	33,871
Interest-bearing deposits with banks - restricted for securitization investors	\$ 529,418	\$ 272,592	\$ 35,630
Loans, net of unearned income - restricted for securitization investors	\$ 156,793	\$ 412,988	\$ 649,958
Allowance for loan losses	(661)	(1,456)	(2,165)
Net loans - restricted for securitization investors	\$ 156,132	\$ 411,532	\$ 647,793
Other assets	2,045	2,319	2,457
Total assets	\$ 687,595	\$ 686,443	\$ 685,880
Secured borrowings - owed to securitization investors	\$ 600,000	\$ 600,000	\$ 600,000
Other liabilities	1,187	2,821	4,445
Total liabilities	\$ 601,187	\$ 602,821	\$ 604,445

During the first quarter of 2012, the Company purchased \$172.0 million of the \$600 million Notes in the open market and incurred \$848,000 in debt defeasance costs. This defeasance of debt effectively reduced the outstanding Notes, on a consolidated basis, to \$428.0 million as reflected on the Company's Consolidated Statements of Condition as secured borrowings owed to securitization investors. The table above details the securitization entity's assets and liabilities on a stand-alone basis.

The assets of the consolidated securitization entity are subject to credit, payment and interest rate risks on the transferred premium finance receivables - commercial. To protect investors, the securitization structure includes certain features that could result in earlier-than-expected repayment of the securities. Investors are allocated cash flows derived from activities related to the accounts comprising the securitized pool of receivables, the amounts of which reflect finance charges collected net of agent fees, certain fee assessments, and recoveries on charged-off accounts. From these cash flows, investors are reimbursed for charge-offs occurring within the securitized pool of receivables and receive the contractual rate of return and FIFC is paid a servicing fee as servicer. Any cash flows remaining in excess of these requirements are reported to investors as net yield and remitted to the Company. A net yield rate of less than 0% for a three month period would trigger an economic early amortization event. In addition to this performance measurement associated with the transferred loans, there are additional performance measurements and other events or conditions which could trigger an early amortization event. As of March 31, 2012, no economic or other early amortization events have occurred. Apart from the restricted assets related to securitization activities, the investors and the securitization entity have no recourse to the Company's other assets or credit for a shortage in cash flows.

The Company continues to service the loan receivables held by the securitization entity. FIFC receives a monthly servicing fee from the securitization entity based on a percentage of the monthly investor principal balance outstanding. Although the fee income to FIFC offsets the fee expense to the securitization entity and thus is eliminated in consolidation, failure to service the transferred loan receivables in accordance with contractual requirements could lead to a termination of the servicing rights and the loss of future servicing income.

(9) Goodwill and Other Intangible Assets

A summary of the Company's goodwill assets by business segment is presented in the following table:

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

(Dollars in thousands)	January 1, 2012	Goodwill Acquired	Impairment Loss	March 31, 2012
Community banking	\$ 259,336	\$	\$	\$ 259,336
Specialty finance	16,095			16,095
Wealth management	30,037	1,827		31,864
Total	\$ 305,468	\$ 1,827	\$	\$ 307,295

The Wealth management segment's goodwill increased \$1.8 million in 2012 as a result of the acquisition of the trust business of Suburban Bank and Trust.

Table of Contents

A summary of finite-lived intangible assets as of the dates shown and the expected amortization as of March 31, 2012 is as follows:

(Dollars in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Specialty finance segment:			
Customer list intangibles:			
Gross carrying amount	\$ 1,800	\$ 1,800	\$ 1,800
Accumulated amortization	(510)	(460)	(306)
Net carrying amount	\$ 1,290	\$ 1,340	\$ 1,494
Community banking segment:			
Core deposit intangibles:			
Gross carrying amount	\$ 36,053	\$ 35,587	\$ 29,772
Accumulated amortization	(22,347)	(21,457)	(19,210)
Net carrying amount	\$ 13,706	\$ 14,130	\$ 10,562
Wealth management segment:			
Customer list and other intangibles:			
Gross carrying amount	\$ 7,390	\$ 6,790	\$
Accumulated amortization	(285)	(190)	\$
Net carrying amount	\$ 7,105	\$ 6,600	\$
Total other intangible assets, net	\$ 22,101	\$ 22,070	\$ 12,056
Estimated amortization			
Actual in three months ended March 31, 2012	\$ 1,049		
Estimated remaining in 2012	3,158		
Estimated - 2013	3,997		
Estimated - 2014	3,511		
Estimated - 2015	2,017		
Estimated - 2016	1,496		

The customer list intangibles recognized in connection with the purchase of life insurance premium finance assets in 2009 are being amortized over an 18-year period on an accelerated basis.

The increase in core deposit intangibles from 2011 was related to the FDIC-assisted acquisition of Charter National in the first quarter of 2012. The core deposit intangible recognized in connection with the Company's acquisition is being amortized over a ten-year period on an accelerated basis.

The increase in intangibles within the Wealth management segment was related to the Company's acquisition of the trust business of Suburban Bank and Trust during the first quarter of 2012. The customer list intangible recognized in connection with the Company's acquisition is being amortized over a ten-year period on a straight-line basis.

Total amortization expense associated with finite-lived intangibles totaled approximately \$1.0 million and \$689,000 for the three months ended March 31, 2012 and 2011, respectively.

Table of Contents**(10) Deposits**

The following table is a summary of deposits as of the dates shown:

(Dollars in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Balance:			
Non-interest bearing	\$ 1,901,753	\$ 1,785,433	\$ 1,279,256
NOW	1,756,313	1,698,778	1,526,955
Wealth management deposits	933,609	788,311	659,194
Money market	2,306,726	2,263,253	1,844,416
Savings	943,066	888,592	749,681
Time certificates of deposit	4,824,386	4,882,900	4,855,667
Total deposits	\$ 12,665,853	\$ 12,307,267	\$ 10,915,169
Mix:			
Non-interest bearing	15%	15%	12%
NOW	14	14	14
Wealth management deposits	7	6	6
Money market	18	18	17
Savings	8	7	7
Time certificates of deposit	38	40	44
Total deposits	100%	100%	100%

Wealth management deposits represent deposit balances (primarily money market accounts) at the Company's subsidiary banks from brokerage customers of Wayne Hummer Investments, trust and asset management customers of The Chicago Trust Company and brokerage customers from unaffiliated companies.

(11) Notes Payable, Federal Home Loan Bank Advances, Other Borrowings, Secured Borrowings and Subordinated Notes

The following table is a summary of notes payable, Federal Home Loan Bank advances, other borrowings, secured borrowings and subordinated notes as of the dates shown:

(Dollars in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Notes payable	\$ 52,639	\$ 52,822	\$ 1,000
Federal Home Loan Bank advances	466,391	474,481	423,500
Other borrowings:			
Securities sold under repurchase agreements	384,046	413,333	209,911
Other	26,991	30,420	40,121
Total other borrowings	411,037	443,753	250,032
Secured borrowings - owed to securitization investors	428,000	600,000	600,000
Subordinated notes	35,000	35,000	50,000
Total notes payable, Federal Home Loan Bank advances, other borrowings, secured borrowings, and subordinated notes	\$ 1,393,067	\$ 1,606,056	\$ 1,324,532

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

At March 31, 2012, the Company had notes payable of \$52.6 million. The Company had a \$51.0 million outstanding balance of notes payable, with an interest rate of 4.50%, under a \$76.0 million loan agreement (Agreement) with unaffiliated banks. The Agreement consists of a \$75.0 million revolving credit facility, maturing on October 26, 2012, and a \$1.0 million term loan maturing on June 1, 2015. The Agreement was amended on October 28, 2011, effectively extending the maturity date on the revolving credit facility from October 28, 2011 to October 26, 2012 and increasing the availability under the credit facility from \$50.0 million to \$75.0 million. At March 31, 2012, \$50.0 million were outstanding on the \$75.0 million revolving credit facility. Borrowings under the Agreement that are considered Base Rate Loans will bear interest at a rate equal to the higher of (1) 450 basis points and (2) for the applicable period, the highest of (a) the federal funds rate plus 100 basis points, (b) the lender's prime rate plus 50 basis points, and (c) the Eurodollar Rate (as defined below) that would be applicable for an interest period of one month plus 150 basis points. Borrowings under the Agreement that are considered Eurodollar Rate Loans will bear interest at a rate equal to the higher of (1) the British Bankers Association's LIBOR rate for the applicable period plus 350 basis points (the Eurodollar Rate) and (2) 450 basis points. A commitment fee is payable quarterly equal to 0.50% of the actual daily amount by which the lenders commitment under the revolving note exceeded the amount outstanding under such facility.

Table of Contents

Borrowings under the Agreement are secured by the stock of some of the banks and contains several restrictive covenants, including the maintenance of various capital adequacy levels, asset quality and profitability ratios, and certain restrictions on dividends and other indebtedness. At March 31, 2012, the Company was in compliance with all debt covenants. The Agreement is available to be utilized, as needed, to provide capital to fund continued growth at the Company's banks and to serve as an interim source of funds for acquisitions, common stock repurchases or other general corporate purposes.

As a result of the acquisition of Great Lakes Advisors, the Company assumed an unsecured promissory note to a Great Lakes Advisor shareholder (Promissory Note) with an outstanding balance of \$1.6 million as of March 31, 2012. Under the Promissory Note, the Company will make quarterly principal payments and pay interest at a rate of the federal funds rate plus 100 basis points. As of March 31, 2012, the current interest rate was 1.25%.

Federal Home Loan Bank advances consist of fixed rate obligations of the banks and are collateralized by qualifying residential real estate and home equity loans and certain securities. FHLB advances are stated at par value of the debt adjusted for unamortized fair value adjustments recorded in connection with advances acquired through acquisitions. In order to achieve lower interest rates and to extend maturities, the Company restructured \$292.5 million of FHLB advances, paying \$22.4 million in prepayment fees, in the first quarter of 2012. The Company did not restructure any FHLB advances in 2011. These prepayment fees are classified in other assets on the Consolidated Statements of Condition and are amortized as an adjustment to interest expense using the effective interest method.

At March 31, 2012 securities sold under repurchase agreements represent \$81.6 million of customer balances in sweep accounts in connection with master repurchase agreements at the banks and \$302.5 million of short-term borrowings from brokers. Securities pledged for customer balances in sweep accounts are maintained under the Company's control and consist of U.S. Government agency, mortgage-backed and corporate securities. These securities are included in the available-for-sale securities portfolio as reflected on the Company's Consolidated Statements of Condition.

Other borrowings at March 31, 2012 and 2011 represent the junior subordinated amortizing notes issued by the Company in connection with the issuance of Tangible Equity Units (TEUs) in December 2010. These junior subordinated notes were recorded at their initial principal balance of \$44.7 million, net of issuance costs. These notes have a stated interest rate of 9.5% and require quarterly principal and interest payments of \$4.3 million, with an initial payment of \$4.6 million that was paid on March 15, 2011. The issuance costs are being amortized to interest expense using the effective-interest method. The scheduled final installment payment on the notes is December 15, 2013, subject to extension. See Note 17 Shareholders' Equity and Earnings Per Share for further discussion of the TEUs.

During the third quarter of 2009, the Company entered into an off-balance sheet securitization transaction sponsored by FIFC. In connection with the securitization, premium finance receivables - commercial were transferred to FIFC Premium Funding, LLC, a qualifying special purpose entity (the QSPE). The QSPE issued \$600 million Class A notes that bear an annual interest rate of one-month LIBOR plus 1.45% (the Notes) and have an expected average term of 2.93 years with any unpaid balance due and payable in full on February 17, 2014. At the time of issuance, the Notes were eligible collateral under TALF. During the first quarter of 2012, the Company purchased \$172.0 million of the Notes in the open market effectively defeasing a portion of the Notes. This defeasance of debt effectively reduced the outstanding Notes to \$428.0 million as reflected on the Company's Consolidated Statements of Condition as secured borrowings owed to securitization investors. See Note 8 Loan Securitization, for more information on the QSPE.

The subordinated notes represent three notes, issued in October 2002, April 2003 and October 2005 (funded in May 2006). The balances of the notes as of March 31, 2012 were \$5.0 million, \$10.0 million and \$20.0 million, respectively. Each subordinated note requires annual principal payments of \$5.0 million beginning in the sixth year, with final maturities in the tenth year. The Company may redeem the subordinated notes at any time prior to maturity. Interest on each note is calculated at a rate equal to three-month LIBOR plus 130 basis points.

(12) Junior Subordinated Debentures

As of March 31, 2012, the Company owned 100% of the common securities of nine trusts, Wintrust Capital Trust III, Wintrust Statutory Trust IV, Wintrust Statutory Trust V, Wintrust Capital Trust VII, Wintrust Capital Trust VIII, Wintrust Capital Trust IX, Northview Capital Trust I, Town Bankshares Capital Trust I, and First Northwest Capital Trust I (the Trusts) set up to provide long-term financing. The Northview, Town and First Northwest capital trusts were acquired as part of the acquisitions of Northview Financial Corporation, Town Bankshares, Ltd., and First Northwest Bancorp, Inc., respectively. The Trusts were formed for purposes of issuing trust preferred securities to third-party investors and investing the proceeds from the issuance of the trust preferred securities and common securities solely in junior subordinated debentures issued by the Company (or assumed by the Company in connection with an acquisition), with the same maturities and interest rates as the trust preferred securities. The junior subordinated debentures are the sole assets of the Trusts. In each Trust, the common securities represent approximately 3% of the junior

Table of Contents

subordinated debentures and the trust preferred securities represent approximately 97% of the junior subordinated debentures.

The Trusts are reported in the Company's consolidated financial statements as unconsolidated subsidiaries. Accordingly, in the Consolidated Statements of Condition, the junior subordinated debentures issued by the Company to the Trusts are reported as liabilities and the common securities of the Trusts, all of which are owned by the Company, are included in available-for-sale securities.

The following table provides a summary of the Company's junior subordinated debentures as of March 31, 2012. The junior subordinated debentures represent the par value of the obligations owed to the Trusts.

(Dollars in thousands)	Common Securities	Trust Preferred Securities	Junior Subordinated Debentures	Rate Structure	Contractual rate at 3/31/2012	Issue Date	Maturity Date	Earliest Redemption Date
Wintrust Capital Trust III	\$ 774	\$ 25,000	\$ 25,774	L+3.25	3.82%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	619	20,000	20,619	L+2.80	3.27%	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	1,238	40,000	41,238	L+2.60	3.07%	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	1,550	50,000	51,550	L+1.95	2.42%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	1,238	40,000	41,238	L+1.45	1.92%	08/2005	09/2035	09/2010
Wintrust Capital Trust IX	1,547	50,000	51,547	L+1.63	2.10%	09/2006	09/2036	09/2011
Northview Capital Trust I	186	6,000	6,186	L+3.00	3.55%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	186	6,000	6,186	L+3.00	3.55%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	155	5,000	5,155	L+3.00	3.47%	05/2004	05/2034	05/2009
Total			\$ 249,493		2.67%			

The junior subordinated debentures totaled \$249.5 million at March 31, 2012, December 31, 2011 and March 31, 2011.

The interest rates on the variable rate junior subordinated debentures are based on the three-month LIBOR rate and reset on a quarterly basis. The interest rate on the Wintrust Capital Trust IX junior subordinated debentures, previously fixed at 6.84%, changed to a variable rate equal to three-month LIBOR plus 1.63% effective September 15, 2011. At March 31, 2012, the weighted average contractual interest rate on the junior subordinated debentures was 2.67%. The Company entered into interest rate swaps and caps with an aggregate notional value of \$225 million to hedge the variable cash flows on certain junior subordinated debentures. The hedge-adjusted rate on the junior subordinated debentures as of March 31, 2012, was 4.95%. Distributions on the common and preferred securities issued by the Trusts are payable quarterly at a rate per annum equal to the interest rates being earned by the Trusts on the junior subordinated debentures. Interest expense on the junior subordinated debentures is deductible for income tax purposes.

The Company has guaranteed the payment of distributions and payments upon liquidation or redemption of the trust preferred securities, in each case to the extent of funds held by the Trusts. The Company and the Trusts believe that, taken together, the obligations of the Company under the guarantees, the junior subordinated debentures, and other related agreements provide, in the aggregate, a full, irrevocable and unconditional guarantee, on a subordinated basis, of all of the obligations of the Trusts under the trust preferred securities. Subject to certain limitations, the Company has the right to defer the payment of interest on the junior subordinated debentures at any time, or from time to time, for a period not to exceed 20 consecutive quarters. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at maturity or their earlier redemption. The junior subordinated debentures are redeemable in whole or in part prior to maturity at any time after the earliest redemption dates shown in the table, and earlier at the discretion of the Company if certain conditions are met, and, in any event, only after the Company has obtained Federal Reserve approval, if then required under applicable guidelines or regulations.

The junior subordinated debentures, subject to certain limitations, qualify as Tier 1 capital of the Company for regulatory purposes. The amount of junior subordinated debentures and certain other capital elements in excess of those certain limitations could be included in Tier 2 capital, subject to restrictions. At March 31, 2012, all of the junior subordinated debentures, net of the Common Securities, were included in the Company's Tier 1 regulatory capital.

(13) Segment Information

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

The Company's operations consist of three primary segments: community banking, specialty finance and wealth management.

The three reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. In addition, each segment's customer base has varying characteristics. The community banking segment has a different regulatory environment than the specialty finance and wealth management segments. While the Company's management monitors each of the fifteen bank subsidiaries' operations and profitability separately, these subsidiaries have been aggregated into one reportable operating segment due to the similarities in products and services, customer base, operations, profitability measures, and economic characteristics.

Table of Contents

The net interest income, net revenue and segment profit of the community banking segment includes income and related interest costs from portfolio loans that were purchased from the specialty finance segment. For purposes of internal segment profitability analysis, management reviews the results of its specialty finance segment as if all loans originated and sold to the community banking segment were retained within that segment's operations, thereby causing inter-segment eliminations. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates a portion of the net interest income earned by the community banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. See Note 10 – Deposits, for more information on these deposits.

The segment financial information provided in the following tables has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the segments are generally the same as those described in Summary of Significant Accounting Policies in Note 1 of the Company's 2011 Form 10-K. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. Intersegment revenue and transfers are generally accounted for at current market prices. The parent and intersegment eliminations reflected parent company information and intersegment eliminations.

The following is a summary of certain operating information for reportable segments:

(Dollars in thousands)	Three Months Ended		\$ Change in Contribution	% Change in Contribution
	2012	March 31, 2011		
Net interest income:				
Community banking	\$ 121,134	\$ 101,231	\$ 19,903	20%
Specialty finance	28,191	28,032	159	1
Wealth management	1,724	2,553	(829)	(32)
Parent and inter-segment eliminations	(25,154)	(22,202)	(2,952)	(13)
Total net interest income	\$ 125,895	\$ 109,614	\$ 16,281	15%
Non-interest income:				
Community banking	\$ 31,786	\$ 28,491	\$ 3,295	12%
Specialty finance	766	717	49	7
Wealth management	15,237	12,998	2,239	17
Parent and inter-segment eliminations	(766)	(1,319)	553	(42)
Total non-interest income	\$ 47,023	\$ 40,887	\$ 6,136	15%
Net revenue:				
Community banking	\$ 152,920	\$ 129,722	\$ 23,198	18%
Specialty finance	28,957	28,749	208	1
Wealth management	16,961	15,551	1,410	9
Parent and inter-segment eliminations	(25,920)	(23,521)	(2,399)	(10)
Total net revenue	\$ 172,918	\$ 150,501	\$ 22,417	15%
Segment profit (loss):				
Community banking	\$ 26,975	\$ 17,641	\$ 9,334	53%
Specialty finance	12,465	12,552	(87)	(1)
Wealth management	1,496	1,723	(227)	(13)
Parent and inter-segment eliminations	(17,726)	(15,514)	(2,212)	(14)
Total segment profit (loss)	\$ 23,210	\$ 16,402	\$ 6,808	42%

Segment assets:				
Community banking	\$ 15,640,198	\$ 13,265,554	\$ 2,374,644	18%
Specialty finance	3,387,001	3,038,179	348,822	11
Wealth management	95,275	63,128	32,147	51
Parent and inter-segment eliminations	(2,950,456)	(2,272,567)	(677,889)	(30)
Total segment assets	\$ 16,172,018	\$ 14,094,294	\$ 2,077,724	15%

Table of Contents**(14) Derivative Financial Instruments**

The Company enters into derivative financial instruments as part of its strategy to manage its exposure to changes in interest rates. Derivative instruments represent contracts between parties that result in one party delivering cash to the other party based on a notional amount and an underlying (such as a rate, security price or price index) as specified in the contract. The amount of cash delivered from one party to the other is determined based on the interaction of the notional amount of the contract with the underlying. Derivatives are also implicit in certain contracts and commitments.

The derivative financial instruments currently used by the Company to manage its exposure to interest rate risk include: (1) interest rate swaps and caps to manage the interest rate risk of certain variable rate liabilities; (2) interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market; (3) forward commitments for the future delivery of such mortgage loans to protect the Company from adverse changes in interest rates and corresponding changes in the value of mortgage loans available-for-sale; and (4) covered call options related to specific investment securities to enhance the overall yield on such securities. The Company also enters into derivatives (typically interest rate swaps) with certain qualified borrowers to facilitate the borrowers' risk management strategies and concurrently enters into mirror-image derivatives with a third party counterparty, effectively making a market in the derivatives for such borrowers.

As required by ASC 815, the Company recognizes derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Derivative financial instruments are included in other assets or other liabilities, as appropriate, on the Consolidated Statements of Condition. Changes in the fair value of derivative financial instruments are either recognized in income or in shareholders' equity as a component of other comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting and, if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income in the same period and in the same income statement line as changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivative financial instruments accounted for as cash flow hedges, to the extent they are effective hedges, are recorded as a component of other comprehensive income, net of deferred taxes, and reclassified to earnings when the hedged transaction affects earnings. Changes in fair values of derivative financial instruments not designated in a hedging relationship pursuant to ASC 815, including changes in fair value related to the ineffective portion of cash flow hedges, are reported in non-interest income during the period of the change. Derivative financial instruments are valued by a third party and are periodically validated by comparison with valuations provided by the respective counterparties. Fair values of certain mortgage banking derivatives (interest rate lock commitments and forward commitments to sell mortgage loans on a best efforts basis) are estimated based on changes in mortgage interest rates from the date of the loan commitment.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Condition as of March 31, 2012 and 2011:

(Dollars in thousands)	Derivative Assets Fair Value			Derivative Liabilities Fair Value		
	Balance Sheet Location	March 31, 2012	March 31, 2011	Balance Sheet Location	March 31, 2012	March 31, 2011
<i>Derivatives designated as hedging instruments under ASC 815:</i>						
Interest rate derivatives designated as Cash Flow Hedges	Other assets	\$ 61	\$	Other liabilities	\$ 10,178	\$ 10,977
<i>Derivatives not designated as hedging instruments under ASC 815:</i>						
Interest rate derivatives	Other assets	34,966	12,361	Other liabilities	34,706	12,828
Interest rate lock commitments	Other assets	3,789	1,961	Other liabilities	368	567
Forward commitments to sell mortgage loans	Other assets	404	583	Other liabilities	1,112	1,705
<i>Total derivatives not designated as hedging instruments under ASC 815</i>		\$ 39,159	\$ 14,905		\$ 36,186	\$ 15,100

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Total derivatives	\$ 39,220	\$ 14,905	\$ 46,364	\$ 26,077
-------------------	-----------	-----------	-----------	-----------

Table of Contents**Cash Flow Hedges of Interest Rate Risk**

The Company's objectives in using interest rate derivatives are to add stability to net interest income and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps and interest rate caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of payments at the end of each period in which the interest rate specified in the contract exceed the agreed upon strike price. As of March 31, 2012, the Company had four interest rate swaps and two interest rate caps with an aggregate notional amount of \$225 million that were designated as cash flow hedges of interest rate risk. The table below provides details on each of these cash flow hedges as of March 31, 2012:

(Dollars in thousands)	March 31, 2012	
	Notional Amount	Fair Value Gain (Loss)
Maturity Date		
<i>Interest Rate Swaps:</i>		
September 2013	50,000	(3,500)
September 2013	40,000	(2,878)
September 2016	50,000	(2,500)
October 2016	25,000	(1,300)
Total Interest Rate Swaps	165,000	(10,178)
<i>Interest Rate Caps:</i>		
September 2014	20,000	20
September 2014	40,000	41
Total Interest Rate Caps	60,000	61
Total Cash Flow Hedges	\$ 225,000	\$ (10,117)

Since entering into these interest rate derivatives, the Company has used them to hedge the variable cash outflows associated with interest expense on the Company's junior subordinated debentures. The effective portion of changes in the fair value of these cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified to interest expense as interest payments are made on the Company's variable rate junior subordinated debentures. The changes in fair value (net of tax) are separately disclosed in the consolidated statements of comprehensive income. The ineffective portion of the change in fair value of these derivatives is recognized directly in earnings; however, no hedge ineffectiveness was recognized during the three months ended March 31, 2012 or March 31, 2011. The Company uses the hypothetical derivative method to assess and measure effectiveness.

A rollforward of the amounts in accumulated other comprehensive income related to interest rate derivatives designated as cash flow hedges follows:

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Unrealized loss at beginning of period	\$ (11,633)	\$ (13,323)
Amount reclassified from accumulated other comprehensive income to interest expense on junior subordinated debentures	1,410	2,172
Amount of loss recognized in other comprehensive income	(614)	(51)
Unrealized loss at end of period	\$ (10,837)	\$ (11,202)

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

As of March 31, 2012, the Company estimates that during the next twelve months, \$5.8 million will be reclassified from accumulated other comprehensive income as an increase to interest expense.

Non-Designated Hedges

The Company does not use derivatives for speculative purposes. Derivatives not designated as hedges are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of ASC 815. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

Interest Rate Derivatives The Company has interest rate derivatives, including swaps and option products, resulting from a service the Company provides to certain qualified borrowers. The Company's banking subsidiaries execute certain derivative products (typically interest rate swaps) directly with qualified commercial borrowers to facilitate their respective risk management strategies. For example, these arrangements allow the Company's commercial borrowers to effectively convert a variable rate loan to a fixed rate. In order to minimize the Company's exposure on these transactions, the Company simultaneously executes offsetting derivatives

Table of Contents

with third parties. In most cases, the offsetting derivatives have mirror-image terms, which result in the positions' changes in fair value substantially offsetting through earnings each period. However, to the extent that the derivatives are not a mirror-image and because of differences in counterparty credit risk, changes in fair value will not completely offset resulting in some earnings impact each period. Changes in the fair value of these derivatives are included in other non-interest income. At March 31, 2012, the Company had interest rate derivative transactions with an aggregate notional amount of approximately \$1.6 billion (all interest rate swaps) related to this program. These interest rate derivatives had maturity dates ranging from April 2012 to January 2033.

Mortgage Banking Derivatives These derivatives include interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on its commitments to fund the loans as well as on its portfolio of mortgage loans held-for-sale. The Company's mortgage banking derivatives have not been designated as being in hedge relationships. At March 31, 2012, the Company had forward commitments to sell mortgage loans with an aggregate notional amount of approximately \$675.4 million. At March 31, 2012, the Company had interest rate lock commitments with an aggregate notional amount of approximately \$358.5 million. Additionally, the Company's total mortgage loans held-for-sale at March 31, 2012 was \$350.3 million. The fair values of these derivatives were estimated based on changes in mortgage rates from the dates of the commitments. Changes in the fair value of these mortgage banking derivatives are included in mortgage banking revenue.

Other Derivatives Periodically, the Company will sell options to a bank or dealer for the right to purchase certain securities held within the Banks' investment portfolios (covered call options). These option transactions are designed primarily to increase the total return associated with the investment securities portfolio. These options do not qualify as hedges pursuant to ASC 815, and, accordingly, changes in fair value of these contracts are recognized as other non-interest income. There were no covered call options outstanding as of March 31, 2012, December 31, 2011 or March 31, 2011.

Amounts included in the consolidated statements of income related to derivative instruments not designated in hedge relationships were as follows:

(Dollars in thousands)	Derivative	Location in income statement	Three Months Ended	
			March 31,	
			2012	2011
	Interest rate swaps and floors	Other income	\$ 151	\$ (534)
	Mortgage banking derivatives	Mortgage banking revenue	1,347	(1,343)
	Covered call options	Other income	3,123	2,470

Credit Risk

Derivative instruments have inherent risks, primarily market risk and credit risk. Market risk is associated with changes in interest rates and credit risk relates to the risk that the counterparty will fail to perform according to the terms of the agreement. The amounts potentially subject to market and credit risks are the streams of interest payments under the contracts and the market value of the derivative instrument and not the notional principal amounts used to express the volume of the transactions. Market and credit risks are managed and monitored as part of the Company's overall asset-liability management process, except that the credit risk related to derivatives entered into with certain qualified borrowers is managed through the Company's standard loan underwriting process since these derivatives are secured through collateral provided by the loan agreements. Actual exposures are monitored against various types of credit limits established to contain risk within parameters. When deemed necessary, appropriate types and amounts of collateral are obtained to minimize credit exposure.

The Company has agreements with certain of its interest rate derivative counterparties that contain cross-default provisions, which provide that if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. The Company also has agreements with certain of its derivative counterparties that contain a provision allowing the counter party to terminate the derivative positions if the Company fails to maintain its status as a well or adequate capitalized institution, which would require the Company to settle its obligations under the agreements. As of March 31, 2012, the fair value of interest rate derivatives in a net liability position, which includes accrued interest related to these agreements, was \$46.1 million. As of March 31, 2012 the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral consisting of \$7.1 million of cash and \$29.4 million of securities. If the Company had breached any of these provisions at March 31, 2012 it would have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

The Company is also exposed to the credit risk of its commercial borrowers who are counterparties to interest rate derivatives with the Banks. This counterparty risk related to the commercial borrowers is managed and monitored through the Banks' standard underwriting process applicable to loans since these derivatives are secured through collateral provided by the loan agreement. The

Table of Contents

counterparty risk associated with the mirror-image swaps executed with third parties is monitored and managed in connection with the Company's overall asset liability management process.

(15) Fair Values of Assets and Liabilities

The Company measures, monitors and discloses certain of its assets and liabilities on a fair value basis. These financial assets and financial liabilities are measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the assumptions used to determine fair value. These levels are:

Level 1 unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 significant unobservable inputs that reflect the Company's own assumptions that market participants would use in pricing the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the above valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities. Following is a description of the valuation methodologies used for the Company's assets and liabilities measured at fair value on a recurring basis.

Available-for-sale and trading account securities Fair values for available-for-sale and trading securities are typically based on prices obtained from independent pricing vendors. Securities measured with these valuation techniques are generally classified as Level 2 of the fair value hierarchy. Typically, standard inputs such as benchmark yields, reported trades for similar securities, issuer spreads, benchmark securities, bids, offers and reference data including market research publications are used to fair value a security. When these inputs are not available, broker/dealer quotes may be obtained by the vendor to determine the fair value of the security. We review the vendor's pricing methodologies to determine if observable market information is being used, versus unobservable inputs. Fair value measurements using significant inputs that are unobservable in the market due to limited activity or a less liquid market are classified as Level 3 in the fair value hierarchy.

The Company's Investment Operations Department is responsible for the valuation of Level 3 available-for-sale securities. The methodology and variables used as inputs in pricing Level 3 securities are derived from a combination of observable and unobservable inputs. The unobservable inputs are determined through internal assumptions that may vary from period to period due to external factors, such as market movement and credit rating adjustments.

At March 31, 2012, the Company classified \$25.5 million of municipal securities as Level 3. These municipal securities are bond issues for various municipal government entities, including park districts, located in the Chicago metropolitan area and southeastern Wisconsin and are privately placed, non-rated bonds without CUSIP numbers. The Company's methodology for pricing the non-rated bonds focuses on three distinct inputs: equivalent rating, yield and other pricing terms. To determine the rating for a given non-rated municipal bond, the Investment Operations Department references a publicly issued bond by the same issuer if available. A reduction is then applied to the rating obtained from the comparable bond, as the Company believes if liquidated, a non-rated bond would be valued less than a similar bond with a verifiable rating. The reduction applied by the Company is one complete rating grade (i.e. a AA rating for a comparable bond would be reduced to A for the Company's valuation). In the first quarter of 2012, all of the ratings derived in the above process by Investment Operations were BBB or better, for both bonds with and without comparable bond proxies. The fair value measurement of municipal bonds is sensitive to the rating input, as a higher rating typically results in an increased valuation. The remaining pricing inputs used in the bond valuation are observable. Based on the rating determined in the above process, Investment Operations obtains a corresponding current market yield curve available to market participants. Other terms including coupon, maturity date, redemption price, number of coupon payments, and accrual method are obtained from the individual bond term sheets. Certain municipal bonds held by the Company at March 31, 2012 have a call date that has passed, and are now continuously callable. When valuing these bonds, the fair value is capped at par value as the Company assumes a market participant would not

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

pay more than par for a continuously callable bond.

At March 31, 2012, the Company held \$21.2 million of other equity securities classified as Level 3. The securities in Level 3 are comprised entirely of auction rate preferred securities. The Company utilizes an independent pricing vendor to provide a fair market valuation of these securities. The vendor's valuation methodology includes modeling the contractual cash flows of the underlying preferred securities and applying a discount to these cash flows by a credit spread derived from the market price of the securities underlying debt. At March 31, 2012, the vendor considered five different securities whose implied credit spreads were believed to provide a proxy for the Company's auction rate preferred securities. The credit spreads ranged from 1.89%-2.23% with an average of 2.09% which was added to three-month LIBOR to be used as the discount rate input to the vendor's model. Fair value of the

Table of Contents

securities is sensitive to the discount rate utilized as a higher discount rate results in a decreased fair value measurement.

Mortgage loans held-for-sale Mortgage loans originated by Wintrust Mortgage are carried at fair value. The fair value of mortgage loans held-for-sale is determined by reference to investor price sheets for loan products with similar characteristics.

Mortgage servicing rights Fair value for mortgage servicing rights is determined utilizing a third party valuation model which stratifies the servicing rights into pools based on product type and interest rate. The fair value of each servicing rights pool is calculated based on the present value of estimated future cash flows using a discount rate commensurate with the risk associated with that pool, given current market conditions. At March 31, 2012, the Company classified \$7.2 million of mortgage servicing rights as Level 3. The weighted average discount rate used as an input to value the pool of mortgage servicing rights at March 31, 2012 was 10.26% with discounts applied ranging from 10%-13.5%. The higher the rate utilized to discount estimated future cash flows, the lower the fair value measurement. Additionally, fair value estimates include assumptions about prepayment speeds which ranged from 16%-24% or a weighted average prepayment speed of 18.99% used as an input to value the pool of mortgage servicing rights at March 31, 2012. Prepayment speeds are inversely related to the fair value of mortgage servicing rights as an increase in prepayment speeds results in a decreased valuation.

Derivative instruments The Company's derivative instruments include interest rate swaps and caps, commitments to fund mortgages for sale into the secondary market (interest rate locks) and forward commitments to end investors for the sale of mortgage loans. Interest rate swaps and caps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. The fair value for mortgage derivatives is based on changes in mortgage rates from the date of the commitments. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election in the first quarter of 2012 to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Nonqualified deferred compensation assets The underlying assets relating to the nonqualified deferred compensation plan are included in a trust and primarily consist of non-exchange traded institutional funds which are priced based by an independent third party service.

Table of Contents

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis for the periods presented:

(Dollars in thousands)	Total	March 31, 2012		
		Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	\$ 23,189	\$	\$ 23,189	\$
U.S. Government agencies	682,780		682,780	
Municipal	69,915		44,380	25,535
Corporate notes and other	168,816		168,816	
Mortgage-backed	886,148		886,148	
Equity securities	38,496		17,272	21,224
Trading account securities	1,140		1,140	
Mortgage loans held-for-sale	339,600		339,600	
Mortgage servicing rights	7,201			7,201
Nonqualified deferred compensations assets	5,315		5,315	
Derivative assets	39,220		39,220	
Total	\$ 2,261,820	\$	\$ 2,207,860	\$ 53,960
Derivative liabilities	\$ 46,364	\$	\$ 46,364	\$

(Dollars in thousands)	Total	March 31, 2011		
		Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	\$ 96,160	\$	\$ 96,160	\$
U.S. Government agencies	795,854		795,854	
Municipal	48,406		32,812	15,594
Corporate notes and other	235,573		225,860	9,713
Mortgage-backed	493,943		491,220	2,723
Equity securities	40,385		11,640	28,745
Trading account securities	2,229		1,589	640
Mortgage loans held-for-sale	92,151		92,151	
Mortgage servicing rights	9,448			9,448
Nonqualified deferred compensations assets	3,845		3,845	
Derivative assets	14,905		14,905	
Total	\$ 1,832,899	\$	\$ 1,766,036	\$ 66,863
Derivative liabilities	\$ 26,077	\$	\$ 26,077	\$

The aggregate remaining contractual principal balance outstanding as of March 31, 2012 and 2011 for mortgage loans held-for-sale measured at fair value was \$329.9 million and \$92.1 million, respectively, while the aggregate fair value of mortgage loans held-for-sale was \$339.6 million and \$92.2 million, respectively, as shown in the above tables. There were no nonaccrual loans or loans past due greater than 90 days and still accruing in the mortgage loans held-for-sale portfolio measured at fair value as of March 31, 2012 and 2011.

Table of Contents

The changes in Level 3 assets measured at fair value on a recurring basis during the three months ended March 31, 2012 are summarized as follows:

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at December 31, 2011	\$ 24,211	\$ 18,971	\$ 6,700
Total net gains (losses) included in:			
Net income ⁽¹⁾			501
Other comprehensive income	2	2,253	
Purchases	3,840		
Issuances			
Sales			
Settlements	(116)		
Net transfers into/(out of) Level 3 ⁽²⁾	(2,402)		
Balance at March 31, 2012	\$ 25,535	\$ 21,224	\$ 7,201

- (1) Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income.
(2) During the first quarter of 2012, one municipal security was transferred out of Level 3 into Level 2 as observable market information was available that market participants would use in pricing these securities. Transfers out of Level 3 are recognized at the end of the reporting period.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis during the three months ended March 31, 2011 are summarized as follows:

(Dollars in thousands)	Municipal	Corporate notes and other debt	Mortgage-backed	Equity securities	Trading Account Securities	Mortgage servicing rights
Balance at December 31, 2010	\$ 16,416	\$ 9,841	\$ 2,460	\$ 28,672	\$ 4,372	\$ 8,762
Total net gains (losses) included in:						
Net income ⁽¹⁾		(128)	(14)			686
Other comprehensive income				73		
Purchases	3,957		277			
Issuances						
Sales	(4,779)				(3,732)	
Settlements						
Net transfers into/(out of) Level 3						
Balance at March 31, 2011	\$ 15,594	\$ 9,713	\$ 2,723	\$ 28,745	\$ 640	\$ 9,448

- (1) Income for Corporate notes, other debt and mortgage-backed is recognized as a component of interest income on securities. Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income.

Table of Contents

Also, the Company may be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or market accounting or impairment charges of individual assets. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at the end of the period, the following table provides the carrying value of the related individual assets or portfolios at March 31, 2012.

					Three Months Ended
					March 31, 2012
(Dollars in thousands)	March 31, 2012				Fair Value Losses Recognized
	Total	Level 1	Level 2	Level 3	
Impaired loans - collateral based	\$ 165,604	\$	\$	\$ 165,604	\$ 5,965
Other real estate owned	76,236			76,236	7,328
Mortgage loans held-for-sale, at lower of cost or market	10,728		10,728		
Total	\$ 252,568	\$	\$ 10,728	\$ 241,840	\$ 13,293

Impaired loans A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. A loan restructured in a troubled debt restructuring is an impaired loan according to applicable accounting guidance. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the fair value of the underlying collateral. Impaired loans are considered a fair value measurement where an allowance is established based on the fair value of collateral. Appraised values, which may require adjustments to market-based valuation inputs, are generally used on real estate collateral-dependent impaired loans.

The Company's Managed Assets Division is primarily responsible for the valuation of Level 3 measurements of impaired loans. For more information on the Managed Assets Division review of impaired loans refer to Note 7 Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans. At March 31, 2012, the Company had \$252.0 million of impaired loans classified as Level 3. Of the \$252.0 million of impaired loans, \$165.6 million were measured at fair value based on the underlying collateral of the loan as shown in the table above. The remaining \$86.4 million were valued based on discounted cash flows in accordance with ASC 310.

Other real estate owned Other real estate owned is comprised of real estate acquired in partial or full satisfaction of loans and is included in other assets. Other real estate owned is recorded at its estimated fair value less estimated selling costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the allowance for loan losses. Subsequent changes in value are reported as adjustments to the carrying amount and are recorded in other non-interest expense. Gains and losses upon sale, if any, are also charged to other non-interest expense. Fair value is generally based on third party appraisals and internal estimates and is therefore considered a Level 3 valuation.

Similar to impaired loans, the Company's Managed Assets Division is primarily responsible for the valuation of Level 3 measurements for other real estate owned. At March 31, 2012, the Company had \$76.2 million of other real estate owned classified as Level 3. The unobservable input applied to other real estate owned relates to the valuation adjustment determined by the Company's appraisals. The impairment adjustments applied to other real estate owned range from 0%-60% of the carrying value at March 31, 2012, with a weighted average input of 9.3%. An increased impairment adjustment applied to the carrying value results in a decreased valuation.

Mortgage loans held-for-sale, at lower of cost or market Fair value is based on either quoted prices for the same or similar loans, or values obtained from third parties, or is estimated for portfolios of loans with similar financial characteristics and is therefore considered a Level 2 valuation.

Table of Contents

The Company is required under applicable accounting guidance to report the fair value of all financial instruments on the consolidated statements of condition, including those financial instruments carried at cost. The carrying amounts and estimated fair values of the Company's financial instruments as of the dates shown:

(Dollars in thousands)	At March 31, 2012		At December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 160,602	\$ 160,602	\$ 169,704	\$ 169,704
Interest bearing deposits with banks	900,755	900,755	749,287	749,287
Available-for-sale securities	1,869,344	1,869,344	1,291,797	1,291,797
Trading account securities	1,140	1,140	2,490	2,490
Brokerage customer receivables	31,085	31,085	27,925	27,925
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	88,216	88,216	100,434	100,434
Mortgage loans held-for-sale, at fair value	339,600	339,600	306,838	306,838
Mortgage loans held-for-sale, at lower of cost or market	10,728	10,905	13,686	13,897
Total loans	11,408,604	11,798,811	11,172,745	11,590,729
Mortgage servicing rights	7,201	7,201	6,700	6,700
Nonqualified deferred compensation assets	5,315	5,315	4,299	4,299
Derivative assets	39,220	39,220	38,607	38,607
FDIC indemnification asset	263,212	263,212	344,251	344,251
Accrued interest receivable and other	153,755	153,755	147,207	147,207
Total financial assets	\$ 15,278,777	\$ 15,669,161	\$ 14,375,970	\$ 14,794,165
Financial Liabilities				
Non-maturity deposits	\$ 7,841,467	7,841,467	\$ 7,424,367	\$ 7,424,367
Deposits with stated maturities	4,824,386	4,859,697	4,882,900	4,917,740
Notes payable	52,639	52,639	52,822	52,822
Federal Home Loan Bank advances	466,391	498,504	474,481	507,368
Subordinated notes	35,000	35,000	35,000	35,000
Other borrowings	411,037	411,037	443,753	443,753
Secured borrowings - owed to securitization investors	428,000	430,044	600,000	603,294
Junior subordinated debentures	249,493	177,355	249,493	185,199
Derivative liabilities	46,364	46,364	50,081	50,081
Accrued interest payable and other	11,531	11,531	12,952	12,952
Total financial liabilities	\$ 14,366,308	\$ 14,363,638	\$ 14,225,849	\$ 14,232,576

Not all the financial instruments listed in the table above are subject to the disclosure provisions of ASC Topic 820, as certain assets and liabilities result in their carrying value approximating fair value. These include cash and cash equivalents, interest bearing deposits with banks, brokerage customer receivables, FHLB and FRB stock, FDIC indemnification asset, accrued interest receivable and accrued interest payable, non-maturity deposits, notes payable, subordinated notes and other borrowings.

The following methods and assumptions were used by the Company in estimating fair values of financial instruments that were not previously disclosed.

Loans. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are analyzed by type such as commercial, residential real estate, etc. Each category is further segmented by interest rate type (fixed and variable) and term. For variable-rate loans that reprice frequently, estimated fair values are based on carrying values. The fair value of residential loans is based on secondary market sources for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value for other fixed rate loans is estimated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect credit and interest rate risks inherent in the loan. The primary impact of credit risk on the present value of the loan portfolio, however, was accommodated through the use of

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

the allowance for loan losses, which is believed to represent the current fair value of probable incurred losses for purposes of the fair value calculation. In accordance with ASC 820, the Company has categorized loans as a Level 3 fair value measurement.

Deposits with stated maturities. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently in effect for deposits of similar remaining maturities. In accordance with ASC 820, the Company has categorized deposits with stated maturities as a Level 3 fair value measurement.

Table of Contents

Federal Home Loan Bank advances. The fair value of Federal Home Loan Bank advances is obtained from the Federal Home Loan Bank which uses a discounted cash flow analysis based on current market rates of similar maturity debt securities to discount cash flows. In accordance with ASC 820, the Company has categorized Federal Home Loan Bank advances as a Level 3 fair value measurement.

Secured borrowings owed to securitization investors. The fair value of secured borrowings owed to securitization investors is based on the discounted value of expected cash flows. In accordance with ASC 820, the Company has categorized secured borrowings owed to securitization investors as a Level 3 fair value measurement.

Junior subordinated debentures. The fair value of the junior subordinated debentures is based on the discounted value of contractual cash flows. In accordance with ASC 820, the Company has categorized junior subordinated debentures as a Level 3 fair value measurement.

Table of Contents**(16) Stock-Based Compensation Plans**

The 2007 Stock Incentive Plan (the 2007 Plan), which was approved by the Company s shareholders in January 2007, permits the grant of incentive stock options, nonqualified stock options, rights and restricted stock, as well as the conversion of outstanding options of acquired companies to Wintrust options. The 2007 Plan initially provided for the issuance of up to 500,000 shares of common stock. In May 2009 and May 2011, the Company s shareholders approved an additional 325,000 shares and 2,860,000 shares, respectively, of common stock that may be offered under the 2007 Plan. All grants made after 2006 have been made pursuant to the 2007 Plan, and as of March 31, 2012, assuming all performance-based shares will be exercised at the maximum levels, 1,339,702 shares were available for future grants. The 2007 Plan replaced the Wintrust Financial Corporation 1997 Stock Incentive Plan (the 1997 Plan) which had substantially similar terms. The 2007 Plan and the 1997 Plan are collectively referred to as the Plans. The Plans cover substantially all employees of Wintrust.

The Company historically awarded stock-based compensation in the form of nonqualified stock options and time-vested restricted share awards (restricted shares). In general, the grants of options provide for the purchase shares of Wintrust s common stock at the fair market value of the stock on the date the options are granted. Options under the 2007 Plan generally vest ratably periods over periods of three to five years and have a maximum term of seven years from the date of grant. Stock options granted under the 1997 Plan provided for a maximum term of ten years. Restricted shares entitle the holders to receive, at no cost, shares of the Company s common stock. Restricted shares generally vest over periods of one to five years from the date of grant.

In August 2011, awards were granted to key employees under a Long-Term Incentive Program (LTIP) administered under the 2007 Plan. The LTIP was designed in part to align the interests of management with the interests of shareholders, foster retention, create a long-term focus based on sustainable results and provide participants a target long-term incentive opportunity. The target awards include three components time vested nonqualified stock options, performance-vested stock awards and performance-vested cash awards. The first grant of these awards was made in August 2011 and a second grant was made in January 2012. It is anticipated that awards will be granted annually. Stock options granted under the LTIP have a term of seven years and will generally vest equally over three years based on continued service. The performance stock awards and performance cash awards are measured based on the achievement of pre-established targets at the end of the performance period, which will generally be three years from the date of grant. The actual performance-based award payouts will vary based on the achievement of the pre-established targets and can range from 0% to 200% of the target award. The first grant of these awards, made in August 2011, has a final performance measurement date of December 31, 2013, resulting in an initial period of less than three years. The performance-based awards granted in January 2012 have a final performance measurement date of December 31, 2014.

Holders of restricted share awards and performance-vested stock awards are not entitled to vote or receive cash dividends (or cash payments equal to the cash dividends) on the underlying common shares until the awards are vested. Except in limited circumstances, these awards are canceled upon termination of employment without any payment of consideration by the Company.

The Compensation Committee of the Board of Directors administers all stock-based compensation programs and authorizes all awards granted pursuant to the Plans.

Stock-based compensation is measured as the fair value of an award on the date of grant, and the measured cost is recognized over the period which the recipient is required to provide service in exchange for the award. Performance-vested stock awards are measured based on the expected achievement of pre-established targets at the end of the performance period. The fair values of restricted shares and performance-vested stock awards are determined based on the average of the high and low trading prices on the grant date, and the fair value of stock options is estimated using a Black-Scholes option-pricing model that utilizes the assumptions outlined in the following table. Option-pricing models require the input of highly subjective assumptions and are sensitive to changes in the option s expected life and the price volatility of the underlying stock, which can materially affect the fair value estimate. Expected life has been based on historical exercise and termination behavior as well as the term of the option, but the expected life of the options granted pursuant to the LTIP awards was based on the safe harbor rule of the SEC Staff Accounting Bulletin No. 107 Share-Based Payment as the Company believes historical exercise data may not provide a reasonable basis to estimate the expected term of these options. Expected stock price volatility is based on historical volatility of the Company s common stock, which correlates with the expected life of the options, and the risk-free interest rate is based on comparable U.S. Treasury rates. Management reviews and adjusts the assumptions used to calculate the fair value of an option on a periodic basis to better reflect expected trends.

Table of Contents

The following table presents the weighted average assumptions used to determine the fair value of options granted in the three month period ending March 31, 2012. No options were granted in the three months ending March 31, 2011.

	Three Months Ended March 31, 2012
Expected dividend yield	0.6%
Expected volatility	62.7%
Risk-free rate	0.7%
Expected option life (in years)	4.5

Stock based compensation is recognized based upon the number of awards that are ultimately expected to vest. Forfeitures are estimated based on historical forfeiture experience. For performance-vested awards, an estimate is made of the number of shares expected to vest as a result of actual performance against the performance criteria to determine the amount of compensation expense to be recognized. The estimate is reevaluated periodically and total compensation expense is adjusted for any change in estimate in the current period.

Stock-based compensation expense recognized in the Consolidated Statements of Income was \$2.3 million and \$1.1 million, in the first quarters of 2012 and 2011, respectively.

A summary of stock option activity under the Plans for the three months ended March 31, 2012 and March 31, 2011 is presented below:

	0000000000	0000000000	0000000000	0000000000
<i>Stock Options</i>	Common Shares	Weighted Average Strike Price	Remaining Contractual Term ⁽¹⁾	Intrinsic Value ⁽²⁾ (\$000)
Outstanding at January 1, 2012	2,064,534	\$ 38.83		
Granted	243,116	30.98		
Exercised	(388,390)	19.74		
Forfeited or canceled	(14,250)	33.64		
Outstanding at March 31, 2012	1,905,010	\$ 41.75	3.5	\$ 4,059
Exercisable at March 31, 2012	1,407,357	\$ 45.38	2.6	\$ 1,889

	0000000000	0000000000	0000000000	0000000000
<i>Stock Options</i>	Common Shares	Weighted Average Strike Price	Remaining Contractual Term ⁽¹⁾	Intrinsic Value ⁽²⁾ (\$000)
Outstanding at January 1, 2011	2,040,701	\$ 38.92		
Granted				
Exercised	(32,748)	13.87		
Forfeited or canceled	(87,899)	47.34		
Outstanding at March 31, 2011	1,920,054	\$ 38.97	3.0	\$ 10,297
Exercisable at March 31, 2011	1,731,514	\$ 39.72	2.8	\$ 9,218

⁽¹⁾ Represents the weighted average contractual life remaining in years.

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

⁽²⁾ *Aggregate intrinsic value represents the total pre-tax intrinsic value (i.e., the difference between the Company's average of the high and low stock price on the last trading day of the quarter and the option exercise price, multiplied by the number of shares) that would have been received by the option holders if they had exercised their options on the last day of the quarter. This amount will change based on the fair market value of the Company's stock.*

The weighted average grant date fair value per share of options granted during the three months ended March 31, 2012 and 2011 was \$14.91 and \$16.34, respectively. The aggregate intrinsic value of options exercised during the three months ended March 31, 2012 and 2011, was \$4.5 million and \$625,000, respectively.

Table of Contents

A summary of restricted share and performance-vested stock award activity under the Plans for the three months ended March 31, 2012 and March 31, 2011 is presented below:

	0000000000 Three Months Ended March 31, 2012	0000000000 Weighted Average Grant-Date Fair Value	0000000000 Three Months Ended March 31, 2011	0000000000 Weighted Average Grant-Date Fair Value
	Common Shares		Common Shares	
Restricted Shares				
Outstanding at January 1	336,709	\$ 38.29	299,040	\$ 39.44
Granted	84,851	30.98	63,385	33.51
Vested and issued	(93,825)	34.94	(11,248)	34.53
Forfeited	(959)	30.98		
Outstanding at March 31	326,776	\$ 37.38	351,177	\$ 38.53
Vested, but not issuable at March 31	85,000	\$ 51.88	85,000	\$ 51.88

	0000000000 Three Months Ended March 31, 2012	0000000000 Weighted Average Grant-Date Fair Value	0000000000 Three Months Ended March 31, 2011	0000000000 Weighted Average Grant-Date Fair Value
	Common Shares		Common Shares	
Performance Shares				
Outstanding at January 1	72,158	\$ 33.25		\$
Granted	116,939	30.98		
Vested and issued				
Net change due to estimated performance				
Forfeited	(3,481)	31.91		
Outstanding at March 31	185,616	\$ 31.85		\$

The number of performance-vested shares outstanding in the above table reflects the estimated number of shares to be issued based on management's current assessment of attaining the pre-established performance measures. At March 31, 2012, the maximum number of performance-vested shares that could be issued based on the grants made to date was 426,262 shares.

The Company issues new shares to satisfy option exercises and vesting of restricted shares.

Table of Contents**(17) Shareholders' Equity and Earnings Per Share***Tangible Equity Units*

In December 2010, the Company sold 4.6 million 7.50% tangible equity units (TEU) at a public offering price of \$50.00 per unit. The Company received net proceeds of \$222.7 million after deducting underwriting discounts and commissions and estimated offering expenses. Each tangible equity unit is composed of a prepaid common stock purchase contract and a junior subordinated amortizing note due December 15, 2013. The prepaid stock purchase contracts have been recorded as surplus (a component of shareholders' equity), net of issuance costs, and the junior subordinated amortizing notes have been recorded as debt within other borrowings. Issuance costs associated with the debt component are recorded as a discount within other borrowings and will be amortized over the term of the instrument to December 15, 2013. The Company allocated the proceeds from the issuance of the TEU to equity and debt based on the relative fair values of the respective components of each unit.

The aggregate fair values assigned to each component of the TEU offering at the issuance date were as follows:

(Dollars in thousands, except per unit amounts)	Equity Component	Debt Component	TEU Total
Units issued ⁽¹⁾	4,600	4,600	4,600
Unit price	\$ 40.271818	\$ 9.728182	\$ 50.00
Gross proceeds	185,250	44,750	230,000
Issuance costs, including discount	5,934	1,419	7,353
Net proceeds	\$ 179,316	\$ 43,331	\$ 222,647
<i>Balance sheet impact</i>			
Other borrowings		43,331	43,331
Surplus	179,316		179,316

(1) TEUs consist of two components: one unit of the equity component and one unit of the debt component.

The fair value of the debt component was determined using a discounted cash flow model using the following assumptions: (1) quarterly cash payments of 7.5%; (2) a maturity date of December 15, 2013; and (3) an assumed discount rate of 9.5%. The discount rate used for estimating the fair value was determined by obtaining yields for comparably-rated issuers trading in the market. The debt component was recorded at fair value, and the discount is being amortized using the level yield method over the term of the instrument to the settlement date of December 15, 2013.

The fair value of the equity component was determined using Black-Scholes valuation models applied to the range of stock prices contemplated by the terms of the TEU and using the following assumptions: (1) risk-free interest rate of 0.95%; (2) expected stock price volatility in the range of 35%-45%; (c) dividend yield plus stock borrow cost of 0.85%; and (4) term of 3.02 years.

Each junior subordinated amortizing note, which had an initial principal amount of \$9.728182, is bearing interest at 9.50% per annum, and has a scheduled final installment payment date of December 15, 2013. On each March 15, June 15, September 15 and December 15, the Company will pay equal quarterly installments of \$0.9375 on each amortizing note. The quarterly installment payable at March 15, 2011, however, was \$0.989583. Each payment will constitute a payment of interest and a partial repayment of principal. The Company may defer installment payments at any time and from time to time, under certain circumstances and subject to certain conditions, by extending the installment period so long as such period of time does not extend beyond December 15, 2015.

Each prepaid common stock purchase contract will automatically settle on December 15, 2013 and the Company will deliver not more than 1.6666 shares and not less than 1.3333 shares of its common stock based on the applicable market value (the average of the volume weighted average price of Company common stock for the twenty (20) consecutive trading days ending on the third trading day immediately preceding December 15, 2013) as follows:

Applicable market value

of Company common stock	Settlement Rate
Less than or equal to \$30.00	1.6666
Greater than \$30.00 but less than \$37.50	\$50.00, divided by the applicable market value
Greater than or equal to \$37.50	1.3333

Table of Contents

At any time prior to the third business day immediately preceding December 15, 2013, the holder may settle the purchase contract early and receive 1.3333 shares of Company common stock, subject to anti-dilution adjustments. Upon settlement, an amount equal to \$1.00 per common share issued will be reclassified from additional paid-in capital to common stock.

Series A Preferred Stock

In August 2008, the Company issued and sold 50,000 shares of non-cumulative perpetual convertible preferred stock, Series A, liquidation preference \$1,000 per share (the Series A Preferred Stock) for \$50 million in a private transaction. If declared, dividends on the Series A Preferred Stock are payable quarterly in arrears at a rate of 8.00% per annum. The Series A Preferred Stock is convertible into common stock at the option of the holder at a conversion rate of 38.88 shares of common stock per share of Series A Preferred Stock. On and after August 26, 2010, the Series A Preferred Stock are subject to mandatory conversion into common stock in connection with a fundamental transaction, or on and after August 26, 2013 if the closing price of the Company's common stock exceeds a certain amount.

Series B Preferred Stock

Pursuant to the U.S. Department of the Treasury's (the U.S. Treasury) Capital Purchase Program, on December 19, 2008, the Company issued to the U.S. Treasury, in exchange for aggregate consideration of \$250 million, (i) 250,000 shares of the Company's fixed rate cumulative perpetual preferred stock, Series B, liquidation preference \$1,000 per share (the Series B Preferred Stock), and (ii) a warrant to purchase 1,643,295 shares of Wintrust common stock at a per share exercise price of \$22.82 and with a term of 10 years. In December 2010, the Company repurchased all 250,000 shares of its Series B Preferred Stock. In February 2011, the Treasury sold all of its interest in the warrant issued to it in a secondary underwritten public offering.

Series C Preferred Stock

In March 2012, the Company issued and sold 126,500 shares of non-cumulative perpetual convertible preferred stock, Series C, liquidation preference \$1,000 per share (the Series C Preferred Stock) for \$126.5 million in an equity offering. If declared, dividends on the Series C Preferred Stock are payable quarterly in arrears at a rate of 5.00% per annum. The Series C Preferred Stock is convertible into common stock at the option of the holder at a conversion rate of 24.3132 shares of common stock per share of Series C Preferred Stock. On and after April 15, 2017, the Company will have the right under certain circumstances to cause the Series C Preferred Stock to be converted into common stock if the closing price of the Company's common stock exceeds a certain amount.

Other

In July 2011, the Company issued 529,087 shares of its common stock in the acquisition of Great Lakes Advisors. In September 2011, the Company issued 353,650 shares of its common stock in the acquisition of ESBI.

The Company previously issued other warrants to acquire common stock. These warrants entitle the holders to purchase one share of the Company's common stock at a purchase price of \$30.50 per share. In March 2012, 18,000 warrants were exercised. As a result, warrants outstanding totaled 1,000 at March 31, 2012 and 19,000 at March 31, 2011. The expiration date on these remaining outstanding warrants is February 2013.

The following table summarizes the components of other comprehensive income (loss), including the related income tax effects, for the periods presented (in thousands).

	Accumulated Unrealized Gains (Losses) on Securities	Accumulated Unrealized Gains (Losses) on Derivative Instruments	Total Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2011	\$ 2,679	\$ (8,191)	\$ (5,512)
Other comprehensive income during the period	749	1,304	2,053
Balance at March 31, 2011	\$ 3,428	\$ (6,887)	\$ (3,459)

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Balance at January 1, 2012	\$	4,204	\$	(7,082)	\$	(2,878)
Other comprehensive income during the period		(2,432)		480		(1,952)
Balance at March 31, 2012	\$	1,772	\$	(6,602)	\$	(4,830)

Table of Contents*Earnings per Share*

The following table shows the computation of basic and diluted earnings per share for the periods indicated:

(In thousands, except per share data)	For the Three Months Ended March 31,	
	2012	2011
Net income	\$ 23,210	\$ 16,402
Less: Preferred stock dividends and discount accretion	1,246	1,031
Net income applicable to common shares - Basic	(A) 21,964	15,371
Add: Dividends on convertible preferred stock		
Net income applicable to common shares - Diluted	(B) 21,964	15,371
Weighted average common shares outstanding	(C) 36,207	34,928
Effect of dilutive potential common shares	7,530	7,794
Weighted average common shares and effect of dilutive potential common shares	(D) 43,737	42,722
Net income per common share:		
Basic	(A/C) \$ 0.61	\$ 0.44
Diluted	(B/D) \$ 0.50	\$ 0.36

Potentially dilutive common shares can result from stock options, restricted stock unit awards, stock warrants, the Company's convertible preferred stock, tangible equity unit shares and shares to be issued under the Employee Stock Purchase Plan and the Directors Deferred Fee and Stock Plan, being treated as if they had been either exercised or issued, computed by application of the treasury stock method. While potentially dilutive common shares are typically included in the computation of diluted earnings per share, potentially dilutive common shares are excluded from this computation in periods in which the effect would reduce the loss per share or increase the income per share. For diluted earnings per share, net income applicable to common shares can be affected by the conversion of the Company's convertible preferred stock. Where the effect of this conversion would reduce the loss per share or increase the income per share, net income applicable to common shares is adjusted by the associated preferred dividends.

(18) Subsequent Events

On April 13, 2012, the Company's wholly-owned subsidiary bank, Old Plank Trail Community Bank, completed its previously announced acquisition of a branch of Suburban located in Orland Park, Illinois. Through this transaction, Old Plank Trail Community Bank acquired approximately \$52 million of deposits, approximately \$3 million of performing loans, the property, bank facility and various other assets.

Table of Contents

ITEM 2

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of financial condition as of March 31, 2012, compared with December 31, 2011 and March 31, 2011, and the results of operations for the three month periods ended March 31, 2012 and 2011, should be read in conjunction with the unaudited consolidated financial statements and notes contained in this report and the Risk Factors discussed herein and under Item 1A of the Company's 2011 Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties and, as such, future results could differ significantly from management's current expectations. See the last section of this discussion for further information on forward-looking statements.

Introduction

Wintrust is a financial holding company that provides traditional community banking services, primarily in the Chicago metropolitan area and southeastern Wisconsin, and operates other financing businesses on a national basis through several non-bank subsidiaries. Additionally, Wintrust offers a full array of wealth management services primarily to customers in the Chicago metropolitan area and southeastern Wisconsin.

Overview

First Quarter Highlights

The Company recorded net income of \$23.2 million for the first quarter of 2012 compared to \$16.4 million in the first quarter of 2011. The results for the first quarter of 2012 demonstrate continued operating strengths as credit quality improved compared to recent quarters, loans outstanding increased, demand deposits related to this loan growth increased, and the continued beneficial shift in the mix of our deposit funding base. The Company also continues to take advantage of the opportunities that have resulted from distressed credit markets—specifically, a dislocation of assets, banks and people in the overall market. For more information, see **Overview** Acquisition Transactions.

The Company increased its loan portfolio, excluding covered loans, from \$9.6 billion at March 31, 2011 and \$10.5 billion at December 31, 2011, to \$10.7 billion at March 31, 2012. This increase was primarily a result of the Company's commercial banking initiative and growth in the premium finance receivables—commercial portfolio. The Company continues to make new loans, including in the commercial and commercial real estate sector, where opportunities that meet our underwriting standards exist. The withdrawal of many banks in our area from active lending combined with our strong local relationships has presented us with opportunities to make new loans to well qualified borrowers who have been displaced from other institutions. For more information regarding changes in the Company's loan portfolio, see **Financial Condition** Interest Earning Assets and Note 6 Loans of the Financial Statements presented under Item 1 of this report.

Management considers the maintenance of adequate liquidity to be important to the management of risk. Accordingly, during the first quarter of 2012, the Company continued its practice of maintaining appropriate funding capacity to provide the Company with adequate liquidity for its ongoing operations. In this regard, the Company benefited from its strong deposit base, a liquid short-term investment portfolio and its access to funding from a variety of external funding sources, including the Company's first quarter 2012 issuance of preferred stock, see **Stock Offerings** below. At March 31, 2012, the Company had over \$1.0 billion in overnight liquid funds and interest-bearing deposits with banks.

The Company recorded net interest income of \$125.9 million in the first quarter of 2012 compared to \$109.6 million in the first quarter of 2011. The higher level of net interest income recorded in the first quarter of 2012 compared to the first quarter of 2011 resulted from an increase in average earning assets. Average earning assets for the first quarter of 2012 increased by \$1.5 billion compared to the first quarter of 2011. Average earning asset growth over the past 12 months was primarily a result of the \$998.7 million increase in average loans, \$340.7 million of average covered loan growth from the FDIC-assisted bank acquisitions and a \$127.6 million increase in average liquidity management and other earning assets. The \$998.7 million increase in average loans was, in turn, comprised of a \$430.9 million increase in commercial loans, a \$179.7 million increase in commercial real estate loans, a \$147.4 million increase in life insurance premium finance loans and a \$145.1 million increase in commercial insurance premium finance loans, an increase in mortgage warehouse lending of \$62.1 million and an increase in mortgages held for sale of \$48.3 million, partially offset by a net decrease in all other loans of \$14.8 million. The decrease in all other loans was primarily related to home equity loans. The shift in growth over the past 12 months toward commercial and industrial loans is a reflection of the Company's commercial initiatives. The average earning asset growth of \$1.5 billion over the past 12 months was primarily funded by a \$939.2 million increase in the average balances of interest-bearing deposits, an increase in the average balance of net free funds of \$334.1 million and an increase in wholesale funding of \$193.7 million.

Table of Contents

Non-interest income totaled \$47.0 million in the first quarter of 2012 increasing \$6.1 million, or 15%, compared to the first quarter of 2011. The increase in the first quarter of 2012 compared to the first quarter of 2011 was primarily attributable to higher mortgage banking, wealth management and swap fee revenues, partially offset by a decrease in bargain purchase gains. Mortgage banking revenue increased \$6.9 million when compared to the first quarter of 2011. The increase in the current quarter as compared to the first quarter of 2011 resulted primarily from an increase in gains on sales of loans, which was driven by higher origination volumes in the current quarter due to a favorable mortgage interest rate environment. Loans sold to the secondary market were \$714.7 million in the first quarter of 2012 compared to \$562.1 million in the first quarter of 2011 (see Non-Interest Income section later in this document for further detail).

Non-interest expense totaled \$117.8 million in the first quarter of 2012, increasing \$19.6 million, or 20%, compared to the first quarter of 2011. The increase compared to the first quarter of 2011 was primarily attributable to a \$12.9 million increase in salaries and employee benefits. Salaries and employee benefits expense increased primarily as a result of a \$4.8 million increase in salaries caused by the addition of employees from the various acquisitions and larger staffing as the Company grows, a \$6.1 million increase in bonus and commissions primarily attributable to the increase in variable pay based revenue and the Company's long-term incentive program approved by the Compensation Committee of the Board of Directors in August 2011 and a \$2.0 million increase from employee benefits (primarily health plan and payroll taxes related). In addition, the Company incurred debt defeasance costs of approximately \$848,000 in the first quarter of 2012.

The Current Economic Environment

The Company's results during the quarter reflect an improvement in credit quality metrics as compared to recent quarters. The Company has continued to be disciplined in its approach to growth and has not sacrificed asset quality. However, the Company's results continue to be impacted by the existing stressed economic environment and depressed real estate valuations that affected both the U.S. economy, generally, and the Company's local markets, specifically. In response to these conditions, Management continues to carefully monitor the impact on the Company of the financial markets, the depressed values of real property and other assets, loan performance, default rates and other financial and macro-economic indicators in order to navigate the challenging economic environment.

In particular:

The Company's provision for credit losses in the first quarter of 2012 totaled \$17.4 million, a decrease of \$7.9 million when compared to the first quarter of 2011. Net charge-offs decreased to \$14.4 million in the first quarter of 2012 (of which \$11.1 million related to commercial and commercial real estate loans), compared to \$25.3 million for the same period in 2011 (of which \$21.9 million related to commercial and commercial real estate loans).

The Company's allowance for loan losses, excluding covered loans, totaled \$111.0 million at March 31, 2012, reflecting a decrease of \$4.0 million, or 3%, when compared to the same period in 2011 and an increase of \$642,000, or 1%, when compared to December 31, 2011. At March 31, 2012, approximately \$54.0 million, or 49%, of the allowance for loan losses was associated with commercial real estate loans and another \$33.2 million, or 30%, was associated with commercial loans. The decrease in the allowance for loan losses, excluding covered loans, in the current period reflects the improvements in credit quality metrics for the first quarter of 2012.

The Company has significant exposure to commercial real estate. At March 31, 2012, \$3.6 billion, or 33%, of our loan portfolio, excluding covered loans, was commercial real estate, with more than 92% located in the greater Chicago metropolitan and southeastern Wisconsin market areas. As of March 31, 2012, the commercial real estate loan portfolio was comprised of \$404.9 million related to land, residential and commercial construction, \$560.7 million related to office buildings, \$528.1 million related to retail, \$590.9 million related to industrial use, \$324.9 million related to multi-family and \$1.1 billion related to mixed use and other use types. In analyzing the commercial real estate market, the Company does not rely upon the assessment of broad market statistical data, in large part because the Company's market area is diverse and covers many communities, each of which is impacted differently by economic forces affecting the Company's general market area. As such, the extent of the decline in real estate valuations can vary meaningfully among the different types of commercial and other real estate loans made by the Company. The Company uses its multi-chartered structure and local management knowledge to analyze and manage the local market conditions at each of its banks. As of March 31, 2012, the Company had approximately \$62.8 million of non-performing commercial real estate loans representing approximately 1.8% of the total commercial real estate loan portfolio. \$29.5 million, or 47%, of the total non-performing commercial real estate loan portfolio related to the land, residential and commercial construction sector which remains under stress due to the

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

significant oversupply of new homes in certain portions of our market area.

Total non-performing loans (loans on non-accrual status and loans more than 90 days past due and still accruing interest), excluding covered loans, were \$113.6 million (of which \$62.8 million, or 55%, was related to commercial real estate) at March 31, 2012, a decrease of approximately \$41.8 million compared to March 31, 2011. This decrease was a result of

Table of Contents

non-performing loan settlements and a lower level of non-performing loan inflows during the current period.

The Company's other real estate owned, excluding covered other real estate owned, decreased by \$9.1 million, to \$76.2 million during the first quarter of 2012, from \$85.3 million at March 31, 2011. The decrease in other real estate owned in the first quarter of 2012 compared to the same period in the prior year is primarily a result of disposals during the period. The \$76.2 million of other real estate owned as of March 31, 2012 was comprised of \$14.8 million of residential real estate development property, \$54.8 million of commercial real estate property and \$6.6 million of residential real estate property.

An acceleration or continuation of real estate valuation and macroeconomic deterioration could result in higher default levels, a significant increase in foreclosure activity, and a material decline in the value of the Company's assets.

During the quarter, Management continued its strategic efforts to aggressively resolve problem loans through liquidation, rather than retention, of loans or real estate acquired as collateral through the foreclosure process. For more information regarding these efforts, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation Overview and Strategy in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. The level of loans past due 30 days or more and still accruing interest, excluding covered loans, totaled \$205.7 million as of March 31, 2012, increasing \$57.8 million compared to the balance of \$147.9 million as of December 31, 2011. Fluctuations from period to period in loans that are past due 30 days or more and still accruing interest are primarily the result of timing of payments for loans with near term delinquencies (i.e. 30-89 days past-due). Of the \$57.8 million increase, commercial and commercial real estate loans past due 30 days or more and still accruing interest accounted for \$42.6 million of the increase from December 31, 2011 to March 31, 2012. Approximately \$3.2 million of this increase related to loans acquired with evidence of credit quality deterioration since origination in accordance with ASC 310-30.

At March 31, 2012, the Company had a \$2.7 million estimated liability on loans expected to be repurchased from loans sold to investors compared to a \$9.4 million liability as of March 31, 2011. The decrease in the liability is a result of recourse payments and lower loss estimates on future indemnification requests. Investors request the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. For more information regarding requests for indemnification on loans sold, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation Overview and Strategy in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

In addition, during the first quarter of 2012, the Company restructured certain loans in the amount of \$39.7 million by providing economic concessions to borrowers to better align the terms of their loans with their current ability to pay. At March 31, 2012, approximately \$165.0 million in loans had terms modified, with \$151.0 million of these modified loans in accruing status.

Trends in Our Three Operating Segments During the First Quarter**Community Banking**

Net interest income and margin. Net interest income totaled \$125.9 million for the first quarter of 2012 compared to \$124.6 million for the fourth quarter of 2011 and \$109.6 million for the first quarter of 2011. The net interest margin for the first quarter of 2012 was 3.55% compared to 3.45% for the fourth quarter of 2011 and 3.48% for the first quarter of 2011. The seven basis point increase in the first quarter of 2012 compared to the first quarter of 2011 was primarily attributable to a 33 basis point decline in the cost of interest-bearing deposits and an 80 basis point decline in the cost of wholesale borrowings over the last 12 months. Offsetting this was the negative impact of both competitive and economic pricing pressures on the commercial and industrial and commercial premium finance portfolios during the past 12 months and a decrease in accretable discount recognized as interest income on the purchased life insurance premium portfolio as prepayments declined, causing the yield on total loans to decline by 57 basis points.

The ten basis point increase in net interest margin in the first quarter of 2012 compared to the fourth quarter of 2011 resulted from positive re-pricing of retail interest-bearing deposits along with a more favorable deposit mix, higher yields on our premium finance loans and the positive impact from the debt defeasance.

Funding mix and related costs. Community banking profitability has been bolstered in recent quarters as fixed term certificates of deposit have been renewing at lower rates given the historically low interest rate levels in place recently and growth in non-interest bearing deposits as a result of the Company's commercial banking initiative.

Level of non-performing loans and other real estate owned. Given the current economic conditions, problem loan expenses have been at elevated levels in recent years. However, non-performing loans and other real-estate owned decreased in the first quarter of 2012 as compared to

the fourth quarter of 2011 and first quarter of 2011.

Table of Contents

Mortgage banking revenue. Mortgage banking revenue increased \$510,000 when compared to the fourth quarter of 2011 and increased \$6.9 million when compared to the first quarter of 2011. The increase in the current quarter as compared to the first quarter of 2011 resulted primarily from an increase in gains on sales of loans, which was driven by higher origination volumes in the current quarter due to a favorable mortgage interest rate environment.

For more information regarding our community banking business, please see *Overview and Strategy Community Banking* under *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation* in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Specialty Finance

Financing of Commercial Insurance Premiums. FIFC originated approximately \$1.0 billion in commercial insurance premium finance loans in the first quarter of 2012 compared to \$872.3 million in the fourth quarter of 2011 and \$889.6 million in the first quarter of 2011. The increase in volume can be attributed to new business relationships in the first quarter of 2012, coupled with an increase in average contract size.

Financing of Life Insurance Premiums. FIFC originated approximately \$112.8 million in life insurance premium finance loans in the first quarter of 2012 compared to \$151.1 million in the fourth quarter of 2011, and compared to \$106.2 million in the first quarter of 2011. The decrease in originations in the first quarter of 2012 from the fourth quarter of 2011 is a result of seasonality as the fourth quarter historically produces the largest volume of originations.

For more information regarding our specialty finance business, please see *Overview and Strategy Specialty Finance* under *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation* in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Wealth Management Activities

The wealth management segment recorded higher revenues in the first quarter of 2012 compared to the first quarter of 2011 primarily as a result of the acquisition of Great Lakes Advisors, Inc. (*Great Lakes Advisors*). For more information on the Great Lakes Advisors transaction, see *Overview Acquisition Transactions*.

For more information regarding our wealth management business, please see *Overview and Strategy Wealth Management Activities* under *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation* in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Recent Acquisition Transactions

FDIC-Assisted Transactions

On February 10, 2012, the Company announced that its wholly-owned subsidiary bank, Barrington Bank, acquired certain assets and liabilities and the banking operations of Charter National Bank and Trust (*Charter National*) in an FDIC-assisted transaction. Charter National operated two locations: one in Hoffman Estates and one in Hanover Park and had approximately \$92.4 million in total assets and \$90.1 million in total deposits as of the acquisition date. Barrington Bank acquired substantially all of Charter National's assets at a discount of approximately 4.1% and assumed all of the non-brokered deposits at no premium. In connection with the acquisition, Barrington Bank entered into a loss sharing agreement with the FDIC whereby Barrington Bank will share in losses with the FDIC on certain loans and foreclosed real estate at Charter National.

On July 8, 2011, the Company announced that its wholly-owned subsidiary bank, Northbrook Bank, acquired certain assets and liabilities and the banking operations of First Chicago Bank & Trust (*First Chicago*) in an FDIC-assisted transaction. First Chicago operated seven locations in Illinois: three in Chicago, one each in Bloomingdale, Itasca, Norridge and Park Ridge, and had approximately \$768.9 million in total assets and \$667.8 million in total deposits as of the acquisition date. Northbrook Bank acquired substantially all of First Chicago's assets at a discount of approximately 12% and assumed all of the non-brokered deposits at a premium of approximately 0.5%.

On March 25, 2011, the Company announced that its wholly-owned subsidiary bank, Advantage National Bank Group (*Advantage*), acquired certain assets and liabilities and the banking operations of The Bank of Commerce (*TBOC*) in an FDIC-assisted transaction. TBOC operated one location in Wood Dale, Illinois and had approximately \$174.0 million in total assets and \$164.7 million in total deposits as of the acquisition date. Advantage acquired substantially all of TBOC's assets at a discount of approximately 14% and assumed all of the non-brokered deposits at

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

a premium of approximately 0.1%. Advantage subsequently changed its name to Schaumburg Bank and Trust Company, N.A. (Schaumburg).

Table of Contents

On February 4, 2011, the Company announced that its wholly-owned subsidiary bank, Northbrook Bank, acquired certain assets and liabilities and the banking operations of Community First Bank-Chicago (CFBC) in an FDIC-assisted transaction. CFBC operated one location in Chicago and had approximately \$50.9 million in total assets and \$48.7 million in total deposits as of the acquisition date. Northbrook Bank acquired substantially all of CFBC 's assets at a discount of approximately 8% and assumed all of the non-brokered deposits at a premium of approximately 0.5%.

Loans comprise the majority of the assets acquired in FDIC-assisted transactions and 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 loss-sharing agreements as covered loans and use the term covered assets to refer to covered loans, covered OREO and certain other covered assets. At their respective acquisition dates, the Company estimated the fair value of the reimbursable losses, which were approximately \$13.2 million, \$273.3 million, \$48.9 million and \$6.7 million related to the Charter National, First Chicago, TBOC and CFBC acquisitions, respectively. 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 FDIC indemnification assets, both in the Consolidated Statements of Condition. The Company recorded the acquired asset