

WINTRUST FINANCIAL CORP

Form 10-Q

November 08, 2012

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 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)

Illinois

36-3873352

(State of incorporation or organization)

(I.R.S. Employer Identification No.)

9700 W. Higgins Road, Suite 800

Rosemont, Illinois 60018

(Address of principal executive offices)

(847) 939-9000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, 36,440,520 shares, as of November 1, 2012

Table of Contents

TABLE OF CONTENTS

	Page
PART I. — FINANCIAL INFORMATION	
ITEM 1. <u>Financial Statements</u>	<u>1</u>
ITEM 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>59</u>
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>111</u>
ITEM 4. <u>Controls and Procedures</u>	<u>113</u>
PART II. — OTHER INFORMATION	
ITEM 1. Legal Proceedings	NA
ITEM 1A. <u>Risk Factors</u>	<u>114</u>
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>114</u>
ITEM 3. Defaults Upon Senior Securities	NA
ITEM 4. Mine Safety Disclosures	NA
ITEM 5. Other Information	NA
ITEM 6. <u>Exhibits</u>	<u>115</u>
<u>Signatures</u>	<u>116</u>

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share data)	(Unaudited) September 30, 2012	(Unaudited) December 31, 2011	(Unaudited) September 30, 2011
Assets			
Cash and due from banks	\$ 186,752	\$ 148,012	\$ 147,270
Federal funds sold and securities purchased under resale agreements	26,062	21,692	13,452
Interest-bearing deposits with other banks (no balance restricted for securitization investors at September 30, 2012, and a balance restricted for securitization investors of \$272,592 at December 31, 2011 and \$37,165 at September 30, 2011)	934,430	749,287	1,101,353
Available-for-sale securities, at fair value	1,256,768	1,291,797	1,267,682
Trading account securities	635	2,490	297
Federal Home Loan Bank and Federal Reserve Bank stock	80,687	100,434	99,749
Brokerage customer receivables	30,633	27,925	27,935
Mortgage loans held-for-sale, at fair value	548,300	306,838	204,081
Mortgage loans held-for-sale, at lower of cost or market	21,685	13,686	8,955
Loans, net of unearned income, excluding covered loans	11,489,900	10,521,377	10,272,711
Covered loans	657,525	651,368	680,075
Total loans	12,147,425	11,172,745	10,952,786
Less: Allowance for loan losses	112,287	110,381	118,649
Less: Allowance for covered loan losses	21,926	12,977	12,496
Net loans (no balance restricted for securitization investors at September 30, 2012, and a balance restricted for securitization investors of \$411,532 at December 31, 2011 and \$643,466 at September 30, 2011)	12,013,212	11,049,387	10,821,641
Premises and equipment, net	461,905	431,512	412,478
FDIC indemnification asset	238,305	344,251	379,306
Accrued interest receivable and other assets	557,884	444,912	468,711
Trade date securities receivable	307,295	634,047	637,112
Goodwill	331,634	305,468	302,369
Other intangible assets	22,405	22,070	22,413
Total assets	\$ 17,018,592	\$ 15,893,808	\$ 15,914,804
Liabilities and Shareholders' Equity			
Deposits:			
Non-interest bearing	\$ 2,162,215	\$ 1,785,433	\$ 1,631,709
Interest bearing	11,685,750	10,521,834	10,674,299
Total deposits	13,847,965	12,307,267	12,306,008
Notes payable	2,275	52,822	3,004
Federal Home Loan Bank advances	414,211	474,481	474,570
Other borrowings	377,229	443,753	448,082
Secured borrowings—owed to securitization investors	—	600,000	600,000
Subordinated notes	15,000	35,000	40,000
Junior subordinated debentures	249,493	249,493	249,493
Trade date securities payable	412	47	73,874
Accrued interest payable and other liabilities	350,707	187,412	191,586
Total liabilities	15,257,292	14,350,275	14,386,617

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

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 September 30, 2012, December 31, 2011 and September 30, 2011

Series C - \$1,000 liquidation value; 126,500 shares issued and outstanding at September 30, 2012, and no shares issued and outstanding at December 31, 2011 and September 30, 2011

Common stock, no par value; \$1.00 stated value; 100,000,000 shares authorized; 36,647,154 shares issued at September 30, 2012, 35,981,950 shares issued at December 31, 2011, and 35,926,137 shares issued at September 30, 2011

Surplus

Treasury stock, at cost, 239,373 shares at September 30, 2012, 3,601 shares at December 31, 2011, and 2,071 shares at September 30, 2011

Retained earnings

Accumulated other comprehensive income (loss)

Total shareholders' equity

Total liabilities and shareholders' equity

See accompanying notes to unaudited consolidated financial statements.

49,871	49,768	49,736
126,500	—	—
36,647	35,982	35,926
1,018,417	1,001,316	997,854
(7,490	) (112	) (68
527,550	459,457	441,268
9,805	(2,878	) 3,471
1,761,300	1,543,533	1,528,187
\$17,018,592	\$15,893,808	\$15,914,804

Table of ContentsWINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Interest income				
Interest and fees on loans	\$ 149,271	\$ 140,543	\$ 436,926	\$ 409,424
Interest bearing deposits with banks	362	917	813	2,723
Federal funds sold and securities purchased under resale agreements	7	28	25	83
Securities	7,691	12,667	30,048	33,645
Trading account securities	3	15	22	38
Federal Home Loan Bank and Federal Reserve Bank stock	649	584	1,894	1,706
Brokerage customer receivables	218	197	650	557
Total interest income	158,201	154,951	470,378	448,176
Interest expense				
Interest on deposits	16,794	21,893	52,097	68,253
Interest on Federal Home Loan Bank advances	2,817	4,166	9,268	12,134
Interest on notes payable and other borrowings	2,024	2,874	7,400	8,219
Interest on secured borrowings—owed to securitization investors	795	3,003	5,087	9,037
Interest on subordinated notes	67	168	362	574
Interest on junior subordinated debentures	3,129	4,437	9,424	13,229
Total interest expense	25,626	36,541	83,638	111,446
Net interest income	132,575	118,410	386,740	336,730
Provision for credit losses	18,799	29,290	56,890	83,821
Net interest income after provision for credit losses	113,776	89,120	329,850	252,909
Non-interest income				
Wealth management	13,252	11,994	39,046	32,831
Mortgage banking	31,127	14,469	75,268	38,917
Service charges on deposit accounts	4,235	4,085	12,437	10,990
Gains on available-for-sale securities, net	409	225	2,334	1,483
Gain on bargain purchases, net	6,633	27,390	7,418	37,974
Trading (losses) gains, net	(998	) 591	(1,780	) 121
Other	8,287	8,493	26,180	22,470
Total non-interest income	62,945	67,247	160,903	144,786
Non-interest expense				
Salaries and employee benefits	75,280	61,863	212,449	171,041
Equipment	5,888	4,501	16,754	13,174
Occupancy, net	8,024	7,512	23,814	20,789
Data processing	4,103	3,836	11,561	10,506
Advertising and marketing	2,528	2,119	6,713	5,173
Professional fees	4,653	5,085	12,104	13,164
Amortization of other intangible assets	1,078	970	3,216	2,363
FDIC insurance	3,549	3,100	10,383	10,899
OREO expenses, net	3,808	5,134	16,834	17,519
Other	15,637	12,201	45,664	37,008
Total non-interest expense	124,548	106,321	359,492	301,636

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Income before taxes	52,173	50,046	131,261	96,059
Income tax expense	19,871	19,844	50,154	37,705
Net income	\$32,302	\$30,202	\$81,107	\$58,354
Preferred stock dividends and discount accretion	\$2,616	\$1,032	\$6,477	\$3,096
Net income applicable to common shares	\$29,686	\$29,170	\$74,630	\$55,258
Net income per common share—Basic	\$0.82	\$0.82	\$2.06	\$1.57
Net income per common share—Diluted	\$0.66	\$0.65	\$1.70	\$1.26
Cash dividends declared per common share	\$0.09	\$0.09	\$0.18	\$0.18
Weighted average common shares outstanding	36,381	35,550	36,305	35,152
Dilutive potential common shares	12,295	10,551	11,292	8,683
Average common shares and dilutive common shares	48,676	46,101	47,597	43,835

See accompanying notes to unaudited consolidated financial statements.

Table of ContentsWINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$32,302	\$30,202	\$81,107	\$58,354
Unrealized gains on securities				
Before tax	3,921	1,212	8,661	15,225
Tax effect	(1,563	) (565	) (3,447	) (6,125
Net of tax	2,358	647	5,214	9,100
Less: Reclassification of net gains included in net income				
Before tax	409	225	2,334	1,483
Tax effect	(162	) (88	) (934	) (583
Net of tax	247	137	1,400	900
Net unrealized gains on securities	2,111	510	3,814	8,200
Unrealized (losses) gains on derivative instruments				
Before tax	(293	) (2,088	) 1,439	1,115
Tax effect	119	917	(568	) (332
Net unrealized (losses) gains on derivative instruments	(174	) (1,171	) 871	783
Foreign currency translation adjustment				
Before tax	8,438	—	11,139	—
Tax effect	(2,541	) —	(3,141) —
Net foreign currency translation adjustment	5,897	—	7,998	—
Total other comprehensive income (loss)	7,834	(661	) 12,683	8,983
Comprehensive income	\$40,136	\$29,541	93,790	67,337

See accompanying notes to unaudited consolidated financial statements.

Table of ContentsWINTRUST 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	—	—	—	—	58,354	—	58,354
Other comprehensive income, net of tax	—	—	—	—	—	8,983	8,983
Cash dividends declared on common stock	—	—	—	—	(6,344)	—	(6,344)
Dividends on preferred stock	—	—	—	—	(3,000)	—	(3,000)
Accretion on preferred stock	96	—	—	—	(96)	—	—
Common stock repurchases	—	—	—	(68)	—	—	(68)
Stock-based compensation	—	—	3,433	—	—	—	3,433
Common stock issued for:							
Acquisitions	—	883	25,603	—	—	—	26,486
Exercise of stock options and warrants	—	49	632	—	—	—	681
Restricted stock awards	—	38	(41)	—	—	—	(3)
Employee stock purchase plan	—	67	1,988	—	—	—	2,055
Director compensation plan	—	25	1,036	—	—	—	1,061
Balance at September 30, 2011	\$49,736	\$35,926	\$997,854	\$(68)	\$441,268	\$ 3,471	\$1,528,187
Balance at December 31, 2011	\$49,768	\$35,982	\$1,001,316	\$(112)	\$459,457	\$ (2,878)	\$1,543,533
Net income	—	—	—	—	81,107	—	81,107
Other comprehensive income, net of tax	—	—	—	—	—	12,683	12,683
Cash dividends declared on common stock	—	—	—	—	(6,537)	—	(6,537)
Dividends on preferred stock	—	—	—	—	(6,374)	—	(6,374)
Accretion on preferred stock	103	—	—	—	(103)	—	—
Stock-based compensation	—	—	7,260	—	—	—	7,260
Issuance of Series C preferred stock	126,500	—	(3,810)	—	—	—	122,690
Common stock issued for:							
Acquisitions	—	26	868	—	—	—	894
Exercise of stock options and warrants	—	439	10,050	(6,391)	—	—	4,098
Restricted stock awards	—	123	(152)	(987)	—	—	(1,016)
Employee stock purchase plan	—	55	1,777	—	—	—	1,832
Director compensation plan	—	22	1,108	—	—	—	1,130
Balance at September 30, 2012	\$176,371	\$36,647	\$1,018,417	\$(7,490)	\$527,550	\$ 9,805	\$1,761,300

See accompanying notes to unaudited consolidated financial statements.

Table of ContentsWINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
(In thousands)	2012	2011
Operating Activities:		
Net income	\$81,107	\$58,354
Adjustments to reconcile net income to net cash (used for) provided by operating activities		
Provision for credit losses	56,890	83,821
Depreciation and amortization	17,624	14,128
Stock-based compensation expense	7,260	3,433
Tax benefit from stock-based compensation arrangements	1,279	183
Excess tax benefits from stock-based compensation arrangements	(868)	(760)
Net amortization of premium on securities	4,745	6,308
Mortgage servicing rights fair value change and amortization, net	(3,469)	3,626
Originations and purchases of mortgage loans held-for-sale	(2,688,002)	(1,662,368)
Proceeds from sales of mortgage loans held-for-sale	2,498,525	1,846,396
Bank owned life insurance income, net of claims	(2,234)	(1,888)
Decrease in trading securities, net	1,855	4,582
Net increase in brokerage customer receivables	(2,708)	(3,386)
Gains on mortgage loans sold	(59,984)	(25,617)
Gains on available-for-sale securities, net	(2,334)	(1,483)
Gain on bargain purchases, net	(7,418)	(37,974)
Loss on sales of premises and equipment, net	702	10
Decrease in accrued interest receivable and other assets, net	30,377	7,178
Increase (decrease) in accrued interest payable and other liabilities, net	140,857	(2,481)
Net Cash Provided by Operating Activities	74,204	292,062
Investing Activities:		
Proceeds from maturities of available-for-sale securities	473,331	1,189,834
Proceeds from sales of available-for-sale securities	2,059,154	605,026
Purchases of available-for-sale securities	(2,079,665)	(2,015,888)
Net cash received for acquisitions	30,220	91,073
Proceeds received from the FDIC related to reimbursements on covered assets	152,594	65,038
Net increase in interest-bearing deposits with banks	(113,963)	(211,382)
Net increase in loans	(739,941)	(520,770)
Purchases of premises and equipment, net	(45,533)	(54,769)
Net Cash Used for Investing Activities	(263,803)	(851,838)
Financing Activities:		
Increase in deposit accounts	914,513	383,001
(Decrease) increase in other borrowings, net	(118,552)	180,723
Decrease in Federal Home Loan Bank advances, net	(60,000)	—
Repayment of subordinated notes	(20,000)	(10,000)
Payoff of secured borrowing	(600,000)	—
Excess tax benefits from stock-based compensation arrangements	868	760
Net proceeds from issuance of preferred stock	122,690	—
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	12,143	2,846

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Common stock repurchases	(7,378	) (68)
Dividends paid	(11,575	) (9,344)
Net Cash Provided by Financing Activities	232,709	547,918	
Net Increase (Decrease) in Cash and Cash Equivalents	43,110	(11,858)
Cash and Cash Equivalents at Beginning of Period	169,704	172,580	
Cash and Cash Equivalents at End of Period	\$212,814	\$160,722	

See accompanying notes to unaudited consolidated financial statements.

5

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles (“GAAP”). The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 (“2011 Form 10-K”). Operating results reported for the three-month and nine-month periods are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation. The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management’s expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of our significant accounting policies are included in Note 1 “Summary of Significant Accounting Policies” of the Company’s 2011 Form 10-K.

(2) Recent Accounting Developments

Subsequent Accounting for Indemnification Assets

In October 2012, the FASB issued ASU No. 2012-06, “Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution,” to address the diversity in practice and interpret guidance related to the subsequent measurement of an indemnification asset recognized in a government-assisted acquisition. These indemnification assets are recorded by the Company as FDIC indemnification assets on the Consolidated Statements of Condition. This ASU clarifies existing guidance by asserting that subsequent changes in expected cash flows related to an indemnification asset should be amortized over the shorter of the life of the indemnification agreement or the life of the underlying loan. This guidance is to be applied with respect to changes in cash flows on existing indemnification agreements as well as prospectively to new indemnification agreements. The guidance is effective for fiscal years beginning after December 15, 2012. The Company does not expect adoption of this guidance to have a material impact on the Company’s consolidated financial statements.

Table of Contents

(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 nine financial institutions in FDIC-assisted transactions.

The following table presents details related to these transactions:

(Dollars in thousands)	Lincoln Park	Wheatland	Ravenswood	Community Bank - Chicago	First Bank of Commerce	First Chicago	Charter National	Second Federal	First United Bank
Date of acquisition	April 23, 2010	April 23, 2010	August 6, 2010	February 4, 2011	March 25, 2011	July 8, 2011	February 10, 2012	July 20, 2012	September 28, 2012
Fair value of assets acquired, at the acquisition date	\$157,078	\$343,870	\$173,919	\$50,891	\$173,986	\$768,873	\$92,409	\$171,625	\$328,142
Fair value of loans acquired, at the acquisition date	103,420	175,277	97,956	27,332	77,887	330,203	45,555	—	78,832
Fair value of liabilities assumed, at the acquisition date	192,018	415,560	122,943	49,779	168,472	741,508	91,570	171,582	321,552
Fair value of reimbursable losses, at the acquisition date ⁽¹⁾	23,289	90,478	43,996	6,672	48,853	273,311	13,164	—	65,100
Gain on bargain purchase recognized	4,179	22,315	6,842	1,957	8,627	27,390	785	43	6,590

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

Loans comprise the majority of the assets acquired in nearly all of 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. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.

On their respective acquisition dates in 2012, the Company announced that its wholly-owned subsidiary banks, Old Plank Trail Community Bank, N.A. ("Old Plank Trail Bank"), Hinsdale Bank and Trust Company ("Hinsdale Bank") and Barrington Bank and Trust Company, N.A. ("Barrington"), acquired certain assets and liabilities and the banking operations of First United Bank of Crete, Illinois ("First United Bank"), Second Federal Savings and Loan Association of Chicago ("Second Federal") and Charter National Bank and Trust ("Charter National"), respectively, in FDIC-assisted transactions.

The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as an FDIC indemnification asset in the Consolidated Statements of Condition. The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The fair value for loans reflected expected credit losses at the acquisition date. Therefore, the Company will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration subsequent to the acquisition date. See Note 7 — Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion of the allowance on covered loans.

The loss share agreements with the FDIC cover realized losses on loans, foreclosed real estate and certain other assets. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets are also separately measured from the related loans and foreclosed real estate and recorded as FDIC indemnification assets on the Consolidated Statements of Condition. Subsequent to the acquisition

Table of Contents

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		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Balance at beginning of period	\$222,568	\$110,049	\$344,251	\$118,182
Additions from acquisitions	65,100	273,311	78,264	328,837
Additions from reimbursable expenses	5,669	3,707	18,646	8,778
Accretion	(1,139)	) 393	(3,919)	) 1,057
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(16,579)	) (344)	) (46,343)	) (12,510)
Payments received from the FDIC	(37,314)	) (7,810)	) (152,594)	) (65,038)
Balance at end of period	\$238,305	\$379,306	\$238,305	\$379,306

Other Bank Acquisitions

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

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.

Specialty Finance Acquisition

On June 8, 2012, the Company completed its acquisition of Macquarie Premium Funding Inc., the Canadian insurance premium funding business of Macquarie Group. Through this transaction, the Company acquired approximately \$213 million of gross premium finance receivables. The Company recorded goodwill of approximately \$22.8 million on the acquisition.

Wealth Management Acquisitions

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

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

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.

8

Table of Contents

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.

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)

September 30, 2012
Amortized