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

FORM 10-Q

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

For the quarterly period ended September 30, 2013
OR

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

For the transition period from to
Commission File Number 001-35077

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

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

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

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

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

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

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

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

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

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

Common Stock — no par value, 39,933,549 shares, as of October 31, 2013

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

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

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

See accompanying notes to unaudited consolidated financial statements.

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

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

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

See accompanying notes to unaudited consolidated financial statements.

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

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

See accompanying notes to unaudited consolidated financial statements.

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

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

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
(In thousands)	2013	2012
Operating Activities:		
Net income	$101,922	$81,107
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	42,183	56,890
Depreciation and amortization	21,061	17,624
Stock-based compensation expense	6,598	7,260
Tax benefit from stock-based compensation arrangements	188	1,279
Excess tax benefits from stock-based compensation arrangements	(349)	(868)
Net amortization of premium on securities	1,534	4,745
Mortgage servicing rights fair value change and amortization, net	(1,373)	(3,469)
Originations and purchases of mortgage loans held-for-sale	(2,966,058)	(2,688,002)
Proceeds from sales of mortgage loans held-for-sale	3,108,405	2,498,525
Bank owned life insurance income, net of claims	(2,372)	(2,234)
Decrease in trading securities, net	324	1,855
Net increase in brokerage customer receivables	(4,389)	(2,708)
Gains on mortgage loans sold	(64,492)	(59,984)
Gains on available-for-sale securities, net	(328)	(2,334)
Gain on bargain purchases, net	—	(7,418)
(Gain) loss on sales of premises and equipment, net	(375)	702
Net (gain) loss on sales and fair value adjustments of other real estate owned	(1,323)	12,306
Decrease (increase) in accrued interest receivable and other assets, net	29,542	(13,335)
(Decrease) increase in accrued interest payable and other liabilities, net	(50,290)	140,857
Net Cash Provided by Operating Activities	220,408	42,798
Investing Activities:		
Proceeds from maturities of available-for-sale securities	169,139	473,331
Proceeds from sales of available-for-sale securities	129,537	2,059,154
Purchases of available-for-sale securities	(240,640)	(2,079,665)
Net cash (paid) received for acquisitions	(9,350)	30,220
Divestiture of operations	(149,100)	—
Proceeds from sales of other real estate owned	76,506	65,902
Proceeds received from the FDIC related to reimbursements on covered assets	47,408	152,594
Net decrease (increase) in interest-bearing deposits with banks	412,638	(113,963)
Net increase in loans	(589,402)	(774,437)
Purchases of premises and equipment, net	(24,239)	(45,533)
Net Cash Used for Investing Activities	(177,503)	(232,397)
Financing Activities:		
Increase in deposit accounts	39,575	914,513
Decrease in other borrowings, net	(29,009)	(118,552)
Decrease in Federal Home Loan Bank advances, net	(26,000)	(60,000)
Repayment of subordinated notes	(5,000)	(20,000)
Payoff of secured borrowing	—	(600,000)
Excess tax benefits from stock-based compensation arrangements	349	868
Net proceeds from issuance of Series C preferred stock	—	122,690

Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	5,307	12,143
Common stock repurchases	(452)	(7,378)
Dividends paid	(12,066)	(11,575)
Net Cash (Used for) Provided by Financing Activities	(27,296)	232,709
Net Increase in Cash and Cash Equivalents	15,609	43,110
Cash and Cash Equivalents at Beginning of Period	315,028	169,704
Cash and Cash Equivalents at End of Period	$330,637	$212,814

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

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

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management's expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of our significant accounting policies are included in Note 1 - "Summary of Significant Accounting Policies" of the Company's 2012 Form 10-K.

(2) Recent Accounting Developments

Accumulated Other Comprehensive Income Reporting by Component

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

Balance Sheet Offsetting

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

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(3) Business Combinations
FDIC-Assisted Transactions
In 2010 and 2011, the Company acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of six financial institutions in FDIC-assisted transactions.
Since January 1, 2012, the Company has acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of three financial institutions in FDIC-assisted transactions. The following table presents details related to these three transactions:

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

(1) As no assets subject to loss sharing agreements were acquired in the acquisition of Second Federal, there was no fair value of reimbursable losses.
Loans comprise the majority of the assets acquired in nearly all of these FDIC-assisted transactions since 2010, most of which are subject to loss sharing agreements with the FDIC whereby the FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned (“OREO”), and certain other assets. Additionally, the loss share agreements with the FDIC require the Company to reimburse the FDIC in the event that actual losses on covered assets are lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to these loss-sharing agreements as “covered loans” and uses the term “covered assets” to refer to covered loans, covered OREO and certain other covered assets. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.
On their respective acquisition dates in 2012, the Company announced that its wholly-owned subsidiary banks, Old Plank Trail Community Bank, N.A. ("Old Plank Trail Bank"), Hinsdale Bank and Trust Company ("Hinsdale Bank") and Barrington Bank and Trust Company, N.A. ("Barrington Bank"), acquired certain assets and liabilities and the banking operations of First United Bank of Crete, Illinois ("First United Bank"), Second Federal Savings and Loan Association of Chicago ("Second Federal") and Charter National Bank and Trust (“Charter National”), respectively, in FDIC-assisted transactions. The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as an FDIC indemnification asset in the Consolidated Statements of Condition. The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The fair value for loans reflected expected credit losses at the acquisition date. Therefore, the Company will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration subsequent to the acquisition date. See Note 7 — Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion of the allowance on covered loans.
The loss share agreements with the FDIC cover realized losses on loans, foreclosed real estate and certain other assets. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets are also separately measured from the related loans and foreclosed real estate and recorded as FDIC indemnification assets on the Consolidated Statements of Condition. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the FDIC indemnification assets. Reductions to expected losses, to the extent such reductions to expected losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the FDIC indemnification assets. Although these assets are contractual receivables

from the FDIC, there are no contractual interest rates. Additions to expected losses will require an increase to the allowance for loan losses and a corresponding increase to the FDIC indemnification assets. The corresponding accretion is recorded as a component of non-interest income on the Consolidated Statements of Income.

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

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

Divestiture of Previous FDIC-Assisted Acquisition

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

Other Recent Bank Acquisitions

On May 1, 2013, the Company completed its acquisition of First Lansing Bancorp, Inc. ("FLB"). FLB was the parent company of First National Bank of Illinois ("FNBI"), which operated seven banking locations in the south and southwest suburbs of Chicago, as well as one location in northwest Indiana. As part of this transaction, FNBI was merged into Old Plank Trail Bank. The Company acquired assets with a fair value of approximately $373.4 million, including approximately $123.0 million of loans, and assumed liabilities with a fair value of approximately $334.7 million, including approximately $331.4 million of deposits. Additionally, the Company recorded goodwill of $14.0 million on the acquisition.

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

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

See Note 18—Subsequent Events for discussion regarding the Company's announcements in October 2013 of the acquisition of certain assets and assumption of certain liabilities of Surety Financial Services ("Surety") and the completion of its previously announced acquisition of Diamond Bancorp, Inc. ("Diamond").

Specialty Finance Acquisition

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

Wealth Management Acquisitions

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

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Purchased loans with evidence of credit quality deterioration since origination

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

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

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

(4) Cash and Cash Equivalents

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

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(5) Available-For-Sale Securities

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

	September 30, 2013			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$225,190	$150	$(14,438)	$210,902
U.S. Government agencies	954,050	2,213	(43,574)	912,689
Municipal	152,010	1,983	(3,346)	150,647
Corporate notes and other:				
Financial issuers	132,320	2,252	(2,513)	132,059
Other	7,011	126	(15)	7,122
Mortgage-backed: (1)				
Mortgage-backed securities	268,166	4,157	(12,861)	259,462
Collateralized mortgage obligations	60,001	458	(728)	59,731
Other equity securities	53,837	1,097	(5,663)	49,271
Total available-for-sale securities	$1,852,585	$12,436	$(83,138)	$1,781,883

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

	September 30, 2012			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$25,045	$211	$—	$25,256
U.S. Government agencies	626,725	3,833	(2,374)	628,184
Municipal	96,696	2,711	(23)	99,384
Corporate notes and other:				
Financial issuers	142,158	2,550	(5,170)	139,538
Other	17,200	251	—	17,451
Mortgage-backed: (1)				
Mortgage-backed securities	225,393	13,733	—	239,126
Collateralized mortgage obligations	66,422	690	—	67,112
Other equity securities	43,737	216	(3,236)	40,717

Total available-for-sale securities	$1,243,376	$24,195	$(10,803)	$1,256,768

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

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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 September 30, 2013:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$185,734	$(14,438)	$—	$—	$185,734	$(14,438)
U.S. Government agencies	413,113	(37,142)	60,240	(6,432)	473,353	(43,574)
Municipal	78,209	(3,342)	696	(4)	78,905	(3,346)
Corporate notes and other:						
Financial issuers	16,530	(232)	63,661	(2,281)	80,191	(2,513)
Other	985	(15)	—	—	985	(15)
Mortgage-backed:						
Mortgage-backed securities	175,261	(12,861)	—	—	175,261	(12,861)
Collateralized mortgage obligations	33,511	(728)	—	—	33,511	(728)
Other equity securities	14,507	(614)	20,350	(5,049)	34,857	(5,663)
Total	$917,850	$(69,372)	$144,947	$(13,766)	$1,062,797	$(83,138)

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 September 30, 2013 to be other-than-temporarily impaired. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily corporate securities of financial issuers, agency bonds and auction rate securities included in other equity securities. The corporate securities of financial issuers in this category were comprised primarily of investment grade securities including six fixed-to-floating rate bonds and three trust-preferred securities. Additionally, a review of the issuers indicated that they all have strong capital ratios.

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

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2013	2012	2013	2012
Realized gains	$118	$413	$434	$2,350
Realized losses	(43)	(4)	(106)	(16)
Net realized gains	$75	$409	$328	$2,334
Other than temporary impairment charges	—	—	—	—
Gains on available-for-sale securities, net	$75	$409	$328	$2,334
Proceeds from sales of available-for-sale securities	$45,078	$694,608	$129,537	$2,059,154

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

	September 30, 2013		December 31, 2012		September 30, 2012	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$285,746	$286,066	$188,594	$189,015	$83,658	$83,863
Due in one to five years	316,076	316,474	419,588	419,654	471,863	471,747
Due in five to ten years	344,742	328,895	361,037	362,135	135,580	137,116
Due after ten years	524,017	481,984	501,177	503,999	216,723	217,087
Mortgage-backed	328,167	319,193	261,871	271,574	291,815	306,238
Other equity securities	53,837	49,271	52,846	49,699	43,737	40,717
Total available-for-sale securities	$1,852,585	$1,781,883	$1,785,113	$1,796,076	$1,243,376	$1,256,768

Securities having a carrying value of $1.2 billion at September 30, 2013 and $1.1 billion at both December 31, 2012 and September 30, 2012, were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At September 30, 2013, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders' equity.

(6) Loans

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

(Dollars in thousands)	September 30, 2013		December 31, 2012		September 30, 2012	
Balance:						
Commercial	$3,109,121		$2,914,798		$2,771,053	
Commercial real-estate	4,146,110		3,864,118		3,699,712	
Home equity	736,620		788,474		807,592	
Residential real-estate	397,707		367,213		376,678	
Premium finance receivables—commercial	2,150,481		1,987,856		1,982,945	
Premium finance receivables—life insurance	1,869,739		1,725,166		1,665,620	
Indirect consumer	57,236		77,333		77,378	
Consumer and other	114,025		103,985		108,922	
Total loans, net of unearned income, excluding covered loans	$12,581,039		$11,828,943		$11,489,900	
Covered loans	415,988		560,087		657,525	
Total loans	$12,997,027		$12,389,030		$12,147,425	
Mix:						
Commercial	24	%	24	%	23	%
Commercial real-estate	32		31		30	
Home equity	6		6		7	
Residential real-estate	3		3		3	
Premium finance receivables—commercial	16		16		16	
Premium finance receivables—life insurance	14		14		14	
Indirect consumer	1		1		1	
Consumer and other	1		1		1	
Total loans, net of unearned income, excluding covered loans	97	%	96	%	95	%
Covered loans	3		4		5	
Total loans	100	%	100	%	100	%

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $40.6 million at September 30, 2013, $41.1 million at December 31, 2012 and $39.5 million at September 30,

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2012, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as the covered loans acquired in the FDIC-assisted acquisitions are recorded net of credit discounts. See "Acquired Loan Information at Acquisition" below.

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 $(1.5) million at September 30, 2013, $13.2 million at December 31, 2012 and $14.3 million at September 30, 2012. The net credit balance at September 30, 2013 is primarily the result of purchase accounting adjustments related to the acquisition of FNBI during the second quarter of 2013.

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

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

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

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

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

	September 30, 2013		December 31, 2012	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	$496,355	$380,733	$674,868	$503,837
Life insurance premium finance loans acquisition	475,711	459,883	536,503	514,459

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

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

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

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

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Accretable Yield Activity

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

(Dollars in thousands)	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	
	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$130,856	$10,287	$171,801	$14,626
Acquisitions	—	—	6,052	—
Accretable yield amortized to interest income	(9,056)	(1,943)	(12,266)	(2,309)
Accretable yield amortized to indemnification asset (1)	(8,279)	—	(16,472)	—
Reclassification from non-accretable difference (2)	8,703	234	4,636	2,951
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(5,194)	235	(1,951)	158
Accretable yield, ending balance (3)	$117,030	$8,813	$151,800	$15,426

(Dollars in thousands)	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$143,224	$13,055	$173,120	$18,861
Acquisitions	1,977	—	8,340	—
Accretable yield amortized to interest income	(27,980)	(6,216)	(40,545)	(8,795)
Accretable yield amortized to indemnification asset (1)	(28,891)	—	(55,912)	—
Reclassification from non-accretable difference (2)	44,907	1,241	53,827	4,096
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(16,207)	733	12,970	1,264
Accretable yield, ending balance (3)	$117,030	$8,813	$151,800	$15,426

(1) Represents the portion of the current period accreted yield, resulting from lower expected losses, applied to reduce the loss share indemnification asset.

(2) Reclassification is the result of subsequent increases in expected principal cash flows.

(3) As of September 30, 2013, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $40.5 million. The remainder of the accretable yield related to bank acquisitions is expected to be amortized to interest income.

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

The tables below show the aging of the Company's loan portfolio at September 30, 2013, December 31, 2012 and September 30, 2012:

As of September 30, 2013 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$15,283	$190	$3,585	$15,261	$1,688,232	$1,722,551
Franchise	—	—	113	—	213,215	213,328
Mortgage warehouse lines of credit	—	—	—	—	71,383	71,383
Community Advantage—homeowners association	—	—	—	—	90,504	90,504
Aircraft	—	—	—	—	12,601	12,601
Asset-based lending	2,364	—	693	3,926	732,585	739,568
Tax exempt	—	—	—	—	148,103	148,103
Leases	—	—	—	—	101,654	101,654
Other	—	—	—	—	90	90
Purchased non-covered commercial [1]	—	265	—	1,642	7,432	9,339
Total commercial	17,647	455	4,391	20,829	3,065,799	3,109,121
Commercial real-estate:						
Residential construction	2,049	3,120	1,595	261	33,305	40,330
Commercial construction	7,854	—	—	—	138,234	146,088
Land	4,216	—	—	4,082	100,953	109,251
Office	4,318	—	3,965	1,270	624,967	634,520
Industrial	8,184	—	—	2,419	614,409	625,012
Retail	11,259	—	271	7,422	593,263	612,215
Multi-family	2,603	—	—	4,332	543,690	550,625
Mixed use and other	12,240	269	2,761	15,371	1,339,029	1,369,670
Purchased non-covered commercial real-estate [1]	—	9,607	3,380	2,702	42,710	58,399
Total commercial real-estate	52,723	12,996	11,972	37,859	4,030,560	4,146,110
Home equity	10,926	—	2,436	5,887	717,371	736,620
Residential real estate	14,126	—	1,749	2,844	377,489	396,208
Purchased non-covered residential real estate [1]	—	447	289	34	729	1,499
Premium finance receivables						
Commercial insurance loans	10,132	11,751	5,307	14,628	2,108,663	2,150,481
Life insurance loans	14	592	6,428	—	1,402,822	1,409,856
Purchased life insurance loans [1]	—	—	—	—	459,883	459,883
Indirect consumer	80	100	97	231	56,728	57,236
Consumer and other	1,591	—	319	445	111,491	113,846
Purchased non-covered consumer and other [1]	—	28	—	19	132	179
Total loans, net of unearned income, excluding covered loans	$107,239	$26,369	$32,988	$82,776	$12,331,667	$12,581,039

Covered loans	8,602	81,430	9,813	9,216	306,927	415,988
Total loans, net of unearned income	$115,841	$107,799	$42,801	$91,992	$12,638,594	$12,997,027

(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.

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As of December 31, 2012 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$19,409	$—	$5,520	$15,410	$1,587,864	$1,628,203
Franchise	1,792	—	—	—	194,603	196,395
Mortgage warehouse lines of credit	—	—	—	—	215,076	215,076
Community Advantage—homeowners association	—	—	—	—	81,496	81,496
Aircraft	—	—	148	—	17,216	17,364
Asset-based lending	536	—	1,126	6,622	564,154	572,438
Tax exempt	—	—	—	—	91,824	91,824
Leases	—	—	—	896	89,547	90,443
Other	—	—	—	—	16,549	16,549
Purchased non-covered commercial [(1)]	—	496	432	7	4,075	5,010
Total commercial	21,737	496	7,226	22,935	2,862,404	2,914,798
Commercial real-estate						
Residential construction	3,110	—	4	41	37,246	40,401
Commercial construction	2,159	—	885	386	167,525	170,955
Land	11,299	—	632	9,014	113,252	134,197
Office	4,196	—	1,889	3,280	560,346	569,711
Industrial	2,089	—	6,042	4,512	565,294	577,937
Retail	7,792	—	1,372	998	558,734	568,896
Multi-family	2,586	—	3,949	1,040	389,116	396,691
Mixed use and other	16,742	—	6,660	13,349	1,312,503	1,349,254
Purchased non-covered commercial real-estate [(1)]	—	749	2,663	2,508	50,156	56,076
Total commercial real-estate	49,973	749	24,096	35,128	3,754,172	3,864,118
Home equity	13,423	100	1,592	5,043	768,316	788,474
Residential real-estate	11,728	—	2,763	8,250	343,616	366,357
Purchased non-covered residential real-estate [(1)]	—	—	200	—	656	856
Premium finance receivables						
Commercial insurance loans	9,302	10,008	6,729	19,597	1,942,220	1,987,856
Life insurance loans	25	—	—	5,531	1,205,151	1,210,707
Purchased life insurance loans [(1)]	—	—	—	—	514,459	514,459
Indirect consumer	55	189	51	442	76,596	77,333
Consumer and other	1,511	32	167	433	99,010	101,153
Purchased non-covered consumer and other [(1)]	—	66	32	101	2,633	2,832
Total loans, net of unearned income, excluding covered loans	$107,754	$11,640	$42,856	$97,460	$11,569,233	$11,828,943
Covered loans	1,988	122,350	16,108	7,999	411,642	560,087
Total loans, net of unearned income	$109,742	$133,990	$58,964	$105,459	$11,980,875	$12,389,030

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

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As of September 30, 2012 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$15,163	$—	$5,985	$16,631	$1,518,596	$1,556,375
Franchise	1,792	—	—	—	177,914	179,706
Mortgage warehouse lines of credit	—	—	—	—	225,295	225,295
Community Advantage—homeowners association	—	—	—	—	73,881	73,881
Aircraft	428	—	—	150	20,866	21,444
Asset-based lending	328	—	1,211	5,556	525,966	533,061
Tax exempt	—	—	—	—	90,404	90,404
Leases	—	—	—	—	83,351	83,351
Other	—	—	—	—	1,576	1,576
Purchased non-covered commercial [(1)]	—	499	—	—	5,461	5,960
Total commercial	17,711	499	7,196	22,337	2,723,310	2,771,053
Commercial real-estate:						
Residential construction	2,141	—	3,008	—	39,106	44,255
Commercial construction	3,315	—	163	13,072	152,993	169,543
Land	10,629	—	3,033	3,017	116,807	133,486
Office	6,185	—	5,717	7,237	565,182	584,321
Industrial	1,885	—	645	1,681	570,114	574,325
Retail	10,133	—	1,853	5,617	543,066	560,669
Multi-family	3,314	—	3,062	—	357,047	363,423
Mixed use and other	20,859	—	9,779	14,990	1,175,222	1,220,850
Purchased non-covered commercial real-estate [(1)]	—	1,066	150	389	47,235	48,840
Total commercial real-estate	58,461	1,066	27,410	46,003	3,566,772	3,699,712
Home equity	11,504	—	5,905	5,642	784,541	807,592
Residential real estate	15,393	—	3,281	2,637	354,711	376,022
Purchased non-covered residential real estate [(1)]	—	—	—	—	656	656
Premium finance receivables						
Commercial insurance loans	7,488	5,533	5,881	14,369	1,949,674	1,982,945
Life insurance loans	29	—	—	—	1,128,559	1,128,588
Purchased life insurance loans [(1)]	—	—	—	—	537,032	537,032
Indirect consumer	72	215	74	344	76,673	77,378
Consumer and other	1,485	—	429	849	106,092	108,855
Purchased non-covered consumer and other [(1)]	—	—	—	—	67	67
Total loans, net of unearned income, excluding covered loans	$112,143	$7,313	$50,176	$92,181	$11,228,087	$11,489,900
Covered loans	910	129,257	6,521	14,571	506,266	657,525
Total loans, net of unearned income	$113,053	$136,570	$56,697	$106,752	$11,734,353	$12,147,425

(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.

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

Each loan officer is responsible for monitoring his or her loan portfolio, recommending a credit risk rating for each loan in his or her portfolio and ensuring the credit risk ratings are appropriate. These credit risk ratings are then ratified by the bank's chief credit officer and/or concurrence credit officer. Credit risk ratings are determined by evaluating a number of factors including: a borrower's financial strength, cash flow coverage, collateral protection and guarantees.

The Company's Problem Loan Reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the Company's Managed Asset Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company's Managed Asset Division, the credit risk rating is reviewed and a portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company's impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real-estate collateral, an independent third party appraisal is ordered by the Company's Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.

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

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

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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 is considered performing under the contractual terms of the loan agreement. The following table presents the recorded investment based on performance of loans by class, excluding covered loans, per the most recent analysis at September 30, 2013, December 31, 2012 and September 30, 2012:

(Dollars in thousands)	Performing September 30, 2013	December 31, 2012	September 30, 2012	Non-performing September 30, 2013	December 31, 2012	September 30, 2012	Total September 30, 2013	December 31, 2012	S 3
Loan Balances:									
Commercial									
Commercial and industrial	$1,707,078	$1,608,794	$1,541,212	$15,473	$19,409	$15,163	$1,722,551	$1,628,203	$
Franchise	213,328	194,603	177,914	—	1,792	1,792	213,328	196,395	1
Mortgage warehouse lines of credit	71,383	215,076	225,295	—	—	—	71,383	215,076	2
Community Advantage—homeowners association	90,504	81,496	73,881	—	—	—	90,504	81,496	7
Aircraft	12,601	17,364	21,016	—	—	428	12,601	17,364	2
Asset-based lending	737,204	571,902	532,733	2,364	536	328	739,568	572,438	5
Tax exempt	148,103	91,824	90,404	—	—	—	148,103	91,824	9
Leases	101,654	90,443	83,351	—	—	—	101,654	90,443	8
Other	90	16,549	1,576	—	—	—	90	16,549	1,
Purchased non-covered commercial (1)	9,339	5,010	5,960	—	—	—	9,339	5,010	5,
Total commercial	3,091,284	2,893,061	2,753,342	17,837	21,737	17,711	3,109,121	2,914,798	2,
Commercial real-estate									
Residential construction	35,161	37,291	42,114	5,169	3,110	2,141	40,330	40,401	4
Commercial construction	138,234	168,796	166,228	7,854	2,159	3,315	146,088	170,955	1
Land	105,035	122,898	122,857	4,216	11,299	10,629	109,251	134,197	1
Office	630,202	565,515	578,136	4,318	4,196	6,185	634,520	569,711	5
Industrial	616,828	575,848	572,440	8,184	2,089	1,885	625,012	577,937	5
Retail	600,956	561,104	550,536	11,259	7,792	10,133	612,215	568,896	5
Multi-family	548,022	394,105	360,109	2,603	2,586	3,314	550,625	396,691	3
Mixed use and other	1,357,161	1,332,512	1,199,991	12,509	16,742	20,859	1,369,670	1,349,254	1,
Purchased non-covered commercial real-estate(1)	58,399	56,076	48,840	—	—	—	58,399	56,076	4
Total commercial real-estate	4,089,998	3,814,145	3,641,251	56,112	49,973	58,461	4,146,110	3,864,118	3,
Home equity	725,694	774,951	796,088	10,926	13,523	11,504	736,620	788,474	8
Residential real-estate	382,082	354,629	360,629	14,126	11,728	15,393	396,208	366,357	3
Purchased non-covered residential real-estate (1)	1,499	856	656	—	—	—	1,499	856	6
Premium finance receivables	2,128,598	1,968,546	1,969,924	21,883	19,310	13,021	2,150,481	1,987,856	1,

Commercial insurance loans									
Life insurance loans	1,409,250	1,210,682	1,128,559	606	25	29	1,409,856	1,210,707	1,
Purchased life insurance loans [1]	459,883	514,459	537,032	—	—	—	459,883	514,459	5
Indirect consumer	57,056	77,089	77,091	180	244	287	57,236	77,333	7
Consumer and other	112,255	99,610	107,370	1,591	1,543	1,485	113,846	101,153	1
Purchased non-covered consumer and other[1]	179	2,832	67	—	—	—	179	2,832	6
Total loans, net of unearned income, excluding covered loans	$12,457,778	$11,710,860	$11,372,009	$123,261	$118,083	$117,891	$12,581,039	$11,828,943	$

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

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

Three months ended September 30, 2013 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses								
Allowance for loan losses at beginning of period	$ 28,737	$ 51,950	$ 14,205	$ 4,825	$ 5,268	$ 263	$ 1,594	$ 106,842
Other adjustments	(15)	(193)	—	(4)	7	—	—	(205)
Reclassification from (to) allowance for unfunded lending-related commitments	—	284	—	—	—	—	—	284
Charge-offs	(3,281)	(6,982)	(711)	(328)	(1,297)	(23)	(193)	(12,815)
Recoveries	756	272	43	64	316	12	39	1,502
Provision for credit losses	2,044	5,488	1,824	700	1,193	(51)	382	11,580
Allowance for loan losses at period end	$ 28,241	$ 50,819	$ 15,361	$ 5,257	$ 5,487	$ 201	$ 1,822	$ 107,188
Allowance for unfunded lending-related commitments at period end	$ —	$ 1,267	$ —	$ —	$ —	$ —	$ —	$ 1,267
Allowance for credit losses at period end	$ 28,241	$ 52,086	$ 15,361	$ 5,257	$ 5,487	$ 201	$ 1,822	$ 108,455
Individually evaluated for impairment	5,498	5,892	2,447	886	—	—	252	14,975
Collectively evaluated for impairment	22,636	46,080	12,914	4,371	5,487	201	1,570	93,259
Loans acquired with deteriorated credit quality	107	114	—	—	—	—	—	221
Loans at period end								
Individually evaluated for impairment	$ 24,688	$ 124,401	$ 11,152	$ 16,746	$ —	$ 79	$ 1,695	$ 178,761
Collectively evaluated for impairment	3,075,094	3,963,310	725,468	379,462	3,560,337	57,157	112,151	11,872,979
Loans acquired with deteriorated credit quality	9,339	58,399	—	1,499	459,883	—	179	529,299

Three months ended September 30, 2012 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses								
Allowance for loan losses at beginning of period	$ 26,983	$ 53,801	$ 13,878	$ 6,724	$ 8,522	$ 640	$ 1,372	$ 111,920
Other adjustments	(138)	(304)	(2)	(90)	—	—	—	(534)
Reclassification from (to) allowance for unfunded lending-related commitments	—	626	—	—	—	—	—	626
Charge-offs	(3,315)	(17,000)	(1,543)	(1,027)	(886)	(73)	(93)	(23,937)
Recoveries	349	5,352	52	8	206	25	28	6,020
Provision for credit losses	3,862	12,610	1,215	1,938	(955)	(323)	(155)	18,192
Allowance for loan losses at period end	$ 27,741	$ 55,085	$ 13,600	$ 7,553	$ 6,887	$ 269	$ 1,152	$ 112,287
Allowance for unfunded lending-related commitments at period end	$ —	$ 12,627	$ —	$ —	$ —	$—	$—	$ 12,627
Allowance for credit losses at period end	$ 27,741	$ 67,712	$ 13,600	$ 7,553	$ 6,887	$ 269	$ 1,152	$ 124,914
Individually evaluated for impairment	$ 3,168	$ 21,998	$ 3,011	$ 3,244	$ —	$ 1	$ 480	$ 31,902
Collectively evaluated for impairment	$ 24,573	$ 45,714	$ 10,589	$ 4,306	$ 6,887	$ 268	$ 672	$ 93,009
Loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ 3	$ —	$—	$—	$ 3
Loans at period end								
Individually evaluated for impairment	$ 38,838	$ 160,711	$ 13,118	$ 18,696	$ —	$ 69	$ 1,582	$ 233,014
Collectively evaluated for impairment	2,726,255	3,490,161	794,474	357,326	3,111,533	77,309	107,273	10,664,331
Loans acquired with deteriorated credit quality	5,960	48,840	—	656	537,032	—	67	592,555

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Nine Months Ended September 30, 2013 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses								
Allowance for loan losses at beginning of period	$ 28,794	$ 52,135	$ 12,734	$ 5,560	$ 6,096	$ 267	$ 1,765	$ 107,351
Other adjustments	(19)	(621)	—	(98)	(5)	—	—	(743)
Reclassification from (to) allowance for unfunded lending-related commitments	—	136	—	—	—	—	—	136
Charge-offs	(8,914)	(25,228)	(4,893)	(2,573)	(3,671)	(71)	(402)	(45,752)
Recoveries	1,319	1,224	376	87	889	44	177	4,116
Provision for credit losses	7,061	23,173	7,144	2,281	2,178	(39)	282	42,080
Allowance for loan losses at period end	$ 28,241	$ 50,819	$ 15,361	$ 5,257	$ 5,487	$ 201	$ 1,822	$ 107,188
Allowance for unfunded lending-related commitments at period end	$ —	$ 1,267	$—	$—	$—	$—	$—	$ 1,267
Allowance for credit losses at period end	$ 28,241	$ 52,086	$ 15,361	$ 5,257	$ 5,487	$ 201	$ 1,822	$ 108,455

Nine months ended September 30, 2012 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses								
Allowance for loan losses at beginning of period	$ 31,237	$ 56,405	$ 7,712	$ 5,028	$ 7,214	$ 645	$ 2,140	$ 110,381
Other adjustments	(142)	(787)	(4)	(111)	—	—	—	(1,044)
Reclassification from (to) allowance for unfunded lending-related commitments	45	908	—	—	—	—	—	953
Charge-offs	(12,623)	(34,455)	(5,865)	(1,590)	(2,483)	(157)	(454)	(57,627)
Recoveries	852	5,657	385	13	675	76	226	7,884
Provision for credit losses	8,372	27,357	11,372	4,213	1,481	(295)	(760)	51,740
	$ 27,741	$ 55,085	$ 13,600	$ 7,553	$ 6,887	$ 269	$ 1,152	$ 112,287

Allowance for loan losses at period end								
Allowance for unfunded lending-related commitments at period end	$ —	$ 12,627	$—	$—	$—	$—	$—	$12,627
Allowance for credit losses at period end	$ 27,741	$ 67,712	$13,600	$7,553	$6,887	$269	$1,152	$124,914

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

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Balance at beginning of period	$14,429	$20,560	$13,454	$12,977
Provision for covered loan losses before benefit attributable to FDIC loss share agreements	(2,331)	3,096	515	25,916
Benefit attributable to FDIC loss share agreements	1,865	(2,489)	(412)	(20,766)
Net provision for covered loan losses	(466)	607	103	5,150
(Decrease) increase in FDIC indemnification asset	(1,865)	2,489	412	20,766
Loans charged-off	(3,237)	(1,736)	(8,294)	(17,052)
Recoveries of loans charged-off	4,063	6	7,249	85
Net recoveries (charge-offs)	826	(1,730)	(1,045)	(16,967)
Balance at end of period	$12,924	$21,926	$12,924	$21,926

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

Impaired Loans

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

(Dollars in thousands)	September 30, 2013	December 31, 2012	September 30, 2012
Impaired loans (included in non-performing and restructured loans):			
Impaired loans with an allowance for loan loss required [(1)]	$99,437	$89,983	$120,060
Impaired loans with no allowance for loan loss required	76,861	114,562	112,954
Total impaired loans [(2)]	$176,298	$204,545	$233,014
Allowance for loan losses related to impaired loans	$14,329	$13,575	$19,818
Troubled debt restructurings	$115,003	$126,473	$147,196

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

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

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

	As of September 30, 2013			For the Nine Months Ended September 30, 2013	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$10,599	$ 12,226	$3,915	$11,155	$ 558
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	2,287	2,296	1,549	2,299	86
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					
Residential construction	377	377	49	379	19
Commercial construction	9,577	9,577	103	10,051	284
Land	12,161	15,486	947	12,321	445
Office	7,322	7,376	111	7,426	207
Industrial	3,352	3,417	177	3,402	124
Retail	18,583	18,662	1,942	18,859	564
Multi-family	3,715	4,188	260	3,809	143
Mixed use and other	19,451	19,711	1,721	18,569	669
Home equity	5,347	5,559	2,447	5,468	187
Residential real-estate	5,999	6,533	856	5,418	170
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Indirect consumer	—	—	—	—	—
Consumer and other	667	668	252	661	25
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$10,858	$ 15,320	$—	$13,841	$ 683
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	76	1,416	—	87	57
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					

Residential construction	3,267	3,426	—	3,954	122
Commercial construction	8,705	13,939	—	10,899	564
Land	4,980	6,094	—	3,869	181
Office	7,329	9,324	—	8,242	358
Industrial	7,668	7,833	—	7,772	357
Retail	6,230	6,549	—	6,270	257
Multi-family	1,149	2,983	—	1,868	115
Mixed use and other	9,205	11,256	—	8,181	362
Home equity	5,805	7,215	—	5,568	221
Residential real-estate	10,482	12,841	—	9,805	292
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Indirect consumer	79	88	—	70	7
Consumer and other	1,028	1,564	—	1,058	72
Total loans, net of unearned income, excluding covered loans	$176,298	$ 205,924	$14,329	$181,301	$ 7,129

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	As of December 31, 2012			For the Twelve Months Ended December 31, 2012	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$11,010	$ 12,562	$1,982	$13,312	$ 881
Franchise	1,792	1,792	1,259	1,792	122
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	511	511	55	484	26
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					
Residential construction	2,007	2,007	389	2,007	98
Commercial construction	1,865	1,865	70	1,865	78
Land	12,184	12,860	1,414	12,673	483
Office	5,829	5,887	622	5,936	246
Industrial	1,150	1,200	224	1,208	75
Retail	13,240	13,314	343	13,230	584
Multi-family	3,954	3,954	348	3,972	157
Mixed use and other	22,249	23,166	2,989	23,185	1,165
Home equity	7,270	7,313	2,569	7,282	271
Residential real-estate	6,420	6,931	1,169	6,424	226
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Indirect consumer	—	—	—	—	—
Consumer and other	502	502	142	502	26
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$20,270	$ 27,574	$—	$23,877	$ 1,259
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	25	1,362	—	252	76
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					
Residential construction	4,085	4,440	—	4,507	143

Commercial construction	12,263	13,395	—	13,635	540
Land	12,163	17,141	—	14,646	906
Office	8,939	9,521	—	9,432	437
Industrial	3,598	3,776	—	3,741	181
Retail	18,073	18,997	—	19,067	892
Multi-family	2,817	4,494	—	4,120	222
Mixed use and other	15,462	17,210	—	16,122	912
Home equity	7,320	8,758	—	8,164	376
Residential real-estate	8,390	9,189	—	9,069	337
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Indirect consumer	53	61	—	65	6
Consumer and other	1,104	1,558	—	1,507	94
Total loans, net of unearned income, excluding covered loans	$204,545	$ 231,340	$13,575	$222,076	$ 10,819

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	As of September 30, 2012			For the Nine Months Ended September 30, 2012	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$11,271	$ 13,484	$2,615	$13,623	$ 670
Franchise	1,792	1,792	386	1,792	91
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	428	428	95	428	22
Asset-based lending	306	1,624	72	558	67
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					
Residential construction	2,637	2,712	540	2,637	102
Commercial construction	4,184	4,184	743	4,160	153
Land	13,689	15,459	1,576	13,986	460
Office	7,366	9,851	802	7,998	355
Industrial	752	804	295	778	34
Retail	17,933	18,060	1,257	18,024	626
Multi-family	5,588	5,588	859	5,598	213
Mixed use and other	30,921	32,005	3,842	31,582	1,145
Home equity	8,254	8,923	3,011	8,572	352
Residential real-estate	13,578	14,220	3,244	13,507	448
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Indirect consumer	12	13	1	13	1
Consumer and other	1,349	1,349	480	1,351	64
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$25,019	$ 28,581	$—	$27,829	$ 1,076
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	22	57	—	81	5
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real-estate					
Residential construction	3,603	3,719	—	4,389	134

Commercial construction	9,868	10,466	—	10,937	332
Land	13,330	17,331	—	15,866	648
Office	9,463	10,368	—	9,627	339
Industrial	3,080	3,164	—	3,115	107
Retail	16,610	16,876	—	17,070	613
Multi-family	1,926	2,672	—	2,371	87
Mixed use and other	19,761	21,819	—	20,970	861
Home equity	4,864	5,494	—	4,931	162
Residential real-estate	5,118	5,374	—	5,392	118
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Indirect consumer	57	71	—	67	5
Consumer and other	233	237	—	248	11
Total loans, net of unearned income, excluding covered loans	$233,014	$ 256,725	$19,818	$247,500	$ 9,301

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TDRs

At September 30, 2013, the Company had $115.0 million in loans modified in TDRs. The $115.0 million in TDRs represents 161 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. Loans classified as TDRs that are re-modified subsequent to the initial determination will continue to be classified as TDRs following the re-modification, unless the requirements for removal from TDR classification discussed above are satisfied at the time of the re-modification.

TDRs are reviewed at the time of the modification and on a quarterly basis to determine if a specific reserve is necessary. 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. The Company, in accordance with ASC 310-10, continues to individually measure impairment of these loans after the TDR classification is removed.

Each TDR was reviewed for impairment at September 30, 2013 and approximately $4.4 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. For TDRs in which impairment is calculated by the present value of future cash flows, the Company records interest income representing the decrease in impairment resulting from the passage of time during the respective period, which differs from interest income from contractually required interest on these specific loans. During the three months ended September 30, 2013 and 2012, the Company recorded $205,000 and $534,000, respectively, in interest income representing this decrease in impairment. During the nine months ended September 30, 2013 and 2012, the Company recorded $727,000 and $1.0 million, respectively, in interest income representing this decrease in impairment.

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The tables below present a summary of the post-modification balance of loans restructured during the three and nine months ended September 30, 2013 and 2012, respectively, which represent TDRs:

Three months ended September 30, 2013	Total [(1)(2)]		Extension at Below Market Terms [(2)]		Reduction of Interest Rate [(2)]		Modification to Interest-only Payments [(2)]		Forgiveness of Debt[(2)]	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	—	$—	—	$—	—	$ —	—	$—	—	$ —
Commercial real-estate										
Residential construction	—	—		—	—	—	—	—	—	—
Commercial construction	—	—	—	—	—	—	—	—	—	—
Land	1	2,352	1	2,352	—	—	—	—	—	—
Office	1	556	1	556	1	556	—	—	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Retail	—	—	—	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—	—	—	—
Mixed use and other	1	95	1	95	—	—	—	—	—	—
Residential real estate and other	1	1,000	1	1,000	—	—	—	—	1	1,000
Total loans	4	$4,003	4	$4,003	1	$ 556	—	$—	1	$ 1,000

(1) TDRs may have more than one modification representing a concession. As such, TDRs during the period may be represented in more than one of the categories noted above.
(2) Balances represent the recorded investment in the loan at the time of the restructuring.

Three months ended September 30, 2012	Total [(1)(2)]		Extension at Below Market Terms [(2)]		Reduction of Interest Rate [(2)]		Modification to Interest-only Payments [(2)]		Forgiveness of Debt[(2)]	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	3	$442	2	$275	1	$ 225	1	$167	—	$ —
Commercial real-estate										
Residential construction	1	496	1	496	1	496	1	496	—	—
Commercial construction	—	—	—	—	—	—	—	—	—	—
Land	—	—	—	—	—	—	—	—	—	—
Office	—	—	—	—	—	—	—	—	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Retail	2	4,653	2	4,653	—	—	2	4,654	—	—
Multi-family	1	380	—	—	1	380	1	380	—	—
Mixed use and other	7	3,108	2	858	5	2,250	5	2,699	—	—
	4	437	3	308	3	357	1	79	—	—

Residential real estate and other										
Total loans	18	$9,516	10	$6,590	11	$ 3,708	11	$8,475	—	$ —

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

(2) Balances represent the recorded investment in the loan at the time of the restructuring.

During the three months ended September 30, 2013, 4 loans totaling $4.0 million were determined to be TDRs, compared to 18 loans totaling $9.5 million in the same period of 2012. Of these loans extended at below market terms, the weighted average extension had a term of approximately 26 months during the three months ended September 30, 2013 compared to 8 months for the same period of 2012. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 150 basis points and 293 basis points during the three months ending September 30, 2013 and 2012, respectively. No loans were modified to interest-only payment terms during the third quarter of 2013 compared to 11 loans totaling $8.5 million in the same period of 2012. Interest-only payment terms were approximately nine months during the three months ending September 30, 2012. Additionally, $1.0 million in principal balances were forgiven in the third quarter of 2013 compared to no principal balances forgiven during the same period of 2012.

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Nine months ended September 30, 2013	Total (1)(2)		Extension at Below Market Terms (2)		Reduction of Interest Rate (2)		Modification to Interest-only Payments (2)		Forgiveness of Debt(2)	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	6	$708	5	$573	4	$ 553	2	$185	—	$ —
Commercial real-estate										
Residential construction	—	—	—	—	—	—	—	—	—	—
Commercial construction	3	6,120	3	6,120	—	—	3	6,120	—	—
Land	3	2,639	3	2,639	2	287	—	—	1	73
Office	4	4,021	4	4,021	1	556	—	—	—	—
Industrial	1	949	1	949	1	949	—	—	—	—
Retail	1	200	1	200	1	200	—	—	—	—
Multi-family	1	705	1	705	1	705	—	—	—	—
Mixed use and other	3	3,628	3	3,628	2	3,533	—	—	—	—
Residential real estate and other	8	1,778	4	1,095	6	762	2	234	1	1,000
Total loans	30	$20,748	25	$19,930	18	$ 7,545	7	$6,539	2	$ 1,073

(1) TDRs may have more than one modification representing a concession. As such, TDRs during the period may be represented in more than one of the categories noted above.
(2) Balances represent the recorded investment in the loan at the time of the restructuring.

Nine months ended September 30, 2012	Total (1)(2)		Extension at Below Market Terms (2)		Reduction of Interest Rate (2)		Modification to Interest-only Payments (2)		Forgiveness of Debt(2)	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	16	$13,325	9	$2,617	9	$ 12,705	7	$10,579	2	$ 1,486
Commercial real-estate										
Residential construction	3	2,147	3	2,147	1	496	1	496	—	—
Commercial construction	2	622	2	622	2	622	2	622	—	—
Land	17	31,836	17	31,836	14	30,561	13	26,511	—	—
Office	—	—	—	—	—	—	—	—	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Retail	7	13,286	7	13,286	5	8,633	6	12,897	—	—
Multi-family	1	380	—	—	1	380	1	380	—	—
Mixed use and other	13	6,745	8	4,495	9	5,680	8	3,974	—	—
	9	1,512	7	1,264	5	504	3	924	1	29

Residential real estate and other										
Total loans	68	$69,853	53	$56,267	46	$ 59,581	41	$56,383	3	$ 1,515

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

(2) Balances represent the recorded investment in the loan at the time of the restructuring.

During the nine months ended September 30, 2013, 30 loans totaling $20.7 million were determined to be TDRs, compared to 68 loans totaling $69.9 million in the same period of 2012. Of these loans extended at below market terms, the weighted average extension had a term of approximately 19 months during the nine months ended September 30, 2013 compared to eight months for the same period of 2012. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 199 basis points and 151 basis points during the nine months ending September 30, 2013 and 2012, respectively. Interest-only payment terms were approximately eleven months and five months during the nine months ending September 30, 2013 and 2012, respectively. Additionally, $1.0 million in balances were forgiven in the first nine months of 2013 compared to $420,000 balances forgiven during the same period of 2012.

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The following table presents a summary of all loans restructured in TDRs during the twelve months ended September 30, 2013 and 2012, and such loans which were in payment default under the restructured terms during the respective periods below:

(Dollars in thousands)	As of September 30, 2013 Total (1)(3)		Three Months Ended September 30, 2013 Payments in Default (2)(3)		Nine Months Ended September 30, 2013 Payments in Default (2)(3)	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial and industrial	8	$1,694	1	$161	2	$181
Commercial real-estate						
Residential construction	—	—	—	—	—	—
Commercial construction	3	6,120	—	—	—	—
Land	3	2,639	1	215	1	215
Office	4	4,021	1	1,648	1	1,648
Industrial	2	1,676	1	727	1	727
Retail	2	431	—	—	—	—
Multi-family	1	705	—	—	1	705
Mixed use and other	5	4,217	1	95	2	368
Residential real estate and other	9	1,904	1	126	1	126
Total loans	37	$23,407	6	$2,972	9	$3,970

(1) Total TDRs represent all loans restructured in TDRs during the previous twelve months from the date indicated.
(2) TDRs considered to be in payment default are over 30 days past-due subsequent to the restructuring.
(3) Balances represent the recorded investment in the loan at the time of the restructuring.

(Dollars in thousands)	As of September 30, 2012 Total (1)(3)		Three Months Ended September 30, 2012 Payments in Default (2)(3)		Nine Months Ended September 30, 2012 Payments in Default (2)(3)	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial and industrial	21	$15,161	3	$351	3	$351
Commercial real-estate						
Residential construction	4	3,252	—	—	—	—
Commercial construction	7	3,360	5	2,740	5	2,740
Land	21	37,860	1	651	2	1,925
Office	2	4,795	—	—	—	—
Industrial	2	1,313	1	990	1	990
Retail	15	28,097	—	—	1	1,605
Multi-family	6	4,247	1	264	1	264
Mixed use and other	27	12,342	2	914	5	3,197
Residential real estate and other	16	3,977	5	1,931	6	2,379
Total loans	121	$114,404	18	$7,841	24	$13,451

(1) Total TDRs represent all loans restructured in TDRs during the previous twelve months from the date indicated.
(2) TDRs considered to be in payment default are over 30 days past-due subsequent to the restructuring.
(3) Balances represent the recorded investment in the loan at the time of the restructuring.

(8) Loan Securitization

During the third quarter of 2009, the Company entered into a revolving period securitization transaction sponsored by First Insurance Funding Corporation ("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. At December 31, 2011, the stated revolving period ended and the majority of collections began accumulating to pay off the issued instruments as scheduled.

Instruments issued by the securitization entity included $600 million Class A notes bearing an annual interest rate of one-month LIBOR plus 1.45% (the “Notes”). 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 were recorded in the form of zero coupon bonds, were also issued and were retained by the Company.

This securitization transaction was accounted for as a secured borrowing and the securitization entity was treated as a consolidated subsidiary of the Company under ASC 810, “Consolidation”. The securitization entity’s receivables underlying third-party investors’ interests were recorded in loans, net of unearned income, excluding covered loans, an allowance for loan losses was established and the related debt issued was 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, constituted intercompany positions, which were 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 became restricted for use in meeting obligations to the securitization entity’s creditors. The securitization entity had ownership of interest-bearing deposit balances that also had restrictions, the amounts of which were reported in interest-bearing deposits with other banks. With the exception of the seller’s interest in the transferred receivables, the Company’s interests in the securitization entity’s assets were generally subordinate to the interests of third-party investors.

During the first and second quarters of 2012, the Company purchased portions of the Notes in the open market in the amounts of $172.0 million and $67.2 million, respectively, effectively reducing the outstanding Notes, on a consolidated basis, to $360.8 million. On August 15, 2012, the securitization entity paid off the $360.8 million of Notes held by third party investors as well as the $239.2 million owed to the Company. Additionally, the Company received payment of $49.6 million related to the Subordinated securities held by the Company. The securitization entity held no loans or borrowings but retained unrestricted cash of approximately $36,000, as of September 30, 2013 and December 31, 2012, and $1.8 million as of September 30, 2012.

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(9) Goodwill and Other Intangible Assets

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

(Dollars in thousands)	January 1, 2013	Goodwill Acquired	Impairment Loss	Goodwill Adjustments	September 30, 2013
Community banking	$274,963	$13,960	$—	$(1,496)	$287,427
Specialty finance	38,574	—	—	(556)	38,018
Wealth management	31,864	—	—	—	31,864
Total	$345,401	$13,960	$—	$(2,052)	$357,309

The community banking segment's goodwill increased $12.5 million in 2013 as a result of the acquisition of FNBI in the second quarter of 2013 and subsequent purchase adjustments related to the acquisition of Hyde Park Bank in 2012. Additionally, the specialty finance segment's goodwill decreased $556,000 during this same period as a result of subsequent purchase adjustments and foreign currency translation adjustments related to the acquisition of Macquarie Premium Funding Inc. in 2012.

At June 30, 2013, the Company utilized a qualitative approach for its annual goodwill impairment test of the community banking segment and determined that it is not more likely than not that an impairment existed at that time. No significant events occurred during the third quarter of 2013 that would require the Company to re-evaluate that determination. The annual goodwill impairment tests of the specialty finance and wealth management segments will be conducted at December 31, 2013.

A summary of finite-lived intangible assets as of the dates shown and the expected amortization as of September 30, 2013 is as follows:

(Dollars in thousands)	September 30, 2013	December 31, 2012	September 30, 2012
Community banking segment:			
Core deposit intangibles:			
Gross carrying amount	$39,350	$38,176	$38,501
Accumulated amortization	(28,143)	(25,159)	(24,178)
Net carrying amount	$11,207	$13,017	$14,323
Specialty finance segment:			
Customer list intangibles:			
Gross carrying amount	$1,800	$1,800	$1,800
Accumulated amortization	(769)	(645)	(603)
Net carrying amount	$1,031	$1,155	$1,197
Wealth management segment:			
Customer list and other intangibles:			
Gross carrying amount	$7,690	$7,390	$7,390
Accumulated amortization	(946)	(615)	(505)
Net carrying amount	$6,744	$6,775	$6,885
Total other intangible assets, net	$18,982	$20,947	$22,405
Estimated amortization			
Actual in nine months ended September 30, 2013			$3,438
Estimated remaining in 2013			1,123
Estimated—2014			4,117
Estimated—2015			2,565
Estimated—2016			1,981
Estimated—2017			1,589

The increase in gross carrying amount of core deposit intangibles from 2012 was primarily from the acquisition of FNBI in the second quarter of 2013, partially offset by the divestiture of the deposits and current banking locations of Second Federal in the first quarter of 2013. The core deposit intangibles recognized in connection with these acquisitions are amortized over a ten-year period on an accelerated basis.

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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 intangibles within the wealth management segment was related to the Company's acquisition of the trust operations of FNBI during the second quarter of 2013. The customer list intangibles recognized in connection with this and prior acquisitions within the wealth management segment are being amortized over a ten-year period on a straight-line basis.
Total amortization expense associated with finite-lived intangibles totaled approximately $3.4 million and $3.2 million for the nine months ended September 30, 2013 and 2012, respectively.

(10) Deposits
The following table is a summary of deposits as of the dates shown:

(Dollars in thousands)	September 30, 2013		December 31, 2012		September 30, 2012	
Balance:						
Non-interest bearing	$2,622,518		$2,396,264		$2,162,215	
NOW	1,922,906		2,022,957		1,841,743	
Wealth management deposits	1,099,509		991,902		979,306	
Money market	3,423,413		2,761,498		2,596,702	
Savings	1,318,147		1,275,012		1,156,466	
Time certificates of deposit	4,260,953		4,980,911		5,111,533	
Total deposits	$14,647,446		$14,428,544		$13,847,965	
Mix:						
Non-interest bearing	18	%	17	%	16	%
NOW	13		14		13	
Wealth management deposits	8		7		7	
Money market	23		19		19	
Savings	9		9		8	
Time certificates of deposit	29		34		37	
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 CTC and brokerage customers from unaffiliated companies.
(11) Notes Payable, Federal Home Loan Bank Advances, Other Borrowings and Subordinated Notes
The following table is a summary of notes payable, Federal Home Loan Bank advances, other borrowings and subordinated notes as of the dates shown:

(Dollars in thousands)	September 30, 2013	December 31, 2012	September 30, 2012
Notes payable	$1,546	$2,093	$2,275
Federal Home Loan Bank advances	387,852	414,122	414,211
Other borrowings:			
Securities sold under repurchase agreements	223,211	238,401	337,405
Other	23,659	36,010	39,824
Total other borrowings	246,870	274,411	377,229
Subordinated notes	10,000	15,000	15,000
Total notes payable, Federal Home Loan Bank advances, other borrowings and subordinated notes	$646,268	$705,626	$808,715

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At September 30, 2013, the Company had notes payable of $1.5 million. The Company had a $1.0 million outstanding balance of notes payable, with an interest rate of 4.00%, under a $101.0 million Amended and Restated Credit Agreement (“Agreement”) with unaffiliated banks. The Agreement consisted of a $100.0 million revolving credit facility, maturing on October 25, 2013, and a $1.0 million term loan maturing on June 1, 2015. At September 30, 2013, no amount was outstanding on the $100.0 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) 400 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 300 basis points (the “Eurodollar Rate”) and (2) 400 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. As more fully described in Note 18 - Subsequent Events, the Company amended the Agreement subsequent to September 30, 2013. Additionally, on November 7, 2013, the Company repaid and terminated its $1.0 million term loan.

Borrowings under the Agreement are secured by the stock of some of the banks and contain 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 September 30, 2013, the Company was in compliance with all such covenants. The revolving credit facility 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 Advisors shareholder (“Unsecured Promissory Note”) with an outstanding balance of $546,000 as of September 30, 2013. Under the Unsecured 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 September 30, 2013, the current interest rate was 1.25%.

Federal Home Loan Bank advances consist of 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 may periodically restructure FHLB advances. The Company restructured $292.5 million of FHLB advances in the first quarter of 2012, paying $22.4 million in prepayment fees. The Company did not restructure any FHLB advances in the first nine months of 2013. 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 September 30, 2013 and 2012, securities sold under repurchase agreements are comprised of $43.2 million and $70.8 million, respectively, of customer balances in sweep accounts in connection with master repurchase agreements at the banks and $180.0 million and $266.6 million, respectively, of short-term borrowings from brokers. The Company records securities sold under repurchase agreements at their gross value and does not offset positions on the Consolidated Statements of Condition. As of September 30, 2013, the Company had pledged securities related to its customer balances in sweep accounts and short-term borrowings from brokers of $63.7 million and $197.5 million, respectively, which exceed the outstanding borrowings resulting in no net credit exposure. Securities pledged for customer balances in sweep accounts and short-term borrowings from brokers 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 September 30, 2013 and 2012 consist of the junior subordinated amortizing notes issued by the Company in connection with the issuance of Tangible Equity Units (TEUs) in December 2010 and a fixed-rate promissory note issued by the Company in August 2012 ("Fixed-rate Promissory Note") related to and secured by an office building owned by the Company. The 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. At September 30, 2013, these notes had an outstanding balance of $4.2 million. See Note 17 – Shareholders' Equity and Earnings Per Share for further discussion of the TEUs. At September 30, 2013 the Fixed-rate Promissory Note had an outstanding balance of $19.5 million. Under the Fixed-rate Promissory Note, the Company will make monthly principal payments and pay interest at a fixed rate of 3.75% until maturity on September 1, 2017.

At September 30, 2013, the Company had an obligation for one subordinated note with a remaining balance of $10.0 million. This subordinated note was issued in October 2005 (funded in May 2006). During the second quarter of 2012, two subordinated notes issued in October 2002 and April 2003 with remaining balances of $5.0 million and $10.0 million, respectively, were paid off prior to maturity. As of September 30, 2013 the remaining subordinated note requires annual principal payments of $5.0 million

on May 29, 2014 and 2015. The Company may redeem the subordinated note without payment of premium or penalty at any time prior to maturity. Interest on each note is calculated at a rate equal to three-month LIBOR plus 130 basis points. On November 7, 2013, the Company repaid the subordinated note remaining balance of $10.0 million. See Note 18 - Subsequent Events.

(12) Junior Subordinated Debentures

As of September 30, 2013, 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 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 September 30, 2013. 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 9/30/2013		Issue Date	Maturity Date	Earliest Redemption Date
Wintrust Capital Trust III	$774	$ 25,000	$25,774	L+3.25	3.52	%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	619	20,000	20,619	L+2.80	3.05	%	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	1,238	40,000	41,238	L+2.60	2.85	%	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	1,550	50,000	51,550	L+1.95	2.20	%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	1,238	40,000	41,238	L+1.45	1.70	%	08/2005	09/2035	09/2010
Wintrust Captial Trust IX	1,547	50,000	51,547	L+1.63	1.88	%	09/2006	09/2036	09/2011
Northview Capital Trust I	186	6,000	6,186	L+3.00	3.27	%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	186	6,000	6,186	L+3.00	3.27	%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	155	5,000	5,155	L+3.00	3.25	%	05/2004	05/2034	05/2009
Total			$249,493		2.44	%			

The junior subordinated debentures totaled $249.5 million at September 30, 2013, December 31, 2012 and September 30, 2012.

The interest rates on the variable rate junior subordinated debentures are based on the three-month LIBOR rate and reset on a quarterly basis. At September 30, 2013, the weighted average contractual interest rate on the junior subordinated debentures was 2.44%. 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. Two of these interest rate caps, which were purchased in the second quarter of 2013 with an aggregate notional amount of $90 million, replaced two interest rate swaps that matured in September 2013. The hedge-adjusted rate on the junior subordinated debentures as of September 30, 2013, was 3.25%. 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 September 30, 2013, all of the junior subordinated debentures, net of the Common Securities, were included in the Company's Tier 1 regulatory capital.

(13) Segment Information

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.

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 substantially similar to as those described in "Summary of Significant Accounting Policies" in Note 1 of the Company's 2012 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.

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

(Dollars in thousands)	Three months ended September 30, 2013	2012	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community banking	$133,378	$124,684	$8,694	7 %
Specialty finance	32,742	32,182	560	2
Wealth management	1,624	524	1,100	NM
Parent and inter-segment eliminations	(25,962)	(24,815)	(1,147)	(5)
Total net interest income	$141,782	$132,575	$9,207	7 %
Non-interest income:				
Community banking	$37,727	$48,912	$(11,185)	(23)%
Specialty finance	2,125	1,074	1,051	98
Wealth management	19,044	16,115	2,929	18
Parent and inter-segment eliminations	(4,234)	(3,156)	(1,078)	(34)
Total non-interest income	$54,662	$62,945	$(8,283)	(13)%
Net revenue:				
Community banking	$171,105	$173,596	$(2,491)	(1)%
Specialty finance	34,867	33,256	1,611	5
Wealth management	20,668	16,639	4,029	24
Parent and inter-segment eliminations	(30,196)	(27,971)	(2,225)	(8)
Total net revenue	$196,444	$195,520	$924	— %
Segment profit:				
Community banking	$36,279	$39,663	$(3,384)	(9)%
Specialty finance	14,826	12,967	1,859	14
Wealth management	2,702	1,317	1,385	NM
Parent and inter-segment eliminations	(18,244)	(21,645)	3,401	16
Total segment profit	$35,563	$32,302	$3,261	10 %
Segment assets:				
Community banking	$17,375,033	$16,877,673	$497,360	3 %
Specialty finance	4,222,537	3,796,745	425,792	11
Wealth management	101,707	95,128	6,579	7
Parent and inter-segment eliminations	(4,016,729)	(3,750,954)	(265,775)	(7)
Total segment assets	$17,682,548	$17,018,592	$663,956	4 %

NM - Not Meaningful

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(Dollars in thousands)	Nine months ended September 30, 2013	2012	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community banking	$384,327	$368,834	$15,493	4 %
Specialty finance	95,292	88,462	6,830	8
Wealth management	5,284	4,940	344	7
Parent and inter-segment eliminations	(76,584)	(75,496)	(1,088)	(1)
Total net interest income	$408,319	$386,740	$21,579	6 %
Non-interest income:				
Community banking	$120,211	$117,717	$2,494	2 %
Specialty finance	5,607	4,012	1,595	40
Wealth management	55,971	47,316	8,655	18
Parent and inter-segment eliminations	(5,753)	(8,142)	2,389	29
Total non-interest income	$176,036	$160,903	$15,133	9 %
Net revenue:				
Community banking	$504,538	$486,551	$17,987	4 %
Specialty finance	100,899	92,474	8,425	9
Wealth management	61,255	52,256	8,999	17
Parent and inter-segment eliminations	(82,337)	(83,638)	1,301	2
Total net revenue	$584,355	$547,643	$36,712	7 %
Segment profit:				
Community banking	$104,153	$96,052	$8,101	8 %
Specialty finance	42,438	36,401	6,037	17
Wealth management	8,093	5,297	2,796	53
Parent and inter-segment eliminations	(52,762)	(56,643)	3,881	7
Total segment profit	$101,922	$81,107	$20,815	26 %

(14) Derivative Financial Instruments

The Company primarily 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 fixed and variable rate assets and 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. Additionally, the Company enters into foreign currency contracts to manage foreign exchange risk associated with certain foreign currency denominated assets.

As discussed within "The Current Economic Environment" section of Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company has purchased interest rate cap derivatives to hedge or manage its own risk exposures. Certain interest rate cap derivatives have been designated as cash flow hedge

derivatives of the variable cash outflows associated with interest expense on the Company’s junior subordinated debentures. Other cap derivatives are not designated for hedge accounting but are economic hedges of the Company's overall portfolio, therefore any mark to market changes in the value of these caps are recognized in earnings.

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Below is a summary of the interest rate cap derivatives held by the Company as of September 30, 2013:
(Dollars in thousands)

Effective Date	Maturity Date	Notional Amount	Accounting Treatment	Fair Value as of September 30, 2013
September 30, 2011	September 30, 2014	$20,000	Cash Flow Hedging	$—
September 30, 2011	September 30, 2014	40,000	Cash Flow Hedging	—
May 3, 2012	May 3, 2015	77,000	Non-Hedge Designated	17
May 3, 2012	May 3, 2016	215,000	Non-Hedge Designated	685
June 1, 2012	April 1, 2015	96,530	Non-Hedge Designated	20
August 29, 2012	August 29, 2016	216,500	Non-Hedge Designated	1,117
February 22, 2013	August 22, 2016	100,000	Non-Hedge Designated	602
March 21, 2013	March 21, 2017	100,000	Non-Hedge Designated	1,199
May 16, 2013	November 16, 2016	75,000	Non-Hedge Designated	607
September 15, 2013	September 15, 2017	50,000	Cash Flow Hedging	951
September 30, 2013	September 30, 2017	40,000	Cash Flow Hedging	787
		$1,030,030		$5,985

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 corroborated 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 fair value of foreign currency derivatives is computed based on changes in foreign currency rates stated in the contract compared to those prevailing at the measurement date.

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The Company records derivative assets and derivative liabilities on the Consolidated Statements of Condition within accrued interest receivable and other assets and accrued interest payable and other liabilities, respectively. The table below presents the fair value of the Company's derivative financial instruments as of September 30, 2013, December 31, 2012 and September 30, 2012:

	Derivative Assets Fair Value			Derivative Liabilities Fair Value		
(Dollars in thousands)	September 30, 2013	December 31, 2012	September 30, 2012	September 30, 2013	December 31, 2012	September 30, 2012
Derivatives designated as hedging instruments under ASC 815:						
Interest rate derivatives designated as Cash Flow Hedges	$1,738	$2	$6	$3,444	$7,988	$9,491
Interest rate derivatives designated as Fair Value Hedges	$82	$104	$153	$2	$—	$—
Total derivatives designated as hedging instruments under ASC 815	$1,820	$106	$159	$3,446	$7,988	$9,491
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate derivatives	40,125	47,440	50,190	35,358	45,767	48,517
Interest rate lock commitments	15,599	6,069	15,614	5,097	937	10,392
Forward commitments to sell mortgage loans	23	277	16	5,373	3,057	11,568
Foreign exchange contracts	6	14	11	26	2	9
Total derivatives not designated as hedging instruments under ASC 815	$55,753	$53,800	$65,831	$45,854	$49,763	$70,486
Total derivatives	$57,573	$53,906	$65,990	$49,300	$57,751	$79,977

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 exceeds the agreed upon strike price. During the second quarter of 2013, the Company purchased two interest rate caps effective in September 2013 to replace interest rate swaps designated as cash flow hedges that matured in September 2013. As of September 30, 2013, the Company had two interest rate swaps and four interest rate caps with an aggregate notional amount of $225 million that were designated as cash flow hedges of interest rate risk.

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The table below provides details on each of these cash flow hedges as of September 30, 2013:

	September 30, 2013	
(Dollars in thousands) Maturity Date	Notional Amount	Fair Value Asset (Liability)
Interest Rate Swaps:		
September 2016	50,000	(2,269)
October 2016	25,000	(1,175)
Total Interest Rate Swaps	75,000	(3,444)
Interest Rate Caps:		
September 2014	20,000	—
September 2014	40,000	—
September 2017	50,000	951
September 2017	40,000	787
Total Interest Rate Caps	150,000	1,738
Total Cash Flow Hedges	$225,000	$(1,706)

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 nine months ended September 30, 2013 or September 30, 2012. 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:

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2013	2012	2013	2012
Unrealized loss at beginning of period	$(5,030)	$(9,901)	$(8,673)	$(11,633)
Amount reclassified from accumulated other comprehensive income to interest expense on junior subordinated debentures	1,507	1,471	4,629	4,324
Amount of loss recognized in other comprehensive income	(859)	(1,764)	(338)	(2,885)
Unrealized loss at end of period	$(4,382)	$(10,194)	$(4,382)	$(10,194)

As of September 30, 2013, the Company estimates that during the next twelve months, $2.0 million will be reclassified from accumulated other comprehensive income as an increase to interest expense.

Fair Value Hedges of Interest Rate Risk

Interest rate swaps designated as fair value hedges involve the payment of fixed amounts to a counterparty in exchange for the Company receiving variable payments over the life of the agreements without the exchange of the underlying notional amount. As of September 30, 2013, the Company has three interest rate swaps with an aggregate notional amount of 6.3 million that were designated as fair value hedges associated with fixed rate commercial franchise loans.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged item in the same line item as the offsetting loss or gain on the related derivatives. The Company did not recognize any net gains related to hedge ineffectiveness during the current quarter

and has recognized net gains of $9,000 in other income related to hedge ineffectiveness for the nine months ended September 30, 2013. The Company also recognized net decreases in interest income of $10,000 and $17,000 for the respective three and nine month periods ended September 30, 2013 related to net settlements on the derivatives.

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On June 1, 2013, the Company de-designated a $96.5 million cap which was previously designated as a fair value hedge of interest rate risk associated with an embedded cap in one of the Company’s floating rate loans. The hedged loan was restructured which resulted in the interest rate cap no longer qualifying as an effective fair value hedge. As such, the interest rate cap derivative is no longer accounted for under hedge accounting and all changes in value subsequent to June 1, 2013 are recorded in earnings. Additionally, in the three and nine month periods ended September 30, 2013 the Company recorded amortization of the basis in the previously hedged item as a reduction to interest income of $43,000 and $149,000, respectively.

The following table presents the gain/(loss) and hedge ineffectiveness recognized on derivative instruments and the related hedged items that are designated as a fair value hedge accounting relationship as of September 30, 2013 and 2012:

(Dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended September 30,		Amount of Gain or (Loss) Recognized in Income on Hedged Item Three Months Ended September 30,		Income Statement Gain/(Loss) due to Hedge Ineffectiveness Three Months Ended September 30,	
		2013	2012	2013	2012	2013	2012
Interest rate products	Other income	$ (14)	$ (229)	$ 14	$ 266	$—	$37

(Dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Nine Months Ended September 30,		Amount of Gain or (Loss) Recognized in Income on Hedged Item Nine Months Ended September 30,		Income Statement Gain/(Loss) due to Hedge Ineffectiveness Nine Months Ended September 30,	
		2013	2012	2013	2012	2013	2012
Interest rate products	Other income	$ 42	$ (432)	$ (33)	$ 482	$9	$50

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 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 September 30, 2013, the Company had interest rate derivative transactions with an aggregate notional amount of approximately $2.7 billion (all interest rate swaps and caps with customers and third parties) related to this program.

These interest rate derivatives had maturity dates ranging from October 2013 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 a portion of our residential mortgage loan production 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 September 30, 2013, the Company had forward commitments to sell mortgage loans with an aggregate notional amount of approximately $653.1 million and interest rate lock commitments with an aggregate notional amount of approximately $323.3 million. Additionally, the Company's total mortgage loans held-for-sale at September 30, 2013 was $334.3 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.
Foreign Currency Derivatives—These derivatives include foreign currency contracts used to manage the foreign exchange risk associated with foreign currency denominated assets and transactions. Foreign currency contracts, which include spot and forward

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contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date. As a result of fluctuations in foreign currencies, the U.S. dollar-equivalent value of the foreign currency denominated assets or forecasted transactions increase or decrease. Gains or losses on the derivative instruments related to these foreign currency denominated assets or forecasted transactions are expected to substantially offset this variability. As of September 30, 2013 the Company held foreign currency derivatives with an aggregate notional amount of approximately $2.6 million.

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 September 30, 2013, December 31, 2012 or September 30, 2012.

As discussed above, the Company has entered into interest rate cap derivatives to protect the Company in a rising rate environment against increased margin compression due to the repricing of variable rate liabilities and lack of repricing of fixed rate loans and/or securities. The Company entered into three interest rate cap derivative contracts in the second quarter of 2012 (one of which was initially designated as a fair value hedge), one interest rate cap derivative contract in the third quarter of 2012, two interest rate cap derivative contracts in the first quarter of 2013 and one interest rate cap derivative contract in the second quarter of 2013 (see summary earlier in the footnote). As of September 30, 2013, the seven interest rate cap derivative contracts, which are not designated in hedge relationships, have an aggregate notional value of $880.0 million.

Amounts included in the Consolidated Statements of Income related to derivative instruments not designated in hedge relationships were as follows:

(Dollars in thousands)		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative	Location in income statement	2013	2012	2013	2012
Interest rate swaps and caps	Other income	$(1,738)	$(1,025)	$1,182	$(1,822)
Mortgage banking derivatives	Mortgage banking revenue	(6,644)	(295)	4,352	2,068
Covered call options	Fees from covered call options	285	2,083	2,917	8,320
Foreign exchange contracts	Other income	33	2	(34)	59

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 counterparty to terminate the derivative positions if the Company fails to maintain its status as

a well or adequately capitalized institution, which would require the Company to settle its obligations under the agreements. As of September 30, 2013 the fair value of interest rate derivatives in a net liability position, which includes accrued interest related to these agreements, was $31.7 million.

The Company's 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 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.

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The Company records interest rate derivatives subject to master netting agreements at their gross value and does not offset derivative assets and liabilities on the Consolidated Statements of Condition. The tables below summarize the Company's interest rate derivatives and offsetting positions as of the dates shown.

	Derivative Assets			Derivative Liabilities		
	Fair Value			Fair Value		
(Dollars in thousands)	September 30, 2013	December 31, 2012	September 30, 2012	September 30, 2013	December 31, 2012	September 30, 2012
Gross Amounts Recognized	$41,945	$47,546	$50,349	$38,804	$53,755	$58,008
Less: Amounts offset in the Statements of Financial Condition	$—	$—	$—	$—	$—	$—
Net amount presented in the Statements of Financial Condition	$41,945	$47,546	$50,349	$38,804	$53,755	$58,008
Gross amounts not offset in the Statements of Financial Condition						
Offsetting Derivative Positions	(6,362)	(339)	(258)	(6,362)	(339)	(258)
Securities Collateral Posted [(1)]	—	—	—	(28,620)	(46,811)	(48,735)
Cash Collateral Posted	—	—	—	—	(6,605)	(7,138)
Net Credit Exposure	$35,583	$47,207	$50,091	$3,822	$—	$1,877

(1) As of December 31, 2012, the Company posted securities collateral of $49.9 million which resulted in excess collateral with its counterparties. For purposes of this disclosure, the amount of posted collateral is limited to the amount offsetting the derivative liability.

(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 September 30, 2013, the Company classified $32.7 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 third quarter of 2013, 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 per year, and accrual method are obtained from the individual bond term sheets. Certain municipal bonds held by the Company at September 30, 2013 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 pay more than par for a continuously callable bond.

At September 30, 2013, the Company held $20.4 million of other equity securities classified as Level 3. The securities in Level 3 are primarily comprised 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 September 30, 2013, 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 1.83%-2.71% with an average of 2.28% which was added to three-month LIBOR to be used as the discount rate input to the vendor's model. Fair value of the 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, a division of Barrington Bank ("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 September 30, 2013, the Company classified $8.6 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 September 30, 2013 was 10.17% with discount rates applied ranging from 10.0%-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 11%-17% or a weighted average prepayment speed of 13.55% used as an input to value the pool of mortgage servicing rights at September 30, 2013. 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), forward commitments to end investors for the sale of mortgage loans and foreign currency contracts. 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 corroborated 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. The fair value of foreign currency derivatives is computed based on

change in foreign currency rates stated in the contract compared to those prevailing at the measurement date. 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.

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

	September 30, 2013			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$210,902	$—	$210,902	$—
U.S. Government agencies	912,689	—	912,689	—
Municipal	150,647	—	117,959	32,688
Corporate notes and other	139,181	—	139,181	—
Mortgage-backed	319,193	—	319,193	—
Equity securities	49,271	—	28,829	20,442
Trading account securities	259	—	259	—
Mortgage loans held-for-sale	329,186	—	329,186	—
Mortgage servicing rights	8,608	—	—	8,608
Nonqualified deferred compensations assets	6,801	—	6,801	—
Derivative assets	57,573	—	57,573	—
Total	$2,184,310	$—	$2,122,572	$61,738
Derivative liabilities	$49,300	$—	$49,300	$—

	December 31, 2012			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$219,487	$—	$219,487	$—
U.S. Government agencies	990,039	—	990,039	—
Municipal	110,471	—	79,701	30,770
Corporate notes and other	154,806	—	154,806	—
Mortgage-backed	271,574	—	271,574	—
Equity securities	49,699	—	27,530	22,169
Trading account securities	583	—	583	—
Mortgage loans held-for-sale	385,033	—	385,033	—
Mortgage servicing rights	6,750	—	—	6,750
Nonqualified deferred compensations assets	5,532	—	5,532	—
Derivative assets	53,906	—	53,906	—
Total	$2,247,880	$—	$2,188,191	$59,689
Derivative liabilities	$57,751	$—	$57,751	$—

	September 30, 2012			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$25,256	$—	$25,256	$—
U.S. Government agencies	628,184	—	628,184	—
Municipal	99,384	—	63,629	35,755
Corporate notes and other	156,989	—	156,989	—
Mortgage-backed	306,238	—	306,238	—
Equity securities	40,717	—	18,462	22,255
Trading account securities	635	—	635	—
Mortgage loans held-for-sale	548,300	—	548,300	—
Mortgage servicing rights	6,276	—	—	6,276
Nonqualified deferred compensations assets	5,438	—	5,438	—

Derivative assets	65,990	—	65,990	—
Total	$1,883,407	$—	$1,819,121	$64,286
Derivative liabilities	$79,977	$—	$79,977	$—

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The aggregate remaining contractual principal balance outstanding as of September 30, 2013, December 31, 2012 and September 30, 2012 for mortgage loans held-for-sale measured at fair value under ASC 825 was $310.3 million, $379.5 million and $537.2 million, respectively, while the aggregate fair value of mortgage loans held-for-sale was $329.2 million, $385.0 million and $548.3 million, for the same respective periods, 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 September 30, 2013, December 31, 2012 and September 30, 2012. The changes in Level 3 assets measured at fair value on a recurring basis during the three and nine months ended September 30, 2013 and 2012 are summarized as follows:

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at June 30, 2013	$32,432	$22,428	$8,636
Total net gains (losses) included in:			
Net loss [(1)]	—	—	(28)
Other comprehensive loss	(2)	(1,986)	—
Purchases	6,225	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(5,967)	—	—
Net transfers into/(out of) Level 3	—	—	—
Balance at September 30, 2013	$32,688	$20,442	$8,608

(1) Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income.

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at January 1, 2013	$30,770	$22,169	$6,750
Total net gains (losses) included in:			
Net income [(1)]	—	—	1,858
Other comprehensive loss	(316)	(1,727)	—
Purchases	8,572	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(6,338)	—	—
Net transfers into/(out of) Level 3	—	—	—
Balance at September 30, 2013	$32,688	$20,442	$8,608

(1) Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income.

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(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at June 30, 2012	$25,537	$20,218	$6,647
Total net gains (losses) included in:			
Net loss [1]	—	—	(371)
Other comprehensive income	14	2,037	—
Purchases	10,204	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	—	—	—
Net transfers into/(out of) Level 3	—	—	—
Balance at September 30, 2012	$35,755	$22,255	$6,276

(1) Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income.

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at January 1, 2012	$24,211	$18,971	$6,700
Total net gains (losses) included in:			
Net loss [1]	—	—	(424)
Other comprehensive income	50	3,284	—
Purchases	14,044	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(148)	—	—
Net transfers out of Level 3 [2]	(2,402)	—	—
Balance at September 30, 2012	$35,755	$22,255	$6,276

(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.

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 September 30, 2013.

	September 30, 2013					
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Three Months Ended September 30, 2013 Fair Value Losses Recognized	Nine Months Ended September 30, 2013 Fair Value Losses Recognized
Impaired loans—collateral based	$97,093	$—	$—	$97,093	$ 8,380	$24,430
Other real estate owned, including covered other real estate owned [1]	142,287	—	—	142,287	2,269	8,403
Mortgage loans held-for-sale, at lower of cost or market	5,159	—	5,159	—	—	—

Total	$244,539	$—	$5,159	$239,380	$ 10,649	$32,833

(1) Fair value losses recognized on other real estate owned include valuation adjustments and charge-offs during the respective period.

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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 September 30, 2013, the Company had $176.3 million of impaired loans classified as Level 3. Of the $176.3 million of impaired loans, $97.1 million were measured at fair value based on the underlying collateral of the loan as shown in the table above. The remaining $79.2 million were valued based on discounted cash flows in accordance with ASC 310.

Other real estate owned (including covered 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.

The Company's Managed Assets and Purchased Assets Divisions are primarily responsible for the valuation of Level 3 measurements for non-covered other real estate owned and covered other real estate owned, respectively. At September 30, 2013, the Company had $142.3 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%-48% of the carrying value prior to impairment adjustments at September 30, 2013, with a weighted average input of 1.87%. 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.

The valuation techniques and significant unobservable inputs used to measure both recurring and non-recurring Level 3 fair value measurements at September 30, 2013 were as follows:

(Dollars in thousands)	Fair Value	Valuation Methodology	Significant Unobservable Input	Range of Inputs	Weighted Average of Inputs	Impact to valuation from an increased or higher input value
Measured at fair value on a recurring basis:						
Municipal Securities	$32,688	Bond pricing	Equivalent rating	BBB-AA+	N/A	Increase
Other Equity Securities	20,442	Discounted cash flows	Discount rate	1.83%-2.71%	2.28%	Decrease
Mortgage Servicing Rights	8,608	Discounted cash flows	Discount rate	10%-13.5%	10.17%	Decrease

			Constant prepayment rate (CPR)	11%-17%	13.55%	Decrease
Measured at fair value on a non-recurring basis:						
Impaired loans—collateral based	$197,093	Appraisal value	N/A	N/A	N/A	N/A
Other real estate owned, including covered other real estate owned	142,287	Appraisal value	Property specific impairment adjustment	0%-48%	1.87%	Decrease

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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:

	At September 30, 2013		At December 31, 2012		At September 30, 2012	
(Dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:						
Cash and cash equivalents	$330,637	$330,637	$315,028	$315,028	$212,814	$212,814
Interest bearing deposits with banks	681,834	681,834	1,035,743	1,035,743	934,430	934,430
Available-for-sale securities	1,781,883	1,781,883	1,796,076	1,796,076	1,256,768	1,256,768
Trading account securities	259	259	583	583	635	635
Brokerage customer receivables	29,253	29,253	24,864	24,864	30,633	30,633
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	76,755	76,755	79,564	79,564	80,687	80,687
Mortgage loans held-for-sale, at fair value	329,186	329,186	385,033	385,033	548,300	548,300
Mortgage loans held-for-sale, at lower of cost or market	5,159	5,218	27,167	27,568	21,685	22,042
Total loans	12,997,027	13,576,959	12,389,030	13,053,101	12,147,425	12,835,354
Mortgage servicing rights	8,608	8,608	6,750	6,750	6,276	6,276
Nonqualified deferred compensation assets	6,801	6,801	5,532	5,532	5,438	5,438
Derivative assets	57,573	57,573	53,906	53,906	65,990	65,990
FDIC indemnification asset	100,313	100,313	208,160	208,160	238,305	238,305
Accrued interest receivable and other	165,209	165,209	157,157	157,157	157,923	157,923
Total financial assets	$16,570,497	$17,150,488	$16,484,593	$17,149,065	$15,707,309	$16,395,595
Financial Liabilities						
Non-maturity deposits	$10,386,493	10,386,493	$9,447,633	$9,447,633	$8,736,432	$8,736,432
Deposits with stated maturities	4,260,953	4,272,459	4,980,911	5,013,757	5,111,533	5,149,824
Notes payable	1,546	1,546	2,093	2,093	2,275	2,275
Federal Home Loan Bank advances	387,852	393,602	414,122	425,431	414,211	427,006
Subordinated notes	10,000	10,000	15,000	15,000	15,000	15,000
Other borrowings	246,870	246,870	274,411	274,411	377,229	377,229
Junior subordinated debentures	249,493	250,751	249,493	250,428	249,493	250,385
Derivative liabilities	49,300	49,300	57,751	57,751	79,977	79,977
Accrued interest payable and other	7,758	7,758	11,589	11,589	11,133	11,133
Total financial liabilities	$15,600,265	$15,618,779	$15,453,003	$15,498,093	$14,997,283	$15,049,261

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 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.

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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.

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.

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.

(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 September 30, 2013, assuming all performance-based shares will be issued at the maximum levels, 695,363 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 Compensation Committee of the Board of Directors administers all stock-based compensation programs and authorizes all awards granted pursuant to the Plans.

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 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 10 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.

The Long-Term Incentive Program (“LTIP”), which is 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, is administered under the 2007 Plan. LTIP grants to date have consisted of time vested nonqualified stock options and performance-based stock and cash awards. The first grant of these awards was made in August 2011 and subsequent grants were made in 2012 and 2013. It is anticipated that LTIP awards will be granted annually, generally in January. Stock options granted under the LTIP have a term of seven years and will generally vest equally over three years based on continued service. Performance-based stock and cash awards are contingent upon the achievement of pre-established long-term performance goals set in advance by the Compensation Committee over a three-year period with overlapping performance periods starting at the beginning of each calendar year. The actual payouts of performance-based awards will vary based on the achievement of the pre-established targets and can range from 0% to 200% of the target award.

Holders of restricted share awards and performance-based stock awards received under the Plans 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.

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. The fair values of restricted shares and performance-based 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.

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Management reviews and adjusts the assumptions used to calculate the fair value of an option on a periodic basis to better reflect expected trends.

The following table presents the weighted average assumptions used to determine the fair value of options granted in the nine month periods ending September 30, 2013 and 2012.

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Expected dividend yield	0.5 %	0.6 %
Expected volatility	59.1 %	62.6 %
Risk-free rate	0.7 %	0.7 %
Expected option life (in years)	4.5	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-based awards, an estimate is made of the number of shares expected to vest as a result of projected performance against the performance criteria in the award to determine the amount of compensation expense to recognize. 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 $2.0 million and $2.6 million in the third quarters of 2013 and 2012, respectively, and $6.5 million and $7.2 million for the 2013 and 2012 year-to-date periods, respectively.

A summary of the Plans' stock option activity for the nine months ended September 30, 2013 and September 30, 2012 is presented below:

Stock Options	Common Shares	Weighted Average Strike Price	Remaining Contractual Term (1)	Intrinsic Value (2) ($000)
Outstanding at January 1, 2013	1,745,427	$42.31		
Granted	235,002	37.97		
Exercised	(78,184)	28.50		
Forfeited or canceled	(45,818)	45.18		
Outstanding at September 30, 2013	1,856,427	$42.27	2.4	$6,786
Exercisable at September 30, 2013	1,845,560	$42.32	2.4	$6,710

Stock Options	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	250,997	31.16		
Exercised	(421,426)	20.27		
Forfeited or canceled	(50,235)	36.42		
Outstanding at September 30, 2012	1,843,870	$42.09	3.2	$5,029
Exercisable at September 30, 2012	1,840,731	$42.11	3.2	$5,010

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

(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. Options with exercise prices above the average of the high and low stock price on the last trading day of the quarter are excluded from the calculation of intrinsic value. The intrinsic value 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 nine months ended September 30, 2013 and September 30, 2012 was $17.49 and $14.55, respectively. The aggregate intrinsic value of options exercised

during the nine months ended September 30, 2013 and 2012, was $777,000 and $4.9 million, respectively.

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A summary of the Plans' restricted share and performance-based stock award activity for the nine months ended September 30, 2013 and September 30, 2012 is presented below:

	Nine months ended September 30, 2013		Nine months ended September 30, 2012	
Restricted Shares	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1	314,226	$37.99	336,709	$38.29
Granted	10,617	40.86	109,557	32.31
Vested and issued	(135,767)	31.97	(123,629)	34.46
Forfeited	(1,236)	35.02	(1,353)	30.99
Outstanding at September 30	187,840	$42.51	321,284	$37.76
Vested, but not issuable at September 30	85,000	$51.88	85,320	$51.80
Performance-based Shares				
Outstanding at January 1	153,915	$31.78	72,158	$33.25
Granted	105,825	37.87	119,476	31.10
Vested and issued	—	—	—	—
Net change due to estimated performance	(21,249)	36.05	19,651	30.55
Forfeited	(6,115)	34.29	(3,897)	32.07
Outstanding at September 30	232,376	$34.10	207,388	$31.78

The number of performance-based shares granted is reflected in the above table at the 100% target performance level. The actual performance-based award payouts will vary based on the achievement of the pre-established goals and can range from 0% to 200% of the target award. The outstanding number of performance-based shares reflected in the table represents the number of shares expected to be awarded based on management's current assessment of the achievement of the goals. At September 30, 2013, the maximum number of performance-based shares that could be issued based on the grants made to date is approximately 625,000 shares.
The Company issues new shares to satisfy its obligation to issue shares granted pursuant to the Plans.

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(17) Shareholders’ Equity and Earnings Per Share
Tangible Equity Units
In December 2010, the Company sold 4.6 million 7.50% TEUs 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
Balance sheet impact			
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. 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	Settlement Rate

Company common stock	
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

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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. Dividends on the Series A Preferred Stock were paid quarterly in arrears at a rate of 8.00% per annum. The Series A Preferred Stock was 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 July 19, 2013, pursuant to such terms, the holder of the Series A Preferred Stock elected to convert all 50,000 shares of the Series A Preferred Stock into 1,944,000 shares of the Company's common stock, no par value.

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.

Common Stock Warrant

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, 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 February 2011, the U.S. Treasury sold all of its interest in the warrant issued to it in a secondary underwritten public offering. At September 30, 2013, the warrant to purchase 1,643,295 shares remains outstanding.

The Company previously issued other warrants to acquire common stock. These warrants entitled the holders to purchase one share of the Company's common stock at a purchase price of $30.50 per share. Of the 19,000 warrants previously outstanding, 18,000 were exercised in March 2012 and 1,000 were exercised in February 2013. As a result, there were no warrants outstanding at September 30, 2013.

Other

In May 2013, the Company issued 648,286 shares of its common stock in the acquisition of FNBI. In December 2012, the Company issued 372,530 shares of its common stock in the acquisition of HPK. In August 2012, the Company issued 25,493 shares of its common stock in settlement of contingent consideration related to the previously completed acquisition of Great Lakes Advisors, which is in addition to the 529,087 shares issued in July 2011 at the time of the acquisition.

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Accumulated Other Comprehensive (Loss) Income

The following tables summarize the components of other comprehensive (loss) income, including the related income tax effects, and the related amount reclassified to net income for the periods presented (in thousands).

	Accumulated Unrealized Gains (Losses) on Securities	Accumulated Unrealized Losses on Derivative Instruments	Accumulated Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance at July 1, 2013	$(41,213)	$(3,100)	$(4,891)	$ (49,204)
Other comprehensive income (loss) during the period, net of tax, before reclassifications	(1,460)	(518)	3,905	1,927
Amount reclassified from accumulated other comprehensive income (loss), net of tax	(45)	908	—	863
Net other comprehensive income (loss) during the period, net of tax	$(1,505)	$390	$3,905	$ 2,790
Balance at September 30, 2013	$(42,718)	$(2,710)	$(986)	$ (46,414)
Balance at January 1, 2013	$6,710	$(5,292)	$6,293	$ 7,711
Other comprehensive income (loss) during the period, net of tax, before reclassifications	(49,231)	(206)	(7,279)	(56,716)
Amount reclassified from accumulated other comprehensive income (loss), net of tax	(197)	2,788	—	2,591
Net other comprehensive income (loss) during the period, net of tax	$(49,428)	$2,582	$(7,279)	$ (54,125)
Balance at September 30, 2013	$(42,718)	$(2,710)	$(986)	$ (46,414)
Balance at July 1, 2012	$5,907	$(6,037)	$2,101	$ 1,971
Other comprehensive income (loss) during the period, net of tax, before reclassifications	2,358	(1,055)	5,897	7,200
Amount reclassified from accumulated other comprehensive income (loss), net of tax	(247)	881	—	634
Net other comprehensive income (loss) during the period, net of tax	$2,111	$(174)	$5,897	$ 7,834
Balance at September 30, 2012	$8,018	$(6,211)	$7,998	$ 9,805
Balance at January 1, 2012	$4,204	$(7,082)	$—	$ (2,878)
Other comprehensive income (loss) during the period, net of tax, before reclassifications	5,214	(1,718)	7,998	11,494
Amount reclassified from accumulated other comprehensive income (loss), net of tax	(1,400)	2,589	—	1,189
Net other comprehensive income (loss) during the period, net of tax	$3,814	$871	$7,998	$ 12,683
Balance at September 30, 2012	$8,018	$(6,211)	$7,998	$ 9,805

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Details Regarding the Component of Accumulated Other Comprehensive Income	Amount Reclassified from Accumulated Other Comprehensive Income for the Three Months Ended September 30,		Nine Months Ended September 30,		Impacted Line on the Consolidated Statements of Income
	2013	2012	2013	2012	
Accumulated unrealized losses on securities					
Gains included in net income	$75	$409	$328	$2,334	Gains on available-for-sale securities, net
	75	409	328	2,334	Income before taxes
Tax effect	$(30)	$(162)	$(131)	$(934)	Income tax expense
Net of tax	$45	$247	$197	$1,400	Net income
Accumulated unrealized losses on derivative instruments					
Amount reclassified to interest expense on junior subordinated debentures	$1,507	$1,471	$4,629	$4,324	Interest on junior subordinated debentures
	(1,507)	(1,471)	(4,629)	(4,324)	Loss before taxes
Tax effect	$599	$590	$1,841	$1,735	Income tax benefit
Net of tax	$(908)	$(881)	$(2,788)	$(2,589)	Net loss

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)		Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Net income		$35,563	$32,302	$101,922	$81,107
Less: Preferred stock dividends and discount accretion		1,581	2,616	6,814	6,477
Net income applicable to common shares—Basic	(A)	33,982	29,686	95,108	74,630
Add: Dividends on convertible preferred stock, if dilutive		1,581	2,581	6,744	6,374
Net income applicable to common shares—Diluted	(B)	35,563	32,267	101,852	81,004
Weighted average common shares outstanding	(C)	39,331	36,381	37,939	36,305
Effect of dilutive potential common shares					
Common stock equivalents		7,346	7,275	7,263	7,159
Convertible preferred stock, if dilutive		3,477	5,020	4,500	4,133
Total dilutive potential common shares		10,823	12,295	11,763	11,292
Weighted average common shares and effect of dilutive potential common shares	(D)	50,154	48,676	49,702	47,597
Net income per common share:					
Basic	(A/C)	$0.86	$0.82	$2.51	$2.06
Diluted	(B/D)	$0.71	$0.66	$2.05	$1.70

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 not adjusted by the associated preferred dividends.

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(18) Subsequent Events

On October 1, 2013, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of Surety of Sherman Oaks, California. Surety has five offices located in southern California, which originated approximately $1.0 billion in the twelve months prior to the acquisition date.

On October 18, 2013, the Company completed its previously announced acquisition of Diamond. Diamond is the parent company of Diamond Bank, FSB, which operated four banking locations in Chicago, Schaumburg, Elmhurst, and Northbrook, Illinois. Through this transaction, subject to final adjustments, the Company acquired approximately $169 million in assets and approximately $140 million in deposits. The aggregate purchase price was approximately $3 million. In the merger, outstanding shares of Diamond common stock were converted into cash. Following the acquisition, Diamond was merged into the Company's wholly-owned subsidiary, North Shore Community Bank & Trust Company ("North Shore").

On October 25, 2013, the Company entered into a Sixth Amendment Agreement (the “Sixth Amendment”) to the Agreement dated as of October 30, 2009 among the Company and unaffiliated banks. The Sixth Amendment extended the maturity date of the Agreement to November 24, 2013.

On November 7, 2013, the Company entered into a Seventh Amendment Agreement, (the "Seventh Amendment") to the Agreement. The revolving commitment under the Agreement remained at a total revolving commitment of all lenders under the Agreement of $100.0 million and matures on November 6, 2014. Pursuant to the Seventh Amendment, borrowings under the Agreement that are considered “Base Rate Loans” will bear interest at a rate equal to the greater of (1) 350 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 LIBOR rate for the applicable period plus 250 basis points (the “Eurodollar Rate”) and (2) 350 basis points. A commitment fee is payable quarterly equal to 0.375% of the actual daily amount by which the lenders’ commitment under the revolving note exceeded the amount outstanding under such facility.

As of the date hereof, the Company has no outstanding balance under the revolving credit facility. Additionally on November 7, 2013 the Company repaid and terminated its $1.0 million term facility with an unaffiliated bank and repaid the remaining $10.0 million outstanding under its subordinated note agreement.

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ITEM 2
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition as of September 30, 2013 compared with December 31, 2012 and September 30, 2012, and the results of operations for the three and nine month periods ended September 30, 2013 and 2012, 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 2012 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 and Canada 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

Third Quarter Highlights

The Company recorded net income of $35.6 million for the third quarter of 2013 compared to $32.3 million in the third quarter of 2012. The results for the third quarter of 2013 demonstrate continued operating strengths as net income increased, loans outstanding increased and our deposit funding base mix continued its beneficial shift toward an aggregate lower cost of funds. The quarter was also highlighted by increased net interest margin, stable non-performing asset levels and the announcement of the acquisition of Diamond Bancorp. Additionally, the Company recently announced the acquisition of certain assets and liabilities of Surety Financial Services. For more information, see "Overview—Recent Acquisition Transactions."

The Company increased its loan portfolio, excluding covered loans and loans held for sale, from $11.5 billion at September 30, 2012 and $11.8 billion at December 31, 2012, to $12.6 billion at September 30, 2013. The increase in the current quarter compared to the prior quarters was primarily a result of the Company's commercial banking initiative, growth in the premium finance receivables – commercial portfolio as well as acquisition transactions. The Company continues to make new loans, including in the commercial and commercial real-estate sector, where opportunities that meet our underwriting standards exist. 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 third quarter of 2013, 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 continues to benefit from its strong deposit base, a liquid short-term investment portfolio and its access to funding from a variety of external funding sources. At September 30, 2013, the Company had approximately $1.0 billion in overnight liquid funds and interest-bearing deposits with banks.

The Company recorded net interest income of $141.8 million in the third quarter of 2013 compared to $132.6 million in the third quarter of 2012. The higher level of net interest income recorded in the third quarter of 2013 compared to the third quarter of 2012 resulted primarily from a $723.1 million increase in the balance of total average earning assets and a 21 basis point decline in the rate paid on average interest bearing liabilities as a result of the positive re-pricing of retail interest-bearing deposits along with a more favorable deposit mix. The increase in average earning assets was partially offset by a 13 basis point decline in the yield on earning assets, creating an increase in total interest income of $3.0 million in the third quarter of 2013 compared to the third quarter of 2012. The increase in interest income of $3.0 million, combined with a reduction of interest expense of $6.2 million, resulted in a $9.2 million increase in net interest income.

Non-interest income totaled $54.7 million in the third quarter of 2013 a decrease of $8.3 million, or 13%, compared to the third quarter of 2012. The decrease in the third quarter of 2013 compared to the third quarter of 2012 was

primarily attributable to bargain purchase gains recorded in the prior year quarter, lower mortgage banking revenues and a decrease in fees from covered call options, partially offset by higher wealth management revenues, increased FDIC indemnification asset accretion and foreign currency remeasurement gains. Mortgage banking revenue decreased $5.4 million when compared to the third quarter of 2012. The decrease in mortgage banking revenue in the current quarter as compared to the third quarter of 2012 resulted primarily from decreased loan originations due to the impact of higher rates on refinancing activity as well as competitive pricing pressure. Loans sold to the secondary market were $940.8 million in the third quarter of 2013 compared to $1.1 billion in the third quarter of 2012 (see “Non-Interest Income” section later in this document for further detail). The increase in the FDIC indemnification asset

accretion in the current quarter as compared to the third quarter of 2012 reflects a benefit arising from adjusting certain factors, primarily from an evaluation of our cumulative service costs, which in turn reduced our projected clawback liability.

Non-interest expense totaled $127.2 million in the third quarter of 2013, increasing $2.7 million, or 2%, compared to the third quarter of 2012. The increase compared to the third quarter of 2012 was primarily attributable to higher salary and benefit costs and increased occupancy, data processing and equipment expenses, partially offset by a decrease in OREO expenses and professional fees. Salaries and employee benefits expense increased primarily as a result of a $2.6 million increase in salaries caused by the addition of employees from the various acquisitions and larger staffing as the Company grows and a $743,000 increase in employee benefits partially offset by a $632,000 decrease in bonus and commissions primarily attributable to the decrease in variable pay based revenue and the Company’s long-term incentive program,

The Current Economic Environment

The economic environment in the third quarter of 2013 was characterized by continued low interest rates and renewed competition as banks have experienced improvements in their financial condition allowing them to be more active in the lending market. While management believes interest rates will rebound over time, the Company has employed certain strategies to manage net income in the current rate environment, including those discussed below.

Net Interest Income

The Company has leveraged its internal loan pipeline and external growth opportunities to grow its earning assets base. The Company has also continued its efforts to shift a greater portion of its deposit base to non-interest bearing. Non-interest bearing deposits as a percentage of total deposits was 18% in the third quarter of 2013 as compared to 16% in third quarter of 2012. In the current quarter the Company was able to increase its net interest margin primarily due to a decrease in the rates on interest-bearing liabilities and a shift in earning assets to higher yielding loans. As a result of the growth in earning assets, increase in net interest margin and improvement in deposit mix the Company increased its net interest income by $9.2 million in the third quarter of 2013 compared to the third quarter of 2012.

The Company has continued its practice of writing call options against certain U.S. Treasury and Agency securities to enhance the overall return on its securities to compensate for net interest margin compression. Although the Company wrote fewer options in the third quarter of 2013 as compared to previous quarters, the Company recognized $285,000 in fees on covered call options. In accordance with accounting guidance, these fees are not recorded as a component of net interest income, however the fee contribution is considered by the Company to be an additional return on the investment portfolio.

The Company utilizes “back to back” interest rate derivative transactions, primarily interest rate swaps, to receive floating rate interest payments related to customer loans. In these arrangements, the Company makes a floating rate loan to a borrower who prefers to pay a fixed rate. To accommodate the risk management strategy of certain qualified borrowers, the Company enters a swap with its borrower to effectively convert the borrower's variable rate loan to a fixed rate. However, in order to minimize the Company's exposure on these transactions and continue to receive a floating rate, the Company simultaneously executes an offsetting mirror-image derivative with a third party.

Non-Interest Income

In preparation for a rising rate environment, the Company has purchased interest rate cap contracts to offset the negative impact on the net interest margin in a rising rate environment caused by the repricing of variable rate liabilities and lack of repricing of fixed rate loans and securities. As of September 30, 2013, the Company held seven interest rate cap derivatives with a total notional value of $880.0 million which are not designated as accounting hedges but are considered to be an economic hedge for the potential rise in interest rates. Because these are not accounting hedges, fluctuations in the cap values are recorded in earnings. In the third quarter of 2013, volatility in interest rates resulted in decreased cap valuations as compared to the prior quarter. The Company recognized $1.7 million in trading losses in the third quarter of 2013 related to the mark to market of these interest rate caps.

The current interest rate environment impacts the profitability and mix of the Company's mortgage banking business which generated revenues of $25.7 million in the third quarter of 2013, representing 13% of total net revenue. Mortgage banking revenue is comprised of gains on originations for new home purchases as well as mortgage refinancing. Mortgage banking revenue is partially offset by corresponding commission and overhead costs. In the

third quarter of 2013, approximately 71% of originations were mortgages associated with new home purchases while 29% of originations were related to refinancing of mortgages. As the housing market and economy have improved, a higher percentage of originations have been attributed to new home purchases.

The Company recently announced the acquisition of certain assets and liabilities of Surety Financial Services. Management believes that the addition of Surety will allow the Company to take advantage of an improving home purchase market as the refinance market softens. As a result, we anticipate that any decline in originations from our existing mortgage banking business in the fourth quarter of 2013 will be partially offset by origination activity added from the Surety acquisition.

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Non-Interest Expense

Management believes expense management is important amid the low interest rate environment and increased competition to enhance profitability. Cost control and an efficient infrastructure should position the Company appropriately as it continues its growth strategy. Management continues to be disciplined in its approach to growth and will leverage the Company's existing expense infrastructure to expand its presence in existing and complimentary markets. Management believes that its recent acquisitions have provided operating capacity for balance sheet growth without a commensurate increase in operating expenses which should provide improvement in its overhead ratio, holding all else equal.

Potentially impacting the cost control strategies discussed above, the Company anticipates increased costs resulting from the changing regulatory environment in which we operate. We have already experienced increases in compliance-related costs and we expect that compliance with the Dodd-Frank Act and its implementing regulations will require us to invest significant additional management attention and resources.

Credit Quality

The Company’s credit quality metrics remained stable in the third quarter of 2013, including improvements in the ratios of non-performing assets to total assets and non-performing loans to total loans, excluding covered loans, compared to December 31, 2012 and September 30, 2012. The Company has continued to address non-performing assets and remains disciplined in its approach to grow without sacrificing asset quality.

In particular:

- The Company’s provision for credit losses, excluding covered loans, in the third quarter of 2013 totaled $11.6 million, a decrease of $6.6 million when compared to the third quarter of 2012. Net charge-offs decreased to $11.3 million in the third quarter of 2013 (of which $6.7 million related to commercial real-estate loans) compared to $17.9 million for the same period in 2012 (of which $11.6 million related to commercial real-estate loans).

- The Company’s allowance for loan losses, excluding covered loans, totaled $107.2 million at September 30, 2013, reflecting a decrease of $5.1 million, or 5%, when compared to the same period in 2012 and a slight decrease of $163,000, when compared to December 31, 2012. At September 30, 2013, approximately $50.8 million, or 47%, of the allowance for loan losses, excluding covered loans was associated with commercial real-estate loans and another $28.2 million, or 26%, was associated with commercial loans.

- The Company has significant exposure to commercial real-estate. At September 30, 2013, $4.1 billion, or 33%, of our loan portfolio, excluding covered loans, was commercial real-estate, with approximately 93% located in the greater Chicago metropolitan and southeastern Wisconsin market areas. As of September 30, 2013, the commercial real-estate loan portfolio was comprised of $295.7 million related to land, residential and commercial construction, $634.5 million related to office buildings, $612.2 million related to retail, $625.0 million related to industrial use, $550.6 million related to multi-family and $1.4 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 September 30, 2013, the Company had approximately $56.1 million of non-performing commercial real-estate loans representing approximately 1.4% of the total commercial real-estate loan portfolio. $17.2 million, or 31%, of the total non-performing commercial real-estate loan portfolio related to the land, residential and commercial construction sector.

- Total non-performing loans (loans on non-accrual status and loans more than 90 days past due and still accruing interest), excluding covered loans, was $123.3 million (of which $56.1 million, or 46%, was related to commercial real-estate) at September 30, 2013, an increase of approximately $5.2 million and $5.4 million compared to December

31, 2012 and September 30, 2012, respectively. However, the ratio of non-performing loans to total loans, excluding covered loans improved to 98 basis points in the current quarter as compared to 100 basis points and 103 basis points at December 31, 2012 and September 30, 2012, respectively.

- The Company’s other real estate owned, excluding covered other real estate owned, decreased to $55.3 million during the third quarter of 2013, compared to $62.9 million at December 31, 2012 and $67.4 million at

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September 30, 2012. The decrease in other real estate owned in the third quarter of 2013 compared to the prior periods is primarily a result of disposals. The $55.3 million of other real estate owned as of September 30, 2013 was comprised of $4.6 million of residential real-estate development property, $44.3 million of commercial real-estate property and $6.4 million of residential real-estate property.

During the quarter, Management continued its strategic efforts to 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, 2012. The level of loans past due 30 days or more and still accruing interest, excluding covered loans, totaled $142.1 million as of September 30, 2013, decreasing $9.9 million compared to the balance of $152.0 million as of December 31, 2012 and decreasing $7.6 million compared to the balance of $149.7 million as of September 30, 2012. 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).

The Company enters into residential mortgage loan sale agreements with investors in the normal course of business. These agreements provide recourse to investors through certain representations concerning credit information, loan documentation, collateral and insurability. At September 30, 2013, the Company had a $4.0 million estimated liability on loans expected to be repurchased from loans sold to investors compared to a $4.3 million liability and a $3.2 million liability for similar items as of December 31, 2012 and September 30, 2012, respectively. 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, 2012.

In addition, during the third quarter of 2013, the Company modified $4.0 million of loans in troubled debt restructurings, by providing economic concessions to borrowers to better align the terms of their loans with their current ability to pay. At September 30, 2013, approximately $115.0 million in loans had terms modified in TDRs, with $79.2 million of these TDRs in accruing status.

Trends in Our Three Operating Segments During the Third Quarter

Community Banking

Net interest income. Net interest income for the community banking segment totaled $133.4 million for the third quarter of 2013 compared to $127.5 million for the second quarter of 2013 and $124.7 million for the third quarter of 2012. The increase in net interest income in the third quarter of 2013 compared to the second quarter of 2013 is primarily attributable to one additional day in the current quarter, growth in earning assets and a five basis point decrease on the rate paid on interest-bearing liabilities. The increase in net interest income in the current quarter compared to the third quarter of 2012 is attributable to growth in earning assets, including those obtained in acquisitions, as well as the ability to price interest-bearing deposits at lower rates.

Funding mix and related costs. Community banking profitability has been bolstered in recent quarters as the Company utilized its liquidity position to fund loan growth. Additionally, non-interest bearing deposits have grown as a result of the Company’s commercial banking initiative and fixed term certificates of deposit have been running off and renewing at lower rates given the historically low interest rate levels.

Level of non-performing loans and other real estate owned. Given the economic conditions, problem loan expenses have been at elevated levels in recent years. Non-performing loans increased in the third quarter of 2013 as compared to the second quarter of 2013 and the third quarter of 2012. The Company remains committed to the timely resolution of non-performing loans. Other real estate owned decreased due to dispositions in the current quarter as compared to the second quarter of 2013 and the third quarter of 2012.

Mortgage banking revenue. Mortgage banking revenue decreased $6.1 million when compared to the second quarter of 2013 and decreased $5.4 million when compared to the third quarter of 2012. The decrease in the current quarter as compared to the second quarter of 2013 and the third quarter of 2012 resulted primarily from decreased loan originations due to the impact of higher rates on refinancing activity as well as competitive pricing pressure.

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, 2012.

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Specialty Finance

Financing of Commercial Insurance Premiums. FIFC originated approximately $1.1 billion of commercial insurance premium finance loans in the U.S. in the third quarter of 2013, relatively unchanged as compared to U.S. commercial insurance premium finance loan originated in the second quarter of 2013 and up from originations of $936.2 million in the third quarter of 2012. The Company acquired a Canadian insurance premium funding company in the second quarter of 2012. In the third quarter of 2013, the Canadian insurance premium funding company originated approximately $170.4 million in commercial insurance premium finance loans as compared to $173.6 million in second quarter of 2013 and $173.3 million in the third quarter of 2012. For more information on this acquisition, see "Overview—Recent Acquisition Transactions."

Financing of Life Insurance Premiums. FIFC originated approximately $97.4 million in life insurance premium finance loans in the third quarter of 2013 compared to $136.3 million in the second quarter of 2013, and compared to $79.9 million in the third quarter of 2012. The decrease in originations in the third quarter of 2013 from the second quarter of 2013 can be attributed to seasonality. The increase in originations in the third quarter of 2013 compared to the third quarter of 2012 was a result of higher renewal volume in the current year coupled with higher average loan sizes on new business 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, 2012.

Wealth Management Activities

The wealth management segment recorded higher non-interest income in the third quarter of 2013 compared to the second quarter of 2013 and the third quarter of 2012 mostly attributable to growth in assets from new customers and new financial advisors, as well as an increase in existing customer activity and market appreciation. For more information on the trust operation acquisition, see "Overview—Recent 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, 2012.

Recent Acquisition Transactions

FDIC-Assisted Transactions

On September 28, 2012, the Company's wholly-owned subsidiary Old Plank Trail Bank acquired certain assets and liabilities and the banking operations of First United Bank in an FDIC-assisted transaction. First United Bank operated four locations in Illinois; one in Crete, two in Frankfort and one in Steger, as well as one location in St. John, Indiana and had approximately $328.4 million in total assets and $316.9 million in total deposits as of the acquisition date. Old Plank Trail Bank acquired substantially all of First United Bank's assets at a discount of approximately 9.3% and assumed all of the non-brokered deposits at a premium of 0.60%. In connection with the acquisition, Old Plank Trail Bank entered into a loss sharing agreement with the FDIC whereby Old Plank Trail Bank will share in losses with the FDIC on certain loans and foreclosed real estate at First United Bank.

On July 20, 2012, the Company's wholly-owned subsidiary Hinsdale Bank assumed the deposits and banking operations of Second Federal in an FDIC-assisted transaction. Second Federal operated three locations in Illinois; two in Chicago (Brighton Park and Little Village neighborhoods) and one in Cicero, and had $169.1 million in total deposits as of the acquisition date. Hinsdale Bank assumed substantially all of Second Federal's non-brokered deposits at a premium of $100,000. The Company subsequently divested the deposits and banking operations of Second Federal. See "Divestiture of Previous FDIC-Assisted Acquisition" below for more information.

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 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.

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, 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 in 2012, the Company estimated the fair value of the reimbursable losses, which were approximately $67.2 million and $13.2 million, related to the First United Bank and Charter National acquisitions, respectively. As no loans were acquired by the Company in the acquisition of Second Federal, there is no fair value of reimbursable losses. 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 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. The FDIC-assisted transactions resulted in bargain purchase gains of $6.7 million for First United Bank, $43,000 for Second Federal and $785,000 for Charter National, which are shown as a component of non-interest income on the Company's Consolidated Statements of Income.

Other Completed Transactions

Acquisition of First Lansing Bancorp, Inc.

On May 1, 2013, the Company completed its acquisition of First Lansing Bancorp, Inc. FLB was the parent company of First National Bank of Illinois, which operated seven banking locations in the south and southwest suburbs of Chicago, Illinois as well as one location in northwest Indiana. As part of this transaction, FNBI was merged into Old Plank Trail Bank. FLB had approximately $372 million in assets and $330 million in deposits as of the acquisition date, prior to purchase accounting adjustments. The Company recorded goodwill of $14.0 million on the acquisition.

Acquisition of HPK Financial Corporation

On December 12, 2012, the Company completed its acquisition of HPK Financial Corporation. HPK was the parent company of Hyde Park Bank & Trust Company, an Illinois state bank, which operated two banking locations in the Hyde Park neighborhood of Chicago, Illinois. As part of the transaction, Hyde Park Bank merged into the Company's wholly-owned subsidiary bank, Beverly Bank & Trust Company, N.A., and the two acquired banking locations are operating as branches of Beverly Bank under the brand name Hyde Park Bank. HPK had approximately $358 million in assets and $243 million in deposits as of the acquisition date, prior to purchase accounting adjustments. The Company recorded goodwill of $12.6 million on the acquisition.

Acquisition of Macquarie Premium Funding Inc.

On June 8, 2012, the Company, through its wholly-owned subsidiary Lake Forest Bank and Trust Company ("Lake Forest Bank"), completed its acquisition of Macquarie Premium Funding Inc., the Canadian insurance premium funding unit of Macquarie Group. Through this transaction, Lake Forest Bank acquired approximately $213 million of gross premium finance receivables outstanding. The Company recorded goodwill of approximately $22 million on the acquisition.

Acquisition of a Branch of Suburban Bank & Trust

On April 13, 2012, the Company's wholly-owned subsidiary bank, Old Plank Trail Bank, completed its acquisition of a branch of Suburban located in Orland Park, Illinois. Through this transaction, Old Plank Trail Bank acquired approximately $52 million of deposits and $3 million of loans. The Company recorded goodwill of $1.5 million on the branch acquisition.

Acquisition of the Trust Operations of Suburban Bank & Trust

On March 30, 2012, the Company's wholly-owned subsidiary, CTC, completed its acquisition of 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 and various other assets. The Company recorded goodwill of $1.8 million on this acquisition.

Divestiture of Previous FDIC-Assisted Acquisition

On February 1, 2013, Hinsdale Bank completed its divestiture of the deposits and current banking operations of Second Federal, which were acquired in an FDIC-assisted transaction on July 20, 2012, to an unaffiliated financial

institution. Through this transaction, the Company divested approximately $149 million of related deposits.
Acquisitions Completed After September 30, 2013
On October 18, 2013, the Company completed its previously announced acquisition of Diamond. Diamond was the parent company of Diamond Bank, FSB, which operated four banking locations in Chicago, Schaumburg, Elmhurst, and Northbrook, Illinois. Through this transaction, subject to final adjustments, the Company acquired approximately $169 million in assets and assumed approximately $140 million in deposits. The aggregate purchase price was approximately $3 million. In the merger, outstanding

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shares of Diamond common stock were converted into cash. Immediately after the acquisition, Diamond was merged into the Company's wholly-owned subsidiary, North Shore Community Bank & Trust Company.

On October 1, 2013, the Company announced that its subsidiary, Barrington Bank through its division Wintrust Mortgage, acquired certain assets and assumed certain liabilities of the mortgage banking business of Surety Financial Services of Sherman Oaks, California. Surety has five offices located in southern California which originated approximately $1.0 billion in the twelve months prior to the acquisition date.

Stock Offerings

On March 14, 2012, the Company announced the sale of 126,500 shares, or $126,500,000 aggregate liquidation preference, of Series C Preferred Stock. Dividends will be payable on the Series C Preferred Stock when, as, and if, declared by Wintrust's Board of Directors on a non-cumulative basis quarterly in arrears on January 15, April 15, July 15 and October 15 of each year at a rate of 5.00% per year on the liquidation preference of $1,000 per share.

The holders of the Series C Preferred Stock will have the right at any time to convert each share of Series C Preferred Stock into 24.3132 shares of Wintrust common stock, which represents an initial conversion price of $41.13 per share of Wintrust common stock, plus cash in lieu of fractional shares. The initial conversion price represents a 17.5% conversion premium to the volume-weighted average price of Wintrust common stock on March 13, 2012 of approximately $35.00 per share. The conversion rate, and thus the conversion price, will be subject to adjustment under certain circumstances. On or after April 15, 2017, Wintrust will have the right under certain circumstances to cause the Series C Preferred Stock to be converted into shares of Wintrust common stock, plus cash in lieu of fractional shares.

Conversion of Preferred Stock

On August 26, 2008, the Company sold 50,000 shares of its Series A Preferred Stock to CIVC-WTFC LP ("CIVC"). The terms of the Series A Preferred Stock provided that holders of the Series A Preferred Stock may convert their shares into common stock at any time. On July 19, 2013, pursuant to such terms, the holder of the Company's Series A Preferred Stock elected to convert all 50,000 shares of the Series A Preferred Stock issued and outstanding into 1,944,000 shares of the Company's common stock, no par value, at a conversion rate of 38.88 shares of common stock per share of Series A Preferred Stock. No separate consideration was paid to the Company for the issuance of the shares of the Company's common stock.

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RESULTS OF OPERATIONS

Earnings Summary

The Company’s key operating measures for the three and nine months ended September 30, 2013, as compared to the same periods last year, are shown below:

(Dollars in thousands, except per share data)	Three months ended September 30, 2013	Three months ended September 30, 2012	Percentage (%) or Basis Point (bp)Change
Net income	$35,563	$32,302	10 %
Net income per common share—Diluted	0.71	0.66	8
Pre-tax adjusted earnings (2) (6)	69,920	69,436	1
Net revenue (1)	196,444	195,520	—
Net interest income	141,782	132,575	7
Net interest margin (2)	3.57 %	3.50 %	7 bp
Net overhead ratio (2) (3)	1.65	1.47	18
Net overhead ratio, based on pre-tax adjusted earnings (2) (3)	1.61	1.50	11
Efficiency ratio (2) (4)	64.60	63.67	93
Efficiency ratio, based on pre-tax adjusted earnings (2) (4)	64.00	63.31	69
Return on average assets	0.81	0.77	4
Return on average common equity	7.85	7.57	28
Return on average tangible common equity	10.06	9.78	28

(Dollars in thousands, except per share data)	Nine months ended September 30, 2013	Nine months ended September 30, 2012	Percentage (%) or Basis Point (bp) Change
Net income	$101,922	$81,107	26 %
Net income per common share—Diluted	2.05	1.70	21
Net revenue (1)	584,355	547,643	7
Net interest income	408,319	386,740	6
Pre-tax adjusted earnings (2) (6)	209,103	202,431	3
Net interest margin (2)	3.49 %	3.52 %	(3) bp
Net overhead ratio (2) (3)	1.54	1.63	(9)
Net overhead ratio, based on pre-tax adjusted earnings (2) (3)	1.54	1.51	3
Efficiency ratio (2) (4)	64.12	65.75	(163)
Efficiency ratio, based on pre-tax adjusted earnings (2) (4)	63.75	62.30	145
Return on average assets	0.79	0.67	12
Return on average common equity	7.57	6.53	104
Return on average tangible common equity	9.71	8.40	131
At end of period			