WINTRUST FINANCIAL CORP
Form 10-Q
November 08, 2012
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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, 2012

OR

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

For the transition period from to

Commission File Number 001-35077

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

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

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

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

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

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

Shareholders' Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series A - $1,000 liquidation value; 50,000 shares issued and outstanding at September 30, 2012, December 31, 2011 and September 30, 2011	49,871	49,768	49,736
Series C - $1,000 liquidation value; 126,500 shares issued and outstanding at September 30, 2012, and no shares issued and outstanding at December 31, 2011 and September 30, 2011	126,500	—	—
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized; 36,647,154 shares issued at September 30, 2012, 35,981,950 shares issued at December 31, 2011, and 35,926,137 shares issued at September 30, 2011	36,647	35,982	35,926
Surplus	1,018,417	1,001,316	997,854
Treasury stock, at cost, 239,373 shares at September 30, 2012, 3,601 shares at December 31, 2011, and 2,071 shares at September 30, 2011	(7,490)	(112)	(68)
Retained earnings	527,550	459,457	441,268
Accumulated other comprehensive income (loss)	9,805	(2,878)	3,471
Total shareholders' equity	1,761,300	1,543,533	1,528,187
Total liabilities and shareholders' equity	$17,018,592	$15,893,808	$15,914,804

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

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

See accompanying notes to unaudited consolidated financial statements.

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

See accompanying notes to unaudited consolidated financial statements.

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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, 2010	$49,640	$34,864	$965,203	$—	$392,354	$ (5,512)	$1,436,549
Net income	—	—	—	—	58,354	—	58,354
Other comprehensive income, net of tax	—	—	—	—	—	8,983	8,983
Cash dividends declared on common stock	—	—	—	—	(6,344)	—	(6,344)
Dividends on preferred stock	—	—	—	—	(3,000)	—	(3,000)
Accretion on preferred stock	96	—	—	—	(96)	—	—
Common stock repurchases	—	—	—	(68)	—	—	(68)
Stock-based compensation	—	—	3,433	—	—	—	3,433
Common stock issued for:							
Acquisitions	—	883	25,603	—	—	—	26,486
Exercise of stock options and warrants	—	49	632	—	—	—	681
Restricted stock awards	—	38	(41)	—	—	—	(3)
Employee stock purchase plan	—	67	1,988	—	—	—	2,055
Director compensation plan	—	25	1,036	—	—	—	1,061
Balance at September 30, 2011	$49,736	$35,926	$997,854	$(68)	$441,268	$ 3,471	$1,528,187
Balance at December 31, 2011	$49,768	$35,982	$1,001,316	$(112)	$459,457	$ (2,878)	$1,543,533
Net income	—	—	—	—	81,107	—	81,107
Other comprehensive income, net of tax	—	—	—	—	—	12,683	12,683
Cash dividends declared on common stock	—	—	—	—	(6,537)	—	(6,537)
Dividends on preferred stock	—	—	—	—	(6,374)	—	(6,374)
Accretion on preferred stock	103	—	—	—	(103)	—	—
Stock-based compensation	—	—	7,260	—	—	—	7,260
Issuance of Series C preferred stock	126,500	—	(3,810)	—	—	—	122,690
Common stock issued for:							
Acquisitions	—	26	868	—	—	—	894
Exercise of stock options and warrants	—	439	10,050	(6,391)	—	—	4,098
Restricted stock awards	—	123	(152)	(987)	—	—	(1,016)
Employee stock purchase plan	—	55	1,777	—	—	—	1,832
Director compensation plan	—	22	1,108	—	—	—	1,130
Balance at September 30, 2012	$176,371	$36,647	$1,018,417	$(7,490)	$527,550	$ 9,805	$1,761,300

See accompanying notes to unaudited consolidated financial statements.

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

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

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

See accompanying notes to unaudited consolidated financial statements.

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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, 2011 (“2011 Form 10-K”). Operating results reported for the three-month and nine-month periods are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.
The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management’s expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of our significant accounting policies are included in Note 1 “Summary of Significant Accounting Policies” of the Company’s 2011 Form 10-K.
(2) Recent Accounting Developments
Subsequent Accounting for Indemnification Assets
In October 2012, the FASB issued ASU No. 2012-06, “Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution,” to address the diversity in practice and interpret guidance related to the subsequent measurement of an indemnification asset recognized in a government-assisted acquisition. These indemnification assets are recorded by the Company as FDIC indemnification assets on the Consolidated Statements of Condition. This ASU clarifies existing guidance by asserting that subsequent changes in expected cash flows related to an indemnification asset should be amortized over the shorter of the life of the indemnification agreement or the life of the underlying loan. This guidance is to be applied with respect to changes in cash flows on existing indemnification agreements as well as prospectively to new indemnification agreements. The guidance is effective for fiscal years beginning after December 15, 2012. The Company does not expect adoption of this guidance to have a material impact on the Company’s consolidated financial statements.

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

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

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

Loans comprise the majority of the assets acquired in nearly all of these transactions, most of which are subject to loss sharing agreements with the FDIC whereby the FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned (“OREO”), and certain other assets. Additionally, the loss share agreements with the FDIC require the Company to reimburse the FDIC in the event that actual losses on covered assets are lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to these loss-sharing agreements as “covered loans” and uses the term “covered assets” to refer to covered loans, covered OREO and certain other covered assets. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.

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

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

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

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date, reimbursements received from the FDIC for actual incurred losses will reduce the FDIC indemnification assets. Reductions to expected losses, to the extent such reductions to expected losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the FDIC indemnification assets. Although these assets are contractual receivables from the FDIC, there are no contractual interest rates. Additions to expected losses will require an increase to the allowance for loan losses and a corresponding increase to the FDIC indemnification assets. The corresponding accretion is recorded as a component of non-interest income on the Consolidated Statements of Income.

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

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

Other Bank Acquisitions

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

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

Specialty Finance Acquisition

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

Wealth Management Acquisitions

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

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

Mortgage Banking Acquisitions

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

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

Purchased loans with evidence of credit quality deterioration since origination

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

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

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

(4) Cash and Cash Equivalents

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

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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, 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)				
Agency	225,393	13,733	—	239,126
Non-agency CMOs	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

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

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

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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, 2012:

	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	$—	$—	$—	$—	$—	$—
U.S. Government agencies	216,383	(2,374)	—	—	216,383	(2,374)
Municipal	14,177	(22)	711	(1)	14,888	(23)
Corporate notes and other:						
Financial issuers	21,248	(1,095)	81,838	(4,075)	103,086	(5,170)
Other	—	—	—	—	—	—
Mortgage-backed:						
Agency	—	—	—	—	—	—
Non-agency CMOs	—	—	—	—	—	—
Other equity securities	22,164	(3,236)	—	—	22,164	(3,236)
Total	$273,972	$(6,727)	$82,549	$(4,076)	$356,521	$(10,803)

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

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

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Realized gains	$413	$292	$2,350	$1,550
Realized losses	(4)	(67)	(16)	(67)
Net realized gains	$409	$225	$2,334	$1,483
Other than temporary impairment charges	—	—	—	—
Gains on available-for-sale securities, net	$409	$225	$2,334	$1,483
Proceeds from sales of available-for-sale securities	$694,608	$551,515	$2,059,154	$605,026

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The amortized cost and fair value of securities as of September 30, 2012 and December 31, 2011, by contractual maturity, are shown in the following table. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Mortgage-backed securities are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties:

	September 30, 2012		December 31, 2011	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$83,658	$83,863	$121,400	$121,662
Due in one to five years	471,863	471,747	532,828	530,632
Due in five to ten years	135,580	137,116	95,279	95,508
Due after ten years	216,723	217,087	261,315	264,321
Mortgage-backed	291,815	306,238	236,316	248,551
Other equity securities	43,737	40,717	37,595	31,123
Total available-for-sale securities	$1,243,376	$1,256,768	$1,284,733	$1,291,797

At both September 30, 2012 and December 31, 2011, securities having a carrying value of $1.1 billion, which include securities traded but not yet settled, were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At September 30, 2012, 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, 2012		December 31, 2011		September 30, 2011	
Balance:						
Commercial	$2,771,053		$2,498,313		$2,337,098	
Commercial real estate	3,699,712		3,514,261		3,465,321	
Home equity	807,592		862,345		879,180	
Residential real estate	376,678		350,289		326,207	
Premium finance receivables—commercial	1,982,945		1,412,454		1,417,572	
Premium finance receivables—life insurance	1,665,620		1,695,225		1,671,443	
Indirect consumer	77,378		64,545		62,452	
Consumer and other	108,922		123,945		113,438	
Total loans, net of unearned income, excluding covered loans	$11,489,900		$10,521,377		$10,272,711	
Covered loans	657,525		651,368		680,075	
Total loans	$12,147,425		$11,172,745		$10,952,786	
Mix:						
Commercial	23	%	22	%	21	%
Commercial real estate	30		31		32	
Home equity	7		8		8	
Residential real estate	3		3		3	
Premium finance receivables—commercial	16		13		13	
Premium finance receivables—life insurance	14		15		15	
Indirect consumer	1		1		1	
Consumer and other	1		1		1	
Total loans, net of unearned income, excluding covered loans	95	%	94	%	94	%
Covered loans	5		6		6	
Total loans	100	%	100	%	100	%

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Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $39.5 million at September 30, 2012, $34.6 million at December 31, 2011 and $36.4 million at September 30, 2011, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as the covered loans acquired in the FDIC-assisted acquisitions starting in 2010 are recorded net of credit discounts. See “Acquired Loan Information at Acquisition” below.

Indirect consumer loans include auto, boat and other indirect consumer loans. Total loans, excluding loans acquired with evidence of credit quality deterioration since origination, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $14.3 million at September 30, 2012, $12.8 million at December 31, 2011 and $13.5 million at September 30, 2011.

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

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

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

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

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

	September 30, 2012		December 31, 2011	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	$812,285	$607,300	$866,874	$596,946
Life insurance premium finance loans acquisition	561,616	537,032	632,878	598,463

For loans acquired with evidence of credit quality deterioration since origination as a result of acquisitions during the nine months ended September 30, 2012, the following table provides estimated details on these loans at the date of acquisition:

(Dollars in thousands)	Charter National	First United Bank
Contractually required payments including interest	$40,475	$152,937
Less: Nonaccretable difference	11,855	79,492
Cash flows expected to be collected [(1)]	28,620	73,445
Less: Accretable yield	2,288	6,052
Fair value of loans acquired with evidence of credit quality deterioration since origination	$26,332	$67,393

(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, 2012.

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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, 2012		Three Months Ended September 30, 2011	
	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$171,801	$14,626	$80,748	$24,891
Acquisitions	6,052	—	24,695	—
Accretable yield amortized to interest income	(12,266)	(2,309)	(9,820)	(5,127)
Accretable yield amortized to indemnification asset (1)	(16,472)	—	(4,367)	—
Reclassification from non-accretable difference (2)	4,636	2,951	2,145	—
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(1,951)	158	(6,904)	432
Accretable yield, ending balance (3)	$151,800	$15,426	$86,497	$20,196

(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, 2012, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $74.8 million. The remainder of the accretable yield related to bank acquisitions is expected to be amortized to interest income.

(Dollars in thousands)	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$173,120	$18,861	$39,809	$33,315
Acquisitions	8,340	—	29,797	—
Accretable yield amortized to interest income	(40,545)	(8,795)	(24,869)	(19,301)
Accretable yield amortized to indemnification asset (1)	(55,912)	—	(17,045)	—
Reclassification from non-accretable difference (2)	53,827	4,096	52,820	3,857
Increases in interest cash flows due to payments and changes in interest rates	12,970	1,264	5,985	2,325
Accretable yield, ending balance (3)	$151,800	$15,426	$86,497	$20,196

(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, 2012, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $74.8 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, 2012, December 31, 2011 and September 30, 2011:

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

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

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As of September 30, 2011 (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	$21,055	$—	$13,691	$9,748	$1,370,221	$1,414,715
Franchise	1,792	—	—	—	125,062	126,854
Mortgage warehouse lines of credit	—	—	—	—	132,425	132,425
Community Advantage—homeowners association	—	—	—	—	74,281	74,281
Aircraft	—	—	—	53	18,027	18,080