WINTRUST FINANCIAL CORP
Form 10-K
February 28, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018
¨ 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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Registrant's telephone number, including area code: (847) 939-9000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	The NASDAQ Global Select Market
Series D Preferred Stock, no par value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
þ Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes þ No

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 for 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. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files). þ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨ Yes þ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-Accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 29, 2018 (the last business day of the registrant's most recently completed second quarter), determined using the closing price of the common stock on that day of $87.05, as reported by the NASDAQ Global Select Market, was $4,860,291,899.

As of February 26, 2019, the registrant had 56,507,442 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's Annual Meeting of Shareholders to be held on May 23, 2019 are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

Overview

Wintrust Financial Corporation, an Illinois corporation (“we,” “Wintrust” or “the Company”), which was incorporated in 1992, is a financial holding company based in Rosemont, Illinois, with total assets of approximately $31.2 billion as of December 31, 2018. We conduct our businesses through three segments: community banking, specialty finance and wealth management. All segment measurements discussed below are based on the reportable segments and do not reflect intersegment eliminations.

We provide community-oriented, personal and commercial banking services to customers located in the Chicago metropolitan area, southern Wisconsin and northwest Indiana (“our market area”) through our fifteen wholly-owned-banking subsidiaries (collectively, the “banks”), as well as the origination and purchase of residential mortgages for sale into the secondary market through Wintrust Mortgage, a division of Barrington Bank and Trust Company, N.A. (“Barrington Bank”). For the years ended December 31, 2018, 2017 and 2016, the community banking segment had net revenues of $1.0 billion, $889 million and $819 million, respectively, and net income of $241 million, $175 million and $145 million, respectively. The community banking segment had total assets of $25.4 billion, $22.8 billion and $21.2 billion as of December 31, 2018, 2017 and 2016, respectively. The community banking segment accounted for approximately 77% of our consolidated net revenues, excluding intersegment eliminations, for the year ended December 31, 2018.

We provide specialty finance services, including financing for the payment of commercial insurance premiums and life insurance premiums (“premium finance receivables”) on a national basis through FIRST Insurance Funding (“FIRST Insurance Funding”), a division of our wholly-owned subsidiary Lake Forest Bank & Trust Company, N.A. ("Lake Forest Bank"), and Wintrust Life Finance (“Wintrust Life Finance”), a division of Lake Forest Bank, and in Canada through our premium finance company, First Insurance Funding of Canada (“FIFC Canada”), lease financing and other direct leasing opportunities through our wholly-owned subsidiary, Wintrust Asset Finance, and short-term accounts receivable financing and outsourced administrative services through our wholly-owned subsidiary, Tricom, Inc. of Milwaukee (“Tricom”). For the years ended December 31, 2018, 2017 and 2016, the specialty finance segment had net revenues of $203 million, $179 million and $148 million, respectively, and net income of $82 million, $66 million and $49 million, respectively. The specialty finance segment had total assets of $5.1 billion, $4.5 billion and $3.9 billion as of December 31, 2018, 2017 and 2016, respectively. The specialty finance segment accounted for 15% of our consolidated net revenues, excluding intersegment eliminations, for the year ended December 31, 2018.

We provide a full range of wealth management services primarily to customers in our market area through four separate subsidiaries, The Chicago Trust Company, N.A. (“CTC”), Wintrust Investments, LLC (“Wintrust Investments”), Great Lakes Advisors, LLC (“Great Lakes Advisors”) and Chicago Deferred Exchange Company, LLC ("CDEC"). For the years ended December 31, 2018, 2017 and 2016, the wealth management segment had net revenues of $109 million, $103 million and $97 million, respectively, and net income of $20 million, $17 million and $13 million, respectively. The wealth management segment had total assets of $733 million, $618 million and $612 million as of December 31, 2018, 2017 and 2016, respectively. The wealth management segment accounted for 8% of our consolidated net revenues, excluding intersegment eliminations, for the year ended December 31, 2018.

Our Business and Reporting Segments

As set forth in Note 24, “Segment Information,” our 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 and each segment has a different regulatory environment. 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.

Community Banking

Through our community banking segment, our banks provide community-oriented, personal and commercial banking services to customers located in our market area. Our customers include individuals, small to mid-sized businesses, local governmental units and institutional clients residing primarily in the banks' local service areas. The banks have a strategy to provide comprehensive community-focused banking services. In keeping with this strategy, the banks provide highly personalized and responsive service, a characteristic of locally-owned and managed institutions. As such, the banks compete for deposits principally by offering depositors a variety of deposit programs, convenient office locations, hours and other services, and for loan originations primarily through the interest rates and loan fees they charge, the efficiency and quality of services they provide to borrowers and the variety of their loan and cash management products. Using our decentralized corporate structure to our advantage, we offer our MaxSafe® deposit accounts, which provide customers with expanded Federal Deposit Insurance Corporation ("FDIC") insurance coverage by spreading a customer's deposit across our fifteen banks. This product differentiates our banks from many of our competitors that have consolidated their bank charters into branches. We also have downtown Chicago and Milwaukee offices that work with each of our banks to capture commercial and industrial business. Our commercial and industrial lenders in our downtown offices operate in close partnership with lenders at our community banks. By combining our expertise in the commercial and industrial sector with our high level of personal service and a full suite of banking products, we believe we create another point of differentiation from both our larger and smaller competitors. Our banks also offer home equity, consumer, and real estate loans, safe deposit facilities, ATMs, internet banking and other innovative and traditional services specially tailored to meet the needs of customers in their market areas.

We developed our banking franchise through a combination of de novo organization and the purchase of existing bank franchises. The organizational efforts began in 1991, when a group of experienced bankers and local business people identified an unfilled niche in the Chicago metropolitan area retail banking market. As large banks acquired smaller ones and personal service was subjected to consolidation strategies, the opportunity increased for locally owned and operated, highly personal service-oriented banks. As a result, Lake Forest Bank was founded in December 1991 to service the Lake Forest and Lake Bluff communities.

We now own fifteen banks, including eight Illinois-chartered banks: Hinsdale Bank and Trust Company ("Hinsdale Bank"), Wintrust Bank, Libertyville Bank and Trust Company ("Libertyville Bank"), Northbrook Bank & Trust Company ("Northbrook Bank"), Village Bank & Trust ("Village Bank"), Wheaton Bank & Trust Company ("Wheaton Bank"), State Bank of the Lakes and St. Charles Bank & Trust Company ("St. Charles Bank"). In addition, we have one Wisconsin-chartered bank, Town Bank, and six nationally chartered banks: Lake Forest Bank, Barrington Bank, Crystal Lake Bank & Trust Company, N.A. ("Crystal Lake Bank"), Schaumburg Bank & Trust Company, N.A. ("Schaumburg Bank"), Beverly Bank & Trust Company, N.A. ("Beverly Bank") and Old Plank Trail Community Bank, N.A. ("Old Plank Trail Bank"). As of December 31, 2018, we had 167 banking locations.

Each bank is subject to regulation, supervision and regular examination by: (1) the Secretary of the Illinois Department of Financial and Professional Regulation ("Illinois Secretary") and the Board of Governors of the Federal Reserve System ("Federal Reserve") for Illinois-chartered banks; (2) the Office of the Comptroller of the Currency ("OCC") for nationally-chartered banks; or (3) the Wisconsin Department of Financial Institutions ("Wisconsin Department") and the Federal Reserve for Town Bank.

We also engage in the retail origination and correspondent purchase of residential mortgages through Wintrust Mortgage as well as consumer direct lending primarily to veterans through our Veterans First brand. Certain originated loans are sold to unaffiliated companies or the Company's banks with servicing remaining within Wintrust Mortgage operations. Wintrust Mortgage maintains retail mortgage offices in a number of states, with the largest concentration located in the Chicago, Minneapolis and Los Angeles metropolitan areas.

We also offer several niche lending products through several of the banks. These include Barrington Bank's Community Advantage program, which provides lending, deposit and cash management services to condominium, homeowner and community associations; Hinsdale Bank's mortgage warehouse lending program, which provides loan and deposit services to mortgage brokerage companies located predominantly in the Chicago metropolitan area; and Lake Forest Bank's franchise lending program, which provides lending to restaurant franchisees. Other niches offered throughout our banking franchise include Wintrust Commercial Finance, which offers direct leasing opportunities;

Wintrust Business Credit, which specializes in asset-based lending for middle-market companies; Wintrust SBA Lending, which is dedicated to offering expertise in Small Business Administration loans; Wintrust Commercial Real Estate, which concentrates on real estate lending solutions including commercial mortgages and construction loans; and Wintrust Government, Non-Profit & Hospital, which focuses on financial solutions for mission-based organizations such as hospitals, non-profits, educational institutions and local government operations.

Specialty Finance

Through our specialty finance segment, we offer financing of insurance premiums for businesses and individuals; accounts receivable financing, value-added, out-sourced administrative services; and other specialty finance businesses. FIRST Insurance Funding and Wintrust Life Finance engage in the premium finance receivables business, our most significant specialized lending niche, including commercial insurance premium finance and life insurance premium finance. We also engage in commercial insurance premium finance in Canada through our wholly-owned subsidiary FIFC Canada.

In their commercial insurance premium finance operations, FIRST Insurance Funding and FIFC Canada make loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. Approved medium and large insurance agents and brokers located throughout the United States and Canada assist FIRST Insurance Funding and FIFC Canada, respectively, in arranging each commercial premium finance loan between the borrower and FIRST Insurance Funding or FIFC Canada, as the case may be. FIRST Insurance Funding or FIFC Canada evaluates each loan request according to its own underwriting criteria including the amount of the down payment on the insurance policy, the term of the loan, the credit quality of the insurance company providing the financed insurance policy, the interest rate, the borrower's previous payment history, if any, and other factors deemed appropriate. Upon approval of the loan by FIRST Insurance Funding or FIFC Canada, as the case may be, the borrower makes a down payment on the financed insurance policy, which is generally done by providing payment to the agent or broker, who then forwards it to the insurance company. FIRST Insurance Funding or FIFC Canada may either forward the financed amount of the remaining policy premiums directly to the insurance carrier or to the agent or broker for remittance to the insurance carrier on FIRST Insurance Funding's or FIFC Canada's behalf. In some cases the agent or broker may hold our collateral, in the form of the proceeds of the unearned insurance premium from the insurance company, and forward it to FIRST Insurance Funding or FIFC Canada in the event of a default by the borrower. This lending involves relatively rapid turnover of the loan portfolio and high volume of loan originations. Because the agent or broker is the primary contact to the ultimate borrowers who are located nationwide and because proceeds and our collateral may be handled by the agent or brokers during the term of the loan, FIRST Insurance Funding and FIFC Canada may be more susceptible to third party (i.e., agent or broker) fraud. The Company performs various controls and procedures including ongoing credit and other reviews of the agents and brokers as well as performs various internal audit steps to mitigate against the risk of material fraud.

The commercial and property premium finance business is subject to regulation in the majority of states. Regulation typically governs notices to borrowers prior to cancellation of a policy and required communication to insurance agents and insurance companies. FIRST Insurance Funding offers financing of commercial insurance policies in all 50 states, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands. FIRST Insurance Funding’s legal department regularly monitors changes to regulations and updates policies and programs accordingly.

Wintrust Life Finance also finances life insurance policy premiums generally used for estate planning purposes of high net-worth borrowers. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and legal counsel. The cash surrender value of the life insurance policy is the primary form of collateral. In addition, these loans often are secured with a letter of credit, marketable securities or certificates of deposit. In some cases, Wintrust Life Finance may make a loan that has a partially unsecured position.

The life insurance premium finance business is subject to banking regulations but is not subject to additional regulatory regimes (e.g. additional state regulation). Wintrust Life Finance's compliance department regularly monitors the regulatory environment and the company's compliance with existing regulations. Wintrust Life Finance maintains a policy prohibiting the known financing of stranger-originated life insurance and has established procedures to identify and prevent the company from financing such policies. While a carrier could potentially put at risk the cash surrender value of a policy, which serves as Wintrust Life Finance's primary collateral, by challenging the validity of the insurance contract for lack of an insurable interest, Wintrust Life Finance believes it has strong counterclaims against any such claims by carriers, in addition to recourse to borrowers and guarantors as well as to additional collateral in certain cases.

Premium finance loans made by FIRST Insurance Funding, Wintrust Life Finance and FIFC Canada are primarily secured by the insurance policies financed by the loans. These insurance policies are written by a large number of insurance companies geographically dispersed throughout the United States and Canada. Our premium finance receivables balances finance insurance policies that are spread among a large number of insurers, however one of the insurers represents approximately 15% of such balances and two additional insurers represent approximately 6% and 4%, respectively, of such balances. FIRST Insurance Funding, Wintrust Life Finance and FIFC Canada consistently monitor carrier ratings and financial performance of our carriers. In the event ratings fall below certain levels, most of Wintrust Life Finance's life insurance premium finance policies provide for an event of default and allow Wintrust Life Finance to have recourse to borrowers and guarantors as well as to additional collateral in certain cases. For the commercial premium finance business, the term of the loans is sufficiently short such that in the event of a decline in carrier ratings, FIRST Insurance Funding or FIFC Canada, as the case may be, can restrict or eliminate additional loans to finance premiums to such carriers. The majority of premium finance receivables are purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments.

Through our wholly-owned subsidiary Wintrust Asset Finance, we provide equipment financing through structured loan and lease products to customers in a variety of industries throughout the United States. Wintrust Asset Finance provides financing of fixed assets consisting of property, plant and equipment, transportation (trucks, trailers, rail, marine, buses), construction, manufacturing equipment, technology, oil and gas, restaurant equipment, medical and healthcare. During 2018, Wintrust Asset Finance contributed approximately $38.5 million to our revenue, which does not reflect intersegment eliminations.

Through our wholly-owned subsidiary Tricom, we provide high-yielding, short-term accounts receivable financing and value-added, outsourced administrative services, such as data processing of payrolls, billing and cash management services to the temporary staffing industry. Tricom’s clients, located throughout the United States, provide staffing services to businesses in diversified industries. During 2018, Tricom processed payrolls with associated client billings of approximately $739 million and contributed approximately $11.4 million to our revenue, net of interest expense. Net revenue is based on our reportable segments and does not reflect intersegment eliminations.

In 2018, our commercial premium finance operations, life insurance premium finance operations, leasing operations and accounts receivable finance operations accounted for 39%, 36%, 19% and 6%, respectively, of the total revenues of our specialty finance business.

Wealth Management

Through our wealth management segment, we offer a full range of wealth management services through four separate subsidiaries (Wintrust Investments, CTC, Great Lakes Advisors and CDEC): trust and investment services, tax-deferred like-kind exchange services, asset management, securities brokerage services and 401(k) and retirement plan services.

Wintrust Investments, our registered broker/dealer subsidiary which has been operating since 1931, provides a full range of private client and securities brokerage services to clients located primarily in the Midwest. Wintrust Investments is headquartered in downtown Chicago, operates an office in Appleton, Wisconsin, and has established branch locations in offices at a majority of our banks. Wintrust Investments also provides a full range of investment services to clients through a network of relationships with community-based financial institutions primarily located in Illinois. Wintrust Investments is regulated by the Securities and Exchange Commission (“SEC”) and the Financial Industry Regulatory Authority (“FINRA”) as a registered broker-dealer, as well as by the SEC as a registered investment adviser.

CTC, our trust subsidiary, offers trust and investment management services to clients through offices located in downtown Chicago and at various banking offices of our fifteen banks. CTC is subject to regulation, supervision and regular examination by the OCC.

Great Lakes Advisors, our registered investment adviser with locations in downtown Chicago and Tampa Bay, Florida as well as in various banking offices of our fifteen banks, provides money management services and advisory services to individuals, institutions, and municipal and tax-exempt organizations. Great Lakes Advisors also provides portfolio management and financial advisory services for a wide range of pension and profit-sharing plans as well as money management and advisory services to CTC. Great Lakes Advisors is regulated by the SEC as a registered investment adviser.

As of December 31, 2018, the Company’s wealth management subsidiaries had approximately $24.2 billion of assets under administration, which included $3.6 billion of assets owned by the Company and its subsidiary banks.

CDEC, our provider of tax-deferred like-kind exchange services, provides Qualified Intermediary services (as defined by U.S. Treasury regulations) for taxpayers seeking to structure tax-deferred like-kind exchanges under Internal Revenue Code ("IRC") Section 1031. Under IRC Section 1031, a taxpayer may defer the gain on the sale of certain investment property if the taxpayer utilizes the services of a Qualified Intermediary. These transactions typically generate customer deposits during the period following the sale of the property until such proceeds are used to purchase a replacement property. These deposit flows result in a source of low-cost deposits. CDEC is the subsidiary of Elektra Holding Company, LLC ("Elektra"), which was acquired by the Company in December of 2018.

Strategy and Competition

Historically, we have executed a growth strategy through branch openings and de novo bank formations, expansion of our wealth management and premium finance business, development of specialized earning asset niches and acquisitions of other community-oriented banks or specialty finance companies. After we made a decision to slow our growth from 2006 until 2008 due to unfavorable credit spreads, loosened underwriting standards by many of our competitors, and intense price competition, we raised capital and began to increase our lending and deposits in late 2008. From 2009 through 2012, this capital as well as additional capital raised during that period allowed us to be in a position to take advantage of opportunities in a disrupted marketplace by:

- Increasing our lending as other financial institutions pulled back;
- Hiring quality lenders and other staff away from larger and smaller institutions that may have substantially deviated from a customer-focused approach or who may have substantially limited the ability of their staff to provide credit or other services to their customers;

- Investing in dislocated assets such as the purchased life insurance premium finance portfolio, the Canadian commercial premium finance portfolio, trust and investment management companies and certain collateralized mortgage obligations; and
- Purchasing banks and banking assets either directly or through the FDIC-assisted process in areas key to our geographic expansion.

The Company has employed certain strategies since 2013 to achieve strong net income amid an environment characterized by low interest rates and increased competition. In general, the Company has taken a steady and measured approach to grow strategically and manage expenses. Specifically, the Company has:

- Leveraged its internal loan pipeline and external growth opportunities to grow earnings assets to increase net interest income;
- Continued efforts to reduce interest costs by improving our funding mix;
- Written call option contracts on certain securities as an economic hedge to mitigate overall interest rate risk and enhance the securities' overall return by using fees generated from these options;
- Entered into mirror-image swap transactions to both satisfy customer preferences and maintain variable rate exposure;
- Completed strategic acquisitions to expand our presence in existing and complimentary markets;
- Focused on cost control and leveraging our current infrastructure to grow without a commensurate increase in operating expenses; and
- Expanded the Wintrust Asset Finance direct leasing niche.

Our strategy and competitive position for each of our business segments is summarized in further detail, below.

Community Banking

We compete in the commercial banking industry through our banks in the communities they serve. The commercial banking industry is highly competitive and the banks face strong direct competition for deposits, loans and other financial related services. The banks compete with other commercial banks, thrifts, credit unions, stockbrokers, government-sponsored entities, mutual fund companies, insurance companies, factoring companies and other non-bank financial companies. Some of these competitors are local, while others are statewide or nationwide.

As a mid-size financial services company, we expect to benefit from greater access to financial and managerial resources than our smaller local competitors while maintaining our commitment to local decision-making and to our community banking philosophy. In particular, we are able to provide a wider product selection and larger credit facilities than many of our smaller competitors, and we believe our service offerings help us in recruiting talented staff. We continue to add lenders throughout the community banking organization, many of whom have joined us because of our ability to offer a range of products and level of services which compete effectively with both larger and smaller market participants. We have continued to expand our product delivery systems, including a wide variety of electronic banking options for our retail and commercial customers which allow us to provide a level of service typically associated with much larger banking institutions. Consequently, management views technology as a great equalizer to offset some of the inherent advantages of its significantly larger competitors. Additionally, we have access to public capital markets whereas many of our local competitors are privately held and may have limited capital-raising capabilities.

We also believe we are positioned to compete effectively with other larger and more diversified banks, bank holding companies and other financial services companies due to the multi-chartered approach that pushes accountability for building a franchise and a high level of customer service down to each of our banking franchises. Additionally, we believe that we provide a relatively complete portfolio of products that is responsive to the majority of our customers' needs through the retail and commercial operations supplied by our banks, and through our mortgage and wealth management operations. The breadth of our product mix allows us to compete effectively with our larger competitors, while our multi-chartered approach with local and accountable management provides for what we believe is superior customer service relative to our larger and more centralized competitors.

Wintrust Mortgage competes with large mortgage brokers as well as other banking organizations. Consolidation, on-going investor push-backs, enhanced regulatory guidance and the promise of equal oversight for both banks and independent lenders have created challenges for small and medium-sized independent mortgage lenders. Wintrust Mortgage's size, bank affiliation, regulatory competency, branding, technology, business development tools and reputation make the firm well positioned to compete in this environment. In 2018, we increased the amount of loans sold with servicing retained, including those loans sold to the Company's banks with servicing remaining within Wintrust Mortgage operations. While earnings will fluctuate with the rise and fall of long-term interest rates, we expect that mortgage banking revenue will be a continuous source of revenue for us and our mortgage lending relationships will continue to provide franchise value to our other financial service businesses.

In 2018, the Company opened six new branch locations in the Chicago metropolitan area as well as four new branch locations in Wisconsin. We believe this strategic branch expansion will allow us to grow into contiguous markets that we currently do not service and expand our footprint.

Specialty Finance

FIRST Insurance Funding and Wintrust Life Finance encounter intense competition from numerous other firms, including a number of national commercial premium finance companies, companies affiliated with insurance carriers, independent insurance brokers who offer premium finance services and other lending institutions. Some of our competitors are larger and have greater financial and other resources. FIRST Insurance Funding and Wintrust Life Finance compete with these entities by emphasizing a high level of knowledge of the insurance industry, flexibility in structuring financing transactions, and the timely funding of qualifying contracts. We believe that our commitment to service also distinguishes us from our competitors. FIFC Canada competes with one national commercial premium finance company and a few regional providers. In 2014, FIFC Canada expanded its operations through the acquisition of two affiliated Canadian insurance premium funding and payment services companies.

Wintrust Asset Finance competes with other bank-affiliated, independent, captive and vendor equipment leasing and finance companies. Wintrust Asset Finance believes a customer-focused origination philosophy, an experienced team, strong underwriting discipline and expert asset management enables them to compete effectively in a growing and dynamic market.

Tricom competes with numerous other firms, including a small number of similar niche finance companies and payroll processing firms, as well as various finance companies, banks and other lending institutions. Tricom's management believes that its commitment to service distinguishes it from competitors.

Wealth Management Activities

Our wealth management companies (CTC, Wintrust Investments, Great Lakes Advisors and CDEC) compete with larger wealth management subsidiaries of other larger bank holding companies as well as with other trust companies, brokerage and other financial service companies, stockbrokers and financial advisors. We believe we can successfully compete for trust, tax services, asset management and brokerage business by offering personalized attention and customer service to small to midsize businesses and affluent individuals. We continue to recruit and hire experienced professionals from the larger Chicago area wealth management companies, which is expected to help in attracting new customer relationships.

Supervision and Regulation

Regulatory Environment

Our business is heavily regulated by both federal and state agencies. Both the scope of the laws and regulations and the intensity of the supervision to which our business is subject have increased in recent years, in response to the financial crisis as well as other factors such as technological and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) and its implementing regulations, most of which are now in place. While the regulatory environment has entered a period of rebalancing of the post financial crisis framework, we expect that our business will remain subject to extensive regulation and supervision.

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the “Economic Growth Act”) was signed into law. Among other regulatory changes, the Economic Growth Act amends various sections of the Dodd-Frank Act, including section 165 of the Dodd-Frank Act, which was revised to raise the asset thresholds for determining the application of enhanced prudential standards for bank holding companies ("BHCs"). The effects of these changes on the Company are expected to be limited because the Company was subject to only limited enhanced prudential standards prior to the Economic Growth Act’s enactment. Certain of our competitors, however, will benefit from a more significant reduction in regulatory burdens.

The Company is a bank holding company under the Bank Holding Company Act of 1956, as amended (the “BHC Act”), subject to regulation, supervision, and examination by the Federal Reserve. The Company is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC, as well as the rules of NASDAQ that apply to companies with securities listed on the NASDAQ Global Select Market. Our subsidiary banks are subject to regulation, supervision, and examination by the agency that granted their banking charters: (1) the OCC for Barrington Bank, Lake Forest Bank, Crystal Lake Bank, Schaumburg Bank, Beverly Bank and Old Plank Trail Bank; (2) the Illinois Secretary for Hinsdale Bank, Wintrust Bank, Libertyville Bank, Northbrook Bank, Village Bank, Wheaton Bank, State Bank of the Lakes and St. Charles Bank; and (3) the Wisconsin Department for Town Bank. Our Illinois and Wisconsin state-chartered bank subsidiaries are also members of the Federal Reserve System, subject to regulation, supervision, and examination by the Federal Reserve as their primary federal regulator. The deposits of all of our subsidiary banks are insured by the Deposit Insurance Fund (“DIF”) and, as such, the FDIC has additional oversight authority over the banks. The supervision, regulation and examination of banks and bank holding companies by bank regulatory agencies are intended primarily for the protection of depositors, the DIF, and the banking system as a whole, rather than shareholders of banks and bank holding companies, and in some instances may be contrary to shareholders' interests.

The Consumer Financial Protection Bureau (“CFPB”) has broad rulemaking authority over a wide range of federal consumer protection laws applicable to the business of our subsidiary banks and some other operating subsidiaries. Because each of our subsidiary banks has less than $10 billion in total consolidated assets, our subsidiary banks’ primary federal banking agency and, where applicable, state banking agency, not the CFPB, is responsible for examining and supervising the subsidiary banks’ compliance with federal consumer protection laws and regulations. Our non-bank subsidiaries are subject to regulation by their functional regulators, including applicable state finance and insurance agencies, the applicable exchanges, the SEC, FINRA, and the OCC, as well as by the Federal Reserve.

Federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends. The regulatory agencies have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a description of some of the laws and regulations that affect our business. By necessity, the descriptions below are summaries that do not purport to be complete, and that are qualified in their entirety by reference to those statutes and regulations discussed, and all regulatory interpretations thereof. Any changes in applicable laws, regulations, or the interpretations thereof could have a material adverse effect on our business or the business of our subsidiaries.

Bank Holding Company Regulation

The Company is a bank holding company that has elected to be treated as a financial holding company. The activities of bank holding companies generally are limited to the business of banking, managing or controlling banks, and certain other activities determined by the Federal Reserve to be closely related to banking. As a financial holding company, we may engage in an expanded range of activities, including activities that are considered to be financial in nature. Financial holding companies may also engage in activities incidental or complementary to financial activities, if the Federal Reserve determines that such activities pose no substantial risk to the safety or soundness of depository institutions or the financial system in general. Impermissible activities for financial holding companies and their subsidiaries include activities that are related to commerce, such as sales of nonfinancial products or manufacturing. As a result, subject to certain exceptions, the BHC Act generally prohibits us from acquiring direct or indirect ownership or control of voting shares of any company engaged in activities that are not permissible for us to engage in.

Maintaining our financial holding company status requires that the Company and each of our subsidiary banks remain “well-capitalized” and “well-managed” as defined by regulation and that each of our subsidiary banks maintain at least a “satisfactory” rating under the Community Reinvestment Act (“CRA”). If we or our subsidiary banks fail to continue to meet these requirements, we could be subject to restrictions on new activities and acquisitions, and/or be required to cease and possibly divest operations that conduct existing activities that are not permissible for a bank holding company that is not a financial holding company.

The BHC Act generally requires us to obtain prior approval from the Federal Reserve before acquiring direct or indirect ownership or control of more than 5% of the voting shares of an additional bank or bank holding company, or to merge or consolidate with another bank holding company. The Bank Merger Act generally requires our subsidiary banks to obtain prior regulatory approval to merge or consolidate with, or acquire substantially all of the assets of or assume deposits of, another bank. We must also be well-capitalized and well-managed, in order to acquire a bank located outside of our home state.

The Federal Deposit Insurance Act (“FDIA”) and Federal Reserve regulations and policy require us to serve as a source of financial and managerial strength for our subsidiary banks, and to commit resources to support the banks. This support may be required even if doing so may adversely affect our ability to meet other obligations.

Acquisitions of Ownership of the Company

Acquisitions of the Company’s voting stock above certain thresholds may be subject to prior regulatory notice or approval under applicable federal and state banking laws. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our stock in excess of the amount that can be acquired without regulatory approval or notice under the BHC Act, the Change in Bank Control Act, the Illinois Banking Act and Wisconsin banking laws.

Volcker Rule

We are prohibited under the Volcker Rule from (1) engaging in short-term proprietary trading for our own account, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds. The fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including the Company and its bank subsidiaries. The Volcker Rule regulations contain exemptions for market-making, hedging, underwriting, trading in U.S. government and agency obligations and also permit certain ownership interests in certain types of funds to be retained. They also permit the offering and sponsoring of funds under certain conditions. The Volcker Rule regulations impose significant compliance and reporting obligations on banking entities. The Company has put in place the compliance programs required by the Volcker Rule and has either divested or received extensions for any holdings in illiquid funds.

In May 2018, the five federal agencies with rulemaking authority with respect to the Volcker Rule released a proposal to revise the Volcker Rule. The proposal would tailor the Volcker Rule’s compliance requirements to the amount of a firm’s trading activity, revise the definition of trading account, clarify certain key provisions in the Volcker Rule, and modify the information companies are required to provide the federal agencies. If adopted, the proposed changes to the definition of trading account would likely expand the scope of investing and trading activities subject to the Volcker Rule’s restrictions. We are currently evaluating the potential impact that this proposed revision would have on our investing and trading activities.

Capital Requirements of the Company and Subsidiary Banks

We and our subsidiary banks are required to maintain minimum risk-based and leverage capital ratios, as well as a capital conservation buffer ("Capital Conservation Buffer"), pursuant to regulations adopted by the Federal Reserve and the OCC to implement the Basel III capital framework (“U.S. Basel III Rule”).

Regulatory Capital and Risk-weighted Assets

Regulatory capital requirements apply to Common Equity Tier 1 capital, Tier 1 capital and total capital.

- Common Equity Tier 1 capital consists primarily of common stock and related surplus (net of Treasury stock), retained earnings, and certain minority interests, subject to certain regulatory adjustments. For us and our subsidiary banks, Common Equity Tier 1 capital does not include most elements of accumulated other comprehensive income (“AOCI”) because we exercised an opt-out election that was available to us with respect to certain changes in the capital treatment of AOCI. We made this election to avoid variations in the level of our capital depending on fluctuations in the fair value of our securities and derivatives portfolio.
- Tier 1 capital is composed of Common Equity Tier 1 capital and Additional Tier 1 capital. Additional Tier 1 capital consists primarily of non-cumulative perpetual preferred stock and related surplus, certain minority interests and, subject to certain regulatory limits, certain grandfathered cumulative perpetual preferred stock and certain grandfathered trust preferred securities.
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Total capital is composed of Tier 1 capital and Tier 2 capital. Tier 2 capital consists primarily of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock, certain trust preferred securities and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets (“RWAs”) and, for institutions that have exercised the opt-out election regarding the treatment of AOCI up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values.

Certain adjustments to and deductions from capital are required for purposes of calculating these regulatory capital measures, including with respect to goodwill, intangible assets, certain deferred tax assets, AOCI and investments in the capital instruments of unconsolidated financial institutions. Certain of these adjustments and deductions were subject to phase-in periods that began on January 1, 2015 and ended on January 1, 2018. On November 21, 2017, the federal banking agencies issued a final rule that, for certain bank holding companies and banks, including us and our subsidiary banks, delayed the last phase of the U.S. Basel III Rule’s transition provisions relating to capital deductions for mortgage servicing assets, certain deferred tax assets and investments in the capital instruments of unconsolidated financial institutions, and the recognition of minority interests in regulatory capital, until a revised rule is finalized. On September 26, 2017, the federal banking agencies issued a proposed rule that, for certain bank holding companies and banks, including us and our subsidiary banks, would simplify these regulatory capital deductions and limitations. The federal banking agencies have stated that these aspects of the September 26, 2017 proposed rule remain under consideration.

Under the U.S. Basel III Rule, risk weights are assigned to our and our subsidiary banks' assets, exposures and certain off-balance sheet items to determine their RWAs, which are used to calculate certain capital ratios. On September 18, 2018, the federal banking agencies issued a proposed rule that would revise the definition of high-volatility commercial real estate exposure to conform with the statutory definition of a high-volatility commercial real estate acquisition, development, or construction loan, in accordance with the Economic Growth Act. The revised definition would exclude the requirement to apply a heightened risk weight of 150% to any loans made prior to January 1, 2015, and certain other loans currently classified as high-volatility commercial real estate exposures. The federal banking agencies have stated that, in light of the changes to the definition of high-volatility commercial real estate exposures required by the Economic Growth Act, they will not act on aspects of the September 26, 2017 proposed rule that related to high-volatility commercial real estate.

Capital Ratio Requirements

Under the U.S. Basel III Rule, we and our subsidiary banks are required to maintain the following minimum capital ratios:

- Common Equity Tier 1 capital to RWAs ratio ("Common Equity Tier 1 Capital Ratio") of 4.5%;
- Tier 1 capital to RWAs ratio ("Tier 1 Capital Ratio") of 6.0%;
- Total capital to RWAs ratio ("Total Capital Ratio") of 8.0%; and
- Tier 1 capital to quarterly average assets (net of goodwill, certain other intangible assets and certain other deductions) ratio ("Tier 1 Leverage Ratio") of 4.0%.

To be well-capitalized, our subsidiary banks must maintain the following capital ratios:

- Common Equity Tier 1 Capital Ratio of 6.5% or greater;
- Tier 1 Capital Ratio of 8.0% or greater;
- Total Capital Ratio of 10.0% or greater; and
- Tier 1 Leverage Ratio of 5.0% or greater.

The Federal Reserve has not yet revised the well-capitalized standard for bank holding companies to reflect the higher capital requirements imposed under the U.S. Basel III Rule. For purposes of the Federal Reserve's Regulation Y, including determining whether a bank holding company meets the requirements to be a financial holding company, bank holding companies, such as the Company, must maintain a Tier 1 Capital Ratio of 6.0% or greater and a Total Capital Ratio of 10.0% or greater to be well-capitalized. If the Federal Reserve were to apply the same or a very similar well-capitalized standard to bank holding companies as that applicable to our subsidiary banks, the Company's capital ratios as of December 31, 2018 would exceed such revised well-capitalized standard. The Federal Reserve may require bank holding companies, including us, to maintain capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a bank holding company's particular condition, risk profile and growth plans.

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators, including restrictions on our or our subsidiary banks' ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications, or other restrictions on growth. Such actions, if undertaken, could have an adverse material effect on our operations or financial condition.

In addition to meeting the minimum capital requirements, under the U.S. Basel III Rule we and our banking subsidiaries must also maintain the required Capital Conservation Buffer to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. The Capital Conservation Buffer is calculated as a ratio of Common Equity Tier 1 capital to RWAs and it effectively increases the required minimum risk-based capital ratios. The Capital Conservation Buffer requirement was phased in over a three-year period that began in January 1, 2016. The phase-in period ended on January 1, 2019, and the Capital Conservation Buffer is now at its fully phased-in level of 2.5%. Throughout 2018, the required Capital Conservation Buffer was 1.875%. The Tier 1 Leverage Ratio is not impacted by the Capital Conservation Buffer, and a banking institution may be considered well-capitalized while remaining out of compliance with the Capital Conservation Buffer.

The table below summarizes the capital requirements that we and our subsidiary banks must satisfy to avoid limitations on capital distributions and certain discretionary bonus payments (i.e., the required minimum capital ratios plus the Capital Conservation Buffer) during the remaining transition period for the Capital Conservation Buffer:

	Minimum Regulatory Capital Ratio Plus Capital Conservation Buffer	
	2018	2019
Common Equity Tier 1 Capital Ratio	6.38 %	7.00 %
Tier 1 Capital Ratio	7.88	8.50
Total Capital Ratio	9.88	10.50

As of December 31, 2018, our and our subsidiary banks' regulatory capital ratios were above the well-capitalized standards and met the then-applicable Capital Conservation Buffer. Based on current estimates, we believe that we and our subsidiary banks will continue to exceed all applicable well-capitalized regulatory capital requirements and the Capital Conservation Buffer, on a fully phased-in basis. Please refer to the table below for a summary of our regulatory capital ratios as of December 31, 2018, calculated using the regulatory capital methodology applicable to us during 2018.

	Company Regulatory Capital Ratios			
	Minimum Regulatory Capital Ratio for the Company	Minimum Ratio + Capital Conservation Buffer(1)	Well-Capitalized Minimum for the Company(2)	The Company
Common Equity Tier 1 Capital Ratio	4.50 %	6.38 %	N/A	9.3 %
Tier 1 Capital Ratio	6.00	7.88	6.00	9.7
Total Capital Ratio	8.00	9.88	10.00	11.6
Tier 1 Leverage Ratio	4.00	N/A	N/A	9.1

(1) Reflects the Capital Conservation Buffer of 1.875% applicable during 2018. The Company already meets the Capital Conservation Buffer at the fully phased-in level of 2.5%.

(2) Reflects the well-capitalized standard applicable to the Company for purposes of the Federal Reserve's Regulation Y. The Federal Reserve has not yet revised the well-capitalized standard for BHCs to reflect the higher capital requirements imposed under the U.S. Basel III Rule or to add Common Equity Tier 1 capital ratio and Tier 1 leverage ratio requirements to this standard. As a result, the Common Equity Tier 1 capital ratio and Tier 1 leverage ratio are denoted as "N/A" in this column. If the Federal Reserve were to apply the same or a very similar well-capitalized standard to BHCs as the standard applicable to our subsidiary banks, the Company's capital ratios as of December 31, 2018 would exceed such revised well-capitalized standard.

Liquidity Requirements

Large financial firms are subject to the Liquidity Coverage Ratio ("LCR") rule, which requires them to meet certain liquidity measures by holding an adequate amount of unencumbered high-quality liquid assets, such as Treasury securities and other sovereign debt. In addition, in May 2016 the federal banking agencies proposed a Net Stable Funding Ratio ("NSFR") rule, which would require large financial firms to meet certain net stable funding measures by funding themselves with adequate amounts of medium- and long-term funding.

On October 31, 2018, the federal banking agencies proposed a rule that would, among other things, increase the asset thresholds at which large financial firms would be subject to the LCR and the proposed NSFR. We and our subsidiary banks are not subject to the LCR and would not be subject to the NSFR as proposed. Instead, monitoring of the Company's and our banking subsidiaries' liquidity is addressed as a supervisory matter by our federal and state banking regulators, without required formulaic measures set by regulation.

Capital Planning and Stress Testing Requirements

Pursuant to the Economic Growth Act, which increased the asset thresholds at which company-run stress test requirements apply, we are no longer required to conduct annual company-run stress tests. None of our subsidiary banks met the previous asset thresholds or meet the current increased asset thresholds that would cause them to be subject to stress testing requirements under this rule.

Payment of Dividends and Share Repurchases

We are a legal entity separate and distinct from our banking and non-banking subsidiaries. Since our consolidated net income consists largely of net income of our bank and non-bank subsidiaries, our ability to pay dividends and repurchase shares depends upon our receipt of dividends from our subsidiaries. There are various federal and state law limitations on the extent to which our banking subsidiaries can declare and pay dividends to us, including regulatory capital requirements, general regulatory oversight to prevent unsafe or unsound practices and federal and state banking law requirements concerning the payment of dividends out of net profits or surplus. Applicable federal and state banking laws also prohibit, without prior regulatory approval, insured depository institutions, such as our bank subsidiaries, from making dividend distributions if such distributions are not paid out of available earnings. In addition, our right, and the right of our shareholders and creditors, to participate in any distribution of the assets or earnings of our bank and non-bank subsidiaries is further subject to the prior claims of creditors of our subsidiaries. No assurances can be given that the banks will, in any circumstances, pay dividends to the Company.

We and our bank subsidiaries must maintain the applicable Common Equity Tier 1 Capital Conservation Buffer to avoid becoming subject to restrictions on capital distributions, including dividends. The Capital Conservation Buffer is currently at its fully phased-in level of 2.5%. For more information on the Capital Conservation Buffer, see above.

Our ability to declare and pay dividends to our shareholders is similarly limited by federal banking law and Federal Reserve regulations and policy. Federal Reserve policy provides that a bank holding company should not pay dividends unless (1) the bank holding company's net income over the last four quarters (net of dividends paid) is sufficient to fully fund the dividends, (2) the prospective rate of earnings retention appears consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries and (3) the bank holding company will continue to meet minimum required capital adequacy ratios. The policy also provides that a bank holding company should inform the Federal Reserve reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in a material adverse change to the bank holding company's capital structure. Bank holding companies also are required to consult with the Federal Reserve before materially increasing dividends. The Federal Reserve could prohibit or limit the payment of dividends by a bank holding company if it determines that payment of the dividend would constitute an unsafe or unsound practice. Additionally, bank holding companies are required to receive prior written approval from the Federal Reserve prior to announcing the redemption or repurchase of capital instruments.

FDICIA and Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires the federal bank regulatory agencies to take "prompt corrective action" regarding FDIC-insured depository institutions that do not meet certain capital adequacy standards. A depository institution's treatment for purposes of the prompt corrective action provisions depends upon its level of capitalization and certain other factors. An institution that fails to remain well-capitalized becomes subject to a series of restrictions that increase in severity as its capital condition weakens. Such restrictions may include a prohibition on capital distributions, restrictions on asset growth or restrictions on the ability to receive regulatory approval of applications. The FDICIA also provides for enhanced supervisory authority over undercapitalized institutions, including authority for the appointment of a conservator or receiver for the institution. In certain instances, a bank holding company may be required to guarantee the performance of an undercapitalized subsidiary bank's capital restoration plan.

As of December 31, 2018, each of the Company's banks was categorized as "well-capitalized" and, in addition, met additional requirements under the Capital Conservation Buffer.

Enforcement Authority

The federal bank regulatory agencies have broad authority to issue orders to depository institutions and their holding companies prohibiting activities that constitute violations of law, rule, regulation, or administrative order, or that represent unsafe or unsound banking practices, as determined by the federal banking agencies. The federal banking agencies also are empowered to require affirmative actions to correct any violation or practice; issue administrative orders that can be judicially enforced; direct increases in capital; limit dividends and distributions; restrict growth; assess civil money penalties against institutions or individuals who violate any laws, regulations, orders, or written agreements with the agencies; order termination of certain activities of holding companies or their non-bank subsidiaries; remove officers and directors; order divestiture of ownership or control of a non-banking subsidiary by a holding company; or terminate deposit insurance and appoint a conservator or receiver. The Illinois and Wisconsin state bank regulatory agencies have similar authority and power with respect to our Illinois and Wisconsin state-chartered banks, respectively.

Safety and Soundness

The federal bank regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards relating to internal controls and information systems, informational security, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. The guidelines prohibit excessive compensation as an unsafe and unsound practice, and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder.

During the past decade, properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing banking institutions including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. Some of the regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that financial institutions are expected to address in the current environment. Our subsidiary banks are expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive and effective internal controls.

Cross-Guarantee

Under the cross-guarantee provision of the FDIA, insured depository institutions such as our subsidiary banks may be liable to the FDIC for any losses incurred, or reasonably expected to be incurred, by the FDIC resulting from the default of, or FDIC assistance to, any other commonly controlled insured depository institution. An FDIC cross-guarantee claim against a depository institution is superior in right of payment to claims of the holding company and its affiliates against such depository institution. All of our subsidiary banks are commonly controlled within the meaning of the cross-guarantee provision.

Insurance of Deposit Accounts

The deposits of each of our subsidiary banks are insured by the Depositors Insurance Fund ("DIF") up to the standard maximum deposit insurance amount of $250,000 per depositor. Each of our subsidiary banks is subject to deposit insurance assessments based on the risk it poses to the DIF, as determined by the capital category and supervisory category to which it is assigned. The FDIC has authority to raise or lower assessment rates on insured deposits in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments. Until September 30, 2018, insured depository institutions with total consolidated assets of $10 billion or more were required to pay an assessment surcharge. None of our bank subsidiaries were subject to this surcharge. However, there is a risk that our subsidiary banks' deposit insurance premiums will increase if failures of insured depository institutions deplete the DIF or if the FDIC were to change its view of the risk that they pose to the DIF.

In addition, the Deposit Insurance Fund Act of 1996 authorizes the Financing Corporation ("FICO") to impose assessments on DIF assessable deposits in order to service the interest on FICO's bond obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2018 was approximately 0.320 basis points (32 cents per $10,000 of assessable deposits).

Limits on Loans to One Borrower and Loans to Insiders

Federal and state banking laws impose limits on the amount of credit a bank can extend to any one person (or group of related persons). For national banks, this limit includes credit exposures arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions. In addition, state-chartered banks (including certain of our banking subsidiaries) are prohibited from engaging in derivative transactions unless the state lending limit laws take into account credit exposure to such transactions.

Applicable banking laws and regulations also place restrictions on loans by FDIC-insured banks and their affiliates to their directors, executive officers and principal shareholders.

Lending Standards and Guidance

The federal banking agencies have adopted uniform regulations prescribing standards for extensions of credit that are secured by liens or interests in real estate or made for the purpose of financing permanent improvements to real estate. Under these regulations, all insured depository institutions, such as our subsidiary banks, must adopt and maintain written policies establishing appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards, prudent underwriting standards (including loan-to-value limits) that are clear and measurable, loan administration procedures, and documentation, approval and reporting requirements. The real estate lending policies must reflect consideration of the federal bank regulators' Interagency Guidelines for Real Estate Lending Policies.

Transaction Account Reserves

The Dodd-Frank Act eliminated prohibitions under federal law against the payment of interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts.

Federal Reserve regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2019, the first $16.3 million of otherwise reservable balances are exempt from the reserve requirements; for transaction accounts aggregating more than $16.3 million to $124.2 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $124.2 million, the reserve requirement is 10% of the aggregate amount of total transaction accounts in excess of $124.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve. Our banks are in compliance with these requirements.

De Novo Branching and De Novo Banks

With the approval of applicable regulators, national banks and state banks may establish de novo branches in states other than their home state as if such state was the bank's home state.

For a three-year period, newly chartered banks are subject to enhanced supervisory procedures, including higher capital requirements, more frequent examinations and other requirements.

Anti-Tying Provisions

Each of our subsidiary banks is prohibited from conditioning the availability of any product or service, or varying the price for any product or service, on the requirement that the customer obtain some additional product or service from the bank or any of its affiliates, other than loans, deposits and trust services.

Transactions with Affiliates

Certain transactions between a bank and its holding company or other non-bank affiliates are subject to various restrictions imposed by state and federal law and regulation. Such "covered transactions" include loans and other extensions of credit by the bank to the affiliate, investments in securities issued by the affiliate, purchases of assets from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of the affiliate. In general, these affiliate transaction rules limit the amount of covered transactions between an institution and a single affiliate, as well as the aggregate amount of covered transactions between an institution and all of its affiliates. In addition, covered transactions that are credit transactions must be secured by acceptable collateral, and all affiliate transactions, including those that do not qualify as covered transactions, must be on terms that are at least as favorable to the bank as then-prevailing in the market for comparable transactions with unaffiliated entities. Transactions between affiliated banks may be subject to certain exemptions under applicable federal law.

Community Reinvestment Act

Under the CRA, insured depository institutions, including our subsidiary banks, have a continuing and affirmative obligation to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for insured depository institutions nor does it limit an insured depository institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. However, insured depository institutions are rated on their performance in meeting the needs of their communities. The CRA requires each federal banking agency to take an insured depository institution's CRA record into account when evaluating certain applications by the insured depository institution or its holding company, including applications for charters, branches and other deposit facilities, relocations, mergers, consolidations, acquisitions of assets or assumptions of liabilities, and bank and savings association acquisitions. An unsatisfactory record of performance may be the basis for denying or conditioning approval of an application by an insured depository institution or its holding company. The CRA also requires that all institutions publicly disclose their CRA ratings. Each of our subsidiary banks received a "satisfactory" or better rating from the Federal Reserve or the OCC on its most recent CRA performance evaluation.

Leaders of the federal banking agencies recently have indicated their support for revising the CRA regulatory framework, and on August 28, 2018, the OCC issued an advance notice of proposed rulemaking to solicit ideas for building a new CRA framework. It is too early to tell whether any changes will be made to applicable CRA requirements.

Compliance with Consumer Protection Laws

Our subsidiary banks and some other operating subsidiaries are subject to a variety of federal and state statutes and regulations designed to protect consumers. The CFPB has broad rulemaking authority over a wide range of federal consumer protection laws that apply to banks and other providers of financial products and services, including the authority to prohibit "unfair, deceptive or abusive" acts and practices, but examination and supervision is carried out by each subsidiary bank's primary federal banking agency and, where applicable, state banking agency, not the CFPB. In addition, the Dodd-Frank Act authorizes state attorneys general and other state officials to enforce consumer protection rules issued by the CFPB. State authorities have recently increased their focus on and enforcement of consumer protection rules.

Interest and other charges collected or contracted for by banks are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act and Regulation Z issued by the CFPB, governing disclosures of credit terms to consumer borrowers;
- The Real Estate Settlement Procedures Act and Regulation X issued by the CFPB, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- the Home Mortgage Disclosure Act and Regulation C issued by the CFPB, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act and Regulation B issued by the CFPB, prohibiting discrimination on the basis of various prohibited factors in extending credit;
- the Fair Credit Reporting Act and Regulation V issued by the CFPB, governing the use and provision of information to consumer reporting agencies;
- the Fair Debt Collection Practices Act and Regulation F issued by the CFPB, governing the manner in which consumer debts may be collected by collection agencies;
- the Service Members Civil Relief Act, applying to all debts incurred prior to commencement of active military service (including credit card and other open-end debt) and limiting the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability; and
- the guidance of the various federal agencies charged with the responsibility of implementing such federal laws.

Deposit operations are subject to, among others:

- the Truth in Savings Act and Regulation DD issued by the CFPB, which require disclosure of deposit terms to consumers;
- Regulation CC issued by the Federal Reserve Board, which relates to the availability of deposit funds to consumers;
- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the Electronic Fund Transfer Act and Regulation E issued by the CFPB, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller

machines and other electronic banking services.

There are consumer protection standards that apply to functional areas of operation rather than applying only to loan or deposit products. Our subsidiary banks and some other operating subsidiaries are also subject to certain state laws and regulations designed to protect consumers.

The CFPB has promulgated many mortgage-related final rules since it was established under the Dodd-Frank Act, including rules related to the ability to repay and qualified mortgage standards, mortgage servicing standards, loan originator compensation standards, high-cost mortgage requirements, Home Mortgage Disclosure Act requirements and appraisal and escrow standards for higher priced mortgages. Most of the provisions of these mortgage-related final rules are currently effective. In addition, several proposed revisions to mortgage-related rules are pending finalization. The mortgage-related final rules issued by the CFPB have materially restructured the origination, servicing and securitization of residential mortgages in the United States. These rules have impacted, and will continue to impact, the business practices of mortgage lenders, including the Company.

In order to ensure compliance with all mortgage-related rules and regulations, the Company consolidated its consumer mortgage loan origination and loan servicing operations within Wintrust Mortgage. All consumer mortgage applications are taken through Wintrust Mortgage, which has extensively trained loan originators located at many of our branches. While in certain limited cases our banks may offer specialized consumer mortgages to our customers, substantially all consumer mortgages for all of our banks are originated and closed by Wintrust Mortgage. Wintrust Mortgage then sells loans to third parties or to our banks. To the extent that we retain consumer mortgage loans in our bank portfolios, our banks have engaged Wintrust Mortgage to provide loan servicing.

Changes to consumer protection regulations, including those promulgated by the CFPB, could affect our business but the likelihood, timing and scope of any such changes and the impact any such change may have on us cannot be determined with any certainty. See Item 1A. Risk Factors.

Federal Preemption

The Dodd-Frank Act amended the laws governing federal preemption of state laws as applied to national banks, and eliminated federal preemption for subsidiaries of national banks. These changes may subject the Company's national banks and their divisions, including Wintrust Mortgage, to additional state regulation and enforcement.

Debit Interchange

We are subject to a statutory requirement that interchange fees for electronic debit transactions that are paid to or charged by payment card issuers, including our bank subsidiaries, be reasonable and proportional to the cost incurred by the issuer. Interchange fees for electronic debit transactions are limited to 21 cents plus 0.05% of the transaction, plus an additional one cent per transaction fraud adjustment, impose requirements regarding routing and exclusivity of electronic debit transactions, and generally require that debit cards be usable in at least two unaffiliated networks.

Anti-Money Laundering Programs

The Bank Secrecy Act ("BSA") and USA PATRIOT Act of 2001 ("USA PATRIOT Act") contain anti-money laundering ("AML") and financial transparency provisions intended to detect, and prevent the use of the U.S. financial system for, money laundering and terrorist financing activities. The BSA, as amended by the USA PATRIOT Act, requires depository institutions and their holding companies to undertake activities including maintaining an AML program, verifying the identity of clients, monitoring for and reporting suspicious transactions, reporting on cash transactions exceeding specified thresholds, and responding to requests for information by regulatory authorities and law enforcement agencies. Each of our subsidiary banks is subject to the BSA and, therefore, is required to provide its employees with AML training, designate an AML compliance officer and undergo an annual, independent audit to assess the effectiveness of its AML program. We have implemented policies, procedures and internal controls that are designed to comply with these AML requirements. In May 2016, the Financial Crimes Enforcement Network ("FinCEN"), which is a unit of the Treasury Department that drafts regulations implementing the USA PATRIOT Act and other AML and BSA legislation, issued final rules governing enhanced customer due diligence. The rules impose several new obligations on covered financial institutions with respect to their "legal entity customers," including corporations, limited liability companies and other similar entities. For each such customer that opens an account (including an existing customer opening a new account), the covered financial institution must identify and verify the customer's "beneficial owners," who are specifically defined in the rules. The rules contain an exemption for certain insurance premium financing transactions. Bank regulators are focusing their examinations on anti-money laundering compliance, and we will continue to monitor and augment, where necessary, our AML compliance programs. The federal banking agencies are required, when reviewing bank and bank holding company acquisition or merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicant.

Office of Foreign Assets Control Regulation

The U.S. Department of the Treasury's Office of Foreign Assets Control, or "OFAC," is responsible for administering economic sanctions that affect transactions with designated foreign countries, nationals and others, as defined by various Executive Orders and Acts of Congress. OFAC-administered sanctions take many different forms. For example, sanctions may include: (1) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to, making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (2) a blocking of assets in which the government or "specially designated nationals" of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). OFAC also publishes lists of persons, organizations, and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked

Persons. Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Protection of Client Information

Legal requirements concerning the use and protection of client information affect many aspects of the Company's business, and are continuing to evolve. They include the privacy and information safeguarding provisions of the Gramm-Leach-Bliley Act ("GLB Act"), the Fair Credit Reporting Act ("FCRA") and the amendments adopted by the Fair and Accurate Credit Transactions Act of 2003, as well as state law requirements. The GLB Act requires a financial institution to disclose its privacy policy to certain customers, and requires the financial institution to allow those customers to opt-out of some sharing of the customers' nonpublic personal information with nonaffiliated third persons. In accordance with these requirements, we and each of our banks and operating subsidiaries provide a written privacy notice to each affected customer when the customer relationship begins and on an annual basis. As described in the privacy notice, we protect the security of information about our customers, educate our employees about the importance of protecting customer privacy, and allow affected customers to opt out of certain types of information sharing. We and our subsidiaries also require business partners with which we share information to have adequate security safeguards and to follow the requirements of the GLB Act. The GLB Act, as interpreted by the federal banking regulators, and state laws require us to take certain actions, including possible notice to affected customers, in the event that sensitive customer information is compromised. We and/or each of the banks and operating subsidiaries may need to amend our privacy policies and adapt our internal procedures in the event that these legal requirements, or the regulators' interpretation of them, change, or if new requirements are added.

Data privacy and data protection are areas of increasing state legislative focus. For example, in June of 2018, the Governor of California signed into law the California Consumer Privacy Act ("CCPA"). The CCPA, which becomes effective on January 1, 2020, applies to for-profit businesses that conduct business in California and meet certain revenue or data collection thresholds. The CCPA will give consumers the right to request disclosure of information collected about them, and whether that information has been sold or shared with others, the right to request deletion of personal information (subject to certain exceptions), the right to opt out of the sale of the consumer's personal information, and the right not to be discriminated against for exercising these rights. The CCPA contains several exemptions, including an exemption applicable to information that is collected, processed, sold or disclosed pursuant to the GLBA. The California Attorney General has not yet proposed or adopted regulations implementing the CCPA, and the California State Legislature has amended the Act since its passage.

The CCPA may be interpreted or applied in a manner inconsistent with our understanding or similar laws may be adopted by other states where we do business. The impact of the CCPA on our business is yet to be determined. The federal government may also pass data privacy or data protection legislation.

Like other lenders, the banks and several of our operating subsidiaries use credit bureau data in their underwriting activities. Use of such data is regulated under the FCRA, and the FCRA also regulates reporting information to credit bureaus, prescreening individuals for credit offers, sharing of information between affiliates, and using affiliate data for marketing purposes. Similar state laws may impose additional requirements on us, the banks and our operating subsidiaries.

Violation of these legal requirements may expose us to regulatory action and private litigation, including claims for damages and penalties.

Current Expected Credit Loss Accounting Standard

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326) (“CECL”) which requires banks to record, at the time of origination, credit losses expected throughout the life of the asset portfolio on loans, held-to-maturity securities and other assets measured at amortized cost, as opposed the current practice of recording losses when it is probable that a loss event has occurred. The expected losses will be based on historical experience, current conditions, and reasonable and supportable forecasts. CECL also impacts the recognition of impairment on available-for-sale securities. CECL will be effective in 2020 for SEC registrants and 2021 for all others. The Company is taking the necessary steps to be in compliance with the CECL accounting standard which is expected to become a critical accounting policy.

In addition, in December 2018, the U.S. federal banking agencies finalized rules that would permit BHCs and banks to phase-in, for regulatory capital purposes, the day-one impact of CECL on retained earnings over a period of three years. For further discussion of the new CECL accounting standard, see Note 2 “Recent Accounting Pronouncements,” of the Consolidated Financial Statements presented under Item 8 of this Annual Report on Form 10-K.

Broker-Dealer and Investment Adviser Regulation

Wintrust Investments and Great Lakes Advisors are subject to extensive regulation under federal and state securities laws. Wintrust Investments is registered as a broker-dealer with the SEC and in all 50 states, the District of Columbia and the U.S. Virgin Islands. Both Wintrust Investments and Great Lakes Advisors are registered as investment advisers with the SEC. In addition, Wintrust Investments is a member of several self-regulatory organizations ("SROs"), including FINRA and NYSE Chicago. In addition to SEC rules and regulations, the SROs adopt rules, subject to approval of the SEC, that govern all aspects of business in the securities industry and conduct periodic examinations of member firms. Wintrust Investments is also subject to regulation by state securities commissions in states in which it conducts business. Wintrust Investments and Great Lakes Advisors are registered only with the SEC as investment advisers, but certain of their advisory personnel are subject to regulation by state securities regulatory agencies.

As a result of federal and state registrations and SRO memberships, Wintrust Investments is subject to overlapping schemes of regulation that cover all aspects of its securities businesses. Such regulations cover uses and safekeeping of clients' funds; record-keeping and reporting requirements; supervisory and organizational procedures intended to assure compliance with securities laws and to prevent improper trading on material nonpublic information; personnel-related matters, including qualification and licensing of supervisory and sales personnel; limitations on extensions of credit in securities transactions; clearance and settlement procedures; "suitability" determinations as to certain customer transactions; limitations on the amounts and types of fees and commissions that may be charged to customers; and regulation of proprietary trading activities and affiliate transactions. Violations of the laws and regulations governing a broker-dealer's actions can result in censures, fines, the issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of a broker-dealer or its officers or employees, or other similar actions by both federal and state securities administrators, as well as the SROs.

As a registered broker-dealer, Wintrust Investments is subject to the SEC's net capital rule as well as the net capital requirements of the SROs of which it is a member. Net capital rules, which specify minimum capital requirements, are designed to measure general financial integrity and liquidity and require that at least a minimum amount of net assets be kept in relatively liquid form. Rules of FINRA and other SROs also impose limitations and requirements on the transfer of member organizations' assets. Compliance with net capital requirements may limit the Company's operations requiring the intensive use of capital. These requirements restrict the Company's ability to withdraw capital from Wintrust Investments, which in turn may limit the Company's ability to pay dividends, repay debt or redeem or purchase shares of the Company's own outstanding stock. Wintrust Investments is a member of the Securities Investor Protection Corporation ("SIPC"), which subject to certain limitations, serves to oversee the liquidation of a member brokerage firm, and to return missing cash, stock and other securities owed to the firm's brokerage customers, in the event a member broker-dealer fails. The general SIPC protection for customers' securities accounts held by a member broker-dealer is up to $500,000 for each eligible customer, including a maximum of $250,000 for cash claims. SIPC does not protect brokerage customers against investment losses. In addition to SIPC coverage, the clearing firm utilized by Wintrust Investments offers certain insurance coverage. In the event of the clearing firm's insolvency, clients whose cash and securities were not fully protected by SIPC may benefit from this additional insurance. The policy provides coverage to each client up to $1.9 million, subject to an aggregate cap of $1 billion for all policy beneficiaries.

Wintrust Investments and Great Lakes Advisors in their capacities as investment advisers are subject to regulations covering matters such as transactions between clients, transactions between the adviser and clients, custody of client assets and management of mutual funds and other client accounts. The principal purpose of regulation and discipline of investment firms is the protection of customers, clients and the securities markets rather than the protection of creditors and shareholders of investment firms. Sanctions that may be imposed for failure to comply with laws or regulations governing investment advisers include the suspension of individual employees, limitations on an adviser's engaging in various asset management activities for specified periods of time, the revocation of registrations, other censures and fines.

On March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit vacated the regulation issued by the U.S. Department of Labor (the “Fiduciary Rule”) that had generally taken effect in June 2017 and that made anyone, including broker-dealers, providing investment advice to retirement investors a fiduciary who must act in the best interest of clients when providing investment advice for direct or indirect compensation to a retirement plan, to a plan fiduciary, participant or beneficiary, or to an investment retirement account (“IRA”) or IRA holder. A petition for rehearing en banc was denied, and the DOL did not timely seek review of the decision by the U.S. Supreme Court. As a result, the Fifth Circuit issued its mandate on June 21, 2018, making the Fiduciary Rule null and void as of that date. The Department of Labor could, in the future, issue a revised version of the Fiduciary Rule.

On May 9, 2018, the SEC proposed Regulation Best Interest, which would impose a new standard of conduct on SEC-registered broker-dealers when making recommendations to retail customers, clarify certain aspects of the fiduciary duty that an SEC-registered investment adviser owes to its clients and mandate summary disclosure to retail customers describing their relationship with and services offered by registered broker-dealers and investment advisers.

Incentive Compensation

The federal banking agencies have issued joint guidance on incentive compensation designed to ensure that the incentive compensation policies of banking organizations, such as us and our subsidiary banks, do not encourage imprudent risk taking and are consistent with the safety and soundness of the organization. In addition, the Dodd-Frank Act requires the federal banking agencies and the SEC to issue regulations or guidelines requiring covered financial institutions, including us and our subsidiary banks, to prohibit incentive-based payment arrangements that encourage inappropriate risks by providing compensation that is excessive or that could lead to material financial loss to the institution. A proposed rule was issued in 2016. Also pursuant to the Dodd-Frank Act, in 2015, the SEC proposed rules that would direct stock exchanges to require listed companies to implement clawback policies to recover incentive-based compensation from current or former executive officers in the event of certain financial restatements and would also require companies to disclose their clawback policies and their actions under those policies. We continue to evaluate the effect of the proposed rules, both of which are subject to further rulemaking procedures.

Employees

At December 31, 2018, the Company and its subsidiaries employed a total of 4,727 full-time-equivalent employees. The Company provides its employees with comprehensive medical and dental benefit plans, life insurance plans, 401(k) plans and an employee stock purchase plan. The Company considers its relationship with its employees to be good.

Available Information

The Company’s Internet address is www.wintrust.com. The Company makes available at this address, under the “Investor Relations” tab, free of charge, its Annual Report on Form 10-K, its annual reports to shareholders, Quarterly Reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. There filings are also available on the SEC's website at www.sec.gov.

Supplemental Statistical Data

The following statistical information is provided in accordance with the requirements of The Securities Act Industry Guide 3, Statistical Disclosure by Bank Holding Companies, which is part of Regulation S-K as promulgated by the SEC. This data should be read in conjunction with the Company’s Consolidated Financial Statements and notes thereto, and Management’s Discussion and Analysis which are contained in Item 8 and Item 7, respectively, of this Annual Report on Form 10-K.

Investment Securities Portfolio

The following table presents the amortized cost and fair value of the Company’s investment securities portfolios, by investment category, as of December 31, 2018, 2017 and 2016:

(Dollars in thousands)	2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities						
U.S. Treasury	$126,199	$126,404	$144,904	$143,822	$142,741	$141,983
U.S. Government agencies	139,420	140,307	157,638	156,915	189,540	189,152
Municipal	136,831	138,490	113,197	115,352	129,446	131,809
Corporate notes:						
Financial issuers	97,079	90,045	30,309	30,051	65,260	64,392
Other	1,000	1,000	1,000	999	1,000	999
Mortgage-backed: (1)						
Mortgage-backed securities	1,641,146	1,586,339	1,291,695	1,260,186	1,185,448	1,131,402
Collateralized mortgage obligations	43,819	43,496	60,092	59,539	30,105	29,682
Equity securities (2)	—	—	34,234	36,802	32,608	35,248
Total available-for-sale securities	$2,185,494	$2,126,081	$1,833,069	$1,803,666	$1,776,148	$1,724,667
Held-to-maturity securities						
U.S. Government agencies	$814,864	$787,429	$579,062	$565,019	$433,343	$408,880
Municipal	252,575	248,667	247,387	247,497	202,362	198,722
Total held-to-maturity securities	$1,067,439	$1,036,096	$826,449	$812,516	$635,705	$607,602
Equity securities with readily determinable fair value (2)	$34,410	$34,717	$—	$—	$—	$—

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

(2) As a result of the adoption of ASU No. 2016-01 effective January 1, 2018, equity securities with readily determinable fair value are no longer presented within available-for-sale securities and are now presented as equity securities with readily determinable fair values in the Company's Consolidated Statements of Condition for the current period.

Tables presenting the carrying amounts and gross unrealized gains and losses for securities at December 31, 2018 and 2017 are included by reference to Note 3 to the Consolidated Financial Statements presented under Item 8 of this Annual Report on Form 10-K. The following table presents the carrying value of the investment securities portfolios as of December 31, 2018, by maturity distribution. Carrying value represents the fair value of investment securities classified as available-for-sale, the amortized cost of those classified as held-to-maturity and the fair value of equity securities with readily determinable fair values.

(Dollars in thousands)	Within 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Mortgage-backed	Equity Securities	Total
Available-for-sale securities							
U.S. Treasury	$25,835	$100,569	$—	$—	$—	$ —	$126,404
U.S. Government agencies	9,977	3,360	9,595	117,375	—	—	140,307
Municipal	46,341	41,348	38,596	12,205	—	—	138,490
Corporate notes:							
Financial issuers	—	23,030	67,015	—	—	—	90,045
Other	—	1,000	—	—	—	—	1,000
Mortgage-backed: (1)							
Mortgage-backed securities	—	—	—	—	1,586,339	—	1,586,339
Collateralized mortgage obligations	—	—	—	—	43,496	—	43,496
Total available-for-sale securities	$82,153	$169,307	$115,206	$129,580	$1,629,835	$ —	$2,126,081
Held-to-maturity securities							
U.S. Government agencies	$2,002	$3,065	$203,705	$606,092	$—	$ —	$814,864
Municipal	8,007	26,371	92,192	126,005	—	—	252,575
Total held-to-maturity securities	$10,009	$29,436	$295,897	$732,097	$—	$ —	$1,067,439
Equity securities with readily determinable fair value	$—	$—	$—	$—	$—	$ 34,717	$34,717

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

The weighted average yield for each range of maturities of securities, on a tax-equivalent basis, is shown below as of December 31, 2018:

	Within 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Mortgage-backed	Equity Securities	Total
Available-for-sale securities							
U.S. Treasury	1.36 %	2.75 %	— %	— %	— %	— %	2.47 %
U.S. Government agencies	1.31	5.33	3.85	4.19	—	—	3.99
Municipal	2.50	2.96	3.64	3.61	—	—	3.05
Corporate notes:							
Financial issuers	—	3.72	4.27	—	—	—	4.13
Other	—	3.42	—	—	—	—	3.42
Mortgage-backed: (1)							
Mortgage-backed securities	—	—	—	—	2.88	—	2.88
Collateralized mortgage obligations	—	—	—	—	3.07	—	3.07
Total available-for-sale securities	2.00 %	2.99 %	4.02 %	4.14 %	2.89 %	— %	3.00 %
Held-to-maturity securities							
U.S. Government agencies	1.70 %	1.66 %	3.06 %	3.36 %	— %	— %	3.27 %
Municipal	1.71	2.65	3.40	3.55	—	—	3.34
Total held-to-maturity securities	1.71 %	2.55 %	3.17 %	3.39 %	— %	— %	3.28 %
Equity securities with readily determinable fair value	— %	— %	— %	— %	— %	1.12 %	1.12 %

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

ITEM 1A. RISK FACTORS

An investment in our securities is subject to risks inherent to our business. Certain material risks and uncertainties that management believes affect Wintrust are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this Annual Report on Form 10-K and in our other filings with the SEC. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also impair Wintrust's business operations. This Annual Report on Form 10-K is qualified in its entirety by these risk factors. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment.

Risks Related to Our Business and Operating Environment

Deterioration in economic conditions may materially adversely affect the financial services industry and our business, financial condition, results of operations and cash flows.

Our business activities and earnings are affected by general business conditions in the United States and abroad, including factors such as the level and volatility of short-term and long-term interest rates, inflation, home prices, unemployment and underemployment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, the availability and cost of capital and credit, investor sentiment and confidence in the financial markets, and the strength of the domestic economies in which we operate. The deterioration of any of these conditions can adversely affect our consumer and commercial businesses and securities portfolios, our level of charge-offs and provision for credit losses, our capital levels and liquidity, and our results of operations.

More specifically, the U.S. economy has generally strengthened and growth in economic activity in our geographic area has increased to a moderate pace over recent periods. As a lending institution, our business is directly affected by the ability of our borrowers to repay their loans, as well as by the value of collateral, such as real estate, that secures many of our loans. Any economic deterioration from current levels or slowing of current economic activity could lead to an increase in loan charge-offs and negatively affect consumer confidence as well as the level of business activity. Net charge-offs, excluding covered loans, increased to $19.7 million in 2018 from $15.0 million in 2017. Our balance of non-performing loans and other real estate owned (“OREO”) was $113.2 million and $24.8 million, respectively, at December 31, 2018 compared to $90.2 million and $40.6 million, respectively, at December 31, 2017. Deterioration in the economy, real estate markets or increased unemployment rates, particularly in the markets in which we operate, will likely diminish the ability of our borrowers to repay loans that we have made to them, the value of any collateral securing such loans and may cause increases in delinquencies, problem assets, charge-offs and provision for credit losses, all of which could materially adversely affect our financial condition and results of operations. Further, the underwriting and credit monitoring policies and procedures that we have adopted may not prevent losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Since our business is concentrated in the Chicago metropolitan and southern Wisconsin market areas, economic declines in the economy of this region could adversely affect our business.

Except for our premium finance business and certain other niche businesses, our success depends primarily on the general economic conditions of the specific local markets in which we operate. Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services to customers primarily in the Chicago metropolitan and southern Wisconsin market areas. The local economic conditions in these areas significantly impact the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources. Specifically, many of the loans in our portfolio are secured by real estate located in the Chicago metropolitan area. Any declines in economic conditions, including inflation, recession, unemployment, changes in securities markets or other factors impacting these local markets could, in turn, have a material adverse effect on our financial condition and results of operations. Deterioration in the real estate markets where collateral for our mortgage loans is located could adversely affect the borrower's ability to repay the loan and the value of the collateral securing the loan, and in turn the value of our assets.

In addition, the State of Illinois has experienced significant financial difficulty in recent years. To the extent that these issues impact the economic vitality of the state and the businesses operating in Illinois, businesses may be encouraged to leave the state or new employers may be discouraged to start or move businesses to Illinois, which could have a material adverse effect on our financial condition and results of operations.

Changes in U.S. trade policies, including the imposition of tariffs and retaliatory tariffs, may adversely impact our business, financial condition and results of operations.

Following the U.S. presidential election in 2016, there has been discussion and dialogue regarding potential changes to U.S. trade policies, legislation, treaties and tariffs, including trade policies and tariffs affecting other countries, including China, the European Union, Canada and Mexico and retaliatory tariffs by such countries. Tariffs and retaliatory tariffs have been imposed, and additional tariffs and retaliatory tariffs have been proposed. Such tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export could cause the prices of our customers' products to increase, which could reduce demand for such products, or reduce our customers' margins, and adversely impact their revenues, financial results and ability to service debt. This in turn, could adversely affect our financial condition and results of operations. In addition, to the extent changes in the political environment have a negative impact on us or on the markets in which we operate our business, results of operations and financial condition could be materially and adversely impacted in the future. It remains unclear what the U.S. government or foreign governments will or will not do with respect to tariffs already imposed, additional tariffs that may be imposed, or international trade agreements and policies.

On October 1, 2018, the United States, Canada and Mexico agreed to a new trade deal, the United States-Mexico-Canada Agreement ("USMCA") to replace the North American Free Trade Agreement. The USMCA is subject to congressional approval and various components of the USMCA are not effective until 2020. The full impact of the USMCA on us, our customers and on the economic conditions in the markets in which we operate is currently unknown. Changes to the terms upon which the United States, Mexico and Canada trade could negatively affect our customers or the U.S. economy or certain sectors thereof and, thus, adversely impact our business, financial condition and results of operations.

If our allowance for loan losses is not sufficient to absorb losses that may occur in our loan portfolio, our financial condition and liquidity could suffer.

We maintain an allowance for loan losses that is intended to absorb credit losses that we expect to incur in our loan portfolio. At each balance sheet date, our management determines the amount of the allowance for loan losses based on our estimate of probable and reasonably estimable losses in our loan portfolio, taking into account probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified.

Because our allowance for loan losses represents an estimate of inherent losses, there is no certainty that it will be adequate over time to cover credit losses in the portfolio, particularly if there is deterioration in general economic or market conditions or events that adversely affect specific customers. In 2018, we charged off $19.7 million in loans (net of recoveries) and increased our allowance for loan losses from $137.9 million at December 31, 2017 to $152.8 million at December 31, 2018. The increase in allowance in 2018 was primarily the result of higher impaired loans requiring specific reserves and significant loan growth during the period. Our allowance for loan losses represents 0.64% of total loans outstanding at December 31, 2018 and 2017. The Company's future adoption of Accounting Standards Update No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," may result in an increase in the allowance for loan losses and related coverage ratios at the time of adoption regardless of changes in the economy and the related ability of borrowers to repay their loans. Such accounting rules are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted.

Although we believe our loan loss allowance is adequate to absorb reasonably estimable losses in our loan portfolio, if our estimates are inaccurate and our actual loan losses exceed the amount that is anticipated, or if the loss assumptions we used in calculating our reserves are significantly different from those we actually experience, our financial condition and liquidity could be materially adversely affected.

For more information regarding our allowance for loan losses, see “Loan Portfolio and Asset Quality” under Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

A significant portion of our loan portfolio is comprised of commercial loans, the repayment of which is largely dependent upon the financial success and economic viability of the borrower.

The repayment of our commercial loans is dependent upon the financial success and viability of the borrower. If the economy weakens for a prolonged period or experiences deterioration or if the industry or market in which the borrower operates weakens, our borrowers may experience depressed or dramatic and sudden decreases in revenues that could hinder their ability to repay their loans. Our commercial loan portfolio totaled $7.8 billion or 33% of our total loan portfolio, at December 31, 2018, compared to $6.8 billion, or 31% of our total loan portfolio, at December 31, 2017.

Commercial loans are secured by different types of collateral related to the underlying business, such as accounts receivable, inventory and equipment. Should a commercial loan require us to foreclose on the underlying collateral, the unique nature of the collateral may make it more difficult and costly to liquidate, thereby increasing the risk to us of not recovering the principal amount of the loan. Accordingly, our business, results of operations and financial condition may be materially adversely affected by defaults in this portfolio.

A substantial portion of our loan portfolio is secured by real estate, in particular commercial real estate. Deterioration in the real estate markets could lead to additional losses, which could have a material adverse effect on our financial condition and results of operations.

As of both December 31, 2018 and 2017, approximately 37% and 39%, respectively, of our total loan portfolio was secured by real estate, the majority of which is commercial real estate. The commercial and residential real estate market continues to experience a variety of difficulties, including the Chicago metropolitan area and southern Wisconsin, in which a majority of our real estate loans are concentrated. Increases in commercial and consumer delinquency levels or declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations.

Any inaccurate assumptions in our analytical and forecasting models could cause us to miscalculate our projected revenue, capital, liquidity or losses, which could adversely affect our financial condition.

We use analytical and forecasting models to estimate the effects of economic conditions on our loan portfolio and probable loan performance. Those models reflect certain assumptions about market forces, including interest rates and consumer behavior that may be incorrect. If our analytical and forecasting models' underlying assumptions are incorrect, improperly applied, or otherwise inadequate, we may suffer deleterious effects such as higher than expected loan losses, lower than expected net interest income, lower than expected liquidity, lower than expected capital or unanticipated charge-offs, any of which could have a material adverse effect on our business, financial condition and results of operations.

Changes in prevailing interest rates could adversely affect our net interest income, which is our largest source of income.

We are exposed to interest rate risk in its core banking activities of lending and deposit taking, since changes in prevailing interest rates affect the value of our assets and liabilities. Such changes may adversely affect our net interest income, which is the difference between interest income and interest expense. Our net interest income is affected by the fact that assets and liabilities reprice at different times and by different amounts as interest rates change. Net interest income represents our largest component of net income, and was $964.9 million and $832.1 million for the years ended December 31, 2018 and 2017, respectively.

Each of our businesses may be affected differently by a given change in interest rates. For example, we expect that the results of our mortgage banking business in selling loans into the secondary market would be negatively impacted during periods of rising interest rates, whereas falling interest rates could have a negative impact on the net interest spread earned on deposits as we would be unable to lower the rates on many interest bearing deposit accounts of our customers to the same extent as many of our higher yielding asset classes.

Additionally, increases in interest rates may adversely influence the growth rate of loans and deposits, the quality of our loan portfolio, loan and deposit pricing, the volume of loan originations in our mortgage banking business and the value that we can recognize on the sale of mortgage loans in the secondary market.

After a prolonged period of low and relatively stable interest rates, interest rates rose over the course of 2017 and 2018, although interest rates continue to remain low by historical standards.

We seek to mitigate our interest rate risk through several strategies, which may not be successful. With the relatively low interest rates that prevailed in recent years, we were able to augment the total return of our investment securities portfolio by selling call options on fixed-income securities that we own. We recorded fee income of approximately $3.5 million, $4.4 million and $11.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. We also mitigate our interest rate risk by entering into interest rate swaps and other interest rate derivative contracts from time to time with counterparties. To the extent that the market value of any derivative contract moves to a negative market value, we are subject to loss if the counterparty defaults. In the future, there can be no assurance that such mitigation strategies will be available or successful or that we will be successful in implementing any new mitigation strategies necessary to address the current rising interest rate environment. In addition, transactions entered into as part of mitigation strategies employed to mitigate risks associated with a prolonged low interest rate environment could be less beneficial or result in losses if interest rates continue to rise.

Our liquidity position may be negatively impacted if economic conditions do not continue to improve or if they decline.

Liquidity is a measure of whether our cash flows and liquid assets are sufficient to satisfy current and future financial obligations, such as demand for loans, deposit withdrawals and operating costs. Our liquidity position is affected by a number of factors, including the amount of cash and other liquid assets on hand, payment of interest and dividends on debt and equity instruments that we have issued, capital we inject into our bank subsidiaries, proceeds we raise through the issuance of securities, our ability to draw upon our revolving credit facility and dividends received from our banking subsidiaries. Our future liquidity position may be adversely affected by multiple factors, including:

- if our banking subsidiaries report net losses or their earnings are weak relative to our cash flow needs;
- if it is necessary for us to make capital injections to our banking subsidiaries;
- if changes in regulations require us to maintain a greater level of capital, as more fully described below;
- if we are unable to access our revolving credit facility due to a failure to satisfy financial and other covenants; or
- if we are unable to raise additional capital on terms that are satisfactory to us.

Weakness or worsening of the economy, real estate markets or unemployment levels may increase the likelihood that one or more of these events will occur. If our liquidity is adversely affected, it may have a material adverse effect on our business, results of operations and financial condition.

The financial services industry is very competitive, and if we are not able to compete effectively, we may lose market share and our business could suffer.

We face competition in attracting and retaining deposits, making loans, and providing other financial services (including wealth management services) throughout our market area. Our competitors include national, regional and other community banks, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies, factoring companies and other non-bank financial companies such as marketplace lenders and other financial technology ("FinTech") companies. Many of these competitors have substantially greater resources and market presence or more advanced technology than Wintrust and, as a result of their size, may be able to offer a broader range of products and services, better pricing for those products and services, or newer technologies to deliver those products and services than we can. Several of our local competitors have experienced improvements in their financial condition over the past few years and are better positioned to compete for loans, acquisitions and personnel. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. For example, the Economic Growth Act and, if adopted, certain proposed implementing regulations significantly reduce the regulatory burden of certain large BHCs and raise the asset thresholds at which more onerous requirements apply, which could cause certain large BHCs to become more competitive or to more aggressively pursue expansion. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as mobile payment and other automatic transfer and payment systems, and for banks that do not have a physical presence in our markets to compete for deposits. The absence of regulatory requirements may give non-bank financial companies a competitive advantage over Wintrust.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service and high ethical standards;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the ability to expand our market position;

- the ability to uphold our reputation in the marketplace;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

If we are unable to compete effectively, we will lose market share and income from deposits, loans and other products may be reduced. This could adversely affect our profitability and have a material adverse effect on our business, financial condition and results of operations.

If we are unable to continue to identify favorable acquisitions or successfully integrate our acquisitions, our growth may be limited and our results of operations could suffer.

In the past several years, we have completed numerous acquisitions of banks, other financial service related companies and financial service related assets, including acquisitions of troubled financial institutions, as more fully described below. We expect to continue to make such acquisitions in the future. Wintrust seeks merger or acquisition partners that are culturally similar, have experienced management, possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Failure to successfully identify and complete acquisitions likely will result in Wintrust achieving slower growth.

The Economic Growth Act could result in increased competition for merger or acquisition partners, potentially resulting in higher acquisition prices or an inability to complete desired acquisitions. Acquiring other banks, businesses or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities or asset quality issues of the target company;
- failure to adequately estimate the level of loan losses at the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to our business, including diversion of our management's time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of Wintrust's tangible book value and net income per common share may occur as a result of any future acquisitions. In addition, certain acquisitions may expose us to additional regulatory risks, including from foreign governments. Our ability to comply with any such regulations will impact the success of any such acquisitions. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

Our participation in FDIC-assisted acquisitions may present additional risks to our financial condition and results of operations.

As part of our growth strategy, we have made opportunistic partial acquisitions of troubled financial institutions in transactions facilitated by the FDIC through our bank subsidiaries. These acquisitions, and any future FDIC-assisted transactions we may undertake, involve greater risk than traditional acquisitions because they are typically conducted on an accelerated basis, allowing less time for us to prepare for and evaluate possible transactions, or to prepare for integration of an acquired institution. These transactions also present risks of customer loss, strain on management resources related to collection and management of problem loans and problems related to the integration of operations and personnel of the acquired financial institutions. As a result, there can be no assurance that we will be able to successfully integrate the financial institutions we acquire, or that we will realize the anticipated benefits of the acquisitions. Additionally, while the FDIC may agree to assume certain losses in transactions that it facilitates, there can be no assurances that we would not be required to raise additional capital as a condition to, or as a result of, participation in an FDIC-assisted transaction. Any such transactions and related issuances of stock may have dilutive effect on earnings per share. Furthermore, we may face competition from other financial institutions with respect to proposed FDIC-assisted transactions.

We may also be subject to certain risks relating to any future loss sharing agreements with the FDIC. Under a loss sharing agreement, the FDIC generally agrees to reimburse the acquiring bank for a portion of any losses relating to covered assets of the acquired financial institution. This was an important financial term of any FDIC-assisted transaction, as troubled financial institutions often have poorer asset quality. As a condition to reimbursement, however, the FDIC requires the acquiring bank to follow certain servicing procedures. A failure to follow servicing procedures or any other breach of a loss sharing agreement by us would result in the loss of FDIC reimbursement. In addition, reimbursable losses and recoveries under loss sharing agreements are based on the book value of the relevant loans and other assets as determined by the FDIC as of the effective dates of the acquisitions. The amount that the acquiring banks realizes on these assets could differ materially from the carrying value reflected in our financial statements, based upon the timing and amount of collections on the covered loans. Any failure to receive reimbursement, or any material differences between the amount of reimbursements that we receive and the carrying value reflected in our financial statements, would have a material negative effect on our financial condition and results of operations.

Damage to our reputation may harm our business.

Maintaining trust in the Company is critical to our ability to attract and maintain customers, investors and employees. If our reputation is damaged, our business could be significantly harmed. Harm to our reputation could arise from numerous sources, including, among others, employee misconduct, security breaches, compliance failures, litigation or regulatory outcomes or governmental investigations. Our reputation could also be harmed by the failure or perceived failure of an affiliate or a vendor or other third party with which we do business, to comply with laws or regulations. In addition, our reputation or prospects could be significantly damaged by adverse publicity or negative information regarding the Company, whether or not true, that may be posted on social media, non-mainstream news services or other parts of the internet, and this risk can be magnified by the speed and pervasiveness with which information is disseminated through those channels.

Actions by the financial services industry generally or by certain members of or individuals in the industry can also affect our reputation. For example, the role played by financial services firms during and after the financial crisis, including concerns that consumers have been treated unfairly by financial institutions or that a financial institution had acted inappropriately with respect to the methods employed in offering products to customers, have damaged the reputation of the industry as a whole.

Should any of these or other events or factors that can undermine our reputation occur, there is no assurance that the additional costs and expenses that we may need to incur to address the issues giving rise to the damage to our reputation would not adversely affect our earnings and results of operations, or that damage to our reputation will not impair our ability to retain our existing customers and employees or attract new customers and employees. Harm to our reputation or the reputation of our industry may also result in greater regulatory or legislative scrutiny, which may lead to changes in laws or regulations that could constrain our business or operations. Events that result in damage to our reputation may also increase our litigation risk.

An actual or perceived reduction in our financial strength may cause others to reduce or cease doing business with us, which could result in a decrease in our net interest income and fee revenues.

Our customers rely upon our financial strength and stability and evaluate the risks of doing business with us. If we experience diminished financial strength or stability, actual or perceived, including due to market or regulatory developments, announced or rumored business developments or results of operations, or a decline in stock price, customers may withdraw their deposits or otherwise seek services from other banking institutions and prospective customers may select other service providers. The risk that we may be perceived as less creditworthy relative to other market participants is increased in the current market environment, where the consolidation of financial institutions, including major global financial institutions, is resulting in a smaller number of much larger counterparties and competitors. As our community banks become more closely identified with the Wintrust name, the impact of any perceived weakness or creditworthiness at either the holding company or our community banks may be greater than in prior periods. If customers reduce their deposits with us or select other service providers for all or a portion of the services that we provide them, net interest income and fee revenues will decrease accordingly, and could have a material adverse effect on our results of operations.

If our credit rating is lowered, our financing costs could increase.

We have been rated by Fitch Ratings as "BBB+" and DBRS as "A (low)". A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

Our creditworthiness is not fixed and should be expected to change over time as a result of company performance and industry conditions. We cannot give any assurances that our credit ratings will remain at current levels, and it is possible that our ratings could be lowered or withdrawn by Fitch Ratings or DBRS. Any actual or threatened downgrade or withdrawal of our credit rating could affect our perception in the marketplace and our ability to raise capital, and could increase our debt financing costs.

If our growth requires us to raise additional capital, that capital may not be available when it is needed or the cost of that capital may be very high.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations (see “ - Risks Related to Our Regulatory Environment - If we fail to meet our regulatory capital ratios, we may be forced to raise capital or sell assets”) and as we grow, internally and through acquisitions, the amount of capital required to support our operations grows as well. We may need to raise additional capital to support continued growth both internally and through acquisitions. Any capital we obtain may result in the dilution of the interests of existing holders of our common stock.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time which are outside our control and on our financial condition and performance. If we cannot raise additional capital when needed, or on terms acceptable to us, our ability to further expand our operations through internal growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and negatively affected.

Disruption in the financial markets could result in lower fair values for our investment securities portfolio.

The Company's available-for-sale debt and trading securities as well as certain equity securities are carried at fair value.

Accounting standards require the Company to categorize these securities according to a fair value hierarchy. As of December 31, 2018, approximately 95% of the Company's available-for-sale debt securities and equity securities with a readily determinable fair value were categorized in level 1 or 2 of the fair value hierarchy (meaning that their fair values were determined by unadjusted quoted prices in active markets for identical assets, quoted prices for similar assets or other observable inputs). Significant prolonged reduced investor demand could manifest itself in lower fair values for these securities and may result in recognition of an other-than-temporary or permanent impairment of available-for-sale debt securities and unrealized losses of equity securities with a readily determinable fair value recognized in earnings, which could lead to accounting charges and have a material adverse effect on the Company's financial condition and results of operations.

The remaining securities in our available-for-sale debt securities and equity securities with a readily determinable fair value portfolios were categorized as level 3 (meaning that their fair values were determined by inputs that are unobservable in the market and therefore require a greater degree of management judgment). The determination of fair value for securities categorized in level 3 involves significant judgment due to the complexity of factors contributing to the valuation, many of which are not readily observable in the market. In addition, the nature of the business of the third party source that is valuing the securities at any given time could impact the valuation of the securities. Consequently, the ultimate sales price for any of these securities could vary significantly from the recorded fair value at December 31, 2018, especially if the security is sold during a period of illiquidity or market disruption or as part of a large block of securities under a forced transaction.

There can be no assurance that decline in market value of available-for-sale debt securities and equity securities with a readily determinable fair value associated with these disruptions will not result in other-than-temporary or permanent impairments, and unrealized losses, respectively, of these assets, which would lead to accounting charges which could have a material negative effect on our business, financial condition and results of operations.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal controls over financial reporting, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

New lines of business and new products and services are essential to our ability to compete but may subject us to additional risks.

We continually implement new lines of business and offer new products and services within existing lines of business to offer our customers a competitive array of products and services. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services, such as the rapid adoption of mobile payment platforms. The effective use of technology can increase efficiency and enable financial institutions to better serve customers and to reduce costs. However, some new technologies needed to compete effectively result in incremental operating costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in operations. Many of our competitors, because of their larger size and available capital, have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could cause a loss of customers and have a material adverse effect on our business.

At the same time, there can be substantial risks and uncertainties associated with these efforts, particularly in instances where the markets for such services are still developing. In developing and marketing new lines of business and/or new products or services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition, and results of operations.

Our operational or security systems or infrastructure, or those of third parties, could fail or be breached, which could disrupt our business and adversely impact our results of operations, liquidity and financial condition, as well as cause legal or reputational harm.

The potential for operational risk exposure exists throughout our business and, as a result of our interactions with, and reliance on, third parties, is not limited to our own internal operational functions. Our operational and security systems and infrastructure, including our computer systems, data management, and internal processes, as well as those of third parties, are integral to our performance. We rely on our employees and third parties in our day-to-day and ongoing operations, who may, as a result of human error, misconduct, malfeasance or failure, or breach of our or of third-party systems or infrastructure, expose us to risk. For example, our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact or upon whom we rely. In addition, our ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with respect to our own systems. Our financial, accounting, data processing, backup or other operating or security systems and infrastructure may fail to operate properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, which could adversely affect our ability to process transactions or provide services. Such events may include sudden increases in customer transaction volume; electrical, telecommunications or other major physical infrastructure outages; natural disasters such as earthquakes, tornadoes, hurricanes and floods; disease pandemics; and events arising from local or larger scale political or social matters, including wars and terrorist acts. In addition, we may need to take our systems offline if they become infected with malware or a computer virus or as a result of another form of cyber-attack. In the event that backup systems are utilized, they may not process data as quickly as our primary systems and some data might not have been saved to backup systems, potentially resulting in a temporary or permanent loss of such data. We frequently update our systems to support our operations and growth and to remain compliant with all applicable laws, rules and regulations. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones, including business interruptions. Implementation and testing of controls related to our computer systems, security monitoring and retaining and training personnel required to operate our systems also entail significant costs. Operational risk exposures could adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption.

We face security risks, including denial of service attacks, hacking, social engineering attacks targeting our colleagues and customers, malware intrusion and data corruption attempts, in addition to the resulting identity theft that could result in the disclosure of confidential information, all of which could adversely affect our business or reputation, and create significant legal and financial exposure.

Our computer systems and network infrastructure and those of third parties, on which we are highly dependent, are subject to security risks and could be susceptible to cyberattacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Our business relies on the secure processing, transmission, storage and retrieval of confidential, personal, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access our network, products and services, our customers and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cybersecurity risks.

We, our customers, regulators and other third parties, including other financial services institutions and companies engaged in data processing, have been subject to, and are likely to continue to be the target of, cyber-attacks. These cyber-attacks include computer viruses, malicious or destructive code, phishing attacks, denial of service or information, ransomware, improper access by employees or vendors, attacks on personal email of employees, ransom demands to not expose security vulnerabilities in our systems or the systems of third parties or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of ours, our employees, our customers or of third parties, damage to our systems or other material disruption of our or our customers' or other third parties' network access or business operations. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Despite efforts to ensure the integrity of our systems and implement controls, processes, policies and other protective measures, we may not be able to anticipate all security breaches, nor may we be able to implement guaranteed preventive measures against such security breaches. Cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks and could be held liable for any security breach or loss.

Cybersecurity risks for banking organizations have significantly increased in recent years in part because of the proliferation of new technologies, and the use of the internet and telecommunications technologies to conduct financial transactions. For example, cybersecurity risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expand our internal usage of web-based products and applications. In addition, cybersecurity risks have significantly increased in recent years in part due to the increased sophistication and activities of organized crime affiliates, terrorist organizations, hostile foreign governments, disgruntled employees or vendors, activists and other external parties, including those involved in corporate espionage. Even the most advanced internal control environment may be vulnerable to compromise. Targeted social engineering attacks and "spear phishing" attacks are becoming more sophisticated and are extremely difficult to prevent. In such an attack, an attacker will attempt to fraudulently induce colleagues, customers or other users of our systems to disclose sensitive information in order to gain access to its data or that of its clients. Persistent attackers may succeed in penetrating defenses given enough resources, time, and motive. The techniques used by cyber criminals change frequently, may not be recognized until launched or until well after a breach has occurred. The risk of a security breach caused by a cyber-attack at a vendor or by unauthorized vendor access has also increased in recent years. Additionally, the existence of cyber-attacks or security breaches at third-party vendors with access to our data may not be disclosed to us in a timely manner.

We also face indirect technology, cybersecurity and operational risks relating to the customers, clients and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities, including, for example, financial counterparties, regulators and providers of critical infrastructure such as internet access and electrical power. As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure, cyber-attack or other information or security breach that significantly degrades, deletes or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. This consolidation, interconnectivity and complexity increases the risk of operational failure, on both individual and industry-wide bases, as disparate systems need to be integrated, often on an accelerated basis. Any third-party technology failure, cyber-attack or other information or security breach, termination or constraint could, among other things, adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our business.

Cyber-attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have material consequences. Furthermore, the public perception that a cyber-attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom we do business. Hacking of personal information and identity theft risks, in particular, could cause serious reputational harm. A successful penetration or circumvention of system security could cause us serious negative consequences, including our loss of customers and business opportunities, significant disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our or our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, remediation costs, additional compliance costs, and could adversely impact our results of operations, liquidity and financial condition.

Our vendors may be responsible for failures that adversely affect our operations.

We use and rely upon many external vendors to provide us with day-to-day products and services essential to our operations. We are thus exposed to risk that such vendors will not perform as contracted or at agreed-upon service levels. The failure of our vendors to perform as contracted or at necessary service levels for any reason could disrupt our operations, which could adversely affect our business. In addition, if any of our vendors experience insolvency or other business failure, such failure could affect our ability to obtain necessary products or services from a substitute vendor in a timely and cost-effective manner or prevent us from effectively pursuing certain business objectives entirely. Our failure to implement business objectives due to vendor nonperformance could adversely affect our financial condition and results of operations.

We issue debit cards, and debit card transactions pose a particular cybersecurity risk that is outside of our control.

Debit card numbers are susceptible to theft at the point of sale via the physical terminal through which transactions are processed and by other means of hacking. The security and integrity of these transactions are dependent upon retailers' vigilance and willingness to invest in technology and upgrades. Despite third-party security risks that are beyond our control, we offer our customers protection against fraud and attendant losses for unauthorized use of debit cards in order to stay competitive in the marketplace. Offering such protection to our customers exposes us to potential losses which, in the event of a data breach at one or more retailers of considerable magnitude, may adversely affect our business, financial condition, and results of operations.

We depend on the accuracy and completeness of information we receive about our customers and counterparties to make credit decisions.

We rely on information furnished by or on behalf of customers and counterparties in deciding whether to extend credit or enter into other transactions. This information could include financial statements, credit reports, and other financial information. We also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other financial information could have a material adverse impact on our business, financial condition and results of operations.

If we are unable to attract and retain experienced and qualified personnel, our ability to provide high quality service will be diminished, we may lose key customer relationships, and our results of operations may suffer.

We believe that our future success depends, in part, on our ability to attract and retain experienced personnel, including our senior management and other key personnel. Our business model is dependent upon our ability to provide high quality and personal service. In addition, as a holding company that conducts its operations through our subsidiaries, we are focused on providing entrepreneurial-based compensation to the chief executives of each our business units. As a Company with start-up and growth oriented operations, we are cognizant that to attract and retain the managerial talent necessary to operate and grow our businesses we often have to compensate our executives with a view to the business we expect them to manage, rather than the size of the business they currently manage. Accordingly, any executive compensation restrictions may negatively impact our ability to retain and attract senior management. The departure of a senior manager or other key personnel may damage relationships with certain customers, or certain customers may choose to follow such personnel to a competitor. The loss of any of our senior managers or other key personnel, or our inability to identify, recruit and retain such personnel, could materially and adversely affect our business, results of operations and financial condition.

We are subject to environmental liability risk associated with lending activities.

A significant portion of the Company's loan portfolio is secured by real property. In the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. In addition, we own and operate a number of properties that may be subject to similar environmental liability risks.

Environmental laws may require the Company to incur substantial expenses and could materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. The costs associated with investigation and remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's business, financial condition and results of operations.

We are subject to claims and legal actions which could negatively affect our results of operations or financial condition.

Periodically, as a result of our normal course of business, we are involved in claims and related litigation from our customers, employees or other parties. These claims and legal actions, whether meritorious or not, as well as reviews, investigations and proceedings by governmental and self-regulatory agencies could involve large monetary claims and significant legal expense. In addition, such actions may negatively impact our reputation in the marketplace and lessen customer demand. If such claims and legal actions are not decided in Wintrust's favor, our results of operations and financial condition could be adversely impacted.

Losses incurred in connection with actual or projected repurchases and indemnification payments related to mortgages that we have sold into the secondary market may exceed our financial statement reserves and we may be required to increase such reserves in the future. Increases to our reserves and losses incurred in connection with actual loan repurchases and indemnification payments could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We engage in the origination and purchase of residential mortgages for sale into the secondary market. In connection with such sales, we make certain representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. Due, in part, to increased mortgage payment delinquency rates and declining housing prices during the post 2007 period, we have been receiving such requests for loan repurchases and indemnification payments relating to the representations and warranties with respect to such loans. We have been able to reach settlements with a number of purchasers, and believe that we have established appropriate reserves with respect to indemnification requests. It is possible that the number of such requests will increase or that we will not be able to reach settlements with respect to such requests in the future. Accordingly, it is possible that losses incurred in connection with loan repurchases and indemnification payments may be in excess of our financial statement reserves, and we may be required to increase such reserves and may sustain additional losses associated with such loan repurchases and indemnification payments in the future. Increases to our reserves and losses incurred by us in connection with actual loan repurchases and indemnification payments in excess of our reserves could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Consumers may decide not to use banks to complete their financial transactions, which could adversely affect our business and results of operations.

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely impacted by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including the Federal Home Loan Bank (“FHLB”), commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk as well as market and liquidity risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount due to us. Any such losses could have material adverse effect on our business, financial condition and results of operations.

De novo operations often involve significant expenses and delayed returns and may negatively impact Wintrust's profitability.

Our financial results have been and will continue to be impacted by our strategy of branch openings and de novo bank formations. We expect to increase the opening of additional branches as market conditions improve and, if the interest rate environment and economic climate and regulatory conditions become favorable, may resume de novo bank formations. It may take longer than expected or more than the amount of time Wintrust has historically experienced for new banks and/or banking facilities to reach profitability, and there can be no guarantee that these branches or banks will ever be profitable. Moreover, the FDIC's enhanced supervisory period for de novo banks of three years, including higher capital requirements during this period, could also delay a new bank's ability to contribute to the Company's earnings and impact the Company's willingness to expand through de novo bank formation. To the extent we undertake additional de novo bank, branch and business formations, our level of reported net income, return on average equity and return on average assets will be impacted by startup costs associated with such operations, and it is likely to continue to experience the effects of higher expenses relative to operating income from the new operations. These expenses may be higher than we expected or than our experience has shown, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to examinations and challenges by tax authorities that may impact our financial results.

In the normal course of business, we, as well as our subsidiaries, are routinely subject to examinations from federal and state tax authorities regarding the amount of taxes due in connection with investments we have made and the businesses in which we have engaged. Recently, federal and state tax authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to among other things tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in our favor, they could have a material adverse effect on our financial condition and results of operations.

Changes in federal and state tax laws and changes in interpretation of existing laws can impact our financial results

The federal government enacted the Tax Act on December 22, 2017, and given the current economic and political environment and ongoing budgetary pressures, the enactment of further new federal or state tax legislation may occur. The enactment of such legislation, or changes in the interpretation of existing law, including provisions impacting tax rates, apportionment, consolidation or combination, income, expenses, credits and exemptions may have a material adverse effect on our business, financial condition and results of operations.

Changes in accounting policies or accounting standards could materially adversely affect how we report our financial results and financial condition.

Our accounting policies are fundamental to understanding our financial results and financial condition. Some of these policies require use of estimates and assumptions that affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses. From time to time, the FASB and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes, such as the new CECL standard discussed above, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

We are a bank holding company, and our sources of funds, including to pay dividends, are limited.

We are a bank holding company and our operations are primarily conducted by and through our 15 operating banks, which are subject to significant federal and state regulation. Cash available to pay dividends to our shareholders, repurchase our shares or repay our indebtedness is derived primarily from dividends received from our banks and our ability to receive dividends from our subsidiaries is restricted. Various statutory provisions restrict the amount of dividends our banks can pay to us without regulatory approval. The banks may not pay cash dividends if that payment could reduce the amount of their capital below that necessary to meet the "adequately capitalized" level in accordance with regulatory capital requirements. It is also possible that, depending upon the financial condition of the banks and other factors, regulatory authorities could conclude that payment of dividends or other payments, including payments to us, is an unsafe or unsound practice and impose restrictions or prohibit such payments. Our inability to receive dividends from our banks could adversely affect our business, financial condition and results of operations.

Anti-takeover provisions could negatively impact our shareholders.

Certain provisions of our articles of incorporation, by-laws and Illinois law may have the effect of impeding the acquisition of control of Wintrust by means of a tender offer, a proxy fight, open-market purchases or otherwise in a transaction not approved by our board of directors. For example, our board of directors may issue additional authorized shares of our capital stock to deter future attempts to gain control of Wintrust, including the authority to determine the terms of any one or more series of preferred stock, such as voting rights, conversion rates and liquidation preferences. As a result of the ability to fix voting rights for a series of preferred stock, the board has the power, to the extent consistent with its fiduciary duty, to issue a series of preferred stock to persons friendly to management in order to attempt to block a merger or other transaction by which a third party seeks control, and thereby assist the incumbent board of directors and management to retain their respective positions. In addition, our articles of incorporation expressly elect to be governed by the provisions of Section 7.85 of the Illinois Business Corporation Act, which would make it more difficult for another party to acquire us without the approval of our board of directors.

The ability of a third party to acquire us is also limited under applicable banking regulations. The BHC Act requires any "bank holding company" (as defined in the BHC Act) to obtain the approval of the Federal Reserve prior to acquiring more than 5% of our outstanding common stock. Any person other than a bank holding company is required to obtain prior approval of the Federal Reserve to acquire 10% or more of our outstanding common stock under the Change in Bank Control Act of 1978. Any holder of 25% or more of our outstanding common stock, other than an individual, is subject to regulation as a "bank holding company" under the BHC Act. For purposes of calculating ownership thresholds under these banking regulations, bank regulators would likely at least take the position that the minimum number of shares, and could take the position that the maximum number of shares, of Wintrust common stock that a holder is entitled to receive pursuant to securities convertible into or settled in Wintrust common stock, including pursuant to Wintrust's warrants to purchase Wintrust common stock held by such holder, must be taken into account in calculating a shareholder's aggregate holdings of Wintrust common stock.

These provisions may have the effect of discouraging a future takeover attempt that is not approved by our board of directors but which our individual shareholders may deem to be in their best interests or in which our shareholders may receive a substantial premium for their shares over then-current market prices. As a result, shareholders who might desire to participate in such a transaction may not have an opportunity to do so. Such provisions will also render the removal of our current board of directors or management more difficult.

Uncertainty about the future of LIBOR may adversely affect our business.

On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is currently impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere.

On April 3, 2018, the Federal Reserve Bank of New York commenced publication of three reference rates based on overnight U.S. Treasury repurchase agreement transactions, including the Secured Overnight Financing Rate ("SOFR"), which has been recommended as an alternative to U.S. dollar LIBOR by the Alternative Reference Rates Committee. Further, the Bank of England has commenced publication of a reformed Sterling Overnight Index Average ("reformed SONIA"), comprised of a broader set of overnight Sterling money market transactions, as of April 23, 2018. Reformed SONIA has been recommended as the alternative to Sterling LIBOR by the Working Group on Sterling Risk-Free Reference Rates.

At this time, we cannot predict whether SOFR and reformed SONIA will become accepted alternatives to LIBOR or what effect any such alternatives will have on the value of LIBOR-based securities or financial arrangements, including the Company's Series D Preferred Stock or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and other interest rates. In the event that a published LIBOR rate is unavailable after 2021, the dividend rate on the Company's Series D Preferred Stock, which currently is based on the LIBOR rate, will be determined as set forth in the accompanying offering documents, and the value of such securities may be adversely affected. In addition, the transition away from LIBOR could prompt inquiries or other actions from regulators in respect of the Company's preparation and readiness for the replacement of LIBOR with an alternative reference rate, as well as result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based contracts and securities. Currently, the manner and impact of this transition and related developments, as well as the effect of these developments on our funding costs, loan, derivative and investment portfolios, asset-liability management and business, is uncertain.

Risks Related to Our Regulatory Environment

If we fail to meet our regulatory capital ratios, we may be forced to raise capital or sell assets.

As a banking institution, we are subject to regulations that require us to maintain certain capital ratios, such as the ratio of our Tier 1 capital to our risk-based assets, and in recent years these regulatory and market expectations have increased substantially. If our regulatory capital ratios decline, as a result of decreases in the value of our loan portfolio or otherwise, we may be required to improve such ratios by either raising additional capital or by disposing of assets. If we choose to dispose of assets, we cannot be certain that we will be able to do so at prices that we believe to be appropriate, and our future operating results could be negatively affected. If we choose to raise additional capital, we may accomplish this by selling additional shares of common stock, or securities convertible into or exchangeable for common stock, which could significantly dilute the ownership percentage of holders of our common stock and cause the market price of our common stock to decline. Additionally, events or circumstances in the capital markets generally may increase our capital costs and impair our ability to raise capital at any given time.

Changes in the United States' monetary policy may restrict our ability to conduct our business in a profitable manner.

Our ability to profitably operate is dependent, in part, upon federal fiscal policies that cannot be predicted. We are particularly affected by the monetary policies of the Federal Reserve, which influence money supply in the United States. Any change in the United States' monetary policy, or worsening federal budgetary pressures, could affect our access to capital. During the past few years, the Federal Reserve has made two notable changes to U.S. monetary policy. First, following a prolonged period of low and relatively stable interest rates, it has begun to raise interest rates. Second, it has stated its intention to end its quantitative easing program and has begun to reduce the size of its balance sheet by selling securities, which might also affect interest rates. Additionally, any trend toward inflation, economic decline, destabilizing of financial markets, or other factors beyond our control may significantly affect consumer demand for our products and consumers' ability to repay loans, reducing our results of operations.

Legislative and regulatory actions taken now or in the future regarding the financial services industry may significantly increase our costs or limit our ability to conduct our business in a profitable manner.

We are subject to extensive federal and state regulation and supervision. The cost of compliance with such laws and regulations can be substantial and adversely affect our ability to operate profitably. While we are unable to predict the scope or impact of any potential legislation or regulatory action until it becomes final, it is possible that changes in applicable laws, regulations or interpretations thereof could significantly increase our regulatory compliance costs, impede the efficiency of our internal business processes, negatively impact the recoverability of certain of our recorded assets, require us to increase our regulatory capital, interfere with our executive compensation plans, or limit our ability to pursue business opportunities in an efficient manner including our plan for de novo growth and growth through acquisitions.

Both the scope of the laws and regulations and the intensity of the supervision to which our business is subject have increased in recent years, in response to the financial crisis as well as other factors such as technological and market changes. For example, as cybersecurity and data privacy risks for banking organizations and the broader financial system have significantly increased in recent years, cybersecurity and data privacy issues have become the subject of increasing legislative and regulatory focus. For example, in June of 2018, the Governor of California signed into law the CCPA. The CCPA, which becomes effective on January 1, 2020, applies to for-profit businesses that conduct business in California and meet certain revenue or data collection thresholds. For more information regarding data privacy laws and regulations, see "Protection of Client Information" under Supervision and Regulation in Item 1.

Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Act and its implementing regulations, most of which are now in place. While the regulatory environment has entered a period of rebalancing of the post financial crisis framework, we expect that our business will remain subject to extensive regulation and supervision.

On May 24, 2018, the Economic Growth Act was signed into law. Among other regulatory changes, the Economic Growth Act amends various sections of the Dodd-Frank Act, including section 165 of the Dodd-Frank Act, which was revised to raise the asset thresholds for determining the application of enhanced prudential standards for BHCs. The effects of these changes on the Company are expected to be limited because the Company was subject to only limited enhanced prudential standards prior to the Economic Growth Act's enactment. Certain of our competitors, however, will benefit from a more significant reduction in regulatory burdens, and, as a result, may become more competitive or aggressive in pursuing expansion.

Financial reform legislation and increased regulatory rigor around consumer protection mortgage-related issues may reduce our ability to market our products to consumers and may limit our ability to profitably operate our mortgage business.

The CFPB has broad rulemaking authority over a wide range of federal consumer protection laws applicable to the business of our subsidiary banks and some other operating subsidiaries, including the authority to prohibit "unfair, deceptive or abusive" acts and practices, but examination and supervision of our subsidiary banks is carried out by the primary federal banking agency and, where applicable, the state banking agency. Consumer protection is an area of heightened regulatory focus, and the CFPB has promulgated a number of specific regulatory requirements in this area. These rules have increased and may further increase the costs of doing business for all market participants, including our subsidiaries.

In particular, the mortgage-related rules issued by the CFPB have materially restructured the origination, servicing and securitization of residential mortgages in the United States. These rules have impacted, and will continue to impact, the business practices of mortgage lenders, including the Company. For example, in order to ensure compliance with mortgage-related rules issued by the CFPB, the Company consolidated its consumer mortgage loan origination and loan servicing operations within Wintrust Mortgage.

In the wake of the mortgage crisis, the CFPB and federal and state banking agencies are closely examining the mortgage and mortgage servicing activities of depository financial institutions. Should these or other agencies have serious concerns with respect to our operations in this regard, the effect of such concerns could have a material adverse effect on our profits.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. The CFPB has promulgated many mortgage-related rules since it was established under the Dodd-Frank Act, including rules relating to the ability to repay loans and relating to qualified mortgage standards. Most of these mortgage-related rules have been adopted, although portions of certain of these rules have not yet become effective. In addition, several proposed revisions to mortgage-related rules are pending finalization. We may find it necessary to tighten our mortgage loan underwriting standards in response to the CFPB rules, which may constrain our ability to make loans consistent with our business strategies. It is our policy not to make predatory loans and to determine borrowers' ability to repay, but the law and related rules create the potential for increased liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make. In addition, regulation related to redlining, fair lending, CRA compliance and BSA compliance create significant burdens which necessitate increased costs. Any failure to comply with any of these regulations could have a significant impact on our ability to operate, our ability to acquire or open new banks and/or result in meaningful fines.

Regulatory initiatives regarding bank capital requirements may require heightened capital.

Since 2013, the U.S. federal banking authorities have increased most of the required minimum regulatory capital ratios applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than $500 million). The U.S. federal banking authorities also introduced a Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer in addition to changing the definition of capital.

These provisions, as well as other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, have increased our compliance costs, impacted the profitability of our business activities and may change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition and results of operations.

Our ability to engage in capital distributions, including paying dividends or repurchasing stock, may be restricted if we do not maintain the required Capital Conservation Buffer. In addition, we anticipate that our pro forma capital ratios will be an important factor considered by the Federal Reserve in evaluating whether proposed payments of dividends or stock repurchases are consistent with its prudential expectations.

Our FDIC insurance premiums may increase, which could negatively impact our results of operations.

Insured institution failures leading up to and following the financial crisis, as well as deterioration in banking and economic conditions, significantly increased FDIC loss provisions, resulting in a decline of its deposit insurance fund to historical lows at the peak of the crisis. In response, the Dodd-Frank Act and FDIC regulations changed the assessment base for federal deposit insurance from the amount of insured deposits to average total consolidated assets less average tangible capital, eliminated the maximum size of the DIF, eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds, and increased the minimum reserve ratio of the DIF from 1.15% to 1.35%. These developments also caused our FDIC insurance premiums to increase. There is a risk that the banks' deposit insurance premiums will increase in the future if failures of insured depository institutions once again deplete the DIF. Any such increase may negatively impact our financial condition and results of operations.

Non-compliance with the USA PATRIOT Act, BSA or other laws and regulations could result in fines or sanctions.

The USA PATRIOT Act and the BSA require financial institutions to develop programs to prevent financial institutions from being used for money laundering or the funding of terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with FinCEN. These rules require certain financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new accounts. Failure to comply with these regulations could result in fines or sanctions. An increasing number of banking institutions have received large fines for non-compliance with these laws and regulations. Although we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations.

Risks Related to Our Niche Businesses

Our premium finance business may involve a higher risk of delinquency or collection than our other lending operations, and could expose us to losses.

We provide financing for the payment of commercial insurance premiums and life insurance premiums on a national basis through FIRST Insurance Funding and Wintrust Life Finance, respectively, and financing for the payment of commercial insurance premiums in Canada through our wholly-owned subsidiary, FIFC Canada. Commercial insurance premium finance loans involve a different, and possibly higher, risk of delinquency or collection than life insurance premium finance loans and the loan portfolios of our bank subsidiaries because these loans are issued primarily through relationships with a large number of unaffiliated insurance agents and because the borrowers are located nationwide. As a result, risk management and general supervisory oversight may be difficult. As of December 31, 2018, we had $2.8 billion of commercial insurance premium finance loans outstanding, of which $2.5 billion were originated in the U.S. by FIRST Insurance Funding and $337.1 million were originated in Canada by FIFC Canada. Together, these loans represented 12% of our total loan portfolio as of such date.

FIRST Insurance Funding and FIFC Canada may also be more susceptible to third party fraud with respect to commercial insurance premium finance loans because these loans are originated and many times funded through relationships with unaffiliated insurance agents and brokers. In the second quarter of 2010, fraud perpetrated against a number of premium finance companies in the industry, including the property and casualty division of FIRST Insurance Funding, increased both the Company's net charge-offs and provision for credit losses by $15.7 million. Acts of fraud are difficult to detect and deter, and we cannot assure investors that our risk management procedures and controls will prevent losses from fraudulent activity.

Wintrust Life Finance may be exposed to the risk of loss in our life insurance premium finance business because of fraud. While Wintrust Life Finance maintains a policy prohibiting the known financing of stranger-originated life insurance and has established procedures to identify and prevent the company from financing such policies, Wintrust Life Finance cannot be certain that it will never provide loans with respect to such a policy. In the event such policies were financed, a carrier could potentially put at risk the cash surrender value of a policy, which serves as Wintrust Life Finance's primary collateral, by challenging the validity of the insurance contract for lack of an insurable interest.

See the below risk factor “Widespread financial difficulties or credit downgrades among commercial and life insurance providers could lessen the value of the collateral securing our premium finance loans and impair the financial condition and liquidity of FIRST Insurance Funding, Wintrust Life Finance and FIFC Canada” for a discussion of further risks associated with our insurance premium finance activities.

While FIRST Insurance Funding and Wintrust Life Finance are licensed as required and carefully monitors compliance with regulation of each of its businesses, there can be no assurance that either will not be negatively impacted by material changes in the regulatory environment. FIFC Canada is not required to be licensed in most provinces of Canada, but there can be no assurance that future regulations which impact the business of FIFC Canada will not be enacted.

Additionally, to the extent that affiliates of insurance carriers, banks, and other lending institutions add greater service and flexibility to their financing practices in the future, our competitive position and results of operations could be adversely affected. Wintrust Life Finance's life insurance premium finance business could be materially negatively impacted by changes in the federal or state estate tax provisions. There can be no assurance that FIRST Insurance Funding and Wintrust Life Finance will be able to continue to compete successfully in its markets.

Widespread financial difficulties or credit downgrades among commercial and life insurance providers could lessen the value of the collateral securing our premium finance loans and impair the financial condition and liquidity of FIRST Insurance Funding, Wintrust Life Finance and FIFC Canada.

FIRST Insurance Funding, Wintrust Life Finance and FIFC Canada's premium finance loans are primarily secured by the insurance policies financed by the loans. These insurance policies are written by a large number of insurance companies geographically dispersed throughout the country. Our premium finance receivables balances finance insurance policies which are spread among a large number of insurers; however, one of the insurers represents approximately 15% of such balances and two additional insurers represent approximately 6% and 4%, respectively, of such balances. FIRST Insurance Funding, Wintrust Life Finance and FIFC Canada consistently monitor carrier ratings and financial performance of our carriers. While FIRST Insurance Funding, Wintrust Life Finance and FIFC Canada can mitigate its risks as a result of this monitoring to the extent that commercial or life insurance providers experience widespread difficulties or credit downgrades, the value of our collateral will be reduced. FIRST Insurance Funding, Wintrust Life Finance and FIFC Canada are also subject to the possibility of insolvency of insurance carriers in the commercial and life insurance businesses that are in possession of our collateral. If one or more large nationwide insurers were to fail, the value of our portfolio could be significantly negatively impacted. A significant downgrade in the value of the collateral supporting our premium finance business could impair our ability to create liquidity for this business, which, in turn could negatively impact our ability to expand.

Our wealth management business in general, and Wintrust Investments' brokerage operation, in particular, exposes us to certain risks associated with the securities industry.

Our wealth management business in general, and Wintrust Investments' brokerage operations in particular, present special risks not borne by community banks that focus exclusively on community banking. For example, the brokerage industry is subject to fluctuations in the stock market that may have a significant adverse impact on transaction fees, customer activity and investment portfolio gains and losses. Likewise, additional or modified regulations may adversely affect our wealth management operations. Each of our wealth management operations is dependent on a small number of professionals whose departure could result in the loss of a significant number of customer accounts. A significant decline in fees and commissions or trading losses suffered in the investment portfolio could adversely affect our results of operations. In addition, we are subject to claim arbitration risk arising from customers who claim their investments were not suitable or that their portfolios were inappropriately traded. These risks increase when the market, as a whole, declines. The risks associated with retail brokerage may not be supported by the income generated by our wealth management operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's executive offices are located at 9700 W. Higgins Road, Rosemont, Illinois. The Company also leases office locations and retail space at 231 S. LaSalle Street in downtown Chicago and at 731 N. Jackson Street in downtown Milwaukee. The Company's community banking segment operates through 167 banking facilities, the majority of which are owned. The Company owns 222 automatic teller machines, the majority of which are housed at banking locations. The banking facilities are located in communities throughout the Chicago metropolitan area, southern Wisconsin and northwest Indiana. Excess space in certain properties is leased to third parties. Wintrust Mortgage, also of our banking segment, is headquartered in our corporate headquarters in Rosemont, Illinois and has 48 locations in 15 states, all of which are leased, as well as office locations at several of our banks.

The Company's wealth management subsidiaries have two locations in downtown Chicago, one in Appleton, Wisconsin, and one in Tampa Bay, Florida, all of which are leased, as well as office locations at several of our banks. FIRST Insurance Funding and Wintrust Life Finance have one location in Northbrook, Illinois which is owned and locations at 231 S. LaSalle Street in downtown Chicago, Jersey City, New Jersey, Long Island, New York and Newport Beach, California, all of which are leased. FIFC Canada has three locations in Canada that are leased, located in Toronto, Ontario; Wainwright, Alberta; and Vancouver, British Columbia. Wintrust Asset Finance is located in our corporate headquarters in Rosemont, Illinois and has locations in Frisco, Texas, Mishawaka, Indiana, and Irvine, California, all of which are leased. Tricom has one location in Menomonee Falls, Wisconsin which is owned. In addition, the Company owns other real estate acquired for further expansion that, when considered in the aggregate, is not material to the Company's financial position.

ITEM 3. LEGAL PROCEEDINGS

In accordance with applicable accounting principles, the Company establishes an accrued liability for litigation and threatened litigation actions and proceedings when those actions present loss contingencies which are both probable and estimable. In actions for which a loss is reasonably possible in future periods, the Company determines whether it can estimate a loss or range of possible loss. To determine whether a possible loss is estimable, the Company reviews and evaluates its material litigation on an ongoing basis, in conjunction with any outside counsel handling the matter, in light of potentially relevant factual and legal developments. This review may include information learned through the discovery process, rulings on substantive or dispositive motions, and settlement discussions.

On January 15, 2015, Lehman Brothers Holdings, Inc. ("Lehman Holdings") sent a demand letter asserting that Wintrust Mortgage must indemnify it for losses arising from loans sold by Wintrust Mortgage to Lehman Brothers Bank, FSB under a Loan Purchase Agreement between Wintrust Mortgage, as successor to SGB Corporation, and Lehman Brothers Bank. The demand was the precursor for triggering the alternative dispute resolution process mandated by the U.S. Bankruptcy Court for the Southern District of New York. Lehman Holdings triggered the mandatory alternative dispute resolution process on October 16, 2015. On February 3, 2016, following a ruling by the federal Court of Appeals for the Tenth Circuit that was adverse to Lehman Holdings on the statute of limitations that is applicable to similar loan purchase claims, Lehman Holdings filed a complaint against Wintrust Mortgage and 150 other entities from which it had purchased loans in the U.S. Bankruptcy Court for the Southern District of New York. The mandatory mediation was held on March 16, 2016, but did not result in a consensual resolution of the dispute.

The court entered a case management order governing the litigation on November 1, 2016. Lehman Holdings filed an amended complaint against Wintrust Mortgage on December 29, 2016. On March 31, 2017, Wintrust Mortgage moved to dismiss the amended complaint for lack of subject matter jurisdiction and improper venue or to transfer venue. Argument on the motions to dismiss were heard on June 12, 2018. The motion to dismiss for lack of subject matter jurisdiction was denied on August 14, 2018 and the defendants' motion to transfer venue was denied on October 2, 2018. Wintrust Mortgage has appealed the denial of its motion to dismiss based on improper venue and the denial of its motion to transfer venue.

On October 2, 2018, Lehman Holdings asked the court for permission to amend its complaints against Wintrust Mortgage and the other defendants to add loans allegedly purchased from the defendants and sold to various RMBS trusts. The court granted this request and allowed Lehman Holdings to assert the additional claims against existing defendants as a supplemental complaint. Lehman Holdings filed its supplemental complaint against Wintrust Mortgage on December 4, 2018. Wintrust Mortgage's response to the supplemental complaint is due within 45 days of the court's approval of a proposed amended scheduling order, which is currently pending. At this time, Lehman Holdings has not provided Wintrust Mortgage with sufficient information to allow Wintrust Mortgage to assess the merits of Lehman Holding's additional claims or to estimate either the likelihood or amount of any potential liability for the additional claims.

The Company has reserved an amount for the Lehman Holdings action that is immaterial to its results of operations or financial condition. Such litigation and threatened litigation actions necessarily involve substantial uncertainty and it is not possible at this time to predict the ultimate resolution or to determine whether, or to what extent, any loss with respect to these legal proceedings may exceed the amounts reserved by the Company.

On April 9, 2018, JPMorgan Chase & Co. as successor in interest to Bear Stearns and certain related Bear Stearns entities (collectively, "JPMC") sent a demand letter to Wintrust Mortgage asserting an indemnification claim of approximately $4.6 million. JPMC alleges that it incurred this loss due to its reliance on misrepresentations in the loans Wintrust Mortgage originated, underwrote and sold to JPMC in the years prior to 2009. JPMC has not provided Wintrust Mortgage with sufficient information concerning the loans allegedly at issue to allow Wintrust Mortgage to assess the merits of JPMC's allegations or to estimate either the likelihood or amount of any potential liability.

On October 17, 2018, a former Wintrust Mortgage employee filed a lawsuit against Wintrust Mortgage alleging violation of California wage payment statutes on behalf of herself and all other hourly, non-exempt employees of Wintrust Mortgage in California from October 17, 2014 through the present. Wintrust Mortgage received service of the complaint on November 4, 2018. Wintrust Mortgage's response to the complaint was filed on February 25, 2019. At this time, Wintrust Mortgage lacks sufficient information to assess the merits of the allegations or to estimate either the likelihood or amount of any potential liability.

On October 17, 2018, two individual plaintiffs filed suit against Northbrook Bank and Tamer Moumen on behalf of themselves and a class of approximately 42 investors in a hedge fund run by defendant Moumen. Plaintiffs allege that defendant Moumen ran a fraudulent Ponzi scheme and ran those funds through deposit accounts at Northbrook Bank. They allege the bank was negligent in failing to close the deposit accounts and that it intentionally aided and abetted defendant Moumen in the alleged fraud. They contend that Northbrook Bank is liable for losses in excess of $6 million. Northbrook Bank filed its motion to dismiss the complaint on January 15, 2019, which remains pending before the court. Northbrook Bank believes the allegations to be legally and factually meritless and otherwise lacks sufficient information to estimate the amount of any potential liability.

In addition, the Company and its subsidiaries, from time to time, are subject to pending and threatened legal action and proceedings arising in the ordinary course of business.

Based on information currently available and upon consultation with counsel, management believes that the eventual outcome of any pending or threatened legal actions and proceedings described above, including our ordinary course litigation, will not have a material adverse effect on the operations or financial condition of the Company. However, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the results of operations or financial condition for a particular period.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on The NASDAQ Global Select Stock Market under the symbol WTFC. The following table sets forth the high and low sales prices reported on NASDAQ for the common stock by fiscal quarter during 2018 and 2017.

	2018		2017	
	High	Low	High	Low
Fourth Quarter	$88.81	$61.53	$86.80	$76.00
Third Quarter	92.56	84.61	80.52	67.74
Second Quarter	99.96	83.47	79.27	64.14
First Quarter	91.67	76.70	76.71	65.29

Performance Graph

The following performance graph compares the five-year percentage change in the Company's cumulative shareholder return on common stock compared with the cumulative total return on composites of (1) all NASDAQ Global Select Market stocks for United States companies (broad market index) and (2) all NASDAQ Global Select Market bank stocks (peer group index). Cumulative total return is computed by dividing the sum of the cumulative amount of dividends for the measurement period and the difference between the Company's share price at the end and the beginning of the measurement period by the share price at the beginning of the measurement period. The NASDAQ Global Select Market for United States companies' index comprises all domestic common shares traded on the NASDAQ Global Select Market and the NASDAQ Small-Cap Market. The NASDAQ Global Select Market bank stocks index comprises all banks traded on the NASDAQ Global Select Market and the NASDAQ Small-Cap Market.

This graph and other information furnished in the section titled "Performance Graph" under this Part II, Item 5 of this Annual Report on Form 10-K shall not be deemed to be "soliciting" materials or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act, as amended.

	2013	2014	2015	2016	2017	2018
Wintrust Financial Corporation	100.00	101.39	105.20	157.35	178.60	144.17
NASDAQ — Total US	100.00	112.46	113.00	127.70	155.01	146.57
NASDAQ — Bank Index	100.00	111.83	114.30	144.63	171.24	143.15

Approximate Number of Equity Security Holders

As of February 7, 2019, there were approximately 1,654 shareholders of record of the Company’s common stock.

Dividends on Common Stock

The Company’s Board of Directors approved the first semi-annual dividend on the Company’s common stock in January 2000 and continued to approve a semi-annual dividend until quarterly dividends were approved starting in 2014. The payment of dividends is subject to statutory restrictions and restrictions arising under the terms of the Company's Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock, Series D (the “Series D Preferred Stock”), the terms of the Company’s Trust Preferred Securities offerings and under certain financial covenants in the Company’s revolving and term facilities. Under the terms of these separate facilities entered into on September 18, 2018, the Company is prohibited from paying dividends on any equity interests, including its common stock and preferred stock, if such payments would cause the Company to be in default under its facilities or exceed a certain threshold.

The following is a summary of the cash dividends paid in 2018 and 2017:

Record Date	Payable Date	Dividend per Share
November 8, 2018	November 23, 2018	$0.19
August 9, 2018	August 23, 2018	$0.19
May 10, 2018	May 24, 2018	$0.19
February 8, 2018	February 22, 2018	$0.19
November 9, 2017	November 24, 2017	$0.14
August 10, 2017	August 24, 2017	$0.14
May 11, 2017	May 25, 2017	$0.14
February 9, 2017	February 23, 2017	$0.14

On January 24, 2019, Wintrust Financial Corporation announced that the Company’s Board of Directors approved a quarterly cash dividend of $0.25 per share of outstanding common stock. The dividend was paid on February 21, 2019 to shareholders of record as of February 7, 2019.

The final determination of timing, amount and payment of dividends is at the discretion of the Company's Board of Directors and will depend on the Company's earnings, financial condition, capital requirements and other relevant factors. Because the Company’s consolidated net income consists largely of net income of the banks and certain wealth management subsidiaries, the Company’s ability to pay dividends generally depends upon its receipt of dividends from these entities. The Company's and the banks’ ability to pay dividends is subject to banking laws, regulations and policies. See “Supervision and Regulation - Payment of Dividends and Share Repurchases” in Item 1 of this Annual Report on Form 10-K. During 2018, 2017 and 2016, the banks and certain wealth management subsidiaries paid $111.0 million, $122.0 million and $59.0 million, respectively, in dividends to the Company.

Reference is also made to Note 19 to the Consolidated Financial Statements, and “Liquidity and Capital Resources” contained in Item 7 of this Annual Report on Form 10-K for a description of the restrictions on the ability of certain subsidiaries to transfer funds to the Company in the form of dividends.

Issuer Purchases of Equity Securities

No purchases of the Company’s common shares were made by or on behalf of the Company or any “affiliated purchaser” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during the year ended December 31, 2018. There is currently no authorization to repurchase shares of outstanding common stock.

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended December 31,				
(Dollars in thousands, except per share data)	2018	2017	2016	2015	2014
Selected Financial Condition Data (at end of year):					
Total assets	$31,244,849	$27,915,970	$25,668,553	$22,909,348	$19,998,840
Total loans, excluding loans held-for-sale and covered loans	23,820,691	21,640,797	19,703,172	17,118,117	14,409,398
Total deposits	26,094,678	23,183,347	21,658,632	18,639,634	16,281,844
Junior subordinated debentures	253,566	253,566	253,566	268,566	249,493
Total shareholders’ equity	3,267,570	2,976,939	2,695,617	2,352,274	2,069,822
Selected Statements of Income Data:					
Net interest income	$964,903	$832,076	$722,193	$641,529	$598,575
Net revenue (1)	1,321,053	1,151,582	1,047,623	913,126	813,815
Net income	343,166	257,682	206,875	156,749	151,398
Net income per common share – Basic	5.95	4.53	3.83	3.05	3.12
Net income per common share – Diluted	5.86	4.40	3.66	2.93	2.98
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Net interest margin	3.59 %	3.41 %	3.24 %	3.34 %	3.51 %
Net interest margin - fully taxable equivalent (non-GAAP) (2)	3.61	3.44	3.26	3.36	3.53
Non-interest income to average assets	1.23	1.21	1.34	1.29	1.15
Non-interest expense to average assets	2.85	2.78	2.81	2.99	2.93
Net overhead ratio (3)	1.62	1.56	1.47	1.70	1.77
Return on average assets	1.18	0.98	0.85	0.75	0.81
Return on average common equity	11.26	9.26	8.37	7.15	7.77
Return on average tangible common equity (non-GAAP) (2)	13.95	11.63	10.90	9.44	10.14
Average total assets	$29,028,420	$26,369,702	$24,292,231	$20,999,837	$18,685,341
Average total shareholders’ equity	3,098,740	2,842,081	2,549,929	2,232,989	1,993,959
Average loans to average deposits ratio (excluding covered loans)	93.7 %	92.7 %	90.9 %	89.9 %	88.0 %
Average loans to average deposits ratio (including covered loans)	93.7	92.9	91.4	91.0	89.8 %
Common Share Data at end of year:					
Market price per common share	$66.49	$82.37	$72.57	$48.52	$46.76
Book value per common share (2)	$55.71	$50.96	$47.12	$43.42	$41.52
Tangible book value per common share (2)	$44.73	$41.68	$37.08	$33.17	$32.45
Common shares outstanding	56,407,558	55,965,207	51,880,540	48,383,279	46,805,055
Other Data at end of year: (5)					
Leverage Ratio	9.1 %	9.3 %	8.9 %	9.1 %	10.2 %
Tier 1 capital to risk-weighted assets	9.7	9.9	9.7	10.0	11.6

Common Equity Tier 1 capital to risk-weighted assets	9.3	9.4	8.6	8.4	N/A
Total capital to risk-weighted assets	11.6	12.0	11.9	12.2	13.0
Allowance for credit losses (4)	$154,164	$139,174	$123,964	$106,349	$92,480
Non-performing loans	113,234	90,162	87,454	84,057	78,677
Allowance for credit losses(4) to total loans, excluding covered loans	0.65 %	0.64 %	0.63 %	0.62 %	0.64 %
Non-performing loans to total loans, excluding covered loans	0.48	0.42	0.44	0.49	0.55
Number of:					
Bank subsidiaries	15	15	15	15	15
Banking offices	167	157	155	152	140

(1) Net revenue includes net interest income and non-interest income.

(2) See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures/Ratios," for a reconciliation of this performance measure/ratio to GAAP.

(3) The net overhead ratio is calculated by netting total non-interest expense and total non-interest income, annualizing this amount, and dividing by that period's total average assets. A lower ratio indicates a higher degree of efficiency.

(4) The allowance for credit losses includes both the allowance for loan losses and the allowance for unfunded lending-related commitments, but excludes the allowance for covered loan losses.

(5) Asset quality ratios exclude covered loans.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This document contains forward-looking statements within the meaning of federal securities laws. Forward-looking information can be identified through the use of words such as "intend," "plan," "project," "expect," "anticipate," "believe," "estimate," "contemplate," "possible," "will," "may," "should," "would" and "could." Forward-looking statements and informa not historical facts, are premised on many factors and assumptions, and represent only management's expectations, estimates and projections regarding future events. Similarly, these statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include, but are not limited to, those listed below and the Risk Factors discussed under Item 1A on page 23 of this Annual Report on Form 10-K, as well as other risks and uncertainties set forth from time to time in the Company's other filings with the SEC. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Such forward-looking statements may be deemed to include, among other things, statements relating to the Company's future financial performance, the performance of its loan portfolio, the expected amount of future credit reserves and charge-offs, delinquency trends, growth plans, regulatory developments, securities that the Company may offer from time to time, and management's long-term performance goals, as well as statements relating to the anticipated effects on financial condition and results of operations from expected developments or events, the Company's business and growth strategies, including future acquisitions of banks, specialty finance or wealth management businesses, internal growth and plans to form additional de novo banks or branch offices. Actual results could differ materially from those addressed in the forward-looking statements as a result of numerous factors, including the following:

- economic conditions that affect the economy, housing prices, the job market and other factors that may adversely affect the Company's liquidity and the performance of its loan portfolios, particularly in the markets in which it operates;
- negative effects suffered by us or our customers resulting from changes in U.S. trade policies;
- the extent of defaults and losses on the Company's loan portfolio, which may require further increases in its allowance for credit losses;
- estimates of fair value of certain of the Company's assets and liabilities, which could change in value significantly from period to period;
- the financial success and economic viability of the borrowers of our commercial loans;
- commercial real estate market conditions in the Chicago metropolitan area and southern Wisconsin;
- the extent of commercial and consumer delinquencies and declines in real estate values, which may require further increases in the Company's allowance for loan and lease losses;
- inaccurate assumptions in our analytical and forecasting models used to manage our loan portfolio;
- changes in the level and volatility of interest rates, the capital markets and other market indices that may affect, among other things, the Company's liquidity and the value of its assets and liabilities;
- competitive pressures in the financial services business which may affect the pricing of the Company's loan and deposit products as well as its services (including wealth management services), which may result in loss of market share and reduced income from deposits, loans, advisory fees and income from other products;
- failure to identify and complete favorable acquisitions in the future or unexpected difficulties or developments related to the integration of the Company's recent or future acquisitions;
- unexpected difficulties and losses related to FDIC-assisted acquisitions;
- harm to the Company's reputation;
- any negative perception of the Company's financial strength;

- ability of the Company to raise additional capital on acceptable terms when needed;
- disruption in capital markets, which may lower fair values for the Company’s investment portfolio;
- ability of the Company to use technology to provide products and services that will satisfy customer demands and create efficiencies in operations and to manage risks associated therewith;
- failure or breaches of our security systems or infrastructure, or those of third parties;
- security breaches, including denial of service attacks, hacking, social engineering attacks, malware intrusion or data corruption attempts and identity theft;
- adverse effects on our information technology systems resulting from failures, human error or cyberattacks;
- adverse effects of failures by our vendors to provide agreed upon services in the manner and at the cost agreed, particularly our information technology vendors;
- increased costs as a result of protecting our customers from the impact of stolen debit card information;
- accuracy and completeness of information the Company receives about customers and counterparties to make credit decisions;

- ability of the Company to attract and retain senior management experienced in the banking and financial services industries;
- environmental liability risk associated with lending activities;
- the impact of any claims or legal actions to which the Company is subject, including any effect on our reputation;
- losses incurred in connection with repurchases and indemnification payments related to mortgages and increases in reserves associated therewith;
- the loss of customers as a result of technological changes allowing consumers to complete their financial transactions without the use of a bank;
- the soundness of other financial institutions;
- the expenses and delayed returns inherent in opening new branches and de novo banks;
- examinations and challenges by tax authorities, and any unanticipated impact of the Tax Act;
- changes in accounting standards, rules and interpretations such as the new CECL standard, and the impact on the Company's financial statements;
- the ability of the Company to receive dividends from its subsidiaries;
- uncertainty about the future of LIBOR;
- a decrease in the Company's capital ratios, including as a result of declines in the value of its loan portfolios, or otherwise;
- legislative or regulatory changes, particularly changes in regulation of financial services companies and/or the products and services offered by financial services companies;
- a lowering of our credit rating;
- changes in U.S. monetary policy and changes to the Federal Reserve's balance sheet as a result of the end of its program of quantitative easing or otherwise;
- restrictions upon our ability to market our products to consumers and limitations on our ability to profitably operate our mortgage business resulting from the Dodd-Frank Act;
- increased costs of compliance, heightened regulatory capital requirements and other risks associated with changes in regulation and the regulatory environment;
- the impact of heightened capital requirements;
- increases in the Company's FDIC insurance premiums, or the collection of special assessments by the FDIC;
- delinquencies or fraud with respect to the Company's premium finance business;
- credit downgrades among commercial and life insurance providers that could negatively affect the value of collateral securing the Company's premium finance loans;
- the Company's ability to comply with covenants under its credit facility; and
- fluctuations in the stock market, which may have an adverse impact on the Company's wealth management business and brokerage operation.

Therefore, there can be no assurances that future actual results will correspond to any forward-looking statements. The reader is cautioned not to place undue reliance on any forward-looking statement made by the Company. Any such statement speaks only as of the date the statement was made or as of such date that may be referenced within the statement. The Company undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances after the date of this Annual Report on Form 10-K, except as required by law. Persons are advised, however, to consult further disclosures management makes on related subjects in its reports filed with the SEC and in its press releases.

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

The following discussion highlights the significant factors affecting the operations and financial condition of Wintrust for the three years ended December 31, 2018. This discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto, and Selected Financial Highlights appearing elsewhere within this Annual Report on Form 10-K.

OPERATING SUMMARY

Wintrust's key measures of profitability and balance sheet changes are shown in the following table:

	Years Ended December 31,			Percentage % or Basis Point (bp) Change	Percentage % or Basis Point (bp) Change
(Dollars in thousands, except per share data)	2018	2017	2016	2017 to 2018	2016 to 2017
Net income	$343,166	$257,682	$206,875	33%	25%
Net income per common share — Diluted	5.86	4.40	3.66	33	20
Net revenue [(1)]	1,321,053	1,151,582	1,047,623	15	10
Net interest income	964,903	832,076	722,193	16	15
Net interest margin	3.59 %	3.41 %	3.24 %	18 bp	17 bp
Net interest margin - fully taxable equivalent (non-GAAP) [(2)]	3.61	3.44	3.26	17	18
Net overhead ratio [(3)]	1.62	1.56	1.47	6	9
Return on average assets	1.18	0.98	0.85	20	13
Return on average common equity	11.26	9.26	8.37	200	89
Return on average tangible common equity (non-GAAP) [(2)]	13.95	11.63	10.90	232	73
At end of period					
Total assets	$31,244,849	$27,915,970	$25,668,553	12%	9%
Total loans, excluding loans held-for-sale, excluding covered loans	23,820,691	21,640,797	19,703,172	10	10
Total deposits	26,094,678	23,183,347	21,658,632	13	7
Total shareholders' equity	3,267,570	2,976,939	2,695,617	10	10
Book value per common share [(2)]	$55.71	$50.96	$47.12	9	8
Tangible book value per common share [(2)]	44.73	41.68	37.08	7	12
Market price per common share	66.49	82.37	72.57	(19)	14
Excluding covered loans:					
Allowance for credit losses to total loans[(4)]	0.65 %	0.64 %	0.63 %	1 bp	1 bp
Non-performing loans to total loans	0.48	0.42	0.44	6	(2)

(1) Net revenue is net interest income plus non-interest income.

(2) See "Non-GAAP Financial Measures/Ratios" for additional information on this performance measure/ratio.

(3) The net overhead ratio is calculated by netting total non-interest expense and total non-interest income and dividing by that period's total average assets. A lower ratio indicates a higher degree of efficiency.

(4) The allowance for credit losses includes both the allowance for loan losses and the allowance for lending-related commitments.

Please refer to the Consolidated Results of Operations section later in this discussion for an analysis of the Company's operations for the past three years.

NON-GAAP FINANCIAL MEASURES/RATIOS

The accounting and reporting policies of Wintrust conform to generally accepted accounting principles (“GAAP”) in the United States and prevailing practices in the banking industry. However, certain non-GAAP performance measures and ratios are used by management to evaluate and measure the Company’s performance. These include taxable-equivalent net interest income (including its individual components), taxable-equivalent net interest margin (including its individual components), the taxable-equivalent efficiency ratio, tangible common equity ratio, tangible book value per common share and return on average tangible common equity. Management believes that these measures and ratios provide users of the Company’s financial information a more meaningful view of the performance of the Company's interest-earning assets and interest-bearing liabilities and of the Company’s operating efficiency. Other financial holding companies may define or calculate these measures and ratios differently.

Management reviews yields on certain asset categories and the net interest margin of the Company and its banking subsidiaries on a fully taxable-equivalent (“FTE”) basis. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources. Net interest income on a FTE basis is also used in the calculation of the Company’s efficiency ratio. The efficiency ratio, which is calculated by dividing non-interest expense by total taxable-equivalent net revenue (less securities gains or losses), measures how much it costs to produce one dollar of revenue. Securities gains or losses are excluded from this calculation to better match revenue from daily operations to operational expenses. Management considers the tangible common equity ratio and tangible book value per common share as useful measurements of the Company’s equity. The Company references the return on average tangible common equity as a measurement of profitability.

The following table presents a reconciliation of certain non-GAAP performance measures and ratios used by the Company to evaluate and measure the Company’s performance to the most directly comparable GAAP financial measures for the last five years.

	Years Ended December 31,				
(Dollars and shares in thousands, except per share data)	2018	2017	2016	2015	2014
Calculation of Net Interest Margin and Efficiency Ratio					
(A) Interest Income (GAAP)	$1,170,810	$946,468	$812,457	$718,464	$671,267
Taxable-equivalent adjustment:					
-Loans	3,403	3,760	2,282	1,431	1,128
-Liquidity management assets	2,258	3,713	3,630	3,221	2,000
-Other earning assets	11	14	40	57	41
(B) Interest Income - FTE	$1,176,482	$953,955	$818,409	$723,173	$674,436
(C) Interest Expense (GAAP)	205,907	114,392	90,264	76,935	72,692
(D) Net interest Income - FTE (B minus C)	$970,575	$839,563	$728,145	$646,238	$601,744
(E) Net Interest Income (GAAP) (A minus C)	$964,903	$832,076	$722,193	$641,529	$598,575
Net interest margin (GAAP-derived)	3.59 %	3.41 %	3.24 %	3.34 %	3.51 %
Net interest margin — FTE	3.61	3.44	3.26	3.36	3.53
(F) Non-interest income (GAAP)	$356,150	$319,506	$325,430	$271,597	$215,240
(G) (Losses) gains on investment securities, net (GAAP)	(2,898)	45	7,645	323	(504)
(H) Non-interest expense (GAAP)	826,088	731,817	681,685	628,419	546,847
Efficiency ratio (H/(E+F-G))	62.40 %	63.55 %	65.55 %	68.84 %	67.15 %
Efficiency ratio - FTE (H/(D+F-G))	62.13	63.14	65.18	68.49	66.89
Calculation of Tangible Common Equity ratio (at period end)					
Total shareholders' equity (GAAP)	$3,267,570	$2,976,939	$2,695,617	$2,352,274	$2,069,822
(I) Less: Convertible preferred stock (GAAP)	—	—	(126,257)	(126,287)	(126,467)
Less: Non-convertible preferred stock (GAAP)	(125,000)	(125,000)	(125,000)	(125,000)	—
Less: Goodwill and other intangible assets (GAAP)	(622,565)	(519,505)	(520,438)	(495,970)	(424,445)
(J) Total tangible common shareholders’ equity	$2,520,005	$2,332,434	$1,923,922	$1,605,017	$1,518,910
Total assets (GAAP)	$31,244,849	$27,915,970	$25,668,553	$22,909,348	$19,998,840
Less: Goodwill and other intangible assets (GAAP)	(622,565)	(519,505)	(520,438)	(495,970)	(424,445)
(K) Total tangible assets	$30,622,284	$27,396,465	$25,148,115	$22,413,378	$19,574,395
Tangible common equity ratio (J/K)	8.2 %	8.5 %	7.7 %	7.2 %	7.8 %
Tangible common equity ratio, assuming full conversion of preferred stock ((J-I)/K)	8.2	8.5	8.2	7.7	8.4
Calculation of book value per common share					

Total shareholders’ equity (GAAP)	$3,267,570	$2,976,939	$2,695,617	$2,352,274	$2,069,822
Less: Preferred stock (GAAP)	(125,000)	(125,000)	(251,257)	(251,287)	(126,467)
(L) Total common equity	$3,142,570	$2,851,939	$2,444,360	$2,100,987	$1,943,355
(M) Actual common shares outstanding	56,408	55,965	51,881	48,383	46,805
Book value per common share (L/M)	$55.71	$50.96	$47.12	$43.42	$41.52
Tangible book value per common share (J/M)	44.67	41.68	37.08	33.17	32.45
Calculation of return on average common equity					
(N) Net income applicable to common shares	$334,966	$247,904	$192,362	$145,880	$145,075
Add: After-tax intangible asset amortization	3,407	2,907	2,986	2,879	2,881
(O) Tangible net income applicable to common shares	$338,373	$250,811	$195,348	$148,759	$147,956
Total average shareholders' equity	$3,098,740	$2,842,081	$2,549,929	$2,232,989	$1,993,959
Less: Average preferred stock	(125,000)	(165,114)	(251,258)	(191,416)	(126,471)
(P) Total average common shareholders' equity	$2,973,740	$2,676,967	$2,298,671	$2,041,573	$1,867,488
Less: Average intangible assets	(548,223)	(519,910)	(506,241)	(466,225)	(408,642)
(Q) Total average tangible common shareholders’ equity	$2,425,517	$2,157,057	$1,792,430	$1,575,348	$1,458,846
Return on average common equity (N/P)	11.26%	9.26%	8.37%	7.15%	7.77%
Return on average tangible common equity (O/Q)	13.95	11.63	10.90	9.44	10.14

OVERVIEW AND STRATEGY

2018 Highlights

The Company recorded net income of $343.2 million for the year of 2018 compared to $257.7 million and $206.9 million for the years of 2017 and 2016, respectively. The results for 2018 demonstrate continued operating strengths including strong loan and deposit growth which, coupled with increased net interest margin, resulted in higher net interest income, higher revenue from the wealth management and mortgage banking businesses and growth in the leasing business. Additionally, the Company's net income was positively impacted by a reduction of the federal corporate income tax rate effective in 2018 as a result of the enactment of the Tax Act.

The Company increased its loan portfolio, excluding loans held-for-sale, from $21.6 billion at December 31, 2017 to $23.8 billion at December 31, 2018. This increase was primarily due to the Company’s commercial banking initiative as well as growth in the commercial real estate portfolio, residential real estate portfolio and the premium finance receivables portfolios. Loan growth was also attributed to the acquisitions of Chicago Shore Corporation ("CSC") and the acquisition of certain assets and assumption of certain liabilities of American Enterprise Bank ("AEB"). The Company is focused on making 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 “Analysis of Financial Condition – Interest Earning Assets” and Note 4 “Loans” of the Consolidated Financial Statements presented under Item 8 of this Annual Report on Form 10-K.

Management considers the maintenance of adequate liquidity to be important to the management of risk. Accordingly, during 2018, the Company continued its practice of maintaining appropriate funding capacity to provide the Company with adequate liquidity for its ongoing operations. In this regard, the Company benefited from its strong deposit base, a liquid short-term investment portfolio and its access to funding from a variety of external funding sources. The Company had overnight liquid funds and interest-bearing deposits with banks of $1.5 billion and $1.3 billion at December 31, 2018 and 2017, respectively.

The Company recorded net interest income of $964.9 million in 2018 compared to $832.1 million and $722.2 million in 2017 and 2016, respectively. The higher level of net interest income recorded in 2018 compared to 2017 resulted primarily from a $2.5 billion increase in average earning assets and a 18 basis point increase in the net interest margin in 2018.

Non-interest income totaled $356.2 million in 2018, increasing $36.6 million, or 11%, compared to 2017. The increase in non-interest income in 2018 compared to 2017 was primarily attributable to an increase in wealth management and mortgage banking revenues, higher operating lease income from growth in our leasing divisions and an increase on fees from customer interest rate swaps. This was partially offset by losses realized on investment securities, negative adjustments from foreign currency remeasurement, lower fees from covered call options and losses from investments in partnerships (see “Non-Interest Income” section later in this Item 7 for further detail).

Non-interest expense totaled $826.1 million in 2018, increasing $94.3 million, or 13%, compared to 2017. The increase compared to 2017 was primarily attributable to a $50.0 million increase in salaries and employee benefits, higher operating lease equipment depreciation, an increase in professional fees, and higher marketing expenses. The increase in salaries and employee benefits was, specifically, attributable to a $40.4 million increase in salaries resulting from annual salary increases and larger staffing as the Company grew, a $2.0 million increase in commissions and incentive compensation primarily attributable to the Company's incentive compensation programs, and a $7.5 million increase in employee benefits due to higher retirement savings plan costs.

As the Company continues to experience strong growth in its balance sheet, controlling operating expenses is a continued focus throughout the Company's various business units. Management monitors expense control from period to period throughout the Company and places an emphasis on the Company's net overhead ratio, which provides a measure of efficiency both on a consolidated basis and across business units. The Company's goal is to maintain a net overhead ratio below 1.50% on a consolidated basis.

Economic Environment

The economic environment in 2018 was characterized by rising interest rates and continued competition as banks have experienced improvements in their financial condition allowing them to be more active in the lending market. 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 also continues its efforts to improve its funding mix. In 2018, the Company's net interest margin increased to 3.59% (3.61% on a fully tax-equivalent basis) as compared to 3.41% (3.44% on a fully tax-equivalent basis) in 2017 primarily as a result of rising interest rates. As a result of the growth in earning assets and increased net interest margin, the Company increased net interest income by $132.8 million in 2018 compared to 2017.

The Company has continued its practice of writing call options against certain U.S. Treasury and Agency securities to economically hedge the securities positions and receive fee income to compensate for net interest margin compression. In 2018, the Company recognized $3.5 million in fees on covered call options compared to $4.4 million in 2017.

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 swap with various third parties.

Non-Interest Income

The interest rate environment impacts the profitability and mix of the Company's mortgage banking business which generated revenues of $137.0 million in 2018 and $113.5 million in 2017, representing 10% of total net revenue in 2018 and 2017. Mortgage banking revenue is primarily comprised of gains on sales of mortgage loans originated for new home purchases as well as mortgage refinancing. Mortgage revenue is also impacted by changes in the fair value of mortgage servicing rights ("MSRs") as the Company does not hedge this change in fair value. Mortgage originations totaled $4.0 billion and $3.7 billion in 2018 and 2017, respectively. In 2018 and 2017, approximately 75% of originations were mortgages associated with new home purchases, while 25% of originations were related to refinancing of mortgages. Assuming the housing market continues to improve and interest rates rise, we expect a higher percentage of originations to be attributed to new home purchases.

Non-Interest Expense

Management believes expense management is important to enhance profitability amid the low interest rate environment and increased competition. 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 plans to leverage the Company's existing expense infrastructure to expand its presence in existing and complimentary markets.

Potentially impacting the cost control strategies discussed above, the Company anticipates increased costs resulting from the changing regulatory environment in which we operate as well as continued investment in technology. We have already experienced increases in compliance-related costs and compliance with the Dodd-Frank Act requires us to invest significant additional management attention and resources.

Credit Quality

The Company's credit quality metrics remained at historically low levels in 2018. The Company continues to actively address non-performing assets and remains disciplined in its approach to grow without sacrificing asset quality.

In particular:

- The Company’s 2018 provision for credit losses, excluding covered loans, totaled $34.8 million, compared to $30.0 million in 2017 and $34.8 million in 2016. Net charge-offs, excluding covered loans, increased to $19.7 million in 2018 (of which $8.8 million related to commercial and commercial real estate loans), compared to $15.0 million in 2017 (of which $5.3 million related to commercial and commercial real estate loans) and $16.9 million in 2016 (of which $5.3 million related to commercial and commercial real estate loans).

- The Company's allowance for loan losses increased to $152.8 million at December 31, 2018, reflecting an increase of $14.9 million, or 11%, when compared to 2017. At December 31, 2018, approximately $60.3 million, or 39%, of the allowance for loan losses was associated with commercial real estate loans and another $67.8 million, or 44%, was associated with commercial loans.

- The Company has significant exposure to commercial real estate. At December 31, 2018, $6.9 billion, or 29%, of our loan portfolio was commercial real estate, with approximately 87% located in our market area. The commercial real estate loan portfolio, excluding purchased credit impaired ("PCI") loans, was comprised of $902.3 million related to land and construction, $939.3 million related to office buildings loans, $892.5 million related to retail loans, $902.2 million related to industrial use, $976.6 million related to multi-family loans and $2.2 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 December 31, 2018, the Company had approximately $19.1 million of non-performing commercial real estate loans representing approximately 0.28% of the total commercial real estate loan portfolio.

- Total non-performing loans (loans on non-accrual status and loans more than 90 days past due and still accruing interest) were $113.2 million (of which $19.1 million, or 17%, was related to commercial real estate) at December 31, 2018, an increase of $23.1 million compared to December 31, 2017. Non-performing loans as a percentage of total loans were 0.48% at December 31, 2018 compared to 0.42% at December 31, 2017.

- The Company's other real estate owned decreased by $15.8 million, to $24.8 million during 2018, from $40.6 million at December 31, 2017. The decrease in other real estate owned is primarily a result of $19.4 million of OREO disposals and resolutions during 2018. The $24.8 million of other real estate owned as of December 31, 2018 was comprised of $19.9 million of commercial real estate property, $3.4 million of residential real estate property and $1.4 million of residential real estate development property.

During 2018, management continued its efforts to aggressively resolve problem loans through liquidation, rather than retention of loans or real estate acquired as collateral through the foreclosure process. Management believes these actions will serve the Company well in the future by providing some protection for the Company from further valuation deterioration and permitting Management to spend less time on resolution of problem loans and more time on growing the Company's core business and the evaluation of other opportunities.

Management continues to direct significant attention toward the prompt identification, management and resolution of problem loans. The Company has restructured certain loans by providing economic concessions to borrowers to better align the terms of their loans with their current ability to pay. At December 31, 2018, approximately $66.1 million in loans had terms modified representing troubled debt restructurings ("TDRs"), with $33.3 million of these TDRs continuing in accruing status. See Note 5, "Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans," of the Consolidated Financial Statements presented under Item 8 of this Annual Report on Form 10-K for additional discussion of TDRs.

The Company enters into residential mortgage loan sale agreements with investors in the normal course of business. The Company's practice is generally not to retain long-term fixed rate mortgages on its balance sheet in order to mitigate interest rate risk, and consequently sells most of such mortgages into the secondary market. These agreements provide recourse to investors through certain representations concerning credit information, loan documentation, collateral and insurability. Investors request the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. An increase in requests for loss indemnification can negatively impact mortgage banking revenue as additional recourse expense. The liability for estimated losses on repurchase and indemnification claims for residential mortgage loans previously sold to investors was $2.4 million and $3.0 million at December 31, 2018 and 2017, respectively.

Community Banking

Through our community banking franchise, we provide banking and financial services primarily to individuals, small to mid-sized businesses, local governmental units and institutional clients residing primarily in the local areas we service. Profitability of this franchise is primarily driven by our net interest income and margin, our funding mix and related costs, the level of non-performing loans and other real estate owned, the amount of mortgage banking revenue and our history of acquiring banking operations and establishing de novo banking locations.

Net interest income and margin. The primary source of our revenue is net interest income. Net interest income is the difference between interest income and fees on earning assets, such as loans and securities, and interest expense on liabilities to fund those assets, including deposits and other borrowings. Net interest income can change significantly from period to period based on general levels of interest rates, customer prepayment patterns, the mix of interest-earning assets and the mix of interest-bearing and non-interest bearing deposits and borrowings.

Funding mix and related costs. The most significant source of funding in community banking is core deposits, which are comprised of non-interest bearing deposits, non-brokered interest-bearing transaction accounts, savings deposits and domestic time deposits. Our branch network is the principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Community banking profitability has been bolstered in recent years as the Company funded strong loan growth with a more desirable blend of funds.

Level of non-performing loans and other real estate owned. The level of non-performing loans and other real estate owned can significantly impact our profitability as these loans and other real estate owned do not accrue any income, can be subject to charge-offs and write-downs due to deteriorating market conditions and generally result in additional legal and collections expenses. The Company's credit quality measures have remained at historically low levels in recent years.

Mortgage banking revenue. Our community banking franchise is also influenced by the level of fees generated by the origination of residential mortgages and the sale of such mortgages into the secondary market by Wintrust Mortgage. The Company recognized an increase of $23.5 million in mortgage banking revenue in 2018 compared to 2017 as a result of higher origination volumes in 2018 and increased servicing fees. Mortgage originations totaled $4.0 billion and $3.7 billion in 2018 and 2017, respectively.

Expansion of banking operations. Our historical financial performance has been affected by costs associated with growing market share in deposits and loans, establishing and acquiring banks, opening new branch facilities and building an experienced management team. Our financial performance generally reflects the improved profitability of our banking subsidiaries as they mature, offset by the costs of establishing and acquiring banks and opening new branch facilities.

In determining the timing of the opening of additional branches of existing banks, and the acquisition of additional banks, we consider many factors, particularly our perceived ability to obtain an adequate return on our invested capital driven largely by the then existing cost of funds and lending margins, the general economic climate and the level of competition in a given market. See discussion of 2018 and 2017 acquisition activity in the “Recent Acquisition Transactions” section below.

In addition to the factors considered above, before we engage in expansion through de novo branches we must first make a determination that the expansion fulfills our objective of enhancing shareholder value through potential future earnings growth and enhancement of the overall franchise value of the Company. Generally, we believe that, in normal market conditions, expansion through de novo growth is a better long-term investment than acquiring banks because the cost to bring a de novo location to profitability is generally substantially less than the premium paid for the acquisition of a healthy bank. Each opportunity to expand is unique from a cost and benefit perspective. Both FDIC-assisted and non-FDIC-assisted acquisitions offer a unique opportunity for the Company to expand into new and existing markets in a non-traditional manner. Potential acquisitions are reviewed in a similar manner as a de novo branch opportunities, however, FDIC-assisted and non-FDIC-assisted acquisitions have the ability to immediately enhance shareholder value. Factors including the valuation of our stock, other economic market conditions, the size and scope of the particular expansion opportunity and competitive landscape all influence the decision to expand via de novo growth or through acquisition.

Specialty Finance

Through our specialty finance segment, we offer financing of insurance premiums for businesses and individuals; lease financing and other direct leasing opportunities; accounts receivable financing, value-added, out-sourced administrative services; and other specialty finance businesses.

Financing of Commercial Insurance Premiums

The primary driver of profitability related to the financing of commercial insurance premiums is the net interest spread that FIRST Insurance Funding and FIFC Canada can produce between the yields on the loans generated and the cost of funds allocated to the business unit. The commercial insurance premium finance business is a competitive industry and yields on loans are influenced by the market rates offered by our competitors. The majority of loans originated by FIRST Insurance Funding are purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments. We fund these loans primarily through our deposits, the cost of which is influenced by competitors in the retail banking markets in our market area.

Financing of Life Insurance Premiums

The primary driver of profitability related to the financing of life insurance premiums is the net interest spread that Wintrust Life Finance can produce between the yields on the loans generated and the cost of funds allocated to the business unit. Profitability of financing both commercial and life insurance premiums is also meaningfully impacted by leveraging information technology systems, maintaining operational efficiency and increasing average loan size, each of which allows us to expand our loan volume without significant capital investment.

Wealth Management

We offer a full range of wealth management services including trust and investment services, tax-deferred like-kind exchange services, asset management solutions, securities brokerage services, and 401(k) and retirement plan services through four separate subsidiaries (Wintrust Investments, CTC, Great Lakes Advisors and CDEC).

The primary drivers of profitability of the wealth management business can be associated with the level of commission received related to the trading performed by the brokerage customers for their accounts and the amount of assets under management for which investments, asset management and trust units receive a management fee for advisory, administrative and custodial services. As such, revenues are influenced by a rise or fall in the debt and equity markets and the resulting increase or decrease in the value of our client accounts on which our fees are based. The commissions received by the brokerage unit are not as directly influenced by the directionality of the debt and equity markets but rather the desire of our customers to engage in trading based on their particular situations and outlooks of the market or particular stocks and bonds. Profitability in the brokerage business is impacted by commissions which fluctuate over time.

Financial Regulatory Reform

Our business is heavily regulated by both federal and state agencies. Both the scope of the laws and regulations and the intensity of the supervision to which our business is subject have increased in recent years, in response to the financial crisis as well as other factors such as technological and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Act and its implementing regulations, most of which are now in place. While the regulatory environment has entered a period of rebalancing of the post financial crisis framework, we expect that our business will remain subject to extensive regulation and supervision.

The exact impact of the changing regulatory environment on our business and operations depends upon the final implementing regulations under the Dodd-Frank Act that have not yet been adopted or become fully effective, any additional legislative or regulatory changes to reform the financial regulatory framework, and the actions of our competitors, customers, and other market participants. Legislative and regulatory changes could have a significant impact on us by, for example, requiring us to change our business practices; requiring us to meet more stringent capital, liquidity and leverage ratio requirements; limiting our ability to pursue business opportunities; imposing additional costs and compliance obligations on us; limiting fees we can charge for services; impacting the value of our assets; or otherwise adversely affecting our businesses and our earnings' capabilities. We have already experienced significant increases in compliance related costs in recent years, and we are now subject to more stringent risk-based capital and leverage ratio requirements than we were prior to the adoption of the U.S. Basel III Rules. We are also now subject to many mortgage-related rules promulgated by the CFPB that materially restructured the origination, services and securitization of residential mortgages in the United States. We will continue to monitor the impact that the implementation of applicable rules, regulations and policies arising out of any legislative or regulatory changes may have on our organization. For further discussion of the laws and regulations applicable to us and our subsidiary banks, please refer to "Business-Supervision and Regulation."

Recent Transactions

Acquisition of CDEC

On December 14, 2018, the Company acquired Elektra, the parent company of CDEC. CDEC is a provider of Qualified Intermediary services (as defined by U.S. Treasury regulations) for taxpayers seeking to structure tax-deferred like-kind exchanges under Internal Revenue Code Section 1031. CDEC has successfully facilitated more than 8,000 like-kind exchanges in the past decade for taxpayers nationwide. These transactions typically generate customer deposits during the period following the sale of the property until such proceeds are used to purchase a replacement property.

Acquisition of certain assets and assumption of certain liabilities of AEB

On December 7, 2018, the Company completed its acquisition of certain assets and the assumption of certain liabilities of American Enterprise Bank (“AEB”). Through this asset acquisition, the Company acquired approximately $164.0 million in assets, including approximately $119.3 million in loans, and approximately $150.8 million in deposits.

Acquisition of Chicago Shore Corporation

On August 1, 2018, the Company completed its acquisition of Chicago Shore Corporation (“CSC”). CSC was the parent company of Delaware Place Bank. Delaware Place Bank was merged into the Company's wholly-owned subsidiary Wintrust Bank. In addition to one banking location in Chicago, Illinois, the Company acquired approximately $282.8 million in assets, including $152.7 million of loans, and assumed approximately $213.1 million in deposits.

Acquisition of iFreedom Direct Corporation DBA Veterans First Mortgage

On January 4, 2018, the Company acquired certain assets, including mortgage servicing rights, and assumed certain liabilities of the mortgage banking business of iFreedom Direct Corporation DBA Veterans First Mortgage ("Veterans First"), in a business combination.

Acquisition of American Homestead Mortgage, LLC

On February 14, 2017, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of American Homestead Mortgage, LLC ("AHM"), in a business combination. AHM is located in Montana's Flathead Valley.

Acquisition of First Community Financial Corporation

On November 18, 2016, the Company completed its acquisition of First Community Financial Corporation (“FCFC”). FCFC was the parent company of First Community Bank. First Community Bank was merged into the Company's wholly-owned subsidiary St. Charles Bank. In addition to two banking locations in Elgin, Illinois, the Company acquired approximately $187.3 million in assets, including $79.5 million of loans, and assumed approximately $150.3 million in deposits.

Acquisition of select performing loans and related relationships from an affiliate of GE Capital Franchise Finance

On August 19, 2016, the Company, through its wholly-owned subsidiary Lake Forest Bank, completed its acquisition of approximately $561.4 million in select performing loans and related relationships from an affiliate of GE Capital Franchise Finance, which were added to the Company's existing franchise finance portfolio. The loans are to franchise operators (primarily quick service restaurant concepts) in the Midwest and in the Western portion of the United States.

Acquisition of Generations Bancorp, Inc.

On March 31, 2016, the Company completed its acquisition of Generations Bancorp, Inc. (“Generations”). Generations was the parent company of Foundations Bank (“Foundations”). Foundations was merged into the Company's wholly-owned subsidiary Town Bank. In addition to a banking location in Pewaukee, Wisconsin, the Company acquired approximately $134.2 million in assets, including $67.4 million in loans, and assumed approximately $100.2 million in deposits.

Other Completed Transactions

Expiration of Common Stock Warrants

On December 19, 2018, the Company's publicly traded warrants to purchase shares of the Company's common stock expired. Warrants not exercised prior to this date totaling 409 warrant shares expired and became void, and the holders did not receive any shares of the Company's common stock.

Termination of Loss Share Agreements

On October 16, 2017, the Company entered into agreements with the FDIC that terminated all existing loss share agreements with the FDIC. Under the terms of the agreements, the Company made a net payment of $15.2 million to the FDIC as consideration for the early termination of the loss share agreements. The Company recorded a pre-tax gain of approximately $0.4 million to write off the remaining loss share asset, relieve the claw-back liability and recognize the payment to the FDIC.

Mandatory Conversion of Series C Preferred Stock

On April 27, 2017, the Company caused a mandatory conversion of its remaining 124,184 shares of 5.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series C (the "Series C Preferred Stock") (issued in March 2012) into 3,069,828 shares of the Company's common stock at a conversion rate of 24.72 shares of common stock per share of Series C Preferred Stock. Cash was paid in lieu of fractional shares for an amount considered insignificant.

Public Issuance of the Company's Common Stock

In June 2016, the Company issued through a public offering a total of 3,000,000 shares of its common stock. Net proceeds to the Company totaled approximately $152.9 million.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The Company’s Consolidated Financial Statements are prepared in accordance with GAAP in the United States and prevailing practices of the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. 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 that changes in those estimates and assumptions could produce financial results that are materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required or elected to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event, and are based on information available as of the date of the financial statements; accordingly, as information changes, the financial statements could reflect different estimates and assumptions.

A summary of the Company’s significant accounting policies is presented in Note 1 to the Consolidated Financial Statements in Item 8. These policies, along with the disclosures presented in the other financial statement notes and in this Management’s Discussion and Analysis section, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. 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 views critical accounting policies to include the determination of the allowance for 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 most subject to revision as new information becomes available.

Allowance for Loan Losses and Allowance for Losses on Lending-Related Commitments

The allowance for loan losses represents management’s estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the fair value of the underlying collateral and amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which are susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheet. The Company also maintains an allowance for lending-related commitments, specifically unfunded loan commitments and letters of credit, which relates to certain amounts the Company is committed to lend but for which funds have not yet been disbursed. See Note 1, “Summary of Significant Accounting Policies,” to the Consolidated Financial Statements in Item 8 and the section titled “Loan Portfolio and Asset Quality” in Item 7 for a description of the methodology used to determine the allowance for loan losses and the allowance for lending-related commitments.

Loans Acquired with Evidence of Credit Quality Deterioration since Origination

Under accounting guidance applicable to loans acquired with evidence of credit quality deterioration since origination, the excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining estimated life of the loans, using the effective-interest method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Changes in the expected cash flows from the date of acquisition will either impact the accretable yield or result in a charge to the provision for credit losses. Subsequent decreases to expected principal cash flows will result in a charge to provision for credit losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. All changes in expected interest cash flows, including the impact of prepayments, will result in reclassifications to/from the nonaccretable difference.

Estimations of Fair Value

A portion of the Company's assets and liabilities are carried at fair value on the Consolidated Statements of Condition, with changes in fair value recorded either through earnings or other comprehensive income in accordance with applicable accounting principles generally accepted in the United States. These include the Company’s trading account securities, available-for-sale securities, equity securities with a readily determinable fair value, derivatives, mortgage loans held-for-sale, certain loans held-for-investment and mortgage servicing rights (“MSRs”). The determination of fair value is important for certain other assets, including goodwill and other intangible assets, impaired loans, and other real estate owned that are periodically evaluated for impairment using fair value estimates.

Fair value is generally defined as the amount at which an asset or liability could be exchanged in a current transaction between willing, unrelated parties, other than in a forced or liquidation sale. Fair value is based on quoted market prices in an active market, or if market prices are not available, is estimated using models employing techniques such as matrix pricing or discounting expected cash flows. The significant assumptions used in the models, which include assumptions for interest rates, discount rates, prepayments and credit losses, are independently verified against observable market data where possible. Where observable market data is not available, the estimate of fair value becomes more subjective and involves a high degree of judgment. In this circumstance, fair value is estimated based on management’s judgment regarding the value that market participants would assign to the asset or liability. This valuation process takes into consideration factors such as market illiquidity. Imprecision in estimating these factors can impact the amount recorded on the balance sheet for a particular asset or liability with related impacts to earnings or other comprehensive income. See Note 22, “Fair Value of Assets and Liabilities,” to the Consolidated Financial Statements in Item 8 for a further discussion of fair value measurements.

Impairment Testing of Goodwill

The Company performs impairment testing of goodwill for each of its reporting units on an annual basis or more frequently when events warrant, using a qualitative or quantitative approach. Using a qualitative approach, the Company reviews any recent events or circumstances that would indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount. These events and circumstances include the performance of the Company, the condition of the related industry in which the reporting unit operates and general economic environment and other factors. If the Company determines it is not more likely than not that there is impairment based on an evaluation of these events and circumstances, the Company may forgo the two-step quantitative approach.

Using a quantitative approach, the goodwill impairment analysis involves a two-step process. The first step is a comparison of the reporting unit’s fair value to its carrying value. If the carrying value of a reporting unit was determined to have been higher than its fair value, the second step would have to be performed to measure the amount of impairment loss. The second step allocates the fair value to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical purchase price allocation analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference. Valuations are estimated in good faith by management through the use of publicly available valuations of comparable entities and discounted cash flow models using internal financial projections in the reporting unit’s business plan.

Under both a qualitative and quantitative approach, the goodwill impairment analysis requires management to make subjective judgments in determining if an indicator of impairment has occurred. Events and factors that may significantly affect the analysis include: a significant decline in the Company’s expected future cash flows, a substantial increase in the discount rate, a sustained, significant decline in the Company’s stock price and market capitalization, a significant adverse change in legal factors or in the business climate. Other factors might include changing competitive forces, customer behaviors and attrition, revenue trends, cost structures, along with specific industry and market conditions. Adverse change in these factors could have a significant impact on the recoverability of intangible assets and could have a material impact on the Company’s consolidated financial statements.

As of December 31, 2018, the Company had three reporting units: Community Banking, Specialty Finance and Wealth Management. Based on the Company's 2018 goodwill impairment testing, no goodwill impairment was indicated for any of the reporting units on their respective annual testing dates.

Derivative Instruments

The Company utilizes derivative instruments to manage risks such as interest rate risk or market risk. The Company's policy prohibits using derivatives for speculative purposes.

Accounting for derivatives differs significantly depending on whether a derivative is designated as an accounting hedge, which is a transaction intended to reduce a risk associated with a specific asset or liability or future expected cash flow at the time it is purchased. In order to qualify as an accounting hedge, a derivative must be designated as such at inception by management and meet certain criteria. Management must also continue to evaluate whether the instrument effectively reduces the risk associated with that item. To determine if a derivative instrument continues to be an effective hedge, the Company must make assumptions and judgments about the continued effectiveness of the hedging strategies and the nature and timing of forecasted transactions. If the Company's hedging strategy were to become ineffective, hedge accounting would no longer apply and the reported results of operations or financial condition could be materially affected.

Income Taxes

The Company is subject to the income tax laws of the United States, its states, Canada and other jurisdictions where it conducts business. These laws are complex and subject to potentially different interpretations by the taxpayer and the various taxing authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these inherently complex laws, related regulations and case law. In the process of preparing the Company's tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law. Management reviews its uncertain tax positions and recognition of the benefits of such positions on a regular basis.

On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are reassessed on a quarterly basis, if business events or circumstances warrant. Additionally, any enactment of new tax rates such as the enactment of the Tax Act in December 2017 requires the Company to re-measure its existing deferred tax assets and liabilities to reflect the new tax rate, with such adjustments recognized in current year earnings.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of Wintrust's results of operations requires an understanding that a majority of the Company's bank subsidiaries have been started as de novo banks since December 1991. Wintrust has a strategy of continuing to build its customer base and securing broad product penetration in each marketplace that it serves. The Company has expanded its banking franchise from three banks with five offices in 1994 to 15 banks with 167 offices at the end of 2018. FIRST Insurance Funding and Wintrust Life Finance have matured into separate divisions that generated, on a national basis, $7.1 billion in total premium finance receivables in 2018 within the United States. FIFC Canada, acquired in 2012, originated $749.4 million in Canadian commercial premium finance receivables in 2018. In addition, the wealth management companies have been building a team of experienced professionals who are located within a majority of the banks.

Earnings Summary

Net income for the year ended December 31, 2018, totaled $343.2 million, or $5.86 per diluted common share, compared to $257.7 million, or $4.40 per diluted common share, in 2017, and $206.9 million, or $3.66 per diluted common share, in 2016. During 2018, net income increased by $85.5 million and earnings per diluted common share increased by $1.46. During 2017, net income increased by $50.8 million and earnings per diluted common share increased by $0.74. Net income increased in 2018 as compared to 2017 primarily as a result of an increase in net interest income driven by growth in earning assets and an improvement in net interest margin, lower income tax expenses primarily due to the reduction of the federal corporate income tax rate effective in 2018 as a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017 and an increase in mortgage banking revenue, partially offset by increased salary and employee benefits and higher advertising and marketing expense. Net income increased in 2017 as compared to 2016 primarily as a result of an increase in net interest income driven by growth in earning assets and improvement in net interest margin and an increase in operating lease income, partially offset by lower mortgage banking revenue and increased salary and employee benefits and operating lease equipment depreciation.

Net Interest Income

The primary source of the Company’s revenue is net interest income. Net interest income is the difference between interest income and fees on earning assets, such as loans and securities, and interest expense on the liabilities to fund those assets, including interest bearing deposits and other borrowings. The amount of net interest income is affected by both changes in the level of interest rates, and the amount and composition of earning assets and interest bearing liabilities.

Net interest income in 2018 totaled $964.9 million, up from $832.1 million in 2017 and $722.2 million in 2016, representing an increase of $132.8 million, or 16%, in 2018 and an increase of $109.9 million, or 15%, in 2017. The table presented later in this section, titled “Changes in Interest Income and Expense,” presents the dollar amount of changes in interest income and expense, by major category, attributable to changes in the volume of the balance sheet category and changes in the rate earned or paid with respect to that category of assets or liabilities for 2018 and 2017. Average earning assets increased $2.5 billion, or 10%, in 2018 and $2.1 billion, or 9%, in 2017. Loans are the most significant component of the earning asset base as they earn interest at a higher rate than the other earning assets. Average loans, excluding covered loans, increased $2.0 billion, or 10%, in 2018 and $2.3

billion, or 12%, in 2017. Total average loans, excluding covered loans, as a percentage of total average earning assets were 84%, 85% and 82% in 2018, 2017 and 2016, respectively. The average yield on loans, excluding covered loans, was 4.66% in 2018, 4.19% in 2017 and 3.96% in 2016, reflecting an increase of 47 basis points in 2018 and an increase of 23 basis points in 2017. The higher loan yields in 2018 compared to 2017 is primarily a result of the rising interest rate environment. The average yield on liquidity management assets was 2.78% in 2018, 2.28% in 2017 and 2.08% in 2016, reflecting an increase of 50 basis points in 2018 and a increase of 20 basis points in 2017. The average rate paid on interest bearing deposits, the largest component of the Company's interest bearing liabilities, was 0.95% in 2018, 0.52% in 2017 and 0.40% in 2016, representing an increase of 43 basis points in 2018 and an increase of 12 basis points in 2017. The higher level of interest bearing deposits rates in 2018 compared to 2017 is primarily due to upward re-pricing of retail deposits as a result of rising interest rates. As a result of the above, net interest margin increased to 3.59% (3.61% on a fully tax-equivalent basis) in 2018 compared to 3.41% (3.44% on a fully tax-equivalent basis) in 2017.

Net interest income and net interest margin were also affected by amortization of valuation adjustments to earning assets and interest-bearing liabilities of acquired businesses. Assets and liabilities of acquired businesses are required to be recognized at their estimated fair value at the date of acquisition. These valuation adjustments represent the difference between the estimated fair value and the carrying value of assets and liabilities acquired. These adjustments are amortized into interest income and interest expense based upon the estimated remaining lives of the assets and liabilities acquired.

Average Balance Sheets, Interest Income and Expense, and Interest Rate Yields and Costs

The following table sets forth the average balances, the interest earned or paid thereon, and the effective interest rate, yield or cost for each major category of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2018, 2017 and 2016. The yields and costs include loan origination fees and certain direct origination costs that are considered adjustments to yields. Interest income on non-accruing loans is reflected in the year that it is collected, to the extent it is not applied to principal. Such amounts are not material to net interest income or the net change in net interest income in any year. Non-accrual loans are included in the average balances. Net interest income and the related net interest margin have been adjusted to reflect tax-exempt income, such as interest on municipal securities and loans, on a tax-equivalent basis. This table should be referred to in conjunction with discussion of the financial condition and results of operations of the Company.

	Average Balance for the year ended December 31,			Interest for the year ended December 31,			Yield/Rate for the year ended December 31,		
(Dollars in thousands)	2018	2017	2016	2018	2017	2016	2018	2017	2016
Assets									
Interest bearing deposits with banks and cash equivalents	$888,671	$856,020	$829,845	$17,091	$9,254	$4,240	1.92 %	1.08 %	0.52
Investment securities	3,045,555	2,590,260	2,611,909	89,640	67,028	65,668	2.94	2.59	2.51
FHLB and FRB stock	101,681	89,333	120,726	5,331	4,370	4,287	5.24	4.89	3.55
Total liquidity management assets (1) (6)	$4,035,907	$3,535,613	$3,562,480	$112,062	$80,652	$74,195	2.78 %	2.28 %	2.08
Other earning assets (1) (2) (6)	20,681	25,951	28,992	777	662	931	3.75	2.55	3.21
Mortgage loans held-for-sale	332,863	319,147	418,256	15,738	12,332	14,953	4.73	3.86	3.58
Loans, net of unearned income (1) (3) (6)	22,500,482	20,469,799	18,210,005	1,047,905	858,058	722,741	4.66	4.19	3.96
Covered loans	—	40,665	102,948	—	2,251	5,589	—	5.54	5.43
Total earning assets (6)	$26,889,933	$24,391,175	$22,322,681	$1,176,482	$953,955	$818,409	4.38 %	3.91 %	3.67
Allowance for loan and covered loan losses	(148,342)	(133,432)	(118,229)						
Cash and due from banks	266,086	239,638	248,507						
Other assets	2,020,743	1,872,321	1,839,272						
Total assets	$29,028,420	$26,369,702	$24,292,231						
Liabilities and Shareholders’ Equity									
Deposits — interest bearing:									
NOW and interest bearing demand deposits	$2,436,791	$2,402,254	$2,438,052	$9,773	$5,027	$4,014	0.40 %	0.21 %	0.16

Wealth management deposits	2,356,145	2,125,177	1,877,020	27,839	13,952	8,206	1.18	0.66	0.44
Money market accounts	5,105,244	4,482,137	4,343,332	42,973	12,588	9,254	0.84	0.28	0.21
Savings accounts	2,684,661	2,471,663	1,887,748	11,444	7,715	3,313	0.43	0.31	0.18
Time deposits	4,872,590	4,423,067	4,074,734	74,524	44,044	33,622	1.53	1.00	0.83
Total interest bearing deposits	$17,455,431	$15,904,298	$14,620,886	$166,553	$83,326	$58,409	0.95 %	0.52 %	0.40
FHLB advances	713,539	380,412	653,529	12,412	8,798	10,886	1.74	2.31	1.67
Other borrowings	289,615	255,136	248,753	8,599	5,370	4,355	2.97	2.10	1.75
Subordinated notes	139,140	139,022	138,912	7,121	7,116	7,111	5.12	5.12	5.12
Junior subordinated notes	253,566	253,566	254,591	11,222	9,782	9,503	4.37	3.81	3.67
Total interest-bearing liabilities	$18,851,291	$16,932,434	$15,916,671	$205,907	$114,392	$90,264	1.09 %	0.67 %	0.57
Non-interest bearing deposits	6,545,251	6,182,048	5,409,923						
Other liabilities	533,138	413,139	415,708						
Equity	3,098,740	2,842,081	2,549,929						
Total liabilities and shareholders’ equity	$29,028,420	$26,369,702	$24,292,231						
Interest rate spread (4) (6)							3.29 %	3.24 %	3.10
Less: Fully tax-equivalent adjustment				$(5,672)	$(7,487)	$(5,952)	(0.02)	(0.03)	(0.02
Net free funds/contribution (5)	$8,038,642	$7,458,741	$6,406,010				0.32	0.20	0.16
Net interest income/margin (6) (GAAP)				$964,903	$832,076	$722,193	3.59 %	3.41 %	3.24
Fully tax-equivalent adjustment				5,672	7,487	5,952	0.02	0.03	0.02
Net interest income/margin (6) - FTE				$970,575	$839,563	$728,145	3.61 %	3.44 %	3.26

(1) Interest income on tax-advantaged loans, trading securities and investment securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate in effect as of the applicable period. The total adjustments for the years ended December 31, 2018, 2017 and 2016 were $5.7 million, $7.5 million and $6.0 million, respectively.

(2) Other earning assets include brokerage customer receivables and trading account securities.

(3) Loans, net of unearned income, include non-accrual loans.

(4) Interest rate spread is the difference between the yield earned on earning assets and the rate paid on interest-bearing liabilities.

(5) Net free funds is the difference between total average earning assets and total average interest-bearing liabilities. The estimated contribution to net interest margin from net free funds is calculated using the rate paid for total interest-bearing liabilities.

(6) See “Non-GAAP Financial Measures/Ratios” for additional information on this performance ratio.

Changes In Interest Income and Expense

The following table shows the dollar amount of changes in interest income and expense by major categories of interest-earning assets and interest-bearing liabilities attributable to changes in volume or rate for the periods indicated:

	Years Ended December 31, 2018 Compared to 2017			2017 Compared to 2016		
(Dollars in thousands)	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change
Interest income:						
Interest bearing deposits with banks and cash equivalents	$7,457	$380	$7,837	$4,857	$157	$5,014
Investment securities	12,039	12,028	24,067	1,925	(648)	1,277
FHLB and FRB stock	328	633	961	1,373	(1,290)	83
Total liquidity management assets	$19,824	$13,041	$32,865	$8,155	$(1,781)	$6,374
Other earning assets	268	(150)	118	(154)	(89)	(243)
Mortgage hold for sale	2,860	546	3,406	6,851	(3,445)	3,406
Loans, net of unearned income	100,551	89,653	190,204	36,503	91,309	127,812
Covered loans	(1,126)	(1,125)	(2,251)	108	(3,446)	(3,338)
Total interest income	$122,377	$101,965	$224,342	$51,463	$82,548	$134,011
Interest Expense:						
Deposits — interest bearing:						
NOW and interest bearing demand deposits	$3,671	$1,075	$4,746	$1,050	$(37)	$1,013
Wealth management deposits	9,713	4,174	13,887	3,169	2,577	5,746
Money market accounts	28,537	1,848	30,385	3,075	259	3,334
Savings accounts	3,046	683	3,729	3,157	1,245	4,402
Time deposits	25,357	5,123	30,480	7,516	2,906	10,422
Total interest expense — deposits	$70,324	$12,903	$83,227	$17,967	$6,950	$24,917
FHLB advances	(2,590)	6,204	3,614	3,379	(5,467)	(2,088)
Other borrowings	1,673	1,556	3,229	911	104	1,015
Subordinated notes	—	5	5	—	5	5
Junior subordinated notes	1,440	—	1,440	342	(63)	279
Total interest expense	$70,847	$20,668	$91,515	$22,599	$1,529	$24,128
Net interest income (GAAP)	$51,530	81,297	132,827	$28,864	81,019	109,883
Fully tax-equivalent adjustment	$(2,605)	$790	$(1,815)	$1,265	$270	$1,535
Net interest income - FTE	$48,925	$82,087	$131,012	$30,129	$81,289	$111,418

The changes in net interest income are created by changes in both interest rates and volumes. In the table above, volume variances are computed using the change in volume multiplied by the previous year's rate. Rate variances are computed using the change in rate multiplied by the previous year's volume. The change in interest due to both rate and volume has been allocated between factors in proportion to the relationship of the absolute dollar amounts of the change in each. The change in interest due to an additional day resulting from the 2016 leap year has been allocated entirely to the change due to volume.

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Non-Interest Income

The following table presents non-interest income by category for 2018, 2017 and 2016:

	Years ended December 31,			2018 compared to 2017		2017 compared to 2016	
(Dollars in thousands)	2018	2017	2016	$ Change	% Change	$ Change	% Change
Brokerage	$22,391	$22,863	$25,519	$ (472)	(2)%	$ (2,656)	(10)%
Trust and asset management	68,572	58,903	50,499	9,669	16	8,404	17
Total wealth management	$90,963	$81,766	$76,018	$ 9,197	11 %	$ 5,748	8 %
Mortgage banking	136,990	113,472	128,743	23,518	21	(15,271)	(12)
Service charges on deposit accounts	36,404	34,513	31,210	1,891	5	3,303	11
(Losses) gains on investment securities, net	(2,898)	45	7,645	(2,943)	NM	(7,600)	(99)
Fees from covered call options	3,519	4,402	11,470	(883)	(20)	(7,068)	(62)
Trading gains (losses), net	11	(845)	91	856	NM	(936)	NM
Operating lease income, net	38,451	29,646	16,441	8,805	30	13,205	80
Other:							
Interest rate swap fees	11,027	7,379	12,024	3,648	49	(4,645)	(39)
BOLI	4,982	3,524	3,594	1,458	41	(70)	(2)
Administrative services	4,625	4,165	4,409	460	11	(244)	(6)
Gain on extinguishment of debt	—	—	3,588	—	—	(3,588)	(100)
Early pay-offs of capital leases	601	1,228	728	(627)	(51)	500	69
Miscellaneous	31,475	40,211	29,469	(8,736)	(22)	10,742	36
Total Other	$52,710	$56,507	$53,812	$ (3,797)	(7)%	$ 2,695	5 %
Total Non-Interest Income	$356,150	$319,506	$325,430	$ 36,644	11 %	$ (5,924)	(2)%

NM—Not Meaningful

Notable contributions to the change in non-interest income are as follows:

Wealth management revenue is comprised of the trust and asset management revenue of the CTC and Great Lakes Advisors, the brokerage commissions, managed money fees and insurance product commissions at Wintrust Investments and fees from tax-deferred like-kind exchange services provided by CDEC.

Brokerage revenue is directly impacted by trading volumes. In 2018, brokerage revenue totaled $22.4 million, reflecting a decrease of $472,000, or 2%, compared to 2017. In 2017, brokerage revenue totaled $22.9 million, reflecting a decrease of $2.7 million, or 10%, compared to 2016. The decrease in brokerage revenue during 2018 compared to 2017 can be attributed to decreased customer trading activity.

Trust and asset management revenue totaled $68.6 million in 2018, an increase of $9.7 million, or 16%, compared to 2017. Trust and asset management revenue totaled $58.9 million in 2017, an increase of $8.4 million, or 17%, compared to 2016. Trust and asset management fees are based primarily on the market value of the assets under management or administration. Higher asset levels from new customers and new financial advisors along with market appreciation helped drive revenue growth in 2018 compared to 2017 and 2017 compared to 2016.

Mortgage banking revenue totaled $137.0 million in 2018, $113.5 million in 2017, and $128.7 million in 2016, reflecting an increase of $23.5 million, or 21%, in 2018, and a decrease of $15.3 million, or 12%, in 2017. Mortgage banking revenue includes revenue from activities related to originating, selling and servicing residential real estate loans for the secondary market. A main factor in the mortgage banking revenue recognized by the Company is the volume of mortgage loans originated or purchased for sale. Mortgage loans originated or purchased for sale were $4.0

billion in 2018 compared to $3.7 billion in 2017, and $4.4 billion in 2016. The increase in volume is the result of the Veterans First acquisition, which originated $694.2 million of volume, and increased correspondent originations from the Company's legacy business. This was partially offset by a decrease in retail originations from the Company's legacy business. Mortgage revenue is also impacted by changes in the fair value of MSRs as the Company does not hedge this change in fair value. The Company records MSRs at fair value on a recurring basis.

The table below presents additional selected information regarding mortgage banking revenue for the respective periods.

	Years Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Retail originations	$2,412,232	$3,142,824	$4,020,788
Correspondent originations	848,997	549,261	365,551
Veterans First originations	694,209	—	—
(A) Total originations	$3,955,438	$3,692,085	$4,386,339
Purchases as a percentage of originations	75 %	75 %	58 %
Refinances as a percentage of originations	25	25	42
Total	100 %	100 %	100 %
Production Margin:			
(B) Production revenue [1]	$92,250	$90,458	$113,360
Production margin (B/A)	2.33 %	2.45 %	2.58 %
Mortgage Servicing:			
(C) Loans serviced for others	$6,545,870	$2,929,133	$1,784,760
(D) MSRs, at fair value	75,183	33,676	19,103
Percentage of MSRs to loans serviced for others (D/C)	1.15 %	1.15 %	1.07 %
Components of Mortgage Banking Revenue:			
Production revenue	$92,250	90,458	$113,360
MSR - current period capitalization	33,071	18,341	13,091
MSR - collection of expected cash flow - paydown [2]	(1,910)	—	—
MSR - collection of expected cash flow - payoffs	(3,129)	(2,595)	(2,325)
MSR - changes in fair value model assumptions	(331)	(1,173)	(755)
Servicing income	15,268	6,417	3,329
Other	1,771	2,024	2,043
Total mortgage banking revenue	$136,990	$113,472	$128,743

(1) Production revenue represents revenue earned from the origination and subsequent sale of mortgages, including gains on loans sold and fees from originations, processing and other related activities, and excludes servicing fees, changes in fair value of servicing rights and changes to the mortgage recourse obligation.

(2) Change in MSR value due to collection of expected cash flows from paydowns and payoffs in 2017 and 2016 is combined and shown in total in the payoff line. The component detail is not available for 2017 or 2016.

Service charges on deposit accounts totaled $36.4 million in 2018, $34.5 million in 2017 and $31.2 million in 2016, reflecting an increase of 5% in 2018 and 11% in 2017. The increase in recent years is primarily a result of higher account analysis fees on deposit accounts which have increased as a result of the Company's commercial banking initiative as well as additional service charges on deposit accounts from acquired institutions.

The Company recognized $2.9 million net losses in 2018, versus $45,000 and $7.6 million in net gains on investment securities in 2017 and 2016, respectively. The Company did not recognize any other-than-temporary impairment charges in 2018, 2017 and 2016.

Fees from covered call option transactions totaled $3.5 million in 2018, versus $4.4 million in 2017 and $11.5 million in 2016. The Company has typically written call options with terms of less than three months against certain U.S.

Treasury and agency securities held in its portfolio for liquidity and other purposes. Management has effectively entered into these transactions with the goal of economically hedging security positions and enhancing its overall return on its investment portfolio by using fees generated from these options to compensate for net interest margin compression. These option transactions are designed to mitigate overall interest rate risk and to increase the total return associated with holding certain investment securities and do not qualify as hedges pursuant to accounting guidance. Fees from covered call options decreased primarily as a result of the market paying lower premiums in 2018 compared to 2017. There were no outstanding call option contracts at December 31, 2018, December 31, 2017 or December 31, 2016.

The Company recognized $11,000 of trading gains in 2018 compared to trading losses of $845,000 in 2017 and trading gains of $91,000 in 2016. Trading gains and losses recorded by the Company primarily result from fair value adjustments related to interest rate derivatives not designated as hedges.

Operating lease income totaled $38.5 million in 2018 compared to $29.6 million in 2017 and $16.4 million in 2016. The increase annually is primarily related to growth in business from the Company's leasing divisions.

Interest rate swap fee revenue totaled $11.0 million in 2018, $7.4 million in 2017 and $12.0 million in 2016. Swap fee revenues result from interest rate swap transactions related to both customer-based trades and the related matched trades with inter-bank dealer counterparties. The revenue recognized on this customer-based activity is sensitive to the pace of organic loan growth, the shape of the yield curve and the customers' expectations of interest rates. The fluctuations in swap fee revenue in 2018 and 2017 primarily results from fluctuations in interest rate swap transactions related to both customer-based trades and the related matched trades with inter-bank dealer counterparties.

Bank owned life insurance ("BOLI") generated non-interest income of $5.0 million in 2018, $3.5 million in 2017 and $3.6 million in 2016. This income typically represents adjustments to the cash surrender value of BOLI policies and proceeds received from death benefits. The Company initially purchased BOLI to consolidate existing term life insurance contracts of executive officers and to mitigate the mortality risk associated with death benefits provided for in executive employment contracts and in connection with certain deferred compensation arrangements. The Company has also assumed additional BOLI policies as the result of the acquisition of certain banks. The cash surrender value of BOLI totaled $147.9 million at December 31, 2018 and $145.9 million at December 31, 2017, and is included in other assets.

Administrative services revenue generated by Tricom was $4.6 million in 2018, $4.2 million in 2017 and $4.4 million in 2016. This revenue comprises income from administrative services, such as data processing of payrolls, billing and cash management services, to temporary staffing service clients located throughout the United States. Tricom also earns interest and fee income from providing high-yielding, short-term accounts receivable financing to this same client base, which is included in the net interest income category.

The $3.6 million net gain on extinguishment of debt in 2016 was the result of the extinguishment of $15.0 million of junior subordinated debentures that resulted in a $4.3 million gain, partially offset by a $717,000 loss as a result of the prepayment of $262.4 million of FHLB advances.

The Company realized gains of $601,000, $1.2 million and $728,000 in 2018, 2017 and 2016, respectively, representing gains realized from the early pay-off of leases originated and managed by the Company's leasing division.

Miscellaneous other non-interest income totaled $31.5 million in 2018, $40.2 million in 2017 and $29.5 million in 2016. Miscellaneous income includes loan servicing fees, income from other investments, service charges and other fees. The decrease in miscellaneous other income for 2018 compared to 2017 primarily resulted from discontinued accretion recognized on loss-share assets due to the termination of the loss share agreements and negative foreign currency adjustment related to the company's Canadian subsidiary. The increase in miscellaneous other income for 2017 compared to 2016 primarily resulted from increased fee from loan syndications and higher accretion recognized on loss- share assets.

Non-Interest Expense

The following table presents non-interest expense by category for 2018, 2017 and 2016:

	Years ended December 31,			2018 compared to 2017		2017 compared to 2016	
(Dollars in thousands)	2018	2017	2016	$ Change	% Change	$ Change	% Change
Salaries and employee benefits:							
Salaries	$266,563	$226,151	$210,623	$ 40,412	18 %	$ 15,528	7 %
Commissions and incentive compensation	135,558	133,511	128,390	2,047	2	5,121	4
Benefits	77,956	70,416	66,145	7,540	11	4,271	6
Total salaries and employee benefits	$480,077	$430,078	$405,158	$ 49,999	12 %	$ 24,920	6 %
Equipment	42,949	38,358	37,055	4,591	12	1,303	4
Operating lease equipment depreciation	29,305	24,107	13,259	5,198	22	10,848	82
Occupancy, net	57,814	52,920	50,912	4,894	9	2,008	4
Data processing	35,027	31,495	28,776	3,532	11	2,719	9
Advertising and marketing	41,140	30,830	24,776	10,310	33	6,054	24
Professional fees	32,306	27,835	20,411	4,471	16	7,424	36
Amortization of other intangible assets	4,571	4,401	4,789	170	4	(388)	(8)
FDIC insurance	17,209	16,231	16,065	978	6	166	1
OREO expenses, net	6,120	3,593	5,187	2,527	70	(1,594)	(31)
Other:							
Commissions — 3rd party brokers	4,264	4,178	5,161	86	2	(983)	(19)
Postage	8,685	6,763	7,184	1,922	28	(421)	(6)
Miscellaneous	66,621	61,028	62,952	5,593	9	(1,924)	(3)
Total other	$79,570	$71,969	$75,297	$ 7,601	11 %	$ (3,328)	(4)%
Total Non-Interest Expense	$826,088	$731,817	$681,685	$ 94,271	13 %	$ 50,132	7 %
NM—Not Meaningful							

Notable contributions to the change in non-interest expense are as follows:

Salaries and employee benefits is the largest component of non-interest expense, accounting for 58% of the total in 2018 compared to 59% of the total in both 2017 and 2016. For the year ended December 31, 2018, salaries and employee benefits totaled $480.1 million and increased $50.0 million, or 12%, compared to 2017. This increase can be attributed to a $40.4 million increase in salaries resulting from annual salary increases and larger staffing as the Company grows and a $7.5 million increase in benefits due to higher payroll taxes and increased insurance benefits. For the year ended December 31, 2017, salaries and employee benefits totaled $430.1 million and increased $24.9 million, or 6%, compared to 2016. This increase can be attributed to a $15.5 million increase in salaries resulting from annual salary increases, and larger staffing as the Company grows, as well as a $5.1 million increase in commissions and incentive compensation primarily attributable to the Company's long term incentive program.

Equipment expense totaled $42.9 million in 2018, $38.4 million in 2017 and $37.1 million in 2016, reflecting an increase of 12% in 2018 and an increase of 4% in 2017. The increase in equipment expense in 2018 and 2017 was primarily related to increased software license fees and higher depreciation as a result of equipment purchases. Equipment expense includes furniture, equipment and computer software, depreciation and repairs and maintenance costs.

Operating lease equipment depreciation expense totaled $29.3 million in 2018, $24.1 million in 2017 and $13.3 million in 2016. The increases in 2018 compared to 2017 and 2017 compared to 2016 were primarily related to growth in business from the Company's leasing divisions.

Occupancy expense for the years 2018, 2017 and 2016 was $57.8 million, $52.9 million and $50.9 million, respectively, reflecting increases of 9% in 2018 and 4% in 2017. The increase in 2018 was primarily the result of higher maintenance and repairs and higher real estate taxes on owned properties. Occupancy expense includes depreciation on premises, real estate taxes and insurance, utilities and maintenance of premises, as well as net rent expense for leased premises.

Data processing expenses totaled $35.0 million in 2018, $31.5 million in 2017 and $28.8 million in 2016, representing an increase of 11% in 2018 and an increase of 9% in 2017. The amount of data processing expenses incurred fluctuates based on the overall growth of loan and deposit accounts as well as additional expenses recorded related to bank acquisition transactions. The increase in both periods was primarily due to continued growth in the Company during the period.

Advertising and marketing expenses totaled $41.1 million for 2018, $30.8 million for 2017 and $24.8 million for 2016. Marketing costs are incurred to promote the Company’s brand, commercial banking capabilities, the Company’s MaxSafe® suite of products, community-based products, to attract loans and deposits and to announce new branch openings as well as the expansion of the Company's non-bank businesses. The increase in 2018 and 2017 was primarily due to expenses for community-related advertisements and sponsorships. The level of marketing expenditures depends on the type of marketing programs utilized which are determined based on the market area, targeted audience, competition and various other factors. Management continues to utilize mass market media promotions as well as targeted marketing programs in certain market areas. In 2018, 2017 and 2016, the Company incurred increased advertising and marketing costs to increase Wintrust's name recognition associated with the overall goal of becoming “Chicago's Bank” and “Wisconsin's Bank.”

Professional fees totaled $32.3 million in 2018, $27.8 million in 2017 and $20.4 million in 2016. The increase in 2018 as compared to 2017 related primarily to higher legal fees related to acquisitions and increased lending related fees. The increase in 2017 as compared to 2016 related primarily to increased consulting fees related to continued investment in various areas of company including technology and enhanced customer experience as well as higher legal fees. Professional fees include legal, audit and tax fees, external loan review costs and regulatory exam assessments.

FDIC insurance totaled $17.2 million for 2018, $16.2 million for 2017 and $16.1 million for 2016. The increase in 2018 as compared to 2017 was primarily the result of an increased assessment base due to the Company's growth during that year.

OREO expense was $6.1 million in 2018, $3.6 million in 2017, and $5.2 million in 2016. The increase in 2018 compared to 2017 was primarily the result of negative valuation adjustments of OREO properties. OREO expenses include all costs associated with obtaining, maintaining and selling other real estate owned properties as well as valuation adjustments.

Miscellaneous non-interest expense increased $5.6 million, or 9%, in 2018 compared to 2017 and decreased $1.9 million, or 3%, in 2017 compared to 2016. Miscellaneous non-interest expense includes ATM expenses, correspondent banking charges, directors’ fees, telephone and communication, travel and entertainment, corporate insurance, dues and subscriptions, problem loan expenses, operating losses and lending origination costs that are not deferred.

Income Taxes

The Company recorded income tax expense of $117.0 million in 2018 compared to $132.3 million in 2017 and $125.0 million in 2016. The effective tax rates were 25.4% in 2018, 33.9% in 2017 and 37.7% in 2016. The lower effective tax rate for the year ended 2018 compared to the years ended 2017 and 2016 was primarily due to the reduction of the federal corporate income tax rate effective in 2018 as a result of the enactment of the Tax Act, which reduced the statutory federal income tax rate for corporations from 35% to 21% effective January 1, 2018. During the fourth quarter of 2017, the Company recorded a provisional tax benefit of $7.6 million related to the enactment of the Tax Act, and during the third quarter of 2018, the Company finalized the provisional amounts and recorded an additional net tax benefit of $1.2 million. The lower effective tax rate for the years ended 2018 and 2017 as compared to the year ended 2016 was also impacted by recording $3.9 million and $6.2 million of excess tax benefits in the years ended 2018 and 2017, respectively, related to the adoption of new accounting rules for income taxes attributed to share-based compensation that became effective on January 1, 2017. In years prior to 2017, these excess tax benefits on share-based compensation were recorded directly to the Company's shareholders' equity. Excess tax benefits are expected to be higher in the first quarter of each year when the majority of the Company's share-based awards vest, and will fluctuate throughout the year based on the Company's stock price and timing of employee stock option exercises and vesting of other share-based awards. Please refer to Note 17 to the Consolidated Financial Statements in Item 8 for further discussion and analysis of the Company's tax position, including a reconciliation of the tax expense computed at the statutory tax rate to the Company's actual tax expense.

Operating Segment Results

As described in Note 24 to the Consolidated Financial Statements in Item 8, the Company’s operations consist of three primary segments: community banking, specialty finance and wealth management. The Company’s profitability is primarily dependent on the net interest income, provision for credit losses, non-interest income and operating expenses of its community banking segment. For purposes of internal segment profitability, management allocates certain intersegment and parent company balances. Management allocates a portion of revenues to the specialty finance segment related to loans and leases originated by the specialty finance segment and sold or assigned to the community banking segment. 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. Finally, expenses incurred at the Wintrust parent company are allocated to each segment based on each segment's risk-weighted assets.

The community banking segment's net interest income for the year ended December 31, 2018 totaled $791.8 million as compared to $677.5 million for the same period in 2017, an increase of $114.4 million, or 17%, and the segment's net interest income in 2017 compared to 2016 increased $88.6 million or 15%. The increase both in 2018 compared to 2017 and in 2017 compared to 2016 was primarily attributable to growth in earning assets and higher net interest margin. The community banking segment's provision for credit losses totaled $28.6 million in 2018 compared to $27.1 million in 2017 and $30.9 million in 2016. The provision for credit losses increased in 2018 compared to 2017 due to higher impaired loans requiring a specific reserve and an increase in loans during 2018. The provision for credit losses decreased in 2017 compared to 2016 primarily as a result of improved credit quality metrics, partially offset by an increase in loans, excluding covered loans, during 2017. Non-interest income for the community banking segment increased $27.3 million, or 13%, in 2018 when compared to 2017 and decreased $19.1 million, or 8%, in 2017 when compared to 2016. The increase in 2018 compared to 2017 was primarily attributable to an increase in mortgage banking revenue and higher swap fee income. The decrease in 2017 compared to 2016 was primarily attributable to a decrease in mortgage banking revenue, lower gains realized on sales of investment securities and lower fees from covered call options. The community banking segment's net income for the year ended December 31, 2018 totaled $240.8 million, an increase of $66.0 million, compared to net income of $174.8 million in 2017. Net income for the year ended December 31, 2017 of $174.8 million was an increase of $30.2 million as compared to net income in 2016 of $144.7 million.

The specialty finance segment's net interest income totaled $137.0 million for the year ended December 31, 2018, compared to $118.3 million in the same period of 2017, an increase of $18.7 million, or 16%. The specialty finance segment's net interest income for the year ended December 31, 2017 increased $20.1 million, or 20%, from $98.2 million in 2016. The increase both in 2018 compared to 2017 and in 2017 compared to 2016 was primarily attributable to growth in average loans and higher yields on the premium finance receivables portfolios. The specialty finance segment's provision for credit losses totaled $6.2 million in 2018 compared to $2.7 million in 2017 and $3.2 million in 2016. The provision for credit losses increased in 2018 compared to 2017 and 2016 primarily due to higher net charge-offs in 2018. The specialty finance segment's non-interest income totaled $65.9 million for the year ended December 31, 2018 compared to $60.4 million in 2017 and $49.7 million in 2016. The increase in non-interest income in 2018 is primarily a result of higher originations and increased balances related to the premium finance portfolio and growth in business from the Company's leasing division. For 2018, our commercial premium finance operations, life insurance premium finance operations, leasing operations and accounts receivable finance operations accounted for 39%, 36%, 19% and 6%, respectively, of the total revenues of our specialty finance business. Net income of the specialty finance segment totaled $82.1 million, $65.7 million and $48.8 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The wealth management segment reported net interest income of $17.5 million for 2018, $18.9 million for 2017 and $18.6 million for 2016. Net interest income for this segment is primarily comprised of an allocation of net interest income earned by the community banking segment on non-interest bearing and interest-bearing wealth management customer account balances on deposit at the banks. Wealth management customer account balances on deposit at the banks averaged $894.9 million, $992.0 million and $1.0 billion in 2018, 2017 and 2016, respectively. This segment recorded non-interest income of $91.9 million for 2018 as compared to $84.3 million for 2017 and $78.5 million for 2016. This increase is primarily due to growth in assets from new and existing customers and market appreciation. Distribution of wealth management services through each bank continues to be a focus of the Company as the number of brokers in its banks continues to increase. The Company is committed to growing the wealth management segment in order to better service its customers and create a more diversified revenue stream. The wealth management segment reported net income of $20.3 million for 2018 compared to $17.2 million for 2017 and $13.4 million for 2016.

ANALYSIS OF FINANCIAL CONDITION

Total assets were $31.2 billion at December 31, 2018, representing an increase of $3.3 billion, or 11.9%, when compared to December 31, 2017. Total funding, which includes deposits, all notes and advances, including secured borrowings and junior subordinated debentures, was $27.3 billion at December 31, 2018 and $24.4 billion at December 31, 2017. See Notes 3, 4, and 10 through 14 of the Consolidated Financial Statements in Item 8 for additional period-end detail on the Company's interest-earning assets and funding liabilities.

Interest-Earning Assets

The following table sets forth, by category, the composition of average earning assets and the relative percentage of each category to total average earning assets for the periods presented:

	Years Ended December 31,								
	2018			2017			2016		
(Dollars in thousands)	Balance	Percent		Balance	Percent		Balance	Percent	
Mortgage loans held-for-sale	$332,863	1	%	$319,147	1	%	$418,255	2	%
Loans:									
Commercial	7,223,368	27		6,241,253	26		5,268,454	24	
Commercial real estate	6,655,352	25		6,363,002	26		5,835,480	26	
Home equity	602,258	2		691,629	3		759,615	3	
Residential real estate	849,766	3		763,863	3		647,421	3	
Premium finance receivables	7,035,390	26		6,281,896	26		5,563,139	25	
Other loans	134,348	1		128,156	1		135,897	1	
Total loans, net of unearned income excluding covered loans (1)	$22,500,482	84	%	$20,469,799	85	%	$18,210,006	82	%
Covered loans	—	—		40,665	—		102,948	—	
Total average loans (1)	$22,500,482	84	%	$20,510,464	85	%	$18,312,954	82	%
Liquidity management assets (2)	$4,035,907	15	%	$3,535,613	14	%	$3,562,480	16	%
Other earning assets (3)	20,681	—		25,951	—		28,992	—	
Total average earning assets	$26,889,933	100	%	$24,391,175	100	%	$22,322,681	100	%
Total average assets	$29,028,420			$26,369,702			$24,292,231		
Total average earning assets to total average assets		93	%		92	%		92	%

(1) Includes non-accrual loans

(2) Liquidity management assets include investment securities, other securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements

(3) Other earning assets include brokerage customer receivables and trading account securities

Total average earning assets increased $2.5 billion, or 10%, in 2018 and $2.1 billion, or 9%, in 2017. Average earning assets comprised 93% of average total assets in 2018, and 92% in 2017 and 2016.

Loans. Average total loans, net of unearned income, totaled $22.5 billion and increased $2.0 billion, or 10%, in 2018 and $2.1 billion, or 11%, in 2017. Average commercial loans totaled $7.2 billion in 2018, and increased $982.1 million, or 16%, over the average balance in 2017, while average commercial real estate loans totaled $6.7 billion in 2018, increasing $292.4 million, or 5%, since 2017. From 2016 to 2017, average commercial loans increased $972.8 million, or 18%, while average commercial real estate loans increased by $527.5 million, or 9%. Combined, these categories comprised 62% and 61% of the average loan portfolio in 2018 and 2017, respectively. The growth realized in these categories for 2018 and 2017 is primarily attributable to increased business development efforts.

Home equity loans averaged $602.3 million in 2018, and decreased $89.4 million, or 13%, when compared to the average balance in 2017. Home equity loans averaged $691.6 million in 2017, and decreased $68.0 million, or 9%, when compared to the average balance in 2016. Unused commitments on home equity lines of credit totaled $807.9 million at December 31, 2018 and $826.5 million at December 31, 2017. The Company has been actively managing its home equity portfolio to ensure that diligent pricing, appraisal and other underwriting activities continue to exist.

Residential real estate loans averaged $849.8 million in 2018, and increased $85.9 million, or 11%, from the average balance in 2017. In 2017, residential real estate loans averaged $763.9 million, and increased $17.3 million, or 2%, from the average balance in 2016.

Average premium finance receivables totaled $7.0 billion in 2018, and accounted for 31% of the Company's average total loans. In 2018, average premium finance receivables increased $753.5 million, or 12%, compared to 2017. In 2017, average premium finance receivables increased $718.8 million, or 13%, from the average balance of $5.6 billion in 2016. The increase during 2018 and 2017 was the result of continued originations within the portfolio due to effective marketing and customer servicing. Approximately $7.9 billion of premium finance receivables were originated in 2018 compared to approximately $7.1 billion in 2017.

Other loans represent a wide variety of personal and consumer loans to individuals as well as high-yielding short-term accounts receivable financing to clients in the temporary staffing industry located throughout the United States. Consumer loans generally have shorter terms and higher interest rates than mortgage loans but generally involve more credit risk due to the type and nature of the collateral. Additionally, short-term accounts receivable financing may also involve greater credit risks than generally associated with the loan portfolios of more traditional community banks depending on the marketability of the collateral.

Covered loans averaged $40.7 million in 2017, and decreased $62.3 million, or 60%, when compared to 2016. Covered loans represented loans acquired through the nine FDIC-assisted transactions, all of which occurred prior to 2013. These loans were subject to loss sharing agreements with the FDIC. The FDIC agreed to reimburse the Company for 80% of losses incurred on the purchased loans, foreclosed real estate, and certain other assets. On October 16, 2017, the Company entered into agreements with the FDIC that terminated all existing loss share agreements with the FDIC. The Company will be solely responsible for all future charge-offs, recoveries, gains, losses and expenses related to the previously covered assets as the FDIC will no longer share in those amounts. See Note 7, "Business Combinations and Asset Acquisitions," for a discussion of these acquisitions, including the aggregation of these loans by risk characteristics when determining the initial and subsequent fair value.

Liquidity Management Assets. Funds that are not utilized for loan originations are used to purchase investment securities and short term money market investments, to sell as federal funds and to maintain in interest-bearing deposits with banks. Average liquidity management assets accounted for 15%, 14% and 16% of total average earning assets in 2018, 2017 and 2016, respectively. Average liquidity management assets increased $500.3 million in 2018 compared to 2017, and decreased $26.9 million in 2017 compared to 2016. The balances of these assets can fluctuate based on management's ongoing effort to manage liquidity and for asset liability management purposes.

Other earning assets. Other earning assets include brokerage customer receivables and trading account securities. In the normal course of business, Wintrust Investments activities involve the execution, settlement, and financing of various securities transactions. Wintrust Investments customer securities activities are transacted on either a cash or margin basis. In margin transactions, Wintrust Investments, under an agreement with the out-sourced securities firm, extends credit to its customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in customer's accounts. In connection with these activities, Wintrust Investments executes and the out-sourced firm clears customer transactions relating to the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose Wintrust Investments to off-balance-sheet risk, particularly in volatile trading markets, in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event a customer fails to satisfy its obligations, Wintrust Investments under an agreement with the out-sourced securities firm, may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. Wintrust Investments seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. Wintrust Investments monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or to reduce positions when necessary.

Deposits and Other Funding Sources

Total deposits at December 31, 2018, were $26.1 billion, increasing $2.9 billion, or 13%, compared to the $23.2 billion at December 31, 2017. Average deposit balances in 2018 were $24.0 billion, reflecting an increase of $1.9 billion, or 9%, compared to the average balances in 2017. During 2017, average deposits increased $2.1 billion, or 10%, compared to the prior year.

The increase in year end and average deposits in 2018 over 2017 is primarily attributable to the acquisitions of CSC and AEB, additional incremental deposits generated subsequent to the acquisition of CDEC and the Company's additional deposits associated with the increased commercial lending relationships. Average non-interest bearing deposits increased $363.2 million, or 6% in

2018 compared to 2017, with period end balances ending at 25% of total deposits at December 31, 2018, compared to 29% at December 31, 2017.

The following table presents the composition of average deposits by product category for each of the last three years:

	Years Ended December 31,					
	2018		2017		2016	
(Dollars in thousands)	Balance	Percent	Balance	Percent	Balance	Percent
Non-interest bearing deposits	$6,545,251	28 %	$6,182,048	28 %	$5,409,923	27 %
NOW and interest bearing demand deposits	2,436,791	10	2,402,254	11	2,438,051	12
Wealth management deposits	2,356,145	10	2,125,177	10	1,877,020	9
Money market accounts	5,105,244	21	4,482,137	20	4,343,332	23
Savings accounts	2,684,661	11	2,471,663	11	1,887,748	9
Time certificates of deposit	4,872,590	20	4,423,067	20	4,074,735	20
Total average deposits	$24,000,682	100 %	$22,086,346	100 %	$20,030,809	100 %

Wealth management deposits are funds from the brokerage customers of Wintrust Investments, CDEC, trust and asset management customers of the Company and brokerage customers from unaffiliated companies which have been placed into deposit accounts of the banks ("wealth management deposits" in the table above). Wealth management deposits consist primarily of money market accounts. Consistent with reasonable interest rate risk parameters, these funds have generally been invested in loan production of the banks as well as other investments suitable for banks.

The following table presents average deposit balances for each bank and the relative percentage of total consolidated average deposits held by each bank during each of the past three years:

	Years Ended December 31,					
	2018		2017		2016	
(Dollars in thousands)	Balance	Percent	Balance	Percent	Balance	Percent
Wintrust Bank	$4,549,385	19 %	$3,848,012	17 %	$3,410,462	16 %
Lake Forest Bank	2,627,628	11	2,494,951	11	2,242,961	11
Hinsdale Bank	1,945,538	8	1,761,825	8	1,646,559	8
Northbrook Bank	1,835,242	8	1,748,342	8	1,522,177	8
Town Bank	1,675,926	7	1,599,066	8	1,530,953	8
Barrington Bank	1,552,299	6	1,435,608	7	1,331,023	7
Wheaton Bank	1,311,340	6	1,183,185	5	1,077,386	5
Old Plank Trail Bank	1,283,627	5	1,215,786	6	1,119,326	6
Libertyville Bank	1,244,853	5	1,140,095	5	1,069,408	5
Village Bank	1,234,009	5	1,195,933	5	1,116,247	6
Beverly Bank	1,070,510	4	959,179	4	845,576	4
State Bank of the Lakes	956,470	4	882,684	4	823,940	4
St. Charles Bank	941,276	4	906,791	4	726,660	4
Schaumburg Bank	925,259	4	912,886	4	802,919	4
Crystal Lake Bank	847,320	4	802,003	4	765,212	4
Total deposits	$24,000,682	100 %	$22,086,346	100 %	$20,030,809	100 %
Percentage increase from prior year		9 %		10 %		15 %

Various acquisitions, are partially responsible for the deposit fluctuations from 2017 to 2018. These acquisitions are discussed in Note 7, "Business Combinations and Asset Acquisitions." The Company's continued overall growth during 2018 and 2017 also contributed to these deposit fluctuations.

Other Funding Sources. Although deposits are the Company's primary source of funding its interest-earning assets, the Company's ability to manage the types and terms of deposits is somewhat limited by customer preferences and market competition. As a result, in addition to deposits and the issuance of equity securities and the retention of earnings, the Company uses several other funding sources to support its growth. These sources include short-term borrowings, notes payable, FHLB advances, subordinated debt, secured borrowings and junior subordinated debentures. The Company evaluates the terms and unique characteristics of each source, as well as its asset-liability management position, in determining the use of such funding sources.

The following table sets forth, by category, the composition of the average balances of other funding sources for the periods presented:

	Years Ended December 31,					
	2018		2017		2016	
(Dollars in thousands)	Average Balance	Percent of Total	Average Balance	Percent of Total	Average Balance	Percent of Total
Federal Home Loan Bank advances	$713,539	51 %	$380,412	37 %	$653,529	50 %
Subordinated notes	139,140	10	139,022	13	138,912	11
Notes payable	67,176	5	46,744	5	61,738	5
Short-term borrowings	21,270	2	38,756	4	41,852	3
Other	48,333	3	33,964	3	18,555	1
Secured borrowings	152,836	11	135,672	13	126,608	10
Total other borrowings	289,615	21	255,136	25	248,753	19
Junior subordinated debentures	253,566	18	253,566	25	254,591	20
Total other funding sources	$1,395,860	100 %	$1,028,136	100 %	$1,295,785	100 %

Notes payable balances represent the balances on a $200.0 million loan agreement (“Credit Agreement”) with unaffiliated banks consisting of a $50.0 million revolving credit facility (“Revolving Credit Facility”) and a $150.0 million term facility (“Term Facility”). Both the Revolving Credit Facility and the Term Facility are available for corporate purposes such as to provide capital to fund continued growth at existing bank subsidiaries, possible future acquisitions and for other general corporate matters. At December 31, 2018, the Company had a balance under the Term Facility of $144.5 million. The Company was contractually required to borrow the entire amount of the Term Facility on September 18, 2018 and all such borrowings must be repaid by September 18, 2023. At December 31, 2018, the Company had no outstanding balance on the $50.0 million Revolving Credit Facility. In connection with the establishment of this loan agreement in 2018, all outstanding notes payable under a separate $150.0 million loan agreement with unaffiliated banks dated December 15, 2014 (as subsequently amended, the “Prior Credit Agreement”) were paid in full. The Prior Credit Agreement consisted of a term facility with an original outstanding balance of $75.0 million and a $75.0 million revolving credit facility. The Company had a balance under the term facility of the Prior Credit Agreement of $41.2 million at December 31, 2017. As of December 31, 2017, no balance was outstanding under the revolving credit facility of the Prior Credit Agreement .

FHLB advances provide the banks with access to fixed rate funds which are useful in mitigating interest rate risk and achieving an acceptable interest rate spread on fixed rate loans or securities. FHLB advances to the banks totaled $426.3 million at December 31, 2018 and $559.7 million at December 31, 2017. See Note 11, “Federal Home Loan Bank Advances,” to the Consolidated Financial Statements for further discussion of the terms of these advances.

The average balance of secured borrowings primarily represents a third party Canadian transaction (“Canadian Secured Borrowing”). Under the Canadian Secured Borrowing, in December 2014, the Company, through its subsidiary, FIFC Canada, sold an undivided co-ownership interest in all receivables owed to FIFC Canada to an unrelated third party in exchange for a cash payment of approximately C$150 million pursuant to a receivables purchase agreement (“Receivables Purchase Agreement”). The Receivables Purchase Agreement was amended in December 2015, effectively extending the maturity date from December 15, 2015 to December 15, 2017. Additionally, at that time, the unrelated third party paid an additional C$10 million, which increased the total payments to C$160 million. The Receivables Purchase Agreement was again amended in December 2017, effectively extending the maturity date from December 15, 2017 to December 16, 2019. Additionally, at that time, the unrelated third party paid an additional C$10 million, which increased the total payments to C$170 million. In June 2018, the unrelated third party paid an additional C$20 million, which increased the total payments to C$190 million. These transactions were not considered sales of receivables and, as such, related proceeds received are reflected on the Company's Consolidated Statements of Condition as a secured borrowing owed to the unrelated third party, net of unamortized debt issuance costs, and translated to the Company's reporting currency as of the respective date. At December 31, 2018, the translated balance of the Canadian Secured Borrowing totaled $139.3 million with an interest rate of 2.936%. The remaining $11.8 million within secured borrowings at December 31, 2018 represents other sold interests in certain loans by the Company that were not considered sales and, as such, related proceeds received are reflected on the Company's Consolidated Statements of Condition as a secured borrowing owed to the various unrelated third parties.

At December 31, 2018 and 2017, subordinated notes totaled $139.2 million and $139.1 million, respectively. During 2014, the Company issued $140.0 million of subordinated notes receiving $139.1 million in net proceeds. The notes have a stated interest rate of 5.00% and mature in June 2024.

Short-term borrowings include securities sold under repurchase agreements and federal funds purchased. These borrowings totaled $50.6 million and $17.2 million at December 31, 2018 and 2017, respectively. Securities sold under repurchase agreements represent sweep accounts for certain customers in connection with master repurchase agreements at the banks as well as short-term borrowings from banks and brokers. This funding category typically fluctuates based on customer preferences and daily liquidity needs of the banks, their customers and the banks' operating subsidiaries. See Note 13, "Other Borrowings," to the Consolidated Financial Statements for further discussion of these borrowings.

The Company has $253.6 million of junior subordinated debentures outstanding as of December 31, 2018 and 2017. The amounts reflected on the balance sheet represent the junior subordinated debentures issued to eleven trusts by the Company and equal the amount of the preferred and common securities issued by the trusts. In January 2016, the Company acquired $15.0 million of the $40.0 million of trust preferred securities issued by Wintrust Capital Trust VIII from a third-party investor. The purchase effectively extinguished $15.0 million of junior subordinated debentures related to Wintrust Capital Trust VIII and resulted in a $4.3 million gain from the early extinguishment of debt. See Note 14, "Junior Subordinated Debentures," of the Consolidated Financial Statements for further discussion of the Company's junior subordinated debentures. Starting in 2016, none of the junior subordinated debentures qualified as Tier 1 regulatory capital of the Company resulting in $245.5 million of the junior subordinated debentures, net of common securities, being included in the Company's Tier 2 regulatory capital.

Other borrowings at December 31, 2018 include a fixed-rate promissory note issued by the Company in June 2017 ("Fixed-Rate Promissory Note") related to and secured by two office buildings owned by the Company. At December 31, 2018, the Fixed-Rate Promissory Note had a balance of $47.7 million. Under the Fixed-Rate Promissory Note, the Company will make monthly principal payments and pay interest at a fixed rate of 3.36% until maturity on June 30, 2022. Additionally, at December 31, 2017, other borrowings included non-recourse notes related to certain capital leases totaled $151,000. See Note 13, "Other Borrowings," to the Consolidated Financial Statements in Item 8 for further discussion of these borrowings.

Shareholders' Equity. Total shareholders' equity was $3.3 billion at December 31, 2018, an increase of $290.6 million from the December 31, 2017 total of $3.0 billion. The increase in 2018 was primarily a result of net income of $343.2 million, $15.3 million from the issuance of shares of the Company's common stock pursuant to various stock compensation plans, net of treasury shares and $13.5 million credited to surplus for stock-based compensation costs, partially offset by common stock dividends of $42.8 million and preferred stock dividends of $8.2 million, $20.1 million in net unrealized loss from investment securities, net of tax, $9.2 million of foreign currency translation adjustments, net of tax, and $850,000 of net unrealized gains on cash flow hedges, net of tax.

Changes in shareholders' equity from 2016 to 2017 were primarily a result of net income of $257.7 million in 2017, $27.8 million from the issuance of the Company's common stock pursuant to various stock compensation plans, net of treasury shares, $13.5 million in net unrealized gain from investment securities, net of tax, $12.9 million credited to surplus for stock-based compensation costs, $7.0 million of foreign currency translation adjustments, net of tax, $3.0 million of net unrealized gains on cash flow hedges, net of tax, partially offset by common stock dividends of $30.8 million and preferred stock dividends of $9.8 million.

LOAN PORTFOLIO AND ASSET QUALITY

Loan Portfolio

The following table shows the Company's loan portfolio by category as of December 31 for each of the five previous fiscal years:

	2018		2017		2016		2015	
(Dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial	$7,828,538	33 %	$6,787,677	31 %	$6,005,422	30 %	$4,713,909	27 %
Commercial real estate	6,933,252	29	6,580,618	30	6,196,087	31	5,529,289	32
Home equity	552,343	2	663,045	3	725,793	4	784,675	5
Residential real estate	1,002,464	4	832,120	4	705,221	4	607,451	3
Premium finance receivables—commercial	2,841,659	12	2,634,565	12	2,478,581	12	2,374,921	14
Premium finance receivables—life insurance	4,541,794	19	4,035,059	19	3,470,027	18	2,961,496	17
Consumer and other	120,641	1	107,713	1	122,041	1	146,376	1
Total loans, net of unearned income, excluding covered loans	$23,820,691	100%	$21,640,797	100%	$19,703,172	100%	$17,118,117	99 %
Covered loans	—	—	—	—	58,145	—	148,673	1
Total loans	$23,820,691	100%	$21,640,797	100%	$19,761,317	100%	$17,266,790	100%

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Commercial and commercial real estate loans. Our commercial and commercial real estate loan portfolios are comprised primarily of commercial real estate loans and lines of credit for working capital purposes. The table below sets forth information regarding the types, amounts and performance of our loans within these portfolios as of December 31, 2018 and 2017:

	As of December 31, 2018			As of December 31, 2017		
(Dollars in thousands)	Balance	% of Total Balance	Allowance For Loan Losses Allocation	Balance	% of Total Balance	Allowance For Loan Losses Allocation
Commercial:						
Commercial, industrial and other	$5,120,096	34.6 %	$46,586	$4,342,505	32.5 %	$39,901
Franchise	948,979	6.4	8,919	847,597	6.3	6,451
Mortgage warehouse lines of credit	144,199	1.0	1,162	194,523	1.5	1,454
Asset-based lending	1,026,056	7.0	9,138	980,466	7.3	8,236
Leases	565,680	3.8	1,502	413,172	3.1	1,242
PCI - commercial loans (1)	23,528	0.2	519	9,414	0.1	527
Total commercial	$7,828,538	53.0 %	$67,826	$6,787,677	50.8 %	$57,811
Commercial Real Estate:						
Construction	$760,824	5.2 %	$8,999	$745,514	5.6 %	$8,728
Land	141,481	1.0	3,953	126,484	0.9	3,838
Office	939,322	6.4	6,239	894,833	6.7	5,736
Industrial	902,248	6.1	6,088	883,019	6.6	5,767
Retail	892,478	6.0	9,338	951,527	7.1	7,389
Multi-family	976,560	6.6	9,395	915,644	6.8	9,509
Mixed use and other	2,205,195	14.9	16,210	1,935,705	14.5	13,879
PCI - commercial real estate (1)	115,144	0.8	45	127,892	1.0	381
Total commercial real estate	$6,933,252	47.0 %	$60,267	$6,580,618	49.2 %	$55,227
Total commercial and commercial real estate	$14,761,790	100.0 %	$128,093	$13,368,295	100.0 %	$113,038
Commercial real estate—collateral location by state:						
Illinois	$5,336,454	77.0 %		$5,128,434	78.0 %	
Wisconsin	684,425	9.9		712,835	10.8	
Total primary markets	$6,020,879	86.9 %		$5,841,269	88.8 %	
Indiana	169,817	2.4		138,316	2.1	
Florida	52,237	0.8		69,427	1.1	
Arizona	61,893	0.9		58,594	0.9	
Michigan	40,110	0.6		47,167	0.7	
California	68,133	1.0		68,478	1.0	
Other (no individual state greater than 0.7%)	520,183	7.4		357,367	5.4	
Total	$6,933,252	100.0 %		$6,580,618	100.0 %	

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

We make commercial loans for many purposes, including working capital lines, which are generally renewable annually and supported by business assets, personal guarantees and additional collateral. Commercial business lending is generally considered to involve a slightly higher degree of risk than traditional consumer bank lending. Primarily as a result of growth in the commercial portfolio in 2018 and higher required specific reserves on impaired loans within the portfolio, our allowance for loan losses in our commercial loan portfolio is $67.8 million as of December 31, 2018 compared to $57.8 million as of December 31, 2017.

Our commercial real estate loans are generally secured by a first mortgage lien and assignment of rents on the property. Since most of our bank branches are located in the Chicago metropolitan area and southern Wisconsin, 86.9% of our commercial real estate loan portfolio is located in this region as of December 31, 2018. We have been able to effectively manage our total non-performing commercial real estate loans. As of December 31, 2018, our allowance for loan losses related to this portfolio is $60.3 million compared to $55.2 million as of December 31, 2017.

The Company also participates in mortgage warehouse lending by providing interim funding to unaffiliated mortgage bankers to finance residential mortgages originated by such bankers for sale into the secondary market. The Company's loans to the mortgage bankers are secured by the business assets of the mortgage companies as well as the specific mortgage loans funded by the Company, after they have been pre-approved for purchase by third party end lenders. The Company may also provide interim financing for packages of mortgage loans on a bulk basis in circumstances where the mortgage bankers desire to competitively bid on a number of mortgages for sale as a package in the secondary market. Amounts advanced with respect to any particular mortgage loan are usually required to be repaid within 21 days. During 2018, our mortgage warehouse lines decreased to $144.2 million as of December 31, 2018 from $194.5 million as of December 31, 2017.

Home equity loans. Our home equity loans and lines of credit are originated by each of our banks in their local markets where we have a strong understanding of the underlying real estate value. Our banks monitor and manage these loans, and we conduct an automated review of all home equity loans and lines of credit at least twice per year. This review collects current credit performance for each home equity borrower and identifies situations where the credit strength of the borrower is declining, or where there are events that may influence repayment, such as tax liens or judgments. Our banks use this information to manage loans that may be higher risk and to determine whether to obtain additional credit information or updated property valuations.

The rates we offer on new home equity lending are based on several factors, including appraisals and valuation due diligence, in order to reflect inherent risk, and we place additional scrutiny on larger home equity requests. In a limited number of cases, we issue home equity credit together with first mortgage financing, and requests for such financing are evaluated on a combined basis. It is not our practice to advance more than 85% of the appraised value of the underlying asset, which ratio we refer to as the loan-to-value ratio, or LTV ratio, and a majority of the credit we previously extended, when issued, had an LTV ratio of less than 80%. Our home equity loan portfolio has performed well in light of the ongoing volatility in the overall residential real estate market.

Residential real estate. Our residential real estate portfolio predominantly includes one- to four-family adjustable rate mortgages that have repricing terms generally from one to three years, construction loans to individuals and bridge financing loans for qualifying customers. As of December 31, 2018, our residential loan portfolio totaled $1.0 billion, or 4% of our total outstanding loans.

Our adjustable rate mortgages relate to properties located principally in the Chicago metropolitan area and southern Wisconsin or vacation homes owned by local residents. These adjustable rate mortgages are often non-agency conforming. Adjustable rate mortgage loans decrease the interest rate risk we face on our mortgage portfolio. However, this risk is not eliminated due to the fact that such loans generally provide for periodic and lifetime limits on the interest rate adjustments among other features. Additionally, adjustable rate mortgages may pose a higher risk of delinquency and default because they require borrowers to make larger payments when interest rates rise. As of December 31, 2018, $16.4 million of our residential real estate mortgages, or 1.6% of our residential real estate loan portfolio were classified as nonaccrual, $1.3 million were 90 or more days past due and still accruing (0.1%), $7.9 million were 30 to 89 days past due (0.8%) and $976.9 million were current (97.5%). We believe that since our loan portfolio consists primarily of locally originated loans, and since the majority of our borrowers are longer-term customers with lower LTV ratios, we face a relatively low risk of borrower default and delinquency.

While we generally do not originate loans for our own portfolio with long-term fixed rates due to interest rate risk considerations, we can accommodate customer requests for fixed rate loans by originating such loans and then selling them into the secondary market, for which we receive fee income. We may also selectively retain certain of these loans within the banks' own portfolios where they are non-agency conforming, or where the terms of the loans make them favorable to retain. A portion of the loans we sold into the secondary market were sold with the servicing of those loans retained. The amount of loans serviced for others as of December 31, 2018 and 2017 was $6.5 billion and

$2.9 billion, respectively. All other mortgage loans sold into the secondary market were sold without the retention of servicing rights.

The Government National Mortgage Association ("GNMA") optional repurchase programs allow financial institutions acting as servicers to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution was the original transferor of such loans. At the option of the servicer and without prior authorization from GNMA, the servicer may repurchase such delinquent loans for an amount equal to the remaining principal balance of the loan. Under FASB ASC Topic 860, “Transfers and Servicing,” this repurchase option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When the Company is deemed to have regained effective control over these loans under the unconditional repurchase option and the expected benefit of the potential repurchase is more than trivial, the loans can no longer be reported as sold and must be brought back onto the balance sheet as loans, regardless of whether the Company intends to exercise the repurchase option. These loans are reported as loans held-for-investment, part of the residential real estate portfolio, with the offsetting liability being reported in accrued interest payable and other liabilities. Rebooked GNMA loans held-for-investment amounted to $82.5 million at December 31, 2018, compared to $3.3 million at December 31, 2017.

It is not our current practice to underwrite, and we have no plans to underwrite, subprime, Alt A, no or little documentation loans, or option ARM loans. As of December 31, 2018 approximately $1.3 million of our mortgage loans consist of interest-only loans.

Premium finance receivables — commercial. FIRST Insurance Funding and FIFC Canada originated approximately $6.8 billion in commercial insurance premium finance receivables during 2018 as compared to approximately $6.1 billion in 2017. FIRST Insurance Funding and FIFC Canada make loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. The loans are originated by working through independent medium and large insurance agents and brokers located throughout the United States and Canada. The insurance premiums financed are primarily for commercial customers' purchases of liability, property and casualty and other commercial insurance.

This lending involves relatively rapid turnover of the loan portfolio and high volume of loan originations. Because of the indirect nature of this lending through third party agents and brokers and because the borrowers are located nationwide and in Canada, this segment is more susceptible to third party fraud than relationship lending. The Company performs ongoing credit and other reviews of the agents and brokers, and performs various internal audit steps to mitigate against the risk of any fraud. The majority of these loans are purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments.

Premium finance receivables — life insurance. Wintrust Life Finance originated approximately $1.0 billion in life insurance premium finance receivables in 2018 as compared to $968.4 million in 2017. The Company continues to experience increased competition and pricing pressure within the current market. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and legal counsel. The life insurance policy is the primary form of collateral. In addition, these loans often are secured with a letter of credit, marketable securities or certificates of deposit. In some cases, Wintrust Life Finance may make a loan that has a partially unsecured position.

Consumer and other. Included in the consumer and other loan category is a wide variety of personal and consumer loans to individuals as well as high yielding short-term accounts receivable financing to clients in the temporary staffing industry located throughout the United States. The banks originate consumer loans in order to provide a wider range of financial services to their customers.

Consumer loans generally have shorter terms and higher interest rates than mortgage loans but generally involve more credit risk than mortgage loans due to the type and nature of the collateral. Additionally, short-term accounts receivable financing may also involve greater credit risks than generally associated with the loan portfolios of more traditional community banks depending on the marketability of the collateral.

Covered loans. Covered loans represented loans acquired through eight FDIC-assisted transactions, all of which occurred prior to 2013. These loans were subject to loss sharing agreements with the FDIC. The FDIC agreed to reimburse the Company for 80% of losses incurred on the purchased loans, foreclosed real estate, and certain other assets. On October 16, 2017, the Company entered into agreements with the FDIC that terminated all existing loss share agreements with the FDIC. Starting on October 16, 2017, the Company is solely responsible for all charge-offs, recoveries, gains, losses and expenses related to the previously covered assets as the FDIC no longer shares in those amounts. See Note 7, "Business Combinations and Asset Acquisitions," of the Consolidated Financial Statements presented under Item 8 of this report for further discussion of these acquisitions, including the aggregation of these loans by risk characteristics when determining the initial and subsequent fair value.

Foreign. The Company had approximately $337.1 million of loans to businesses with operations in foreign countries as of December 31, 2018 compared to $318.9 million at December 31, 2017. This balance as of December 31, 2018 consists of loans originated by FIFC Canada.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table classifies the loan portfolio, excluding covered loans, at December 31, 2018 by date at which the loans reprice or mature, and the type of rate exposure:

(Dollars in thousands)	One year or less	From one to five years	Over five years	Total
Commercial				
Fixed rate	$154,368	$1,105,414	$665,595	$1,925,377
Variable rate	5,896,481	6,531	149	5,903,161
Total commercial	$6,050,849	$1,111,945	$665,744	$7,828,538
Commercial real estate				
Fixed rate	$369,120	$1,930,892	$315,343	$2,615,355
Variable rate	4,288,293	29,455	149	4,317,897
Total commercial real estate	$4,657,413	$1,960,347	$315,492	$6,933,252
Home equity				
Fixed rate	$11,712	$15,125	$18,543	$45,380
Variable rate	506,963	—	—	506,963
Total home equity	$518,675	$15,125	$18,543	$552,343
Residential real estate				
Fixed rate	$30,724	$22,568	$229,433	$282,725
Variable rate	55,329	303,383	361,027	719,739
Total residential real estate	$86,053	$325,951	$590,460	$1,002,464
Premium finance receivables - commercial				
Fixed rate	$2,762,211	$79,448	$—	$2,841,659
Variable rate	—	—	—	—
Total premium finance receivables - commercial	$2,762,211	$79,448	$—	$2,841,659
Premium finance receivables - life insurance				
Fixed rate	$15,303	$10,977	$3,690	$29,970
Variable rate	4,511,824	—	—	4,511,824
Total premium finance receivables - life insurance	$4,527,127	$10,977	$3,690	$4,541,794
Consumer and other				
Fixed rate	$75,263	$10,312	$2,176	$87,751
Variable rate	32,848	42	—	32,890
Total consumer and other	$108,111	$10,354	$2,176	$120,641
Total per category				
Fixed rate	$3,418,701	$3,174,736	$1,234,780	$7,828,217
Variable rate	15,291,738	339,411	361,325	15,992,474
Total loans, net of unearned income, excluding covered loans	$18,710,439	$3,514,147	$1,596,105	$23,820,691
Variable Rate Loan Pricing by Index:				
Prime	$2,480,764			
One- month LIBOR	8,076,230			
Three- month LIBOR	458,994			
Twelve- month LIBOR	4,741,121			
Other	235,365			
Total variable rate	$15,992,474			

Past Due Loans and Non-Performing Assets

Our ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, the Company operates a credit risk rating system under which our credit management personnel assign a credit risk rating to each loan at the time of origination and review loans on a regular basis to determine each loan's credit risk rating on a scale of 1 through 10 with higher scores indicating higher risk. The credit risk rating structure used is shown below:

1 Rating	—	Minimal Risk (Loss Potential — none or extremely low) (Superior asset quality, excellent liquidity, minimal leverage)
2 Rating	—	Modest Risk (Loss Potential demonstrably low) (Very good asset quality and liquidity, strong leverage capacity)
3 Rating	—	Average Risk (Loss Potential low but no longer refutable) (Mostly satisfactory asset quality and liquidity, good leverage capacity)
4 Rating	—	Above Average Risk (Loss Potential variable, but some potential for deterioration) (Acceptable asset quality, little excess liquidity, modest leverage capacity)
5 Rating	—	Management Attention Risk (Loss Potential moderate if corrective action not taken) (Generally acceptable asset quality, somewhat strained liquidity, minimal leverage capacity)
6 Rating	—	Special Mention (Loss Potential moderate if corrective action not taken) (Assets in this category are currently protected, potentially weak, but not to the point of substandard classification)
7 Rating	—	Substandard Accrual (Loss Potential distinct possibility that the bank may sustain some loss, but no discernible impairment) (Must have well defined weaknesses that jeopardize the liquidation of the debt)
8 Rating	—	Substandard Non-accrual (Loss Potential well documented probability of loss, including potential impairment) (Must have well defined weaknesses that jeopardize the liquidation of the debt)
9 Rating	—	Doubtful (Loss Potential extremely high) (These assets have all the weaknesses in those classified "substandard" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly improbable)
10 Rating	—	Loss (fully charged-off) (Loans in this category are considered fully uncollectible.)

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. A third party loan review firm independently reviews a significant portion of the loan portfolio at each of the Company's subsidiary banks to evaluate the appropriateness of the management-assigned credit risk ratings. These ratings are subject to further review at each of our bank subsidiaries by the applicable regulatory authority, including the FRB of Chicago, the OCC, the State of Illinois, and the State of Wisconsin and are also reviewed by our internal audit staff.

The Company’s problem loan reporting system 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. An appraisal is ordered at least once a year for these loans, or more often if market conditions dictate. In the event that the underlying value of the collateral cannot be easily determined, a detailed valuation methodology is prepared by the Managed Asset Division. A summary of this analysis is provided to the directors' loan committee of the bank which originated the credit for approval of a charge-off, if necessary.

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. In the event a collateral shortfall is identified during the credit review process, the Company will work with the borrower for a principal reduction and/or a pledge of additional collateral and/or additional guarantees. In the event that these options are not available, the loan may be subject to a downgrade of the credit risk rating. 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 Managed Asset Division 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.

The Company's approach to workout plans and restructuring loans is built on the credit-risk rating process. A modification of a loan with an existing credit risk rating of 6 or worse or a modification of any other credit, which will result in a restructured credit risk rating of 6 or worse must be reviewed for TDR classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of a loan 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 where the credit risk rating is 5 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 5 or better are not experiencing financial difficulties and therefore, are not considered TDRs.

TDRs, which are by definition considered impaired loans, 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 less the estimated cost to sell. Any shortfall is recorded as a specific reserve.

For non-TDR loans, 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 loan is considered impaired and a specific impairment reserve analysis is performed and, if necessary, a specific reserve is established. In determining the appropriate reserve for collateral-dependent loans, the Company considers the results of appraisals for the associated collateral.

Non-Performing Assets, excluding covered assets

The following table sets forth the Company’s non-performing assets and TDRs performing under the contractual terms of the loan agreement, excluding covered assets and PCI loans, as of the dates shown:
(Dollars in thousands)