

WINTRUST FINANCIAL CORP

Form 10-K

February 28, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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
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Common Stock, no par value	The NASDAQ Global Select Market
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Series D Preferred Stock, no par value	The NASDAQ Global Select Market
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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.

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 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. 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). 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 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.

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Large accelerated filer 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 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 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

(Dollars in thousands, except per share data)	Years Ended December 31,					
	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	

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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 information are 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.

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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.

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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.

(Dollars and shares in thousands, except per share data)	Years Ended December 31,					
	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						

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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.

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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 accretible 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 an 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.

(Dollars in thousands)	Average Balance for the year ended December 31,			Interest for the year ended December 31,			Yield/Rate for the year ended December 31,		
	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 %

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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 %

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.

Net free funds is the difference between total average earning assets and total average interest-bearing liabilities.

(5) 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:

(Dollars in thousands)	Years Ended December 31, 2018 Compared to 2017			2017 Compared to 2016		
	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.

Non-Interest Income

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

(Dollars in thousands)	Years ended December 31,			2018 compared to 2017		2017 compared to 2016	
	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.

(Dollars in thousands)	Years Ended December 31,			
	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) MSR, 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	

Production revenue represents revenue earned from the origination and subsequent sale of mortgages, including (1) 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:

(Dollars in thousands)	Years ended December 31,			2018 compared to 2017		2017 compared to 2016	
	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:

(Dollars in thousands)	Years Ended December 31,					
	2018		2017		2016	
	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,

(2) 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:

(Dollars in thousands)	Years Ended December 31,					
	2018		2017		2016	
	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:

(Dollars in thousands)	Years Ended December 31,					
	2018		2017		2016	
	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	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(Dollars in thousands)								
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 %

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:

(Dollars in thousands)	As of December 31, 2018			As of December 31, 2017		
	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 %	

PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance (1) 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)	2018	2017 ⁽³⁾	2016	2015	2014	
Loans past due greater than 90 days and still accruing ⁽¹⁾ :						
Commercial	\$—	\$—	\$174	\$541	\$474	
Commercial real estate	—	—	—	—	—	
Home equity	—	—	—	—	—	
Residential real estate	—	3,278	—	—	—	
Premium finance receivables – commercial	7,799	9,242	7,962	10,294	7,665	
Premium finance receivables – life insurance	—	—	3,717	—	—	
Consumer and other	109	40	144	150	119	
Total loans past due greater than 90 days and still accruing	\$7,908	\$12,560	\$11,997	\$10,985	\$8,258	
Non-accrual loans ⁽²⁾ :						
Commercial	50,984	15,696	15,875	12,712	9,157	
Commercial real estate	19,129	22,048	21,924	26,645	26,605	
Home equity	7,147	8,978	9,761	6,848	6,174	
Residential real estate	16,383	17,977	12,749	12,043	15,502	
Premium finance receivables – commercial	11,335	12,163	14,709	14,561	12,705	
Premium finance receivables – life insurance	—	—	—	—	—	
Consumer and other	348	740	439	263	277	
Total non-accrual loans	\$105,326	\$77,602	\$75,457	\$73,072	\$70,420	
Total non-performing loans:						
Commercial	\$50,984	\$15,696	\$16,049	\$13,253	\$9,631	
Commercial real estate	19,129	22,048	21,924	26,645	26,605	
Home equity	7,147	8,978	9,761	6,848	6,174	
Residential real estate	16,383	21,255	12,749	12,043	15,502	
Premium finance receivables – commercial	19,134	21,405	22,671	24,855	20,370	
Premium finance receivables – life insurance	—	—	3,717	—	—	
Consumer and other	457	780	583	413	395	
Total non-performing loans	\$113,234	\$90,162	\$87,454	\$84,057	\$78,677	
Other real estate owned	11,968	20,244	17,699	26,849	36,419	
Other real estate owned – from acquisitions	12,852	20,402	22,583	17,096	9,223	
Other repossessed assets	280	153	581	174	303	
Total non-performing assets	\$138,334	\$130,961	\$128,317	\$128,176	\$124,622	
TDRs performing under the contractual terms of the loan agreement	\$33,281	\$39,683	\$29,911	\$42,744	\$69,697	
Total non-performing loans by category as a percent of its own respective category's period-end balance:						
Commercial	0.65	% 0.23	% 0.27	% 0.28	% 0.25	%
Commercial real estate	0.28	0.34	0.35	0.48	0.59	
Home equity	1.29	1.35	1.34	0.87	0.86	
Residential real estate	1.63	2.55	1.81	1.98	3.21	
Premium finance receivables – commercial	0.67	0.81	0.91	1.05	0.87	
Premium finance receivables – life insurance	—	—	0.11	—	—	
Consumer and other	0.38	0.72	0.48	0.28	0.26	

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Total non-performing loans	0.48	% 0.42	% 0.44	% 0.49	% 0.55	%
Total non-performing assets, as a percentage of total assets	0.44	% 0.47	% 0.50	% 0.56	% 0.62	%
Allowance for loan losses as a percentage of total non-performing loans	134.92	% 152.95	% 139.83	% 125.39	% 116.56	%

(1) As of the dates shown, no TDRs were past due greater than 90 days and still accruing interest.

(2) Non-accrual loans included TDRs totaling \$32.8 million, \$10.1 million, \$11.8 million, \$9.1 million and \$12.6 million as of the years ended 2018, 2017, 2016, 2015 and 2014, respectively.

(3) Includes \$2.6 million of non-performing loans and \$2.9 million of other real estate owned reclassified from covered assets as a result of the termination of all existing loss share agreements with the FDIC during the fourth quarter of 2017.

Loan Portfolio Aging

The following table shows, as of December 31, 2018, only 0.5% of the entire portfolio is in a non-performing loan status (non-accrual or greater than 90 days past due and still accruing interest) with only 0.7% either one or two payments past due. In total,

98.8% of the Company's total loan portfolio as of December 31, 2018 is current according to the original contractual terms of the loan agreements.

The tables below show the aging of the Company's loan portfolio at December 31, 2018 and 2017:

As of December 31, 2018 (Dollars in thousands)	Non- accrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	\$34,298	\$—	\$1,451	\$21,618	\$5,062,729	\$5,120,096
Franchise	16,051	—	—	8,738	924,190	948,979
Mortgage warehouse lines of credit	—	—	—	—	144,199	144,199
Asset-based lending	635	—	200	3,156	1,022,065	1,026,056
Leases	—	—	—	1,250	564,430	565,680
PCI - commercial ⁽¹⁾	—	3,313	—	99	20,116	23,528
Total commercial	\$50,984	\$3,313	\$1,651	\$34,861	\$7,737,729	\$7,828,538
Commercial real-estate:						
Construction	1,554	—	—	9,424	749,846	760,824
Land	107	—	170	107	141,097	141,481
Office	3,629	—	877	5,077	929,739	939,322
Industrial	285	—	—	16,596	885,367	902,248
Retail	10,753	—	1,890	1,729	878,106	892,478
Multi-family	311	—	77	5,575	970,597	976,560
Mixed use and other	2,490	—	1,617	8,983	2,192,105	2,205,195
PCI - commercial real-estate ⁽¹⁾	—	6,241	6,195	4,075	98,633	115,144
Total commercial real-estate	\$19,129	\$6,241	\$10,826	\$51,566	\$6,845,490	\$6,933,252
Home equity	7,147	—	131	3,105	541,960	552,343
Residential real estate, including PCI	16,383	1,292	1,692	6,171	976,926	1,002,464
Premium finance receivables						
Commercial insurance loans	11,335	7,799	11,382	15,085	2,796,058	2,841,659
Life insurance loans	—	—	8,407	24,628	4,340,856	4,373,891
PCI - life insurance loans ⁽¹⁾	—	—	—	—	167,903	167,903
Consumer and other	348	227	87	733	119,246	120,641
Total loans, net of unearned income	\$105,326	\$18,872	\$34,176	\$136,149	\$23,526,168	\$23,820,691
As of December 31, 2018	Non- accrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Aging as a % of Loan Balance:						
Commercial						
Commercial, industrial and other	0.7 %	— %	— %	0.4 %	98.9 %	100.0 %
Franchise	1.7	—	—	0.9	97.4	100.0
Mortgage warehouse lines of credit	—	—	—	—	100.0	100.0
Asset-based lending	0.1	—	—	0.3	99.6	100.0
Leases	—	—	—	0.2	99.8	100.0
PCI - commercial ⁽¹⁾	—	14.1	—	0.4	85.5	100.0
Total commercial	0.7 %	— %	— %	0.4 %	98.9 %	100.0 %
Commercial real estate:						

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Construction	0.2	—	—	1.2	98.6	100.0
Land	0.1	—	0.1	0.1	99.7	100.0
Office	0.4	—	0.1	0.5	99.0	100.0
Industrial	—	—	—	1.8	98.1	100.0
Retail	1.2	—	0.2	0.2	98.4	100.0
Multi-family	—	—	—	0.6	99.4	100.0
Mixed use and other	0.1	—	0.1	0.4	99.4	100.0
PCI - commercial real-estate ⁽¹⁾	—	5.4	5.4	3.5	85.7	100.0
Total commercial real-estate	0.3	% 0.1	% 0.2	% 0.7	98.7	% 100.0%
Home equity	1.3	—	—	0.6	98.1	100.0
Residential real estate, including PCI	1.6	0.1	0.2	0.6	97.5	100.0
Premium finance receivables						
Commercial insurance loans	0.4	0.3	0.4	0.5	98.4	100.0
Life insurance loans	—	—	0.2	0.5	99.3	100.0
PCI - life insurance loans ⁽¹⁾	—	—	—	—	100.0	100.0
Consumer and other	0.3	0.2	0.1	0.6	98.8	100.0
Total loans, net of unearned income	0.4	% 0.1	% 0.1	% 0.6	98.8	% 100.0%

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

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As of December 31, 2017 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	\$ 11,260	\$—	\$3,746	\$13,392	\$4,314,107	\$4,342,505
Franchise	2,447	—	—	—	845,150	847,597
Mortgage warehouse lines of credit	—	—	—	4,000	190,523	194,523
Asset-based lending	1,550	—	283	10,057	968,576	980,466
Leases	439	—	3	1,958	410,772	413,172
PCI - commercial ⁽¹⁾	—	877	186	—	8,351	9,414
Total commercial	\$ 15,696	\$877	\$4,218	\$29,407	\$6,737,479	\$6,787,677
Commercial real-estate:						
Construction	\$ 3,143	\$—	\$—	\$200	\$742,171	\$745,514
Land	188	—	—	5,156	121,140	126,484
Office	2,438	—	—	4,458	887,937	894,833
Industrial	811	—	—	2,412	879,796	883,019
Retail	12,328	—	668	148	938,383	951,527
Multi-family	—	—	—	1,034	914,610	915,644
Mixed use and other	3,140	—	1,423	9,641	1,921,501	1,935,705
PCI - commercial real-estate ⁽¹⁾	—	7,135	2,255	6,277	112,225	127,892
Total commercial real-estate	\$ 22,048	\$7,135	\$4,346	\$29,326	\$6,517,763	\$6,580,618
Home equity	8,978	—	518	4,634	648,915	663,045
Residential real estate, including PCI	17,977	5,304	1,303	8,378	799,158	832,120
Premium finance receivables						
Commercial insurance loans	12,163	9,242	17,796	15,849	2,579,515	2,634,565
Life insurance loans	—	—	4,837	10,017	3,820,936	3,835,790
PCI - life insurance loans ⁽¹⁾	—	—	—	—	199,269	199,269
Consumer and other	740	101	242	727	105,903	107,713
Total loans, net of unearned income	\$ 77,602	\$22,659	\$33,260	\$98,338	\$21,408,938	\$21,640,797
As of December 31, 2017	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Aging as a % of Loan Balance:						
Commercial						
Commercial, industrial and other	0.3 %	— %	0.1 %	0.3 %	99.3 %	100.0 %
Franchise	0.3	—	—	—	99.7	100.0
Mortgage warehouse lines of credit	—	—	—	2.1	97.9	100.0
Asset-based lending	0.2	—	—	1.0	98.8	100.0
Leases	0.1	—	—	0.5	99.4	100.0
PCI - commercial ⁽¹⁾	—	9.3	2.0	—	88.7	100.0
Total commercial	0.2 %	— %	0.1 %	0.4 %	99.3 %	100.0 %
Commercial real-estate						
Construction	0.4	—	—	—	99.6	100.0
Land	0.1	—	—	4.1	95.8	100.0
Office	0.3	—	—	0.5	99.2	100.0
Industrial	0.1	—	—	0.3	99.6	100.0

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Retail	1.3	—	0.1	—	98.6	100.0
Multi-family	—	—	—	0.1	99.9	100.0
Mixed use and other	0.2	—	0.1	0.5	99.2	100.0
PCI - commercial real-estate ⁽¹⁾	—	5.6	1.8	4.9	87.7	100.0
Total commercial real-estate	0.3	% 0.1	% 0.1	% 0.4	% 99.1	% 100.0%
Home equity	1.4	—	0.1	0.7	97.8	100.0
Residential real estate, including PCI	2.2	0.6	0.2	1.0	96.0	100.0
Premium finance receivables						
Commercial insurance loans	0.5	0.4	0.7	0.6	97.8	100.0
Life insurance loans	—	—	0.1	0.3	99.6	100.0
PCI - life insurance loans ⁽¹⁾	—	—	—	—	100.0	100.0
Consumer and other	0.7	0.1	0.2	0.7	98.3	100.0
Total loans, net of unearned income	0.4	% 0.1	% 0.2	% 0.5	% 98.8	% 100.0%

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

As of December 31, 2018, only \$34.2 million of all loans, or 0.1%, were 60 to 89 days past due and \$136.1 million, or 0.6%, were 30 to 59 days (or one payment) past due. As of December 31, 2017, \$33.3 million of all loans, or 0.2%, were 60 to 89 days past due and \$98.3 million, or 0.5%, were 30 to 59 days (or one payment) past due. Many of the commercial and commercial real estate

loans shown as 60 to 89 days and 30 to 59 days past due are included on the Company's internal problem loan reporting system. Loans on this system are closely monitored by management on a monthly basis.

The Company's home equity and residential loan portfolios continue to exhibit low delinquency ratios. Home equity loans at December 31, 2018 that are current with regard to the contractual terms of the loan agreement represent 98.1% of the total home equity portfolio. Residential real estate loans, including PCI loans, at December 31, 2018 that are current with regards to the contractual terms of the loan agreements comprise 97.5% of these residential real estate loans outstanding.

Non-performing Loans Rollforward

The table below presents a summary of non-performing loans, excluding covered loans and PCI loans, for the periods presented:

(Dollars in thousands)	2018	2017
Balance at beginning of period	\$90,162	\$87,454
Additions, net from non-covered portfolio	92,428	55,738
Additions, net from covered non-performing loans subsequent to loss share expiration	—	2,572
Return to performing status	(14,449)	(3,596)
Payments received	(29,807)	(27,202)
Transfers to OREO and other repossessed assets	(7,138)	(9,236)
Charge-offs	(15,792)	(10,362)
Net change for niche loans ⁽¹⁾	(2,170)	(5,206)
Balance at end of period	\$113,234	\$90,162

(1) This includes activity for premium finance receivables and indirect consumer loans

PCI loans are excluded from non-performing loans as they continue to earn interest income from the related accretable yield, independent of performance with contractual terms of the loan. See Note 5, "Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans," of the Consolidated Financial Statements in Item 8 for further discussion of non-performing loans and the loan aging during the respective periods.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of the probable and reasonably estimable loan losses that are inherent in the loan portfolio. The allowance for loan losses is determined quarterly using a methodology that incorporates important risk characteristics of each loan, as described below under "How We Determine the Allowance for Credit Losses" in this Item 7. This process is subject to 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.

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The following table sets forth the allocation of the allowance for loan and covered loan losses and the allowance for losses on lending-related commitments by major loan type and the percentage of loans in each category to total loans for the past five fiscal years:

(Dollars in thousands)	December 31, 2018		December 31, 2017		December 31, 2016		December 31, 2015		December 31, 2014	
	Amount	% of Loan Type to Total Loans	Amount	% of Loan Type to Total Loans	Amount	% of Loan Type to Total Loans	Amount	% of Loan Type to Total Loans	Amount	% of Loan Type to Total Loans
Allowance for loan losses and allowance for covered loan losses allocation:										
Commercial	\$67,826	33 %	\$57,811	31 %	\$44,493	30 %	\$36,135	27 %	\$31,699	26 %
Commercial real-estate	60,267	29	55,227	30	51,422	31	43,758	32	35,533	31
Home equity	8,507	2	10,493	3	11,774	4	12,012	5	12,500	5
Residential real-estate	7,194	4	6,688	4	5,714	4	4,734	3	4,218	3
Premium finance receivables – commercial	6,144	12	5,356	12	6,125	12	6,016	14	5,726	16
Premium finance receivables – life insurance	1,571	19	1,490	19	1,500	18	1,217	17	787	16
Consumer and other	1,261	1	840	1	1,263	1	1,528	1	1,242	1
Total allowance for loan losses	\$152,770	100%	\$137,905	100%	\$122,291	100%	\$105,400	99 %	\$91,705	98 %
Covered loans	—	—	—	—	1,322	—	3,026	1	2,131	2
Total allowance for loan losses and allowance for covered loan losses	\$152,770	100%	\$137,905	100%	\$123,613	100%	\$108,426	100%	\$93,836	100%
Allowance category as a percent of total allowance for loan losses and allowance for covered loan losses:										
Commercial	44	%	42	%	36	%	33	%	34	%
Commercial real-estate	39		40		42		40		38	
Home equity	6		7		9		11		13	
Residential real-estate	5		5		5		4		4	
Premium finance receivables—commercial	4		4		5		6		6	
Premium finance receivables—life insurance	1		1		1		1		1	
Consumer and other	1		1		1		2		2	
	100	%	100	%	99	%	97	%	98	%

Total allowance for loan losses										
Covered loans	—		—		1		3		2	
Total allowance for loan losses	100	%	100	%	100	%	100	%	100	%
Allowance for losses on lending-related commitments:										
Commercial and commercial real estate	\$ 1,394		\$ 1,269		\$ 1,673		\$ 949		\$ 775	
Total allowance for credit losses including allowance for covered loan losses	\$ 154,164		\$ 139,174		\$ 125,286		\$ 109,375		\$ 94,611	

Management determined that the allowance for loan losses was appropriate at December 31, 2018, and that the loan portfolio is well diversified and well secured, without undue concentration in any specific risk area. While this process involves a high degree of management judgment, the allowance for credit losses is based on a comprehensive, well documented, and consistently applied analysis of the Company's loan portfolio. This analysis takes into consideration all available information existing as of the financial statement date, including environmental factors such as economic, industry, geographical and political factors. The relative level of allowance for credit losses is reviewed and compared to industry peers. This review encompasses the levels of total nonperforming loans, portfolio mix, portfolio concentrations, current geographic risks and overall levels of net charge-offs. Historical trending of both the Company's results and the industry peers is also reviewed to analyze comparative significance.

Allowance for Credit Losses, Excluding Covered Loans

The following tables summarize the activity in our allowance for credit losses during the last five fiscal years.

(Dollars in thousands)	2018	2017	2016	2015	2014
Allowance for loan losses at beginning of year	\$137,905	\$122,291	\$105,400	\$91,705	\$96,922
Provision for credit losses	34,832	29,982	34,790	33,747	22,889
Other adjustments ⁽¹⁾	(181)	573	(291)	(737)	(824)
Reclassification from (to) allowance for unfunded lending-related commitments	(126)	69	(725)	(138)	(56)
Charge-offs:					
Commercial	14,532	5,159	7,915	4,253	4,153
Commercial real estate	1,395	4,236	1,930	6,543	15,788
Home equity	2,245	3,952	3,998	4,227	3,895
Residential real estate	1,355	1,284	1,730	2,903	1,750
Premium finance receivables – commercial	12,228	7,335	8,193	7,060	5,722
Premium finance receivables – life insurance	—	—	—	—	4
Consumer and other	880	729	925	521	792
Total charge-offs	\$32,635	\$22,695	\$24,691	\$25,507	\$32,104
Recoveries:					
Commercial	1,457	1,870	1,594	1,432	1,198
Commercial real estate	5,631	2,190	2,945	2,840	1,334
Home equity	541	746	484	312	535
Residential real estate	2,075	452	225	283	335
Premium finance receivables – commercial	3,069	2,128	2,374	1,288	1,139
Premium finance receivables – life insurance	—	—	—	16	11
Consumer and other	202	299	186	159	326
Total recoveries	\$12,975	\$7,685	\$7,808	\$6,330	\$4,878
Net charge-offs, excluding covered loans	\$(19,660)	\$(15,010)	\$(16,883)	\$(19,177)	\$(27,226)
Allowance for loan losses at year end	\$152,770	\$137,905	\$122,291	\$105,400	\$91,705
Allowance for unfunded lending-related commitments at year end	\$1,394	\$1,269	\$1,673	\$949	\$775
Allowance for credit losses at year end	\$154,164	\$139,174	\$123,964	\$106,349	\$92,480
Net charge-offs (recoveries) by category as a percentage of its own respective category's average:					
Commercial	0.18	% 0.05	% 0.12	% 0.07	% 0.08
Commercial real estate	(0.06)	0.03	(0.02)	0.07	0.33
Home equity	0.28	0.46	0.46	0.52	0.47

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Residential real estate	(0.08)	0.11	0.23	0.49	0.31
Premium finance receivables – commercial	0.33		0.20	0.24	0.24	0.19
Premium finance receivables – life insurance	0.00		0.00	0.00	0.00	0.00
Consumer and other	0.50		0.34	0.54	0.23	0.28
Total loans, net of unearned income, excluding covered loans	0.09	%	0.07	%	0.09	%
Net charge-offs as a percentage of the provision for credit losses	56.44	%	50.06	%	48.53	%
Year-end total loans (excluding covered loans)	\$23,820,691		\$21,640,797		\$19,703,172	
Allowance for loan losses as a percentage of loans at end of year	0.64	%	0.64	%	0.62	%
Allowance for credit losses as a percentage of loans at end of year	0.65	%	0.64	%	0.63	%

(1) Includes \$742,000 of allowance for covered loan losses reclassified as a result of the termination of all existing loss share agreements with the FDIC during the fourth quarter of 2017.

The allowance for credit losses, excluding the allowance for covered loan losses, is comprised of an allowance for loan losses, which is determined with respect to loans that we have originated, and an allowance for lending-related commitments. Our allowance for lending-related commitments is determined with respect to funds that we have committed to lend but for which funds have not yet been disbursed and is computed using a methodology similar to that used to determine the allowance for loan losses. The allowance for unfunded lending-related commitments totaled \$1.4 million as of December 31, 2018 compared to \$1.3 million as of December 31, 2017.

Additions to the allowance for loan losses are charged to earnings through the provision for credit losses. Charge-offs represent the amount of loans that have been determined to be uncollectible during a given period, and are deducted from the allowance for loan losses, and recoveries represent the amount of collections received from loans that had previously been charged off, and are credited to the allowance for loan losses. 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 report for further discussion of activity within the allowance for loan losses during the period and the relationship with respective loan balances for each loan category and the total loan portfolio, excluding covered loans.

How We Determine the Allowance for Credit Losses

The allowance for loan losses includes an element for estimated probable but undetected losses and for imprecision in the credit risk models used to calculate the allowance. If the loan is impaired, the Company analyzes the loan for purposes of calculating our specific impairment reserves as part of the Problem Loan Reporting system review. A general reserve is separately determined for loans not considered impaired. 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 report for further discussion of the specific impairment reserve and general reserve as it relates to the allowance for credit losses for each loan category and the total loan portfolio, excluding covered loans.

Specific Impairment Reserves:

Loans with a credit risk rating of a 6 through 9 are reviewed to determine if (a) an amount is deemed uncollectible (a charge-off) or (b) it is probable that the Company will be unable to collect amounts due in accordance with the original contractual terms of the loan (impaired loan). If a loan is impaired, 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 impairment reserve.

At December 31, 2018, the Company had \$127.3 million of impaired loans with \$60.2 million of this balance requiring \$11.4 million of specific impairment reserves. At December 31, 2017, the Company had \$105.1 million of impaired loans with \$36.1 million of this balance requiring \$8.0 million of specific impairment reserves. The most significant fluctuation in impaired loans requiring specific impairment reserves from 2017 to 2018 occurred within the commercial, industrial and other and commercial franchise portfolios. The recorded investment and specific impairment reserves in commercial, industrial and other portfolio increased by \$10.5 million and \$915,000, respectively, which was primarily the result of one relationship becoming non-performing during the period and requiring additional reserves. The recorded investment and specific impairment reserves in the commercial franchise portfolio increased by \$16.0 million and \$1.4 million, respectively, due to one relationship requiring \$1.6 million of specific impairment reserves starting in 2018.

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 report for further discussion of

impaired loans and the related specific impairment reserve.

General Reserves:

For loans with a credit risk rating of 1 through 7 that are not considered impaired loans, reserves are established based on the type of loan collateral, if any, and the assigned credit risk rating. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on the average historical loss experience over an eight-year period, and consideration of current environmental factors and economic trends, all of which may be susceptible to significant change.

We determine this component of the allowance for loan losses by classifying each loan into (i) categories based on the type of collateral that secures the loan (if any), and (ii) one of ten categories based on the credit risk rating of the loan, as described above under “Past Due Loans and Non-Performing Assets” in this Item 7. Each combination of collateral and credit risk rating is then assigned a specific loss factor that incorporates the following factors:

historical loss experience;

- changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- changes in national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio;
- changes in the nature and volume of the portfolio and in the terms of the loans;
- changes in the experience, ability, and depth of lending management and other relevant staff;
- changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans;
- changes in the quality of the bank's loan review system;
- changes in the underlying collateral for collateral dependent loans;
- the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the bank's existing portfolio.

In 2018, the Company modified its historical loss experience analysis by incorporating eight-year average loss rate assumptions for its historical loss experience to capture an extended credit cycle. The current eight-year average loss rate assumption analysis is computed for each of the Company's collateral codes. The historical loss experience is combined with the specific loss factor for each combination of collateral and credit risk rating which is then applied to each individual loan balance to determine an appropriate general reserve. The historical loss rates are updated on a quarterly basis and are driven by the performance of the portfolio and any changes to the specific loss factors are driven by management judgment and analysis of the factors described above. The Company also analyzes the three-, four-, five-, six- and seven-year average historical loss rates on a quarterly basis as a comparison.

Home Equity and Residential Real Estate Loans

The determination of the appropriate allowance for loan losses for residential real estate and home equity loans differs slightly from the process used for commercial and commercial real estate loans. The same credit risk rating system, Problem Loan Reporting system, collateral coding methodology and loss factor assignment are used. The only significant difference is in how the credit risk ratings are assigned to these loans.

The home equity loan portfolio is reviewed on a loan by loan basis by analyzing current FICO scores of the borrowers, line availability, recent line usage, an approaching maturity and the aging status of the loan. Certain of these factors, or combination of these factors, may cause a portion of the credit risk ratings of home equity loans across all banks to be downgraded. Similar to commercial and commercial real estate loans, once a home equity loan's credit risk rating is downgraded to a 6 through 9, the Company's Managed Asset Division reviews and advises the subsidiary banks as to collateral valuations and as to the ultimate resolution of the credits that deteriorate to a non-accrual status to minimize losses.

Residential real estate loans that are downgraded to a credit risk rating of 6 through 9 also enter the problem loan reporting system and have the underlying collateral evaluated by the Managed Assets Division.

Premium Finance Receivables

The determination of the appropriate allowance for loan losses for premium finance receivables is based on the assigned credit risk rating of loans in the portfolio. Loss factors are assigned to each risk rating in order to calculate an allowance for loan losses. The allowance for loan losses for these categories is entirely a general reserve.

Methodology in Assessing Impairment and Charge-off Amounts

In determining the amount of impairment or charge-offs associated with collateral dependent loans, the Company values the loan generally by starting with a valuation obtained from an appraisal of the underlying collateral and then deducting estimated selling costs to arrive at a net appraised value. We obtain the appraisals of the underlying collateral typically on an annual basis from one of a pre-approved list of independent, third party appraisal firms. Types of appraisal valuations include “as-is,” “as-complete,” “as-stabilized,” bulk, fair market, liquidation and “retail sellout” values.

In many cases, the Company simultaneously values the underlying collateral by marketing the property to market participants interested in purchasing properties of the same type. If the Company receives offers or indications of interest, we will analyze the price and review market conditions to assess whether in light of such information the appraised value overstates the likely price

and that a lower price would be a better assessment of the market value of the property and would enable us to liquidate the collateral. Additionally, the Company takes into account the strength of any guarantees and the ability of the borrower to provide value related to those guarantees in determining the ultimate charge-off or reserve associated with any impaired loans. Accordingly, the Company may charge-off a loan to a value below the net appraised value if it believes that an expeditious liquidation is desirable in the circumstance and it has legitimate offers or other indications of interest to support a value that is less than the net appraised value. Alternatively, the Company may carry a loan at a value that is in excess of the appraised value if the Company has a guarantee from a borrower that the Company believes has realizable value. In evaluating the strength of any guarantee, the Company evaluates the financial wherewithal of the guarantor, the guarantor's reputation, and the guarantor's willingness and desire to work with the Company. The Company then conducts a review of the strength of a guarantee on a frequency established as the circumstances and conditions of the borrower warrant.

In circumstances where the Company has received an appraisal but has no third party offers or indications of interest, the Company may enlist the input of realtors in the local market as to the highest valuation that the realtor believes would result in a liquidation of the property given a reasonable marketing period of approximately 90 days. To the extent that the realtors' indication of market clearing price under such scenario is less than the net appraised valuation, the Company may take a charge-off on the loan to a valuation that is less than the net appraised valuation.

The Company may also charge-off a loan below the net appraised valuation if the Company holds a junior mortgage position in a piece of collateral whereby the risk to acquiring control of the property through the purchase of the senior mortgage position is deemed to potentially increase the risk of loss upon liquidation due to the amount of time to ultimately market the property and the volatile market conditions. In such cases, the Company may abandon its junior mortgage and charge-off the loan balance in full.

In other cases, the Company may allow the borrower to conduct a "short sale," which is a sale where the Company allows the borrower to sell the property at a value less than the amount of the loan. Many times, it is possible for the current owner to receive a better price than if the property is marketed by a financial institution which the market place perceives to have a greater desire to liquidate the property at a lower price. To the extent that we allow a short sale at a price below the value indicated by an appraisal, we may take a charge-off beyond the value that an appraisal would have indicated.

Other market conditions may require a reserve to bring the carrying value of the loan below the net appraised valuation such as litigation surrounding the borrower and/or property securing our loan or other market conditions impacting the value of the collateral.

Having determined the net value based on the factors such as those noted above and compared that value to the book value of the loan, the Company arrives at a charge-off amount or a specific reserve included in the allowance for loan losses. In summary, for collateral dependent loans, appraisals are used as the fair value starting point in the estimate of net value. Estimated costs to sell are deducted from the appraised value to arrive at the net appraised value. Although an external appraisal is the primary source of valuation utilized for charge-offs on collateral dependent loans, alternative sources of valuation may become available between appraisal dates. As a result, we may utilize values obtained through these alternative sources, which include purchase and sale agreements, legitimate indications of interest, negotiated short sales, realtor price opinions, sale of the note or support from guarantors, as the basis for charge-offs. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. In addition, if an appraisal is not deemed current, a discount to appraised value may be utilized. Any adjustments from appraised value to net value are detailed and justified in an impairment analysis, which is reviewed and approved by the Company's Managed Assets Division.

TDRs

At December 31, 2018, the Company had \$66.1 million in loans classified as TDRs. The \$66.1 million in TDRs represents 134 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability to pay. The balance increased from \$49.8 million representing 80 credits at December 31, 2017.

Concessions were granted on a case-by-case basis working with these borrowers to find modified terms that would assist them in retaining their businesses or their homes and attempt to keep these loans in an accruing status for the Company. Typical concessions include reduction of the interest rate on the loan to a rate considered lower than market and other modification of terms including forgiveness of a portion of the loan balance, extension of the maturity date, and/or modifications from principal and interest payments to interest-only payments for a certain period. See Note 5, "Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans," of Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further discussion regarding the effectiveness of these modifications in keeping the modified loans current based upon contractual terms.

Subsequent to its restructuring, any TDR that becomes nonaccrual or more than 90 days past-due and still accruing interest will be included in the Company's nonperforming loans. Each TDR was reviewed for impairment at December 31, 2018 and approximately \$2.1 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. Additionally, the Company was committed to lend additional funds to borrowers totaling \$0.9 million and \$1.8 million at December 31, 2018 and 2017, respectively, under the contractual terms related to TDRs.

The table below presents a summary of TDRs for the respective periods, presented by loan category and accrual status:

	December 31, 2018	December 31, 2017
(Dollars in thousands)		
Accruing TDRs:		
Commercial	\$8,545	\$19,917
Commercial real estate	13,895	16,160
Residential real estate and other	10,841	3,606
Total accruing TDRs	\$33,281	\$39,683
Non-accrual TDRs: ⁽¹⁾		
Commercial	\$27,774	\$4,000
Commercial real estate	1,552	1,340
Residential real estate and other	3,495	4,763
Total non-accrual TDRs	\$32,821	\$10,103
Total TDRs:		
Commercial	\$36,319	\$23,917
Commercial real estate	15,447	17,500
Residential real estate and other	14,336	8,369
Total TDRs	\$66,102	\$49,786
Weighted-average contractual interest rate of TDRs	5.54 %	4.40 %

(1) Included in total non-performing loans.

TDR Rollforward

The table below presents a summary of TDRs as of December 31, 2018, 2017 and 2016, and shows the changes in the balance during those periods:

Year Ended December 31, 2018 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	\$ 23,917	\$ 17,500	\$ 8,369	\$ 49,786
Additions during the period	18,967	514	9,762	29,243
Reductions:				
Charge-offs	(2,385)	(2)	(468)	(2,855)
Transferred to OREO and other repossessed assets	(37)	(119)	—	(156)
Removal of TDR loan status ⁽¹⁾	(654)	(631)	—	(1,285)
Payments received	(3,489)	(1,815)	(3,327)	(8,631)
Balance at period end	\$ 36,319	\$ 15,447	\$ 14,336	\$ 66,102
Year Ended December 31, 2017 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	\$ 6,130	\$ 28,146	\$ 7,432	\$ 41,708
Additions during the period	20,031	1,245	3,049	24,325
Reductions:				
Charge-offs	(454)	(1,024)	(156)	(1,634)
Transferred to OREO and other repossessed assets	—	(770)	(165)	(935)
Removal of TDR loan status ⁽¹⁾	(610)	(2,331)	—	(2,941)
Payments received	(1,180)	(7,766)	(1,791)	(10,737)
Balance at period end	\$ 23,917	\$ 17,500	\$ 8,369	\$ 49,786
Year Ended December 31, 2016 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	\$ 5,747	\$ 38,707	\$ 7,399	\$ 51,853
Additions during the period	3,294	8,521	1,082	12,897
Reductions:				
Charge-offs	(1,482)	(1,051)	(212)	(2,745)
Transferred to OREO and other repossessed assets	—	(1,433)	(535)	(1,968)
Removal of TDR loan status ⁽¹⁾	—	(7,816)	—	(7,816)
Payments received	(1,429)	(8,782)	(302)	(10,513)
Balance at period end	\$ 6,130	\$ 28,146	\$ 7,432	\$ 41,708

Loan was previously classified as a TDR and subsequently performed in compliance with the loan's modified terms (1) for a period of six months (including over a calendar year-end) at a modified interest rate which represented a market rate at the time of restructuring. Per our TDR policy, the TDR classification is removed.

Potential Problem Loans

Management believes that any loan where there are serious doubts as to the ability of such borrowers to comply with the present loan repayment terms should be identified as a non-performing loan and should be included in the disclosure of "Past Due Loans and Non-Performing Assets." Accordingly, at the periods presented in this Annual Report on Form 10-K, the Company has no potential problem loans as defined by SEC regulations.

Loan Concentrations

Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. The Company had no concentrations of loans

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exceeding 10% of total loans at December 31, 2018, except for loans included in the specialty finance operating segment, which are diversified throughout the United States and Canada.

Other Real Estate Owned

In certain circumstances, the Company is required to take action against the real estate collateral of specific loans. The Company uses foreclosure only as a last resort for dealing with borrowers experiencing financial hardships. The Company employs extensive contact and restructuring procedures to attempt to find other solutions for our borrowers. The tables below present a summary of other real estate owned, excluding covered other real estate owned, and shows the activity for the respective periods and the balance for each property type:

(Dollars in thousands)	Year Ended	
	December 31, 2018	December 31, 2017
Balance at beginning of period	\$40,646	\$40,282
Disposal/resolved	(19,375)	(15,412)
Transfers in at fair value, less costs to sell	7,936	13,864
Transfers in from covered OREO subsequent to loss share expiration	—	3,611
Additions from acquisition	1,578	—
Fair value adjustments	(5,965)	(1,699)
Balance at end of period	\$24,820	\$40,646

(Dollars in thousands)	Period End	
	December 31, 2018	December 31, 2017
Residential real estate	\$3,446	\$7,515
Residential real estate development	1,426	2,221
Commercial real estate	19,948	30,910
Total	\$24,820	\$40,646

Liquidity and Capital Resources

The Company and the banks are subject to various regulatory capital requirements established by the federal banking agencies that take into account risk attributable to balance sheet and off-balance sheet activities. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly discretionary — actions by regulators, that if undertaken could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the banks must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Federal Reserve's capital guidelines require bank holding companies to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%, of which at least 4.50% must be in the form of Common Equity Tier 1 capital and 6.0% must be in the form of Tier 1 capital. The Federal Reserve also requires a minimum leverage ratio of Tier 1 capital to total assets of 4.0%. In addition the Federal Reserve continues to consider the Tier 1 leverage ratio in evaluating proposals for expansion or new activities.

The following table summarizes the capital guidelines for bank holding companies as of December 31, 2018, as well as certain ratios relating to the Company's equity and assets as of December 31, 2018, 2017 and 2016:

	Minimum Ratios		Minimum Ratio + Capital Conservation Buffer ⁽¹⁾		Minimum Well Capitalized Ratios ⁽²⁾		2018	2017	2016
Common Equity Tier 1 capital to risk-weighted assets	4.5	%	6.38	%	N/A		9.3 %	9.4 %	8.6 %
Tier 1 capital to risk-weighted assets	6.0		7.88		6.0		9.7	9.9	9.7
Total capital to risk-weighted assets	8.0		9.88		10.0		11.6	12.0	11.9
Tier 1 leverage ratio	4.0		N/A		N/A		9.1	9.3	8.9
Total average equity to total average assets	N/A		N/A		N/A		10.7	10.8	10.5
Dividend payout ratio	N/A		N/A		N/A		13.0	12.7	13.1

(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%.

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.

As reflected in the table, each of the Company's capital ratios at December 31, 2018, exceeded the well-capitalized ratios established by the Federal Reserve. Refer to Note 19 of the Consolidated Financial Statements for further information on the capital positions of the banks.

The Company's principal sources of funds at the holding company level are dividends from its subsidiaries, borrowings under its loan agreement with unaffiliated banks and proceeds from the issuances of subordinated debt and additional equity. Refer to Notes 12, 13, 14 and 22 of the Consolidated Financial Statements in Item 8 for further information on the Company's subordinated notes, other borrowings, junior subordinated debentures and shareholders' equity, respectively. Management is committed to maintaining the Company's capital levels above the "Well Capitalized" levels established by the Federal Reserve for bank holding companies.

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.

In June 2015, the Company issued and sold 5,000,000 shares of the Series D Preferred Stock, with a liquidation preference of \$25 per share for \$125.0 million in a public offering. Dividends on the Series D Preferred Stock are payable quarterly in arrears when, as and if declared by the Board at a rate of 6.50% per annum on the original liquidation preference of \$25 per share from the original issuance date to, but excluding, July 15, 2025. From (and including) July 15, 2025, dividends on the Series D Preferred Stock will be payable quarterly in arrears, when, as and if declared by the Board, at a floating rate equal to the then-applicable three-month LIBOR (as defined in the Certificate of Designations) plus a spread of 4.06% per annum. The dividend rate of such floating rate dividends will be reset quarterly. The Company received proceeds, after deducting underwriting discounts, commissions and related costs, of approximately \$120.8 million from the issuance, which were intended to be used for general corporate purposes. The Series D Preferred Stock is listed on the NASDAQ Global Select Market under the symbol "WTFCM."

The Series C Preferred Stock was convertible into common stock at the option of the holder subject to customary anti-dilution adjustments. In 2016, 30 shares of the Series C Preferred Stock were converted at the option of the respective holders into 729 shares of the Company's common stock. In 2015, 180 shares of the Series C Preferred Stock were converted at the option of the respective holders into 4,374 shares of the Company's common stock. On April 25, 2017, 2,073 shares of the Series C Preferred Stock were converted at the option of the respective holder into 51,244 shares of the Company's common stock. On April 27, 2017, the Company caused a mandatory conversion of its remaining 124,184 shares of Series C Preferred Stock 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.

The Board approved the first semi-annual dividend on the Company's common stock in January 2000 and continued to approve semi-annual dividends until quarterly dividends were approved starting in 2014. The payment of dividends is also subject to statutory restrictions and restrictions arising under the terms of the Company's Series D Preferred Stock, the Company's trust

preferred securities offerings units 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. In January, April, July and October of 2018, Wintrust declared a quarterly cash dividend of \$0.19 per common share. In January, April, July and October of 2017, Wintrust declared a quarterly cash dividend of \$0.14 per common share. In January, April, July and October of 2016, Wintrust declared a quarterly cash dividend of \$0.12 per common share. In January of 2019, Wintrust declared a quarterly cash dividend of \$0.25 per common share. Taking into account the limitations on the payment of dividends, 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.

Banking laws impose restrictions upon the amount of dividends that can be paid to the holding company by the banks. Based on these laws, the banks could, subject to minimum capital requirements, declare dividends to the Company without obtaining regulatory approval in an amount not exceeding (a) undivided profits, and (b) the amount of net income reduced by dividends paid for the current and prior two years.

Since the banks are required to maintain their capital at the well-capitalized level (due to the Company being a financial holding company), funds otherwise available as dividends from the banks are limited to the amount that would not reduce any of the banks' capital ratios below the well-capitalized level. During 2018, 2017 and 2016, the subsidiaries paid dividends to Wintrust totaling \$111.0 million, \$122.0 million, and \$59.0 million, respectively. At January 1, 2019, subject to minimum capital requirements at the banks, approximately \$350.4 million was available as dividends from the banks without prior regulatory approval and without compromising the banks' well-capitalized positions.

Liquidity management at the banks involves planning to meet anticipated funding needs at a reasonable cost. Liquidity management is guided by policies, formulated and monitored by the Company's senior management and each Bank's asset/liability committee, which take into account the marketability of assets, the sources and stability of funding and the level of unfunded commitments. The banks' principal sources of funds are deposits, short-term borrowings and capital contributions from the holding company. In addition, the banks are eligible to borrow under FHLB advances and certain banks are eligible to borrow at the FRB Discount Window, another source of liquidity.

Core deposits are the most stable source of liquidity for community banks due to the nature of long-term relationships generally established with depositors and the security of deposit insurance provided by the FDIC. Core deposits are generally defined in the industry as total deposits less time deposits with balances greater than \$100,000. Due to the affluent nature of many of the communities that the Company serves, management believes that many of its time deposits with balances in excess of \$100,000 are also a stable source of funds. Currently, standard deposit insurance coverage is \$250,000 per depositor per insured bank, for each account ownership category.

While the Company obtains a portion of its total deposits through brokered deposits, the Company does so primarily as an asset-liability management tool to assist in the management of interest rate risk, and the Company does not consider brokered deposits to be a vital component of its current liquidity resources. Historically, brokered deposits have represented a small component of the Company's total deposits outstanding, as set forth in the table below:

(Dollars in thousands)	December 31,					
	2018	2017	2016	2015	2014	
Total deposits	\$26,094,678	23,183,347	21,658,632	18,639,634	16,281,844	
Brokered Deposits ⁽¹⁾	1,071,562	1,445,306	1,159,475	862,026	718,986	
	4.1	% 6.2	% 5.4	% 4.6	% 4.4	%

Brokered deposits as a percentage of total deposits ⁽¹⁾

Brokered Deposits include certificates of deposit obtained through deposit brokers, deposits received through the (1)Certificate of Deposit Account Registry Program, as well as wealth management deposits of brokerage customers from unaffiliated companies which have been placed into deposit accounts of the banks.

The banks routinely accept deposits from a variety of municipal entities. Typically, these municipal entities require that banks pledge marketable securities to collateralize these public deposits. At December 31, 2018 and 2017, the banks had approximately \$1.7 billion and \$1.6 billion, respectively, of securities collateralizing public deposits and other short-term borrowings. Public deposits requiring pledged assets are not considered to be core deposits, however they provide the Company with a reliable, lower cost, short-term funding source than what is available through many other wholesale alternatives.

Other than as discussed in this section, the Company is not aware of any known trends, commitments, events, regulatory recommendations or uncertainties that would have any material adverse effect on the Company's capital resources, operations or liquidity.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ARRANGEMENTS

The Company has various financial obligations, including contractual obligations and commitments that may require future cash payments.

Contractual Obligations. The following table presents, as of December 31, 2018, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the Consolidated Financial Statements in Item 8:

(Dollars in thousands)	Note Reference	Payments Due in				Total
		One year or less	From one to three years	From three to five years	Over five years	
Deposits	10	\$24,046,847	1,962,282	85,542	7	26,094,678
FHLB advances ⁽¹⁾	11	1,991	9,335	315,000	100,000	426,326
Subordinated notes	12	—	—	—	139,210	139,210
Other borrowings	13	212,972	53,190	127,098	595	393,855
Junior subordinated debentures	14	—	—	—	253,566	253,566
Operating leases	16	15,106	31,522	27,454	131,615	205,697
Purchase obligations ⁽²⁾		34,382	36,607	28,427	80,923	180,339
Total		\$24,311,298	2,092,936	583,521	705,916	27,693,671

(1) Certain advances provide the FHLB with call dates which are not reflected in the above table.

Purchase obligations presented above primarily relate to certain contractual cash obligations for pending (2) acquisitions, marketing obligations and services related to the construction of facilities, data processing and the outsourcing of certain operational activities.

The Company also enters into derivative contracts under which the Company is required to either receive cash from or pay cash to counterparties depending on changes in interest rates. Derivative contracts are carried at fair value representing the net present value of expected future cash receipts or payments based on market rates as of the balance sheet date. Because the derivative assets and liabilities recorded on the balance sheet at December 31, 2018 do not represent the amounts that may ultimately be paid under these contracts, these assets and liabilities are not included in the table of contractual obligations presented above.

Commitments.

The following table presents a summary of the amounts and expected maturities of significant commitments as of December 31, 2018. Further information on these commitments is included in Note 20 of the Consolidated Financial Statements in Item 8.

(Dollars in thousands)	One year or less	From one to three years	From three to five years	Over five years	Total
Commitment type:					

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Commercial, commercial real estate and construction	\$2,330,710	1,516,789	613,090	263,529	4,724,118
Residential real estate	389,681	—	—	—	389,681
Revolving home equity lines of credit	807,889	—	—	—	807,889
Letters of credit	192,911	23,200	16,874	353	233,338
Commitments to sell mortgage loans	481,567	—	—	—	481,567

Our remaining commitment to fund community investments totaled \$13.6 million, which includes future cash outlays for the construction and development of properties for low-income housing, support for small businesses, and historic tax credit projects that qualify for CRA purposes. These commitments are not included in the commitments table above, as the timing and amounts

are based upon the financing arrangements provided in each project's partnership or operating agreement and could change due to variances in the construction schedule, project revisions, or the cancellation of the project.

Contingencies. The Company enters into residential mortgage loan sale agreements with investors in the normal course of business. These agreements usually require certain representations concerning credit information, loan documentation, collateral and insurability. Investors have requested the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. Upon completion of its own investigation, the Company generally repurchases or provides indemnification on certain loans. Indemnification requests are generally received within two years subsequent to sale. Management maintains a liability for estimated losses on loans expected to be repurchased or on which indemnification is expected to be provided and regularly evaluates the adequacy of this recourse liability based on trends in repurchase and indemnification requests, actual loss experience, known and inherent risks in the loans and current economic conditions. At December 31, 2018, the liability for estimated losses on repurchase and indemnification was \$2.4 million and was included in other liabilities on the balance sheet.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Effects of Inflation

A banking organization's assets and liabilities are primarily monetary. Changes in the rate of inflation do not have as great an impact on the financial condition of a bank as do changes in interest rates. Moreover, interest rates do not necessarily change at the same percentage as inflation. Accordingly, changes in inflation are not expected to have a material impact on the Company.

Asset-Liability Management

As an ongoing part of its financial strategy, the Company attempts to manage the impact of fluctuations in market interest rates on net interest income. This effort entails providing a reasonable balance between interest rate risk, credit risk, liquidity risk and maintenance of yield. Asset-liability management policies are established and monitored by management in conjunction with the boards of directors of the banks, subject to general oversight by the Risk Management Committee of the Company's Board. The policies establish guidelines for acceptable limits on the sensitivity of the market value of assets and liabilities to changes in interest rates.

Interest rate risk arises when the maturity or re-pricing periods and interest rate indices of the interest earning assets, interest bearing liabilities, and derivative financial instruments are different. It is the risk that changes in the level of market interest rates will result in disproportionate changes in the value of, and the net earnings generated from, the Company's interest earning assets, interest bearing liabilities and derivative financial instruments. The Company continuously monitors not only the organization's current net interest margin, but also the historical trends of these margins. In addition, management attempts to identify potential adverse changes in net interest income in future years as a result interest rate fluctuations by performing simulation analysis of various interest rate environments. If a potential adverse change in net interest margin and/or net income is identified, management would take appropriate actions with its asset-liability structure to mitigate these potentially adverse situations. Please refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of the net interest margin.

Since the Company's primary source of interest bearing liabilities is from customer deposits, the Company's ability to manage the types and terms of such deposits is somewhat limited by customer preferences and local competition in the market areas in which the banks operate. The rates, terms and interest rate indices of the Company's interest earning assets result primarily from the Company's strategy of investing in loans and securities that permit the Company to limit its exposure to interest rate risk, together with credit risk, while at the same time achieving an acceptable interest rate spread.

The Company's exposure to interest rate risk is reviewed on a regular basis by management and the Risk Management Committees of the boards of directors of the banks and the Company. The objective of the review is to measure the effect on net income and to adjust balance sheet and derivative financial instruments to minimize the inherent risk while at the same time maximize net interest income.

The following interest rate scenarios display the percentage change in net interest income over a one-year time horizon assuming increases and decreases of 100 and 200 basis points. The Static Shock Scenario results incorporate actual cash flows and repricing characteristics for balance sheet instruments following an instantaneous, parallel change in market rates based upon a static (i.e. no growth or constant) balance sheet. Conversely, the Ramp Scenario results incorporate management's projections of future volume and pricing of each of the product lines following a gradual, parallel change in market rates over twelve months. Actual results may differ from these simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and

management strategies. The interest rate sensitivity for both the Static Shock and Ramp Scenarios at December 31, 2018 and December 31, 2017 is as follows:

	+200	+100	-100	-200
Static Shock Scenarios	Basis	Basis	Basis	Basis
	Points	Points	Points	Points
December 31, 2018	15.6 %	7.9 %	(8.6)%	(20.4)%
December 31, 2017	17.7	9.0	(11.8)	(23.2)

	+200	+100	-100	-200
Ramp Scenarios	Basis	Basis	Basis	Basis
	Points	Points	Points	Points
December 31, 2018	7.4 %	3.8 %	(3.6)%	(8.5)%
December 31, 2017	8.9	4.6	(5.1)	(12.0)

One method utilized by financial institutions, including the Company, to manage interest rate risk is to enter into derivative financial instruments. Derivative financial instruments include interest rate swaps, interest rate caps and floors, futures, forwards, option contracts and other financial instruments with similar characteristics. Additionally, the Company enters into commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors. See Note 21, "Derivative Financial Instruments," of the Financial Statements presented under Item 8 of this Annual Report on Form 10-K for further information on the Company's derivative financial instruments.

During 2018 and 2017, the Company entered into certain covered call option transactions related to certain securities held by the Company. The Company uses these option transactions (rather than entering into other derivative interest rate contracts, such as interest rate floors) to economically hedge positions and compensate for net interest margin compression by increasing the total return associated with the related securities through fees generated from these options. Although the revenue received from these options is recorded as non-interest income rather than interest income, the increased return attributable to the related securities from these options contributes to the Company's overall profitability. The Company's exposure to interest rate risk may be impacted by these transactions. To mitigate this risk, the Company may acquire fixed rate term debt or use other financial derivative instruments. There were no covered call options outstanding as of December 31, 2018 or 2017.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Wintrust Financial Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of condition of Wintrust Financial Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1999.

Chicago, Illinois

February 28, 2019

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

(In thousands)	December 31,	
	2018	2017
Assets		
Cash and due from banks	\$392,142	\$277,534
Federal funds sold and securities purchased under resale agreements	58	57
Interest bearing deposits with banks	1,099,594	1,063,242
Available-for-sale securities, at fair value	2,126,081	1,803,666
Held-to-maturity securities, at amortized cost (\$1.0 billion and \$812.5 million fair value at December 31, 2018 and 2017, respectively)	1,067,439	826,449
Trading account securities	1,692	995
Equity securities with readily determinable fair value	34,717	—
Federal Home Loan Bank and Federal Reserve Bank stock	91,354	89,989
Brokerage customer receivables	12,609	26,431
Mortgage loans held-for-sale	264,070	313,592
Loans, net of unearned income	23,820,691	21,640,797
Allowance for loan losses	(152,770)	(137,905)
Net loans	23,667,921	21,502,892
Premises and equipment, net	671,169	621,895
Lease investments, net	233,208	212,335
Accrued interest receivable and other assets	696,707	567,374
Trade date securities receivable	263,523	90,014
Goodwill	573,141	501,884
Other intangible assets	49,424	17,621
Total assets	\$31,244,849	\$27,915,970
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	\$6,569,880	\$6,792,497
Interest bearing	19,524,798	16,390,850
Total deposits	26,094,678	23,183,347
Federal Home Loan Bank advances	426,326	559,663
Other borrowings	393,855	266,123
Subordinated notes	139,210	139,088
Junior subordinated debentures	253,566	253,566
Accrued interest payable and other liabilities	669,644	537,244
Total liabilities	27,977,279	24,939,031
Shareholders' Equity:		
Preferred stock, no par value; 20,000,000 shares authorized:		
Series D - \$25 liquidation value; 5,000,000 shares issued and outstanding at December 31, 2018 and December 31, 2017	125,000	125,000
Common stock, no par value; \$1.00 stated value; 100,000,000 shares authorized at December 31, 2018 and 2017; 56,518,119 shares issued at December 31, 2018 and 56,068,220 shares issued at December 31, 2017	56,518	56,068
Surplus	1,557,984	1,529,035
Treasury stock, at cost, 110,561 shares at December 31, 2018 and 103,013 shares at December 31, 2017	(5,634)	(4,986)

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Retained earnings	1,610,574	1,313,657
Accumulated other comprehensive loss	(76,872)	(41,835)
Total shareholders' equity	3,267,570	2,976,939
Total liabilities and shareholders' equity	\$31,244,849	\$27,915,970
See accompanying Notes to Consolidated Financial Statements		

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Years Ended December 31,		
	2018	2017	2016
Interest income			
Interest and fees on loans	\$1,044,502	\$856,549	\$726,048
Mortgage loans held-for-sale	15,738	12,332	14,953
Interest bearing deposits with banks	17,090	9,252	4,236
Federal funds sold and securities purchased under resale agreements	1	2	4
Investment securities	87,382	63,315	62,038
Trading account securities	43	25	75
Federal Home Loan Bank and Federal Reserve Bank stock	5,331	4,370	4,287
Brokerage customer receivables	723	623	816
Total interest income	1,170,810	946,468	812,457
Interest expense			
Interest on deposits	166,553	83,326	58,409
Interest on Federal Home Loan Bank advances	12,412	8,798	10,886
Interest on other borrowings	8,599	5,370	4,355
Interest on subordinated notes	7,121	7,116	7,111
Interest on junior subordinated debentures	11,222	9,782	9,503
Total interest expense	205,907	114,392	90,264
Net interest income	964,903	832,076	722,193
Provision for credit losses	34,832	29,768	34,084
Net interest income after provision for credit losses	930,071	802,308	688,109
Non-interest income			
Wealth management	90,963	81,766	76,018
Mortgage banking	136,990	113,472	128,743
Service charges on deposit accounts	36,404	34,513	31,210
(Losses) gains on investment securities, net	(2,898)	) 45	7,645
Fees from covered call options	3,519	4,402	11,470
Trading gains (losses), net	11	(845)	) 91
Operating lease income, net	38,451	29,646	16,441
Other	52,710	56,507	53,812
Total non-interest income	356,150	319,506	325,430
Non-interest expense			
Salaries and employee benefits	480,077	430,078	405,158
Equipment	42,949	38,358	37,055
Operating lease equipment depreciation	29,305	24,107	13,259
Occupancy, net	57,814	52,920	50,912
Data processing	35,027	31,495	28,776
Advertising and marketing	41,140	30,830	24,776
Professional fees	32,306	27,835	20,411
Amortization of other intangible assets	4,571	4,401	4,789
FDIC insurance	17,209	16,231	16,065
OREO expenses, net	6,120	3,593	5,187
Other	79,570	71,969	75,297
Total non-interest expense	826,088	731,817	681,685
Income before taxes	460,133	389,997	331,854

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Income tax expense	116,967	132,315	124,979
Net income	\$343,166	\$257,682	\$206,875
Preferred stock dividends	8,200	9,778	14,513
Net income applicable to common shares	\$334,966	\$247,904	\$192,362
Net income per common share—Basic	\$5.95	\$4.53	\$3.83
Net income per common share—Diluted	\$5.86	\$4.40	\$3.66
Cash dividends declared per common share	\$0.76	\$0.56	\$0.48
Weighted average common shares outstanding	56,300	54,703	50,278
Dilutive potential common shares	908	1,983	3,994
Average common shares and dilutive common shares	57,208	56,686	54,272
See accompanying Notes to Consolidated Financial Statements			

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Years Ended December 31,		
	2018	2017	2016
Net income	\$343,166	\$257,682	\$206,875
Unrealized (losses) gains on available-for-sale securities			
Before tax	(27,408)	22,123	(28,932)
Tax effect	7,354	(7,706)	11,378
Net of tax	(20,054)	14,417	(17,554)
Reclassification of net gains on available-for-sale securities included in net income			
Before tax	33	45	7,645
Tax effect	(9)	(18)	(3,004)
Net of tax	24	27	4,641
Reclassification of amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale			
Before tax	89	1,479	(17,386)
Tax effect	(24)	(585)	6,826
Net of tax	65	894	(10,560)
Net unrealized (losses) gains on available-for-sale securities	(20,143)	13,496	(11,635)
Unrealized (losses) gains on derivative instruments			
Before tax	(1,160)	4,958	10,473
Tax effect	310	(1,959)	(4,115)
Net unrealized (losses) gains on derivative instruments	(850)	2,999	6,358
Foreign currency translation adjustment			
Before tax	(12,216)	9,446	3,737
Tax effect	3,026	(2,448)	(1,080)
Net foreign currency translation adjustment	(9,190)	6,998	2,657
Total other comprehensive (loss) income	(30,183)	23,493	(2,620)
Comprehensive income	\$312,983	\$281,175	\$204,255
See accompanying Notes to Consolidated Financial Statements			

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

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 31, 2015	\$251,287	\$48,469	\$1,190,988	\$(3,973)	\$928,211	\$(62,708)	\$2,352,274
Net income	—	—	—	—	206,875	—	206,875
Other comprehensive loss, net of tax	—	—	—	—	—	(2,620)	(2,620)
Cash dividends declared on common stock	—	—	—	—	(24,055)	—	(24,055)
Dividends on preferred stock	—	—	—	—	(14,513)	—	(14,513)
Stock-based compensation	—	—	9,303	—	—	—	9,303
Conversion of Series C Preferred Stock to common stock	(30)	1	29	—	—	—	—
Common stock issued for:							
New issuance, net of costs	—	3,000	149,911	—	—	—	152,911
Exercise of stock options and warrants	—	329	11,276	(377)	—	—	11,228
Restricted stock awards	—	98	142	(239)	—	—	1
Employee stock purchase plan	—	56	2,581	—	—	—	2,637
Director compensation plan	—	25	1,551	—	—	—	1,576
Balance at December 31, 2016	\$251,257	\$51,978	\$1,365,781	\$(4,589)	\$1,096,518	\$(65,328)	\$2,695,617
Net income	—	—	—	—	257,682	—	257,682
Other comprehensive income, net of tax	—	—	—	—	—	23,493	23,493
Cash dividends declared on common stock	—	—	—	—	(30,765)	—	(30,765)
Dividends on preferred stock	—	—	—	—	(9,778)	—	(9,778)
Stock-based compensation	—	—	12,858	—	—	—	12,858
Conversion of Series C Preferred Stock to common stock	(126,257)	3,121	123,136	—	—	—	—
Common stock issued for:							
Exercise of stock options and warrants	—	813	23,261	—	—	—	24,074
Restricted stock awards	—	88	(88)	(397)	—	—	(397)
Employee stock purchase plan	—	36	2,494	—	—	—	2,530
Director compensation plan	—	32	1,593	—	—	—	1,625
Balance at December 31, 2017	\$125,000	\$56,068	\$1,529,035	\$(4,986)	\$1,313,657	\$(41,835)	\$2,976,939
Cumulative effect adjustment from the adoption of:							
ASU 2016-01	—	—	—	—	1,880	(1,880)	—

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ASU 2017-12	—	—	—	—	(116) —	(116)
ASU 2018-02	—	—	—	—	2,974	(2,974) —	
Net income	—	—	—	—	343,166	—	343,166	
Other comprehensive loss, net of tax	—	—	—	—	—	(30,183) (30,183)
Cash dividends declared on common stock	—	—	—	—	(42,787	) —	(42,787)
Dividends on preferred stock	—	—	—	—	(8,200	) —	(8,200)
Stock-based compensation	—	—	13,496	—	—	—	13,496	
Common stock issued for:								
Exercise of stock options and warrants	—	299	11,359	(192	) —	—	11,466	
Restricted stock awards	—	101	(101	) (456	) —	—	(456)
Employee stock purchase plan	—	31	2,492	—	—	—	2,523	
Director compensation plan	—	19	1,703	—	—	—	1,722	
Balance at December 31, 2018	\$125,000	\$56,518	\$1,557,984	\$(5,634)	\$1,610,574	\$(76,872	) \$3,267,570	

See accompanying Notes to Consolidated Financial Statements.

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31,		
	2018	2017	2016
Operating Activities:			
Net income	\$343,166	\$257,682	\$206,875
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for credit losses	34,832	29,768	34,084
Depreciation, amortization and accretion, net	67,665	63,107	53,148
Deferred income tax expense	55,224	63,243	6,676
Stock-based compensation expense	13,496	12,858	9,303
Net amortization of premium on securities	7,411	6,098	5,646
Accretion of discounts on loans	(20,318)	(22,784)	(35,571)
Mortgage servicing rights fair value change, net	5,370	1,857	3,405
Originations and purchases of mortgage loans held-for-sale	(3,955,438)	(3,692,085)	(4,386,339)
Proceeds from sales of mortgage loans held-for-sale	4,076,887	3,869,137	4,468,984
BOLI income	(5,448)	(3,524)	(3,594)
(Increase) decrease in trading securities, net	(697)	994	(1,541)
Net decrease (increase) in brokerage customer receivables	13,822	(1,250)	2,450
Gains on mortgage loans sold	(104,998)	(88,699)	(112,981)
Losses (gains) on investment securities, net, and dividend reinvestment on equity securities	2,000	(45)	(7,645)
Gains on early extinguishment of debt, net	—	—	(3,588)
Losses (gains) on sales of premises and equipment, net	64	(192)	(305)
Net losses on sales and fair value adjustments of other real estate owned	4,664	639	1,381
Gain on termination of loss share agreements with the FDIC	—	(385)	—
Increase in accrued interest receivable and other assets, net	(133,519)	(126,583)	(43,953)
(Decrease) increase in accrued interest payable and other liabilities, net	(27,001)	31,790	114,531
Net Cash Provided by Operating Activities	377,182	401,626	310,966
Investing Activities:			
Proceeds from maturities and calls of available-for-sale securities	352,683	276,097	1,247,894
Proceeds from maturities and calls of held-to-maturity securities	11,129	108,943	735,036
Proceeds from sales of available-for-sale securities	214,196	344,674	2,194,278
Proceeds from sales of equity securities with readily determinable fair value	1,895	—	—
Proceeds from sales and capital distributions of equity securities without readily determinable fair value	1,324	—	—
Purchases of available-for-sale securities	(1,095,375)	(774,041)	(3,398,640)
Purchases of held-to-maturity securities	(253,129)	(301,909)	(486,696)
Purchases of equity securities without readily determinable fair value	(4,592)	—	—
(Purchase) redemption of Federal Home Loan Bank and Federal Reserve Bank stock, net	(1,365)	43,505	(31,913)
Distributions from investments in partnerships, net	3,409	512	339
Net cash paid in business combinations	(53,871)	(284)	(613,619)
Proceeds from sales of other real estate owned	19,375	18,742	38,367
Proceeds (paid to) received from the FDIC related to reimbursements on covered assets	—	(15,411)	1,207
Net increase in interest-bearing deposits with banks	(15,988)	(81,621)	(366,591)
Net increase in loans	(1,883,354)	(1,863,245)	(1,779,905)
Redemption of BOLI	8,438	—	1,840

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Purchases of premises and equipment, net	(68,273)	(59,194)	(33,923)
Net Cash Used for Investing Activities	(2,763,498)	(2,303,232)	(2,492,326)
Financing Activities:			
Increase in deposit accounts	2,547,399	1,524,848	2,769,022
Increase (decrease) in subordinated notes and other borrowings, net	137,257	(4,888)	(3,405)
(Decrease) increase in Federal Home Loan Bank advances, net	(147,999)	403,000	(707,594)
Cash payments to settle contingent consideration liabilities recognized in business combinations	—	(1,097)	(1,273)
Proceeds from the issuance of common stock, net	—	—	152,911
Redemption of junior subordinated debentures, net	—	—	(10,695)
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	15,903	28,229	15,828
Common stock repurchases for tax withholdings related to stock-based compensation	(648)	(397)	(616)
Dividends paid	(50,987)	(40,543)	(38,568)
Net Cash Provided by Financing Activities	2,500,925	1,909,152	2,175,610
Net Increase (Decrease) in Cash and Cash Equivalents	114,609	7,546	(5,750)
Cash and Cash Equivalents at Beginning of Period	277,591	270,045	275,795
Cash and Cash Equivalents at End of Period	\$392,200	\$277,591	\$270,045
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for:			
Interest	\$197,911	\$112,783	\$91,390
Income taxes, net	69,118	76,812	94,888
Business combinations and asset acquisitions:			
Fair value of assets acquired, including cash and cash equivalents	485,368	1,022	882,865
Value ascribed to goodwill and other intangible assets	109,548	999	27,083
Fair value of liabilities assumed	423,234	738	259,631
Non-cash activities			
Transfer to other real estate owned from loans	7,936	15,013	13,352
Common stock issued for acquisitions	—	—	—
See accompanying Notes to Consolidated Financial Statements.			

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of Wintrust Financial Corporation (“Wintrust” or the “Company”) and its subsidiaries conform to generally accepted accounting principles in the United States and prevailing practices of the banking industry. In the preparation of the consolidated financial statements, management is required to make certain estimates and assumptions that affect the reported amounts contained in the consolidated financial statements. Management believes that the estimates made are reasonable; however, changes in estimates may be required if economic or other conditions change beyond management’s expectations. Reclassifications of certain prior year amounts have been made to conform to the current year presentation. The following is a summary of the Company’s significant accounting policies.

Principles of Consolidation

The consolidated financial statements of Wintrust include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The weighted-average number of common shares outstanding is increased by the assumed conversion of outstanding convertible preferred stock shares from the beginning of the year or date of issuance, if later, and the number of common shares that would be issued assuming the exercise of stock options, the issuance of restricted shares and stock warrants using the treasury stock method. The adjustments to the weighted-average common shares outstanding are only made when such adjustments will dilute earnings per common share. Net income applicable to common shares used in the diluted earnings per share calculation can be affected by the conversion of the Company’s preferred stock. Where the effect of this conversion would reduce the loss per share or increase the income per share, net income applicable to common shares is not adjusted by the associated preferred dividends.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, “Business Combinations” (“ASC 805”) when it obtains control of a business. When determining whether a business has been acquired, the Company first evaluates whether substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or a group of similar identifiable assets. If concentrated in such a manner, the set of assets and activities is not a business. If not concentrated in such a manner, the Company assesses whether the set meets the definition of a business by containing inputs, outputs and at least one substantive process. If the set represents a business, the Company recognizes the fair value of the assets acquired and liabilities assumed, immediately expenses transaction costs and accounts for restructuring plans separately from the business combination. There is no separate recognition of the acquired allowance for loan losses on the acquirer’s balance sheet as credit related factors are incorporated directly into the fair value of the loans recorded at the acquisition date. The excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired is recorded as goodwill. Alternatively, a gain is recorded equal to the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid.

If the set of assets and activities do not constitute a business, the transaction is accounted for as an asset acquisition. The cost of a group of assets acquired is allocated to the individual assets acquired or liabilities assumed based on the

relative fair value and does not result in the recognition of goodwill. Generally, any excess of the cost of the transaction over the fair value of the individual assets acquired or liabilities assumed, or, in contrast, any excess of the fair value of the individual assets acquired or liabilities assumed over the cost of the transaction, should be allocated on a relative fair value basis. Certain "non-qualifying" assets are excluded from this allocation, and are recognized at the individual asset's fair value.

Results of operations of the acquired business are included in the income statement from the effective date of acquisition. Subsequent adjustments to provisional amounts that are identified in reporting periods after the acquisition date of the business combination and asset acquisitions are recognized in the reporting period in which the adjustment amounts are determined.

Cash Equivalents

For purposes of the consolidated statements of cash flows, Wintrust considers cash on hand, cash items in the process of collection, non-interest bearing amounts due from correspondent banks, federal funds sold and securities purchased under resale agreements with original maturities of three months or less, to be cash equivalents.

Investment Securities

The Company classifies debt and equity securities upon purchase in one of five categories: trading, held-to-maturity debt securities, available-for-sale debt securities, equity securities with a readily determinable fair value or equity securities without a readily determinable fair value. Debt and equity securities held for resale are classified as trading securities. Debt securities for which the Company has the ability and positive intent to hold until maturity are classified as held-to-maturity. All other debt securities are classified as available-for-sale as they may be sold prior to maturity in response to changes in the Company's interest rate risk profile, funding needs, demand for collateralized deposits by public entities or other reasons. Equity securities are classified based upon whether a readily determinable fair value exists on such security. The fair value of an equity security is readily determinable if it meets certain conditions, including whether sales prices or bid-ask quotes are currently available on certain securities exchanges; traded only in a foreign market that is of a breadth and scope comparable to one of the U.S. markets; or the security is an investment in a mutual fund or similar structure with a fair value per share or unit that is determined and published, and is the basis for current transactions.

Held-to-maturity debt securities are stated at amortized cost, which represents actual cost adjusted for premium amortization and discount accretion using methods that approximate the effective interest method. Available-for-sale debt securities are stated at fair value, with unrealized gains and losses, net of related taxes, included in shareholders' equity as a separate component of other comprehensive income. Trading account securities and equity securities with a readily determinable fair value are stated at fair value. Realized and unrealized gains and losses from sales and fair value adjustments are included in other non-interest income. Equity securities without a readily determinable fair value are stated at either a calculated net asset value per share, if available, or the cost of the security minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar instrument of the same issuer.

Subsequent to classification at the time of purchase, the Company may transfer debt securities between trading, held-to-maturity, or available-for-sale. For debt securities transferred to trading, the current unrealized gain or loss at the date of transfer, net of related taxes, is immediately recognized in earnings. Debt securities transferred from trading to either held-to-maturity or available-for-sale has already recognized any unrealized gain or loss into earnings and this amount is not reversed. Unrealized gains or losses, net related taxes, for available-for-sale debt securities transferred to held-to-maturity remains as a separate component of other comprehensive income and an offsetting discount included in the amortized cost of the held-to-maturity debt security. These amounts are amortized over the remaining life of the debt security in equal and offsetting amounts. Unrealized gains or losses for held-to-maturity debt securities transferred to available-for-sale are recognized at the transfer date as a separate component of other comprehensive income, net of related taxes.

Declines in the fair value of held-to-maturity and available-for-sale debt investment securities (with certain exceptions for debt securities noted below) that are deemed to be other-than-temporary are charged to earnings as a realized loss, and a new cost basis for the securities is established. In evaluating other-than-temporary impairment, management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Declines in the fair value of debt securities below amortized cost are deemed to be other-than-temporary in circumstances where: (1) the

Company has the intent to sell a security; (2) it is more likely than not that the Company will be required to sell the debt security before recovery of its amortized cost basis; or (3) the Company does not expect to recover the entire amortized cost basis of the debt security. If the Company intends to sell a debt security or if it is more likely than not that the Company will be required to sell the debt security before recovery, an other-than-temporary impairment write-down is recognized in earnings equal to the difference between the debt security's amortized cost basis and its fair value. If an entity does not intend to sell the debt security or it is not more likely than not that it will be required to sell the debt security before recovery, the other-than-temporary impairment write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income.

Interest and dividends, including amortization of premiums and accretion of discounts, are recognized as interest income when earned. Realized gains and losses on sales (using the specific identification method), unrealized gains and losses on equity securities and declines in value judged to be other-than-temporary are included in non-interest income.

FHLB and FRB Stock

Investments in FHLB and FRB stock are restricted as to redemption and are carried at cost.

Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest. Securities, consisting of U.S. Treasury, U.S. Government agency and mortgage-backed securities, pledged as collateral under these financing arrangements cannot be sold by the secured party. The fair value of collateral either received from or provided to a third party is monitored and additional collateral is obtained or requested to be returned as deemed appropriate.

Brokerage Customer Receivables

The Company, under an agreement with an out-sourced securities clearing firm, extends credit to its brokerage customers to finance their purchases of securities on margin. The Company receives income from interest charged on such extensions of credit. Brokerage customer receivables represent amounts due on margin balances. Securities owned by customers are held as collateral for these receivables.

Mortgage Loans Held-for-Sale

Mortgage loans are classified as held-for-sale when originated or acquired with the intent to sell the loan into the secondary market. ASC 825, "Financial Instruments" provides entities with an option to report selected financial assets and liabilities at fair value. Mortgage loans classified as held-for-sale are measured at fair value which is determined by reference to investor prices for loan products with similar characteristics. Changes in fair value are recognized in mortgage banking revenue.

Market conditions or other developments may change management's intent with respect to the disposition of these loans and loans previously classified as mortgage loans held-for-sale may be reclassified to the loans held-for-investment portfolio, with the balance transferred continuing to be carried at fair value.

Loans and Leases, Allowance for Loan Losses, Allowance for Covered Loan Losses and Allowance for Losses on Lending-Related Commitments

Loans are generally reported at the principal amount outstanding, net of unearned income. Interest income is recognized when earned. Loan origination fees and certain direct origination costs are deferred and amortized over the expected life of the loan as an adjustment to the yield using methods that approximate the effective interest method. Finance charges on premium finance receivables are earned over the term of the loan, using a method which approximates the effective yield method.

Leases classified as capital leases are included within lease loans for financial statement purposes. Capital leases are stated as the sum of remaining minimum lease payments from lessees plus estimated residual values less unearned lease income. Unearned lease income on capital leases is recognized over the term of the leases using the effective interest method.

Interest income is not accrued on loans where management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations, or where interest or principal is 90 days or more past due, unless the loans are adequately secured and in the process of collection. Cash receipts on non-accrual loans are generally applied

to the principal balance until the remaining balance is considered collectible, at which time interest income may be recognized when received.

The Company maintains its allowance for loan losses at a level believed appropriate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on the average historical loss experience, and qualitative considerations. The allowance for loan losses includes the following components: 1) specific reserves on impaired loans, 2) a general reserve based upon historical loss experience and 3) qualitative factors to adjust the historical loss experience used, if deemed necessary.

If a loan is impaired, the Company analyzes the loan for purposes of calculating our specific impairment reserves. Loans with a credit risk rating of a 6 through 9 are reviewed to determine if (a) an amount is deemed uncollectible (a charge-off) or (b) it is probable that the Company will be unable to collect amounts due in accordance with the original contractual terms of the loan (an impaired loan). If a loan is impaired, 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 loans that are not considered impaired loans, a general reserve is established based on historical loss experience, adjusted for certain qualitative factors, related to the type of loan collateral, if any, and the assigned credit risk rating. Such qualitative factors assessed by management include the following:

- an assessment of internally-evaluated problem loans and historical loss experience;
- changes in the composition of the loan portfolio, changes in historical loss experience;
- changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices;
- changes in experience, ability and depth of lending management and staff;
- changes in national and local economic and business conditions and developments, including the condition of various market segments;
- changes in the volume and severity of past due and classified loans and trends in the volume of non-accrual loans, TDRs and other loan modifications;
- changes in the quality of the Company's loan review system;
- changes in the underlying collateral for collateral dependent loans; and
- the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the bank's existing portfolio.

All such estimates and considerations may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries are credited to the allowance. A provision for credit losses is charged to income based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more frequently if deemed necessary.

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 nonaccretable differences.

In estimating expected losses, the Company evaluates loans for impairment in accordance ASC 310, "Receivables." A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due pursuant to the contractual terms of the loan. Impaired loans include non-accrual loans, restructured loans or loans with principal and/or interest at risk, even if the loan is current with all payments of principal and interest. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the fair value of the underlying collateral less costs to sell. If the estimated fair value of the loan is less than the recorded book value, a valuation allowance is established as a component of the allowance for loan losses. For TDRs in which impairment is calculated by the present value of future cash flows, the Company records interest income representing the decrease in impairment resulting from the passage of time during the respective period, which differs from interest income from contractually required interest on these specific loans.

The Company also maintains an allowance for lending-related commitments, specifically unfunded loan commitments and letters of credit, to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses. This allowance is included in other liabilities on the statement of condition while the corresponding provision for these losses is recorded as a component of the provision for credit losses.

Mortgage Servicing Rights

MSRs are recorded in the Consolidated Statements of Condition at fair value in accordance with ASC 860, "Transfers and Servicing." The Company originates mortgage loans for sale to the secondary market. Certain loans are originated and sold with servicing rights retained. MSRs associated with loans originated and sold, where servicing is retained, are capitalized at the time of sale at fair value based on the future net cash flows expected to be realized for performing the servicing activities, and included in other assets in the Consolidated Statements of Condition. The change in the fair value of MSRs is recorded as a component of mortgage banking revenue in non-interest income in the Consolidated Statements of Income. The Company measures the fair

value of MSR's by stratifying the servicing rights into pools based on homogenous characteristics, such as product type and interest rate. The fair value of each servicing rights pool is calculated based on the present value of estimated future cash flows using a discount rate commensurate with the risk associated with that pool, given current market conditions. Estimates of fair value include assumptions about prepayment speeds, interest rates and other factors which are subject to change over time. Changes in these underlying assumptions could cause the fair value of MSR's to change significantly in the future.

Lease Investments

The Company's investments in equipment and other assets held on operating leases are reported as lease investments, net. Rental income on operating leases is recognized as income over the lease term on a straight-line basis. Equipment and other assets held on operating leases is stated at cost less accumulated depreciation. Depreciation of the cost of the assets held on operating leases, less any residual value, is computed using the straight-line method over the term of the leases, which is generally seven years or less.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Useful lives range from two to 15 years for furniture, fixtures and equipment, two to five years for software and computer-related equipment and seven to 39 years for buildings and improvements. Land improvements are amortized over a period of 15 years and leasehold improvements are amortized over the shorter of the useful life of the improvement or the term of the respective lease including any lease renewals deemed to be reasonably assured. Land and antique furnishings and artwork are not subject to depreciation. Expenditures for major additions and improvements are capitalized, and maintenance and repairs are charged to expense as incurred. Internal costs related to the configuration and installation of new software and the modification of existing software that provides additional functionality are capitalized.

Long-lived depreciable assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of a long-lived asset are less than its carrying value. In that event, a loss is recognized for the difference between the carrying value and the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis. Impairment losses are recognized in other non-interest expense.

FDIC Loss Share Asset (Liability)

In conjunction with FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. These agreements covered losses incurred with respect to loans, foreclosed real estate and certain other assets. The loss share assets and liabilities were measured separately from the loan portfolios because they were not contractually embedded in the loans and were not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets and liabilities were recorded as FDIC indemnification assets and other liabilities on the Consolidated Statements of Condition. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses reduced FDIC loss share assets or increased FDIC loss share liabilities. Reductions to expected losses, to the extent such reductions to expected losses were the result of an improvement to the actual or expected cash flows from the covered assets, also reduced FDIC loss share assets or increased FDIC loss share liabilities. In accordance with certain clawback provisions, the Company was required to reimburse the FDIC when actual losses were less than certain thresholds established for each loss share agreement. The balance of these estimated reimbursements and any related

amortization were adjusted periodically for changes in the expected losses on covered assets. On the Consolidated Statements of Condition, estimated reimbursements from clawback provisions were recorded as a reduction to FDIC loss share assets or an increase to FDIC loss share liabilities. Although these assets and liabilities were contractual receivables from and payables to the FDIC, there were no contractual interest rates. Additional expected losses, to the extent such expected losses resulted in the recognition of an allowance for loan losses, increased FDIC loss share assets or reduced FDIC loss share liabilities. The corresponding amortization or accretion was recorded as a component of non-interest income on the Consolidated Statements of Income.

On October 16, 2017, the Company entered into agreements with the FDIC that terminated all existing loss share agreements with the FDIC. See Note 7, "Business Combinations," for further discussion of the termination of FDIC loss share agreements.

Other Real Estate Owned

Other real estate owned is comprised of real estate acquired in partial or full satisfaction of loans and is included in other assets. Other real estate owned is recorded at its estimated fair value less estimated selling costs at the date of transfer. Any excess of the related loan balance over the fair value less expected selling costs is charged to the allowance for loan losses. In contrast, any excess of the fair value less expected selling costs over the related loan balance is recorded as a recovery of prior charge-offs on the loan and, if any portion of the excess exceeds prior charge-offs, as an increase to earnings. Subsequent changes in value are reported as adjustments to the carrying amount and are recorded in other non-interest expense. Gains and losses upon sale, if any, are also charged to other non-interest expense. At December 31, 2018 and 2017, other real estate owned, excluding covered other real estate owned, totaled \$24.8 million and \$40.6 million, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. In accordance with accounting standards, goodwill is not amortized, but rather is tested for impairment on an annual basis or more frequently when events warrant, using a qualitative or quantitative approach. Intangible assets which have finite lives are amortized over their estimated useful lives and also are subject to impairment testing. Intangible assets which have indefinite lives are evaluated each reporting date to determine whether events and circumstances continue to support an indefinite useful life. If an indefinite useful life can no longer be supported for such asset, the intangible asset will begin amortization over the estimated useful life at that point of time. If an indefinite useful life can be supported, the asset is not amortized, but rather is tested for impairment on an annual basis or more frequently when events warrant, using a qualitative or quantitative approach. All of the Company's intangible assets with finite lives are amortized over varying periods not exceeding twenty years.

Bank-Owned Life Insurance ("BOLI")

The Company maintains BOLI on certain executives. BOLI balances are recorded at their cash surrender values and are included in other assets. Changes in the cash surrender values are included in non-interest income. At December 31, 2018 and 2017, BOLI totaled \$147.9 million and \$145.9 million, respectively.

Derivative Instruments

The Company enters into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the future cash flows or the value of certain assets and liabilities. The Company is also required to recognize certain contracts and commitments, including certain commitments to fund mortgage loans held-for-sale, as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative. The Company accounts for derivatives in accordance with ASC 815, "Derivatives and Hedging," which requires that all derivative instruments be recorded in the statement of condition at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset or liability attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Formal documentation of the relationship

between a derivative instrument and a hedged asset or liability, as well as the risk-management objective and strategy for undertaking each hedge transaction and an assessment of effectiveness is required at inception to apply hedge accounting. In addition, formal documentation of ongoing effectiveness testing is required to maintain hedge accounting.

Fair value hedges are accounted for by recording the changes in the fair value of the derivative instrument and the changes in the fair value related to the risk being hedged of the hedged asset or liability on the statement of condition with corresponding offsets recorded in the income statement. The adjustment to the hedged asset or liability is included in the basis of the hedged item, while the fair value of the derivative is recorded as a freestanding asset or liability. Actual cash receipts or payments and related amounts accrued during the period on derivatives included in a fair value hedge relationship are recorded as adjustments to the interest income or expense recorded on the hedged asset or liability.

Cash flow hedges are accounted for by recording the changes in the fair value of the derivative instrument on the statement of condition as either a freestanding asset or liability, with a corresponding offset recorded in other comprehensive income within

shareholders' equity, net of deferred taxes. Amounts are reclassified from accumulated other comprehensive income to interest expense in the period or periods the hedged forecasted transaction affects earnings.

Under both the fair value and cash flow hedge scenarios, changes in the fair value of derivatives not considered to be highly effective in hedging the change in fair value or the expected cash flows of the hedged item are recognized in earnings as non-interest income during the period of the change.

Derivative instruments that are not designated as hedges according to accounting guidance are reported on the statement of condition at fair value and the changes in fair value are recognized in earnings as non-interest income during the period of the change.

Commitments to fund mortgage loans (i.e. interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as derivatives and are not designated in hedging relationships. Fair values of these mortgage derivatives are estimated based on changes in mortgage rates from the date of the commitments. Changes in the fair values of these derivatives are included in mortgage banking revenue.

Forward currency contracts used to manage foreign exchange risk associated with certain assets are accounted for as derivatives and are not designated in hedging relationships. Foreign currency derivatives are recorded at fair value based on prevailing currency exchange rates at the measurement date. Changes in the fair values of these derivatives resulting from fluctuations in currency rates are recognized in earnings as non-interest income during the period of change.

Periodically, the Company sells options to an unrelated bank or dealer for the right to purchase certain securities held within the banks' investment portfolios ("covered call options"). These option transactions are designed primarily as an economic hedge to compensate for net interest margin compression by increasing the total return associated with holding the related securities as earning assets by using fee income generated from these options. These transactions are not designated in hedging relationships pursuant to accounting guidance and, accordingly, changes in fair values of these contracts, are reported in other non-interest income. There were no covered call option contracts outstanding as of December 31, 2018 and 2017.

Trust Assets, Assets Under Management and Brokerage Assets

Assets held in fiduciary or agency capacity for customers are not included in the consolidated financial statements as they are not assets of Wintrust or its subsidiaries. Fee income is recognized on an accrual basis and is included as a component of non-interest income.

Income Taxes

Wintrust and its subsidiaries file a consolidated Federal income tax return. Income tax expense is based upon income in the consolidated financial statements rather than amounts reported on the income tax return. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as an income tax benefit or income tax expense in the period that includes the enactment date.

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. In accordance with applicable accounting guidance, uncertain tax positions are initially recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Interest and penalties on income tax uncertainties are classified within income tax expense in the income statement.

Stock-Based Compensation Plans

In accordance with ASC 718, "Compensation — Stock Compensation," compensation cost is measured as the fair value of the awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options and the market price of the Company's stock at the date of grant is used to estimate the fair value of restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Accounting guidance requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized compensation expense for stock options and restricted share awards is reduced for estimated forfeitures prior to vesting. Forfeitures rates are estimated for each type of award based on historical forfeiture experience. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

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

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale debt securities, net of deferred taxes, changes in deferred gains and losses on investment securities transferred from available-for-sale debt securities to held-to-maturity debt securities, net of deferred taxes, adjustments related to cash flow hedges, net of deferred taxes and foreign currency translation adjustments, net of deferred taxes.

Stock Repurchases

The Company periodically repurchases shares of its outstanding common stock through open market purchases or other methods. Repurchased shares are recorded as treasury shares on the trade date using the treasury stock method, and the cash paid is recorded as treasury stock.

Foreign Currency Translation

The Company revalues assets, liabilities, revenue and expense denominated in non-U.S. currencies into U.S. dollars at the end of each month using applicable exchange rates.

Gains and losses relating to translating functional currency financial statements for U.S. reporting are included in other comprehensive income. Gains and losses relating to the re-measurement of transactions to the functional currency are reported in the Consolidated Statements of Income.

Going Concern

In connection with preparing financial statements for each reporting period, the Company evaluates whether conditions or events, considered in the aggregate, exist that would raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued. If substantial doubt exists, specific disclosures are required to be included in the Company's financial statements issued. Through its evaluation, the Company did not identify any conditions or events that would raise substantial doubt about the Company's ability to continue as a going concern within one year of the issuance of these consolidated financial statements.

New Accounting Pronouncements Adopted

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, which created "Revenue from Contracts with Customers (Topic 606)," to clarify the principles for recognizing revenue and develop a common revenue standard for customer contracts. This ASU provides guidance regarding how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in

exchange for those goods or services. The ASU also added a new subtopic to the codification, ASC 340-40, “Other Assets and Deferred Costs: Contracts with Customers” to provide guidance on costs related to obtaining and fulfilling a customer contract. Furthermore, the new standard requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. At the time ASU No. 2014-09 was issued, the guidance was effective for fiscal years beginning after December 15, 2016. In July 2015, the FASB approved a deferral of the effective date by one year, which resulted in the guidance becoming effective for the Company as of January 1, 2018.

The FASB continued to issue various updates to clarify and improve specific areas of ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” to clarify the implementation guidance within ASU No. 2014-09 surrounding principal versus agent considerations and its impact on revenue recognition. In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,” to also clarify the implementation guidance within ASU No. 2014-09 related to these two topics. In May 2016, the FASB issued ASU No. 2016-11, “Revenue Recognition

(Topic 605) and Derivative and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting,” to remove certain areas of SEC Staff Guidance from those specific Topics. In May 2016 and December 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” and ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,” to clarify specific aspects of implementation, including the collectability criterion, exclusion of sales taxes collected from a transaction price, noncash consideration, contract modifications, completed contracts at transition, the applicability of loan guarantee fees, impairment of capitalized contract costs and certain disclosure requirements. In February 2017, the FASB issued ASU No. 2017-05, “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets,” to clarify the implementation guidance within ASU No. 2014-09 surrounding transfers of nonfinancial assets, including partial sales of such assets, and its impact on revenue recognition. Like ASU No. 2014-09, this guidance became effective for the Company starting January 1, 2018.

The Company adopted ASU No. 2014-09 and all subsequent updates issued to clarify and improve specific areas of this ASU as of January 1, 2018. As certain significant revenue sources related to financial instruments such as interest income are considered not in-scope, the new guidance did not have a significant impact on the Company's consolidated financial statements. Revenue sources impacted by the new guidance include brokerage and trust and asset management fees from the wealth management business unit, card-based fees, deposit-related fees and other non-interest income. During implementation, the Company reviewed specific contracts with customers across these various sources of revenue. Reviews of such contracts assisted in identifying any characteristics of such contracts that could result in a change in the Company's current practices for recognition of revenue and recognition of costs incurred to obtain or fulfill such contracts. After review of such contracts, the Company identified no indication within the terms of such contracts that a significant change in the Company's current practices and accounting policies was necessary. The Company elected to adopt the new guidance using the modified retrospective approach applied to all contracts as of the date of initial application at January 1, 2018. Electing the modified retrospective approach resulted in no cumulative effect adjustment to the opening balance of retained earnings at the date of initial application. Additional disclosures have been added in accordance with the new guidance. See Note 15 – Revenue from Contracts with Customers for discussion of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” to improve the accounting for financial instruments. This ASU requires equity securities with readily determinable fair values to be measured at fair value with changes recognized in net income. Such equity securities with readily determinable fair values are no longer classified as available-for-sale debt securities or trading securities within the consolidated financial statements of an entity. Additionally, this ASU requires the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements.

The Company adopted this guidance as of January 1, 2018. For equity securities with a readily determinable fair value, this guidance was applied under a modified retrospective approach with a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. As of January 1, 2018, the Company reclassified approximately \$1.9 million from accumulated other comprehensive income, related to previously recognized unrealized gains, net of deferred taxes, from equity securities with readily determinable fair values, to retained earnings. Equity securities with readily determinable fair values are presented separate from available-for-sale debt securities and trading securities within the Company's Consolidated Statements of Condition prospectively as of the effective date. Equity securities without readily determinable fair values are included within accrued interest

receivable and other assets within the Company's Consolidated Statements of Condition. See Note 5, "Investment Securities" for further discussion of equity securities with and without readily determinable fair values.

In January 2018, the FASB issued ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," to clarify certain aspects of the guidance issued in ASU No. 2016-01, including aspects of equity securities without a readily determinable fair value. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years beginning after June 15, 2018. Early adoption is permitted. As these clarifications did not have a material impact on the Company's consolidated financial statements, the Company elected to early adopt this guidance as of January 1, 2018.

Derivatives

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," to improve the financial reporting of hedging relationships to better align the economic results of an

entity's risk management activities and disclosures within its financial statements. In addition, this ASU makes certain targeted improvements to simplify the application of the hedge accounting, including to derivative instruments as well as allow a one-time election to reclassify fixed-rate, prepayable debt securities from a held-to-maturity classification to an available-for-sale classification. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Guidance related to existing cash flow hedges and, if elected, fair value hedges is to be applied under a modified retrospective approach and guidance related to amended presentation and disclosures is to be applied under a prospective approach.

Early adoption is permitted as of the beginning of an annual period that has not been issued or made available for issuance. The Company elected to early adopt this guidance as of January 1, 2018. See Note 21 - Derivative Financial Instruments for further discussion of early adoption of this guidance. The impact of early adoption on the financial statements included the following:

As allowed under the guidance, for certain existing derivative instruments designated as fair value hedges, the Company transitioned the measurement methodology for the related hedged item (loans) to be in accordance with the guidance without dedesignation of the hedging relationship. This resulted in a negative cumulative basis adjustment to loans of \$116,000 with a corresponding adjustment to retained earnings.

No fixed-rate, prepayable held-to-maturity securities were transferred to an available-for-sale classification. The entire change in the hedging instrument included in the assessment of hedge effectiveness of fair value hedges is presented in the same income statement line as the current impact of the effective portion of such hedge, or interest income and interest expense for interest rate hedging. The Company has previously recognized this ineffectiveness within non-interest income.

In October 2018, the FASB issued ASU No. 2018-16, "Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes," to permit the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. Early adoption is permitted and the Company has early adopted ASU 2018-16 in 2018.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)," to clarify the presentation of specific types of cash flow receipts and payments, including the payment of debt prepayment or debt extinguishment costs, contingent consideration cash payments paid subsequent to the acquisition date and proceeds from settlement of BOLI policies. This guidance became effective as of January 1, 2018 and was applied under a retrospective approach resulting in additional disclosure, including cash payments made to settle contingent consideration liabilities recognized in prior business combinations.

In November 2016, the FASB issued ASU No. 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," to clarify the classification and presentation of changes in restricted cash on the statement of cash flows. This guidance became effective as of January 1, 2018 and did not have a material impact on the Company.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," to improve the accounting for intra-entity transfers of assets other than inventory. This ASU allows the recognition of current and deferred income taxes for such transfers prior to the subsequent sale of the transferred assets to an outside party. Initial recognition of current and deferred income taxes is currently prohibited for intra-entity transfers of assets other than inventory. This guidance became effective as of January 1, 2018 and did not have a material impact on the Company.

The Tax Act was enacted on December 22, 2017, and the Company recognized a provisional tax benefit of \$7.6 million in 2017 to reflect the impact of the Tax Act, primarily reflecting estimated effects of a lower federal income tax rate on its net deferred tax liabilities and a transition tax due on the deferred earnings of the Company's Canadian subsidiary. Estimates were made in good faith and were subject to change as additional information and interpretive guidance regarding provisions of the Tax Act became available. Staff Accounting Bulletin 118 provided a measurement period, not to extend beyond one year from the date of enactment, during which a company could complete the accounting for the impacts of the Tax Act. In 2018, the Company finalized the provisional amounts recorded for the year ended December 31, 2017 related to the Tax Act and recorded an additional net tax benefit of \$1.2 million.

Business Combinations

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” to improve such definition and, as a result, assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or as business combinations. The definition of a business impacts many areas of accounting including acquisitions, disposals, goodwill and consolidation. This guidance became effective as of January 1, 2018 and was applied under a prospective approach. See Note 7, “Business Combinations and Asset Acquisitions” for further discussion of business acquisitions occurring in 2018.

Compensation

In March 2017, the FASB issued ASU No. 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” to improve the presentation of net periodic pension cost and net periodic post-retirement benefit cost. An entity will be required to report the service cost component of such costs in the same line item or items as other compensation costs related to services rendered. Additionally, only the service cost component will be eligible for capitalization when applicable. This guidance became effective as of January 1, 2018 and was applied under a retrospective approach related to presentation of the service cost component and a prospective approach related to capitalization of such costs. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” to clarify when modification accounting is appropriate for changes to the terms and conditions of a share-based payment award. An entity will be required to account for such changes as a modification unless certain criteria is met. This guidance became effective as of January 1, 2018 and was applied under a prospective approach for awards modified on or after the adoption date. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Accumulated Other Comprehensive Income (Loss)

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” to allow a reclassification from accumulated other comprehensive income to retained earnings related to the stranded tax effects within other comprehensive income resulting from the Federal income tax rate reduction in the Tax Act. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied either in the period of adoption or retrospectively to each period or periods in which the effect of the Tax Act is recognized.

Early adoption is permitted as of the beginning of an annual period that has not been issued or made available for issuance. The Company elected to early adopt this guidance as of January 1, 2018 and applied such reclassification in the current period (period of adoption). As of January 1, 2018, the Company reclassified a stranded tax credit of \$3.0 million from accumulated other comprehensive income to retained earnings. The Company has a policy for releasing the income tax effects from accumulated other comprehensive income using an individual security approach.

(2) Recent Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” to improve transparency and comparability across entities regarding leasing arrangements. This ASU requires the recognition of a separate lease

liability representing the required discounted lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Further, this ASU provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures to the notes of the financial statements. Additionally, in January 2018, the FASB issued ASU No. 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842," to permit an entity to elect an optional practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under existing accounting guidance. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach, including the option to apply certain practical expedients.

The FASB has continued to issue various updates to clarify and improve specific areas of ASU No. 2016-02. In July 2018, the FASB issued ASU No. 2018-10, "Codification Improvements to Topic 842, Leases," to clarify the implementation guidance within ASU No. 2016-02 surrounding narrow aspects of Topic 842, including lessee reassessment of lease classifications, the rate implicit in a lease, lessor reassessment of lease terms and purchase options and variable lease payments that depend on an index or a rate.

Also, in July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements,” to clarify the implementation guidance within ASU No. 2016-02 surrounding comparative period reporting requirements for initial adoption as well as separating lease and non-lease components in a contract and allocating consideration in the contract to the separate components. Also, in December 2018, the FASB issued ASU No. 2018-20, “Leases (Topic 842): Narrow-Scope Improvements for Lessors,” to clarify the implementation guidance within ASU No. 2016-02 surrounding specific aspects of lessor accounting. Like ASU No. 2016-02, this guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach.

For leasing arrangements in which the Company is a lessee, the Company will primarily recognize separate lease liabilities and right to use assets related to certain banking facilities under operating lease agreements. Other leasing arrangements in which the Company will recognize separate lease liabilities and right to use assets include the use of signage related to certain sponsorships and other agreements, and certain automatic teller machines. The impact of adoption on the financial statements primarily includes the following:

• The Company expects to utilize the following transition elections and practical expedients:

Optional transition method to apply the new guidance at the date of adoption (i.e. January 1, 2019) and continue applying current lease accounting guidance for comparative periods (i.e. fiscal years 2018 and 2017).

For lessee arrangements of certain banking facilities, the Company expects to elect the practical expedient to not separate non-lease components from lease components and instead to account for each separate lease and non-lease component as a single lease component.

A package of practical expedients applied to leases existing prior to the effective date that must all be elected together and allow a Company to not reassess:

whether any expiring or existing contracts are or contain a lease;

lease classification for any expired or existing leases; and

whether initial direct costs for any expired or existing leases qualify for capitalization.

A practical expedient that will permit an entity to continue applying its current policy for accounting for expired or existing land easements.

An accounting policy election for short-term leases (i.e. terms of 12 months or less with no purchase option expected to be exercised) to apply accounting similar to ASC 840, specifically to not recognize separate lease liabilities and right to use assets.

• The Company expects to recognize at the effective date a right of use asset on the Consolidated Statements of Condition between \$150.0 million and \$190.0 million.

Allowance for Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” to replace the current incurred loss methodology for recognizing credit losses, which delays recognition until it is probable a loss has been incurred, with a methodology that reflects an estimate of all expected credit losses and considers additional reasonable and supportable forecasted information when determining credit loss estimates. This impacts the calculation of an allowance for credit losses for all financial assets measured under the amortized cost basis, including held-to-maturity debt securities and PCI loans at the time of and subsequent to acquisition. Additionally, credit losses related to available-for-sale debt securities would be recorded through the allowance for credit losses and not as a direct adjustment to the amortized cost of the securities. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach.

The FASB has continued to issue various updates to clarify and improve specific areas of ASU No. 2016-13. In November 2018, the FASB issued ASU No. 2018-19, “Codification Improvements to Topic 326, Financial

Instruments—Credit Losses,” to clarify the implementation guidance within ASU No. 2016-13 surrounding narrow aspects of Topic 326, including the impact of the guidance on operating lease receivables. Like ASU No. 2016-13, this guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach.

The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements as well as the impact on current systems and processes. Specifically, the Company has established a committee consisting of individuals from the various areas of the Company tasked with transitioning to the new requirements. At this time, the Company is finalizing potential accounting policy elections and modeling methodologies for estimating expected credit losses using reasonable and supportable forecast information. Additionally, the Company is utilizing certain historical data and a previously selected platform to build, store, execute and determine the financial impact. Controls and processes are also being designed for the continued implementation process and after the effective date.

Goodwill

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” to simplify the subsequent measurement of goodwill. When the carrying amount of a reporting unit exceeds its fair value, an entity would no longer be required to determine goodwill impairment by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit was acquired in a business combination. Goodwill impairment would be recognized according to the excess of the carrying amount of the reporting unit over the calculated fair value of such unit. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be applied under a prospective approach. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Amortization of Premium on Certain Debt Securities

In March 2017, the FASB issued ASU No. 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,” to amend the amortization period for certain purchased callable debt securities held at a premium. The amortization period for such securities will be shortened to the earliest call date. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach. Early adoption is permitted as of the beginning of an annual period that has not been issued or made available for issuance. The Company did not early adopt this guidance as of January 1, 2018. The Company has evaluated adoption of this guidance and determined it will not have a material impact on the consolidated financial statements.

Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirement for Fair Value Measurement,” to modify disclosure requirements on fair value measurements and inputs. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be applied prospectively or retrospectively depending upon the disclosure requirement. Early adoption is permitted. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Intangibles

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,” to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with similar requirements related to implementation costs incurred to develop or obtain internal-use software. In addition, the amendment requires any capitalized implementation costs related to a hosting arrangement to be expensed over the term of the hosting arrangement. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted, including adoption in any interim period. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

(3) Investment Securities

A summary of the available-for-sale and held-to-maturity securities portfolios presenting carrying amounts and gross unrealized gains and losses as of December 31, 2018 and 2017 is as follows:

(Dollars in thousands)	December 31, 2018				December 31, 2017			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Available-for-sale securities								
U.S. Treasury	\$ 126,199	\$ 391	\$(186)	\$ 126,404	\$ 144,904	\$ —	\$(1,082)	\$ 143,822
U.S. Government agencies	139,420	917	(30)	140,307	157,638	2	(725)	156,915
Municipal	136,831	2,427	(768)	138,490	113,197	2,712	(557)	115,352
Corporate notes:								
Financial issuers	97,079	35	(7,069)	90,045	30,309	43	(301)	30,051
Other	1,000	—	—	1,000	1,000	—	(1)	999
Mortgage-backed: ⁽¹⁾								
Mortgage-backed securities	1,641,146	2,510	(57,317)	1,586,339	1,291,695	446	(31,955)	1,260,186
Collateralized mortgage obligations	43,819	500	(823)	43,496	60,092	64	(617)	59,539
Equity securities ⁽²⁾	—	—	—	—	34,234	3,357	(789)	36,802
Total available-for-sale securities	\$ 2,185,494	\$ 6,780	\$(66,193)	\$ 2,126,081	\$ 1,833,069	\$ 6,624	\$(36,027)	\$ 1,803,666
Held-to-maturity securities								
U.S. Government agencies	\$ 814,864	\$ 1,141	\$(28,576)	\$ 787,429	\$ 579,062	\$ 23	\$(14,066)	\$ 565,019
Municipal	252,575	1,100	(5,008)	248,667	247,387	2,668	(2,558)	247,497
Total held-to-maturity securities	\$ 1,067,439	\$ 2,241	\$(33,584)	\$ 1,036,096	\$ 826,449	\$ 2,691	\$(16,624)	\$ 812,516
Equity securities with readily determinable fair value ⁽²⁾	\$ 34,410	\$ 1,532	\$(1,225)	\$ 34,717	\$ —	\$ —	\$ —	\$ —

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

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.

Equity securities without readily determinable fair values totaled \$26.6 million as of December 31, 2018. Equity securities without readily determinable fair values are included as part of accrued interest receivable and other assets in the Company's Consolidated Statements of Condition. The Company recorded a \$325,000 upward adjustments on such equity securities in 2018 related to observable price changes in orderly transactions for the identical or a similar investment of the same issuer in accordance with the adoption of ASU No. 2016-01. No downward adjustments of equity securities without readily determinable fair values related to observable price changes in orderly transactions for the identical or a similar investment of the same issuer were recorded during the same period. The Company monitors its equity investments without a readily determinable fair values to identify potential transactions that may

indicate an observable price change requiring adjustment to its carrying amount.

The following table presents the portion of the Company's available-for-sale and held-to-maturity securities portfolios which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018:

(Dollars in thousands)	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale securities						
U.S. Treasury	\$5,485	\$(5)	\$24,829	\$(181)	\$30,314	\$(186)
U.S. Government agencies	—	—	11,167	(30)	11,167	(30)
Municipal	10,676	(178)	22,147	(590)	32,823	(768)
Corporate notes:						
Financial issuers	37,076	(2,921)	42,934	(4,148)	80,010	(7,069)
Other	—	—	—	—	—	—
Mortgage-backed:						
Mortgage-backed securities	114,958	(124)	1,340,916	(57,193)	1,455,874	(57,317)
Collateralized mortgage obligations	510	(1)	34,255	(822)	34,765	(823)
Total available-for-sale securities	\$168,705	\$(3,229)	\$1,476,248	\$(62,964)	\$1,644,953	\$(66,193)
Held-to-maturity securities						
U.S. Government agencies	\$—	\$—	\$601,238	\$(28,576)	\$601,238	\$(28,576)
Municipal	38,239	(637)	158,302	(4,371)	196,541	(5,008)
Total held-to-maturity securities	\$38,239	\$(637)	\$759,540	\$(32,947)	\$797,779	\$(33,584)

The following table presents the portion of the Company's available-for-sale and held-to-maturity securities portfolios which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017:

(Dollars in thousands)	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale securities						
U.S. Treasury	\$24,811	\$(215)	\$119,011	\$(867)	\$143,822	\$(1,082)
U.S. Government agencies	14,462	(69)	141,471	(656)	155,933	(725)
Municipal	28,221	(256)	15,840	(301)	44,061	(557)
Corporate notes:						
Financial issuers	1,210	(1)	5,665	(300)	6,875	(301)
Other	—	—	999	(1)	999	(1)
Mortgage-backed:						
Mortgage-backed securities	137,255	(915)	989,971	(31,040)	1,127,226	(31,955)
Collateralized mortgage obligations	35,038	(213)	13,719	(404)	48,757	(617)
Equity securities	9,116	(343)	6,054	(446)	15,170	(789)
Total available-for-sale securities	\$250,113	\$(2,012)	\$1,292,730	\$(34,015)	\$1,542,843	\$(36,027)
Held-to-maturity securities						
U.S. Government agencies	\$241,849	\$(3,263)	\$300,200	\$(10,803)	\$542,049	\$(14,066)
Municipal	56,901	(1,004)	52,399	(1,554)	109,300	(2,558)
Total held-to-maturity securities	\$298,750	\$(4,267)	\$352,599	\$(12,357)	\$651,349	\$(16,624)

The Company conducts a regular assessment of its investment securities to determine whether securities are other-than-temporarily impaired considering, among other factors, the nature of the securities, credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows, market conditions and the Company's ability to hold the securities through the anticipated recovery period.

The Company does not consider securities with unrealized losses at December 31, 2018 to be other-than-temporarily impaired. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily U.S. Treasury securities, U.S. government agency securities, municipal securities, corporate notes and mortgage-backed securities.

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

(Dollars in thousands)	Years Ended December 31,		
	2018	2017	2016
Realized gains on investment securities	\$1,144	\$ 147	\$ 9,399
Realized losses on investment securities	(1,111)	(102)	(1,754)
Net realized gains on investment securities	33	\$ 45	\$ 7,645
Unrealized gains on equity securities with readily determinable fair value	2,771	—	—
Unrealized losses on equity securities with readily determinable fair value	(4,910)	—	—
Net unrealized losses on equity securities with readily determinable fair value	(2,139)	—	—
Upward adjustments of equity securities without readily determinable fair values	325	—	—
Downward adjustments of equity securities without readily determinable fair values	—	—	—
Impairment of equity securities without readily determinable fair values	(1,117)	—	—
Adjustment and impairment, net, of equity securities without readily determinable fair values	(792)	—	—
Other than temporary impairment charges	—	—	—
(Losses) gains on investment securities, net	(2,898)	45	7,645
Proceeds from sales of available-for-sale securities	214,196	344,674	2,194,278
Proceeds from sales of equity securities with readily determinable fair value	1,895	—	—
Proceeds from sales and capital distributions of equity securities without readily determinable fair value	1,324	—	—

During the year ended December 31, 2018, the Company recorded \$1.1 million of impairment of equity securities without readily determinable fair values. The Company conducts a quarterly assessment of its equity securities without readily determinable fair values to determine whether impairment exists in such equity securities, considering, among other factors, the nature of the securities, financial condition of the issuer and expected future cash flows.

Net losses/gains on investment securities resulted in income tax (benefit) expense of (\$737,000), \$18,000 and \$2.9 million in 2018, 2017 and 2016, respectively.

The amortized cost and fair value of securities as of December 31, 2018 and December 31, 2017, by contractual maturity, are shown in the following table. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Mortgage-backed securities are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties:

(Dollars in thousands)	December 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities				
Due in one year or less	\$82,206	\$82,153	\$300,833	\$299,285
Due in one to five years	168,855	169,307	97,019	97,326
Due in five to ten years	121,129	115,206	33,947	35,029
Due after ten years	128,339	129,580	15,249	15,499
Mortgage-backed	1,684,965	1,629,835	1,351,787	1,319,725
Equity securities ⁽¹⁾	—	—	34,234	36,802
Total available-for-sale securities	\$2,185,494	\$2,126,081	\$1,833,069	\$1,803,666
Held-to-maturity securities				
Due in one year or less	\$10,009	\$9,979	\$170	\$171
Due in one to five years	29,436	28,995	38,392	38,012
Due in five to ten years	295,897	290,206	205,227	203,680
Due after ten years	732,097	706,916	582,660	570,653
Total held-to-maturity securities	\$1,067,439	\$1,036,096	\$826,449	\$812,516

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.

At December 31, 2018 and December 31, 2017, securities having a carrying value of \$1.7 billion, were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At December 31, 2018, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders' equity.

(4) Loans

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

(Dollars in thousands)	December 31, 2018	December 31, 2017		
Balance:				
Commercial	\$7,828,538	\$6,787,677		
Commercial real estate	6,933,252	6,580,618		
Home equity	552,343	663,045		
Residential real estate	1,002,464	832,120		
Premium finance receivables—commercial	2,841,659	2,634,565		
Premium finance receivables—life insurance	4,541,794	4,035,059		
Consumer and other	120,641	107,713		
Total loans, net of unearned income	\$23,820,691	\$21,640,797		
Mix:				
Commercial	33	% 31		%
Commercial real estate	29	30		
Home equity	2	3		
Residential real estate	4	4		
Premium finance receivables—commercial	12	12		
Premium finance receivables—life insurance	9	19		
Consumer and other	1	1		
Total loans, net of unearned income	100	% 100		%

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

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were \$112.9 million and \$87.0 million at December 31, 2018 and 2017, respectively.

Total loans, excluding PCI loans, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling \$4.5 million and \$9.3 million at December 31, 2018 and 2017, respectively. PCI loans are recorded net of credit discounts. See "Acquired Loan Information at Acquisition - PCI Loans" below.

Certain real estate loans, including mortgage loans held-for-sale, and home equity loans with balances totaling approximately \$6.1 billion and \$6.4 billion at December 31, 2018 and 2017, respectively, were pledged as collateral to secure the availability of borrowings from certain federal agency banks. At December 31, 2018, approximately \$5.7 billion of these pledged loans are included in a blanket pledge of qualifying loans to the FHLB. The remaining \$484.6 million of pledged loans was used to secure potential borrowings at the FRB discount window. At December 31, 2018 and 2017, the banks had outstanding borrowings of \$426.3 million and \$559.7 million, respectively, from the FHLB in connection with these collateral arrangements. See Note 11, "Federal Home Loan Bank Advances," for a summary of these borrowings.

It is the policy of the Company to review each prospective credit in order to determine the appropriateness and, when required, the adequacy of security or collateral necessary to obtain when making a loan. The type of collateral, when

required, will vary from liquid assets to real estate. The Company seeks to assure access to collateral, in the event of default, through adherence to state lending laws and the Company's credit monitoring procedures.

Acquired Loan Information at Acquisition — PCI Loans

As part of the Company's previous acquisitions, the Company acquired loans for which there was evidence of credit quality deterioration since origination (PCI loans) and we determined that it was probable that the Company would be unable to collect all contractually required principal and interest payments. The following table presents the unpaid principal balance and carrying value for these acquired loans as of the dates shown:

(Dollars in thousands)	December 31, 2018		December 31, 2017	
	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
PCI loans	\$341,555	\$318,394	\$375,237	\$350,690

See Note 5, "Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans," for further discussion regarding the allowance for loan losses associated with PCI loans at December 31, 2018.

The following table provides estimated details as of the date of acquisition on loans acquired in 2018 with evidence of credit quality deterioration since origination:

(Dollars in thousands)	Delaware Place Bank	American Enterprise Bank
Contractually required payments including interest	\$ 13,385	\$ 31,750
Less: Nonaccretable difference	1,197	3,813
Cash flows expected to be collected ⁽¹⁾	\$ 12,188	\$ 27,937
Less: Accretable yield	2,205	3,970
Fair value of PCI loans acquired	\$ 9,983	\$ 23,967

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

Accretable Yield Activity — PCI Loans

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

(Dollars in thousands)	Years Ended December 31,	
	2018	2017
Accretable yield, beginning balance	\$ 36,565	\$ 49,408
Acquisitions	6,175	426
Accretable yield amortized to interest income	(16,711)	(21,512)
Accretable yield amortized to indemnification asset/liability ⁽¹⁾	—	(1,087)
	4,835	7,805

Reclassification from non-accretable difference ⁽²⁾		
Increases (Decreases) in interest cash flows due to payments and changes in interest rates	4,012	1,525
Accretable yield, ending balance	\$ 34,876	\$ 36,565

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

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

Accretion to interest income accounted for under ASC 310-30 totaled \$16.7 million and \$21.5 million in 2018 and 2017, respectively. These amounts include accretion from both covered and non-covered loans, and are included together within interest and fees on loans in the Consolidated Statements of Income.

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

The tables below show the aging of the Company's loan portfolio at December 31, 2018 and 2017:

As of December 31, 2018 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	\$ 34,298	\$—	\$1,451	\$21,618	\$5,062,729	\$5,120,096
Franchise	16,051	—	—	8,738	924,190	948,979
Mortgage warehouse lines of credit	—	—	—	—	144,199	144,199
Asset-based lending	635	—	200	3,156	1,022,065	1,026,056
Leases	—	—	—	1,250	564,430	565,680
PCI - commercial ⁽¹⁾	—	3,313	—	99	20,116	23,528
Total commercial	\$ 50,984	\$3,313	\$1,651	\$34,861	\$7,737,729	\$7,828,538
Commercial real estate:						
Construction	1,554	—	—	9,424	749,846	760,824
Land	107	—	170	107	141,097	141,481
Office	3,629	—	877	5,077	929,739	939,322
Industrial	285	—	—	16,596	885,367	902,248
Retail	10,753	—	1,890	1,729	878,106	892,478
Multi-family	311	—	77	5,575	970,597	976,560
Mixed use and other	2,490	—	1,617	8,983	2,192,105	2,205,195
PCI - commercial real estate ⁽¹⁾	—	6,241	6,195	4,075	98,633	115,144
Total commercial real estate	\$ 19,129	\$6,241	\$10,826	\$51,566	\$6,845,490	\$6,933,252
Home equity	7,147	—	131	3,105	541,960	552,343
Residential real estate, including PCI	16,383	1,292	1,692	6,171	976,926	1,002,464
Premium finance receivables						
Commercial insurance loans	11,335	7,799	11,382	15,085	2,796,058	2,841,659
Life insurance loans	—	—	8,407	24,628	4,340,856	4,373,891
PCI - life insurance loans ⁽¹⁾	—	—	—	—	167,903	167,903
Consumer and other, including PCI	348	227	87	733	119,246	120,641
Total loans, net of unearned income	\$ 105,326	\$18,872	\$34,176	\$136,149	\$23,526,168	\$23,820,691

PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance (1) with ASC 310-30. Loan agings are based upon contractually required payments. See Note 4, "Loans," for further discussion of these purchased loans.

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As of December 31, 2017 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	\$ 11,260	\$ —	\$ 3,746	\$ 13,392	\$ 4,314,107	\$ 4,342,505
Franchise	2,447	—	—	—	845,150	847,597
Mortgage warehouse lines of credit	—	—	—	4,000	190,523	194,523
Asset-based lending	1,550	—	283	10,057	968,576	980,466
Leases	439	—	3	1,958	410,772	413,172
PCI - commercial ⁽¹⁾	—	877	186	—	8,351	9,414
Total commercial	\$ 15,696	\$ 877	\$ 4,218	\$ 29,407	\$ 6,737,479	\$ 6,787,677
Commercial real estate						
Construction						
Construction	\$ 3,143	\$ —	\$ —	\$ 200	\$ 742,171	\$ 745,514
Land	188	—	—	5,156	121,140	126,484
Office	2,438	—	—	4,458	887,937	894,833
Industrial	811	—	—	2,412	879,796	883,019
Retail	12,328	—	668	148	938,383	951,527
Multi-family	—	—	—	1,034	914,610	915,644
Mixed use and other	3,140	—	1,423	9,641	1,921,501	1,935,705
PCI - commercial real estate ⁽¹⁾	—	7,135	2,255	6,277	112,225	127,892
Total commercial real estate	\$ 22,048	\$ 7,135	\$ 4,346	\$ 29,326	\$ 6,517,763	\$ 6,580,618
Home equity	8,978	—	518	4,634	648,915	663,045
Residential real estate, including PCI	17,977	5,304	1,303	8,378	799,158	832,120
Premium finance receivables						
Commercial insurance loans	12,163	9,242	17,796	15,849	2,579,515	2,634,565
Life insurance loans	—	—	4,837	10,017	3,820,936	3,835,790
PCI - life insurance loans ⁽¹⁾	—	—	—	—	199,269	199,269
Consumer and other, including PCI	740	101	242	727	105,903	107,713
Total loans, net of unearned income, excluding covered loans	77,602	22,659	33,260	98,338	21,408,938	21,640,797

PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance (1) with ASC 310-30. Loan agings are based upon contractually required payments. See Note 4, "Loans," for further discussion of these purchased loans.

The Company's 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 credit management personnel assign a credit risk rating (1 to 10 rating) to each loan at the time of origination and review loans on a regular basis.

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

The Company's Problem Loan Reporting system includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the Company's Managed Asset

Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company's Managed Asset Division, the credit risk rating is reviewed and a portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company's impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company's Real Estate Services Group to determine if

there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.

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

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

Non-performing loans include all non-accrual loans (8 and 9 risk ratings) as well as loans 90 days past due and still accruing interest, excluding PCI loans. The remainder of the portfolio is considered performing under the contractual terms of the loan agreement. The following table presents the recorded investment based on performance of loans by class, per the most recent analysis at December 31, 2018 and 2017:

(Dollars in thousands)	Performing		Non-performing		Total	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Loan Balances:						
Commercial						
Commercial, industrial and other	\$5,085,798	\$4,331,245	\$34,298	\$11,260	\$5,120,096	\$4,342,505
Franchise	932,928	845,150	16,051	2,447	948,979	847,597
Mortgage warehouse lines of credit	144,199	194,523	—	—	144,199	194,523
Asset-based lending	1,025,421	978,916	635	1,550	1,026,056	980,466
Leases	565,680	412,733	—	439	565,680	413,172
PCI - commercial ⁽¹⁾	23,528	9,414	—	—	23,528	9,414
Total commercial	\$7,777,554	\$6,771,981	\$50,984	\$15,696	\$7,828,538	\$6,787,677
Commercial real estate						
Construction	759,270	742,371	1,554	3,143	760,824	745,514
Land	141,374	126,296	107	188	141,481	126,484
Office	935,693	892,395	3,629	2,438	939,322	894,833
Industrial	901,963	882,208	285	811	902,248	883,019
Retail	881,725	939,199	10,753	12,328	892,478	951,527
Multi-family	976,249	915,644	311	—	976,560	915,644
Mixed use and other	2,202,705	1,932,565	2,490	3,140	2,205,195	1,935,705
PCI - commercial real estate ⁽¹⁾	115,144	127,892	—	—	115,144	127,892
Total commercial real estate	\$6,914,123	\$6,558,570	\$19,129	\$22,048	\$6,933,252	\$6,580,618
Home equity	545,196	654,067	7,147	8,978	552,343	663,045
Residential real estate, including PCI	986,081	810,865	16,383	21,255	1,002,464	832,120
Premium finance receivables						
Commercial insurance loans	2,822,525	2,613,160	19,134	21,405	2,841,659	2,634,565
Life insurance loans	4,373,891	3,835,790	—	—	4,373,891	3,835,790
PCI - life insurance loans ⁽¹⁾	167,903	199,269	—	—	167,903	199,269
Consumer and other, including PCI	120,184	106,933	457	780	120,641	107,713
Total loans, net of unearned income, excluding covered loans	\$23,707,457	\$21,550,635	\$113,234	\$90,162	\$23,820,691	\$21,640,797

⁽¹⁾ PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. See Note 4, "Loans," for further discussion of these purchased loans.

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A summary of the activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the years ended December 31, 2018 and 2017 is as follows:

Year Ended December 31, 2018 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	\$ 57,811	\$ 55,227	\$ 10,493	\$ 6,688	\$ 6,846	\$ 840	\$ 137,905
Other adjustments	(3)	(85)	(5)	(25)	(63)	—	(181)
Reclassification to/from allowance for unfunded lending-related commitments	—	(126)	—	—	—	—	(126)
Charge-offs	(14,532)	(1,395)	(2,245)	(1,355)	(12,228)	(880)	(32,635)
Recoveries	1,457	5,631	541	2,075	3,069	202	12,975
Provision for credit losses	23,093	1,015	(277)	(189)	10,091	1,099	34,832
Allowance for loan losses at period end	\$ 67,826	\$ 60,267	\$ 8,507	\$ 7,194	\$ 7,715	\$ 1,261	\$ 152,770
Allowance for unfunded lending-related commitments at period end	—	1,394	—	—	—	—	1,394
Allowance for credit losses at period end	\$ 67,826	\$ 61,661	\$ 8,507	\$ 7,194	\$ 7,715	\$ 1,261	\$ 154,164
By measurement method:							
Individually evaluated for impairment	6,558	4,287	282	204	—	116	11,447
Collectively evaluated for impairment	60,749	57,329	8,225	6,894	7,715	1,145	142,057
Loans acquired with deteriorated credit quality	519	45	—	96	—	—	660
Loans at period end:							
Individually evaluated for impairment	\$ 59,529	\$ 33,274	\$ 12,255	\$ 22,064	\$ —	\$ 397	\$ 127,519
Collectively evaluated for impairment	7,745,482	6,784,834	540,088	877,526	7,215,550	117,441	23,280,921
Loans acquired with deteriorated credit quality	23,527	115,144	—	9,017	167,903	2,803	318,394
Loan held at fair value	—	—	—	93,857	—	—	93,857
Year Ended December 31, 2017 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	\$ 44,493	\$ 51,422	\$ 11,774	\$ 5,714	\$ 7,625	\$ 1,263	\$ 122,291
Other adjustments ⁽¹⁾	16	(155)	167	356	138	51	573
Reclassification to/from allowance for unfunded lending-related	500	(431)	—	—	—	—	69

commitments								
Charge-offs	(5,159)	(4,236)	(3,952)	(1,284)	(7,335)	(729)	(22,695)	
Recoveries	1,870	2,190	746	452	2,128	299	7,685	
Provision for credit losses	16,091	6,437	1,758	1,450	4,290	(44)	29,982	
Allowance for loan losses at period end	\$ 57,811	\$ 55,227	\$ 10,493	\$ 6,688	\$ 6,846	\$ 840	\$ 137,905	
Allowance for unfunded lending-related commitments at period end	—	1,269	—	—	—	—	1,269	
Allowance for credit losses at period end	\$ 57,811	\$ 56,496	\$ 10,493	\$ 6,688	\$ 6,846	\$ 840	\$ 139,174	
By measurement method:								
Individually evaluated for impairment	4,464	2,177	784	586	—	26	8,037	
Collectively evaluated for impairment	52,820	53,938	9,709	5,979	6,846	814	130,106	
Loans acquired with deteriorated credit quality	527	381	—	123	—	—	1,031	
Loans at period end:								
Individually evaluated for impairment	\$ 35,612	\$ 38,534	\$ 9,254	\$ 21,253	\$ —	\$ 759	\$ 105,412	
Collectively evaluated for impairment	6,742,651	6,414,192	653,791	765,149	6,470,355	104,840	21,150,978	
Loans acquired with deteriorated credit quality	9,414	127,892	—	12,001	199,269	2,114	350,690	
Loan held at fair value	—	—	—	33,717	—	—	33,717	

(1) Includes \$742,000 of allowance for covered loan losses reclassified as a result of the termination of all existing loss share agreements with the FDIC during the fourth quarter of 2017.

A summary of activity in the allowance for covered loan losses for the year ended December 31, 2017 is as follows:

	Year Ended December 31, 2017
(Dollars in thousands)	
Balance at beginning of period	\$ 1,322
Allowance for covered loan losses transferred to allowance for loan losses subsequent to loss share termination or expiration	(742)
Provision for covered loan losses before benefit attributable to FDIC loss share agreements	(1,063)
Benefit attributable to FDIC loss share agreements	1,592
Net provision for covered loan losses and transfer from allowance for covered loan losses to allowance for loan losses	\$ (213)
Increase in FDIC indemnification liability	(1,592)
Loans charged-off	(517)
Recoveries of loans charged-off	1,000
Net recoveries	\$ 483
Balance at end of period	\$ —

In conjunction with FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. Additional expected losses, to the extent such expected losses resulted in the recognition of an allowance for loan losses, increased the FDIC loss share asset or reduced any FDIC loss share liability. The allowance for loan losses for loans acquired in FDIC-assisted transactions was determined without giving consideration to the amounts recoverable through loss share agreements (since the loss share agreements are separately accounted for and thus presented “gross” on the balance sheet). On the Consolidated Statements of Income, the provision for credit losses was reported net of changes in the amount recoverable under the loss share agreements. Reductions to expected losses, to the extent such reductions to expected losses were the result of an improvement to the actual or expected cash flows from the covered assets, reduced the FDIC loss share asset or increased any FDIC loss share liability. Additions to expected losses required an increase to the allowance for loan losses, and a corresponding increase to the FDIC loss share asset or reduction to any FDIC loss share liability. See “FDIC-Assisted Bank Acquisitions” within Note 7, “Business Combinations and Asset Acquisitions,” for more detail.

On October 16, 2017, the Company entered into agreements with the FDIC that terminated all existing loss share agreements with the FDIC. As a result, the allowance for covered loan losses previously measured is included within the allowance for credit losses, excluding covered loans, presented above for subsequent periods. See Note 7, “Business Combinations and Asset Acquisitions,” for further discussion of the termination of FDIC loss share agreements.

Impaired Loans

A summary of impaired loans, including TDRs, at December 31, 2018 and 2017 is as follows:

(Dollars in thousands)	2018	2017
Impaired loans (included in non-performing and restructured loans):		
Impaired loans with an allowance for loan loss required ⁽¹⁾	\$60,219	\$36,084
Impaired loans with no allowance for loan loss required	67,050	69,004
Total impaired loans ⁽²⁾	\$127,269	\$105,088
Allowance for loan losses related to impaired loans	\$11,437	\$8,023

TDRs	66,102	49,786
Reduction of interest income from non-accrual loans	3,422	2,373
Interest income recognized on impaired loans	7,347	6,298

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

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

The following tables present impaired loans evaluated for impairment by loan class as of December 31, 2018 and 2017:

December 31, 2018 (Dollars in thousands)	As of Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Year Ended Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	\$16,703	\$17,029	\$4,866	\$17,868	\$1,181
Franchise	16,021	16,256	1,375	16,221	909
Asset-based lending	557	557	317	689	50
Leases	1,730	1,730	—	1,812	91
Commercial real estate					
Construction	1,554	1,554	550	1,554	76
Land	—	—	—	—	—
Office	573	638	21	587	25
Industrial	—	—	—	—	—
Retail	14,633	14,633	3,413	14,694	676
Multi-family	—	—	—	—	—
Mixed use and other	1,188	1,221	293	1,354	66
Home equity	3,133	3,470	282	3,165	131
Residential real estate	4,011	4,263	204	4,056	159
Consumer and other	116	129	116	119	7
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	\$18,314	\$21,501	\$—	\$20,547	\$1,143
Franchise	5,152	5,154	—	5,320	403
Asset-based lending	207	601	—	569	51
Leases	845	879	—	936	56
Commercial real estate					
Construction	1,117	1,117	—	1,218	52
Land	3,396	3,491	—	3,751	198
Office	3,629	3,642	—	3,651	184
Industrial	322	450	—	363	30
Retail	1,592	1,945	—	1,699	110
Multi-family	1,498	1,595	—	1,529	55
Mixed use and other	3,522	3,836	—	3,611	227
Home equity	9,122	12,383	—	9,323	564
Residential real estate	18,053	20,765	—	18,552	883
Consumer and other	281	407	—	293	20
Total loans, net of unearned income	\$127,269	\$139,246	\$11,437	\$133,481	\$7,347

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December 31, 2017 (Dollars in thousands)	As of Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Year Ended Average Recorded Investment		Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded						
Commercial						
Commercial, industrial and other	\$6,233	\$7,323	\$ 3,951	\$7,220		\$ 452
Franchise	—	—	—	—		—
Asset-based lending	948	949	355	1,302		72
Leases	2,331	2,337	158	2,463		117
Commercial real estate						
Construction	3,097	3,897	403	3,690		197
Land	—	—	—	—		—
Office	471	471	5	481		24
Industrial	408	408	40	414		25
Retail	15,599	15,657	1,336	15,736		624
Multi-family	—	—	—	—		—
Mixed use and other	1,567	1,586	379	1,599		77
Home equity	1,606	1,869	784	1,626		81
Residential real estate	3,798	3,910	586	3,790		146
Consumer and other	26	28	26	27		2
Impaired loans with no related ASC 310 allowance recorded						
Commercial						
Commercial, industrial and other	\$8,460	\$12,259	\$ —	\$10,170		\$ 683
Franchise	16,256	16,256	—	17,089		780
Asset-based lending	602	602	—	688		40
Leases	782	782	—	845		49
Commercial real estate						
Construction	1,367	1,678	—	1,555		84
Land	3,961	4,192	—	4,129		182
Office	2,438	6,140	—	3,484		330
Industrial	403	2,010	—	1,849		174
Retail	2,393	3,538	—	2,486		221
Multi-family	1,231	2,078	—	1,246		76
Mixed use and other	5,275	6,731	—	5,559		351
Home equity	7,648	11,648	—	9,114		603
Residential real estate	17,455	20,327	—	17,926		860
Consumer and other	733	890	—	773		48
Total loans, net of unearned income	\$105,088	\$127,566	\$ 8,023	\$115,261		\$ 6,298

Average recorded investment in impaired loans for the years ended December 31, 2018, 2017, and 2016 were \$133.5 million, \$115.3 million, and \$105.4 million, respectively. Interest income recognized on impaired loans was \$7.3 million, \$6.3 million and \$5.5 million for the years ended December 31, 2018, 2017, and 2016, respectively.

TDRs

At December 31, 2018, the Company had \$66.1 million in loans modified in TDRs. The \$66.1 million in TDRs represents 134 credits in which economic concessions were granted to certain borrowers to better align the terms of

their loans with their current ability to pay.

The Company's approach to restructuring loans, excluding PCI loans, is built on its credit risk rating system which requires credit management personnel to assign a credit risk rating to each loan. In each case, the loan officer is responsible for recommending a credit risk rating for each loan and ensuring the credit risk ratings are appropriate. These credit risk ratings are then reviewed and approved by the bank's chief credit officer and/or concurrence credit officer. Credit risk ratings are determined by evaluating a number of factors including a borrower's financial strength, cash flow coverage, collateral protection and guarantees. The Company's credit risk rating scale is one through ten with higher scores indicating higher risk. In the case of loans rated six or worse following modification, the Company's Managed Assets Division evaluates the loan and the credit risk rating and determines that the loan has been restructured to be reasonably assured of repayment and of performance according to the modified terms and is supported by a current, well-documented credit assessment of the borrower's financial condition and prospects for repayment under the revised terms.

A modification of a loan, excluding PCI loans, 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 possible TDR classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of these loans is considered to be a TDR if both (1) the borrower is experiencing financial difficulty and (2) for economic or legal reasons, the bank grants a concession to a borrower that it would not otherwise consider. The modification of a loan, excluding PCI loans, 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.

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

TDRs are reviewed at the time of modification and on a quarterly basis to determine if a specific reserve is necessary. The carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral. Any shortfall is recorded as a specific reserve. The Company, in accordance with ASC 310-10, continues to individually measure impairment of these loans after the TDR classification is removed.

Each TDR was reviewed for impairment at December 31, 2018 and approximately \$2.1 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. For TDRs in which impairment is calculated by the present value of future cash flows, the Company records interest income representing the decrease in impairment resulting from the passage of time during the respective period, which differs from interest income from contractually required interest on these specific loans. For the years ended December 31, 2018 and 2017, the Company recorded \$113,000 and \$207,000, respectively, in interest income representing this decrease in impairment.

TDRs may arise in which, due to financial difficulties experienced by the borrower, the Company obtains through physical possession one or more collateral assets in satisfaction of all or part of an existing credit. Once possession is obtained, the Company reclassifies the appropriate portion of the remaining balance of the credit from loans to OREO, which is included within other assets in the Consolidated Statements of Condition. For any residential real estate property collateralizing a consumer mortgage loan, the Company is considered to possess the related collateral only if legal title is obtained upon completion of foreclosure, or the borrower conveys all interest in the residential real estate property to the Company through completion of a deed in lieu of foreclosure or similar legal agreement. At December 31, 2018, the Company had \$4.9 million of foreclosed residential real estate properties included within OREO. Further, the recorded investment in residential mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process totaled \$14.4 million and \$9.8 million at December 31, 2018 and 2017, respectively.

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The tables below present a summary of the post-modification balance of loans restructured during the years ended December 31, 2018, 2017, and 2016, which represent TDRs:

Year ended	Total ⁽¹⁾⁽²⁾		Extension at		Reduction of		Modification to		Forgiveness of Debt	
December 31, 2018			Below Market		Interest Rate		Interest-only		⁽²⁾	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	4	\$13,441	3	\$691	—	\$—	1	\$12,750	—	\$—
Franchise	3	5,157	1	35	—	—	2	5,122	—	—
Asset-based lending	1	130	1	130	—	—	—	—	—	—
Leases	1	239	1	239	—	—	—	—	—	—
Commercial real estate										
Office	1	59	1	59	—	—	—	—	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Mixed use and other	2	455	2	455	1	85	—	—	—	—
Residential real estate and other	59	9,762	58	9,523	27	2,789	—	—	1	239
Total loans	71	\$29,243	67	\$11,132	28	\$2,874	3	\$17,872	1	\$239

Year ended	Total ⁽¹⁾⁽²⁾		Extension at		Reduction of		Modification to		Forgiveness of Debt	
December 31, 2017			Below Market		Interest Rate		Interest-only		⁽²⁾	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	5	\$3,775	1	\$95	1	\$2,272	3	\$1,408	—	\$—
Franchise	3	16,256	—	—	—	—	3	16,256	—	—
Asset-based lending	—	—	—	—	—	—	—	—	—	—
Leases	—	—	—	—	—	—	—	—	—	—
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Mixed use and other	1	1,245	1	1,245	—	—	—	—	—	—
Residential real estate and other	12	3,049	10	2,925	8	2,643	1	55	1	69
Total loans	21	\$24,325	12	\$4,265	9	\$4,915	7	\$17,719	1	\$69

Year ended	Total ⁽¹⁾⁽²⁾		Extension at		Reduction of		Modification to		Forgiveness of Debt	
December 31, 2016			Below Market		Interest Rate		Interest-only		⁽²⁾	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	3	\$345	3	\$345	—	\$—	—	\$—	1	\$275
Franchise	—	—	—	—	—	—	—	—	—	—
Asset-based lending	—	—	—	—	—	—	—	—	—	—
Leases	2	2,949	2	2,949	—	—	—	—	—	—
Commercial real estate										
Office	1	450	1	450	—	—	—	—	—	—
Industrial	6	7,921	6	7,921	3	7,196	—	—	—	—
Mixed use and other	2	150	2	150	—	—	—	—	—	—
Residential real estate and other	7	1,082	5	841	6	850	2	470	—	—
Total loans	21	\$12,897	19	\$12,656	9	\$8,046	2	\$470	1	\$275

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

During the year ended December 31, 2018, \$29.2 million, or 71 loans, were determined to be TDRs, compared to \$24.3 million, or 21 loans, and \$12.9 million, or 21 loans, in the years ended 2017 and 2016, respectively. Of these loans extended at below market terms, the weighted average extension had a term of approximately 48 months in 2018 compared to 35 months in 2017 and 19 months in 2016. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 172 basis points, 485 basis points and 34 basis points during the years ended December 31, 2018, 2017, and 2016, respectively. Interest-only payment terms were approximately 7 months during the year ended 2018 compared to 11 months and 7 months for the years ended 2017 and 2016, respectively. Additionally, \$8,000 of principal balance were forgiven on the loans noted above in 2018 compared to \$73,000 of principal balance forgiven during 2017 and \$300,000 of principal balance forgiven during 2016.

The tables below present a summary of all loans restructured in TDRs during the years ended December 31, 2018, 2017, and 2016, and such loans which were in payment default under the restructured terms during the respective periods:

	Year Ended December 31, 2018		Year Ended December 31, 2017		Year Ended December 31, 2016	
	Total (1)(3)	Payments in Default (2)(3)	Total (1)(3)	Payments in Default (2)(3)	Total (1)(3)	Payments in Default (2)(3)
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial, industrial and other	4	\$ 13,441	2	\$ 174	5	\$ 3,775
Franchise	3	5,157	2	5,122	3	16,256
Asset-based lending	1	130	—	—	—	—
Leases	1	239	—	—	—	—
Commercial real-estate						
Office	1	59	—	—	—	—
Industrial	—	—	—	—	—	—
Mixed use and other	2	455	2	455	1	1,245
Residential real estate and other	59	9,762	9	1,957	12	3,049
Total loans	71	\$ 29,243	15	\$ 7,708	21	\$ 24,325
					8	\$ 6,978
					21	\$ 12,897
					8	\$ 7,841

(1) Total TDRs represent all loans restructured in TDRs during the year indicated.

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

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

(6) Mortgage Servicing Rights (“MSRs”)

Following is a summary of the changes in the carrying value of MSRs, accounted for at fair value, for the years ended December 31, 2018, 2017 and 2016:

	December 31, 2018	December 31, 2017	December 31, 2016
(Dollars in thousands)			
Balance at beginning of year	\$33,676	\$19,103	\$9,092
Additions from loans sold with servicing retained	33,071	18,341	13,091
Additions from acquisitions	13,806	—	—
Estimate of changes in fair value due to:			
Payoffs and paydowns	(5,039)	(2,595)	(2,325)
Changes in valuation inputs or assumptions	(331)	(1,173)	(755)
Fair value at end of year	\$75,183	\$33,676	\$19,103
Unpaid principal balance of mortgage loans serviced for others	\$6,545,870	\$2,929,133	\$1,784,760

The Company recognizes MSR assets upon the sale of residential real estate loans to external third parties when it retains the obligation to service the loans and the servicing fee is more than adequate compensation. The initial recognition of MSR assets from loans sold with servicing retained and subsequent changes in fair value of all MSRs are recognized in mortgage banking revenue. MSRs are subject to changes in value from actual and expected prepayment of the underlying loans. The Company does not specifically hedge the value of its MSRs.

Fair values are determined by using a discounted cash flow model that incorporates the objective characteristics of the portfolio as well as subjective valuation parameters that purchasers of servicing would apply to such portfolios sold into the secondary market. The subjective factors include loan prepayment speeds, discount rates, servicing costs and other economic factors. The Company uses a third party to assist in the valuation of MSRs.

(7) Business Combinations and Asset Acquisitions

Non-FDIC Assisted Bank Acquisitions

On December 7, 2018, the Company completed its acquisition of certain assets and the assumption of certain liabilities of 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.

On August 1, 2018, the Company completed its acquisition of CSC. CSC was the parent company of Delaware Place Bank. Through this business combination, the Company acquired Delaware Place Bank's one banking location in Chicago, Illinois, approximately \$282.8 million in assets, including approximately \$152.7 million in loans, and approximately \$213.1 million in deposits. Additionally, the Company recorded goodwill of \$26.5 million on the acquisition.

On November 18, 2016, the Company acquired FCFC. FCFC was the parent company of First Community Bank. Through this transaction, the Company acquired First Community Bank's two banking locations in Elgin, Illinois. First Community Bank was merged into the Company's wholly-owned subsidiary St. Charles Bank. The Company acquired assets with a fair value of approximately \$187.3 million, including approximately \$79.5 million of loans, and assumed deposits with a fair value of approximately \$150.3 million. Additionally, the Company recorded goodwill of \$13.8 million on the acquisition.

On August 19, 2016, the Company, through its wholly-owned subsidiary Lake Forest Bank, acquired approximately \$561.4 million in 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.

On March 31, 2016, the Company acquired Generations. Generations was the parent company of Foundations Bank, which had one banking location in Pewaukee, Wisconsin. Foundations Bank was merged into the Company's wholly-owned subsidiary Town Bank. The Company acquired assets with a fair value of approximately \$134.2 million, including approximately \$67.4 million of loans, and assumed deposits with a fair value of approximately \$100.2 million. Additionally, the Company recorded goodwill of \$11.5 million on the acquisition.

FDIC Assisted Bank Acquisitions

From 2010 to 2012, the Company acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of nine financial institutions in FDIC-assisted transactions. Loans comprised the majority of the assets acquired in nearly all of these FDIC-assisted transactions, of which eight such transactions were subject to loss sharing agreements with the FDIC whereby the FDIC agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned (“OREO”), and certain other assets. Additionally, clawback provisions within these loss share agreements with the FDIC required the Company to reimburse the FDIC in the event that actual losses on covered assets were lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to these loss sharing agreements as “covered loans” and uses the term “covered assets” to refer to covered loans, covered OREO and certain other covered assets during periods subject to such agreements.

As of dates subject to such agreements, the loans covered by the loss share agreements were classified and presented as covered loans and the estimated reimbursable losses were recorded as an FDIC indemnification asset or liability in the Consolidated Statements of Condition. The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The fair value for loans reflected expected credit losses at the acquisition date. Therefore, the Company only recognized a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration subsequent to the acquisition date. See Note 5, “Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans,” for further discussion of the allowance on covered loans.

The loss share agreements with the FDIC covered realized losses on loans, foreclosed real estate and certain other assets and required the Company to record loss share assets and liabilities that were measured separately from the loan portfolios because they were not contractually embedded in the loans and were not transferable with the loans should the Company have chosen to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets and liabilities were recorded as FDIC indemnification assets and other liabilities, respectively, on the Consolidated Statements of Condition as of dates covered by loss share agreements. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses reduced the FDIC indemnification assets. Reductions to expected losses, to the extent such reductions to expected losses were the result of an improvement to the actual or expected cash flows from the covered assets, also reduced the FDIC indemnification assets and, if necessary, increased any loss share liability when necessary reductions exceeded the current value of the FDIC indemnification assets. In accordance with the clawback provision noted above, the Company was required to reimburse the FDIC when actual losses were less than certain thresholds established for each loss share agreement. The balance of these estimated reimbursements in accordance with clawback provisions and any related amortization were adjusted periodically for changes in the expected losses on covered assets. On the Consolidated Statements of Condition as of dates subject to loss share agreements, estimated reimbursements from clawback provisions were recorded as a reduction to the FDIC indemnification asset or, if necessary, an increase to the loss share liability, which was included within accrued interest payable and other liabilities. In the second quarter of 2017, the Company recorded a \$4.9 million reduction to the estimated loss share liability as a result of an adjustment related to such clawback provisions. Although these assets were contractual receivables from the FDIC and these liabilities were contractual payables to the FDIC, there were no contractual interest rates. Additional expected losses, to the extent such expected losses resulted in recognition of an allowance for covered loan losses, increased the FDIC indemnification asset or reduced the FDIC indemnification liability. The corresponding amortization was recorded as a component of non-interest income on the Consolidated Statements of Income during periods covered by the loss share agreements.

The following table summarizes the activity in the Company’s FDIC loss share liability during the periods indicated:

(Dollars in thousands)	Year Ended December 31, 2017
Balance at beginning of period	\$ 16,701
Reductions from reimbursable expenses	(291)
Amortization	1,044
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(1,658)
Resolution through payments paid to the FDIC and termination of loss share agreements	(15,796)
Balance at end of period	\$ —

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.

Wealth Management Acquisitions

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. The Company recorded goodwill of \$37.6 million on the acquisition.

Mortgage Banking Acquisitions

On January 4, 2018, the Company acquired Veterans First with assets including mortgage-servicing-rights on approximately 10,000 loans, totaling an estimated \$1.6 billion in unpaid principal balance. The Company recorded goodwill of \$9.1 million on the acquisition.

On February 14, 2017, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of American Homestead Mortgage, LLC ("AHM"). The Company recorded goodwill of \$1.0 million on the acquisition.

PCI loans

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

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

The Company purchased a portfolio of life insurance premium finance receivables in 2009. These purchased life insurance premium finance receivables are valued on an individual basis. If credit related conditions deteriorate, an allowance related to these loans will be established as part of the provision for credit losses.

See Note 4, "Loans," for more information on loans acquired with evidence of credit quality deterioration since origination.

(8) Goodwill and Other Intangible Assets

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

(Dollars in thousands)	January 1, 2018	Goodwill Acquired	Impairment Loss	Goodwill Adjustments	December 31, 2018

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Community banking	\$ 429,520	\$ 35,565	\$	—\$ —	\$ 465,085
Specialty finance	40,250	—	—	(1,907)	38,343
Wealth management	32,114	37,599	—	—	69,713
Total	\$ 501,884	\$ 73,164	\$	—\$ (1,907)	\$ 573,141

The community banking segment's goodwill increased \$35.6 million in 2018 as a result of the acquisition of CSC and Veterans First. The specialty finance segment's goodwill decreased \$1.9 million in 2018 as a result of foreign currency translation adjustments related to the Canadian acquisitions. The wealth management segment's goodwill increased \$37.6 million in 2018 as a result of the acquisition of CDEC.

A summary of finite-lived intangible assets as of the dates shown and the expected amortization as of December 31, 2018 is as follows:

(Dollars in thousands)	December 31,	
	2018	2017
Community banking segment:		
Core deposit and other intangibles:		
Gross carrying amount	\$55,366	\$37,272
Accumulated amortization	(29,406)	(25,427)
Net carrying amount	\$25,960	\$11,845
Trademark with indefinite lives:		
Carrying amount	5,800	—
Total net carrying amount	\$31,760	\$11,845
Specialty finance segment:		
Customer list intangibles:		
Gross carrying amount	\$1,958	\$1,972
Accumulated amortization	(1,436)	(1,298)
Net carrying amount	\$522	\$674
Wealth management segment:		
Customer list and other intangibles:		
Gross carrying amount	\$20,430	\$7,940
Accumulated amortization	(3,288)	(2,838)
Net carrying amount	\$17,142	\$5,102
Total other intangible assets, net	\$49,424	\$17,621
Estimated amortization for the year-ended:		
2019	\$11,342	
2020	9,582	
2021	6,385	
2022	4,957	
2023	3,621	

The core deposit intangibles recognized in connection with prior bank acquisitions are amortized over a ten-year period on an accelerated basis. The customer list intangibles recognized in connection with the purchase of life insurance premium finance assets in 2009 are being amortized over an 18-year period on an accelerated basis while the customer list intangibles recognized in connection with prior acquisitions within the wealth management segment are being amortized over a period of up to ten-years on a straight-line basis.

Total amortization expense associated with finite-lived intangibles in 2018, 2017 and 2016 was \$4.6 million, \$4.4 million and \$4.8 million, respectively.

(9) Premises and Equipment, Net

A summary of premises and equipment at December 31, 2018 and 2017 is as follows:

(Dollars in thousands)	December 31,	
	2018	2017
Land	\$164,232	\$147,704
Buildings and leasehold improvements	586,968	555,636
Furniture, equipment, and computer software	201,055	203,657
Construction in progress	16,179	6,962

	\$968,434	\$913,959
Less: Accumulated depreciation and amortization	297,265	292,064
Total premises and equipment, net	\$671,169	\$621,895

Depreciation and amortization expense related to premises and equipment totaled \$33.2 million in 2018, \$31.5 million in 2017 and \$32.1 million in 2016.

(10) Deposits

The following is a summary of deposits at December 31, 2018 and 2017:

(Dollars in thousands)	2018	2017		
Balance:				
Non-interest bearing	\$6,569,880	\$6,792,497		
NOW and interest bearing demand deposits	2,897,133	2,315,055		
Wealth management deposits	2,996,764	2,323,699		
Money market	5,704,866	4,515,353		
Savings	2,665,194	2,829,373		
Time certificates of deposit	5,260,841	4,407,370		
Total deposits	\$26,094,678	\$23,183,347		
Mix:				
Non-interest bearing	25	% 29	%	
NOW and interest bearing demand deposits	11	10		
Wealth management deposits	12	10		
Money market	22	20		
Savings	10	12		
Time certificates of deposit	20	19		
Total deposits	100	% 100	%	

Wealth management deposits represent deposit balances of the Company's subsidiary banks from 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.

The scheduled maturities of time certificates of deposit at December 31, 2018 and 2017 are as follows:

(Dollars in thousands)	2018	2017
Due within one year	\$3,213,010	\$3,167,220
Due in one to two years	1,251,446	969,130
Due in two to three years	710,836	127,548
Due in three to four years	47,979	98,952
Due in four to five years	37,563	44,206
Due after five years	7	314
Total time certificate of deposits	\$5,260,841	\$4,407,370

The following table sets forth the scheduled maturities of time deposits in denominations of \$100,000 or more at December 31, 2018 and 2017:

(Dollars in thousands)	2018	2017
Maturing within three months	\$682,940	\$695,904
After three but within six months	667,079	614,963
After six but within 12 months	921,547	820,285
After 12 months	1,350,717	784,798
Total	\$3,622,283	\$2,915,950

Time deposits in denominations of \$250,000 or more were \$1.6 billion and \$1.3 billion at December 31, 2018 and 2017, respectively.

(11) Federal Home Loan Bank Advances

A summary of the outstanding FHLB advances at December 31, 2018 and 2017, is as follows:

(Dollars in thousands)	2018	2017
1.44% advance due January 2018	\$—	\$250,000
1.49% advance due February 2018	—	94,663
1.57% advance due June 2019	1,991	—
1.75% advance due June 2020	3,940	—
1.72% advance due June 2020	2,461	—
1.88% advance due June 2021	2,934	—
4.18% advance due February 2022	25,000	25,000
1.52% advance due March 2022	50,000	50,000
1.45% advance due May 2022	50,000	50,000
1.46% advance due May 2022	90,000	90,000
1.98% advance due January 2023	100,000	—
0.93% advance due January 2028	100,000	—
Total FHLB advances	\$426,326	\$559,663

FHLB advances consist of obligations of the banks and are collateralized by qualifying residential real estate and home equity loans and certain securities. The banks have arrangements with the FHLB whereby, based on available collateral, they could have borrowed an additional \$2.8 billion at December 31, 2018.

FHLB advances are stated at par value of the debt adjusted for unamortized prepayment fees paid at the time of prior restructurings of FHLB advances and unamortized fair value adjustments recorded in connection with advances acquired through acquisitions and debt issuance costs. Unamortized prepayment fees are amortized as an adjustment to interest expense using the effective interest method.

Approximately \$365.0 million of the FHLB advances outstanding at December 31, 2018, have varying put or call dates ranging from January 2019 to January 2020. At December 31, 2018, the weighted average contractual interest rate on FHLB advances was 1.63%.

(12) Subordinated Notes

At December 31, 2018, the Company had outstanding subordinated notes totaling \$139.2 million compared to \$139.1 million at December 31, 2017. In 2014, the Company issued \$140.0 million of subordinated notes receiving \$139.1 million in proceeds, net of underwriting discount. The notes have a stated interest rate of 5.00% and mature in June 2024.

In connection with the issuance of subordinated notes in 2014, the Company incurred costs totaling \$1.3 million. These costs are a direct deduction from the carrying amount of the subordinated notes and are amortized to interest expense using the effective interest method. At December 31, 2018, the unamortized balances of these costs were approximately \$790,000. These subordinated notes qualify as Tier II capital under the regulatory capital requirements, subject to restrictions.

(13) Other Borrowings

The following is a summary of other borrowings at December 31, 2018 and 2017:

(Dollars in thousands)	2018	2017
------------------------	------	------

Notes payable	\$144,461	\$41,222
Short-term borrowings	50,593	17,209
Other	47,722	49,131
Secured borrowings	151,079	158,561
Total other borrowings	\$393,855	\$266,123

Notes Payable

On September 18, 2018, the Company established a \$150.0 million term facility ("Term Facility"), which is part of a \$200.0 million loan agreement ("Credit Agreement") with unaffiliated banks. The Credit Agreement consists of the Term Facility with an original outstanding balance of \$150.0 million and a \$50.0 million revolving credit facility ("Revolving Credit Facility"). At December 31, 2018, the Company had a notes payable balance of \$144.5 million under the Term Facility. The Term Facility is stated at par of the current outstanding balance of the debt adjusted for unamortized costs paid by the Company in relation to the debt issuance. 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. Beginning December 31, 2018, the Company is required to make quarterly payments of principal plus interest on the Term Facility. At December 31, 2018, the Company had no outstanding balance under the Revolving Credit Facility. As no outstanding balance exists on the Revolving Credit Facility, unamortized costs paid by the Company in relation to the issuance of this debt are classified in other assets on the Consolidated Statements of Condition.

Borrowings under the Credit Agreement that are considered "Base Rate Loans" bear interest at a rate equal to the sum of (1) 50 basis points (in the case of a borrowing under the Revolving Credit Facility) or 75 basis points (in the case of a borrowing under the Term Facility) plus (2) the highest of (a) the federal funds rate plus 50 basis points, (b) the lender's prime rate, and (c) the Eurodollar Rate (as defined below) that would be applicable for an interest period of one month plus 100 basis points. Borrowings under the agreement that are considered "Eurodollar Rate Loans" bear interest at a rate equal to the sum of (1) 125 basis points (in the case of a borrowing under the Revolving Credit Facility) or 125 basis points (in the case of a borrowing under the Term Facility) plus (2) the LIBOR rate for the applicable period, as adjusted for statutory reserve requirements for eurocurrency liabilities (the "Eurodollar Rate"). A commitment fee is payable quarterly equal to 0.20% of the actual daily amount by which the lenders' commitment under the Revolving Credit Facility exceeded the amount outstanding under such facility.

Borrowings under the Credit Agreement are secured by pledges of and first priority perfected security interests in the Company's equity interest in its bank subsidiaries and contain several restrictive covenants, including the maintenance of various capital adequacy levels, asset quality and profitability ratios, and certain restrictions on dividends and other indebtedness. At December 31, 2018, the Company was in compliance with all such covenants. The Revolving Credit Facility and the Term Facility are available to be utilized, as needed, to provide capital to fund continued growth at the Company's banks and to serve as an interim source of funds for acquisitions, common stock repurchases or other general corporate purposes.

In connection with the establishment of the Credit Agreement, all outstanding notes payable under a \$150.0 million loan agreement with unaffiliated banks dated December 15, 2014 (as subsequently amended) were paid in full. This loan 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 this loan agreement of \$41.2 million at December 31, 2017.

Short-term Borrowings

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. At December 31, 2018 and 2017, securities sold under repurchase agreements represent \$50.6 million and \$17.2 million, respectively, of customer sweep accounts in connection with master repurchase agreements at the banks. The Company records securities sold under repurchase agreements at their gross value and does not offset positions on the Consolidated Statements of Condition. As of December 31, 2018, the Company had pledged securities related to its customer balances in sweep accounts of \$62.8 million. Securities pledged for customer balances in sweep accounts and short-term borrowings from brokers are maintained under the Company's control and consist of U.S. Government

agency and mortgage-backed securities. These securities are included in the available-for-sale and held-to-maturity securities portfolios as reflected on the Company's Consolidated Statements of Condition.

The following is a summary of these securities pledged as of December 31, 2018 disaggregated by investment category and maturity, and reconciled to the outstanding balance of securities sold under repurchase agreements:

(Dollars in thousands)	Overnight Sweep Collateral
Available-for-sale securities pledged	
Mortgage-backed securities	\$ 21,059
Held-to-maturity securities pledged	
U.S. Government agencies	41,723
Total collateral pledged	\$ 62,782
Excess collateral	12,189
Securities sold under repurchase agreements	\$ 50,593

Other Borrowings

Other borrowings at December 31, 2018 and 2017 represent 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, and non-recourse notes issued by the Company to other banks related to certain capital leases. 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. The Fixed-Rate Promissory Note contains several restrictive covenants, including the maintenance of various capital adequacy levels, asset quality and profitability ratios, and certain restrictions on dividends and other indebtedness. At December 31, 2018, the Company was in compliance with all such covenants. A previous fixed-rate promissory note with an unrelated creditor related to and secured by an office building owned by the Company was paid off upon the Company's issuance of the Fixed-Rate Promissory Note. Additionally, at December 31, 2017, other borrowings included non-recourse notes related to certain capital leases totaling \$151,000.

Secured Borrowings

Secured borrowings at December 31, 2018 primarily represents transactions to sell an undivided co-ownership interest in all receivables owed to the Company's subsidiary, FIFC Canada. In December 2014, FIFC Canada sold such interest 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, 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, 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 secured borrowing totaled \$139.3 million compared to \$135.1 million at December 31, 2017. Additionally, the interest rate under the Receivables Purchase Agreement at December 31, 2018 was 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.

(14) Junior Subordinated Debentures

As of December 31, 2018, the Company owned 100% of the common securities of eleven trusts, Wintrust Capital Trust III, Wintrust Statutory Trust IV, Wintrust Statutory Trust V, Wintrust Capital Trust VII, Wintrust Capital Trust VIII, Wintrust Capital Trust IX, Northview Capital Trust I, Town Bankshares Capital Trust I, First Northwest Capital Trust I, Suburban Illinois Capital Trust II, and Community Financial Shares Statutory Trust II (the “Trusts”) set up to provide long- term financing. The Northview, Town, First Northwest, Suburban and Community Financial Shares capital trusts were acquired as part of the acquisitions of Northview Financial Corporation, Town Bankshares, Ltd., First Northwest Bancorp, Inc., Suburban and CFIS, respectively. The Trusts were formed for purposes of issuing trust preferred securities to third-party investors and investing the proceeds from the issuance of the trust preferred securities and common securities solely in junior subordinated debentures issued by the Company (or assumed by the Company in connection with an acquisition), with the same maturities and interest rates as the trust preferred securities.

The junior subordinated debentures are the sole assets of the Trusts. In each Trust, the common securities represent approximately 3% of the junior subordinated debentures and the trust preferred securities represent approximately 97% of the junior subordinated debentures.

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.

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

The following table provides a summary of the Company's junior subordinated debentures as of December 31, 2018 and 2017. The junior subordinated debentures represent the par value of the obligations owed to the Trusts.

(Dollars in thousands)	Common Securities	Junior Subordinated Debentures		Rate Structure	Contractual rate at 12/31/2018	Issue Date	Maturity Date	Earliest Redemption Date	
		Trust Preferred Securities	2018						2017
Wintrust Capital Trust III	\$774	\$25,000	\$25,774	\$25,774	L+3.25	5.69%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	619	20,000	20,619	20,619	L+2.80	5.60	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	1,238	40,000	41,238	41,238	L+2.60	5.40	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	1,550	50,000	51,550	51,550	L+1.95	4.74	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	1,238	25,000	26,238	26,238	L+1.45	4.25	08/2005	09/2035	09/2010
Wintrust Capital Trust IX	1,547	50,000	51,547	51,547	L+1.63	4.42	09/2006	09/2036	09/2011
Northview Capital Trust I	186	6,000	6,186	6,186	L+3.00	5.54	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	186	6,000	6,186	6,186	L+3.00	5.54	08/2003	11/2033	08/2008
First Northwest Capital Trust I	155	5,000	5,155	5,155	L+3.00	5.80	05/2004	05/2034	05/2009
Suburban Illinois Capital Trust II	464	15,000	15,464	15,464	L+1.75	4.54	12/2006	12/2036	12/2011
Community Financial Shares Statutory Trust II	109	3,500	3,609	3,609	L+1.62	4.41	06/2007	09/2037	06/2012
Total			\$253,566	\$253,566		4.94%			

The junior subordinated debentures totaled \$253.6 million at December 31, 2018 and 2017.

The interest rates on the variable rate junior subordinated debentures are based on the three-month LIBOR rate and reset on a quarterly basis. At December 31, 2018, the weighted average contractual interest rate on the junior subordinated debentures was 4.94%. Distributions on the common and preferred securities issued by the Trusts are payable quarterly at a rate per annum equal to the interest rates being earned by the Trusts on the junior subordinated debentures. Interest expense on the junior subordinated debentures is deductible for income tax purposes.

The Company has guaranteed the payment of distributions and payments upon liquidation or redemption of the trust preferred securities, in each case to the extent of funds held by the Trusts. The Company and the Trusts believe that, taken together, the obligations of the Company under the guarantees, the junior subordinated debentures, and other related agreements provide, in the aggregate, a full, irrevocable and unconditional guarantee, on a subordinated basis, of all of the obligations of the Trusts under the trust preferred securities. Subject to certain limitations, the Company

has the right to defer the payment of interest on the junior subordinated debentures at any time, or from time to time, for a period not to exceed 20 consecutive quarters. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at maturity or their earlier redemption. The junior subordinated debentures are redeemable in whole or in part prior to maturity at any time after the earliest redemption dates shown in the table, and earlier at the discretion of the Company if certain conditions are met, and, in any event, only after the Company has obtained Federal Reserve Bank ("FRB") approval, if then required under applicable guidelines or regulations.

At December 31, 2018, the Company included \$245.5 million of the junior subordinated debentures, net of common securities, in Tier 2 regulatory capital.

(15) Revenue from Contracts with Customers

As of January 1, 2018, the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," and all subsequent updates issued to clarify and improve specific areas of ASU 2014-09. The Company elected to adopt the new guidance using the modified retrospective approach applied to all contracts as of the date of initial application at January 1, 2018. Under the modified retrospective approach, the Company recognized no cumulative effect adjustment to the opening balance of retained earnings at the date of initial application.

Disaggregation of Revenue

As certain significant revenue sources related to financial instruments such as interest income are considered not in-scope, ASU 2014-09 did not have a significant impact on the Company's consolidated financial statements. The following table presents revenue from contracts with customers, considered in-scope under ASU 2014-09, disaggregated by the revenue source:

(Dollars in thousands)		Years Ended		
		December 2018	December 2017	December 2016
Revenue from contracts with customers	Location in income statement	31,208	31,207	31,206
Brokerage and insurance product commissions	Wealth management	\$22,391	\$22,863	\$25,519
Trust	Wealth management	13,263	12,547	11,993
Asset management	Wealth management	55,309	46,356	38,506
Total wealth management		90,963	81,766	76,018
Mortgage broker fees	Mortgage banking	1,188	1,565	2,834
Service charges on deposit accounts	Service charges on deposit accounts	36,404	34,513	31,210
Administrative services	Other non-interest income	4,625	4,165	4,409
Card related fees	Other non-interest income	7,441	5,858	5,495
Other deposit related fees	Other non-interest income	11,892	11,127	9,555

Wealth Management Revenue

Wealth management revenue is comprised of brokerage and insurance product commissions, managed money fees and trust and asset management revenue of the Company's four wealth management subsidiaries: Wintrust Investments, Great Lakes Advisors, CTC and CDEC. All wealth management revenue is recognized in the wealth management segment.

Brokerage and insurance product commissions consists primarily of commissions earned from trade execution services on behalf of customers and from selling mutual funds, insurance and other investment products to customers. For trade execution services, the Company recognizes commissions and receives payment from the brokerage customers at the point of transaction execution. Commissions received from the investment or insurance product providers are recognized at the point of sale of the product. The Company also receives trail and other commissions from providers for certain plans. These are generally based on qualifying account values and are recognized once the performance obligation, specific to each provider, is satisfied on a monthly, quarterly or annual basis.

Trust revenue is earned primarily from trust and custody services that are generally performed over time as well as fees earned on funds held during the facilitation of tax-deferred like-kind exchange transactions. Revenue is determined periodically based on a schedule of fees applied to the value of each customer account using a time-elapsed method to measure progress toward complete satisfaction of the performance obligation. Fees are typically billed on a calendar month or quarter basis in advance or in arrears depending upon the contract. Upfront fees received related to the facilitation of tax-deferred like-kind exchange transactions are deferred until the

transaction is completed. Additional fees earned for certain extraordinary services performed on behalf of the customers are recognized when the service has been performed.

Asset management revenue is earned from money management and advisory services that are performed over time. Revenue is based primarily on the market value of assets under management or administration using a time-elapsed method to measure progress toward complete satisfaction of the performance obligation. Fees are typically billed on a calendar month or quarter basis in advance or in arrears depending upon the contract. Certain programs provide the customer with an option of paying fees as a percentage of the account value or incurring commission charges for each trade similar to brokerage and insurance product commissions. Trade commissions and any other fees received for additional services are recognized at a point in time once the performance obligation is satisfied.

Mortgage Broker Fees

For customers desiring a mortgage product not currently offered by the Company, the Company may refer such customers and, with permission, direct such customers' applications to certain third party mortgage brokers. Mortgage broker fees are received from these brokers for such customer referrals upon settlement of the underlying mortgage. The Company's entitlement to the consideration is contingent on the settlement of the mortgage which is highly susceptible to factors outside of the Company's influence, such as the third party broker's underwriting requirements. Also, the uncertainty surrounding the consideration could be resolved in varying lengths of time, dependent upon the third party brokers. Therefore, mortgage broker fees are recognized at the settlement of the underlying mortgage when the consideration is received. Broker fees are recognized in the community banking segment.

Service Charges on Deposit Accounts

Service charges on deposit accounts include fees charged to deposit customers for various services, including account analysis services, and are based on factors such as the size and type of customer, type of product and number of transactions. The fees are based on a standard schedule of fees and, depending on the nature of the service performed, the service is performed at a point in time or over a period of a month. When the service is performed at a point in time, the Company recognizes and receives revenue when the service has been performed. When the service is performed over a period of a month, the Company recognizes and receives revenue in the month the service has been performed. Service charges on deposit accounts are recognized in the community banking segment.

Administrative Services

Administrative services revenue is earned from providing outsourced administrative services, such as data processing of payrolls, billing and cash management services, to temporary staffing service clients located throughout the United States. Fees are charged periodically (typically a payroll cycle) and computed in accordance with the contractually determined rate applied to the total gross billings administered for the period. The revenue is recognized over the period using a time-elapsing method to measure progress toward complete satisfaction of the performance obligation. Other fees are charged on a per occurrence basis as the service is provided in the billing cycle. The Company has certain contracts with customers to perform outsourced administrative services and short-term accounts receivable financing. For these contracts, the total fee is allocated between the administrative services revenue and interest income during the client onboarding process based on the specific client and services provided. Administrative services revenue is recognized in the specialty finance segment.

Card and Deposit Related Fees

Card related fees include interchange and merchant revenue, and fees related to debit and credit cards. Interchange revenue is related to the Company issued debit cards. Other deposit related fees primarily include pay by phone processing fees, ATM and safe deposit box fees, check order charges and foreign currency related fees. Card and deposit related fees are generally based on volume of transactions and are recognized at the point in time when the service has been performed. For any consideration that is constrained, the revenue is recognized once the uncertainty is known. Upfront fees received from certain contracts are recognized on a straight line basis over the term of the contract. Card and deposit related fees are recognized in the community banking segment.

Contract Balances

The following table provides information about contract assets, contract liabilities and receivables from contracts with customers:

(Dollars in thousands)	December 31, 2018	December 31, 2017
Contract assets	\$ —	\$ —
Contract liabilities	\$ 1,727	\$ 1,706
Mortgage broker fees receivable	\$ 44	\$ 69
Administrative services receivable	275	—
Wealth management receivable	13,610	8,102
Card related fees receivable	—	202
Total receivables from contracts with customer	\$ 13,929	\$ 8,373

Contract liabilities represent upfront fees that the Company received at inception of certain contracts. The revenue recognized that was included in the contract liability balance at beginning of the period totaled \$369,000 and \$359,000 for the years ended December 31, 2018 and 2017, respectively. Receivables are recognized in the period the Company provides services when the Company's right to consideration is unconditional. Card related fee receivable is the result of volume based fee that the Company receives from a customer on an annual basis in the second quarter of each year. Payment terms on other invoiced amounts are typically 30 days or less. Contract liabilities and receivables from contracts with customers are included within the accrued interest payable and other liabilities and accrued interest receivable and other assets line items, respectively, in the Consolidated Statements of Condition.

Transaction price allocated to the remaining performance obligations

For contracts with an original expected length of more than one year, the following table presents the estimated future timing of recognition of upfront fees related to card and deposit related fees. These upfront fees represent performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

(Dollars in thousands)	
Estimated—2019	\$ 759
Estimated—2020	369
Estimated—2021	303
Estimated—2022	153
Estimated—2023	143
Total	\$ 1,727

Practical Expedients and Exemptions

The Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised service to a customer and when the customer pays for that services is one year or less.

The Company recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

(16) Minimum Lease Commitments

The Company occupies certain facilities under operating lease agreements. Gross rental expense related to the Company's operating leases were \$21.2 million in 2018, \$17.7 million in 2017, and \$17.4 million in 2016. The Company also leases certain owned premises and receives rental income from such lease agreements. Gross rental income related to the Company's buildings totaled \$11.8 million, \$9.8 million and \$8.9 million, in 2018, 2017 and 2016, respectively. The approximate minimum annual gross rental payments and gross rental receipts under noncancelable agreements for office space with remaining terms in excess of one year as of December 31, 2018, are as follows (in thousands):

	Payments	Receipts
2019	\$15,106	\$7,533
2020	16,406	5,576
2021	15,116	5,081
2022	14,253	3,636
2023	13,201	2,117
2024 and thereafter	131,615	5,233
Total minimum future amounts	\$205,697	\$29,176

(17) Income Taxes

Income tax expense (benefit) for the years ended December 31, 2018, 2017 and 2016 is summarized as follows:

(Dollars in thousands)	Years Ended December 31,		
	2018	2017	2016
Current income taxes:			
Federal	\$44,266	\$54,977	\$98,272
State	18,349	12,852	20,041
Foreign	(872)	) 1,243	(10)
Total current income taxes	\$61,743	\$69,072	\$118,303
Deferred income taxes:			
Federal	\$40,500	\$51,668	\$4,464
State	11,705	10,403	(14)
Foreign	3,019	1,172	2,226
Total deferred income taxes	\$55,224	\$63,243	\$6,676
Total income tax expense	\$116,967	\$132,315	\$124,979

The Company's income before income taxes in 2018, 2017 and 2016 includes \$5.3 million, \$7.8 million and \$7.0 million, respectively, of foreign income attributable to its Canadian subsidiary.

The tax effects of certain transactions are recorded directly to shareholders' equity rather than income tax expense. The tax effect of fair value adjustments on securities available-for-sale and derivative instruments in cash flow hedges are recorded directly to shareholders' equity as part of other comprehensive income (loss) and are reflected on the Consolidated Statements of Comprehensive Income. In addition, a tax benefit of \$230,000, related to stock-based compensation, reflecting the excess of realized tax benefits over expected tax benefits, was recorded directly to shareholders' equity in 2016. Beginning in 2017, excess tax benefits on stock-based compensation were recorded in tax expense. The tax effect of unrealized gains and losses on certain foreign currency transactions is also recorded in shareholders' equity as part of other comprehensive income (loss).

A reconciliation of the differences between taxes computed using the statutory Federal income tax rate and actual income tax expense is as follows:

(Dollars in thousands)	Years Ended December 31,		
	2018	2017	2016
Income tax expense using the statutory Federal income tax rate of 21% in 2018, and 35% in 2017 and 2016, on income before income taxes	\$96,628	\$136,499	\$116,149
Increase (decrease) in tax resulting from:			
Tax-exempt interest, net of interest expense disallowance	(3,869)	(4,658)	(3,634)
State taxes, net of federal tax benefit	23,584	15,115	13,017
Income earned on bank owned life insurance	(1,002)	(1,167)	(1,198)
Excess tax benefits on share based compensation	(3,107)	(5,470)	—
Enactment of Tax Cuts and Jobs Act			
Re-measurement of net deferred tax liabilities	(1,209)	(10,402)	—
Transition tax on deferred foreign earnings	—	2,850	—
Meals, entertainment and related expenses	1,840	1,710	1,439
FDIC insurance expense	1,832	—	—
Non-deductible compensation expense	1,366	55	77
Foreign subsidiary, net	1,591	(271)	(264)
Tax benefits related to tax credit investments, net	(656)	(698)	(572)
Other, net	(31)	(1,248)	(35)
Income tax expense	\$116,967	\$132,315	\$124,979

In 2017, the Company recognized a provisional tax benefit of \$7.6 million to reflect the impact of enactment of the Tax Act. In the third quarter 2018, the Company finalized the provisional amount and recorded an additional net tax benefit of \$1.2 million as provided in the SEC issued Staff Accounting Bulletin SAB 118.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2018 and 2017 are as follows:

(Dollars in thousands)	2018	2017
Deferred tax assets:		
Allowance for credit losses	\$40,342	\$36,442
Deferred compensation	22,363	12,310
Net unrealized losses on securities included in other comprehensive income	15,430	7,465
Stock-based compensation	7,544	6,898
Federal net operating loss carryforward	5,348	3,063
Loans	4,540	4,943
Other real estate owned	2,429	4,019
AMT credit carryforward	1,395	1,199
Nonaccrued interest	1,357	983
Mortgage banking recourse obligation	632	722
Other	3,744	2,307
Total gross deferred tax assets	105,124	80,351
Deferred tax liabilities:		
Equipment leasing	90,306	42,681
Premises and equipment	28,517	23,211
Capitalized servicing rights	16,663	8,916
Goodwill and intangible assets	12,921	7,619
Deferred loan fees and costs	3,446	3,531
Net unrealized gains on derivatives included in other comprehensive income	2,863	3,197
Fair value adjustments on loans	2,833	3,143
Other	5,295	3,433
Total gross deferred liabilities	162,844	95,731
Net deferred tax liabilities	\$(57,720)	\$(15,380)

Management has determined that a valuation allowance is not required for the deferred tax assets at December 31, 2018 because it is more likely than not that these assets could be realized through future reversals of existing taxable temporary differences, tax planning strategies and future taxable income. This conclusion is based on the Company's historical earnings, its current level of earnings and prospects for continued growth and profitability.

The Company has a Federal alternative minimum tax ("AMT") credit carryforward of \$1.4 million which is subject to IRC Section 383 annual limitation. The AMT credit has no expiration date and pursuant to the Tax Act will be fully refundable by 2021. The Company has a Federal net operating loss ("NOL") carryforward of \$25.5 million that begins to expire in 2029 through 2037 and is subject to IRC Section 382 annual limitation. The AMT credit and the NOL carryforwards were a result of acquisitions.

The Company accounts for uncertainties in income taxes in accordance with ASC 740, Income Taxes. The following table provides a reconciliation of the beginning and ending amounts of gross unrecognized tax benefits:

(Dollars in thousands)	Years Ended December 31,		
	2018	2017	2016
Unrecognized tax benefits at beginning of year	\$10,821	\$11,626	\$—
Gross increases for tax positions taken in current period	—	—	—
Gross increases (decreases) for positions taken in prior periods	717	(805)	11,626
Unrecognized tax benefits at end of the year	\$11,538	\$10,821	\$11,626

At December 31, 2018, the Company had \$9.3 million of unrecognized tax benefits related to uncertain tax positions that, if recognized, would impact the effective tax rate. Interest and penalties on unrecognized tax positions are

recorded in income tax expense. Total interest income accrued at December 31, 2018 and 2017 on unrecognized tax benefits was \$1.1 million and \$921,000, respectively, net of tax effect. Interest and penalties are included in the liability for uncertain tax positions, but are not included in the unrecognized tax benefits rollforward presented above. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in numerous state jurisdictions and in Canada. In the ordinary course of business we are routinely subject to audit by the taxing authorities of these jurisdictions.

Currently, the Company's U.S. federal income tax returns are open and subject to audit for the 2015 tax return year forward, and in general, the Company's state income tax returns are open and subject to audit from the 2015 tax return year forward, subject to individual state statutes of limitation. The Company's Canadian subsidiary's Canadian income tax returns are also subject to audit for the 2015 tax return year forward.

(18) Stock Compensation Plans and Other Employee Benefit Plans

Stock Incentive Plan

In May 2015, the Company's shareholders approved the 2015 Stock Incentive Plan ("the 2015 Plan") which provides for the issuance of up to 5,485,000 shares of common stock. The 2015 Plan replaced the 2007 Stock Incentive Plan ("the 2007 Plan"), which replaced the 1997 Stock Incentive Plan ("the 1997 Plan"). The 2015 Plan, the 2007 Plan and the 1997 Plan are collectively referred to as "the Plans." The 2015 Plan has substantially similar terms to the 2007 Plan and the 1997 Plan. Awards granted under the Plans for which common shares are not issued by reason of cancellation, forfeiture, lapse of such award or settlement of such award in cash, are again available under the 2015 Plan. All grants made after the approval of the 2015 Plan have been made pursuant to the 2015 Plan. As of December 31, 2018, approximately 3.4 million shares were available for future grants (assuming the maximum number of shares are issued for the performance awards outstanding.) The Plans cover substantially all employees of Wintrust. The Compensation Committee of the Board of Directors administers all stock-based compensation programs and authorizes all awards granted pursuant to the Plans.

The Plans permit the grant of incentive stock options, non-qualified stock options, stock appreciation rights, stock awards, restricted share or unit awards, performance awards and other incentive awards valued in whole or in part by reference to the Company's common stock, all on a stand-alone, combination or tandem basis. The Company historically awarded stock-based compensation in the form of time-vested nonqualified stock options and time-vested restricted share unit awards ("restricted shares"). In general, the grants of options provide for the purchase shares of the Company's common stock at the fair market value of the stock on the date the options are granted. Options under the 2015 Plan and the 2007 Plan generally vest ratably over periods of three to five years and have a maximum term of seven years from the date of grant. Restricted shares entitle the holders to receive, at no cost, shares of the Company's common stock. Restricted shares generally vest over periods of one to five years from the date of grant.

Beginning in 2011, the Company has awarded annual grants under the Long-Term Incentive Program ("LTIP"), which is administered under the Plans. The LTIP is designed in part to align the interests of management with interests of shareholders, foster retention, create a long-term focus based on sustainable results and provide participants a target long-term incentive opportunity. It is anticipated that LTIP awards will continue to be granted annually. LTIP grants to date have consisted of time-vested nonqualified stock options and performance-based stock and performance-based cash awards. Stock options granted under the LTIP have a term of seven years and will generally vest equally over three years based on continued service. Performance-based stock and cash awards granted under the LTIP are contingent upon the achievement of pre-established long-term performance goals set in advance by the Compensation Committee over a three-year period. These performance awards are granted at a target level, and based on the Company's achievement of the pre-established long-term goals, the actual payouts can range from 0% to 150% of the target award. The awards typically vest in the quarter after the end of the performance period upon certification of the payout by the Compensation Committee of the Board of Directors. Holders of performance-based stock awards are entitled to receive, at no cost, the shares earned based on the achievement of the pre-established long-term goals.

Holders of restricted share awards and performance-based stock awards received under the Plans are not entitled to vote or receive cash dividends (or cash payments equal to the cash dividends) on the underlying common shares until the awards are vested and issued. Shares that are vested but are not issuable pursuant to deferred compensation arrangements accrue additional shares based on the value of dividends otherwise paid.

Except in limited circumstances, unvested awards granted under the Plans are canceled upon termination of employment without any payment of consideration by the Company.

Stock-based compensation is measured as the fair value of an award on the date of grant, and the measured cost is recognized over the period which the recipient is required to provide service in exchange for the award. The fair values of restricted share and performance-based stock awards are determined based on the average of the high and low trading prices on the grant date, and the fair value of stock options is estimated using a Black-Scholes option-pricing model that utilizes the assumptions outlined in the following table. Option-pricing models require the input of highly subjective assumptions and are sensitive to changes in the option's expected life and the price volatility of the underlying stock, which can materially affect the fair value estimate. Options granted since the inception of the LTIP in 2011 were primarily granted as LTIP awards. Expected life of the options granted since the inception of the LTIP awards has been based on the safe harbor rule of the SEC Staff Accounting Bulletin No. 107 "Share-Based Payment" as the Company believes historical exercise data may not provide a reasonable basis to estimate the expected

term of these options. Expected stock price volatility is based on historical volatility of the Company's common stock, which correlates with the expected life of the options, and the risk-free interest rate is based on comparable U.S. Treasury rates. Management reviews and adjusts the assumptions used to calculate the fair value of an option on a periodic basis to better reflect expected trends.

The following table presents the weighted average assumptions used to determine the fair value of options granted in the year ended December 31, 2016. No options were granted in the years ended December 31, 2018 and 2017.

	2016
Expected dividend yield	0.9 %
Expected volatility	25.2%
Risk-free rate	1.3 %
Expected option life (in years)	4.5

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

Stock-based compensation expense recognized in the Consolidated Statements of Income was \$13.5 million, \$12.9 million and \$9.3 million and the related tax benefits were \$3.1 million, \$5.1 million and \$3.7 million in 2018, 2017 and 2016, respectively.

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A summary of the Plans' stock option activity for the years ended December 31, 2018, 2017 and 2016 is as follows:

Stock Options	Common Shares	Weighted Average Strike Price	Remaining Contractual Term ⁽¹⁾	Intrinsic Value ⁽²⁾ (\$000)
Outstanding at January 1, 2016	1,551,734	\$ 41.32		
Granted	562,166	41.04		
Exercised	(313,900)	37.71		
Forfeited or canceled	(101,088)	48.00		
Outstanding at December 31, 2016	1,698,912	\$ 41.50	4.6	\$ 52,790
Exercisable at December 31, 2016	703,892	\$ 39.62	3.4	\$ 23,195
Outstanding at January 1, 2017	1,698,912	\$ 41.50		
Granted	—	—		
Exercised	(593,459)	40.57		
Forfeited or canceled	(20,697)	42.83		
Outstanding at December 31, 2017	1,084,756	\$ 41.98	4.0	\$ 43,817
Exercisable at December 31, 2017	562,810	\$ 41.82	3.3	\$ 22,820
Outstanding at January 1, 2018	1,084,756	\$ 41.98		
Granted	—	—		
Exercised	(282,614)	41.25		
Forfeited or canceled	(7,128)	39.84		
Outstanding at December 31, 2018	795,014	\$ 42.25	3.1	\$ 19,268
Exercisable at December 31, 2018	613,932	\$ 42.54	3.1	\$ 14,705
Vested or expected to vest at December 31, 2018	787,753	\$ 42.26	3.1	\$ 19,085

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

Aggregate intrinsic value represents the total pretax intrinsic value (i.e., the difference between the Company's stock price at year end and the option exercise price, multiplied by the number of shares) that would have been received by the option holders if they had exercised their options on the last day of the year. Options with exercise prices above the year end stock price are excluded from the calculation of intrinsic value. The intrinsic value will change based on the fair market value of the Company's stock.

The weighted average per share grant date fair value of options granted during the years ended December 31, 2016 was \$8.61. The aggregate intrinsic value of options exercised during the years ended December 31, 2018, 2017 and 2016, was \$13.3 million, \$20.1 million and \$5.8 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$3.5 million, \$7.8 million and \$2.3 million for 2018, 2017 and 2016, respectively. Cash received from option exercises under the Plans for the years ended December 31, 2018, 2017 and 2016 was \$11.7 million, \$24.1 million and \$11.8 million, respectively.

A summary of the Plans' restricted share activity for the years ended December 31, 2018, 2017 and 2016 is as follows:

Restricted Shares	2018		2017		2016	
	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1	127,787	\$ 53.33	133,425	\$ 49.94	137,593	\$ 49.63
Granted	35,654	84.36	16,552	73.16	18,022	46.01
Vested and issued	(18,324)	54.31	(19,639)	47.13	(20,007)	44.91
Forfeited	(1,854)	63.50	(2,551)	52.26	(2,183)	44.18
Outstanding at end of year	143,263	\$ 60.80	127,787	\$ 53.33	133,425	\$ 49.94

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Vested, but not issuable at end of year	90,520	\$ 51.94	89,723	\$ 51.64	89,050	\$ 51.47
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A summary of the 2007 Plan's performance-based stock award activity, based on the target level of the awards, for the years ended December 31, 2018, 2017 and 2016 is as follows:

Performance Shares	2018		2017		2016	
	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1	359,196	\$ 54.37	298,180	\$ 43.64	276,533	\$ 43.01
Granted	134,380	88.27	145,853	72.60	118,084	41.02
Vested and issued	(82,307)	44.39	(68,712)	46.85	(78,410)	37.90
Expired, canceled or forfeited	(14,414)	60.05	(16,125)	52.98	(18,027)	41.83
Outstanding at end of year	396,855	\$ 67.71	359,196	\$ 54.37	298,180	\$ 43.64
Vested, but deferred at year end	21,530	\$ 43.54	108,143	\$ 44.16	6,672	\$ 37.98

At December 31, 2018, the maximum number of performance-based shares that could be issued on outstanding awards if performance is attained at the maximum amount was approximately 585,518 shares.

The actual tax benefit realized upon the vesting of restricted shares and performance-based stock is based on the fair value of the shares on the issue date and the estimated tax benefit of the awards is based on fair value of the awards on the grant date. The actual tax benefit realized upon the vesting of restricted shares and performance-based stock in 2018, 2017 and 2016 was \$994,000, \$975,000 and \$241,000, respectively, more than the expected tax benefit for those shares. These differences in actual and expected tax benefits were recorded to tax expense in 2018 and 2017 and directly to shareholders' equity in 2016.

As of December 31, 2018, there was \$15.4 million of total unrecognized compensation cost related to non-vested share based arrangements under the Plans. That cost is expected to be recognized over a weighted average period of approximately two years. The total fair value of shares vested during the years ended December 31, 2018, 2017 and 2016 was \$8.0 million, \$8.9 million and \$8.4 million, respectively.

The Company issues new shares to satisfy its obligation to issue shares granted pursuant to the Plans.

Cash Incentive and Retention Plan

The Cash Incentive and Retention Plan ("CIRP") allows the Company to provide cash compensation to the Company's and its subsidiaries' officers and employees. The CIRP is administered by the Compensation Committee of the Board of Directors. The CIRP generally provides for the grants of cash awards, which may be earned pursuant to the achievement of performance criteria established by the Compensation Committee and/or continued employment. The performance criteria, if any, established by the Compensation Committee must relate to one or more of the criteria specified in the CIRP, which includes: earnings, earnings growth, revenues, stock price, return on assets, return on equity, improvement of financial ratings, achievement of balance sheet or income statement objectives and expenses. These criteria may relate to the Company, a particular line of business or a specific subsidiary of the Company. The Company had no expense related to the CIRP in 2018, 2017 and 2016, and no awards were paid in those years. There were no outstanding awards under this plan at December 31, 2018.

Other Employee Benefits

Wintrust and its subsidiaries also provide 401(k) Retirement Savings Plans ("401(k) Plans"). The 401(k) Plans cover all employees meeting certain eligibility requirements. Contributions by employees are made through salary deferrals at their direction, subject to certain Plan and statutory limitations. Employer contributions to the 401(k) Plans are made

at the employer's discretion. Generally, participants completing 501 hours of service are eligible to share in an allocation of employer contributions. The Company's expense for the employer contributions to the 401(k) Plans was approximately \$10.4 million in 2018, \$8.9 million in 2017, and \$6.6 million in 2016.

The Wintrust Financial Corporation Employee Stock Purchase Plan ("ESPP") is designed to encourage greater stock ownership among employees, thereby enhancing employee commitment to the Company. The ESPP gives eligible employees the right to accumulate funds over an offering period to purchase shares of common stock. All shares offered under the ESPP will be either newly issued shares of the Company or shares issued from treasury, if any. In accordance with the ESPP, beginning January 1, 2015, the purchase price of the shares of common stock is equal to 95% of the closing price of the Company's common stock on the last day of the offering period. During 2018, 2017 and 2016, 33,977, 35,022 and 50,920, respectively, shares of common stock were purchased by participants and no compensation expense was recorded. The Company plans to continue to offer common

stock through this ESPP on an ongoing basis, and in 2018, increased the shares authorized under the ESPP by 200,000 shares. At December 31, 2018, the Company had an obligation to issue 10,807 shares of common stock to participants and had 216,063 shares available for future grants under the ESPP.

As a result of the Company's acquisition of HPK Financial Corporation ("HPK") in December 2012, the Company assumed the obligations of a noncontributory pension plan, ("the HPK Plan"). The HPK Plan was "frozen" as of December 31, 2006, with no additional years of credit earned for service or compensation paid. As of December 31, 2018, the projected benefit obligation was \$4.9 million and the fair value of the plan's assets was \$4.7 million. Similarly, in connection with the Company's acquisition of Diamond in October 2013, the Company assumed the obligation of Diamond's pension plan. The Diamond Plan was "frozen" as of December 31, 2004, and only service and compensation prior to this date is considered in determining benefits. As of December 31, 2018, the projected benefit obligation was \$2.7 million and the fair value of the plan's assets was \$1.6 million. The Company has accrued liabilities for the unfunded portions of these plans. The Company recorded (income) expense of \$(38,000), \$1.2 million and \$526,000 in 2018, 2017 and 2016, respectively, related to these plans.

The Company does not currently offer other postretirement benefits such as health care or other pension plans.

Directors Deferred Fee and Stock Plan

The Wintrust Financial Corporation Directors Deferred Fee and Stock Plan ("DDFS Plan") allows directors of the Company and its subsidiaries to choose to receive payment of directors' fees in either cash or common stock of the Company and to defer the receipt of the fees. The DDFS Plan is designed to encourage stock ownership by directors. All shares offered under the DDFS Plan will be either newly issued shares of the Company or shares issued from treasury. The number of shares issued is determined on a quarterly basis based on the fees earned during the quarter and the fair market value per share of the common stock on the last trading day of the preceding quarter. The shares are issued annually and the directors are entitled to dividends and voting rights upon the issuance of the shares. During 2018, 2017 and 2016, a total of 18,856 shares, 27,508 shares and 25,362 shares, respectively, were issued to directors. For those directors that elect to defer the receipt of the common stock, the Company maintains records of stock units representing an obligation to issue shares of common stock. The number of stock units equals the number of shares that would have been issued had the director not elected to defer receipt of the shares. Additional stock units are credited at the time dividends are paid, however no voting rights are associated with the stock units. The shares of common stock represented by the stock units are issued in the year specified by the directors in their participation agreements. At December 31, 2018, the Company has an obligation to issue 281,910 shares of common stock to directors and has 74,206 shares available for future grants under the DDFS Plan.

(19) Regulatory Matters

Banking laws place restrictions upon the amount of dividends that can be paid to Wintrust by the banks. Based on these laws, the banks could, subject to minimum capital requirements, declare dividends to Wintrust without obtaining regulatory approval in an amount not exceeding (a) undivided profits, and (b) the amount of net income reduced by dividends paid for the current and prior two years. During 2018, 2017 and 2016, cash dividends totaling \$111.0 million, \$122.0 million and \$59.0 million, respectively, were paid to Wintrust by the banks and other subsidiaries. As of January 1, 2019, the banks had approximately \$350.4 million available to be paid as dividends to Wintrust without prior regulatory approval and without reducing their capital below the well-capitalized level.

The banks are also required by the Federal Reserve Act to maintain reserves against deposits. Reserves are held either in the form of vault cash or balances maintained with the FRB and are based on the average daily deposit balances and statutory reserve ratios prescribed by the type of deposit account. At December 31, 2018 and 2017, reserve balances of approximately \$611.1 million and \$557.7 million, respectively, were required to be maintained at the FRB.

The Company and the banks are subject to various regulatory capital requirements established by the federal banking agencies that take into account risk attributable to balance sheet and off-balance sheet activities. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly discretionary — actions by regulators, that if undertaken could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the banks must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the banks to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier 1 leverage capital (as defined) to average quarterly assets (as defined). The Federal Reserve's capital guidelines require bank holding companies to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%, of which at least 4.50%

must be in the form of Common Equity Tier 1 capital and 6.0% must be in the form of Tier 1 capital. The Federal Reserve also requires a minimum leverage ratio of Tier 1 capital to total assets of 4.0%. In addition the Federal Reserve continues to consider the Tier 1 leverage ratio in evaluating proposals for expansion or new activities.

As reflected in the following table, the Company met all minimum capital requirements at December 31, 2018 and 2017:

	2018	2017
Total capital to risk weighted assets	11.6%	12.0%
Tier 1 capital to risk weighted assets	9.7	9.9
Common Equity Tier 1 capital to risk weighted assets	9.3	9.4
Tier 1 leverage Ratio	9.1	9.3

Wintrust is designated as a financial holding company. Bank holding companies approved as financial holding companies may engage in an expanded range of activities, including the businesses conducted by its wealth management subsidiaries. As a financial holding company, Wintrust's banks are required to maintain their capital positions at the "well-capitalized" level. As of December 31, 2018, the banks were categorized as well capitalized under the regulatory framework for prompt corrective action. The ratios required for the banks to be "well capitalized" by regulatory definition are 10.0%, 8.0%, 6.5% and 5.0% for total capital to risk-weighted assets, Tier 1 capital to risk-weighted assets, Common Equity Tier 1 capital to risk weighted assets and Tier 1 leverage ratio, respectively.

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The banks' actual capital amounts and ratios as of December 31, 2018 and 2017 are presented in the following table:

(Dollars in thousands)	December 31, 2018				December 31, 2017			
	Actual		To Be Well Capitalized by Regulatory Definition		Actual		To Be Well Capitalized by Regulatory Definition	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets):								
Lake Forest Bank	\$424,872	12.5%	\$ 338,823	10.0%	\$366,407	11.6%	\$ 317,180	10.0%
Hinsdale Bank	256,166	11.9	220,004	10.0	224,577	11.5	195,125	10.0
Wintrust Bank	613,037	11.5	533,154	10.0	512,581	11.2	456,230	10.0
Libertyville Bank	161,453	11.9	135,262	10.0	141,723	11.4	124,637	10.0
Barrington Bank	258,301	11.1	231,871	10.0	234,930	12.0	195,409	10.0
Crystal Lake Bank	107,041	11.6	92,542	10.0	95,532	11.3	84,664	10.0
Northbrook Bank	236,201	11.1	213,524	10.0	222,441	11.4	194,764	10.0
Schaumburg Bank	113,797	11.4	100,151	10.0	111,772	11.9	93,752	10.0
Village Bank	151,653	11.2	135,695	10.0	145,517	11.9	121,867	10.0
Beverly Bank	146,054	11.8	123,618	10.0	132,516	11.7	112,810	10.0
Town Bank	208,479	11.3	184,825	10.0	188,987	11.4	166,253	10.0
Wheaton Bank	165,798	11.3	147,354	10.0	151,141	11.4	132,211	10.0
State Bank of the Lakes	111,530	11.1	100,654	10.0	105,770	11.4	92,518	10.0
Old Plank Trail Bank	151,889	11.4	132,842	10.0	145,272	11.6	125,642	10.0
St. Charles Bank	115,607	11.4	101,337	10.0	105,778	11.4	92,582	10.0
Tier 1 Capital (to Risk Weighted Assets):								
Lake Forest Bank	\$402,156	11.9%	\$ 271,058	8.0%	\$347,924	11.0%	\$ 253,744	8.0%
Hinsdale Bank	244,036	11.3	176,003	8.0	214,061	11.0	156,100	8.0
Wintrust Bank	545,649	10.2	426,523	8.0	439,061	9.6	364,984	8.0
Libertyville Bank	152,939	11.3	108,209	8.0	134,310	10.8	99,709	8.0
Barrington Bank	252,189	10.9	185,497	8.0	229,311	11.7	156,327	8.0
Crystal Lake Bank	102,404	11.1	74,033	8.0	91,273	10.8	67,731	8.0
Northbrook Bank	223,849	10.5	170,819	8.0	198,628	10.2	155,811	8.0
Schaumburg Bank	108,338	10.8	80,120	8.0	105,733	11.3	75,001	8.0
Village Bank	142,333	10.5	108,556	8.0	136,807	11.2	97,494	8.0
Beverly Bank	141,140	11.4	98,894	8.0	127,561	11.3	90,248	8.0
Town Bank	199,982	10.8	147,860	8.0	180,943	10.9	133,003	8.0
Wheaton Bank	159,718	10.8	117,883	8.0	135,009	10.2	105,769	8.0
State Bank of the Lakes	107,234	10.7	80,523	8.0	95,520	10.3	74,014	8.0
Old Plank Trail Bank	145,779	11.0	106,273	8.0	139,366	11.1	100,514	8.0
St. Charles Bank	111,454	11.0	81,069	8.0	102,251	11.0	74,066	8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets):								
Lake Forest Bank	\$402,156	11.9%	\$ 220,235	6.5%	\$347,924	11.0%	\$ 206,167	6.5%
Hinsdale Bank	244,036	11.3	143,002	6.5	214,061	11.0	126,831	6.5
Wintrust Bank	545,649	10.2	346,550	6.5	439,061	9.6	296,549	6.5
Libertyville Bank	152,939	11.3	87,920	6.5	134,310	10.8	81,014	6.5
Barrington Bank	252,189	10.9	150,716	6.5	229,311	11.7	127,016	6.5
Crystal Lake Bank	102,404	11.1	60,152	6.5	91,273	10.8	55,031	6.5
Northbrook Bank	223,849	10.5	138,791	6.5	198,628	10.2	126,597	6.5

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Schaumburg Bank	108,338	10.8	65,098	6.5	105,733	11.3	60,939	6.5
Village Bank	142,333	10.5	88,201	6.5	136,807	11.2	79,214	6.5
Beverly Bank	141,140	11.4	80,352	6.5	127,561	11.3	73,327	6.5
Town Bank	199,982	10.8	120,136	6.5	180,943	10.9	108,065	6.5
Wheaton Bank	159,718	10.8	95,780	6.5	135,009	10.2	85,937	6.5
State Bank of the Lakes	107,234	10.7	65,425	6.5	95,520	10.3	60,137	6.5
Old Plank Trail Bank	145,779	11.0	86,347	6.5	139,366	11.1	81,667	6.5
St. Charles Bank	111,454	11.0	65,869	6.5	102,251	11.0	60,178	6.5

(Dollars in thousands)	December 31, 2018				December 31, 2017			
	Actual		To Be Well Capitalized by Regulatory Definition		Actual		To Be Well Capitalized by Regulatory Definition	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Ratio:								
Lake Forest Bank	\$402,156	10.7%	\$ 187,634	5.0 %	\$347,924	10.3%	\$ 168,865	5.0 %
Hinsdale Bank	244,036	10.4	117,308	5.0	214,061	10.2	105,086	5.0
Wintrust Bank	545,649	9.7	281,090	5.0	439,061	9.2	237,782	5.0
Libertyville Bank	152,939	10.0	76,247	5.0	134,310	9.8	68,404	5.0
Barrington Bank	252,189	12.9	97,759	5.0	229,311	11.8	97,007	5.0
Crystal Lake Bank	102,404	9.9	51,974	5.0	91,273	9.5	48,069	5.0
Northbrook Bank	223,849	9.8	114,125	5.0	198,628	9.5	104,377	5.0
Schaumburg Bank	108,338	9.5	57,111	5.0	105,733	10.1	52,171	5.0
Village Bank	142,333	9.5	75,197	5.0	136,807	9.7	70,182	5.0
Beverly Bank	141,140	10.7	66,109	5.0	127,561	10.8	59,140	5.0
Town Bank	199,982	10.0	100,257	5.0	180,943	10.1	89,617	5.0
Wheaton Bank	159,718	9.8	81,767	5.0	135,009	9.4	72,152	5.0
State Bank of the Lakes	107,234	9.2	58,068	5.0	95,520	9.2	51,681	5.0
Old Plank Trail Bank	145,779	9.6	76,096	5.0	139,366	9.9	70,735	5.0
St. Charles Bank	111,454	9.8	56,915	5.0	102,251	9.8	51,907	5.0

Wintrust's mortgage banking division and broker/dealer subsidiary are also required to maintain minimum net worth capital requirements with various governmental agencies. The mortgage banking division's net worth requirements are governed by the Department of Housing and Urban Development and the broker/dealer's net worth requirements are governed by the SEC. As of December 31, 2018, these business units met their minimum net worth capital requirements.

(20) Commitments and Contingencies

The Company has outstanding, at any time, a number of commitments to extend credit. These commitments include revolving home equity line and other credit agreements, term loan commitments and standby and commercial letters of credit. Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party.

These commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the Consolidated Statements of Condition. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Commitments to extend commercial, commercial real estate and construction loans totaled \$4.7 billion and \$4.4 billion as of December 31, 2018 and 2017, respectively, and unused home equity lines totaled \$807.9 million and \$826.5 million as of December 31, 2018 and 2017, respectively. Standby and commercial letters of credit totaled \$233.3 million at December 31, 2018 and \$195.9 million at December 31, 2017.

In addition, at December 31, 2018 and 2017, the Company had approximately \$389.7 million and \$446.3 million, respectively, in commitments to fund residential mortgage loans to be sold into the secondary market. These lending commitments are also considered derivative instruments. The Company also enters into forward contracts for the future delivery of residential mortgage loans at specified interest rates to reduce the interest rate risk associated with commitments to fund loans as well as mortgage loans held-for-sale. These forward contracts are also considered derivative instruments and had contractual amounts of approximately \$481.6 million at December 31, 2018 and \$551.9 million at December 31, 2017. See Note 21, "Derivative Financial Instruments," for further discussion on derivative instruments.

The Company enters into residential mortgage loan sale agreements with investors in the normal course of business. These agreements usually require certain representations concerning credit information, loan documentation, collateral and insurability. On occasion, investors have requested the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. Management maintains a liability for estimated losses on loans expected to be repurchased or on which indemnification is expected to be provided and regularly evaluates the adequacy

of this recourse liability based on trends in repurchase and indemnification requests, actual loss experience, known and inherent risks in the loans, and current economic conditions.

The Company sold approximately \$4.1 billion of mortgage loans in 2018 and \$3.9 billion in 2017. 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, and was included in other liabilities on the Consolidated Statements of Condition. Losses charged against the liability were \$183,000 in 2018 as compared to \$1.4 million in 2017. These losses relate to mortgages which experienced early payment and other defaults meeting certain representation and warranty recourse requirements.

The Company has unfunded commitments to investment partnerships that qualify for CRA purposes totaling \$13.6 million as of December 31, 2018. Of these commitments, \$914,000 related to legally-binding unfunded commitments for tax-credit investments and was included within other assets and other liabilities on the consolidated statements of financial condition.

The Company utilizes an out-sourced securities clearing platform and has agreed to indemnify the clearing broker of Wintrust Investments for losses that it may sustain from the customer accounts introduced by Wintrust Investments. As of December 31, 2018, the total amount of customer balances maintained by the clearing broker and subject to indemnification was approximately \$11.3 million. 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.

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 the 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.

(21) Derivative Financial Instruments

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

The derivative financial instruments currently used by the Company to manage its exposure to interest rate risk include: (1) interest rate swaps to manage the interest rate risk of certain fixed and variable rate assets and variable rate liabilities; (2) interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market; (3) forward commitments for the future delivery of such mortgage loans to protect the Company from adverse changes in interest rates and corresponding changes in the value of mortgage loans held-for-sale; and (4) covered call options to economically hedge specific investment securities and receive fee income effectively enhancing the overall yield on such securities to compensate for net interest margin compression. The Company also enters into derivatives (typically interest rate swaps) with certain qualified borrowers to facilitate

the borrowers' risk management strategies and concurrently enters into mirror-image derivatives with a third party counterparty, effectively making a market in the derivatives for such borrowers. Additionally, the Company enters into foreign currency contracts to manage foreign exchange risk associated with certain foreign currency denominated assets.

The Company recognizes derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. The Company records derivative assets and derivative liabilities on the Consolidated Statements of Condition within accrued interest receivable and other assets and accrued interest payable and other liabilities, respectively. Changes in the fair value of derivative financial instruments are either recognized in income or in shareholders' equity as a component of other comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting and, if so, whether it qualifies as a fair value hedge or cash flow hedge.

As of January 1, 2018, the Company elected to early adopt ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income in the same period and in the same income statement line as changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivative financial instruments accounted for as cash flow hedges

are recorded as a component of other comprehensive income, net of deferred taxes, and reclassified to earnings when the hedged transaction affects earnings. Changes in fair values of derivative financial instruments not designated in a hedging relationship pursuant to ASC 815 are reported in non-interest income during the period of the change. Derivative financial instruments are valued by a third party and are corroborated by comparison with valuations provided by the respective counterparties. Fair values of certain mortgage banking derivatives (interest rate lock commitments and forward commitments to sell mortgage loans) are estimated based on changes in mortgage interest rates from the date of the loan commitment. The fair value of foreign currency derivatives is computed based on changes in foreign currency rates stated in the contract compared to those prevailing at the measurement date.

The table below presents the fair value of the Company's derivative financial instruments as of December 31, 2018 and December 31, 2017:

(Dollars in thousands)	Derivative Assets Fair Value		Derivative Liabilities Fair Value	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Derivatives designated as hedging instruments under ASC 815:				
Interest rate derivatives designated as Cash Flow Hedges	\$ 6,270	\$ 11,914	\$ 1,656	\$ 12
Interest rate derivatives designated as Fair Value Hedges	2,636	2,932	1,756	—
Total derivatives designated as hedging instruments under ASC 815	\$ 8,906	\$ 14,846	\$ 3,412	\$ 12
Derivatives not designated as hedging instruments under ASC 815:				
Interest rate derivatives	\$ 59,519	\$ 34,139	\$ 59,159	\$ 33,704
Interest rate lock commitments	3,405	2,843	2,694	269
Forward commitments to sell mortgage loans	—	14	1,486	1,457
Foreign exchange contracts	1,342	227	1,337	229
Total derivatives not designated as hedging instruments under ASC 815	\$ 64,266	\$ 37,223	\$ 64,676	\$ 35,659
Total Derivatives	\$ 73,172	\$ 52,069	\$ 68,088	\$ 35,671

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to net interest income and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. Interest rate collars designated as cash flow hedges involve the receipt of amounts in which the interest rate specified in the contract exceeds the agreed upon cap strike price or the payment of amounts in which the interest rate specified in the contract is below the agreed upon floor strike price at the end of each period.

As of December 31, 2018, the Company had three interest rate swap derivatives designated as cash flow hedges of variable rate deposits and one interest rate collar derivative designated as a cash flow hedge of variable rate debt. When the relationship between the hedged item and hedging instrument is highly effective at achieving offsetting changes in cash flows attributable to the hedged risk, changes in the fair value of these cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified to interest expense as interest payments are made on such variable rate deposits. The changes in fair value (net of tax) are separately disclosed in the

Consolidated Statements of Comprehensive Income.

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The table below provides details on each of these cash flow hedges as of December 31, 2018:

(Dollars in thousands)	December 31, 2018	
	Notional Amount	Fair Value Asset (Liability)
Maturity Date		
Interest Rate Swaps:		
June 2019	\$200,000	\$ 957
July 2019	250,000	2,196
August 2019	275,000	3,117
Interest Rate Collars:		
September 2023	144,643	(1,656)
Total Cash Flow Hedges	\$869,643	\$ 4,614

In 2018, the Company terminated five interest rate swap derivatives designated as cash flow hedges of variable rate deposits with a total notional value of \$650.0 million. As the hedged forecasted transactions (interest payments on variable rate deposits) will still occur over the remaining term of the terminated derivatives, any prior changes in the fair value of these cash flow hedges will continue to be included within accumulated other comprehensive income and reclassified to interest expense as interest payments continue to be made. In 2018, the Company reclassified approximately \$427,000 from accumulated other comprehensive income to interest expense related to these terminated interest rate swap derivatives.

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

(Dollars in thousands)	Years Ended	
	December 31, 2018	2017
Unrealized gain at beginning of period	\$11,902	\$6,944
Amount reclassified from accumulated other comprehensive income to interest expense on deposits and junior subordinated debentures	(7,313)	(19)
Amount of gain recognized in other comprehensive income	6,153	4,977
Unrealized gain at end of period	\$10,742	\$11,902

As of December 31, 2018, the Company estimates that during the next twelve months, \$10.9 million will be reclassified from accumulated other comprehensive loss as a decrease to interest expense.

Fair Value Hedges of Interest Rate Risk

Interest rate swaps designated as fair value hedges involve the payment of fixed amounts to a counterparty in exchange for the Company receiving variable payments over the life of the agreements without the exchange of the underlying notional amount. As of December 31, 2018, the Company has fifteen interest rate swaps with an aggregate notional amount of \$173.0 million that were designated as fair value hedges primarily associated with fixed rate commercial and industrial and commercial real estate loans as well as life insurance premium finance receivables. Three of these interest rate swaps with an aggregate notional amount of \$55.9 million were effective starting after December 31, 2018.

For derivatives designated and that qualify as fair value hedges, the net gain or loss from the entire change in the fair value of the derivative instrument is recognized in the same income statement line item as the earnings effect, including the net gain or loss, of the hedged item (interest income earned on fixed rate loans) when the hedged item

affects earnings.

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The following table presents the carrying amount of the hedged assets/(liabilities) and the cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged assets/(liabilities) that are designated as a fair value hedge accounting relationship as of December 31, 2018:

(Dollars in thousands)		December 31, 2018		
		Carrying Amount of the Hedged Assets/(Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Remaining for any Hedged Assets (Liabilities) for which Hedge Accounting has been Discontinued
Derivatives in Fair Value Hedging Relationships	Location in the Statement of Condition			
Interest rate swaps	Loans, net of unearned income, excluding covered loans	\$ 135,944	\$ (953)	\$ —
	Available-for-sale debt securities	1,497	58	—

The following table presents the loss or gain recognized related to derivative instruments that are designated as fair value hedges for the respective periods:

(Dollars in thousands)		Year Ended
Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Income on Derivative	December 31, 2018
Interest rate swaps	Interest and fees on loans	\$ (131)
	Interest income - investment securities	—

In 2018, one interest rate swap designated as a fair value hedge accounting relationship was terminated as a result of the full prepayment of the underlying loan (hedged asset). At the time of the termination, the fair value of the interest rate swap asset was approximately \$1.4 million with an offsetting cumulative amount of fair value hedging adjustments included in the carrying value of the underlying loan totaling \$1.6 million. As the underlying loan was fully paid-off, the remaining cumulative amount of fair value hedging adjustments included in the carrying value of the underlying loan was recorded to interest income.

Non-Designated Hedges

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

Interest Rate Derivatives—The Company has interest rate derivatives, including swaps and option products, resulting from a service the Company provides to certain qualified borrowers. The Company's banking subsidiaries execute certain derivative products (typically interest rate swaps) directly with qualified commercial borrowers to facilitate their respective risk management strategies. For example, these arrangements allow the Company's commercial borrowers to effectively convert a variable rate loan to a fixed rate. In order to minimize the Company's exposure on these transactions, the Company simultaneously executes offsetting derivatives with third parties. In most cases, the offsetting derivatives have mirror-image terms, which result in the positions' changes in fair value substantially offsetting through earnings each period. However, to the extent that the derivatives are not a mirror-image and because of differences in counterparty credit risk, changes in fair value will not completely offset resulting in some earnings impact each period. Changes in the fair value of these derivatives are included in other non-interest income. At December 31, 2018, the Company had interest rate derivative transactions with an aggregate notional amount of approximately \$6.1 billion (all interest rate swaps and caps with customers and third parties) related to this program. These interest rate derivatives had maturity dates ranging from January 2019 to February 2045.

Mortgage Banking Derivatives—These derivatives include interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. It is the Company's practice to enter into forward commitments for the future delivery of a portion of our residential mortgage loan production when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on its commitments to fund the loans as well as on its portfolio of mortgage loans held-for-sale. The Company's mortgage banking derivatives have not been designated as being in hedge relationships. At December 31, 2018, the Company had forward commitments to sell mortgage loans with an aggregate notional amount of approximately \$481.6 million and interest rate

lock commitments with an aggregate notional amount of approximately \$235.8 million. The fair values of these derivatives were estimated based on changes in mortgage rates from the dates of the commitments. Changes in the fair value of these mortgage banking derivatives are included in mortgage banking revenue.

Foreign Currency Derivatives—These derivatives include foreign currency contracts used to manage the foreign exchange risk associated with foreign currency denominated assets and transactions. Foreign currency contracts, which include spot and forward contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date. As a result of fluctuations in foreign currencies, the U.S. dollar-equivalent value of the foreign currency denominated assets or forecasted transactions increase or decrease. Gains or losses on the derivative instruments related to these foreign currency denominated assets or forecasted transactions are expected to substantially offset this variability. As of December 31, 2018 the Company held foreign currency derivatives with an aggregate notional amount of approximately \$40.3 million.

Other Derivatives—Periodically, the Company will sell options to a bank or dealer for the right to purchase certain securities held within the banks' investment portfolios (covered call options). These option transactions are designed primarily to mitigate overall interest rate risk and to increase the total return associated with the investment securities portfolio. These options do not qualify as accounting hedges pursuant to ASC 815, and, accordingly, changes in fair value of these contracts are recognized as other non-interest income. There were no covered call options outstanding as of December 31, 2018 or December 31, 2017.

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

(Dollars in thousands)		December 31,	
Derivative	Location in income statement	2018	2017
Interest rate swaps and caps	Trading gains (losses), net	\$(75)	\$(848)
Mortgage banking derivatives	Mortgage banking revenue	(792)	1,314
Covered call options	Fees from covered call options	3,519	4,402
Foreign exchange contracts	Trading gains (losses), net	20	(38)

Credit Risk

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

The Company has agreements with certain of its interest rate derivative counterparties that contain cross-default provisions, which provide that if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. The Company also has agreements with certain of its derivative counterparties that contain a provision allowing the counterparty to terminate the derivative positions if the Company fails to maintain its status as

a well or adequately capitalized institution, which would require the Company to settle its obligations under the agreements. As of December 31, 2018, the fair value of interest rate derivatives in a net liability position that were subject to such agreements, which includes accrued interest related to these agreements, was \$5.3 million. If the Company had breached any of these provisions and the derivatives were terminated as a result, the Company would have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

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

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

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

(Dollars in thousands)	Derivative Assets		Derivative Liabilities	
	Fair Value		Fair Value	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Gross Amounts Recognized	\$68,425	\$48,985	\$62,571	\$33,716
Less: Amounts offset in the Statements of Condition	—	—	—	—
Net amount presented in the Statements of Condition	\$68,425	\$48,985	\$62,571	\$33,716
Gross amounts not offset in the Statements of Condition				
Offsetting Derivative Positions	\$(28,124)	\$(14,878)	\$(28,124)	\$(14,878)
Collateral Posted	(23,810)	(18,060)	(2,640)	(2,220)
Net Credit Exposure	\$16,491	\$16,047	\$31,807	\$16,618

(22) Fair Value of Assets and Liabilities

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

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

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

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

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

Available-for-sale debt securities, trading account securities and equity securities with readily determinable fair value — Fair values for available-for-sale debt securities, trading account securities and equity securities with readily determinable fair value are typically based on prices obtained from independent pricing vendors. Securities measured with these valuation techniques are generally classified as Level 2 of the fair value hierarchy. Typically, standard

inputs such as benchmark yields, reported trades for similar securities, issuer spreads, benchmark securities, bids, offers and reference data including market research publications are used to fair value a security. When these inputs are not available, broker/dealer quotes may be obtained by the vendor to determine the fair value of the security. We review the vendor's pricing methodologies to determine if observable market information is being used, versus unobservable inputs. Fair value measurements using significant inputs that are unobservable in the market due to limited activity or a less liquid market are classified as Level 3 in the fair value hierarchy.

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

At December 31, 2018, the Company classified \$108.9 million of municipal securities as Level 3. These municipal securities are bond issues for various municipal government entities primarily located in the Chicago metropolitan area and southern Wisconsin and are privately placed, non-rated bonds without CUSIP numbers. The Company also classified \$3.2 million of U.S. government agencies as Level 3 at December 31, 2018. The Company's methodology for pricing these securities focuses on three distinct inputs: equivalent rating, yield and other pricing terms. To determine the rating for a given non-rated municipal bond, the Investment Operations Department references a publicly issued bond by the same issuer if available. A reduction is then applied to the rating obtained from the comparable bond, as the Company believes if liquidated, a non-rated bond would be valued less than a similar bond with a verifiable rating. The reduction applied by the Company is one complete rating grade (i.e. a "AA" rating for a comparable bond would be reduced to "A" for the Company's valuation). In 2018, all of the ratings derived in the above process by Investment Operations were "BBB" or better, for both bonds with and without comparable bond proxies. The fair value measurement of municipal bonds is sensitive to the rating input, as a higher rating typically results in an increased valuation. The remaining pricing inputs used in the bond valuation are observable. Based on the rating determined in the above process, Investment Operations obtains a corresponding current market yield curve available to market participants. Other terms including coupon, maturity date, redemption price, number of coupon payments per year, and accrual method are obtained from the individual bond term sheets. Certain municipal bonds held by the Company at December 31, 2018 have a call date that has passed, and are now continuously callable. When valuing these bonds, the fair value is capped at par value as the Company assumes a market participant would not pay more than par for a continuously callable bond. To determine the rating for the U.S. government agency securities, the Investment Operations Department assigned a AAA rating as it is guaranteed by the U.S. government.

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

Loans held-for-investment—The fair value for loans in which the Company elected the fair value option is estimated by discounting future scheduled cash flows for the specific loan through maturity, adjusted for estimated credit losses and prepayments. The Company uses a discount rate based on the actual coupon rate of the underlying loan. At December 31, 2018, the Company classified \$11.3 million of loans held-for-investment as Level 3. The weighted average discount rate used as an input to value these loans at December 31, 2018 was 4.31% with discount rates applied ranging from 4%-5%. The higher the rate utilized to discount estimated future cash flows, the lower the fair value measurement. As noted above, the fair value estimate includes assumptions of prepayment speeds and credit losses. The Company included a prepayments speed assumption of 12.06% at December 31, 2018. Prepayment speeds are inversely related to the fair value of these loans as an increase in prepayment speeds results in a decreased valuation. Additionally, the weighted average credit discount used as an input to value the specific loans was 1.30% with credit discounts ranging from 0%-7% at December 31, 2018.

MSRs—Fair value for MSRs is determined utilizing a valuation model which calculates the fair value of each servicing rights based on the present value of estimated future cash flows. The Company uses a discount rate commensurate with the risk associated with each servicing rights, given current market conditions. At December 31, 2018, the Company classified \$75.2 million of MSRs as Level 3. The weighted average discount rate used as an input to value the pool of MSRs at December 31, 2018 was 9.98% with discount rates applied ranging from 6%-18%. The higher the rate utilized to discount estimated future cash flows, the lower the fair value measurement. The fair value of MSRs was also estimated based on other assumptions including prepayment speeds and the cost to service. Prepayment speeds ranged from 6%-91% or a weighted average prepayment speed of 11.76%. Further, for current and delinquent loans, the Company assumed the average cost of servicing of \$77 and \$273, respectively, per loan. Prepayment speeds and the cost to service are both inversely related to the fair value of MSRs as an increase in prepayment speeds or the cost to service results in a decreased valuation. See Note 6, "Mortgage Servicing Rights ("MSRs")," for further discussion of MSRs.

Derivative instruments—The Company's derivative instruments include interest rate swaps, caps and collars, commitments to fund mortgages for sale into the secondary market (interest rate locks), forward commitments to end investors for the sale of mortgage loans and foreign currency contracts. Interest rate swaps, caps and collars are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. The credit risk associated with derivative financial instruments that are subject to master netting agreements is measured on a net basis by counterparty portfolio. The fair value for mortgage-related derivatives is based on changes in mortgage rates from the date of the commitments. The fair value of foreign currency derivatives is computed based on change in foreign currency rates stated in the contract compared to those prevailing at the measurement date.

At December 31, 2018, the Company classified \$2.5 million of derivative assets related to interest rate locks as Level 3. The fair value of interest rate locks is based on prices obtained for loans with similar characteristics from third parties, adjusted for the pull-through rate, which represents the Company's best estimate of the likelihood that a committed loan will ultimately fund. The weighted-average pull-through rate at December 31, 2018 was 86.15% with pull-through rates applied ranging from 17% to 100%.

Pull-through rates are directly related to the fair value of interest rate locks as an increase in the pull-through rate results in an increased valuation.

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

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

(Dollars in thousands)	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	\$126,404	\$126,404	\$—	\$—
U.S. Government agencies	140,307	—	137,157	3,150
Municipal	138,490	—	29,564	108,926
Corporate notes	91,045	—	91,045	—
Mortgage-backed	1,629,835	—	1,629,835	—
Trading account securities	1,692	—	1,692	—
Equity securities with readily determinable fair value	34,717	—	34,717	—
Mortgage loans held-for-sale	264,070	—	264,070	—
Loans held-for-investment	93,857	—	82,510	11,347
MSRs	75,183	—	—	75,183
Nonqualified deferred compensations assets	11,282	—	11,282	—
Derivative assets	73,172	—	70,715	2,457
Total	\$2,680,054	\$126,404	\$2,352,587	\$201,063
Derivative liabilities	\$68,088	\$—	\$68,088	\$—

(Dollars in thousands)	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	\$143,822	\$143,822	\$—	\$—
U.S. Government agencies	156,915	—	153,136	3,779
Municipal	115,352	—	38,171	77,181
Corporate notes	31,050	—	31,050	—
Mortgage-backed	1,319,725	—	1,319,725	—
Equity securities	36,802	—	36,802	—
Trading account securities	995	—	995	—
Mortgage loans held-for-sale	313,592	—	313,592	—
Loans held-for-investment	33,717	—	—	33,717
MSRs	33,676	—	—	33,676
Nonqualified deferred compensations assets	11,065	—	11,065	—
Derivative assets	52,069	—	49,912	2,157
Total	\$2,248,780	\$143,822	\$1,954,448	\$150,510
Derivative liabilities	\$35,671	\$—	\$35,671	\$—

The aggregate remaining contractual principal balance outstanding as of December 31, 2018 and 2017 for mortgage loans held-for-sale measured at fair value under ASC 825 was \$253.7 million and \$299.5 million, respectively, while the aggregate fair value of mortgage loans held-for-sale was \$264.1 million and \$313.6 million, respectively, as shown in the above tables. There were \$1.9 million of loans past due greater than 90 days and still accruing interest in

the mortgage loans held-for-sale portfolio as of December 31, 2018 and no loans as of December 31, 2017.

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The changes in Level 3 assets measured at fair value on a recurring basis during the year ended December 31, 2018 are summarized as follows:

(Dollars in thousands)	Municipal	U.S. Government Agencies	Loans held-for-investment	MSRs	Derivative assets
Balance at January 1, 2018	\$77,181	\$ 3,779	\$ 33,717	\$33,676	\$ 2,157
Total net gains (losses) included in:					
Net income ⁽¹⁾	—	—	(1,077	) 27,701	300
Other comprehensive loss	(8,541	) (314) —	—	—
Purchases ⁽²⁾	63,644	—	—	13,806	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(23,358	) (315	) (28,367) —	—
Net transfers into/(out of) Level 3	—	—	7,074	—	—
Balance at December 31, 2018	\$108,926	\$ 3,150	\$ 11,347	\$75,183	\$ 2,457

Changes in the balance of MSRs and derivative assets as presented in the table above are recorded as a component (1) of mortgage banking revenue in non-interest income. Changes in the balance of loans held-for-investment related to fair value adjustments are recorded as other non-interest income.

Purchased as a part of the Veterans First business combination. See Note 7 - Business Combinations and Asset (2) Acquisitions for further discussion.

The changes in Level 3 assets measured at fair value on a recurring basis during the year ended December 31, 2017 are summarized as follows:

(Dollars in thousands)	Municipal	U.S. Government Agencies	Loans held-for-investment	MSRs	Derivative assets
Balance at January 1, 2017	\$79,626	\$ —	\$ 22,137	\$19,103	\$ 2,291
Total net gains (losses) included in:					
Net income ⁽¹⁾	—	—	1,025	14,573	(134
Other comprehensive loss	(501	) (504) —	—	—
Purchases	33,593	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(35,537	) —	(13,219) —	—
Net transfers into/(out of) Level 3 ⁽²⁾	—	4,283	23,774	—	—
Balance at December 31, 2017	\$77,181	\$ 3,779	\$ 33,717	\$33,676	\$ 2,157

Changes in the balance of MSRs and derivative assets as presented in the table above are recorded as a component (1) of mortgage banking revenue in non-interest income. Changes in the balance of loans held-for-investment related to fair value adjustments are recorded as other non-interest income.

Transfers into Level 3 relate to certain U.S. government agency available-for-sale investment securities and loans (2) reclassified from the held-for-sale portfolio at the time of market conditions or other developments changing management's intent with respect to the disposition of those loans.

Also, the Company may be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from impairment charges on individual assets. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at the end of the period, the following table provides the carrying value of the related individual assets or portfolios at December 31, 2018.

(Dollars in thousands)	December 31, 2018				Year Ended December 31, 2018 Fair Value Losses Recognized, net
	Total	Level 1	Level 2	Level 3	
Impaired loans-collateral based	\$99,803	\$ —	—\$	—\$99,803	\$ 18,721
Other real estate owned ⁽¹⁾	24,820	—	—	24,820	5,965
Total	\$124,623	\$ —	—\$	—\$124,623	\$ 24,686

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

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

The Company's Managed Assets Division is primarily responsible for the valuation of Level 3 inputs of impaired loans. For more information on the Managed Assets Division review of impaired loans refer to Note 5 – Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans. At December 31, 2018, the Company had \$127.3 million of impaired loans classified as Level 3. Of the \$127.3 million of impaired loans, \$99.8 million were measured at fair value based on the underlying collateral of the loan as shown in the table above. The remaining \$27.5 million were valued based on discounted cash flows in accordance with ASC 310.

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

The Company's Managed Assets Division is primarily responsible for the valuation of Level 3 inputs for other real estate owned. At December 31, 2018, the Company had \$24.8 million of other real estate owned classified as Level 3. The unobservable input applied to other real estate owned relates to the 10% reduction to the appraisal value representing the estimated cost of sale of the foreclosed property. A higher discount for the estimated cost of sale results in a decreased carrying value.

The valuation techniques and significant unobservable inputs used to measure both recurring and non-recurring Level 3 fair value measurements at December 31, 2018 were as follows:

(Dollars in thousands)	Fair Value	Valuation Methodology	Significant Unobservable Input	Range of Inputs	Weighted Average of Inputs	Impact to valuation from an increased or higher input value
Measured at fair value on a recurring basis:						
Municipal securities	\$108,926	Bond pricing	Equivalent rating	BBB-AA+	N/A	Increase
U.S. Government agencies	3,150	Bond pricing	Equivalent rating	AAA	AAA	Increase
Loans held-for-investment	11,347	Discounted cash flows	Discount rate	4%-5%	4.31%	Decrease
			Credit spread	0%-7%	1.30%	Decrease
			Constant prepayment rate (CPR)	12.06%	12.06%	Decrease
MSRs	75,183	Discounted cash flows	Discount rate	6%-18%	9.98%	Decrease
			Constant prepayment rate (CPR)	6%-91%	11.76%	Decrease
			Cost of servicing	\$15-\$200	\$77	Decrease
			Cost of servicing - delinquent	\$200-\$1,000	\$273	Decrease
Derivatives	2,457	Discounted cash flows	Pull-through rate	17%-100%	86.15%	Increase
Measured at fair value on a non-recurring basis:						
Impaired loans—collateral based	99,803	Appraisal value	Appraisal adjustment - cost of sale	10%	10.00%	Decrease
Other real estate owned, including covered other real-estate owned	24,820	Appraisal value	Appraisal adjustment - cost of sale	10%	10.00%	Decrease

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

(Dollars in thousands)	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 392,200	\$ 392,200	\$ 277,591	\$ 277,591
Interest bearing deposits with banks	1,099,594	1,099,594	1,063,242	1,063,242
Available-for-sale securities	2,126,081	2,126,081	1,803,666	1,803,666
Held-to-maturity securities	1,067,439	1,036,096	826,449	812,516
Trading account securities	1,692	1,692	995	995
Equity securities with readily determinable fair value	34,717	34,717	—	—
FHLB and FRB stock, at cost	91,354	91,354	89,989	89,989
Brokerage customer receivables	12,609	12,609	26,431	26,431
Mortgage loans held-for-sale, at fair value	264,070	264,070	313,592	313,592
Loans held-for-investment, at fair value	93,857	93,857	33,717	33,717
Loans held-for-investment, at amortized cost	23,726,834	23,780,739	21,607,080	21,768,978
MSRs	75,183	75,183	33,676	33,676
Nonqualified deferred compensation assets	11,282	11,282	11,065	11,065
Derivative assets	73,172	73,172	52,069	52,069
Accrued interest receivable and other	260,281	260,281	227,649	227,649
Total financial assets	\$ 29,330,365	\$ 29,352,927	\$ 26,367,211	\$ 26,515,176
Financial Liabilities				
Non-maturity deposits	\$ 20,833,837	\$ 20,833,837	\$ 18,775,977	\$ 18,775,977
Deposits with stated maturities	5,260,841	5,283,063	4,407,370	4,350,004
FHLB advances	426,326	429,830	559,663	544,750
Other borrowings	393,855	393,855	266,123	266,123
Subordinated notes	139,210	138,345	139,088	144,266
Junior subordinated debentures	253,566	263,846	253,566	264,696
Derivative liabilities	68,088	68,088	35,671	35,671
Accrued interest payable	16,025	16,025	8,030	8,030
Total financial liabilities	\$ 27,391,748	\$ 27,426,889	\$ 24,445,488	\$ 24,389,517

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

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

Held-to-maturity securities. Held-to-maturity securities include U.S. Government-sponsored agency securities and municipal bonds issued by various municipal government entities primarily located in the Chicago metropolitan area and southern Wisconsin. Fair values for held-to-maturity securities are typically based on prices obtained from independent pricing vendors. In accordance with ASC 820, the Company has categorized these held-to-maturity securities as a Level 2 fair value measurement. Fair values for certain other held-to-maturity securities are based on the bond pricing methodology discussed previously related to certain available-for-sale securities. In accordance with ASC 820, the Company has categorized these held-to-maturity securities as a Level 3 fair value measurement.

Loans held-for-investment, at amortized cost. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are analyzed by type such as commercial, residential real estate, etc. Each category is further segmented by interest rate type (fixed and variable) and term. For variable-rate loans that reprice frequently, estimated fair values are based on carrying values. The fair value of residential loans is based on secondary market sources for securities backed by similar loans, adjusted

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for differences in loan characteristics. The fair value for other fixed rate loans is estimated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect credit and interest rate risks inherent in the loan. In accordance with ASC 820, the Company has categorized loans as a Level 3 fair value measurement.

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

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

Subordinated notes. The fair value of the subordinated notes is based on a market price obtained from an independent pricing vendor. In accordance with ASC 820, the Company has categorized subordinated notes as a Level 2 fair value measurement.

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

(23) Shareholders' Equity

A summary of the Company's common and preferred stock at December 31, 2018 and 2017 is as follows:

	2018	2017
Common Stock:		
Shares authorized	100,000,000	100,000,000
Shares issued	56,518,119	56,068,220
Shares outstanding	56,407,558	55,965,207
Cash dividend per share	\$ 0.76	\$ 0.56
Preferred Stock:		
Shares authorized	20,000,000	20,000,000
Shares issued	5,000,000	5,000,000
Shares outstanding	5,000,000	5,000,000

The Company reserves shares of its authorized common stock specifically for the 2015 Plan, the ESPP and the DDFS. The reserved shares and these plans are detailed in Note 18 - Stock Compensation Plans and Other Employee Benefit Plans. The Company also reserves its authorized common stock for conversion of common stock warrants.

Common Stock Offering

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.

Series C Preferred Stock

In March 2012, the Company issued and sold 126,500 shares of Series C Preferred Stock for \$126.5 million in a public offering. When, as and if declared, dividends on the Series C Preferred Stock were payable quarterly in arrears

at a rate of 5.00% per annum. The Series C Preferred Stock was convertible into common stock at the option of the holder subject to customary anti-dilution adjustments. In 2016, pursuant to such terms, 30 shares of the Series C Preferred Stock were converted at the option of the respective holders into 729 shares of the Company's common stock. On April 25, 2017, 2,073 shares of the Series C Preferred Stock were converted at the option of the respective holder into 51,244 shares of the Company's common stock, pursuant to the terms of the Series C Preferred Stock. On April 27, 2017, the Company caused a mandatory conversion of its remaining 124,184 shares of Series C Preferred Stock 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.

Series D Preferred Stock

In June 2015, the Company issued and sold 5,000,000 shares of Series D Preferred Stock for \$125.0 million in a public offering. When, as and if declared, dividends on the Series D Preferred Stock are payable quarterly in arrears at a fixed rate of 6.50% per annum from the original issuance date to, but excluding, July 15, 2025, and from (and including) that date at a floating rate equal to three-month LIBOR plus a spread of 4.06% per annum.

Common Stock Warrants

Pursuant to the U.S. Department of the Treasury's (the "U.S. Treasury") Capital Purchase Program, on December 19, 2008, the Company issued to the U.S. Treasury a warrant to exercise 1,643,295 warrant shares of Wintrust common stock with a term of 10 years. In February 2011, the U.S. Treasury sold all of its interest in the warrant issued to it in a secondary underwritten public offering. During 2017, certain holders of the interest in the warrant exercised 318,491 warrant shares, which resulted in 219,372 shares of common stock issued. During 2018, certain holders of the interest in the warrant exercised 22,952 warrant shares, which resulted in 16,571 shares of common stock issued. On December 19, 2018, the Company's warrant shares expired. Any warrant shares not exercised prior to this date expired and became void, and the holder did not receive any shares of the Company's common stock.

Other

At the January 2019 Board of Directors meeting, a quarterly cash dividend of \$0.25 per share (\$1.00 on an annualized basis) was declared. It was paid on February 21, 2019 to shareholders of record as of February 7, 2019.

The following tables summarize the components of other comprehensive income (loss), including the related income tax effects, for the years ended December 31, 2018, 2017 and 2016:

(In thousands)	Accumulated Unrealized Losses on Securities	Accumulated Unrealized Gains (Losses) on Derivative Instruments	Accumulated Foreign Currency Translation Adjustments	Accumulated Total Other Comprehensive Loss
Balance at January 1, 2018	\$ (15,813)	\$ 7,164	\$ (33,186)	\$ (41,835)
Cumulative effect adjustment from the adoption of:				
ASU 2016-01	(1,880)	—	—	(1,880)
ASU 2018-02	(4,517)	1,543	—	(2,974)
Other comprehensive (loss) income during the period, net of tax, before reclassification	(20,054)	4,498	(9,190)	(24,746)
Amount reclassified from accumulated other comprehensive income into net income, net of tax	(24)	(5,348)	—	(5,372)
Amount reclassified from accumulated other comprehensive income related to amortization of unrealized gains on investment securities transferred to held-to-maturity from available-for-sale	(65)	—	—	(65)
Net other comprehensive loss during the period, net of tax	\$ (20,143)	\$ (850)	\$ (9,190)	\$ (30,183)
Balance at December 31, 2018	\$ (42,353)	\$ 7,857	\$ (42,376)	\$ (76,872)
Balance at January 1, 2017	\$ (29,309)	\$ 4,165	\$ (40,184)	\$ (65,328)
Other comprehensive income during the period, net of tax, before reclassification	14,417	3,010	6,998	24,425
Amount reclassified from accumulated other comprehensive income into net income, net of tax	(27)	(11)	—	(38)
Amount reclassified from accumulated other comprehensive income related to amortization of unrealized gains on investment securities transferred to held-to-maturity from available-for-sale	(894)	—	—	(894)
Net other comprehensive income during the period, net of tax	\$ 13,496	\$ 2,999	\$ 6,998	\$ 23,493
Balance at December 31, 2017	\$ (15,813)	\$ 7,164	\$ (33,186)	\$ (41,835)
Balance at January 1, 2016	\$ (17,674)	\$ (2,193)	\$ (42,841)	\$ (62,708)
Other comprehensive (loss) income during the period, net of tax, before reclassification	(17,554)	4,464	2,657	(10,433)
Amount reclassified from accumulated other comprehensive income (loss) into net income, net of tax	(4,641)	1,894	—	(2,747)
Amount reclassified from accumulated other comprehensive income related to amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale	10,560	—	—	10,560
Net other comprehensive (loss) income during the period, net of tax	\$ (11,635)	\$ 6,358	\$ 2,657	\$ (2,620)
Balance at December 31, 2016	\$ (29,309)	\$ 4,165	\$ (40,184)	\$ (65,328)

Details Regarding the Component of Accumulated Other Comprehensive Income	Amount Reclassified from Accumulated Other Comprehensive Income for the Year Ended, December 31,		Impacted Line on the Consolidated Statements of Income
	2018	2017	
Accumulated unrealized losses on available-for-sale securities			
Gains included in net income	\$33	\$45	Gains on investment securities, net
	33	45	Income before taxes
Tax effect	(9	) (18	) Income tax expense
Net of tax	\$24	\$27	Net income
Accumulated unrealized losses on derivative instruments			
Amount reclassified to interest expense on deposits	\$(7,549)	\$(1,085)	Interest on deposits
Amount reclassified to interest expense on other borrowings	236	—	Interest on other borrowings
Amount reclassified to interest expense on junior subordinated debentures	—	1,066	Interest on junior subordinated debentures
	7,313	19	Income before taxes
Tax effect	(1,965	) (8	) Income tax expense
Net of tax	\$5,348	\$11	Net income

(24) Segment Information

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

The three reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. In addition, each segment's customer base has varying characteristics 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.

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. See Note 10, "Deposits," for more information on these deposits. Finally, expenses incurred at the Wintrust parent company are allocated to each segment based on each segment's risk-weighted assets.

The segment financial information provided in the following tables has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the segments are substantially similar to those described in the Summary of Significant Accounting Policies in Note 1. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment.

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

(Dollars in thousands)	Community Banking	Specialty Finance	Wealth Management	Total Operating Segments	Intersegment Eliminations	Consolidated
2018						
Net interest income	\$791,838	\$136,981	\$17,455	\$946,274	\$18,629	\$964,903
Provision for credit losses	28,586	6,246	—	34,832	—	34,832
Non-interest income	238,668	65,898	91,896	396,462	(40,312)	356,150
Non-interest expense	681,749	84,248	81,774	847,771	(21,683)	826,088
Income tax expense	79,361	30,325	7,281	116,967	—	116,967
Net income	\$240,810	\$82,060	\$20,296	\$343,166	\$—	\$343,166
Total assets at end of year	\$25,438,454	\$5,073,011	\$733,384	\$31,244,849	\$—	\$31,244,849
2017						
Net interest income	\$677,481	\$118,320	\$18,919	\$814,720	\$17,356	\$832,076
Provision for credit losses	27,059	2,709	—	29,768	—	29,768
Non-interest income	211,354	60,405	84,312	356,071	(36,565)	319,506
Non-interest expense	599,455	74,559	77,012	751,026	(19,209)	731,817
Income tax expense	87,486	35,775	9,054	132,315	—	132,315
Net income	\$174,835	\$65,682	\$17,165	\$257,682	\$—	\$257,682
Total assets at end of year	\$22,781,923	\$4,515,766	\$618,281	\$27,915,970	\$—	\$27,915,970
2016						

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Net interest income	\$588,847	\$98,248	\$ 18,611	\$705,706	\$ 16,487	\$722,193
Provision for credit losses	30,862	3,222	—	34,084	—	34,084
Non-interest income	230,414	49,706	78,478	358,598	(33,168)	325,430
Non-interest expense	556,798	66,460	75,108	698,366	(16,681)	681,685
Income tax expense	86,933	29,512	8,534	124,979	—	124,979
Net income	\$144,668	\$48,760	\$ 13,447	\$206,875	\$ —	\$206,875
Total assets at end of year	\$21,172,080	\$3,884,373	\$ 612,100	\$25,668,553	\$ —	\$25,668,553

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(25) Condensed Parent Company Financial Statements

Condensed parent company only financial statements of Wintrust follow:

Statements of Financial Condition

(In thousands)	December 31,	
	2018	2017
Assets		
Cash	\$37,931	\$ 78,045
Available-for-sale debt securities and equity securities with readily determinable fair value	12,765	14,461
Investment in and receivable from subsidiaries	3,660,968	8,249,202
Loans, net of unearned income	1,200	