WINTRUST FINANCIAL CORP
Form 10-Q
August 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-35077

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common Stock — no par value, 51,671,067 shares, as of July 31, 2016

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

(In thousands, except share data)	(Unaudited) June 30, 2016	December 31, 2015	(Unaudited) June 30, 2015
Assets			
Cash and due from banks	$267,551	$271,454	$248,094
Federal funds sold and securities purchased under resale agreements	4,024	4,341	4,115
Interest bearing deposits with banks	693,269	607,782	591,721
Available-for-sale securities, at fair value	637,663	1,716,388	2,162,061
Held-to-maturity securities, at amortized cost ($1.0 billion and $878.1 million fair value at June 30, 2016 and December 31, 2015, respectively)	992,211	884,826	—
Trading account securities	3,613	448	1,597
Federal Home Loan Bank and Federal Reserve Bank stock	121,319	101,581	89,818
Brokerage customer receivables	26,866	27,631	29,753
Mortgage loans held-for-sale	554,256	388,038	497,283
Loans, net of unearned income, excluding covered loans	18,174,655	17,118,117	15,513,650
Covered loans	105,248	148,673	193,410
Total loans	18,279,903	17,266,790	15,707,060
Allowance for loan losses	(114,356)	(105,400)	(100,204)
Allowance for covered loan losses	(2,412)	(3,026)	(2,215)
Net loans	18,163,135	17,158,364	15,604,641
Premises and equipment, net	595,792	592,256	571,498
Lease investments, net	103,749	63,170	13,447
FDIC indemnification asset	—	—	3,429
Accrued interest receivable and other assets	670,014	597,099	533,175
Trade date securities receivable	1,079,238	—	—
Goodwill	486,095	471,761	421,646
Other intangible assets	21,821	24,209	17,924
Total assets	$24,420,616	$22,909,348	$20,790,202
Liabilities and Shareholders' Equity			
Deposits:			
Non-interest bearing	$5,367,672	$4,836,420	$3,910,310
Interest bearing	14,674,078	13,803,214	13,172,108
Total deposits	20,041,750	18,639,634	17,082,418
Federal Home Loan Bank advances	588,055	853,431	435,721
Other borrowings	252,611	265,785	261,674
Subordinated notes	138,915	138,861	138,808
Junior subordinated debentures	253,566	268,566	249,493
Trade date securities payable	40,000	538	—
Accrued interest payable and other liabilities	482,124	390,259	357,106
Total liabilities	21,797,021	20,557,074	18,525,220
Shareholders' Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series C - $1,000 liquidation value; 126,257 shares issued and outstanding at June 30, 2016, 126,287 shares issued and outstanding at December 31, 2015, and 126,312 shares issued and outstanding at June 30, 2015	126,257	126,287	126,312

Series D - $25 liquidation value; 5,000,000 shares issued and outstanding at June 30, 2016, December 31, 2015 and June 30, 2015	125,000	125,000	125,000
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at June 30, 2016, December 31, 2015 and June 30, 2015; 51,708,585 shares issued at June 30, 2016, 48,468,894 shares issued at December 31, 2015 and 47,762,681 shares issued at June 30, 2015	51,708	48,469	47,763
Surplus	1,350,751	1,190,988	1,159,052
Treasury stock, at cost, 89,430 shares at June 30, 2016, 85,615 shares at December 31, 2015, and 85,424 shares at June 30, 2015	(4,145)	(3,973)	(3,964)
Retained earnings	1,008,464	928,211	872,690
Accumulated other comprehensive loss	(34,440)	(62,708)	(61,871)
Total shareholders’ equity	2,623,595	2,352,274	2,264,982
Total liabilities and shareholders’ equity	$24,420,616	$22,909,348	$20,790,202

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest income				
Interest and fees on loans	$178,530	$159,823	$351,657	$314,499
Interest bearing deposits with banks	793	305	1,539	621
Federal funds sold and securities purchased under resale agreements	1	1	2	3
Investment securities	16,398	14,071	33,588	28,471
Trading account securities	14	51	25	64
Federal Home Loan Bank and Federal Reserve Bank stock	1,112	785	2,049	1,554
Brokerage customer receivables	216	205	435	386
Total interest income	197,064	175,241	389,295	345,598
Interest expense				
Interest on deposits	13,594	11,996	26,375	23,810
Interest on Federal Home Loan Bank advances	2,984	1,812	5,870	3,968
Interest on other borrowings	1,086	787	2,144	1,575
Interest on subordinated notes	1,777	1,777	3,554	3,552
Interest on junior subordinated debentures	2,353	1,977	4,573	3,910
Total interest expense	21,794	18,349	42,516	36,815
Net interest income	175,270	156,892	346,779	308,783
Provision for credit losses	9,129	9,482	17,163	15,561
Net interest income after provision for credit losses	166,141	147,410	329,616	293,222
Non-interest income				
Wealth management	18,852	18,476	37,172	36,576
Mortgage banking	36,807	36,007	58,542	63,807
Service charges on deposit accounts	7,726	6,474	15,132	12,771
Gains (losses) on investment securities, net	1,440	(24)	2,765	500
Fees from covered call options	4,649	4,565	6,361	8,925
Trading (losses) gains, net	(316)	160	(484)	(317)
Operating lease income, net	4,005	77	6,811	142
Other	11,636	11,278	27,252	19,150
Total non-interest income	84,799	77,013	153,551	141,554
Non-interest expense				
Salaries and employee benefits	100,894	94,421	196,705	184,551
Equipment	9,307	7,855	18,074	15,634
Operating lease equipment depreciation	3,385	59	5,435	116
Occupancy, net	11,943	11,401	23,891	23,752
Data processing	7,138	6,081	13,657	11,529
Advertising and marketing	6,941	6,406	10,720	10,313
Professional fees	5,419	5,074	9,478	9,738
Amortization of other intangible assets	1,248	934	2,546	1,947
FDIC insurance	4,040	3,047	7,653	6,034
OREO expense, net	1,348	841	1,908	2,252
Other	19,306	18,178	34,632	35,749
Total non-interest expense	170,969	154,297	324,699	301,615
Income before taxes	79,971	70,126	158,468	133,161
Income tax expense	29,930	26,295	59,316	50,278

Net income	$50,041	$43,831	$99,152	$82,883
Preferred stock dividends and discount accretion	3,628	1,580	7,256	3,161
Net income applicable to common shares	$46,413	$42,251	$91,896	$79,722
Net income per common share—Basic	$0.94	$0.89	$1.88	$1.68
Net income per common share—Diluted	$0.90	$0.85	$1.80	$1.61
Cash dividends declared per common share	$0.12	$0.11	$0.24	$0.22
Weighted average common shares outstanding	49,140	47,567	48,794	47,404
Dilutive potential common shares	3,965	4,156	3,887	4,220
Average common shares and dilutive common shares	53,105	51,723	52,681	51,624

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net income	$50,041	$43,831	$99,152	$82,883
Unrealized gains (losses) on securities				
Before tax	5,968	(53,400)	31,144	(27,124)
Tax effect	(2,244)	20,959	(12,232)	10,628
Net of tax	3,724	(32,441)	18,912	(16,496)
Reclassification of net gains (losses) included in net income				
Before tax	1,440	(24)	2,765	500
Tax effect	(565)	10	(1,086)	(196)
Net of tax	875	(14)	1,679	304
Reclassification of amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale				
Before tax	(3,832)	—	(7,257)	—
Tax effect	1,506	—	2,845	—
Net of tax	(2,326)	—	(4,412)	—
Net unrealized gains (losses) on securities	5,175	(32,427)	21,645	(16,800)
Unrealized (losses) gains on derivative instruments				
Before tax	(523)	215	(45)	(346)
Tax effect	206	(84)	18	136
Net unrealized (losses) gains on derivative instruments	(317)	131	(27)	(210)
Foreign currency adjustment				
Before tax	856	2,072	9,203	(10,218)
Tax effect	(244)	(556)	(2,553)	2,689
Net foreign currency adjustment	612	1,516	6,650	(7,529)
Total other comprehensive income (loss)	5,470	(30,780)	28,268	(24,539)
Comprehensive income	$55,511	$13,051	$127,420	$58,344

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at January 1, 2015	$126,467	$46,881	$1,133,955	$(3,549)	$803,400	$ (37,332)	$2,069,822
Net income	—	—	—	—	82,883	—	82,883
Other comprehensive income, net of tax	—	—	—	—	—	(24,539)	(24,539)
Cash dividends declared on common stock	—	—	—	—	(10,432)	—	(10,432)
Dividends on preferred stock	—	—	—	—	(3,161)	—	(3,161)
Stock-based compensation	—	—	5,286	—	—	—	5,286
Issuance of Series D preferred stock	125,000	—	(3,849)	—	—	—	121,151
Conversion of Series C preferred stock to common stock	(155)	4	151	—	—	—	—
Common stock issued for:							
Acquisitions	—	422	18,749	—	—	—	19,171
Exercise of stock options and warrants	—	312	2,266	(130)	—	—	2,448
Restricted stock awards	—	93	352	(285)	—	—	160
Employee stock purchase plan	—	31	1,360	—	—	—	1,391
Director compensation plan	—	20	782	—	—	—	802
Balance at June 30, 2015	$251,312	$47,763	$1,159,052	$(3,964)	$872,690	$ (61,871)	$2,264,982
Balance at January 1, 2016	$251,287	$48,469	$1,190,988	$(3,973)	$928,211	$ (62,708)	$2,352,274
Net income	—	—	—	—	99,152	—	99,152
Other comprehensive income, net of tax	—	—	—	—	—	28,268	28,268
Cash dividends declared on common stock	—	—	—	—	(11,643)	—	(11,643)
Dividends on preferred stock	—	—	—	—	(7,256)	—	(7,256)
Stock-based compensation	—	—	4,752	—	—	—	4,752
Conversion of Series C preferred stock to common stock	(30)	1	29	—	—	—	—
Common stock issued for:							
New issuance, net of costs	—	3,000	149,823	—	—	—	152,823
Exercise of stock options and warrants	—	97	2,991	—	—	—	3,088
Restricted stock awards	—	87	114	(172)	—	—	29
Employee stock purchase plan	—	29	1,270	—	—	—	1,299
Director compensation plan	—	25	784	—	—	—	809
Balance at June 30, 2016	$251,257	$51,708	$1,350,751	$(4,145)	$1,008,464	$ (34,440)	$2,623,595

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Six Months Ended June 30, 2016	June 30, 2015
Operating Activities:		
Net income	$99,152	$82,883
Adjustments to reconcile net income to net cash used for operating activities		
Provision for credit losses	17,163	15,561
Depreciation, amortization and accretion, net	27,296	17,908
Stock-based compensation expense	4,752	5,286
Excess tax benefits from stock-based compensation arrangements	(267)	(476)
Net amortization of premium on securities	1,840	205
Accretion of discount on loans	(15,849)	(15,887)
Mortgage servicing rights fair value change, net	(4,291)	258
Originations and purchases of mortgage loans held-for-sale	(1,948,890)	(2,121,237)
Proceeds from sales of mortgage loans held-for-sale	1,825,686	2,034,173
Bank owned life insurance, net of claims	(1,729)	(1,470)
Increase in trading securities, net	(3,165)	(391)
Net decrease (increase) in brokerage customer receivables	765	(5,532)
Gains on mortgage loans sold	(43,014)	(58,929)
Gains on investment securities, net	(2,765)	(500)
Gains on early extinguishment of debt	(4,305)	—
Losses on sales of premises and equipment, net	3	403
Net losses on sales and fair value adjustments of other real estate owned	322	430
Increase in accrued interest receivable and other assets, net	(116,118)	(42,642)
Increase in accrued interest payable and other liabilities, net	70,756	17,757
Net Cash Used for Operating Activities	(92,658)	(72,200)
Investing Activities:		
Proceeds from maturities of available-for-sale securities	529,463	335,286
Proceeds from maturities of held-to-maturity securities	319	—
Proceeds from sales and calls of available-for-sale securities	1,071,996	1,134,033
Proceeds from calls of held-to-maturity securities	281,981	—
Purchases of available-for-sale securities	(1,526,467)	(1,353,356)
Purchases of held-to-maturity securities	(350,078)	—
(Purchase) redemption of Federal Home Loan Bank and Federal Reserve Bank stock, net	(19,738)	1,764
Net cash (paid) received for acquisitions	(18,133)	12,004
Proceeds from sales of other real estate owned	19,455	24,444
Proceeds received from the FDIC related to reimbursements on covered assets	420	150
Net (increase) decrease in interest bearing deposits with banks	(81,250)	406,784
Net increase in loans	(942,958)	(949,907)
Redemption of bank owned life insurance	659	2,701
Purchases of premises and equipment, net	(24,235)	(25,478)
Net Cash Used for Investing Activities	(1,058,566)	(411,575)
Financing Activities:		
Increase in deposit accounts	1,302,188	630,785
(Decrease) increase in other borrowings, net	(13,249)	54,645
Decrease in Federal Home Loan Bank advances, net	(271,025)	(293,584)

Proceeds from the issuance of common stock, net	152,823	—
Proceeds from the issuance of preferred stock, net	—	121,151
Redemption of junior subordinated debentures, net	(10,695)	—
Excess tax benefits from stock-based compensation arrangements	267	476
Issuance of common shares resulting from the exercise of stock options and the employee stock purchase plan	5,766	5,812
Common stock repurchases	(172)	(415)
Dividends paid	(18,899)	(13,593)
Net Cash Provided by Financing Activities	1,147,004	505,277
Net (Decrease) Increase in Cash and Cash Equivalents	(4,220)	21,502
Cash and Cash Equivalents at Beginning of Period	275,795	230,707
Cash and Cash Equivalents at End of Period	$271,575	$252,209

See accompanying notes to unaudited consolidated financial statements.

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Form 10-K”). Operating results reported for the three-month and six-month periods are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management’s expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of the Company's significant accounting policies are included in Note 1 - “Summary of Significant Accounting Policies” of the 2015 Form 10-K.

(2) Recent Accounting Developments

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 would result in the guidance becoming effective for fiscal years beginning after December 15, 2017.

The FASB has 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. Additionally, in May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," to clarify specific aspects of implementation, including the collectibility criterion, exclusion of sale taxes collected from a transaction price, noncash consideration, contract modifications and completed contracts at transition. Like ASU No. 2014-09, this guidance is effective for fiscal years beginning after December 15, 2017.

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The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Extraordinary and Unusual Items

In January 2015, the FASB issued ASU No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items,” to eliminate the concept of extraordinary items related to separately classifying, presenting and disclosing certain events and transactions that meet the criteria for that concept. This guidance was effective for fiscal years beginning after December 15, 2015 and did not have a material impact on the Company’s consolidated financial statements.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance was effective for fiscal years beginning after December 15, 2015 and did not have a material impact on the Company's consolidated financial statements.

Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," to clarify the presentation of debt issuance costs within the balance sheet. This ASU requires that an entity present debt issuance costs related to a recognized debt liability on the balance sheet as a direct deduction from the carrying amount of that debt liability, not as a separate asset. The ASU does not affect the current guidance for the recognition and measurement for these debt issuance costs. Additionally, in August 2015, the FASB issued ASU No. 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting," to further clarify the presentation of debt issuance costs related to line-of-credit agreements. This ASU states the SEC would not object to an entity deferring and presenting debt issuance costs related to line-of-credit agreements as an asset on the balance sheet and subsequently amortizing these costs ratably over the term of the agreement, regardless of any outstanding borrowing under the line-of-credit agreement. This guidance was effective for fiscal years beginning after December 15, 2015 and was applied retrospectively within the Company’s consolidated financial statements. For December 31, 2015 and June 30, 2015, the Company reclassified as a direct reduction to the related debt balance $7.8 million and $9.7 million, respectively, of debt issuance costs that were previously presented as accrued interest receivable and other assets on the Consolidated Statements of Condition.

Business Combinations

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments," to simplify the accounting for subsequent adjustments made to provisional amounts recognized at the acquisition date of a business combination. This ASU eliminates the requirement to retrospectively account for these adjustment for all prior periods impacted. The acquirer is required to recognize these adjustments identified during the measurement period in the reporting period in which the adjustment amount is determined. Additionally, the ASU requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment had been recognized at the acquisition date. This guidance was effective for fiscal years beginning after December 15, 2015 and did not have a material impact on the Company’s

consolidated financial statements.

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 investments with readily determinable fair values to be measured at fair value with changes recognized in net income regardless of classification. For equity investments without a readily determinable fair value, the value of the investment would be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer instead of fair value, unless a qualitative assessment indicates impairment. 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. This guidance is effective for fiscal years beginning after December 15, 2017 and is to be applied prospectively with a cumulative-effect adjustment

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to the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

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 lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Additionally, 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. 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 Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Derivatives

In March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships," to clarify guidance surrounding the effect on an existing hedging relationship of a change in the counterparty to a derivative instrument that has been designated as a hedging instrument. This ASU states that a change in counterparty to such derivative instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and is to be applied either under a prospective or a modified retrospective approach. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Equity Method Investments

In March 2016, the FASB issued ASU No. 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting," to simplify the accounting for investments qualifying for the use of the equity method of accounting. This ASU eliminates the requirement to retroactively adopt the equity method of accounting when an investment qualifies for such method as a result of an increase in the level of ownership interest or degree of influence. The ASU requires the equity method investor add the cost of acquiring the additional interest to the current basis and adopt the equity method of accounting as of that date going forward. Additionally, for available-for-sale equity securities that become qualified for equity method accounting, the ASU requires the related unrealized holding gains or losses included in accumulated other comprehensive income be recognized in earnings at the date the investment qualifies for such accounting. This guidance is effective for fiscal years beginning after December 15, 2016, 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.

Employee Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," to simplify the accounting for several areas of share-based payment transactions. This includes the recognition of all excess tax benefits and tax deficiencies as income tax expense instead of surplus, the classification on the statement of cash flows of excess tax benefits and taxes paid when the employer withholds shares for tax-withholding purposes. Additionally, related to forfeitures, the ASU provides the option to estimate the number of awards that are expected to vest or account for forfeitures as they

occur. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and is to be applied under a modified retrospective and retrospective approach based upon the specific amendment of the ASU. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

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 the allowance for credit losses for all financial assets measured under the amortized cost basis, including purchased credit impaired ("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

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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 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.

(3) Business Combinations

Non-FDIC Assisted Bank Acquisitions

On March 31, 2016, the Company acquired Generations Bancorp, Inc ("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 $131.0 million, including approximately $67.5 million of loans, and assumed deposits with a fair value of approximately $100.2 million. Additionally, the Company recorded goodwill of $11.4 million on the acquisition.

On July 24, 2015, the Company acquired Community Financial Shares, Inc ("CFIS"). CFIS was the parent company of Community Bank - Wheaton/Glen Ellyn ("CBWGE"), which had four banking locations. CBWGE was merged into the Company's wholly-owned subsidiary Wheaton Bank & Trust Company ("Wheaton Bank"). The Company acquired assets with a fair value of approximately $350.5 million, including approximately $159.5 million of loans, and assumed deposits with a fair value of approximately $290.0 million. Additionally, the Company recorded goodwill of $27.6 million on the acquisition.

On July 17, 2015, the Company acquired Suburban Illinois Bancorp, Inc. ("Suburban"). Suburban was the parent company of Suburban Bank & Trust Company ("SBT"), which operated ten banking locations. SBT was merged into the Company's wholly-owned subsidiary Hinsdale Bank & Trust Company ("Hinsdale Bank"). The Company acquired assets with a fair value of approximately $494.7 million, including approximately $257.8 million of loans, and assumed deposits with a fair value of approximately $416.7 million. Additionally, the Company recorded goodwill of $18.6 million on the acquisition.

On July 1, 2015, the Company, through its wholly-owned subsidiary Wintrust Bank, acquired North Bank, which had two banking locations. The Company acquired assets with a fair value of $117.9 million, including approximately $51.6 million of loans, and assumed deposits with a fair value of approximately $101.0 million. Additionally, the Company recorded goodwill of $6.7 million on the acquisition.

On January 16, 2015, the Company acquired Delavan Bancshares, Inc. ("Delavan"). Delavan was the parent company of Community Bank CBD, which had four banking locations. Community Bank CBD was merged into the Company's wholly-owned subsidiary Town Bank. The Company acquired assets with a fair value of approximately $224.1 million, including approximately $128.0 million of loans, and assumed liabilities with a fair value of approximately $186.4 million, including approximately $170.2 million of deposits. Additionally the Company recorded goodwill of $16.8 million on the acquisition.

FDIC-Assisted Transactions

Since 2010, 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 comprise the majority of the assets acquired in nearly all of these FDIC-assisted transactions, most of which are subject to loss sharing agreements with the FDIC whereby the FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned (“OREO”), and certain other assets. Additionally, clawback provisions within these loss share agreements with the FDIC require the Company to reimburse the FDIC in the event that actual losses

on covered assets are lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to these loss sharing agreements as “covered loans” and uses the term “covered assets” to refer to covered loans, covered OREO and certain other covered assets. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.

The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as an FDIC indemnification asset 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 will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration subsequent to the acquisition date. See Note 7 — Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion of the allowance on covered loans.

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

The following table summarizes the activity in the Company’s FDIC indemnification (liability) asset during the periods indicated:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Balance at beginning of period	$(10,029)	$10,224	$(6,100)	$11,846
Additions from acquisitions	—	—	—	—
Additions from reimbursable expenses	649	934	731	2,509
Amortization	(92)	(1,206)	(193)	(2,466)
Changes in expected reimbursements from the FDIC for changes in expected credit losses	(2,200)	(4,317)	(5,747)	(8,310)
(Payments received from) provided to the FDIC	(57)	(2,206)	(420)	(150)
Balance at end of period	$(11,729)	$3,429	$(11,729)	$3,429

PCI Loans

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

In determining the acquisition date fair value of 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 generally result in a provision for loan losses.

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

See Note 6—Loans, for additional information on PCI loans.

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(4) Cash and Cash Equivalents

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

(5) Investment Securities

The following tables are a summary of the available-for-sale and held-to-maturity securities portfolios as of the dates shown:

	June 30, 2016			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$122,296	$ 35	$ (1)	$122,330
U.S. Government agencies	69,678	238	—	69,916
Municipal	108,179	3,588	(127)	111,640
Corporate notes:				
Financial issuers	68,097	1,502	(1,411)	68,188
Other	1,500	2	—	1,502
Mortgage-backed: (1)				
Mortgage-backed securities	162,593	4,280	(150)	166,723
Collateralized mortgage obligations	40,419	457	(91)	40,785
Equity securities	51,426	5,544	(391)	56,579
Total available-for-sale securities	$624,188	$ 15,646	$ (2,171)	$637,663
Held-to-maturity securities				
U.S. Government agencies	$789,482	$ 11,861	$ (647)	$800,696
Municipal	202,729	6,967	(213)	209,483
Total held-to-maturity securities	$992,211	$ 18,828	$ (860)	$1,010,179

	December 31, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$312,282	$ —	$ (5,553)	$306,729
U.S. Government agencies	70,313	198	(275)	70,236
Municipal	105,702	3,249	(356)	108,595
Corporate notes:				
Financial issuers	80,014	1,510	(1,481)	80,043
Other	1,500	4	(2)	1,502
Mortgage-backed: (1)				
Mortgage-backed securities	1,069,680	3,834	(21,004)	1,052,510
Collateralized mortgage obligations	40,421	172	(506)	40,087
Equity securities	51,380	5,799	(493)	56,686
Total available-for-sale securities	$1,731,292	$ 14,766	$ (29,670)	$1,716,388
Held-to-maturity securities				
U.S. Government agencies	$687,302	$ 4	$ (7,144)	$680,162

Municipal	197,524	867	(442)	197,949
Total held-to-maturity securities	$884,826	$ 871	$(7,586)	$878,111

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	June 30, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$288,196	$ 138	$(7,173)	$281,161
U.S. Government agencies	651,737	2,074	(25,151)	628,660
Municipal	269,562	4,222	(3,994)	269,790
Corporate notes:				
Financial issuers	124,924	1,773	(1,289)	125,408
Other	2,726	9	(2)	2,733
Mortgage-backed: (1)				
Mortgage-backed securities	777,087	4,053	(23,499)	757,641
Collateralized mortgage obligations	42,550	342	(432)	42,460
Equity securities	48,740	5,876	(408)	54,208
Total available-for-sale securities	$2,205,522	$ 18,487	$(61,948)	$2,162,061
Held-to-maturity securities				
U.S. Government agencies	$—	$ —	$—	$—
Municipal	—	—	—	—
Total held-to-maturity securities	$—	$ —	$—	$—

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

In the fourth quarter of 2015, the Company transferred $862.7 million of investment securities with an unrealized loss of $14.4 million from the available-for-sale classification to the held-to-maturity classification. No investment securities were transferred from the available-for-sale classification to the held-to-maturity classification in the first six months of 2016.

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 June 30, 2016:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities						
U.S. Treasury	$2,250	$ (1)	$—	$ —	$2,250	$ (1)
U.S. Government agencies	—	—	—	—	—	—
Municipal	10,789	(16)	7,701	(111)	18,490	(127)
Corporate notes:						
Financial issuers	19,822	(178)	24,727	(1,233)	44,549	(1,411)
Other	—	—	—	—	—	—
Mortgage-backed:						
Mortgage-backed securities	—	—	4,089	(150)	4,089	(150)
Collateralized mortgage obligations	2,528	(15)	6,433	(76)	8,961	(91)
Equity securities	1,897	(121)	8,791	(270)	10,688	(391)
Total available-for-sale securities	$37,286	$ (331)	$51,741	$ (1,840)	$89,027	$ (2,171)

Held-to-maturity securities						
U.S. Government agencies	$134,808	$ (647)	$—	$—	$134,808	$ (647)
Municipal	12,172	(172)	3,313	(41)	15,485	(213)
Total held-to-maturity securities	$146,980	$ (819)	$3,313	$ (41)	$150,293	$ (860)

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 June 30, 2016 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

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these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily corporate notes and mortgage-backed securities. Unrealized losses recognized on corporate notes and mortgage-backed securities are the result of increases in yields for similar types of securities.

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

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Realized gains	$1,487	$14	$4,037	$567
Realized losses	(47)	(38)	(1,272)	(67)
Net realized gains (losses)	$1,440	$(24)	$2,765	$500
Other than temporary impairment charges	—	—	—	—
Gains (losses) on investment securities, net	$1,440	$(24)	$2,765	$500
Proceeds from sales and calls of available-for-sale securities	$1,068,795	$498,501	$1,071,996	$1,134,033
Proceeds from calls of held-to-maturity securities	183,738	—	281,981	—

The amortized cost and fair value of securities as of June 30, 2016, December 31, 2015 and June 30, 2015, 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:

	June 30, 2016		December 31, 2015		June 30, 2015	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities						
Due in one year or less	$214,917	$215,290	$160,856	$160,756	$141,792	$141,897
Due in one to five years	113,263	113,395	166,550	166,468	261,285	261,146
Due in five to ten years	28,111	30,870	228,652	225,699	291,451	285,192
Due after ten years	13,459	14,021	13,753	14,182	642,617	619,517
Mortgage-backed	203,012	207,508	1,110,101	1,092,597	819,637	800,101
Equity securities	51,426	56,579	51,380	56,686	48,740	54,208
Total available-for-sale securities	$624,188	$637,663	$1,731,292	$1,716,388	$2,205,522	$2,162,061
Held-to-maturity securities						
Due in one year or less	$—	$—	$—	$—	$—	$—
Due in one to five years	27,505	27,738	19,208	19,156	—	—
Due in five to ten years	68,691	70,121	96,454	96,091	—	—
Due after ten years	896,015	912,320	769,164	762,864	—	—
Total held-to-maturity securities	$992,211	$1,010,179	$884,826	$878,111	$—	$—

Securities having a fair value of $1.4 billion at June 30, 2016 as well as securities having a carrying value of $1.2 billion and $1.1 billion at December 31, 2015 and June 30, 2015, respectively, were pledged as collateral for public deposits, trust deposits, Federal Home Loan Bank ("FHLB") advances, securities sold under repurchase agreements and derivatives. At June 30, 2016, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders’ equity.

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(6) Loans

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

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Balance:			
Commercial	$5,144,533	$4,713,909	$4,330,344
Commercial real estate	5,848,334	5,529,289	4,850,590
Home equity	760,904	784,675	712,350
Residential real estate	653,664	607,451	503,015
Premium finance receivables—commercial	2,478,280	2,374,921	2,460,408
Premium finance receivables—life insurance	3,161,562	2,961,496	2,537,475
Consumer and other	127,378	146,376	119,468
Total loans, net of unearned income, excluding covered loans	$18,174,655	$17,118,117	$15,513,650
Covered loans	105,248	148,673	193,410
Total loans	$18,279,903	$17,266,790	$15,707,060
Mix:			
Commercial	28 %	27 %	27 %
Commercial real estate	31	32	31
Home equity	4	5	5
Residential real estate	4	3	3
Premium finance receivables—commercial	14	14	16
Premium finance receivables—life insurance	17	17	16
Consumer and other	1	1	1
Total loans, net of unearned income, excluding covered loans	99 %	99 %	99 %
Covered loans	1	1	1
Total loans	100 %	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 $64.1 million at June 30, 2016, $56.7 million at December 31, 2015 and $53.7 million at June 30, 2015, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as PCI loans are recorded net of credit discounts. See “Acquired Loan Information at Acquisition” below.

Total loans, excluding PCI loans, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $(5.0) million at June 30, 2016, $(9.2) million at December 31, 2015 and $1.7 million at June 30, 2015. The net credit balance at June 30, 2016 and December 31, 2015, is primarily the result of purchase accounting adjustments related to acquisitions in 2016 and 2015.

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

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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:

	June 30, 2016		December 31, 2015	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	$306,706	$256,083	$326,470	$271,260
Life insurance premium finance loans acquisition	295,337	291,602	372,738	368,292

The following table provides estimated details as of the date of acquisition on loans acquired in 2016 with evidence of credit quality deterioration since origination:

(Dollars in thousands)	Foundations
Contractually required payments including interest	$ 20,100
Less: Nonaccretable difference	3,728
Cash flows expected to be collected [(1)]	$ 16,372
Less: Accretable yield	1,266
Fair value of PCI loans acquired	$ 15,106

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

See Note 7—Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion regarding the allowance for loan losses associated with PCI loans at June 30, 2016.

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)	Three Months Ended June 30, 2016			June 30, 2015		
Accretable yield, beginning balance	$	59,218		$	70,198	
Acquisitions	125			—		
Accretable yield amortized to interest income	(5,199		)	(6,315		)
Accretable yield amortized to indemnification asset/liability [(1)]	(1,624		)	(4,089		)
Reclassification from non-accretable	2,536			1,753		

difference (2)				
Increases in interest cash flows due to payments and changes in interest rates	574		2,096	
Accretable yield, ending balance (3)	$	55,630	$	63,643

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(Dollars in thousands)	Six Months Ended June 30, 2016	June 30, 2015
Accretable yield, beginning balance	$63,902	$79,102
Acquisitions	1,266	898
Accretable yield amortized to interest income	(10,656)	(12,420)
Accretable yield amortized to indemnification asset/liability (1)	(3,795)	(7,665)
Reclassification from non-accretable difference (2)	6,729	2,856
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(1,816)	872
Accretable yield, ending balance (3)	$55,630	$63,643

(1) Represents the portion of the current period accreted yield, resulting from lower expected losses, applied to reduce the loss share indemnification asset.
(2) Reclassification is the result of subsequent increases in expected principal cash flows.
(3) As of June 30, 2016, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $3.3 million. The remainder of the accretable yield related to bank acquisitions is expected to be amortized to interest income.

Accretion to interest income accounted for under ASC 310-30 totaled $5.2 million and $6.3 million in the second quarter of 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, the Company recorded accretion to interest income of $10.7 million and $12.4 million, respectively. These amounts include accretion from both covered and non-covered loans, and are both included within interest and fees on loans in the Consolidated Statements of Income.

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

The tables below show the aging of the Company’s loan portfolio at June 30, 2016, December 31, 2015 and June 30, 2015:

As of June 30, 2016 (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	$ 16,414	$—	$1,412	$22,317	$3,416,432	$3,456,575
Franchise	—	—	560	87	289,258	289,905
Mortgage warehouse lines of credit	—	—	—	—	270,586	270,586
Asset-based lending	—	235	1,899	6,421	834,112	842,667
Leases	387	—	48	—	267,639	268,074
PCI - commercial [1]	—	1,956	630	1,426	12,714	16,726
Total commercial	16,801	2,191	4,549	30,251	5,090,741	5,144,533
Commercial real estate:						
Construction	673	—	46	7,922	396,264	404,905
Land	1,725	—	—	340	103,816	105,881
Office	6,274	—	5,452	4,936	892,791	909,453
Industrial	10,295	—	1,108	719	754,647	766,769
Retail	916	—	535	6,450	889,945	897,846
Multi-family	90	—	2,077	1,275	775,075	778,517
Mixed use and other	4,442	—	4,285	8,007	1,795,931	1,812,665
PCI - commercial real estate [1]	—	27,228	1,663	2,608	140,799	172,298
Total commercial real estate	24,415	27,228	15,166	32,257	5,749,268	5,848,334
Home equity	8,562	—	380	4,709	747,253	760,904
Residential real estate, including PCI	12,413	1,479	1,367	299	638,106	653,664
Premium finance receivables						
Commercial insurance loans	14,497	10,558	6,966	9,456	2,436,803	2,478,280
Life insurance loans	—	—	46,651	11,953	2,811,356	2,869,960
PCI - life insurance loans [1]	—	—	—	—	291,602	291,602
Consumer and other, including PCI	475	226	610	1,451	124,616	127,378
Total loans, net of unearned income, excluding covered loans	$ 77,163	$41,682	$75,689	$90,376	$17,889,745	$18,174,655
Covered loans	2,651	6,810	697	1,610	93,480	105,248
Total loans, net of unearned income	$ 79,814	$48,492	$76,386	$91,986	$17,983,225	$18,279,903

As of December 31, 2015 (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	$ 12,704	$6	$6,749	$12,930	$3,226,139	$3,258,528
Franchise	—	—	—	—	245,228	245,228
Mortgage warehouse lines of credit	—	—	—	—	222,806	222,806
Asset-based lending	8	—	3,864	1,844	736,968	742,684
Leases	—	535	748	4,192	220,599	226,074
PCI - commercial [1]	—	892	—	2,510	15,187	18,589
Total commercial	12,712	1,433	11,361	21,476	4,666,927	4,713,909

Commercial real estate						
Construction	306	—	1,371	1,645	355,338	358,660
Land	1,751	—	—	120	76,546	78,417
Office	4,619	—	764	3,817	853,801	863,001
Industrial	9,564	—	1,868	1,009	715,207	727,648
Retail	1,760	—	442	2,310	863,887	868,399
Multi-family	1,954	—	597	6,568	733,230	742,349
Mixed use and other	6,691	—	6,723	7,215	1,712,187	1,732,816
PCI - commercial real estate [(1)]	—	22,111	4,662	16,559	114,667	157,999
Total commercial real estate	26,645	22,111	16,427	39,243	5,424,863	5,529,289
Home equity	6,848	—	1,889	5,517	770,421	784,675
Residential real estate, including PCI	12,043	488	2,166	3,903	588,851	607,451
Premium finance receivables						
Commercial insurance loans	14,561	10,294	6,624	21,656	2,321,786	2,374,921
Life insurance loans	—	—	3,432	11,140	2,578,632	2,593,204
PCI - life insurance loans [(1)]	—	—	—	—	368,292	368,292
Consumer and other, including PCI	263	211	204	1,187	144,511	146,376
Total loans, net of unearned income, excluding covered loans	$ 73,072	$ 34,537	$ 42,103	$ 104,122	$ 16,864,283	$ 17,118,117
Covered loans	5,878	7,335	703	5,774	128,983	148,673
Total loans, net of unearned income	$ 78,950	$ 41,872	$ 42,806	$ 109,896	$ 16,993,266	$ 17,266,790

(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 June 30, 2015 (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	$ 4,424	$—	$1,846	$6,027	$2,845,833	$2,858,130
Franchise	905	—	113	396	227,185	228,599
Mortgage warehouse lines of credit	—	—	—	—	213,797	213,797
Asset-based lending	—	—	1,767	7,423	823,265	832,455
Leases	65	—	—	—	187,565	187,630
PCI - commercial [1]	—	474	—	233	9,026	9,733
Total commercial	5,394	474	3,726	14,079	4,306,671	4,330,344
Commercial real estate:						
Construction	19	—	—	4	307,122	307,145
Land	2,035	—	1,123	2,399	82,280	87,837
Office	6,360	701	163	2,601	744,992	754,817
Industrial	2,568	—	18	484	624,337	627,407
Retail	2,352	—	896	2,458	744,285	749,991
Multi-family	1,730	—	933	223	665,562	668,448
Mixed use and other	8,119	—	2,405	3,752	1,577,846	1,592,122
PCI - commercial real estate [1]	—	15,646	3,490	2,798	40,889	62,823
Total commercial real estate	23,183	16,347	9,028	14,719	4,787,313	4,850,590
Home equity	5,695	—	511	3,365	702,779	712,350
Residential real estate, including PCI	16,631	264	2,494	1,205	482,421	503,015
Premium finance receivables						
Commercial insurance loans	15,156	9,053	5,048	11,071	2,420,080	2,460,408
Life insurance loans	—	351	—	6,823	2,145,981	2,153,155
PCI - life insurance loans [1]	—	—	—	—	384,320	384,320
Consumer and other, including PCI	280	110	196	919	117,963	119,468
Total loans, net of unearned income, excluding covered loans	$ 66,339	$26,599	$21,003	$52,181	$15,347,528	$15,513,650
Covered loans	6,353	10,030	1,333	1,720	173,974	193,410
Total loans, net of unearned income	$ 72,692	$36,629	$22,336	$53,901	$15,521,502	$15,707,060

(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.

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

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

The Company’s Problem Loan Reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once

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

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

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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 and covered 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, excluding covered loans, per the most recent analysis at June 30, 2016, December 31, 2015 and June 30, 2015:

	Performing			Non-performing			Total		
(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30 2015
Loan Balances:									
Commercial									
Commercial, industrial and other	$3,440,161	$3,245,818	$2,853,706	$16,414	$12,710	$4,424	$3,456,575	$3,258,528	$2,858
Franchise	289,905	245,228	227,694	—	—	905	289,905	245,228	228,599
Mortgage warehouse lines of credit	270,586	222,806	213,797	—	—	—	270,586	222,806	213,797
Asset-based lending	842,432	742,676	832,455	235	8	—	842,667	742,684	832,455
Leases	267,687	225,539	187,565	387	535	65	268,074	226,074	187,630
PCI - commercial [1]	16,726	18,589	9,733	—	—	—	16,726	18,589	9,733
Total commercial	5,127,497	4,700,656	4,324,950	17,036	13,253	5,394	5,144,533	4,713,909	4,330,3
Commercial real estate									
Construction	404,232	358,354	307,126	673	306	19	404,905	358,660	307,145
Land	104,156	76,666	85,802	1,725	1,751	2,035	105,881	78,417	87,837
Office	903,179	858,382	747,756	6,274	4,619	7,061	909,453	863,001	754,817
Industrial	756,474	718,084	624,839	10,295	9,564	2,568	766,769	727,648	627,407
Retail	896,930	866,639	747,639	916	1,760	2,352	897,846	868,399	749,991
Multi-family	778,427	740,395	666,718	90	1,954	1,730	778,517	742,349	668,448
Mixed use and other	1,808,223	1,726,125	1,584,003	4,442	6,691	8,119	1,812,665	1,732,816	1,592,1
PCI - commercial real estate[1]	172,298	157,999	62,823	—	—	—	172,298	157,999	62,823
Total commercial real estate	5,823,919	5,502,644	4,826,706	24,415	26,645	23,884	5,848,334	5,529,289	4,850,5
Home equity	752,342	777,827	706,655	8,562	6,848	5,695	760,904	784,675	712,350
Residential real estate, including PCI	641,251	595,408	486,384	12,413	12,043	16,631	653,664	607,451	503,015
Premium finance receivables									
Commercial insurance loans	2,453,225	2,350,066	2,436,199	25,055	24,855	24,209	2,478,280	2,374,921	2,460,4
Life insurance loans	2,869,960	2,593,204	2,152,804	—	—	351	2,869,960	2,593,204	2,153,1
PCI - life insurance loans [1]	291,602	368,292	384,320	—	—	—	291,602	368,292	384,320
	126,740	145,963	119,078	638	413	390	127,378	146,376	119,468

Consumer and other, including PCI									
Total loans, net of unearned income, excluding covered loans	$18,086,536	$17,034,060	$15,437,096	$88,119	$84,057	$76,554	$18,174,655	$17,118,117	$15,51

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

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A summary of activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the three and six months ended June 30, 2016 and 2015 is as follows:

Three months ended June 30, 2016 (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	$ 38,435	$ 45,263	$ 12,915	$ 5,164	$ 7,205	$ 1,189	$ 110,171
Other adjustments	(59)	(70)	—	(9)	4	—	(134)
Reclassification from allowance for unfunded lending-related commitments	—	(40)	—	—	—	—	(40)
Charge-offs	(721)	(502)	(2,046)	(693)	(1,911)	(224)	(6,097)
Recoveries	121	296	71	31	633	35	1,187
Provision for credit losses	3,878	1,877	443	912	1,883	276	9,269
Allowance for loan losses at period end	$ 41,654	$ 46,824	$ 11,383	$ 5,405	$ 7,814	$ 1,276	$ 114,356
Allowance for unfunded lending-related commitments at period end	$ —	$ 1,070	$—	$ —	$ —	$ —	$ 1,070
Allowance for credit losses at period end	$ 41,654	$ 47,894	$ 11,383	$ 5,405	$ 7,814	$ 1,276	$ 115,426
Individually evaluated for impairment	$ 3,417	$ 2,121	$ 477	$ 625	$ —	$ 5	$ 6,645
Collectively evaluated for impairment	37,571	45,736	10,906	4,720	7,814	1,271	108,018
Loans acquired with deteriorated credit quality	666	37	—	60	—	—	763
Loans at period end							
Individually evaluated for impairment	$ 21,173	$ 49,284	$ 8,562	$ 17,281	$ —	$ 536	$ 96,836
Collectively evaluated for impairment	5,106,634	5,626,752	752,342	632,125	5,348,240	126,842	17,592,935
Loans acquired with deteriorated credit quality	16,726	172,298	—	4,258	291,602	—	484,884

Three months ended June 30, 2015 (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	$ 33,726	$ 37,002	$ 12,664	$ 4,096	$ 5,992	$ 966	$ 94,446
Other adjustments	(13)	(81)	—	(5)	6	—	(93)
Reclassification from allowance for unfunded lending-related commitments	—	4	—	—	—	—	4
Charge-offs	(1,243)	(856)	(1,847)	(923)	(1,526)	(115)	(6,510)
Recoveries	285	1,824	39	16	458	34	2,656
Provision for credit losses	145	4,305	1,432	1,835	1,991	(7)	9,701
Allowance for loan losses at period end	$ 32,900	$ 42,198	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 100,204
	$ —	$ 884	$—	$—	$ —	$ —	$ 884

Allowance for unfunded lending-related commitments at period end							
Allowance for credit losses at period end	$ 32,900	$ 43,082	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 101,088
Individually evaluated for impairment	$ 2,282	$ 5,602	$ 808	$ 1,387	$ —	$ 44	$ 10,123
Collectively evaluated for impairment	30,600	37,145	11,480	3,589	6,921	834	90,569
Loans acquired with deteriorated credit quality	18	335	—	43	—	—	396
Loans at period end							
Individually evaluated for impairment	$ 11,921	$ 65,870	$ 5,909	$ 20,459	$ —	$ 418	$ 104,577
Collectively evaluated for impairment	4,308,690	4,721,897	706,441	480,214	4,613,563	119,050	14,949,855
Loans acquired with deteriorated credit quality	9,733	62,823	—	2,342	384,320	—	459,218

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Six months ended June 30, 2016 (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	$ 36,135	$ 43,758	$ 12,012	$ 4,734	$ 7,233	$ 1,528	$ 105,400
Other adjustments	(68)	(146)	—	(39)	41	—	(212)
Reclassification from allowance for unfunded lending-related commitments	—	(121)	—	—	—	—	(121)
Charge-offs	(1,392)	(1,173)	(3,098)	(1,186)	(4,391)	(331)	(11,571)
Recoveries	750	665	119	143	1,420	71	3,168
Provision for credit losses	6,229	3,841	2,350	1,753	3,511	8	17,692
Allowance for loan losses at period end	$ 41,654	$ 46,824	$ 11,383	$ 5,405	$ 7,814	$ 1,276	$ 114,356
Allowance for unfunded lending-related commitments at period end	$ —	$ 1,070	$—	$ —	$ —	$ —	$ 1,070
Allowance for credit losses at period end	$ 41,654	$ 47,894	$ 11,383	$ 5,405	$ 7,814	$ 1,276	$ 115,426

Six months ended June 30, 2015 (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	$ 31,699	$ 35,533	$ 12,500	$ 4,218	$ 6,513	$ 1,242	$ 91,705
Other adjustments	(30)	(261)	—	(8)	(42)	—	(341)
Reclassification from allowance for unfunded lending-related commitments	—	(109)	—	—	—	—	(109)
Charge-offs	(1,920)	(1,861)	(2,431)	(1,554)	(2,789)	(226)	(10,781)
Recoveries	655	2,136	87	92	787	87	3,844
Provision for credit losses	2,496	6,760	2,132	2,271	2,452	(225)	15,886
Allowance for loan losses at period end	$ 32,900	$ 42,198	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 100,204
Allowance for unfunded lending-related commitments at period end	$ —	$ 884	$—	$ —	$ —	$ —	$ 884
Allowance for credit losses at period end	$ 32,900	$ 43,082	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 101,088

A summary of activity in the allowance for covered loan losses for the three and six months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,

(Dollars in thousands)	2016	2015	2016	2015
Balance at beginning of period	$2,507	$1,878	$3,026	$2,131
Provision for covered loan losses before benefit attributable to FDIC loss share agreements	(702)	(1,094)	(2,648)	(1,623)
Benefit attributable to FDIC loss share agreements	562	875	2,119	1,298
Net provision for covered loan losses	(140)	(219)	(529)	(325)
Increase/decrease in FDIC indemnification liability/asset	(562)	(875)	(2,119)	(1,298)
Loans charged-off	(143)	(140)	(373)	(377)
Recoveries of loans charged-off	750	1,571	2,407	2,084
Net recoveries	607	1,431	2,034	1,707
Balance at end of period	$2,412	$2,215	$2,412	$2,215

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

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for loan losses, and a corresponding increase to the FDIC loss share asset or reduction to any FDIC loss share liability. See “FDIC-Assisted Transactions” within Note 3 – Business Combinations for more detail.

Impaired Loans

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

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Impaired loans (included in non-performing and TDRs):			
Impaired loans with an allowance for loan loss required (1)	$42,968	$49,961	$50,748
Impaired loans with no allowance for loan loss required	53,008	51,294	52,609
Total impaired loans (2)	$95,976	$101,255	$103,357
Allowance for loan losses related to impaired loans	$6,611	$6,380	$10,075
TDRs	$49,635	$51,853	$62,776

(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 by loan class, excluding covered loans, for the periods ended as follows:

	As of June 30, 2016			For the Six Months Ended June 30, 2016	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$10,253	$ 12,866	$ 3,280	$10,172	$ 375
Asset-based lending	—	—	—	—	—
Leases	387	387	128	390	10
Commercial real estate					
Construction	—	—	—	—	—
Land	4,538	4,538	18	4,592	83
Office	2,401	3,059	176	2,427	70
Industrial	7,369	7,773	1,514	7,552	195
Retail	7,007	7,024	264	7,064	95
Multi-family	1,274	1,274	15	1,066	18
Mixed use and other	3,040	3,162	109	3,063	73
Home equity	1,349	1,511	477	1,443	30
Residential real estate	5,230	5,840	625	5,289	123
Consumer and other	120	148	5	123	4
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$10,092	$ 10,950	$ —	$10,045	$ 328

Asset-based lending	—	—	—	—	—
Leases	—	—	—	—	—
Commercial real estate					
Construction	2,677	2,677	—	2,693	77
Land	2,979	7,492	—	3,001	254
Office	6,967	8,715	—	7,107	227
Industrial	3,966	5,093	—	4,326	168
Retail	1,122	1,122	—	1,129	27
Multi-family	90	174	—	119	3
Mixed use and other	5,435	5,960	—	5,498	159
Home equity	7,213	9,674	—	8,356	219
Residential real estate	12,051	14,180	—	11,997	308
Consumer and other	416	494	—	427	14
Total impaired loans, net of unearned income	$95,976	$ 114,113	$ 6,611	$97,879	$ 2,860

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(Dollars in thousands)	As of December 31, 2015 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Twelve Months Ended December 31, 2015 Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$9,754	$ 12,498	$ 2,012	$10,123	$ 792
Asset-based lending	—	—	—	—	—
Leases	—	—	—	—	—
Commercial real estate					
Construction	—	—	—	—	—
Land	4,929	8,711	41	5,127	547
Office	5,050	6,051	632	5,394	314
Industrial	8,413	9,105	1,943	10,590	565
Retail	8,527	9,230	343	8,596	386
Multi-family	370	370	202	372	25
Mixed use and other	7,590	7,708	570	7,681	328
Home equity	423	435	333	351	16
Residential real estate	4,710	4,799	294	4,618	182
Consumer and other	195	220	10	216	12
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$8,562	$ 9,915	$ —	$9,885	$ 521
Asset-based lending	8	1,570	—	5	88
Leases	—	—	—	—	—
Commercial real estate					
Construction	2,328	2,329	—	2,316	113
Land	888	2,373	—	929	90
Office	3,500	4,484	—	3,613	237
Industrial	2,217	2,426	—	2,286	188
Retail	2,757	2,925	—	2,897	129
Multi-family	2,344	2,807	—	2,390	117
Mixed use and other	10,510	14,060	—	11,939	624
Home equity	6,424	7,987	—	5,738	288
Residential real estate	11,559	13,979	—	11,903	624
Consumer and other	197	267	—	201	12
Total impaired loans, net of unearned income	$101,255	$ 124,249	$ 6,380	$107,170	$ 6,198

(Dollars in thousands)	As of June 30, 2015 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Six Months Ended June 30, 2015 Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					

Commercial					
Commercial, industrial and other	$7,607	$ 8,046	$ 2,200	$7,788	$ 181
Asset-based lending	—	—	—	—	—
Leases	65	65	65	66	2
Commercial real estate					
Construction	—	—	—	—	—
Land	6,924	10,539	50	6,931	294
Office	7,005	7,010	2,414	7,060	154
Industrial	1,218	1,218	558	1,218	34
Retail	8,336	9,222	404	8,482	194
Multi-family	2,149	2,258	322	2,168	51
Mixed use and other	10,507	12,694	1,847	10,557	290
Home equity	1,673	1,728	808	1,680	34
Residential real estate	6,945	7,138	1,363	6,963	137
Consumer and other	180	245	44	190	6
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$3,760	$ 6,731	$ —	$4,052	$ 219
Asset-based lending	—	—	—	—	—
Leases	—	—	—	—	—
Commercial real estate					
Construction	2,665	2,665	—	2,650	61
Land	1,906	2,643	—	1,924	50
Office	6,289	8,780	—	6,834	221
Industrial	2,022	2,200	—	2,059	88
Retail	4,099	5,248	—	4,113	112
Multi-family	592	1,015	—	598	22
Mixed use and other	11,683	12,008	—	12,427	266
Home equity	4,236	5,697	—	4,320	118
Residential real estate	13,258	14,961	—	13,553	294
Consumer and other	238	267	—	241	7
Total impaired loans, net of unearned income	$103,357	$ 122,378	$ 10,075	$105,874	$ 2,835

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TDRs

At June 30, 2016, the Company had $49.6 million in loans modified in TDRs. The $49.6 million in TDRs represents 97 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 six or worse, must be reviewed for possible TDR classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of these loans is considered to be a TDR if both (1) the borrower is experiencing financial difficulty and (2) for economic or legal reasons, the bank grants a concession to a borrower that it would not otherwise consider. The modification of a loan, excluding 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 the modification and on a quarterly basis to determine if a specific reserve is necessary. The carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral. Any shortfall is recorded as a specific reserve. The Company, in accordance with ASC 310-10, continues to individually measure impairment of these loans after the TDR classification is removed.

Each TDR was reviewed for impairment at June 30, 2016 and approximately $3.2 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. For TDRs in which impairment is calculated by the present value of future cash flows, the Company records interest income representing the decrease in impairment resulting from the passage of time during the respective period, which differs from interest income from contractually required interest on these specific loans. During the three months ended June 30, 2016 and 2015, the Company recorded $135,000 and $94,000, respectively, in interest income representing this decrease in impairment. For the six months ended June 30, 2016 and 2015, the Company recorded $225,000 and $287,000, respectively, in interest income.

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. Excluding covered OREO, at June 30, 2016, the Company had $11.3 million of foreclosed residential real estate properties included within OREO.

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The tables below present a summary of the post-modification balance of loans restructured during the three and six months ended June 30, 2016 and 2015, respectively, which represent TDRs:

Three months ended June 30, 2016 (Dollars in thousands)	Total [1][2]		Extension at Below Market Terms [2]		Reduction of Interest Rate [2]		Modification to Interest-only Payments [2]		Forgiveness of Debt[2]	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	1	$ 275	1	$ 275	—	$ —	—	$ —	1	$ 275
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Mixed use and other	—	—	—	—	—	—	—	—	—	—
Residential real estate and other	1	380	1	380	1	380	1	380	—	—
Total loans	2	$ 655	2	$ 655	1	$ 380	1	$ 380	1	$ 275

Three months ended June 30, 2015 (Dollars in thousands)	Total [1][2]		Extension at Below Market Terms [2]		Reduction of Interest Rate [2]		Modification to Interest-only Payments [2]		Forgiveness of Debt[2]	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Industrial	1	169	1	169	—	—	1	169	—	—
Mixed use and other	—	—	—	—	—	—	—	—	—	—
Residential real estate and other	5	1,148	5	1,148	2	372			—	—
Total loans	6	$ 1,317	6	$ 1,317	2	$ 372	1	$ 169	—	$ —

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

During the three months ended June 30, 2016, two loans totaling $655,000 were determined to be TDRs, compared to six loans totaling $1.3 million in the same period of 2015. Of these loans extended at below market terms, the weighted average extension had a term of approximately 36 months during the quarter ended June 30, 2016 compared to 29 months for the quarter ended June 30, 2015. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 275 basis points and 408 basis points during the three months ending June 30, 2016 and 2015, respectively. Interest-only payment terms were approximately six months during the three months ending June 30, 2016 compared to approximately 29 months for the three months ending June 30, 2015. Additionally, $300,000 of principal was forgiven in the second quarter of 2016 compared to no principal balances forgiven in the second quarter of 2015.

Six months ended June 30, 2016 (Dollars in thousands)	Total [1][2]	Extension at Below Market Terms [2]	Reduction of Interest Rate [2]	Modification to Interest-only Payments [2]	Forgiveness of Debt[2]

	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	2	$ 317	2	$ 317	—	$ —	—	$ —	1	$ 275
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	2	540	1	380	2	540	1	380	—	—
Total loans	13	$ 9,378	12	$ 9,218	5	$ 7,736	1	$ 380	1	$ 275

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Six months ended June 30, 2015 (Dollars in thousands)	Total (1)(2)		Extension at Below Market Terms (2)		Reduction of Interest Rate (2)		Modification to Interest-only Payments (2)		Forgiveness of Debt(2)	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Commercial real estate										
Office	1	169	1	169	—	—	1	169	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Mixed use and other	—	—	—	—	—	—	—	—	—	—
Residential real estate and other	8	1,442	8	1,442	4	452	1	50	—	—
Total loans	9	$ 1,611	9	$ 1,611	4	$ 452	2	$ 219	—	$ —

(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 six months ended June 30, 2016, 13 loans totaling $9.4 million were determined to be TDRs, compared to nine loans totaling $1.6 million in the same period of 2015. Of these loans extended at below market terms, the weighted average extension had a term of approximately six months during the six months ended June 30, 2016 compared to 27 months for the six months ended June 30, 2015. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 30 basis points and 367 basis points for the year-to-date periods June 30, 2016 and 2015, respectively. Interest-only payment terms were approximately six months during the six months ending June 30, 2016 compared to 28 months during the same period of 2015. Additionally, $300,000 of principal balances were forgiven in the first six months of 2016 compared to no balances forgiven during the same period of 2015.

The following table presents a summary of all loans restructured in TDRs during the twelve months ended June 30, 2016 and 2015, and such loans which were in payment default under the restructured terms during the respective periods below:

(Dollars in thousands)	As of June 30, 2016 Total (1)(3)		Three Months Ended June 30, 2016 Payments in Default (2)(3)		Six Months Ended June 30, 2016 Payments in Default (2)(3)	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial, industrial and other	2	$ 317	—	$ —	—	$ —
Commercial real estate						
Office	1	450	1	450	1	450
Industrial	6	7,921	3	725	3	725
Mixed use and other	4	351	1	16	3	217
Residential real estate and other	3	762	1	222	1	222
Total loans	16	$ 9,801	6	$ 1,413	8	$ 1,614

(Dollars in thousands)	As of June 30, 2015 Total (1)(3)	Three Months Ended June 30, 2015 Payments in Default (2)(3)	Six Months Ended June 30, 2015 Payments in Default (2)(3)

	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial, industrial and other	1	$ 1,461	—	$ —	—	$ —
Commercial real estate						
Office	1	720	—	—	—	—
Industrial	2	854	—	—	—	—
Mixed use and other	—	—	—	—	—	—
Residential real estate and other	13	3,058	4	833	4	833
Total loans	17	$ 6,093	4	$ 833	4	$ 833

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

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(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, 2016	Goodwill Acquired	Impairment Loss	Goodwill Adjustments	June 30, 2016
Community banking	$401,612	$11,427	$ —	$ 1,354	$414,393
Specialty finance	38,035	—	—	1,553	39,588
Wealth management	32,114	—	—	—	32,114
Total	$471,761	$11,427	$ —	$ 2,907	$486,095

The community banking segment's goodwill increased $12.8 million in the first six months of 2016 primarily as a result of the acquisition of Generations. The specialty finance segment's goodwill increased $1.6 million in the first six months of 2016 as a result of foreign currency translation adjustments related to the Canadian acquisitions.

At June 30, 2016, the Company utilized a qualitative approach for its annual goodwill impairment test of the community banking segment and determined that it is not more likely than not than an impairment existed at that time. The annual goodwill impairment tests of the specialty finance and wealth management segments will be conducted at December 31, 2016.

A summary of finite-lived intangible assets as of the dates shown and the expected amortization as of June 30, 2016 is as follows:

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Community banking segment:			
Core deposit intangibles:			
Gross carrying amount	$34,998	$34,841	$25,881
Accumulated amortization	(19,654)	(17,382)	(14,983)
Net carrying amount	$15,344	$17,459	$10,898
Specialty finance segment:			
Customer list intangibles:			
Gross carrying amount	$1,800	$1,800	$1,800
Accumulated amortization	(1,100)	(1,052)	(1,001)
Net carrying amount	$700	$748	$799
Wealth management segment:			
Customer list and other intangibles:			
Gross carrying amount	$7,940	$7,940	$7,940
Accumulated amortization	(2,163)	(1,938)	(1,713)
Net carrying amount	$5,777	$6,002	$6,227
Total other intangible assets, net	$21,821	$24,209	$17,924

Estimated amortization	
Actual in six months ended June 30, 2016	$2,546
Estimated remaining in 2016	2,160
Estimated—2017	3,902
Estimated—2018	3,395
Estimated—2019	2,872
Estimated—2020	2,328

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 ten-year period on a straight-line basis.

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Total amortization expense associated with finite-lived intangibles totaled approximately $2.5 million and $1.9 million for the six months ended June 30, 2016 and 2015, respectively.

(9) Deposits

The following table is a summary of deposits as of the dates shown:

(Dollars in thousands)	June 30, 2016		December 31, 2015		June 30, 2015	
Balance:						
Non-interest bearing	$5,367,672		$4,836,420		$3,910,310	
NOW and interest bearing demand deposits	2,450,710		2,390,217		2,240,832	
Wealth management deposits	1,904,121		1,643,653		1,591,251	
Money market	4,384,134		4,041,300		3,898,495	
Savings	1,851,863		1,723,367		1,504,654	
Time certificates of deposit	4,083,250		4,004,677		3,936,876	
Total deposits	$20,041,750		$18,639,634		$17,082,418	
Mix:						
Non-interest bearing	27	%	26	%	23	%
NOW and interest bearing demand deposits	12		13		13	
Wealth management deposits	10		9		9	
Money market	22		22		23	
Savings	9		9		9	
Time certificates of deposit	20		21		23	
Total deposits	100	%	100	%	100	%

Wealth management deposits represent deposit balances (primarily money market accounts) at the Company’s subsidiary banks from brokerage customers of Wayne Hummer Investments, trust and asset management customers of Company and brokerage customers from unaffiliated companies.

(10) FHLB Advances, Other Borrowings and Subordinated Notes

The following table is a summary of notes payable, FHLB advances, other borrowings and subordinated notes as of the dates shown:

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
FHLB advances	$588,055	$853,431	$435,721
Other borrowings:			
Notes payable	59,937	67,429	75,000
Short-term borrowings	38,798	63,887	48,295
Other	18,564	18,965	18,413
Secured borrowings	135,312	115,504	119,966
Total other borrowings	252,611	265,785	261,674
Subordinated notes	138,915	138,861	138,808
Total FHLB advances, other borrowings and subordinated notes	$979,581	$1,258,077	$836,203

FHLB Advances

FHLB advances consist of obligations of the banks and are collateralized by qualifying residential real estate and home equity loans and certain securities. FHLB advances are stated at par value of the debt adjusted for unamortized

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.

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Notes Payable

At June 30, 2016, notes payable represented a $59.9 million term facility ("Term Facility"), which is part of a $150.0 million loan agreement ("Credit Agreement") with unaffiliated banks dated December 15, 2014. The Credit Agreement consists of the Term Facility with an original outstanding balance of $75.0 million and a $75.0 million revolving credit facility ("Revolving Credit Facility"). At June 30, 2016, the Company had a balance of $59.9 million compared to $67.4 million at December 31, 2015 and $75.0 million at June 30, 2015 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 June 15, 2015 and all such borrowings must be repaid by June 15, 2020. Beginning September 30, 2015, the Company was required to make straight-line quarterly amortizing payments on the Term Facility. At June 30, 2016, December 31, 2015 and June 30, 2015, 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. In December 2015, the Company amended the Credit Agreement, effectively extending the maturity date on the Revolving Credit Facility from December 14, 2015 to December 12, 2016.

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) 150 basis points (in the case of a borrowing under the Revolving Credit Facility) or 175 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 June 30, 2016, 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.

Short-term Borrowings

Short-term borrowings include securities sold under repurchase agreements and federal funds purchased. These borrowings totaled $38.8 million at June 30, 2016 compared to $63.9 million at December 31, 2015 and $48.3 million at June 30, 2015. At June 30, 2016, December 31, 2015 and June 30, 2015, securities sold under repurchase agreements represent $38.8 million, $58.9 million and $48.3 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 June 30, 2016, the Company had pledged securities related to its customer balances in sweep accounts of $63.5 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, mortgage-backed and corporate 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.

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The following is a summary of these securities pledged as of June 30, 2016 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	
U.S. Treasury	$ 10,009
Corporate notes:	
Financial issuers	3,945
Mortgage-backed securities	47,464
Held-to-maturity securities pledged	
U.S. Government agencies	2,053
Total collateral pledged	$ 63,471
Excess collateral	24,673
Securities sold under repurchase agreements	$ 38,798

Other Borrowings

Other borrowings at June 30, 2016 represent a fixed-rate promissory note issued by the Company in August 2012 ("Fixed-Rate Promissory Note") related to and secured by an office building owned by the Company, and non-recourse notes issued by the Company to other banks related to certain capital leases. At June 30, 2016, the Fixed-Rate Promissory Note had a balance of $18.0 million compared to a balance of $18.3 million and $18.4 million at December 31, 2015 and June 30, 2015, respectively. Under the Fixed-Rate Promissory Note, the Company will make monthly principal payments and pay interest at a fixed rate of 3.75% until maturity on September 1, 2017. At June 30, 2016 and December 31, 2015, the non-recourse notes related to certain capital leases totaled $591,000 and $732,000, respectively.

Secured Borrowings

Secured borrowings at June 30, 2016 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, 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. 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 June 30, 2016, the translated balance of the secured borrowing totaled $123.7 million compared to $115.5 million at December 31, 2015 and $120.0 million at June 30, 2015. Additionally, the interest rate under the Receivables Purchase Agreement at June 30, 2016 was 1.6044%.

Subordinated Notes

At June 30, 2016, the Company had outstanding subordinated notes totaling $138.9 million compared to $138.9 million and $138.8 million outstanding at December 31, 2015 and June 30, 2015, respectively. The notes have a stated interest rate of 5.00% and mature in June 2024. These notes are stated at par adjusted for unamortized costs paid related to the issuance of this debt.

(11) Junior Subordinated Debentures

As of June 30, 2016, 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.

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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 available-for-sale securities.

The following table provides a summary of the Company's junior subordinated debentures as of June 30, 2016. The junior subordinated debentures represent the par value of the obligations owed to the Trusts.

(Dollars in thousands)	Common Securities	Trust Preferred Securities	Junior Subordinated Debentures	Rate Structure	Contractual rate at 6/30/2016		Issue Date	Maturity Date	Earliest Redemption Date
Wintrust Capital Trust III	$ 774	$ 25,000	$ 25,774	L+3.25	3.88	%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	619	20,000	20,619	L+2.80	3.43	%	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	1,238	40,000	41,238	L+2.60	3.23	%	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	1,550	50,000	51,550	L+1.95	2.60	%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	1,238	25,000	26,238	L+1.45	2.08	%	08/2005	09/2035	09/2010
Wintrust Capital Trust IX	1,547	50,000	51,547	L+1.63	2.28	%	09/2006	09/2036	09/2011
Northview Capital Trust I	186	6,000	6,186	L+3.00	3.64	%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	186	6,000	6,186	L+3.00	3.64	%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	155	5,000	5,155	L+3.00	3.63	%	05/2004	05/2034	05/2009
Suburban Illinois Capital Trust II	464	15,000	15,464	L+1.75	2.40	%	12/2006	12/2036	12/2011
Community Financial Shares Statutory Trust II	109	3,500	3,609	L+1.62	2.27	%	06/2007	09/2037	06/2012
Total			$ 253,566		2.84	%			

The junior subordinated debentures totaled $253.6 million at June 30, 2016 compared to $268.6 million at December 31, 2015 and $249.5 million at June 30, 2015.

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 June 30, 2016, the weighted average contractual interest rate on the junior subordinated debentures was 2.84%. The Company entered into interest rate swaps and caps with an aggregate notional value of $225 million to hedge the variable cash flows on certain junior subordinated debentures. The hedge-adjusted rate on the junior subordinated debentures as of June 30, 2016, was 3.79%. 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.

Prior to January 1, 2015, the junior subordinated debentures, subject to certain limitations, qualified as Tier 1 regulatory capital of the Company and the amount in excess of those certain limitations could, subject to other restrictions, be included in Tier 2 capital. Starting in 2015, a portion of these junior subordinated debentures still qualified as Tier 1 regulatory capital of the Company and the amount in excess of those certain limitations, subject to certain restrictions, was included in Tier 2 capital. At December 31,

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2015, $65.1 million and $195.4 million of the junior subordinated debentures, net of common securities, were included in the Company's Tier 1 and Tier 2 regulatory capital, respectively. At June 30, 2015, $60.5 million and $181.5 million of the junior subordinated debentures, net of common securities, were included in the Company's Tier 1 and Tier 2 regulatory capital, respectively. 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.

(12) 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 9 — 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 “Summary of Significant Accounting Policies” in Note 1 of the Company’s 2015 Form 10-K. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment.

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

(Dollars in thousands)	Three months ended June 30, 2016	June 30, 2015	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	$142,251	$126,964	$15,287	12 %
Specialty Finance	24,352	21,338	3,014	14
Wealth Management	4,383	4,280	103	2
Total Operating Segments	170,986	152,582	18,404	12
Intersegment Eliminations	4,284	4,310	(26)	(1)
Consolidated net interest income	$175,270	$156,892	$18,378	12 %
Non-interest income:				
Community Banking	$60,813	$56,253	$4,560	8 %
Specialty Finance	12,482	9,135	3,347	37
Wealth Management	19,863	19,013	850	4
Total Operating Segments	93,158	84,401	8,757	10
Intersegment Eliminations	(8,359)	(7,388)	(971)	(13)
Consolidated non-interest income	$84,799	$77,013	$7,786	10 %
Net revenue:				
Community Banking	$203,064	$183,217	$19,847	11 %
Specialty Finance	36,834	30,473	6,361	21
Wealth Management	24,246	23,293	953	4
Total Operating Segments	264,144	236,983	27,161	11
Intersegment Eliminations	(4,075)	(3,078)	(997)	(32)
Consolidated net revenue	$260,069	$233,905	$26,164	11 %
Segment profit:				
Community Banking	$34,576	$29,133	$5,443	19 %
Specialty Finance	12,044	11,378	666	6
Wealth Management	3,421	3,320	101	3
Consolidated net income	$50,041	$43,831	$6,210	14 %
Segment assets:				
Community Banking	$20,190,707	$17,312,377	$2,878,330	17 %
Specialty Finance	3,645,077	2,931,838	713,239	24
Wealth Management	584,832	545,987	38,845	7
Consolidated total assets	$24,420,616	$20,790,202	$3,630,414	17 %

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(Dollars in thousands)	Six months ended June 30, 2016	June 30, 2015	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	$283,949	$249,645	$ 34,304	14 %
Specialty Finance	45,532	42,384	3,148	7
Wealth Management	8,866	8,469	397	5
Total Operating Segments	338,347	300,498	37,849	13
Intersegment Eliminations	8,432	8,285	147	2
Consolidated net interest income	$346,779	$308,783	$ 37,996	12 %
Non-interest income:				
Community Banking	$106,480	$101,165	$ 5,315	5 %
Specialty Finance	24,885	17,006	7,879	46
Wealth Management	38,615	37,741	874	2
Total Operating Segments	169,980	155,912	14,068	9
Intersegment Eliminations	(16,429)	(14,358)	(2,071)	(14)
Consolidated non-interest income	$153,551	$141,554	$ 11,997	8 %
Net revenue:				
Community Banking	$390,429	$350,810	$ 39,619	11 %
Specialty Finance	70,417	59,390	11,027	19
Wealth Management	47,481	46,210	1,271	3
Total Operating Segments	508,327	456,410	51,917	11
Intersegment Eliminations	(7,997)	(6,073)	(1,924)	(32)
Consolidated net revenue	$500,330	$450,337	$ 49,993	11 %
Segment profit:				
Community Banking	$69,333	$54,098	$ 15,235	28 %
Specialty Finance	23,516	22,330	1,186	5
Wealth Management	6,303	6,455	(152)	(2)
Consolidated net income	$99,152	$82,883	$ 16,269	20 %

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(13) 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) 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 and caps to manage the interest rate risk of certain fixed and variable rate assets and variable rate liabilities; (2) interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market; (3) forward commitments for the future delivery of such mortgage loans to protect the Company from adverse changes in interest rates and corresponding changes in the value of mortgage loans 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 has purchased interest rate cap derivatives to hedge or manage its own risk exposures. Certain interest rate cap derivatives have been designated as cash flow hedge derivatives of the variable cash outflows associated with interest expense on the Company's junior subordinated debentures and certain deposits. Other cap derivatives are not designated for hedge accounting but are economic hedges of the Company's overall portfolio, therefore any mark to market changes in the value of these caps are recognized in earnings.

Below is a summary of the interest rate cap derivatives held by the Company as of June 30, 2016:
(Dollars in thousands)

Effective Date	Maturity Date	Notional Amount	Accounting Treatment	Fair Value as of June 30, 2016
August 29, 2012	August 29, 2016	216,500	Cash Flow Hedging	—
February 22, 2013	August 22, 2016	43,500	Cash Flow Hedging	—
February 22, 2013	August 22, 2016	56,500	Non-Hedge Designated	—
March 21, 2013	March 21, 2017	100,000	Non-Hedge Designated	2
May 16, 2013	November 16, 2016	75,000	Non-Hedge Designated	—
September 15, 2013	September 15, 2017	50,000	Cash Flow Hedging	6
September 30, 2013	September 30, 2017	40,000	Cash Flow Hedging	6
		$581,500		$ 14

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. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income in the same period and in the same income statement line as changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivative financial instruments accounted for as cash flow hedges, to the extent they are effective hedges, are recorded as a component of other comprehensive income, net of deferred taxes, and reclassified to earnings when the hedged transaction affects earnings. Changes in fair values of derivative financial instruments not designated in a hedging relationship pursuant to ASC 815, including changes in fair value related to the ineffective portion of cash flow hedges, are reported in non-interest income during the period of the change. Derivative financial instruments are valued by a third party and are corroborated through 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.

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The table below presents the fair value of the Company's derivative financial instruments as of June 30, 2016, December 31, 2015 and June 30, 2015:

(Dollars in thousands)	Derivative Assets Fair Value			Derivative Liabilities Fair Value		
	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015
Derivatives designated as hedging instruments under ASC 815:						
Interest rate derivatives designated as Cash Flow Hedges	$12	$ 242	$514	$1,577	$ 846	$1,573
Interest rate derivatives designated as Fair Value Hedges	—	27	39	999	143	—
Total derivatives designated as hedging instruments under ASC 815	$12	$ 269	$553	$2,576	$ 989	$1,573
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate derivatives	$89,024	$ 42,510	$36,194	$88,316	$ 41,469	$35,032
Interest rate lock commitments	11,435	7,401	11,990	2,973	171	—
Forward commitments to sell mortgage loans	—	745	—	6,496	2,275	3,805
Foreign exchange contracts	581	373	181	551	115	89
Total derivatives not designated as hedging instruments under ASC 815	$101,040	$ 51,029	$48,365	$98,336	$ 44,030	$38,926
Total Derivatives	$101,052	$ 51,298	$48,918	$100,912	$ 45,019	$40,499

Cash Flow Hedges of Interest Rate Risk

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

As of June 30, 2016, the Company had one interest rate swap and two interest rate cap derivatives designated as cash flow hedges of variable rate deposits. The interest rate swap derivative had a notional amount of $250.0 million and matures in July 2019. The cap derivatives had notional amounts of $216.5 million and $43.5 million, respectively, both maturing in August 2016. Additionally, as of June 30, 2016, the Company had two interest rate swaps and two interest rate caps designated as hedges of the variable cash outflows associated with interest expense on the Company's junior subordinated debentures. The swap derivatives associated with the Company's junior subordinated debentures had notional amounts of $50.0 million and $25.0 million and mature in September 2016 and October 2016. The cap derivatives associated with the Company's junior subordinated debentures had notional amounts of $50.0 million and $40.0 million, respectively, both maturing in September 2017. The effective portion of changes in the fair value of these cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified to interest expense as interest payments are made on the Company's variable rate junior subordinated debentures. The changes in fair value (net of tax) are separately disclosed in the Consolidated Statements of Comprehensive Income. The ineffective portion of the change in fair value of these derivatives is recognized directly in earnings; however, no hedge ineffectiveness was recognized during the six months ended June 30, 2016 or June 30, 2015. The Company uses the hypothetical derivative method to assess and measure hedge effectiveness.

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The table below provides details on each of these cash flow hedges as of June 30, 2016:

	June 30, 2016	
(Dollars in thousands)	Notional	Fair Value
Maturity Date	Amount	Asset (Liability)
Interest Rate Swaps:		
September 2016	$50,000	$ (170)
October 2016	25,000	(113)
July 2019	250,000	(1,294)
Total Interest Rate Swaps	$325,000	$ (1,577)
Interest Rate Caps:		
August 2016	43,500	—
August 2016	216,500	—
September 2017	50,000	6
September 2017	40,000	6
Total Interest Rate Caps	$350,000	$ 12
Total Cash Flow Hedges	$675,000	$ (1,565)

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

(Dollars in thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Unrealized loss at beginning of period	$(3,051)	$(4,623)	$(3,529)	$(4,062)
Amount reclassified from accumulated other comprehensive loss to interest expense on deposits and junior subordinated debentures	832	475	1,555	889
Amount of loss recognized in other comprehensive income	(1,355)	(260)	(1,600)	(1,235)
Unrealized loss at end of period	$(3,574)	$(4,408)	$(3,574)	$(4,408)

As of June 30, 2016, the Company estimates that during the next twelve months, $1.7 million will be reclassified from accumulated other comprehensive loss as an increase to interest expense.

Fair Value Hedges of Interest Rate Risk

Interest rate swaps designated as fair value hedges involve the payment of fixed amounts to a counterparty in exchange for the Company receiving variable payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2016, the Company has four interest rate swaps with an aggregate notional amount of $24.7 million that were designated as fair value hedges associated with fixed rate commercial and industrial and commercial franchise loans.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged item in the same line item as the offsetting loss or gain on the related derivatives. The Company recognized a net gain of $17,000 in other income related to hedge ineffectiveness for the three months ended June 30, 2016 and a $2,000 net gain for the three months ended June 30, 2015. On a year-to-date basis, the Company recognized a net loss of $22,000 and $2,000 for the six months ending June 30, 2016 and 2015, respectively.

On June 1, 2013, the Company de-designated a $96.5 million notional amount cap which was previously designated as a fair value hedge of interest rate risk associated with an embedded cap in one of the Company's floating rate loans.

The hedged loan was restructured which resulted in the interest rate cap no longer qualifying as an effective fair value hedge. As such, the interest rate cap derivative is no longer accounted for under hedge accounting and all changes in the interest rate cap derivative value subsequent to June 1, 2013 are recorded in earnings. Additionally, the Company has recorded amortization of the basis in the previously hedged item as a reduction to interest income of $43,000 and $86,000 in the three month period and six month period ended June 30, 2016, respectively.

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The following table presents the gain/(loss) and hedge ineffectiveness recognized on derivative instruments and the related hedged items that are designated as a fair value hedge accounting relationship as of June 30, 2016 and 2015:

(Dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative Three Months Ended		Amount of (Loss)/Gain Recognized in Income on Hedged Item Three Months Ended		Income Statement Gain/(Loss) due to Hedge Ineffectiveness Three Months Ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest rate swaps	Trading (losses) gains, net	$ (329)	$ 17	$ 346	$ (15)	$ 17	$ 2

(Dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative Six Months Ended		Amount of (Loss)/Gain Recognized in Income on Hedged Item Six Months Ended		Income Statement Gain/(Loss) due to Hedge Ineffectiveness Six Months Ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest rate swaps	Trading (losses) gains, net	$ (883)	$ (15)	$ 861	$ 13	$ (22)	$ (2)

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 non-interest income. At June 30, 2016, the Company had interest rate derivative transactions with an aggregate notional amount of approximately $3.8 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 July 2016 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 accounting hedge relationships. At June 30, 2016, the Company had forward commitments to sell mortgage loans with an aggregate notional amount of approximately $1.2 billion and interest rate lock commitments with an aggregate notional amount of approximately $655.3 million. The fair values of these derivatives were estimated based on changes in mortgage rates from the dates of the commitments. Changes in the fair value of these mortgage banking derivatives are included in mortgage banking revenue.

Foreign Currency Derivatives—These derivatives include foreign currency contracts used to manage the foreign exchange risk associated with foreign currency denominated assets and to facilitate the respective risk management strategies of certain customer's foreign currency 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. For certain foreign currency contracts with customers, the Company simultaneously executes offsetting derivatives with third parties. These offsetting

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derivatives have mirror-image terms, which result in the positions' changes in fair value substantially offsetting through earnings each period. As of June 30, 2016 the Company held foreign currency derivatives with an aggregate notional amount of approximately $35.1 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 June 30, 2016, December 31, 2015 or June 30, 2015.

As discussed above, the Company has entered into interest rate cap derivatives to protect the Company in a rising rate environment against increased margin compression due to the repricing of variable rate liabilities and lack of repricing of fixed rate loans and/or securities. As of June 30, 2016, the Company held three interest rate cap derivative contracts, which are not designated in accounting hedge relationships, with an aggregate notional value of $231.5 million.

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

(Dollars in thousands)		Three Months Ended		Six Months Ended	
Derivative	Location in income statement	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest rate swaps and caps	Trading (losses) gains, net	$(432)	$133	$(356)	$(317)
Mortgage banking derivatives	Mortgage banking revenue	(2,707)	299	(843)	2,393
Covered call options	Fees from covered call options	4,649	4,565	6,361	8,925
Foreign exchange contracts	Trading (losses) gains, net	(173)	71	(236)	20

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 June 30, 2016, 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 $92.3 million. If at June 30, 2016 the Company had breached any of these provisions and the derivative positions 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.

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

	Derivative Assets Fair Value			Derivative Liabilities Fair Value		
(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015
Gross Amounts Recognized	$89,036	$42,779	$36,747	$90,892	$42,458	$36,605
Less: Amounts offset in the Statements of Financial Condition	—	—	—	—	—	—
Net amount presented in the Statements of Financial Condition	$89,036	$42,779	$36,747	$90,892	$42,458	$36,605
Gross amounts not offset in the Statements of Financial Condition						
Offsetting Derivative Positions	(161)	(753)	(1,896)	(161)	(753)	(1,896)
Collateral Posted [1]	—	—	—	(90,731)	(41,705)	(34,709)
Net Credit Exposure	$88,875	$42,026	$34,851	$—	$—	$—

(1) As of June 30, 2016, December 31, 2015 and June 30, 2015, the Company posted collateral of $94.2 million, $45.5 million and $36.0 million, respectively, which resulted in excess collateral with its counterparties. For purposes of this disclosure, the amount of posted collateral is limited to the amount offsetting the derivative liability.

(14) Fair Values of Assets and Liabilities

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

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

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

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

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

Available-for-sale and trading account securities—Fair values for available-for-sale and trading securities are typically based on prices obtained from independent pricing vendors. Securities measured with these valuation techniques are

generally classified as Level 2 of the fair value hierarchy. Typically, standard inputs such as benchmark yields, reported trades for similar securities, issuer spreads, benchmark securities, bids, offers and reference data including market research publications are used to fair value a security. When these inputs are not available, broker/dealer quotes may be obtained by the vendor to determine the fair value of the security. We review the vendor's pricing methodologies to determine if observable market information is being used, versus unobservable inputs. Fair value measurements using significant inputs that are unobservable in the market due to limited activity or a less liquid market are classified as Level 3 in the fair value hierarchy.

The Company's Investment Operations Department is responsible for the valuation of Level 3 available-for-sale securities. The methodology and variables used as inputs in pricing Level 3 securities are derived from a combination of observable and

unobservable inputs. The unobservable inputs are determined through internal assumptions that may vary from period to period due to external factors, such as market movement and credit rating adjustments.

At June 30, 2016, the Company classified $69.8 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’s methodology for pricing the non-rated bonds focuses on three distinct inputs: equivalent rating, yield and other pricing terms. To determine the rating for a given non-rated municipal bond, the Investment Operations Department references a publicly issued bond by the same issuer if available. A reduction is then applied to the rating obtained from the comparable bond, as the Company believes if liquidated, a non-rated bond would be valued less than a similar bond with a verifiable rating. The reduction applied by the Company is one complete rating grade (i.e. a “AA” rating for a comparable bond would be reduced to “A” for the Company’s valuation). In the second quarter of 2016, 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 June 30, 2016 have a call date that has passed, and are now continuously callable. When valuing these bonds, the fair value is capped at par value as the Company assumes a market participant would not pay more than par for a continuously callable bond.

At June 30, 2016, the Company held $25.2 million of equity securities classified as Level 3. The securities in Level 3 are primarily comprised of auction rate preferred securities. The Company’s valuation methodology includes modeling the contractual cash flows of the underlying preferred securities and applying a discount to these cash flows by a market spread derived from the market price of the securities underlying debt. At June 30, 2016, the Company considered three different securities whose implied market spreads were believed to provide a proxy for the Company’s auction rate preferred securities. The market spreads ranged from 2.16%-2.81% with an average of 2.48% which was added to three-month LIBOR to be used as the discount rate input to the Company's model. Fair value of the securities is sensitive to the discount rate utilized as a higher discount rate results in a decreased fair value measurement.

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

Mortgage servicing rights ("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 June 30, 2016, the Company classified $13.4 million of MSRs as Level 3. The weighted average discount rate used as an input to value the MSRs at June 30, 2016 was 5.20% with discount rates applied ranging from 3%-6%. The higher the rate utilized to discount estimated future cash flows, the lower the fair value measurement. Additionally, fair value estimates include assumptions about prepayment speeds which ranged from 2%-47% or a weighted average prepayment speed of 11.67% used as an input to value the MSRs at June 30, 2016. Prepayment speeds are inversely related to the fair value of MSRs as an increase in prepayment speeds results in a decreased valuation.

Derivative instruments—The Company’s derivative instruments include interest rate swaps and caps, commitments to fund mortgages for sale into the secondary market (interest rate locks), forward commitments to end investors for the sale of mortgage loans and foreign currency contracts. Interest rate swaps and caps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are corroborated by comparison with valuations provided by the respective counterparties. The 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.

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

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

	June 30, 2016			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$122,330	$ —	$122,330	$—
U.S. Government agencies	69,916	—	69,916	—
Municipal	111,640	—	41,828	69,812
Corporate notes	69,690	—	69,690	—
Mortgage-backed	207,508	—	207,508	—
Equity securities	56,579	—	31,392	25,187
Trading account securities	3,613	—	3,613	—
Mortgage loans held-for-sale	554,256	—	554,256	—
MSRs	13,382	—	—	13,382
Nonqualified deferred compensation assets	9,076	—	9,076	—
Derivative assets	101,052	—	101,052	—
Total	$1,319,042	$ —	$1,210,661	$108,381
Derivative liabilities	$100,912	$ —	$100,912	$—

	December 31, 2015			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$306,729	$ —	$306,729	$—
U.S. Government agencies	70,236	—	70,236	—
Municipal	108,595	—	39,982	68,613
Corporate notes	81,545	—	81,545	—
Mortgage-backed	1,092,597	—	1,092,597	—
Equity securities	56,686	—	31,487	25,199
Trading account securities	448	—	448	—
Mortgage loans held-for-sale	388,038	—	388,038	—
MSRs	9,092	—	—	9,092
Nonqualified deferred compensation assets	8,517	—	8,517	—
Derivative assets	51,298	—	51,298	—
Total	$2,173,781	$ —	$2,070,877	$102,904
Derivative liabilities	$45,019	$ —	$45,019	$—

	June 30, 2015			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$281,161	$ —	$281,161	$—
U.S. Government agencies	628,660	—	628,660	—
Municipal	269,790	—	211,218	58,572
Corporate notes	128,141	—	128,141	—
Mortgage-backed	800,101	—	800,101	—
Equity securities	54,208	—	29,212	24,996
Trading account securities	1,597	—	1,597	—
Mortgage loans held-for-sale	497,283	—	497,283	—
MSRs	8,034	—	—	8,034
Nonqualified deferred compensation assets	8,778	—	8,778	—

Derivative assets	48,918	—	48,918	—
Total	$2,726,671	$ —	$2,635,069	$91,602
Derivative liabilities	$40,500	$ —	$40,500	$—

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The aggregate remaining contractual principal balance outstanding as of June 30, 2016, December 31, 2015 and June 30, 2015 for mortgage loans held-for-sale measured at fair value under ASC 825 was $529.0 million, $372.0 million and $475.9 million, respectively, while the aggregate fair value of mortgage loans held-for-sale was $554.3 million, $388.0 million and $497.3 million, for the same respective periods, as shown in the above tables. There were no nonaccrual loans or loans past due greater than 90 days and still accruing in the mortgage loans held-for-sale portfolio measured at fair value as of June 30, 2016, December 31, 2015 and June 30, 2015.

The changes in Level 3 assets measured at fair value on a recurring basis during the three and six months ended June 30, 2016 and 2015 are summarized as follows:

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at April 1, 2016	$ 70,242	$ 24,054	$ 10,128
Total net gains (losses) included in:			
Net income [1]	—	—	3,254
Other comprehensive income	113	1,133	—
Purchases	1,003	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(1,546)	—	—
Net transfers into/(out of) Level 3	—	—	—
Balance at June 30, 2016	$ 69,812	$ 25,187	$ 13,382

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at January 1, 2016	$ 68,613	$ 25,199	$ 9,092
Total net gains (losses) included in:			
Net income [1]	—	—	4,290
Other comprehensive income	100	(12)	—
Purchases	4,274	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(3,175)	—	—
Net transfers into/(out of) Level 3	—	—	—
Balance at June 30, 2016	$ 69,812	$ 25,187	$ 13,382

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at April 1, 2015	$ 56,049	$ 24,656	$ 7,852
Total net gains (losses) included in:			
Net income [1]	—	—	182
Other comprehensive income	(713)	340	—
Purchases	4,175	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(939)	—	—
Net transfers into/(out of) Level 3	—	—	—

Balance at June 30, 2015	$ 58,572	$ 24,996	$ 8,034

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

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(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at January 1, 2015	$ 58,953	$ 23,711	$ 8,435
Total net gains (losses) included in:			
Net income [(1)]	—	—	(401)
Other comprehensive income	(510)	1,285	—
Purchases	10,849	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(10,720)	—	—
Net transfers into/(out of) Level 3	—	—	—
Balance at June 30, 2015	$ 58,572	$ 24,996	$ 8,034

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

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 June 30, 2016.

	June 30, 2016					
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Three Months Ended June 30, 2016 Fair Value Losses Recognized, net	Six Months Ended June 30, 2016 Fair Value Losses Recognized, net
Impaired loans—collateral based	$ 67,837	$ —	$ —	$ 67,837	$ 3,897	$ 6,230
Other real estate owned, including covered other real estate owned [(1)]	51,046	—	—	51,046	2,293	3,380
Total	$ 118,883	$ —	$ —	$ 118,883	$ 6,190	$ 9,610

(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 7 – Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans. At June 30, 2016, the Company had $96.0 million of impaired loans classified as Level 3. Of the $96.0 million of impaired loans, $67.8 million were measured at fair value based on the underlying collateral of the loan as shown in the table above. The remaining $28.1 million were valued based on discounted cash flows in accordance with ASC 310.

Other real estate owned (including covered other real estate owned)—Other real estate owned is comprised of real estate acquired in partial or full satisfaction of loans and is included in other assets. Other real estate owned is recorded at its estimated fair value less estimated selling costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the allowance for loan losses. Subsequent changes in value are reported as adjustments to the carrying amount and are recorded in other non-interest expense. Gains and losses upon sale, if any, are also charged to other non-interest expense. Fair value is generally based on third party appraisals and internal estimates 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 non-covered other real estate owned and covered other real estate owned. At June 30, 2016, the Company had $51.0 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

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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 June 30, 2016 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	$69,812	Bond pricing	Equivalent rating	BBB-AA+	N/A	Increase
Equity Securities	25,187	Discounted cash flows	Discount rate	2.16%-2.81%	2.48%	Decrease
MSRs	13,382	Discounted cash flows	Discount rate	3%-6%	5.20%	Decrease
			Constant prepayment rate (CPR)	2%-47%	11.67%	Decrease
Measured at fair value on a non-recurring basis:						
Impaired loans—collateral based	$167,837	Appraisal value	Appraisal adjustment - cost of sale	10%	10.00%	Decrease
Other real estate owned, including covered other real estate owned	51,046	Appraisal value	Appraisal adjustment - cost of sale	10%	10.00%	Decrease

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

	At June 30, 2016		At December 31, 2015		At June 30, 2015	
(Dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:						
Cash and cash equivalents	$271,575	$271,575	$275,795	$275,795	$252,209	$252,209
Interest bearing deposits with banks	693,269	693,269	607,782	607,782	591,721	591,721
Available-for-sale securities	637,663	637,663	1,716,388	1,716,388	2,162,061	2,162,061
Held-to-maturity securities	992,211	1,010,179	884,826	878,111	—	—
Trading account securities	3,613	3,613	448	448	1,597	1,597
FHLB and FRB stock, at cost	121,319	121,319	101,581	101,581	89,818	89,818
Brokerage customer receivables	26,866	26,866	27,631	27,631	29,753	29,753
Mortgage loans held-for-sale, at fair value	554,256	554,256	388,038	388,038	497,283	497,283
Total loans	18,279,903	19,228,691	17,266,790	18,106,829	15,707,060	16,469,518
MSRs	13,382	13,382	9,092	9,092	8,034	8,034
Nonqualified deferred compensation assets	9,076	9,076	8,517	8,517	8,778	8,778
Derivative assets	101,052	101,052	51,298	51,298	48,918	48,918
FDIC indemnification asset	—	—	—	—	3,429	3,429
Accrued interest receivable and other	198,017	198,017	193,092	193,092	178,349	178,349
Total financial assets	$21,902,202	$22,868,958	$21,531,278	$22,364,602	$19,579,010	$20,341,468
Financial Liabilities						
Non-maturity deposits	$15,958,500	$15,958,500	$14,634,957	$14,634,957	$13,145,542	$13,145,542
Deposits with stated maturities	4,083,250	4,086,350	4,004,677	3,998,180	3,936,876	3,937,146
FHLB advances	588,055	597,568	853,431	863,437	435,721	448,870
Other borrowings	252,611	252,611	265,785	265,785	261,674	261,674
Subordinated notes	138,915	141,858	138,861	140,302	138,808	142,810
Junior subordinated debentures	253,566	254,143	268,566	268,046	249,493	250,265
Derivative liabilities	100,912	100,912	45,019	45,019	40,500	40,500
FDIC indemnification liability	11,729	11,729	6,100	6,100	—	—
Accrued interest payable	6,175	6,175	7,394	7,394	6,827	6,827
Total financial liabilities	$21,393,713	$21,409,846	$20,224,790	$20,229,220	$18,215,441	$18,233,634

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

as a Level 2 fair value measurement.

Loans. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are analyzed by type such as commercial, residential real estate, etc. Each category is further segmented by interest rate type (fixed and variable) and term. For variable-rate loans that reprice frequently, estimated fair values are based on carrying values. The fair value of residential loans is based on secondary market sources for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value for other fixed rate loans is estimated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect credit and interest rate risks inherent in the loan. The primary impact of credit risk on the present

value of the loan portfolio, however, was assessed through the use of the allowance for loan losses, which is believed to represent the current fair value of probable incurred losses for purposes of the fair value calculation. In accordance with ASC 820, the Company has categorized loans as a Level 3 fair value measurement.

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.

(15) Stock-Based Compensation Plans

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. Outstanding awards 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 will be made pursuant to the 2015 Plan. 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 settled in shares of common stock and other incentive awards based in whole or in part by reference to the Company's common stock. The Company historically awarded stock-based compensation in the form of time-vested non-qualified stock options and time-vested restricted share unit awards ("restricted shares"). The grants of options provide for the purchase of shares of the Company's common stock at the fair market value of the stock on the date the options are granted. Stock 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. Stock options granted under the 1997 Plan provided for a maximum term of 10 years. Restricted shares entitle the holders to receive, at no cost, shares of the Company's common stock. Restricted shares generally vest over periods of one to five years from the date of grant.

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 the interests of shareholders, foster retention, create a long-term focus based on sustainable results and provide participants with 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 non-qualified stock options and performance-based stock and cash

awards. 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 starting at the beginning of each calendar year. 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 a maximum of 150% (for awards granted in 2015 and 2016) or 200% (for awards granted prior to 2015) of the target award. The awards 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 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. Except in limited circumstances, these awards are canceled upon termination of employment without any payment of consideration by the Company. Shares that are vested but not issuable pursuant to deferred compensation arrangements accrue additional shares based on the value of dividends otherwise paid.

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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. Expected life of 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 six month periods ending June 30, 2016 and 2015.

	Six Months Ended	
	June 30, 2016	June 30, 2015
Expected dividend yield	0.9 %	0.9 %
Expected volatility	25.2%	26.5%
Risk-free rate	1.3 %	1.3 %
Expected option life (in years)	4.5	4.5

Stock based compensation is recognized based upon the number of awards that are ultimately expected to vest, taking into account expected forfeitures. In addition, for performance-based awards, an estimate is made of the number of shares expected to vest as a result of actual performance against the performance criteria in the award to determine the amount of compensation expense to recognize. The estimate is reevaluated periodically and total compensation expense is adjusted for any change in estimate in the current period. Stock-based compensation expense recognized in the Consolidated Statements of Income was $2.3 million in the second quarter of 2016 and $3.0 million in the second quarter of 2015, and $4.8 million and $5.3 million for the year-to-date periods, respectively.

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A summary of the Company's stock option activity for the six months ended June 30, 2016 and June 30, 2015 is presented below:

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	558,411	40.96		
Exercised	(99,760)	37.56		
Forfeited or canceled	(84,750)	49.03		
Outstanding at June 30, 2016	1,925,635	$ 41.07	4.9	$ 19,159
Exercisable at June 30, 2016	896,155	$ 39.08	3.6	$ 10,695

Stock Options	Common Shares	Weighted Average Strike Price	Remaining Contractual Term [1]	Intrinsic Value [2] ($000)
Outstanding at January 1, 2015	1,618,426	$ 43.00		
Conversion of options of acquired company	16,364	21.18		
Granted	493,690	44.17		
Exercised	(108,042)	33.70		
Forfeited or canceled	(219,356)	53.47		
Outstanding at June 30, 2015	1,801,082	$ 42.40	4.4	$ 20,012
Exercisable at June 30, 2015	916,168	$ 40.62	2.9	$ 11,928

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

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

The weighted average grant date fair value per share of options granted during the six months ended June 30, 2016 and June 30, 2015 was $8.61 and $9.69, respectively. The aggregate intrinsic value of options exercised during the six months ended June 30, 2016 and 2015, was $1.2 million and $1.6 million, respectively.

A summary of the Plans' restricted share activity for the six months ended June 30, 2016 and June 30, 2015 is presented below:

	Six months ended June 30, 2016		Six months ended June 30, 2015	
Restricted Shares	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1	137,593	$ 49.63	146,112	$ 47.45
Granted	14,546	43.95	14,907	45.35
Vested and issued	(8,523)	44.10	(14,015)	38.78
Forfeited or canceled	(504)	44.26	—	—
Outstanding at June 30	143,112	$ 49.40	147,004	$ 48.07
Vested, but not issuable at June 30	88,696	$ 51.43	85,000	$ 51.88

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A summary of the Plans' performance-based stock award activity, based on the target level of the awards, for the six months ended June 30, 2016 and June 30, 2015 is presented below:

Performance-based Stock	Six months ended June 30, 2016		Six months ended June 30, 2015	
	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1	276,533	$ 43.01	295,679	$ 38.18
Granted	117,409	40.95	104,191	44.17
Vested and issued	(78,410)	37.90	(78,590)	31.10
Forfeited	(13,064)	41.13	(33,522)	32.62
Outstanding at June 30	302,468	$ 43.62	287,758	$ 42.93
Vested, but deferred at June 30	6,646	$ 37.89	—	$ —

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

(16) Shareholders’ Equity and Earnings Per Share

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 $152.8 million.

Series D Preferred Stock

In June 2015, the Company issued and sold 5,000,000 shares of fixed-to-floating non-cumulative perpetual preferred stock, Series D, liquidation preference $25 per share (the “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.

Series C Preferred Stock

In March 2012, the Company issued and sold 126,500 shares of non-cumulative perpetual convertible preferred stock, Series C, liquidation preference $1,000 per share (the “Series C Preferred Stock”) for $126.5 million in a public offering. When, as and if declared, dividends on the Series C Preferred Stock are payable quarterly in arrears at a rate of 5.00% per annum. The Series C Preferred Stock is convertible into common stock at the option of the holder at a current conversion rate of 24.6213 shares of common stock per share of Series C Preferred Stock subject to customary anti-dilution adjustments. In the first six months of of 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. In 2015, pursuant to such terms, 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 and after April 15, 2017, the Company will have the right under certain circumstances to cause the Series C Preferred Stock to be converted into common stock if the closing price of the Company’s common stock exceeds a certain amount.

Common Stock Warrant

Pursuant to the U.S. Department of the Treasury's (the "U.S. Treasury") Capital Purchase Program, on December 19, 2008, the Company issued to the U.S. Treasury a warrant to exercise 1,643,295 warrant shares of Wintrust common stock at a per share exercise price of $22.82, subject to customary anti-dilution adjustments, and with a term of 10 years. In February 2011, the U.S. Treasury sold all of its interest in the warrant issued to it in a secondary underwritten public offering. During the first six months of 2016, no warrant shares were exercised. At June 30, 2016, all remaining holders of the interest in the warrant were able to exercise 367,432 warrant shares.

Other

In July 2015, the Company issued 388,573 shares of its common stock in the acquisition of CFIS. In January 2015, the Company issued 422,122 shares of its common stock in the acquisition of Delavan.

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At the January 2016 Board of Directors meeting, a quarterly cash dividend of $0.12 per share ($0.48 on an annualized basis) was declared. It was paid on February 25, 2016 to shareholders of record as of February 11, 2016. At the April 2016 Board of Directors meeting, a quarterly cash dividend of $0.12 per share ($0.48 on an annualized basis) was declared. It was paid on May 26, 2016 to shareholders of record as of May 12, 2016.

Accumulated Other Comprehensive Income (Loss)

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

	Accumulated Unrealized Gains (Losses) on Securities	Accumulated Unrealized Losses on Derivative Instruments	Accumulated Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
Balance at April 1, 2016	$ (1,204)	$ (1,903)	$ (36,803)	$ (39,910)
Other comprehensive income (loss) during the period, net of tax, before reclassifications	3,724	(822)	612	3,514
Amount reclassified from accumulated other comprehensive income (loss) into net income, net of tax	(875)	505	—	(370)
Amount reclassified from accumulated other comprehensive income (loss) related to amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale, net of tax	2,326	—	—	2,326
Net other comprehensive income (loss) during the period, net of tax	$ 5,175	$ (317)	$ 612	$ 5,470
Balance at June 30, 2016	$ 3,971	$ (2,220)	$ (36,191)	$ (34,440)
Balance at January 1, 2016	$ (17,674)	$ (2,193)	$ (42,841)	$ (62,708)
Other comprehensive income (loss) during the period, net of tax, before reclassifications	18,912	(971)	6,650	24,591
Amount reclassified from accumulated other comprehensive income (loss) into net income, net of tax	(1,679)	944	—	(735)
Amount reclassified from accumulated other comprehensive income (loss) related to amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale, net of tax	$ 4,412	$ —	$ —	$ 4,412
Net other comprehensive income (loss) during the period, net of tax	$ 21,645	$ (27)	$ 6,650	$ 28,268
Balance at June 30, 2016	$ 3,971	$ (2,220)	$ (36,191)	$ (34,440)
Balance at April 1, 2015	$ 6,094	$ (2,858)	$ (34,327)	$ (31,091)
Other comprehensive (loss) income during the period, net of tax, before reclassifications	(32,441)	(147)	1,516	(31,072)
Amount reclassified from accumulated other comprehensive (loss) income into net income, net of tax	14	278	—	292
Amount reclassified from accumulated other comprehensive (loss) income related to amortization of unrealized losses on investment securities transferred to held-to-maturity from	—	—	—	—

available-for-sale, net of tax				
Net other comprehensive (loss) income during the period, net of tax	$ (32,427)	$ 131	$ 1,516	$ (30,780)
Balance at June 30, 2015	$ (26,333)	$ (2,727)	$ (32,811)	$ (61,871)

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	Accumulated Unrealized Gains (Losses) on Securities	Accumulated Unrealized Losses on Derivative Instruments	Accumulated Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
Balance at January 1, 2015	$ (9,533)	$ (2,517)	$ (25,282)	$ (37,332)
Other comprehensive loss during the period, net of tax, before reclassifications	(16,496)	(740)	(7,529)	(24,765)
Amount reclassified from accumulated other comprehensive loss into net income, net of tax	(304)	530	—	226
Amount reclassified from accumulated other comprehensive loss related to amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale, net of tax	—	—	—	—
Net other comprehensive loss during the period, net of tax	$ (16,800)	$ (210)	$ (7,529)	$ (24,539)
Balance at June 30, 2015	$ (26,333)	$ (2,727)	$ (32,811)	$ (61,871)

Details Regarding the Component of Accumulated Other Comprehensive Income	Amount Reclassified from Accumulated Other Comprehensive Income for the Three Months Ended June 30,		Six Months Ended June 30,		Impacted Line on the Consolidated Statements of Income
	2016	2015	2016	2015	
Accumulated unrealized losses on securities					
Gains (losses) included in net income	$1,440	$(24)	$2,765	$500	Gains (losses) on investment securities, net
	1,440	(24)	2,765	500	Income before taxes
Tax effect	$(565)	$10	$(1,086)	$(196)	Income tax expense
Net of tax	$875	$(14)	$1,679	$304	Net income
Accumulated unrealized losses on derivative instruments					
Amount reclassified to interest expense on deposits	$338	$—	$593	$—	Interest on deposits
Amount reclassified to interest expense on junior subordinated debentures	494	457	$962	$871	Interest on junior subordinated debentures
	(832)	(457)	(1,555)	(871)	Income before taxes
Tax effect	$327	$179	$611	$341	Income tax expense
Net of tax	$(505)	$(278)	$(944)	$(530)	Net income

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Earnings per Share

The following table shows the computation of basic and diluted earnings per share for the periods indicated:

(In thousands, except per share data)		Three Months Ended		Six Months Ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net income		$50,041	$43,831	$99,152	$82,883
Less: Preferred stock dividends and discount accretion		3,628	1,580	7,256	3,161
Net income applicable to common shares—Basic	(A)	46,413	42,251	91,896	79,722
Add: Dividends on convertible preferred stock, if dilutive		1,578	1,580	3,156	3,161
Net income applicable to common shares—Diluted	(B)	47,991	43,831	95,052	82,883
Weighted average common shares outstanding	(C)	49,140	47,567	48,794	47,404
Effect of dilutive potential common shares					
Common stock equivalents		856	1,085	778	1,149
Convertible preferred stock, if dilutive		3,109	3,071	3,109	3,071
Total dilutive potential common shares		3,965	4,156	3,887	4,220
Weighted average common shares and effect of dilutive potential common shares	(D)	53,105	51,723	52,681	51,624
Net income per common share:					
Basic	(A/C)	$0.94	$0.89	$1.88	$1.68
Diluted	(B/D)	$0.90	$0.85	$1.80	$1.61

Potentially dilutive common shares can result from stock options, restricted stock unit awards, stock warrants, the Company’s convertible preferred stock and shares to be issued under the Employee Stock Purchase Plan and the Directors Deferred Fee and Stock Plan, being treated as if they had been either exercised or issued, computed by application of the treasury stock method. While potentially dilutive common shares are typically included in the computation of diluted earnings per share, potentially dilutive common shares are excluded from this computation in periods in which the effect would reduce the loss per share or increase the income per share. For diluted earnings per share, net income applicable to common shares can be affected by the conversion of the Company’s convertible preferred stock. Where the effect of this conversion would reduce the loss per share or increase the income per share, net income applicable to common shares is not adjusted by the associated preferred dividends.

(17) Regulatory Matters

The Company is a bank holding company that has elected to be treated by the FRB as a financial holding company for purposes of the Bank Holding Company Act of 1956 (as amended, the “BHC Act”). The activities of bank holding companies generally are limited to the business of banking, managing or controlling banks, and other activities determined by the FRB, by regulation or order prior to November 11, 1999, to be so closely related to banking as to be a proper incident thereto. Impermissible activities for bank holding companies and their subsidiaries include activities that are related to commerce, such as retail sales of nonfinancial products or manufacturing.

As a financial holding company, we may engage in an expanded range of activities, including securities and insurance activities conducted as agent or principal that are considered to be financial in nature. Moreover, financial holding companies may engage in activities incidental or complementary to financial activities, if the FRB determines that such activities pose no substantial risk to the safety or soundness of depository institutions or the financial system in general. Maintaining our financial holding company status requires that our subsidiary banks remain “well-capitalized” and “well-managed” as defined by regulation, and maintain at least a “satisfactory” rating under the Community Reinvestment Act. In addition, under the Dodd-Frank Wall Street Reform and Consumer Protection Act, we must also

remain well-capitalized and well-managed to maintain our financial holding company status. 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 of operations that conduct existing activities that are not permissible for a bank holding company that is not a financial holding company.

In light of these requirements, the Company consistently monitors the capitalization of its banks, utilizing the ratios required by regulatory definition: 10.0%, 8.0%, 6.5% and 5.0% for each of 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. To maintain adequate capitalization in satisfaction of these required ratios, the Company from time to time makes subordinated loans to one or more of

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its subsidiary banks, with a corresponding intercompany subordinated note issued by such subsidiary bank to the Company on account of each such loan. Such subordinated indebtedness is included in the Company's calculation of its subsidiary banks' respective Tier 2 capital.

On April 29, 2016 the Company determined that the intercompany subordinated note agreements that the Company's subsidiary national banks utilized to issue subordinated debt did not conform with the provisions of 12 CFR 5.47(f)(ii) and OCC Bulletin 2015-22, which were issued in early 2015. This ruling impacted four of the Company's national bank subsidiaries: Beverly Bank & Trust Company, N.A. ("Beverly Bank"), Schaumburg Bank & Trust Company, N.A. ("Schaumburg Bank"), Barrington Bank & Trust Company, N.A. ("Barrington Bank") and Old Plank Trail Community Bank, N.A. ("Old Plank Trail Bank").

Accordingly, the Company recalculated the capitalization ratios of its affected subsidiary national banks to exclude subordinated debt that had been issued by such banks subsequent to January 1, 2015 from each bank's respective Tier 2 capital. On April 29, 2016, each of these banks repaid to the Company 100% of their respective outstanding subordinated indebtedness, and the Company in turn infused corresponding amounts of capital surplus (Tier 1 capital) into the four banks as follows: (a) Beverly Bank - $13.0 million; (b) Schaumburg Bank - $10.3 million; (c) Barrington Bank - $5.0 million; and (d) Old Plank Trail Bank - $4.0 million. Following this effective substitution of Tier 1 capital for Tier 2 capital, the total capital to risk-weighted assets ratios of the four banks remained identical and each bank remains well capitalized.

In May 2016 the Company determined that certain intercompany subordinated note agreements that the Company's Illinois-chartered banks utilized to issue subordinated debt did not qualify as Tier 2 capital due to a provision in the agreement which allowed the note holder to accelerate payment of principal. Accordingly, the subordinated notes issued after January 1, 2015 were not includable in Tier 2 capital and therefore the bank subsidiaries filed revised call reports for the periods affected. These filings impacted eight of the Company's Illinois-chartered bank subsidiaries: Lake Forest Bank & Trust Company ("Lake Forest Bank"), Libertyville Bank & Trust Company ("Libertyville Bank"), Northbrook Bank & Trust Company ("Northbrook Bank"), St. Charles Bank & Trust Company ("St. Charles Bank"), State Bank of the Lakes, Village Bank & Trust ("Village Bank"), Wheaton Bank, and Wintrust Bank.

Accordingly, the Company recalculated the capitalization ratios of its affected Illinois-chartered banks to exclude subordinated debt that had been issued by such banks subsequent to January 1, 2015 from each bank's respective Tier 2 capital. In May 2016, each of these banks issued replacement subordinated note agreements in a form that the Company is advised is sufficient to qualify as Tier 2 capital. Following this issuance of replacement subordinated note agreements, the total capital to risk-weighted assets ratios of the eight banks remained identical and each bank remains well capitalized.

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After excluding the following outstanding amounts of subordinated debt from Tier 2 capital, the recalculated total capital to risk-weighted assets ratios for each bank were as follows:

(Dollars in thousands)	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Subordinated debt excluded from Tier 2 capital					
Beverly Bank	$13,000	$13,000	$11,000	$11,000	$1,000
Schaumburg Bank	8,500	8,500	3,500	3,500	3,500
Barrington Bank	5,000	—	—	—	—
Old Plank Trail Bank	4,000	—	—	—	—
Lake Forest Bank	10,000	10,000	10,000	14,000	14,000
Libertyville Bank	—	—	—	2,500	2,500
Northbrook Bank	12,500	6,500	6,500	7,500	7,500
St. Charles Bank	2,500	2,500	2,500	2,000	2,000
State Bank of the Lakes	3,500	3,500	3,500	3,500	2,500
Village Bank	2,500	2,500	2,500	7,000	7,000
Wheaton Bank	15,500	13,500	13,500	6,000	—
Wintrust Bank	17,000	13,000	13,000	13,000	6,000
Total capital (to risk-weighted assets) (1)					
Beverly Bank	9.7 %	9.6 %	10.1 %	10.2 %	11.0 %
Schaumburg Bank	10.2	10.3	10.7	10.8	10.7
Barrington Bank	11.4	11.3	11.6	11.4	11.1
Old Plank Trail Bank	10.8	11.3	11.8	11.6	11.9
Lake Forest Bank	11.8	10.9	11.0	10.8	10.8
Libertyville Bank	11.7	11.5	11.2	11.3	11.0
Northbrook Bank	10.3	10.5	10.7	10.6	10.6
St. Charles Bank	11.1	10.9	10.9	10.8	10.8
State Bank of the Lakes	11.0	10.6	10.9	10.9	10.9
Village Bank	11.0	11.0	10.9	11.0	10.5
Wheaton Bank	10.2	10.1	10.4	10.6	11.5
Wintrust Bank	10.9	10.9	10.9	11.1	11.2

(1) Note that the OCC-regulated bank subsidiaries' first quarter 2016 call reports did not require refiling as the determination to exclude the subordinated debt from the capitalization ratios as of March 31, 2016 was made prior to the filing deadline of those call reports.

The Company believes that all of its banks have effectively been consistently well capitalized at all times during 2015 and 2016. As a technical matter under these revised ratio calculations, however, Beverly was not considered to be well capitalized at December 31, 2015 or March 31, 2016. The Company considers this to be immaterial because of the amount of subordinated indebtedness that actually was held by Beverly as of both dates, respectively, notwithstanding the required recalculation to exclude subordinated indebtedness from Tier 2 capital. Nonetheless, because the Credit Agreement requires that the Company’s banks maintain certain minimum regulatory capital ratios which are higher than some of the adjusted capital ratios, the Company received waivers from the Required Lenders under the Credit Agreement, waiving any technical default that may have existed on these dates.

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

The following discussion and analysis of financial condition as of June 30, 2016 compared with December 31, 2015 and June 30, 2015, and the results of operations for the three and six month periods ended June 30, 2016 and 2015, should be read in conjunction with the unaudited consolidated financial statements and notes contained in this report and the risk factors discussed herein and under Item 1A of the Company's 2015 Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties and, as such, future results could differ significantly from management's current expectations. See the last section of this discussion for further information on forward-looking statements.

Introduction

Wintrust is a financial holding company that provides traditional community banking services, primarily in the Chicago metropolitan area and southern Wisconsin, and operates other financing businesses on a national basis and in Canada through several non-bank subsidiaries. Additionally, Wintrust offers a full array of wealth management services primarily to customers in the Chicago metropolitan area and southern Wisconsin.

Overview

Second Quarter Highlights

The Company recorded net income of $50.0 million for the second quarter of 2016 compared to $43.8 million in the second quarter of 2015. The results for the second quarter of 2016 demonstrate continued operating strengths including strong loan and deposit growth driving higher net interest income, higher mortgage banking and wealth management revenue, increased fees from covered call options and stable credit quality metrics. Additionally, in the second quarter of 2016, the Company completed a public offering of 3,000,000 shares of common stock resulting in net proceeds of $152.8 million.

The Company increased its loan portfolio, excluding covered loans and mortgage loans held-for-sale, from $15.5 billion at June 30, 2015 and $17.1 billion at December 31, 2015 to $18.2 billion at June 30, 2016. The increase in the current quarter compared to the prior quarters was primarily a result of the Company's commercial banking initiative, growth in the commercial, commercial real estate and life insurance premium finance receivables portfolios and the acquisition of Generations. 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 "Financial Condition – Interest Earning Assets" and Note 6 "Loans" of the Consolidated Financial Statements in Item 1 of this report.

Management considers the maintenance of adequate liquidity to be important to the management of risk. During the second quarter of 2016, 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. At June 30, 2016, the Company had approximately $964.8 million in overnight liquid funds and interest-bearing deposits with banks.

The Company recorded net interest income of $175.3 million in the second quarter of 2016 compared to $156.9 million in the second quarter of 2015. The higher level of net interest income recorded in the second quarter of 2016 compared to the second quarter of 2015 resulted primarily from a $2.6 billion increase in average loans, excluding

covered loans. The increase in average loans, excluding covered loans, was partially offset by a 14 basis point decline in the yield on earning assets, on a fully tax-equivalent basis and a four basis point increase in rate on interest bearing liabilities (see "Net Interest Income" for further detail).

Non-interest income totaled $84.8 million in the second quarter of 2016, an increase of $7.8 million, or 10%, compared to the second quarter of 2015. The increase in the second quarter of 2016 compared to the second quarter of 2015 was primarily attributable to higher gains on sales of investment securities, increased operating lease income and an increase in service charges on deposits (see “Non-Interest Income” for further detail).

Non-interest expense totaled $171.0 million in the second quarter of 2016, increasing $16.7 million, or 11%, compared to the second quarter of 2015. The increase compared to the second quarter of 2015 was primarily attributable to higher salary and employee benefit costs caused by the addition of employees from the various acquisitions, and higher staffing levels as the Company grows, increased equipment expense, including operating lease equipment depreciation and higher data processing expenses (see “Non-Interest Expense” for further detail).

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Announced Acquisitions

On July 6, 2016, the Company announced the signing of a definitive agreement to acquire First Community Financial Corporation ("FCFC"). FCFC is the parent company of First Community Bank, an Illinois state-chartered bank, which operates two banking locations in Elgin, Illinois. As of June 30, 2016, First Community Bank had approximately $177 million in assets, approximately $79 million in loans and approximately $154 million in deposits.

On June 27, 2016, the Company announced the signing of a definitive agreement to acquire approximately $581 million in performing loans and related relationships from an affiliate of GE Capital Franchise Finance. The loans are to franchise operators (primarily quick service restaurant concepts) in the Midwest and in the Western portion of the United States.

RESULTS OF OPERATIONS

Earnings Summary

The Company's key operating measures for the three and six months ended June 30, 2016, as compared to the same period last year, are shown below:

	Three months ended			
(Dollars in thousands, except per share data)	June 30, 2016	June 30, 2015	Percentage (%) or Basis Point (bp) Change	
Net income	$50,041	$43,831	14	%
Net income per common share—Diluted	0.90	0.85	6	
Net revenue (1)	260,069	233,905	11	
Net interest income	175,270	156,892	12	
Net overhead ratio (3)	1.46 %	1.53 %	(7) bp	
Return on average assets	0.85	0.87	(2	)
Return on average common equity	8.43	8.38	5	
Return on average tangible common equity (2)	11.12	10.86	26	

	Six months ended			
(Dollars in thousands, except per share data)	June 30, 2016	June 30, 2015	Percentage (%) or Basis Point (bp) Change	
Net income	$99,152	$82,883	20	%
Net income per common share—Diluted	1.80	1.61	12	
Net revenue (1)	500,330	450,337	11	
Net interest income	346,779	308,783	12	
Net overhead ratio (3)	1.48	1.61	(13) bp	
Return on average assets	0.85	0.83	2	
Return on average common equity	8.49	8.02	47	
Return on average tangible common equity (2)	11.22	10.42	80	
At end of period				
Total assets	$24,420,616	$20,790,202	17	%
Total loans, excluding loans held-for-sale, excluding covered loans	18,174,655	15,513,650	17	
Total loans, including loans held-for-sale, excluding covered loans	18,728,911	16,010,933	17	
Total deposits	20,041,750	17,082,418	17	
Total shareholders' equity	2,623,595	2,264,982	16	
Book value per common share (2)	$45.96	$42.24	9	

Tangible common book value per share [2]	36.12		33.02		9	
Market price per common share	51.00		53.38		(4	)
Excluding covered loans:						
Allowance for credit losses to total loans [4]	0.64	%	0.65	%	(1) bp	
Non-performing loans to total loans	0.48	%	0.49	%	(1	)

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

(2) See following section titled, “Supplementary 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, 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 lending-related commitments.

Certain returns, yields, performance ratios, and quarterly growth rates are “annualized” in this presentation and throughout this report to represent an annual time period. This is done for analytical purposes to better discern for decision-making purposes underlying performance trends when compared to full-year or year-over-year amounts. For example, balance sheet growth rates

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are most often expressed in terms of an annual rate. As such, 5% growth during a quarter would represent an annualized growth rate of 20%.

SUPPLEMENTAL 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), net interest margin (including its individual components), the efficiency ratio, tangible common equity ratio, tangible common book value per 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 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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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 is shown below:

	Three Months Ended		Six Months Ended	
(Dollars and shares in thousands)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Calculation of Net Interest Margin and Efficiency Ratio				
(A) Interest Income (GAAP)	$197,064	$175,241	$389,295	$345,598
Taxable-equivalent adjustment:				
- Loans	523	328	1,032	655
- Liquidity Management Assets	932	787	1,852	1,514
- Other Earning Assets	8	27	14	34
(B) Interest Income - FTE	$198,527	$176,383	$392,193	$347,801
(C) Interest Expense (GAAP)	21,794	18,349	42,516	36,815
(D) Net Interest Income - FTE (B minus C)	$176,733	$158,034		