WINTRUST FINANCIAL CORP
Form 10-Q
November 01, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

o **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 0-21923

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.)

727 North Bank Lane
Lake Forest, Illinois 60045
(Address of principal executive offices)
(847) 615-4096
(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 o

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 o

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 o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o 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, 31,156,846 shares, as of October 28, 2010

TABLE OF CONTENTS

Table of Contents

PART I
ITEM 1. FINANCIAL STATEMENTS

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share data)	**(Unaudited) September 30, 2010**	December 31, 2009	(Unaudited) September 30, 2009
Assets			
Cash and due from banks	**$ 155,067**	$ 135,133	$ 128,898
Federal funds sold and securities purchased under resale agreements	**88,913**	23,483	22,863
Interest-bearing deposits with other banks ($47,780 restricted for securitization investors at September 30, 2010)	**1,224,584**	1,025,663	1,168,362
Available-for-sale securities, at fair value	**1,324,179**	1,255,066	1,362,359
Trading account securities	**4,935**	33,774	29,204
Brokerage customer receivables	**25,442**	20,871	19,441
Federal Home Loan Bank and Federal Reserve Bank stock	**80,445**	73,749	71,889
Loans held-for-sale, at fair value	**307,231**	265,786	187,505
Loans held-for-sale, at lower of cost or market	**13,209**	9,929	5,750
Loans, net of unearned income, excluding covered loans	**9,461,155**	8,411,771	8,275,257
Covered loans	**353,840**		
Total loans	**9,814,995**	8,411,771	8,275,257
Less: Allowance for loan losses	**110,432**	98,277	95,096
Net Loans ($635,755 restricted for securitization investors at September 30, 2010)	**9,704,563**	8,313,494	8,180,161
Premises and equipment, net	**353,445**	350,345	352,890
FDIC indemnification asset	**161,640**		
Accrued interest receivable and other assets	**365,496**	416,678	315,806
Goodwill	**278,025**	278,025	276,525
Other intangible assets	**13,194**	13,624	14,368
Total assets	**$14,100,368**	$12,215,620	$12,136,021
Liabilities and Shareholders Equity			
Deposits:			
Non-interest bearing	**$ 1,042,730**	$ 864,306	$ 841,668
Interest bearing	**9,919,509**	9,052,768	9,005,495
Total deposits	**10,962,239**	9,917,074	9,847,163
Notes payable	**1,000**	1,000	1,000
Federal Home Loan Bank advances	**414,832**	430,987	433,983
Other borrowings	**241,522**	247,437	252,071

Secured borrowings owed to securitization investors	**600,000**		
Surbordinated notes	**55,000**	60,000	65,000
Junior subordinated debentures	**249,493**	249,493	249,493
Trade date securities payable	**2,045**		
Accrued interest payable and other liabilities	**175,325**	170,990	181,229
Total liabilities	**12,701,456**	11,076,981	11,029,939
Shareholders Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series A $1,000 liquidation value; 50,000 shares issued and outstanding at September 30, 2010, December 31, 2009 and September 30, 2009	**49,379**	49,379	49,379
Series B $1,000 liquidation value; 250,000 shares issued and outstanding at September 30, 2010, December 31, 2009 and September 30, 2009	**237,855**	235,445	234,682
Common stock, no par value; $1.00 stated value; 60,000,000 shares authorized; 31,145,332 shares at September 30, 2010, 27,079,308 shares at December 31, 2009, and 26,965,411 shares at September 30, 2009	**31,145**	27,079	26,965
Surplus	**682,318**	589,939	580,988
Treasury stock, at cost, 1,592 shares at September 30, 2010, 2,872,489 shares at December 31, 2009 and 2,862,343 shares at September 30, 2009	**(51)**	(122,733)	(122,437)
Retained earnings	**394,323**	366,152	342,873
Accumulated other comprehensive income (loss)	**3,943**	(6,622)	(6,368)
Total shareholders equity	**1,398,912**	1,138,639	1,106,082
Total liabilities and shareholders equity	**$14,100,368**	$12,215,620	$12,136,021

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands, except per share data)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Interest income				
Interest and fees on loans	**$137,902**	$126,448	**$403,244**	$343,637
Interest bearing deposits with banks	**1,339**	778	**3,828**	2,205
Federal funds sold and securities purchased under resale agreements	**35**	106	**118**	233
Securities	**7,438**	13,677	**29,668**	42,977
Trading account securities	**19**	7	**383**	86
Brokerage customer receivables	**180**	132	**484**	372
Federal Home Loan Bank and Federal Reserve Bank stock	**488**	429	**1,419**	1,275
Total interest income	**147,401**	141,577	**439,144**	390,785
Interest expense				
Interest on deposits	**31,088**	42,806	**95,926**	132,261
Interest on Federal Home Loan Bank advances	**4,042**	4,536	**12,482**	13,492
Interest on notes payable and other borrowings	**1,411**	1,779	**4,312**	5,401
Interest on secured borrowings owed to securitization investors	**3,167**		**9,276**	
Interest on subordinated notes	**265**	333	**762**	1,341
Interest on junior subordinated debentures	**4,448**	4,460	**13,227**	13,348
Total interest expense	**44,421**	53,914	**135,985**	165,843
Net interest income	**102,980**	87,663	**303,159**	224,942
Provision for credit losses	**25,528**	91,193	**95,870**	129,329
Net interest income after provision for credit losses	**77,452**	(3,530)	**207,289**	95,613
Non-interest income				
Wealth management	**8,973**	7,501	**26,833**	20,310
Mortgage banking	**20,980**	13,204	**38,693**	52,032
Service charges on deposit accounts	**3,384**	3,447	**10,087**	9,600
Gain on sales of commercial premium finance receivables		3,629		4,147
Gains (losses) on available-for-sale securities, net	**9,235**	(412)	**9,673**	(910)
Gain on bargain purchases	**6,593**	113,062	**43,981**	113,062
Trading gains (losses)	**712**	6,236	**5,147**	23,254
Other	**4,779**	4,013	**13,286**	11,064
Total non-interest income	**54,656**	150,680	**147,700**	232,559

Non-interest expense				
Salaries and employee benefits	**57,014**	48,088	**156,735**	138,923
Equipment	**4,203**	4,069	**12,144**	12,022
Occupancy, net	**6,254**	5,884	**18,517**	17,682
Data processing	**3,891**	3,226	**10,967**	9,578
Advertising and marketing	**1,650**	1,488	**4,434**	4,003
Professional fees	**4,555**	4,089	**11,619**	9,843
Amortization of other intangible assets	**701**	677	**2,020**	2,040
FDIC insurance	**4,642**	4,334	**13,456**	16,468
OREO expenses, net	**4,767**	10,243	**11,948**	13,671
Other	**12,046**	10,465	**34,484**	29,540
Total non-interest expense	**99,723**	92,563	**276,324**	253,770
Income before taxes	**32,385**	54,587	**78,665**	74,402
Income tax expense	**12,287**	22,592	**29,540**	29,500
Net income	**$ 20,098**	$ 31,995	**$ 49,125**	$ 44,902
Preferred stock dividends and discount accretion	**$ 4,943**	$ 4,668	**$ 14,830**	$ 14,668
Net income applicable to common shares	**$ 15,155**	$ 27,327	**$ 34,295**	$ 30,234
Net income per common share Basic	**$ 0.49**	$ 1.14	**$ 1.17**	$ 1.26
Net income per common share Diluted	**$ 0.47**	$ 1.07	**$ 1.12**	$ 1.25
Cash dividends declared per common share	**$ 0.09**	$ 0.09	**$ 0.18**	$ 0.27
Weighted average common shares outstanding	**31,117**	24,052	**29,396**	23,958
Dilutive potential common shares	**988**	2,493	**1,132**	323
Average common shares and dilutive common shares	**32,105**	26,545	**30,528**	24,281

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders equity
Balance at December 31, 2008	$281,873	$26,611	$571,887	$(122,290)	$318,793	$(10,302)	$1,066,572
Comprehensive income:							
Net income					44,902		44,902
Other comprehensive income, net of tax:							
Unrealized gains on securities, net of reclassification adjustment						2,154	2,154
Unrealized gains on derivative instruments						2,089	2,089
Comprehensive income							49,145
Cash dividends declared on common stock					(6,463)		(6,463)
Dividends on preferred stock					(12,480)		(12,480)
Accretion on preferred stock	2,188				(2,188)		
Stock-based compensation			5,132				5,132
Cumulative effect of change in accounting for other-than-temporary impairment					309	(309)	
Common stock issued for:							
Exercise of stock options and warrants		175	2,482				2,657
Restricted stock awards		73	(820)	(147)			(894)
Employee stock purchase plan		56	635				691
Director compensation plan		50	1,672				1,722
Balance at September 30, 2009	$284,061	$26,965	$580,988	$(122,437)	$342,873	$ (6,368)	$1,106,082

Balance at December 31, 2009	**$284,824**	**$27,079**	**$589,939**	**$(122,733)**	**$366,152**	**$ (6,622)**	**$1,138,639**
Comprehensive income:							
Net income					**49,125**		**49,125**
Other comprehensive income, net of tax:							
Unrealized gains on securities, net of reclassification adjustment						**11,031**	**11,031**
Unrealized losses on derivative instruments						**(310)**	**(310)**
Comprehensive income							**59,846**
Cash dividends declared on common stock					**(4,992)**		**(4,992)**
Dividends on preferred stock					**(12,420)**		**(12,420)**
Accretion on preferred stock	**2,410**				**(2,410)**		
Stock-based compensation			**3,116**				**3,116**
Cumulative effect of change in accounting for loan securitizations					**(1,132)**	**(156)**	**(1,288)**
Common stock issued for:							
New issuance, net of costs		**3,795**	**83,791**	**122,831**			**210,417**
Exercise of stock options and warrants		**141**	**2,856**				**2,997**
Restricted stock awards		**56**	**(83)**	**(149)**			**(176)**
Employee stock purchase plan		**26**	**896**				**922**
Director compensation plan		**48**	**1,803**				**1,851**
Balance at September 30, 2010	**$287,234**	**$31,145**	**$682,318**	**$ (51)**	**$394,323**	**$ 3,943**	**$1,398,912**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Nine Months ended September 30,	
	2010	2009

Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities arising during the period, net	**$ 26,836**	$ 2,435
Unrealized (losses) gains on derivative instruments arising during the period, net	**(505)**	3,399
Less: Reclassification adjustment for gains (losses) included in net income, net	**9,673**	(910)
Less: Income tax expense	**5,937**	2,501
Other comprehensive income	**$ 10,721**	$ 4,243

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Nine Months ended September 30, 2010	2009
Operating Activities:		
Net income	**$ 49,125**	$ 44,902
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Provision for credit losses	**95,870**	129,329
Depreciation and amortization	**13,426**	15,246
Stock-based compensation expense	**4,521**	5,132
Tax benefit (expense) from stock-based compensation arrangements	**744**	(140)
Excess tax benefits from stock-based compensation arrangements	**(1,020)**	(724)
Net amortization of premium on securities	**4,674**	129
Mortgage servicing rights fair value change and amortization, net	**3,724**	2,057
Originations and purchases of mortgage loans held-for-sale	**(2,495,880)**	(3,713,883)
Proceeds from sales of mortgage loans held-for-sale	**2,498,438**	3,620,400
Originations of premium finance receivables held-for-sale		(790,044)
Proceeds from sales and securitizations of premium finance receivables held-for-sale		106,282
Bank owned life insurance income, net of claims	**(1,593)**	(1,403)
Gain on sales of premium finance receivables		(4,147)
Decrease (increase) in trading securities, net	**28,839**	(24,805)
Net increase in brokerage customer receivables	**(4,571)**	(1,540)
Gain on mortgage loans sold	**(47,283)**	(38,656)
(Gain) loss on available-for-sale securities, net	**(9,673)**	910
Gain on bargain purchases	**(43,981)**	(113,062)
Loss on sale of premises and equipment, net	**7**	366
Decrease (increase) in accrued interest receivable and other assets, net	**100,824**	(34,073)
Decrease in accrued interest payable and other liabilities, net	**9**	25,599
Net Cash Provided by (Used for) Operating Activities	**196,200**	(772,125)
Investing Activities:		
Proceeds from maturities of available-for-sale securities	**907,492**	1,146,564
Proceeds from sales of available-for-sale securities	**628,462**	1,145,137
Purchases of available-for-sale securities	**(1,609,840)**	(2,153,313)
Proceeds from sales and securitizations of premium finance receivables		600,000
Net cash received (paid) for business combinations	**84,920**	(685,456)
Net increase in interest-bearing deposits with banks	**(51,588)**	(1,045,353)
Net (increase) decrease in loans	**(551,016)**	122,433
Purchases of premises and equipment, net	**(15,896)**	(16,404)
Net Cash Used for Investing Activities	**(607,466)**	(886,392)

Financing Activities:		
Increase in deposit accounts	**354,941**	1,470,407
Decrease in other borrowings, net	**(5,915)**	(84,693)
Decrease in Federal Home Loan Bank advances, net	**(44,592)**	(2,000)
Repayment of subordinated note	**(5,000)**	(5,000)
Excess tax benefits from stock-based compensation arrangements	**1,020**	724
Issuance of common stock, net of issuance costs	**210,417**	
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	**3,275**	2,741
Common stock repurchases	**(149)**	(147)
Dividends paid	**(17,367)**	(17,658)
Net Cash Provided by Financing Activities	**496,630**	1,364,374
Net Increase (Decrease) in Cash and Cash Equivalents	**85,364**	(294,143)
Cash and Cash Equivalents at Beginning of Period	**158,616**	445,904
Cash and Cash Equivalents at End of Period	**$ 243,980**	$ 151,761

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. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report and Form 10-K for the year ended December 31, 2009 (2009 Form 10-K). Operating results reported for the three-month and year-to-date 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 and the allowance for losses on lending-related commitments, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of our significant accounting policies are included in Note 1 (Summary of Significant Accounting Policies) of the Company s 2009 Form 10-K.

(2) Recent Accounting Developments

Accounting for Transfers of Financial Assets and Variable Interest Entities

In December 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-16, Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets, amending ASU No. 2009-01 (formerly FASB No. 168) The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (the Codification) for the issuance of FASB No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 and ASU No. 2009-17, Consolidation (Topic 810) Improvements to Financial Reporting for Enterprises Involved with Variable Interest Entities, amending the Codification to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance became effective for the Company on January 1, 2010.

ASU No. 2009-16 removed the concept of a qualifying special-purpose entity, changed the requirements for derecognizing financial assets and requires additional disclosures about a transferor s continuing involvement in transferred financial assets. As a result of this amendment, the Company s securitization transaction is accounted for as a secured borrowing rather than a sale and the Company s securitization entity (FIFC Premium Funding, LLC) is no longer exempt from consolidation.

ASU No. 2009-17 requires an ongoing assessment of the Company s involvement in the activities of Variable Interest Entities (VIE s) and the Company s rights or obligations to receive benefits or absorb losses that could be potentially significant in order to determine whether those VIE s will be required to be consolidated in the Company s financial statements. In accordance with this amendment, the Company concluded that it is the primary beneficiary of the Company s securitization entity and began consolidating this entity on January 1, 2010. The impact of consolidating the Company s securitization entity on January 1, 2010 resulted in a $587.1 million net increase in total assets, a $588.4 million net increase in total liabilities and a $1.3 million net decrease in stockholder s equity (comprised of a $1.1 million decrease in retained earnings and a $156,000 decrease in accumulated other comprehensive income). The assets of the consolidated securitization entity includes interest bearing deposits and premium finance receivables commercial, which are restricted to settle the obligations of the securitization entity. Liabilities of the securitization entity include secured borrowings for which creditors or beneficial interest holders do not have recourse to the general credit of the Company.

The Company s statement of income beginning with the three months ended March 31, 2010 no longer reflects securitization income, but instead reports interest income, net charge-offs and certain other income associated with the securitized loan receivables in the same line items in the Company s statement of income as non-securitized premium finance receivables-commercial. Additionally, the Company no longer records initial gains on new securitization activity since the transferred loans no longer receive sale accounting treatment. Also, there are no gains or losses recorded on the revaluation of the interest-only strip receivable as that asset is not recognizable in a transaction accounted for as a secured borrowing.

The Company s financial statements have not been retrospectively adjusted to reflect the adjustments to Accounting Standards Codification (ASC) 860. Therefore, current period results and balances are not comparable to prior period amounts.

Subsequent Events

In February 2010, the FASB issued ASU No. 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements, which amends certain provisions of the current guidance, including the elimination of the requirement for disclosure of the date through which an evaluation of subsequent events was performed in issued and revised financial statements. This guidance was effective for interim and annual financial periods ending after February 24, 2010, and has been applied with no material impact on the Company s financial statements.

Disclosures about Fair Value of Financial Instruments

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, which amends the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons for and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for the Company with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the Company with the reporting period beginning January 1, 2011. Other than requiring additional disclosures, the adoption of this new guidance did not have a material impact on our consolidated financial statements. See Note 15 Fair Value of Assets and Liabilities.

Credit Quality Disclosures of Financing Receivables and Allowance for Credit Losses

In July 2010, the FASB issued ASU No. 2010-20, Fair Value Measurements and Disclosures (Topic 820): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which requires more information in disclosures related to the credit quality of financing receivables and the credit reserves held against them. The new guidance requires the Company to provide a greater level of disaggregated information about the credit quality of the Company s loans and the allowance for loan losses as well as to disclose additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. The provisions of this ASU are effective for the Company s reporting period ending on or after December 15, 2010. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

(3) <u>Business Combinations</u>

FDIC-Assisted Transactions

On August 6, 2010, Northbrook Bank & Trust Company (Northbrook) acquired the banking operations of Ravenswood Bank (Ravenswood) in an FDIC assisted transaction. Northbrook acquired assets with a fair value of approximately $172 million, including $94 million of loans, and assumed liabilities with a fair value of approximately $123 million, including $121 million of deposits. Additionally, on April 23, 2010, the Company acquired the banking operations of two entities in FDIC assisted transactions. Northbrook acquired assets with a fair value of approximately $157 million and assumed liabilities with a fair value of approximately $192 million of Lincoln Park Savings Bank (Lincoln Park). Wheaton Bank and Trust Company (Wheaton) acquired assets with a fair value of approximately

$344 million and assumed liabilities with a fair value of approximately $416 million of Wheatland Bank (Wheatland). Loans comprise the majority of the assets acquired in these transactions and are subject to loss sharing agreements with the FDIC whereby the FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned (OREO), and certain other assets. The Company refers to the loans subject to this loss-sharing agreements as covered loans. Covered assets include covered loans, covered OREO and certain other covered assets. At the acquisition date, the Company estimated the fair value of the reimbursable losses to be approximately $46.6 million for the Ravenswood acquisition, and

6

Table of Contents

$113.8 million for the Lincoln Park and Wheatland acquisitions. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.

The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as FDIC indemnification asset, both in the Consolidated Statements of Condition.

The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The fair value for loans reflected expected credit losses at the acquisition date, therefore the Company will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration. These transactions resulted in bargain purchase gains of $33.1 million, $6.6 million for Ravenswood, $22.3 million for Wheatland, and $4.2 million for Lincoln Park, and are shown as a component of non-interest income on the Company s Consolidated Statements of Income.

Life Insurance Premium Finance Acquisition

On July 28, 2009, FIFC, a wholly-owned subsidiary of the Company, purchased the majority of the U.S. life insurance premium finance assets of A.I. Credit Corp. and A.I. Credit Consumer Discount Company (the sellers), subsidiaries of American International Group, Inc. After giving effect to post-closing adjustments, an aggregate unpaid loan balance of $949.3 million was purchased for $685.3 million in cash. At closing, a portion of the portfolio, with an aggregate unpaid loan balance of $321.1 million, and a corresponding portion of the purchase price of $232.8 million were placed in escrow, pending the receipt of required third party consents. During the first quarter of 2010, based upon receipt of consents, the escrow was terminated and remaining funds released to the sellers and FIFC.

Also, as a part of the purchase, $84.4 million of additional life insurance premium finance assets were available for future purchase by FIFC subject to the satisfaction of certain conditions. On October 2, 2009, the conditions were satisfied in relation to the majority of the additional life insurance premium finance assets and FIFC purchased $83.4 million of the $84.4 million of life insurance premium finance assets available for an aggregate purchase price of $60.5 million in cash.

Both life insurance premium finance asset purchases were accounted for as a single business combination under the acquisition method of accounting as required by applicable accounting guidance. Accordingly, the impact related to this transaction is included in the Company s financial statements only since the effective date of acquisition. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Under ASC 805, Business Combinations (ASC 805), a gain is recorded equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed and consideration paid. As such, the Company recognized a $10.9 million bargain purchase gain in the first quarter of 2010, a $43.0 million bargain purchase gain in the fourth quarter of 2009 and a $113.1 million bargain purchase gain in the third quarter of 2009, relating to the loans acquired for which all contingencies were removed. As of March 31, 2010, the full amount of the bargain purchase gain had been recognized into income. This gain is shown as a component of non-interest income on the Company s Consolidated Statements of Income.

The following table summarizes the fair value of assets acquired and the resulting bargain purchase gain at the date of acquisition:

(Dollars in thousands)	
Assets:	
Loans	$ 910,873
Customer list intangible	1,800
Other assets	150
Total assets	912,823
Cash Paid	745,916

Total bargain purchase gain recognized	$ 166,907

Calculation of the Fair Value of Loans Acquired Life Insurance Premium Finance Assets

The Company determined the fair value of the loans acquired with the assistance of an independent third party valuation firm which utilized a discounted cash flow analysis to estimate the fair value of the loan portfolio. Primary factors impacting the estimated cash flows in the valuation model were certain income and expense items and changes in the estimated future balances of loans. The significant assumptions used in calculating the fair value of the loans acquired included estimating interest income, loan losses, servicing costs, costs of funding, and life of the loans.

Table of Contents

Interest income on variable rate loans within the loan portfolio was determined based on the weighted average interest rate spread plus the contractual Libor rate. Interest income on fixed rate loans was based on the actual weighted average interest rate of the fixed rate loan portfolio.

Loan losses were estimated by first estimating the loan losses which would result from default by either the insurance carrier or the insured and, second, estimating the probability of default for both the insurance carrier and the insured. Estimated losses upon default by the insurance carrier were estimated by assigning realization rates to each type of collateral underlying the loan portfolio. Realization rates on collateral after default by the insurance carrier were estimated for each type of collateral. Unsecured portions of the collateral were also assigned a loss rate.

Estimated losses upon default by the insured were similar to the estimated loss rates calculated upon default by the insurance carrier.

The probability of default of the insurance carrier was determined by assigning each insurance carrier holding collateral underlying the portfolio a default rate from a national rating agency and a study of historical cumulative default rates prepared by such agency.

The probability of default by individuals was estimated based upon consideration of the financial and demographic characteristics of the insured and the economic uncertainty present at the valuation date.

The estimated life of the loans was based on expected required fundings of life insurance premiums and the expected life of the insured based on the age of the insured and survival curves.

Loans with evidence of credit quality deterioration since origination

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

In determining the acquisition date fair value of purchased impaired loans for Ravenswood, Lincoln Park and Wheatland, and in subsequent accounting, the Company aggregates these purchased loans into pools of loans with common risk characteristics. 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 life insurance premium finance receivables are valued on an individual basis with the accretable component being recognized into interest income using the effective yield method over the estimated remaining life of the loans. The non-accretable portion is evaluated each quarter and if the loans credit related conditions improve, a portion is transferred to the accretable component and accreted over future periods. In the event a specific loan prepays in whole, any remaining accretable and non-accretable discount is recognized in income immediately. If credit related conditions deteriorate, an allowance related to these loans will be established as part of the provision for credit losses. See Note 6 Loans, for more information on loans acquired with evidence of credit quality deterioration since origination.

(4) Cash and Cash Equivalents

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

Table of Contents

(5) Available-for-sale Securities

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

(Dollars in thousands)	September 30, 2010 Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
U.S. Treasury	$ 2,016	$	$ (1)	$ 2,015
U.S. Government agencies	868,419	6,021	(113)	874,327
Municipal	53,138	1,526	(23)	54,641
Corporate notes and other:				
Financial issuers	94,482	3,351	(1,416)	96,417
Other	75,895	714	(23)	76,586
Mortgage-backed: (1)				
Agency	164,769	12,491		177,260
Non-agency CMOs	3,088	13		3,101
Other equity securities	40,567	96	(831)	39,832
Total available-for-sale securities	$1,302,374	$24,212	$(2,407)	$1,324,179

(Dollars in thousands)	December 31, 2009 Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
U.S. Treasury	$ 121,310	$	$(10,494)	$ 110,816
U.S. Government agencies	579,249	550	(3,623)	576,176
Municipal	63,344	2,195	(203)	65,336
Corporate notes and other:				
Financial issuers	42,241	1,518	(2,013)	41,746
Retained subordinated securities	47,448	254		47,702
Mortgage-backed: (1)				
Agency	205,257	11,287		216,544
Non-agency CMOs	102,045	6,133	(194)	107,984
Non-agency CMOs Alt A	51,306	1,025	(1,553)	50,778
Other equity securities	37,969	15		37,984
Total available-for-sale securities	$1,250,169	$22,977	$(18,080)	$1,255,066

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

The following tables present the portion of the Company s available-for-sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at September 30, 2010:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasury	$ 2,015	$ (1)	$	$	$ 2,015	$ (1)
U.S. Government agencies	98,057	(113)			98,057	(113)
Municipal	514	(11)	333	(12)	847	(23)
Corporate notes and other:						
Financial issuers	21,541	(49)	4,574	(1,367)	26,115	(1,416)
Other	18,680	(23)			18,680	(23)
Other Equity Securities	26,776	(831)			26,776	(831)
Total	$167,583	$(1,028)	$4,907	$(1,379)	$172,490	$(2,407)

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

The Company does not consider securities with unrealized losses at September 30, 2010 to be other-than-temporarily impaired. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily corporate securities of financial issuers. The corporate securities of financial issuers in this category were comprised of three trust-preferred securities with high investment grades. These obligations have interest rates significantly below the rates at which these types of obligations are currently issued, and have maturity dates in 2027. Although they are currently callable by the issuers, it is unlikely that they will be called in the near future as the interest rates are very attractive to the issuers. A review of the issuers indicated that they have recently raised equity capital and/or have strong capital ratios. The Company does not own any pooled trust-preferred securities.

Effective April 1, 2009, the Company adopted new guidance for the measurement and recognition of other than temporary impairment for debt securities, which is now part of ASC 320 Investments Debt and Equity Securities (ASC 320). The new guidance provides that if an entity does not intend to sell, and it is more likely than not that the entity will not be required to sell a debt security before recovery of its cost basis, impairment should be separated into (a) the amount representing credit loss and (b) the amount related to all other factors. The amount of impairment related to credit loss is recognized in earnings and the impairment related to other factors is recognized in other comprehensive income (loss). To determine the amount related to credit loss, the Company applies a method similar to that described by ASC 310, using a single best estimate of expected cash flows. The Company s adoption of this guidance for the measurement and changes in the amount of credit losses recognized in net income on these corporate debt securities are summarized as follows:

	Three Months Ended September,		Nine Months Ended September 30,	
(Dollars in thousands)	**2010**	2009	**2010**	2009
Balance at beginning of period [1]	**$ (472)**	$ (4,195)	**$ (472)**	$ (6,181)
Credit losses recognized		(472)		(472)
Reductions for securities sold during the period		3,043		5,029
Balance at end of period	**$ (472)**	$ (1,624)	**$ (472)**	$ (1,624)

(1) For the nine months ended September 30, 2009, the balance at beginning of period is as of April 1, 2009.

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

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Realized gains	**$ 9,236**	$ 1,601	**$ 9,785**	$ 3,417
Realized losses	**(1)**	(1,541)	**(112)**	(1,719)
Net realized gains	**$ 9,235**	$ 60	**$ 9,673**	$ 1,698
Other than temporary impairment charges		472		2,608
Gains (losses) on available- for-sale securities, net	**$ 9,235**	$ (412)	**$ 9,673**	$ (910)
Proceeds from sales of available-for-sale securities	**$ 357,808**	$ 73,945	**$ 628,462**	$ 1,145,137

Table of Contents

The amortized cost and fair value of securities as of September 30, 2010 and December 31, 2009, by contractual maturity, are shown in the following table. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Mortgage-backed securities are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties:

	September 30, 2010		December 31, 2009	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Due in one year or less	**$ 595,519**	**$ 596,279**	$ 111,380	$ 111,860
Due in one to five years	**287,700**	**289,520**	221,294	222,152
Due in five to ten years	**56,875**	**58,139**	328,914	318,796
Due after ten years	**153,856**	**160,048**	192,004	188,968
Mortgage-backed	**167,857**	**180,361**	358,608	375,306
Other equity securities	**40,567**	**39,832**	37,969	37,984
Total available-for-sale securities	**$ 1,302,374**	**$ 1,324,179**	$ 1,250,169	$ 1,255,066

At September 30, 2010 and December 31, 2009, securities having a carrying value of $864 million and $865 million, respectively, which include securities traded but not yet settled, were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At September 30, 2010, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders equity.

(6) Loans

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

(Dollars in thousands)	**September 30, 2010**	December 31, 2009	September 30, 2009
Balance:			
Commercial	**$ 1,952,791**	$ 1,743,208	$ 1,643,721
Commercial real-estate	**3,331,498**	3,296,698	3,392,138
Home equity	**919,824**	930,482	928,548
Residential real-estate	**342,009**	306,296	281,151
Premium finance receivables commercial	**1,323,934**	730,144	752,032
Premium finance receivables life insurance	**1,434,994**	1,197,893	1,045,653
Indirect consumer	**56,575**	98,134	115,528
Other loans	**99,530**	108,916	116,486
Total loans, net of unearned income, excluding covered loans	**$ 9,461,155**	$ 8,411,771	$ 8,275,257
Covered loans	**353,840**		
Total loans	**$ 9,814,995**	$ 8,411,771	$ 8,275,257
Mix:			
Commercial	**20%**	21%	20%
Commercial real-estate	**34**	39	41

Home equity	**9**	11	11
Residential real-estate	**3**	4	4
Premium finance receivables commercial	**13**	9	9
Premium finance receivables life insurance	**15**	14	13
Indirect consumer	**1**	1	1
Consumer and other	**1**	1	1
Total loans, net of unearned income, excluding covered loans	**96**%	100%	100%
Covered loans	**4**		
Total loans	**100**%	100%	100%

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $34.8 million at September 30, 2010, $31.8 million at December 31, 2009 and $30.1 million at September 30, 2009. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in the third and fourth quarters of 2009 as well as the covered loans acquired in the FDIC-assisted acquisitions during the nine-months ended 2010 are recorded net of credit discounts. See Acquired Loan Information at Acquisition , below. The $593.8 million increase in commercial premium finance receivables at September 30, 2010 compared to December 31, 2009 is primarily due to the third quarter 2009 securitization transaction that is now accounted for as a secured borrowing.

Indirect consumer loans include auto, boat and other indirect consumer loans. Total loans, excluding loans acquired with evidence of credit quality deterioration since origination, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $12.6 million at September 30, 2010, $10.7 million at December 31, 2009 and $10.4 million at September 30, 2009.

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 on a national basis and the majority of the indirect consumer loans were generated through a network of local automobile dealers. As a result, the Company strives to maintain a loan portfolio that is diverse in terms of loan type, industry, borrower and geographic concentrations. Such diversification reduces the exposure to economic downturns that may occur in different segments of the economy or in different industries.

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

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

As part of our acquisition of a portfolio of life insurance premium finance loans in 2009 as well as the FDIC-assisted bank acquisitions, we acquired loans for which there was evidence of credit quality deterioration since origination and we determined that it was probable that the Company would be unable to collect all contractually required principal and interest payments. The portfolio of life insurance premium finance loans had an unpaid principal balance of $1.0 billion and a carrying value of $910.9 million at acquisition. At September 30, 2010, the unpaid principal balance and carrying value of these loans were $836.9 million and $765.6 million, respectively. The portfolio of loans acquired from the Lincoln Park acquisition had an unpaid principal balance of $138.7 million and a carrying value of $105.0 million at acquisition. At September 30, 2010, the unpaid principal balance and carrying value of these loans totaled $119.3 million and $96.0 million, respectively. The portfolio of loans acquired from the Wheatland acquisition had an unpaid principal balance of $284.2 million and a carrying value of $175.1 million at acquisition. At September 30, 2010, the unpaid principal balance and carrying value of these loans totaled $235.8 million and $166.2 million, respectively. The portfolio of loans acquired from the Ravenswood acquisition had an unpaid principal balance of $154.6 million and a carrying value of $93.9 million at acquisition. At September 30, 2010, the unpaid principal balance and carrying value of these loans totaled $150.6 million and $91.6 million, respectively.

The following table provides details on these loans at each acquisition:

(Dollars in thousands)	Ravenswood	Wheatland	Lincoln Park	Life Insurance Premium Finance Loans
Contractually required payments including interest	$ 168,218	$ 307,103	$ 165,284	$ 1,032,714
Less: Nonaccretable difference	66,051	118,660	36,304	41,281
Cash flows expected to be collected [1]	102,167	188,443	128,980	991,433
Less: Accretable yield	8,243	13,296	23,980	80,560
Fair value of loans acquired with evidence of credit quality deterioration since origination	$ 93,924	$ 175,147	$ 105,000	$ 910,873

(1)

Represents undiscounted expected principal and interest cash flows at acquisition.

There was no allowance for loan losses associated with this portfolio of loans at September 30, 2010 compared to an allowance of $615,000 at December 31, 2009. The allowance in prior periods represented deterioration to the portfolio subsequent to acquisition.

Table of Contents

Accretable Yield Activity

The following table provides activity for the accretable yield of these loans:

	Three Months Ended September 30, 2010			
(Dollars in thousands)	Ravenswood	Wheatland	Lincoln Park	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$	$ 11,827	$ 22,767	$ 51,779
Acquisitions	8,243			
Accretable yield amortized to interest income	(710)	(1,903)	(1,358)	(8,491)
Reclassification from the nonaccretable difference (1)				1,680
Reclassification to the nonaccretable difference (2)				(52)
Accretable yield, ending balance	$ 7,533	$ 9,924	$ 21,409	$ 44,916

(1) *Reclassification from non-accretable difference represents an increase to the estimated cash flows to be collected on the underlying portfolio.*

(2) *Reclassification to the non-accretable difference represents a decrease to the estimated cash flows to be collected on the underlying portfolio.*

	Nine Months Ended September 30, 2010
	Life Insurance Premium

(Dollars in thousands)	Ravenswood	Wheatland	Lincoln Park	Finance Loans
Accretable yield, beginning balance	$	$	$	$ 65,026
Acquisitions	8,243	13,296	23,980	
Accretable yield amortized to interest income	(710)	(3,372)	(2,571)	(29,287)
Reclassification from the nonaccretable difference (1)				9,373
Reclassification to the nonaccretable difference (2)				(196)
Accretable yield, ending balance	$ 7,533	$ 9,924	$ 21,409	$ 44,916

(1) *Reclassification from non-accretable difference represents an increase to the estimated cash flows to be collected on the underlying portfolio.*

(2) *Reclassification to the non-accretable difference represents a decrease to the estimated cash flows to be collected on the underlying portfolio.*

Table of Contents

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

The following table presents a summary of the activity in the allowance for credit losses for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2010**	2009	**2010**	2009
Allowance for loan losses at beginning of period	**$ 106,547**	$ 85,113	**$ 98,277**	$ 69,767
Provision for credit losses	**25,528**	91,193	**95,870**	129,329
Other adjustments allowance for loan losses related to consolidation of securitization entity			**1,943**	
Reclassification (to)/from allowance for losses on lending-related commitments	**(206)**	(1,543)	**478**	(1,543)
Charge-offs:	**(22,223)**	(80,072)	**(88,818)**	(103,602)
Recoveries:	**786**	405	**2,682**	1,145
Net charge-offs, excluding covered loans	**$ (21,437)**	$ (79,667)	**$ (86,136)**	$ (102,457)
Covered loans				
Total net charge-offs	**(21,437)**	(79,667)	**(86,136)**	(102,457)
Allowance for loan losses at end of period	**$ 110,432**	$ 95,096	**$ 110,432**	$ 95,096
Allowance for losses on lending-related commitments at end of period	**2,375**	3,129	**2,375**	3,129
Allowance for credit losses at end of period	**$ 112,807**	$ 98,225	**$ 112,807**	$ 98,225

A summary of non-accrual, impaired loans and loans past due greater than 90 days and still accruing interest as of the dates shown:

(Dollars in thousands)	**September 30, 2010**	December 31, 2009	September 30, 2009
Non-performing loans:			
Loans past-due greater than 90 days and still accruing interest	**$ 8,432**	$ 7,800	$ 36,937
Non-accrual loans	**125,891**	124,004	194,722
Total non-performing loans, excluding covered loans	**$ 134,323**	$ 131,804	$ 231,659
Covered loans	**146,974**		
Total non-performing loans	**$ 281,297**	$ 131,804	$ 231,659
Impaired loans (included in non-performing and restructured loans):			
Impaired loans with an allowance for loan loss required [(1)]	**91,189**	$ 58,222	$ 88,664
Impaired loans with no allowance for loan loss required	**99,733**	82,250	86,949

Total impaired loans (included in non-performing and restructured loans):	**$**	**190,922**	$	140,472	$	175,613
Allowance for loan losses related to impaired loans	**$**	**25,085**	$	17,567	$	16,485
Restructured loans	**$**	**93,666**	$	32,432	$	

(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.

The average recorded investment in impaired loans was $165.7 million and $125.8 million for the nine months ended September 30, 2010 and 2009, respectively.

Table of Contents

(8) Loan Securitization

During the third quarter of 2009, the Company entered into an off-balance sheet revolving period securitization transaction sponsored by FIFC. In connection with the securitization, premium finance receivables commercial were transferred to FIFC Premium Funding, LLC (the securitization entity). Provided that certain coverage test criteria continue to be met, principal collections on loans in the securitization entity are used to subsequently acquire and transfer additional loans into the securitization entity during the stated revolving period. Additionally, upon the occurrence of certain events established in the representations and warranties, FIFC may be required to repurchase ineligible loans that were transferred to the entity. The Company s primary continuing involvement includes servicing the loans, retaining an undivided interest (the seller s interest) in the loans, and holding certain retained interests. Instruments issued by the securitization entity included $600 million Class A notes that bear an annual interest rate of one-month LIBOR plus 1.45% (the Notes) and have an expected average term of 2.93 years with any unpaid balance due and payable in full on February 17, 2014. At the time of issuance, the Notes were eligible collateral under the Federal Reserve Bank of New York s Term Asset-Backed Securities Loan Facility (TALF). Class B and Class C notes (Subordinated securities), which are recorded in the form of zero coupon bonds, were also issued and were retained by the Company.

Subsequent to December 31, 2009, this securitization transaction is accounted for as a secured borrowing and the securitization entity is treated as a consolidated subsidiary of the Company under ASC 810 and ASC 860. See Note 2 to the Consolidated Financial Statements for a discussion of changes to the accounting for transfers and servicing of financial assets and consolidation of variable interest entities, including the elimination of qualifying SPEs. Accordingly, beginning on January 1, 2010, all of the assets and liabilities of the securitization entity are included directly on the Company s Consolidated Statements of Condition. The securitization entity s receivables underlying third-party investors interests are recorded in loans, net of unearned income, excluding covered loans, an allowance for loan losses was established and the related debt issued is reported in secured borrowings owed to securitization investors. Additionally, beginning on January 1, 2010, certain other of the Company s retained interests in the transaction, principally consisting of subordinated securities, cash collateral, and overcollateralization of loans, now constitute intercompany positions, which are eliminated in the preparation of the Company s Consolidated Statements of Condition.

Upon transfer of premium finance receivables commercial to the securitization entity, the receivables and certain cash flows derived from them become restricted for use in meeting obligations to the securitization entity s creditors. The securitization entity has ownership of interest-bearing deposit balances that also have restrictions, the amounts of which are reported in interest-bearing deposits with other banks. Investment of the interest-bearing deposit balances is limited to investments that are permitted under the governing documents of the transaction. With the exception of the seller s interest in the transferred receivables, the Company s interests in the securitization entity s assets are generally subordinate to the interests of third-party investors and, as such, may not be realized by the Company if needed to absorb deficiencies in cash flows that are allocated to the investors in the securitization entity s debt.

The carrying values and classification of the restricted assets and liabilities relating to the securitization activities are shown in the table below.

(Dollars in thousands)		**September 30, 2010**
Cash collateral accounts	**$**	**1,759**
Collections and interest funding accounts		**46,021**
Interest-bearing deposits with banks restricted for securitization investors	**$**	**47,780**
Loans, net of unearned income restricted for securitization investors	**$**	**637,850**
Allowance for loan losses		**(2,095)**

Net loans restricted for securitization investors	$	**635,755**
Other assets		**2,278**
Total assets	$	**685,813**
Secured borrowings owed to securitization investors	$	**600,000**
Other liabilities		**4,442**
Total liabilities	$	**604,442**

The assets of the consolidated securitization entity are subject to credit, payment and interest rate risks on the transferred premium finance receivables commercial. To protect investors, the securitization structure includes certain features that could result in earlier-than-expected repayment of the securities. Investors are allocated cash flows derived from activities related to the accounts comprising the securitized pool of receivables, the amounts of which reflect finance charges collected net of agent fees, certain fee assessments, and recoveries on charged-off accounts. From these cash flows, investors are reimbursed for charge-offs occurring within the securitized pool of receivables and receive the contractual rate of return and FIFC is paid a servicing fee as servicer. Any cash flows remaining in excess of these requirements are reported to investors as net yield and remitted to the Company. A net yield rate of less than 0% for a three month period would trigger an economic early amortization event. In addition to this performance measurement associated with the transferred loans, there are additional performance measurements and other events or conditions which could trigger an early amortization event. As of September 30, 2010, no economic or other early amortization events have occurred. Apart from the restricted assets related to securitization activities, the investors and the securitization entity have no recourse to the Company s other assets or credit for a shortage in cash flows.

The Company continues to service the loan receivables held by the securitization entity. FIFC receives a monthly servicing fee from the securitization entity based on a percentage of the monthly investor principal balance outstanding. Although the fee income to FIFC offsets the fee expense to the securitization entity and thus is eliminated in consolidation, failure to service the transferred loan receivables in accordance with contractual requirements could lead to a termination of the servicing rights and the loss of future servicing income.

Securitization Activity Prior to January 1, 2010

The following disclosures apply to the securitization activity of the Company prior to January 1, 2010, when transfers of receivables to the securitization entity were treated as sales in accordance with prior GAAP.

At September 30, 2009, the outstanding balance of loans transferred to the securitization entity was $661.3 million, of which $652.2 million were securitized and $9.1 million were maintained as seller s interests. The seller s interest was carried at historical cost and reported as loans, net of unearned income on the Company s Consolidated Statements of Condition.

Securitization Income

At the time of a loan securitization, the Company recorded a gain/(loss) on sale, which was calculated as the difference between the proceeds from the sale and the book basis of the loans sold. The book basis was determined by allocating the carrying amount of the sold loans between the loans sold and the interests retained based on their relative fair values. Such fair values were based on market prices at the date of transfer for the sold loans and on the estimated present value of future cash flows for retained interests. Gains on sale from securitizations are reported in gain on sales of premium finance receivables in the Company s Consolidated Statements of Income and were $3.4 million in the third quarter of 2009. The income component resulting from the release of credit reserves upon classification as held-for-sale was reported as a reduction of provision for credit losses.

Also reported in gain on sales of premium finance receivables were changes in the fair value of the interest-only strip. This amount was the excess cash flow from interest collections allocated to the investors interests after deducting the interest paid on investor certificates, credit losses, contractual servicing fees, and other expenses. Changes in the fair value of the interest-only strip of $173,000 were reported in gain on sale of premium finance receivables in the third quarter of 2009.

The Company retained servicing responsibilities for the transferred loans and earns a related fee. Servicing fee income was $712,000 for the quarter ended September 30, 2009 and is reported in other non-interest income in the Consolidated Statements of Income.

Retained Interests

The Company retained subordinated interests in the securitized loans. These interests included the subordinated securities, overcollateralization of loans, cash reserves, a servicing asset, and an interest-only strip. The following table presents the Company s retained interests at September 30, 2009:

(Dollars in thousands)	
Subordinated securities (1)	$ 48,004
Residual interests held (2)	42,622
Servicing asset (2)	1,336
Total retained interests	$ 91,962

(1) The subordinated securities were accounted for at fair value and reported as available-for-sale securities on the Company s Consolidated Statements of Condition with unrealized gains recorded in accumulated other comprehensive income. See Note 15 for further discussion on fair value.

(2) The residual interests and servicing asset were accounted for at fair value and reported in other assets on the Company s Consolidated Statements of Condition. Retained interests held includes overcollateralization of loans, cash reserve deposits, and an interest-only strip. See Note 15 for further discussion on fair value.

Table of Contents

Key economic assumptions used in the measuring of fair value and the sensitivity of the fair value to immediate adverse changes in those assumptions at September 30, 2009 for the Company s servicing asset and other interests held related to securitized loans are presented in the following table:

(Dollars in thousands)	Subordinated Securities	Residual Interests	Servicing Asset
Fair value of interest held	$48,004	$42,622	$1,336
Expected weighted-average life (in months)	6.5	6.5	6.5
Decrease in fair value from:			
1 month reduction	$ 239	$ (1,206)	$ (204)
2 month reduction	$ 479	$ (2,420)	$ (403)
Discount rate assumptions	5.97%	8.75% *(1)*	8.5%
Decrease in fair value from:			
100 basis point increase	$ (257)	$ (200)	$ (3)
200 basis point increase	$ (513)	$ (399)	$ (6)
Credit loss assumption		0.4%	0.4%
Decrease in fair value from:			
10% higher loss		$ (154)	$
20% higher loss		$ (310)	$

(1) Excludes the discount rate on cash reserve deposits deemed to be immaterial.

The sensitivities in the table above are hypothetical and caution should be exercised when relying on this data. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

The following table summarizes the changes in the fair value of the Company s servicing asset for the quarter ended September 30, 2009:

(Dollars in thousands)	
Balance at June 30, 2009	$
Fair value determined upon transfer of loans	1,795
Changes in fair value due to changes in inputs and assumptions *(1)*	(470)
Other changes *(2)*	11
Balance at September 30, 2009	$ 1,336

(1) The Company measured servicing assets at fair value and

reported the change in other non-interest income.

(2) *Represents accretable yield reported in other non-interest income.*

The key economic assumptions used in measuring the fair value of the servicing asset included the prepayment speed and weighted-average life, the discount rate, and default rate. The primary risk of material changes in the value of the servicing asset resided in the potential volatility in the economic assumptions used, particularly the prepayment speed and weighted-average life.

Other Disclosures

The table below summarizes cash flows received from the securitization entity for the quarter ended September 30, 2009:

(Dollars in thousands)	
Proceeds from new securitizations during the period	$600,000
Proceeds from collections reinvested in revolving securitizations	106,282
Servicing and other fees received	
Excess spread received	

17

Table of Contents

The following table presents quantitative information about the premium finance receivables - commercial at September 30, 2009:

(Dollars in thousands)	Total Amount of Loans	Amount of Loans 30 days or More Past Due or on Nonaccrual	Net Credit Write-offs during the Quarter
Premium finance receivables commercial	$ 1,404,221	$ 48,177	$ 2,317
Less: Premium finance receivables commercial securitized	652,189	6,096	
Premium finance receivables commercial on-balance sheet	$ 752,032	$ 42,081	$ 2,317

(9) <u>Goodwill and Other Intangible Assets</u>

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

(Dollars in thousands)	January 1, 2010	Goodwill Acquired	Impairment Loss	September 30, 2010
Community banking	$ 247,601	$	$	$ 247,601
Specialty finance	16,095			16,095
Wealth management	14,329			14,329
Total	$ 278,025	$	$	$ 278,025

No adjustments were made to goodwill in the first nine months of 2010. Pursuant to the acquisition of Professional Mortgage Partners (PMP) in December 2008, Wintrust may be required to pay contingent consideration to the former owner of PMP as a result of attaining certain performance measures through December 2011. Any contingent payments made pursuant to this transaction would be reflected as increases in the Community banking segment s goodwill.

A summary of finite-lived intangible assets as of the dates shown and the expected amortization as of September 30, 2010 is as follows:

(Dollars in thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Customer list intangibles:			
Gross carrying amount	**$ 5,052**	$ 5,052	$ 5,052
Accumulated amortization	**(3,450)**	(3,307)	(3,202)
Net carrying amount	**$ 1,602**	$ 1,745	$ 1,850
Core deposit intangibles:			

Gross carrying amount	**$**	**29,508**	$	27,918	$	27,918
Accumulated amortization		**(17,916)**		(16,039)		(15,400)
Net carrying amount	**$**	**11,592**	$	11,879	$	12,518
Total other intangible assets, net	**$**	**13,194**	$	13,624	$	14,368

Estimated amortization	
Actual in 9 months ended September 30, 2010	**$2,020**
Estimated remaining in 2010	**715**
Estimated - 2011	**2,708**
Estimated - 2012	**2,654**
Estimated - 2013	**2,573**
Estimated - 2014	**2,236**

The customer list intangibles recognized in connection with the purchase of U.S. life insurance premium finance assets in 2009 are being amortized over an 18-year period on an accelerated basis. The customer list intangibles recognized in connection with the acquisitions of Lake Forest Capital Management in 2003 and Wayne Hummer Asset Management Company (subsequently renamed Wintrust Capital Management) in 2002, were being amortized over seven-year periods on an accelerated basis and were fully amortized in the first quarter of 2010 and first quarter of 2009, respectively.

Table of Contents

The increase in core deposit intangibles from 2009 was related to the FDIC-assisted acquisitions of Lincoln Park and Wheatland during the second quarter of 2010, and the FDIC-assisted acquisition of Ravenswood during the third quarter of 2010. Core deposit intangibles recognized in connection with the Company s bank acquisitions are being amortized over ten-year periods on an accelerated basis.

Total amortization expense associated with finite-lived intangibles totaled approximately $2.0 million in each of the nine months ended September 30, 2010 and 2009.

(10) Deposits

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

(Dollars in thousands)	**September 30, 2010**	December 31, 2009	September 30, 2009
Balance:			
Non-interest bearing	**$ 1,042,730**	$ 864,306	$ 841,668
NOW	**1,551,749**	1,415,856	1,245,689
Wealth Management deposits	**710,435**	971,113	935,740
Money Market	**1,746,168**	1,534,632	1,468,228
Savings	**713,823**	561,916	513,239
Time certificates of deposit	**5,197,334**	4,569,251	4,842,599
Total deposits	**$ 10,962,239**	$ 9,917,074	$ 9,847,163
Mix:			
Non-interest bearing	**10%**	9%	9%
NOW	**14**	14	13
Wealth Management deposits	**6**	10	9
Money Market	**16**	15	15
Savings	**7**	6	5
Time certificates of deposit	**47**	46	49
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 The Chicago Trust Company (formerly named the Wayne Hummer Trust Company) and brokerage customers from unaffiliated companies.

Table of Contents

(11) Notes Payable, Federal Home Loan Bank Advances, Other Borrowings, Secured Borrowings and Subordinated Notes

The following table is a summary of notes payable, Federal Home Loan Bank advances, other borrowings, secured borrowings and subordinated notes as of the dates shown:

(Dollars in thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Notes payable	**$ 1,000**	$ 1,000	$ 1,000
Federal Home Loan Bank advances	**414,832**	430,987	433,983
Other borrowings:			
Securities sold under repurchase agreements	**241,522**	245,640	250,263
Other		1,797	1,808
Total other borrowings	**241,522**	247,437	252,071
Secured borrowings owed to securitization investors	**600,000**		
Subordinated notes	**55,000**	60,000	65,000
Total notes payable, Federal Home Loan Bank advances, other borrowings, and subordinated notes	**$ 1,312,354**	$ 739,424	$ 752,054

At September 30, 2010, the Company had notes payable with a $1.0 million outstanding balance, with an interest rate of 4.50%, under a $51.0 million loan agreement (Agreement) with unaffiliated banks. The Agreement consists of a $50.0 million revolving note, maturing on October 29, 2010, and a $1.0 million note maturing on June 1, 2015. At September 30, 2010, there was no outstanding balance on the $50.0 million revolving note. Borrowings under the Agreement that are considered Base Rate Loans will bear interest at a rate equal to the higher of (1) 450 basis points and (2) for the applicable period, the highest of (a) the federal funds rate plus 100 basis points, (b) the lender s prime rate plus 50 basis points, and (c) the Eurodollar Rate (as defined below) that would be applicable for an interest period of one month plus 150 basis points. Borrowings under the Agreement that are considered Eurodollar Rate Loans will bear interest at a rate equal to the higher of (1) the British Bankers Association s LIBOR rate for the applicable period plus 350 basis points (the Eurodollar Rate) and (2) 450 basis points.

Commencing August 2009, a commitment fee is payable quarterly equal to 0.50% of the actual daily amount by which the lenders commitment under the revolving note exceeds the amount outstanding under such facility.

The Agreement is secured by the stock of some of the banks and contains several restrictive covenants, including the maintenance of various capital adequacy levels, asset quality and profitability ratios, and certain restrictions on dividends and other indebtedness. At September 30, 2010, the Company was in compliance with all debt covenants. The Agreement is available to be utilized, as needed, to provide capital to fund continued growth at the Company s banks and to serve as an interim source of funds for acquisitions, common stock repurchases or other general corporate purposes.

Federal Home Loan Bank advances consist of fixed rate obligations of the banks and are collateralized by qualifying residential real estate and home equity loans and certain securities. FHLB advances are stated at par value of the debt adjusted for unamortized fair value adjustments recorded in connection with advances acquired through acquisitions as well as unamortized prepayment fees recorded in connection with debt restructurings. In the third quarter of 2010, the Company restructured $36.0 million of FHLB advances, paying $1.5 million in prepayment fees, in order to achieve lower advance interest rates. In the second quarter of 2010, the Company restructured $146.0 million of

FHLB advances, paying $6.8 million in prepayment fees. In the first quarter of 2010, the Company restructured $38.0 million of FHLB advances, paying $1.8 million in prepayment fees. These prepayment fees are being amortized as an adjustment to interest expense using the effective interest method.

At September 30, 2010 securities sold under repurchase agreements represent $98.4 million of customer balances in sweep accounts in connection with master repurchase agreements at the banks and $143.1 million of short-term borrowings from brokers. During the third quarter of 2009, the Company entered into an off-balance sheet securitization transaction sponsored by FIFC. In connection with the securitization, premium finance receivables commercial were transferred to FIFC Premium Funding, LLC, a qualifying special purpose entity (the QSPE). The QSPE issued $600 million Class A notes that bear an annual interest rate of one-month LIBOR plus 1.45% (the Notes) and have an expected average term of 2.93 years with any unpaid balance due and payable in full on February 17, 2014. At the time of issuance, the Notes were eligible collateral under TALF. The Company s adoption of new accounting standards on January 1, 2010 resulted in the consolidation of the

Table of Contents

QSPE that was not previously recorded on the Company s Consolidated Statements of Condition. See Note 2 Recent Accounting Developments and Note 8 Loan Securitization, for more information on the QSPE.

The subordinated notes represent three notes, issued in October 2002, April 2003 and October 2005 (funded in May 2006). The balances of the notes as of September 30, 2010 were $15.0 million, $15.0 million and $25.0 million, respectively. Each subordinated note requires annual principal payments of $5.0 million beginning in the sixth year, with final maturities in the tenth year. The Company may redeem the subordinated notes at any time prior to maturity. Interest on each note is calculated at a rate equal to three-month LIBOR plus 130 basis points.

(12) Junior Subordinated Debentures

As of September 30, 2010, the Company owned 100% of the common securities of nine trusts, Wintrust Capital Trust III, Wintrust Statutory Trust IV, Wintrust Statutory Trust V, Wintrust Capital Trust VII, Wintrust Capital Trust VIII, Wintrust Capital Trust IX, Northview Capital Trust I, Town Bankshares Capital Trust I, and First Northwest Capital Trust I (the Trusts) set up to provide long-term financing. The Northview, Town and First Northwest capital trusts were acquired as part of the acquisitions of Northview Financial Corporation, Town Bankshares, Ltd., and First Northwest Bancorp, Inc., respectively. The Trusts were formed for purposes of issuing trust preferred securities to third-party investors and investing the proceeds from the issuance of the trust preferred securities and common securities solely in junior subordinated debentures issued by the Company (or assumed by the Company in connection with an acquisition), with the same maturities and interest rates as the trust preferred securities. The junior subordinated debentures are the sole assets of the Trusts. In each Trust, the common securities represent approximately 3% of the junior subordinated debentures and the trust preferred securities represent approximately 97% of the junior subordinated debentures.

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

The following table provides a summary of the Company s junior subordinated debentures as of September 30, 2010. The junior subordinated debentures represent the par value of the obligations owed to the Trusts.

(Dollars in thousands)	Trust Preferred Securities	**Junior Subordinated Debentures**	Rate Structure	Rate at 9/30/10	Issue Date	Maturity Date	Earliest Redemption Date
Wintrust Capital Trust III	$ 25,000	**$ 25,774**	L+3.25	3.78%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	20,000	**20,619**	L+2.80	3.09%	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	40,000	**41,238**	L+2.60	2.89%	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	50,000	**51,550**	L+1.95	2.24%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	40,000	**41,238**	L+1.45	1.74%	08/2005	09/2035	09/2010
Wintrust Capital Trust IX	50,000	**51,547**	Fixed	6.84%	09/2006	09/2036	09/2011
Northview Capital Trust I	6,000	**6,186**	L+3.00	3.47%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	6,000	**6,186**	L+3.00	3.47%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	5,000	**5,155**	L+3.00	3.29%	05/2004	05/2034	05/2009
Total		**$ 249,493**		3.53%			

The junior subordinated debentures totaled $249.5 million at September 30, 2010, December 31, 2009 and September 30, 2009.

The interest rates on the variable rate junior subordinated debentures are based on the three-month LIBOR rate and reset on a quarterly basis. The interest rate on the Wintrust Capital Trust IX junior subordinated debentures, currently fixed at 6.84%, changes to a variable rate equal to three-month LIBOR plus 1.63% effective September 15, 2011. At September 30, 2010, the weighted average contractual interest rate on the junior subordinated debentures was 3.53%.

The Company entered into $175 million of interest rate swaps to hedge the variable cash flows on certain junior subordinated debentures. The hedge-adjusted rate on the junior subordinated debentures on September 30, 2010, was 7.00%. Distributions on the common and preferred securities issued by the Trusts are payable quarterly at a rate per annum equal to the interest rates being earned by the Trusts on the junior subordinated debentures. Interest expense on the junior subordinated debentures is deductible for income tax purposes.

The Company has guaranteed the payment of distributions and payments upon liquidation or redemption of the trust preferred securities, in each case to the extent of funds held by the Trusts. The Company and the Trusts believe that, taken together, the obligations of the Company under the guarantees, the junior subordinated debentures, and other related agreements provide, in the aggregate, a full, irrevocable and unconditional guarantee, on a subordinated basis, of all of the obligations of the Trusts under the trust preferred securities. Subject to certain limitations, the Company has the right to defer the payment of interest on the junior subordinated debentures at any time, or from time to time, for a period not to exceed 20 consecutive quarters. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at maturity or their earlier redemption. The junior subordinated debentures are redeemable in whole or in part prior to maturity at any time after the earliest redemption dates shown in the table, and earlier at the discretion of the Company if certain conditions are met, and, in any event, only after the Company has obtained Federal Reserve approval, if then required under applicable guidelines or regulations.

The junior subordinated debentures, subject to certain limitations, qualify as Tier 1 capital of the Company for regulatory purposes. The amount of junior subordinated debentures and certain other capital elements in excess of those certain limitations could be included in Tier 2 capital, subject to restrictions. At September 30, 2010, all of the junior subordinated debentures, net of the Common Securities, were included in the Company s Tier 1 regulatory capital.

(13) Segment Information

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

The three reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. In addition, each segment s customer base has varying characteristics. The community banking segment has a different regulatory environment than the specialty finance and wealth management segments. While the Company s management monitors each of the fifteen bank subsidiaries operations and profitability separately, as well as that of its mortgage company, these subsidiaries have been aggregated into one reportable operating segment due to the similarities in products and services, customer base, operations, profitability measures, and economic characteristics.

The net interest income, net revenue and segment profit of the community banking segment includes income and related interest costs from portfolio loans that were purchased from the specialty finance segment. For purposes of internal segment profitability analysis, management reviews the results of its specialty finance segment as if all loans originated and sold to the community banking segment were retained within that segment s operations, thereby causing inter-segment eliminations. See Note 3 Business Combinations, for more information on the life insurance premium finance loan acquisition in the third and fourth quarters of 2009. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates a portion of the net interest income earned by the community banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. See Note 10 Deposits, for more information on these deposits.

The segment financial information provided in the following tables has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the segments are generally the same as those described in the Summary of Significant Accounting Policies in Note 1. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. Intersegment revenue and transfers are generally accounted for at current market prices. The parent and intersegment eliminations reflect parent company information and intersegment eliminations. In the fourth quarter of 2009, the contribution attributable to the wealth management deposits was redefined to measure the value as an alternative source of funding for each bank. In previous periods, the contribution from these deposits was measured as the full net interest income contribution. The redefined measure better reflects the value of these deposits to the Company. Prior period information has been restated to reflect these changes.

Table of Contents

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

	Three Months Ended			
	September 30,			% Change
(Dollars in thousands)	**2010**	2009	$ Change in Contribution	in Contribution
Net interest income:				
Community banking	**$ 95,373**	$ 84,576	$ 10,797	13%
Specialty finance	**14,235**	33,731	(19,496)	(58)
Wealth management	**399**	1,710	(1,311)	(77)
Parent and inter-segment eliminations	**(7,027)**	(32,354)	25,327	78
Total net interest income	**$ 102,980**	$ 87,663	15,317	17%
Non-interest income:				
Community banking	**$ 44,304**	$ 18,931	$ 25,373	134%
Specialty finance	**745**	114,292	(113,547)	(99)
Wealth management	**10,952**	10,418	534	5
Parent and inter-segment eliminations	**(1,345)**	7,039	(8,384)	(119)
Total non-interest income	**$ 54,656**	$ 150,680	(96,024)	(64)%
Net revenue (loss):				
Community banking	**$ 139,677**	$ 103,507	$ 36,170	35%
Specialty finance	**14,980**	148,023	(133,043)	(90)
Wealth management	**11,351**	12,128	(777)	(6)
Parent and inter-segment eliminations	**(8,372)**	(25,315)	16,943	67
Total net revenue	**$ 157,636**	$ 238,343	(80,707)	(34)%
Segment profit (loss):				
Community banking	**$ 22,433**	$ (35,302)	$ 57,735	164%
Specialty finance	**5,606**	120,428	(114,822)	(95)
Wealth management	**(11)**	647	(658)	(102)
Parent and inter-segment eliminations	**(7,930)**	(53,778)	45,848	85
Total segment profit (loss)	**$ 20,098**	$ 31,995	(11,897)	(37)%
Segment assets:				
Community banking	**$ 13,308,912**	$ 11,871,595	$ 1,437,317	12%
Specialty finance	**2,915,956**	2,069,415	846,541	41
Wealth management	**66,666**	60,990	5,676	9
Parent and inter-segment eliminations	**(2,191,166)**	(1,865,979)	(325,187)	(17)
Total segment assets	**$ 14,100,368**	$ 12,136,021	1,964,347	16%

(Dollars in thousands)	Nine Months Ended September 30, 2010	2009	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community banking	**$ 280,834**	$ 216,099	$ 64,735	30%
Specialty finance	**43,898**	71,950	(28,052)	(39)
Wealth management	**5,378**	9,449	(4,071)	(43)
Parent and inter-segment eliminations	**(26,951)**	(72,556)	45,605	63
Total net interest income	**$ 303,159**	$ 224,942	78,217	35%
Non-interest income:				
Community banking	**$ 101,118**	$ 70,614	$ 30,504	43%
Specialty finance	**12,928**	115,746	(102,818)	(89)
Wealth management	**32,709**	27,975	4,734	17
Parent and inter-segment eliminations	**945**	18,224	(17,279)	(95)
Total non-interest income	**$ 147,700**	$ 232,559	(84,859)	(36)%
Net revenue (loss):				
Community banking	**$ 381,952**	$ 286,713	$ 95,239	33%
Specialty finance	**56,826**	187,696	(130,870)	(70)
Wealth management	**38,087**	37,424	663	2
Parent and inter-segment eliminations	**(26,006)**	(54,332)	28,326	61
Total net revenue	**$ 450,859**	$ 457,501	(6,642)	(1)%
Segment profit (loss):				
Community banking	**$ 53,060**	$ (24,728)	$ 77,788	315%
Specialty finance	**14,503**	136,713	(122,210)	(89)
Wealth management	**2,362**	3,937	(1,575)	(40)
Parent and inter-segment eliminations	**(20,800)**	(71,020)	50,220	71
Total segment profit (loss)	**$ 49,125**	$ 44,902	4,223	9%

23

(14) Derivative Financial Instruments

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

The derivative financial instruments currently used by the Company to manage its exposure to interest rate risk include: (1) interest rate swaps to manage the interest rate risk of certain variable rate liabilities; (2) interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market; (3) forward commitments for the future delivery of such mortgage loans to protect the Company from adverse changes in interest rates and corresponding changes in the value of mortgage loans available-for-sale; and (4) covered call options related to specific investment securities to enhance the overall yield on such securities. The Company also enters into derivatives (typically interest rate swaps) with certain qualified borrowers to facilitate the borrowers risk management strategies and concurrently enters into mirror-image derivatives with a third party counterparty, effectively making a market in the derivatives for such borrowers.

As required by ASC 815, the Company recognizes derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Derivative financial instruments are included in other assets or other liabilities, as appropriate, on the Consolidated Statements of Condition. Changes in the fair value of derivative financial instruments are either recognized in income or in shareholders equity as a component of other comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting and, if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income in the same period and in the same income statement line as changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivative financial instruments accounted for as cash flow hedges, to the extent they are effective hedges, are recorded as a component of other comprehensive income, net of deferred taxes, and reclassified to earnings when the hedged transaction affects earnings. Changes in fair values of derivative financial instruments not designated in a hedging relationship pursuant to ASC 815, including changes in fair value related to the ineffective portion of cash flow hedges, are reported in non-interest income during the period of the change. Derivative financial instruments are valued by a third party and are periodically validated by comparison with valuations provided by the respective counterparties. Fair values of certain mortgage banking derivatives (interest rate lock commitments and forward commitments to sell mortgage loans on a best efforts basis) are estimated based on changes in mortgage interest rates from the date of the loan commitment.

The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the Consolidated Statements of Condition as of September 30, 2010 and December 31, 2009:

	Derivative Assets	Fair Value		Derivative Liabilities	Fair Value	
(Dollars in thousands)	Balance Sheet Location	**September 30, 2010**	December 31 2009	Balance Sheet Location	**September 30, 2010**	December 31 2009
Derivatives designated as hedging instruments under ASC 815:						
Interest rate swaps designated as Cash Flow Hedges	Other assets	**$**	$	Other liabilities	**$ 15,543**	$ 14,701

Derivatives not designed as hedging instruments under ASC 815:									
Interest rate derivatives	Other assets		**18,313**		7,759	Other liabilities		**18,999**	8,076
Interest rate lock commitments	Other assets		**6,198**		32	Other liabilities		**179**	3,002
Forward commitments to sell mortgage loans	Other assets		**211**		4,860	Other liabilities		**4,261**	37
Total derivatives not designated as hedging instruments under ASC 815		**$**	**24,722**	$	12,651		**$**	**23,439**	$ 11,115
Total derivatives		**$**	**24,722**	$	12,651		**$**	**38,982**	$ 25,816

24

Table of Contents

Cash Flow Hedges of Interest Rate Risk

The Company s objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of September 30, 2010, the Company had five interest rate swaps with an aggregate notional amount of $175 million that were designated as cash flow hedges of interest rate risk.

The table below provides details on each of these five interest rate swaps as of September 30, 2010:

	September 30, 2010				
(Dollars in thousands)	Notional	Fair Value	Receive Rate	Pay Rate	Type of Hedging
Maturity Date	Amount	Gain (Loss)	(LIBOR)	(Fixed)	Relationship
Pay Fixed, Receive Variable					
September 2011	$ 20,000	$ (977)	0.29%	5.25%	Cash Flow
September 2011	40,000	(1,955)	0.29%	5.25%	Cash Flow
October 2011	25,000	(780)	0.53%	3.39%	Cash Flow
September 2013	50,000	(6,542)	0.29%	5.30%	Cash Flow
September 2013	40,000	(5,289)	0.29%	5.30%	Cash Flow
Total	$ 175,000	$ (15,543)			

Since entering into these interest rate swaps, they have been used to hedge the variable cash outflows associated with interest expense on the Company s junior subordinated debentures. The effective portion of changes in the fair value of these cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified to interest expense as interest payments are made on the Company s variable rate junior subordinated debentures. The changes in fair value (net of tax) are separately disclosed in the statements of changes in shareholders equity as a component 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 three and nine months ended September 30, 2010 or September 30, 2009. The Company uses the hypothetical derivative method to assess and measure effectiveness.

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

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Unrealized loss at beginning of period	**$ (15,969)**	$ (15,982)	**$ (15,487)**	$ (20,549)
Amount reclassified from accumulated other comprehensive income to interest expense on junior subordinated debentures	**2,124**	2,090	**6,516**	5,492
Amount of loss recognized in other comprehensive income	**(2,146)**	(3,258)	**(7,020)**	(2,093)
Unrealized loss at end of period	**$ (15,991)**	$ (17,150)	**$ (15,991)**	$ (17,150)

In September 2008, the Company terminated an interest rate swap with a notional amount of $25.0 million (maturing in October 2011) that was designated in a cash flow hedge and entered into a new interest rate swap with another counterparty to effectively replace the terminated swap. The interest rate swap was terminated by the Company in accordance with the default provisions in the swap agreement. The unrealized loss on the interest rate swap at the date of termination is being amortized out of other comprehensive income to interest expense over the remaining term of the terminated swap. At September 30, 2010 accumulated other comprehensive income (loss) includes $449,000 of unrealized loss ($276,000 net of tax) related to this terminated interest rate swap.

As of September 30, 2010, the Company estimates that during the next twelve months, $8.6 million will be reclassified from accumulated other comprehensive income as an increase to interest expense.

Non-Designated Hedges

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

Interest Rate Derivatives The Company has interest rate derivatives, including swaps and option products, resulting from a service the Company provides to certain qualified borrowers. The Company s banking subsidiaries execute certain derivative products (typically interest rate swaps) directly with qualified commercial borrowers to facilitate their respective risk management strategies. For example, doing so allows the Company s commercial borrowers to effectively convert a variable rate loan to a fixed rate. In order to minimize the Company s exposure on these transactions, the Company simultaneously executes offsetting derivatives with third parties. In most cases the offsetting derivatives have mirror-image terms, which result in the positions changes in fair value substantially offsetting through earnings each period. However, to the extent that the derivatives are not a mirror-image and because of differences in counterparty credit risk, changes in fair value will not completely offset resulting in some earnings impact each period. Changes in the fair value of these derivatives are included in other non-interest income. At September 30, 2010, the Company had approximately 120 derivative transactions (60 with customers and 60 with third parties) with an aggregate notional amount of approximately $460 million (all interest rate swaps) related to this program. These interest rate derivatives had maturity dates ranging from September 2011 to January 2033.

Mortgage Banking Derivatives These derivatives include interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. It is the Company s practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on its commitments to fund the loans as well as on its portfolio of mortgage loans held-for-sale. The Company s mortgage banking derivatives have not been designated as being in hedge relationships. At September 30, 2010 the Company had interest rate lock commitments with an aggregate notional amount of approximately $619 million and forward commitments to sell mortgage loans with an aggregate notional amount of approximately $816 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.

Other Derivatives Periodically, the Company will sell options to a bank or dealer for the right to purchase certain securities held within the Banks investment portfolios (covered call options). These option transactions are designed primarily to increase the total return associated with the investment securities portfolio. These options do not qualify as hedges pursuant to ASC 815, and, accordingly, changes in fair value of these contracts are recognized as other non-interest income. There were no covered call options outstanding as of September 30, 2010, December 31, 2009 or September 30, 2009.

Table of Contents

Amounts included in the consolidated statements of income related to derivative instruments not designated in hedge relationships were as follows:

(Dollars in thousands)		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative	Location in income statement	**2010**	2009	**2010**	2009
Interest rate swaps and floors	Other income	**$ (36)**	$ (415)	**$ (339)**	$ (169)
Mortgage banking derivatives	Mortgage banking revenue	**(4,593)**	(3,836)	**(13,194)**	(1,649)
Covered call options	Other income	**703**		**1,162**	1,998

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 counter party to terminate the derivative positions if the Company fails to maintain its status as a well or adequate capitalized institution, which would require the Company to settle its obligations under the agreements. As of September 30, 2010, the fair value of interest rate derivatives in a net liability position, which includes accrued interest related to these agreements, was $35.5 million. As of September 30, 2010 the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral consisting of $12.5 million of cash and $17.3 million of securities. If the Company had breached any of these provisions at September 30, 2010 it 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.

Table of Contents

(15) Fair Values of Assets and Liabilities

Effective January 1, 2008, upon adoption of SFAS No. 157, Fair Value Measurement , which is now part of ASC 820, Fair Value Measurements and Disclosures (ASC 820), the Company began to group financial assets and financial liabilities 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 account securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing or indicators from market makers.

Mortgage loans held-for-sale Mortgage loans originated by Wintrust Mortgage Company on or after January 1, 2008 are carried at fair value. The fair value of mortgage loans held-for-sale is determined by reference to investor price sheets for loan products with similar characteristics.

Mortgage servicing rights Fair value for mortgage servicing rights is determined utilizing a third party valuation model which stratifies the servicing rights into pools based on product type and interest rate. The fair value of each servicing rights pool is calculated based on the present value of estimated future cash flows using a discount rate commensurate with the risk associated with that pool, given current market conditions. Estimates of fair value include assumptions about prepayment speeds, interest rates and other factors which are subject to change over time.

Derivative instruments The Company s derivative instruments include interest rate swaps, commitments to fund mortgages for sale into the secondary market (interest rate locks) and forward commitments to end investors for the sale of mortgage loans. Interest rate swaps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. The fair value for mortgage derivatives is based on changes in mortgage rates from the date of the commitments.

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.

Retained interests from the sale of premium finance receivables The fair value of retained interests, which include servicing rights and interest only strips, from the sale of premium finance receivables are based on certain observable inputs such as interest rates and credits spreads, as well as unobservable inputs such as prepayments, late payments and estimated net charge-offs.

Table of Contents

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

	September 30, 2010			
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities				
U.S. Treasury	$ 2,015	$	$ 2,015	$
U.S. Government agencies	874,327		874,327	
Municipal	54,641		38,716	15,925
Corporate notes and other	173,003		167,511	5,492
Mortgage-backed	180,361		177,034	3,327
Equity securities [(1)]	39,832		11,566	28,266
Trading account securities	4,935	58	786	4,091
Mortgage loans held-for-sale	307,231		307,231	
Mortgage servicing rights	5,179			5,179
Nonqualified deferred compensations assets	3,211		3,211	
Derivative assets	24,722		24,722	
Total	$ 1,669,457	$ 58	$ 1,607,119	$ 62,280
Derivative liabilities	$			