WINTRUST FINANCIAL CORP
Form 10-K
February 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2013
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to
Commission File Number 001-35077
Wintrust Financial Corporation
(Exact name of registrant as specified in its charter)

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

9700 W. Higgins Road, Suite 800
Rosemont, Illinois 60018
(Address of principal executive offices)
Registrant's telephone number, including area code: (847) 939-9000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	The NASDAQ Global Select Market
Warrants (expiring December 19, 2018)	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
þ Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes þ No
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically 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). þ Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨ Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes þ No
The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2013 (the last business day of the registrant's most recently completed second quarter), determined using the closing price of the

common stock on that day of $38.28, as reported by the NASDAQ Global Select Market, was $1,419,767,800.
As of February 21, 2014, the registrant had 46,208,380 shares of Common Stock outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement for the Company’s Annual Meeting of Shareholders to be held on May 22, 2014 are incorporated by reference into Part III.

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PART I

ITEM I. BUSINESS

Overview

Wintrust Financial Corporation, an Illinois corporation ("we," "Wintrust" or "the Company"), which was incorporated in 1992, is a financial holding company based in Rosemont, Illinois, with total assets of approximately $18.1 billion as of December 31, 2013. We conduct our businesses through three segments: community banking, specialty finance and wealth management.

We provide community-oriented, personal and commercial banking services to customers located in the Chicago metropolitan area and in southeastern Wisconsin ("our market area") through our fifteen wholly owned banking subsidiaries (collectively, the "banks"), as well as the origination and purchase of residential mortgages for sale into the secondary market through Wintrust Mortgage, a division of Barrington Bank and Trust Company, N.A. ("Barrington Bank"). For the years ended December 31, 2013, 2012 and 2011, the community banking segment had net revenues of $599 million, $597 million and $510 million, respectively, and net income of $88 million, $73 million and $40 million, respectively. The community banking segment had total assets of $15.1 billion, $14.8 billion and $13.3 billion as of December 31, 2013, 2012 and 2011, respectively. All of these measurements are based on our reportable segments and do not reflect intersegment eliminations. The community banking segment accounted for approximately 77% of our consolidated net revenues, excluding intersegment eliminations, for the year ended December 31, 2013.

We provide specialty finance services, including financing for the payment of commercial insurance premiums and life insurance premiums ("premium finance receivables") on a national basis through our wholly owned subsidiary, First Insurance Funding Corporation ("FIFC") and our Canadian premium finance company, First Insurance Funding of Canada ("FIFC Canada"), and short-term accounts receivable financing ("Tricom finance receivables") and outsourced administrative services through our wholly owned subsidiary, Tricom, Inc. of Milwaukee ("Tricom"). For the years ended December 31, 2013, 2012 and 2011, the specialty finance segment had net revenues of $105 million, $91 million and $88 million, respectively, and net income of $38 million, $31 million and $33 million, respectively. The specialty finance segment had total assets of $2.5 billion, $2.3 billion and $2.2 billion as of December 31, 2013, 2012 and 2011, respectively. All of these measurements are based on our reportable segments and do not reflect intersegment eliminations. The specialty finance segment accounted for 13% of our consolidated net revenues, excluding intersegment eliminations, for the year ended December 31, 2013.

We provide a full range of wealth management services primarily to customers in our market area through three separate subsidiaries, including The Chicago Trust Company, N.A. ("CTC"), Wayne Hummer Investments, LLC ("WHI") and Great Lakes Advisors, LLC ("Great Lakes Advisors"). For the years ended December 31, 2013, 2012 and 2011, the wealth management segment had net revenues of $80 million, $67 million and $59 million, respectively, and net income of $11 million, $6 million and $5 million, respectively. The wealth management segment had total assets of $494 million, $437 million and $422 million as of December 31, 2013, 2012 and 2011, respectively. All of these measurements are based on our reportable segments and do not reflect intersegment eliminations. The wealth management segment accounted for 10% of our consolidated net revenues, excluding intersegment eliminations, for the year ended December 31, 2013.

Our Business

Community Banking

Through our banks, we provide community-oriented, personal and commercial banking services to customers located in our market area. Our customers include individuals, small to mid-sized businesses, local governmental units and institutional clients residing primarily in the banks' local service areas. The banks have a community banking and marketing strategy. In keeping with this strategy, the banks provide highly personalized and responsive service, a characteristic of locally-owned and managed institutions. As such, the banks compete for deposits principally by offering depositors a variety of deposit programs, convenient office locations, hours and other services, and for loan originations primarily through the interest rates and loan fees they charge, the efficiency and quality of services they provide to borrowers and the variety of their loan and cash management products. Using our decentralized corporate structure to our advantage, we offer our MaxSafe® deposit accounts, which provide customers with expanded Federal

Deposit Insurance Corporation ("FDIC") insurance coverage by spreading a customer's deposit across our fifteen banks. This product differentiates our banks from many of our competitors that have consolidated their bank charters into branches. We also have a downtown Chicago office that works with each of our banks to capture commercial and industrial business. Our commercial and industrial lenders in our downtown office operate in close partnership with lenders at our community banks. By combining our expertise in the commercial and industrial sector with our high level of personal service and full suite of banking products, we believe we create another point of differentiation from both our larger and smaller competitors. Our banks also offer

home equity, consumer, and real estate loans, safe deposit facilities, ATMs, internet banking and other innovative and traditional services specially tailored to meet the needs of customers in their market areas.
We developed our banking franchise through a combination of de novo organization and the purchase of existing bank franchises. The organizational efforts began in 1991, when a group of experienced bankers and local business people identified an unfilled niche in the Chicago metropolitan area retail banking market. As large banks acquired smaller ones and personal service was subjected to consolidation strategies, the opportunity increased for locally owned and operated, highly personal service-oriented banks. As a result, Lake Forest Bank and Trust Company (“Lake Forest Bank”) was founded in December 1991 to service the Lake Forest and Lake Bluff communities.
We now own fifteen banks, including nine Illinois-chartered banks, Lake Forest Bank, Hinsdale Bank and Trust Company (“Hinsdale Bank”), North Shore Community Bank and Trust Company (“North Shore Community Bank”), Libertyville Bank and Trust Company (“Libertyville Bank”), Northbrook Bank & Trust Company (“Northbrook Bank”), Village Bank & Trust (“Village Bank”), Wheaton Bank & Trust Company (“Wheaton Bank”), State Bank of the Lakes and St. Charles Bank & Trust Company (“St. Charles Bank”). In addition, we have one Wisconsin-chartered bank, Town Bank, and five nationally chartered banks, Barrington Bank, Crystal Lake Bank & Trust Company, N.A. (“Crystal Lake Bank”), Schaumburg Bank & Trust Company, N.A. (“Schaumburg Bank”), Beverly Bank & Trust Company, N.A. (“Beverly Bank”) and Old Plank Trail Community Bank, N.A. (“Old Plank Trail Bank”). As of December 31, 2013, we had 124 banking locations.
Each bank is subject to regulation, supervision and regular examination by: (1) the Secretary of the Illinois Department of Financial and Professional Regulation (“Illinois Secretary”) and the Board of Governors of the Federal Reserve System (“Federal Reserve”) for Illinois-chartered banks; (2) the Office of the Comptroller of the Currency (“OCC”) for nationally-chartered banks or (3) the Wisconsin Department of Financial Institutions (“Wisconsin Department”) and the Federal Reserve for Town Bank.
We also engage in the origination and purchase of residential mortgages for sale into the secondary market through Wintrust Mortgage, and provide other loan closing services to a network of mortgage brokers. Wintrust Mortgage provides mortgage banking operations using its enhanced loan origination and documentation system, allowing our customers access to improved product offerings. Wintrust Mortgage sells many of its loans with servicing released, however, Wintrust Mortgage does engage in servicing of loans sold into the secondary market. Wintrust Mortgage maintains principal origination offices in a number of states, including Illinois, and originates loans in states through correspondent channels.

We also offer several niche lending products through the banks. These include Barrington Bank's Community Advantage program which provides lending, deposit and cash management services to condominium, homeowner and community associations, Hinsdale Bank's mortgage warehouse lending program which provides loan and deposit services to mortgage brokerage companies located predominantly in the Chicago metropolitan area and Lake Forest Bank's franchise lending program which provides lending to restaurant franchisees.
Specialty Finance
We conduct our specialty finance businesses through non-bank subsidiaries. Our wholly owned subsidiary, FIFC, engages in the premium finance receivables business, our most significant specialized lending niche, including commercial insurance premium finance and life insurance premium finance. We also engage in commercial insurance premium finance in Canada through our wholly owned subsidiary FIFC Canada.
In their commercial insurance premium finance operations, FIFC and FIFC Canada make loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. Approved medium and large insurance agents and brokers located throughout the United States and Canada assist FIFC and FIFC Canada respectively in arranging each commercial premium finance loan between the borrower and FIFC or FIFC Canada. FIFC or FIFC Canada evaluates each loan request according to its own underwriting criteria including the amount of the down payment on the insurance policy, the term of the loan, the credit quality of the insurance company providing the financed insurance policy, the interest rate, the borrower's previous payment history, if any, and other factors deemed appropriate. Upon approval of the loan by FIFC or FIFC Canada, as the case may be, the borrower makes a down payment on the financed insurance policy, which is generally done by providing payment to the agent or broker,

who then forwards it to the insurance company. FIFC or FIFC Canada may either forward the financed amount of the remaining policy premiums directly to the insurance carrier or to the agent or broker for remittance to the insurance carrier on FIFC's or FIFC Canada's behalf. In some cases the agent or broker may hold our collateral, in the form of the proceeds of the unearned insurance premium from the insurance company, and forward it to FIFC or FIFC Canada in the event of a default by the borrower. Because the agent or broker is the primary contact to the ultimate borrowers who are located nationwide and because proceeds and our collateral may be handled by the agent or brokers during the term of the loan, FIFC and FIFC Canada may be more susceptible to third party (i.e., agent or broker) fraud. The Company performs ongoing credit and other reviews of the agents and brokers, and performs various internal audit steps to mitigate against the risk of any fraud.

The commercial and property premium finance business is subject to regulation in the majority of states. Regulation typically governs notices to borrowers prior to cancellation of a policy, notices to insurance companies, maximum interest rates and late fees and approval of loan documentation. FIFC is licensed or otherwise qualified to provide financing of commercial insurance policies in all 50 states and FIFC’s compliance department regularly monitors changes to regulations and updates policies and programs accordingly.

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

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

Premium finance loans made by FIFC and FIFC Canada are primarily secured by the insurance policies financed by the loans. These insurance policies are written by a large number of insurance companies geographically dispersed throughout the country and Canada. Our premium finance receivables balances finance insurance policies which are spread among a large number of insurers, however one of the insurers represents approximately 12% of such balances and two additional insurers each of which represent approximately 4% of such balances. FIFC and FIFC Canada consistently monitor carrier ratings and financial performance of our carriers. In the event ratings fall below certain levels, most of FIFC's life insurance premium finance policies provide for an event of default and allow FIFC to have recourse to borrowers and guarantors as well as to additional collateral in certain cases. For the commercial premium finance business, the term of the loans is sufficiently short such that in the event of a decline in carrier ratings, FIFC or FIFC Canada, as the case may be, can restrict or eliminate additional loans to finance premiums to such carriers.

Through our wholly owned subsidiary, Tricom, we provide high-yielding, short-term accounts receivable financing and value-added, outsourced administrative services, such as data processing of payrolls, billing and cash management services to the temporary staffing industry. Tricom’s clients, located throughout the United States, provide staffing services to businesses in diversified industries. During 2013, Tricom processed payrolls with associated client billings of approximately $495 million and contributed approximately $8.3 million to our revenue, net of interest expense. Net revenue is based on our reportable segments and does not reflect intersegment eliminations.

In 2013, our commercial premium finance operations, life insurance premium finance operations and accounts receivable finance operations accounted for 59%, 33% and 8%, respectively, of the total revenues of our specialty finance business.

Wealth Management Activities

We offer a full range of wealth management services through three separate subsidiaries, including trust and investment services, asset management and securities brokerage services.

Great Lakes Advisors, our registered investment adviser, provides money management services and advisory services to individuals, mutual funds and institutional municipal and tax-exempt organizations. Great Lakes Advisors also provides portfolio management and financial supervision for a wide range of pension, 401(k) and profit-sharing plans as well as money management and advisory services to CTC. At December 31, 2013, the Company’s wealth management subsidiaries had approximately $18.0 billion of assets under administration, which includes $2.0 billion of assets owned by the Company and its subsidiary banks.

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

In 2002, we acquired WHI, our registered broker/dealer subsidiary, which has been operating since 1931. Through WHI, we provide a full range of private client and securities brokerage services to clients located primarily in the Midwest. WHI is headquartered in downtown Chicago, operates an office in Appleton, Wisconsin, and has established branch locations in offices at a majority of our banks. WHI also provides a full range of investment services to clients through a network of relationships with community-based financial institutions primarily located in Illinois.

Strategy and Competition

Historically, we have executed a growth strategy through branch openings and de novo bank formations, expansion of our wealth management and premium finance business, development of specialized earning asset niches and acquisitions of other community-oriented banks or specialty finance companies. However, beginning in 2006, we made a decision to slow our growth due to unfavorable credit spreads, loosened underwriting standards by many of our competitors, and intense price competition. During 2008 we were able to raise additional capital. With $300 million of additional capital, we began to increase our lending and deposits in late 2008. This additional capital allowed us to be in a position to take advantage of opportunities in a disrupted marketplace from 2009 through 2012 by:

- Increasing our lending as other financial institutions pulled back;
- Hiring quality lenders and other staff away from larger and smaller institutions that may have substantially deviated from a customer-focused approach or who may have substantially limited the ability of their staff to provide credit or other services to their customers;
- Investing in dislocated assets such as the purchased life insurance premium finance portfolio, the Canadian commercial premium finance portfolio, trust and investment management companies and certain collateralized mortgage obligations;
- Purchasing banks and banking assets either directly or through the FDIC-assisted process in areas key to our geographic expansion.

In 2010, we further strengthened our capital position through offerings of common stock and tangible equity units that raised an aggregate of $540 million in net proceeds and repurchased our preferred stock issued to the U.S. Department of Treasury ("Treasury") under the Troubled Asset Relief Program at a price of $251.3 million, which included accrued and unpaid dividends of $1.3 million. In 2012, the Company raised net proceeds of $122.7 million through the issuance and sale of non-cumulative perpetual convertible preferred stock.

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

- Leveraged its internal loan pipeline and external growth opportunities to grow earnings assets to increase net interest income;
- Continued efforts to reduce interest costs by improving our funding mix;
- Written call option contracts on certain securities as an economic hedge to enhance the securities' overall return;
- Entered into mirror-image swap transactions to both satisfy customer preferences and maintain variable rate exposure;
- Purchased interest rate cap derivatives to offset margin compression caused by the repricing of variable rate liabilities and lack of repricing of fixed rate loans and securities in a potential rising rate environment;
- Completed strategic acquisitions to expand presence in existing and complimentary markets;
- Focused on cost control and leveraging our current infrastructure to grow without a commensurate increase in operating expenses.

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

Community Banking

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

As a mid-size financial services company, we expect to benefit from greater access to financial and managerial resources than our smaller local competitors while maintaining our commitment to local decision-making and to our community banking philosophy. In particular, we are able to provide a wider product selection and larger credit facilities than many of our smaller competitors, and we believe our service offerings help us in recruiting talented staff. We continue to add lenders throughout the community banking organization, many of whom have joined us

because of our ability to offer a range of products and level of services which compete effectively with both larger and smaller market participants. We have continued to expand our product delivery systems, including a wide variety of electronic banking options for our retail and commercial customers which allow us to provide a level of service typically associated with much larger banking institutions. Consequently, management views technology as a great equalizer to offset some of the inherent advantages of its significantly larger competitors. Additionally, we have access to public capital markets whereas many of our local competitors are privately held and may have limited capital raising capabilities.

We also believe we are positioned to compete effectively with other larger and more diversified banks, bank holding companies and other financial services companies due to the multi-chartered approach that pushes accountability for building a franchise and

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

Wintrust Mortgage competes with large mortgage brokers as well as other banking organizations. Consolidation, on-going investor push-backs, enhanced regulatory guidance and the promise of equal oversight for both banks and independent lenders have created challenges for small and medium-sized independent mortgage lenders. Wintrust Mortgage's size, bank affiliation, regulatory competency, branding, technology, business development tools and reputation makes the firm well positioned to compete in this environment. In 2013, we expanded our mortgage banking business through the acquisition of certain assets and liabilities of Surety Financial Services of Sherman Oaks, California. While earnings will fluctuate with the rise and fall of long-term interest rates, mortgage banking revenue will be a continuous source of revenue for us and our mortgage lending relationships will continue to provide franchise value to our other financial service businesses.

In 2013 we furthered our growth strategy by purchasing, through certain of our banking subsidiaries, additional banks and banking locations. We completed two acquisitions which added a total of 12 new banking locations primarily in Chicago and its surrounding suburbs as well as a location in northwest Indiana. Both of these acquisitions allowed us to expand our franchise into strategic locations on a cost-effective basis. In addition, the Company opened new branch locations in Illinois in Round Lake Beach, Elk Grove Village, Oak Lawn, Geneva and Chicago (Pullman and Logan Square neighborhoods) along with a branch in Milwaukee, Wisconsin. We believe that strategic acquisitions and branch expansion will allow us to grow into contiguous markets which we do not currently service and expand our footprint.

Specialty Finance

FIFC encounters intense competition from numerous other firms, including a number of national commercial premium finance companies, companies affiliated with insurance carriers, independent insurance brokers who offer premium finance services and other lending institutions. Some of its competitors are larger and have greater financial and other resources. FIFC competes with these entities by emphasizing a high level of knowledge of the insurance industry, flexibility in structuring financing transactions, and the timely funding of qualifying contracts. We believe that our commitment to service also distinguishes us from our competitors. Additionally, we believe that FIFC's acquisition of a large life insurance premium finance portfolio and related assets in 2009 enhanced our ability to market and sell life insurance premium finance products. FIFC Canada competes with one national commercial premium finance company and a few regional providers.

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

Wealth Management Activities

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

Supervision and Regulation

General

Our business is subject to extensive regulation and supervision under federal and state laws and regulations. The Company is a bank holding company under the Bank Holding Company Act of 1956, as amended (the “BHC Act”), subject to regulation, supervision, and examination by the Federal Reserve. Our subsidiary banks are subject to regulation, supervision, and examination by the agency that granted their banking charters-(i) the OCC for Barrington

Bank, Crystal Lake Bank, Schaumburg Bank, Beverly Bank and Old Plank Trail Bank, our nationally-chartered subsidiary banks; (ii) the Illinois Secretary for Lake Forest Bank, Hinsdale Bank, North Shore Community Bank, Libertyville Bank, Northbrook Bank, Village Bank, Wheaton Bank, State Bank of the Lakes and St. Charles Bank, each of which is an Illinois state-chartered bank; and (iii) the Wisconsin Department for Town Bank, a Wisconsin state-chartered bank. Our Illinois and Wisconsin state-chartered bank subsidiaries are also members of the Federal Reserve System, subject to supervision and regulation by the Federal Reserve as their primary federal regulator. The deposits of all of our subsidiary banks are insured by the Deposit Insurance Fund ("DIF") and, as such, the FDIC has additional oversight

authority over the banks. The supervision, regulation and examination of banks and bank holding companies by bank regulatory agencies are intended primarily for the protection of depositors, the DIF, and the banking system as a whole, rather than shareholders of banks and bank holding companies, and in some instances may be contrary to their interests.

Our non-bank subsidiaries generally are subject to regulation by their functional regulators, including state finance and insurance agencies, the Securities and Exchange Commission (the "SEC"), the Financial Industry Regulatory Authority, the Chicago Stock Exchange, the OCC, as well as by the Federal Reserve.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of financial institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a description of some of the laws and regulations that currently affect our business. By necessity, the descriptions below are summaries that do not purport to be complete, and that are qualified in their entirety by reference to those statutes and regulations discussed, and all regulatory interpretations thereof. In recent years, lawmakers and regulators have increased their focus on the financial services industry. Additional changes in applicable laws, regulations, or the interpretations thereof are possible, and could have a material adverse effect on our business or the business of our subsidiaries.

Bank Holding Company Regulation

The Company is a bank holding company that has elected to be treated by the Federal Reserve as a financial holding company for purposes of the BHC Act. The activities of bank holding companies generally are limited to the business of banking, managing or controlling banks, and other activities determined by the Federal Reserve, by regulation or order, to be so closely related to banking as to be a proper incident thereto. Impermissible activities for bank holding companies and their subsidiaries include activities that are related to commerce, such as retail sales of nonfinancial products or manufacturing.

The Gramm-Leach-Bliley Act of 1999 (the “GLB Act”) amended the BHC Act to establish a new regulatory framework applicable to “financial holding companies,” which are bank holding companies that meet certain qualifications and elect financial holding company status. Financial holding companies and their non-bank subsidiaries may engage in an expanded range of activities that are considered to be financial in nature, or incidental or complementary to financial activities, if the Federal Reserve determines that such activities pose no substantial risk to the safety or soundness of depository institutions or the financial system in general, including the businesses conducted by our wealth management subsidiaries.

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

The BHC Act generally requires us to obtain prior approval from the Federal Reserve before acquiring direct or indirect ownership or control of more than 5 percent of the voting shares of, or substantially all the assets of, a bank, or to merge or consolidate with another bank holding company. As a result of the Dodd-Frank Act, the BHC Act also now requires us to be well-capitalized and well-managed, not merely adequately capitalized and adequately managed, in order to acquire a bank located outside of our home state. In addition, subject to certain exceptions, the BHC Act generally prohibits us from acquiring direct or indirect ownership or control of voting shares of any company engaged in activities that are not permissible for us to engage in.

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

Acquisitions of Ownership

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

Regulatory Reform

The Dodd-Frank Act strengthened the ability of the federal bank regulatory agencies to supervise and examine bank holding companies and their subsidiaries. The Dodd-Frank Act represents a sweeping reform of the U.S. supervisory and regulatory framework applicable to financial institutions and capital markets in the wake of the global financial crisis, certain aspects of which are described below in more detail. In particular, and among other things, the Dodd-Frank Act: created a Financial Stability Oversight Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; created the Consumer Financial Protection Bureau (“CFPB”), which is authorized to regulate providers of consumer credit, savings, payment and other consumer financial products and services; narrowed the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expanded the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; imposed more stringent capital requirements on bank holding companies and subjected certain activities, including interstate mergers and acquisitions, to heightened capital conditions; with respect to mortgage lending, (i) significantly expanded requirements applicable to loans secured by 1-4 family residential real property, (ii) imposed strict rules on mortgage servicing, and (iii) required the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5% of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards; repealed the prohibition on the payment of interest on business checking accounts; restricted the interchange fees payable on debit card transactions for issuers with $10 billion in assets or greater; in the so-called “Volcker Rule,” subject to numerous exceptions, prohibited depository institutions and affiliates from certain investments in, and sponsorship of, hedge funds and private equity funds and from engaging in proprietary trading; provided for enhanced regulation of advisers to private funds and of the derivatives markets; enhanced oversight of credit rating agencies; and prohibited banking agency requirements tied to credit ratings. These statutory changes shifted the regulatory framework for financial institutions, impacted the way in which they do business and have the potential to constrain revenues.

Numerous provisions of the Dodd-Frank Act are required to be implemented through rulemaking by the appropriate federal regulatory agencies. Many of the required regulations have been issued and others have been released for public comment, but there remain a number that have yet to be released in any form. Furthermore, while the reforms primarily target systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time. We will continue to evaluate the effect of the Dodd-Frank Act changes; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of the Company and its subsidiaries. For further discussion of the most recent developments under the Dodd-Frank Act, see “Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview and Strategy - Financial Regulatory Reform.”

Volcker Rule

The Dodd-Frank Act added a new Section 13 to the BHC Act, the so-called “Volcker Rule,” which generally restricts certain banking entities, and their subsidiaries or affiliates, from engaging in proprietary trading activities and owning equity in or sponsoring any private equity or hedge fund. On December 10, 2013, five U.S. financial regulators, including the Federal Reserve, the FDIC and the OCC, adopted final rules implementing the Volcker Rule. The final rules prohibit banking entities from (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds. Further, the final

rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. These rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. Although the final rules provide some differences in compliance and reporting obligations based on size, the fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including the Company and its bank subsidiaries. These rules are effective April 1, 2014, but the conformance period has been extended from its statutory end date of July 21, 2014 until July 21, 2015.

We have evaluated the implications of these rules on our investments and determined that some of the securities in our investment portfolio will be subject to the Volcker Rule and, absent any further amendments to the Volcker Rule, will have to be divested or converted prior to July 21, 2015. In one instance, the need to divest that security at a fixed near-term date caused us to record an other-than-temporary impairment of $3.3 million on that security in the fourth quarter of 2013. We do not believe that any other required divestitures or reporting requirements will have any material financial implications on the Company.

Capital Requirements

We are subject to various regulatory capital requirements both at the Company and at the subsidiary bank level. Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting policies. Our capital amounts and classification are also subject to judgments by the regulators regarding qualitative components, risk weightings, and other factors. We have consistently maintained regulatory capital ratios at or above the well capitalized standards. These capital rules have undergone significant changes with the adoption by the federal banking agencies of final rules that will implement Basel III requirements, which are discussed below.

Under current rules, as a bank holding company, we are required to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%, of which at least 4.0% must be in the form of Tier 1 capital (generally common equity, retained earnings and a limited amount of qualifying preferred stock, less goodwill and certain core deposit intangibles). The remainder may consist of Tier 2 capital, which, subject to certain conditions and limitations, consists of: the allowance for credit losses; perpetual preferred stock and related surplus; hybrid capital instruments; unrealized holding gains on marketable equity securities; perpetual debt and mandatory convertible debt securities; term subordinated debt and intermediate-term preferred stock. The Federal Reserve has stated that Tier 1 voting common equity should be the predominant form of capital.

In addition, the Federal Reserve requires a minimum leverage ratio of Tier 1 capital to total assets of 3.0% for the most highly-rated bank holding companies, and 4% for all other bank holding companies. As of December 31, 2013, the Company's total capital to risk-weighted assets ratio was 12.9%, its Tier 1 Capital to risk-weighted asset ratio was 12.2% and its Tier 1 leverage ratio was 10.5%.

Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items, as calculated under regulatory accounting policies. Our capital amounts and classification are also subject to judgments by the regulators regarding qualitative components, risk weightings, and other factors. We have consistently maintained regulatory capital ratios at or above the well capitalized standards.

The Basel Committee on Banking Supervision has drafted frameworks for the regulation of capital and liquidity of internationally active banking organizations, generally referred to as “Basel III.” In July 2013, the federal banking agencies jointly issued final rules establishing a new comprehensive capital framework for U.S. banking organizations that would implement the Basel III capital framework and certain provisions of the Dodd-Frank Act. The final rules seek to strengthen the components of regulatory capital, increase risk-based capital requirements, and make selected changes to the calculation of risk-weighted assets. The final rules, among other things:

- revise minimum capital requirements and adjust prompt corrective action thresholds;
- revise the components of regulatory capital and create a new capital measure called “Tier 1 Common Equity,” which must constitute at least 4.5% of risk-weighted assets;
- specify that Tier 1 capital consists only of Tier 1 Common Equity and certain “Additional Tier 1 Capital” instruments meeting specified requirements;
- increase the minimum Tier 1 capital ratio requirement from 4% to 6%;
- retain the existing risk-based capital treatment for 1-4 family residential mortgage exposures;

- permit most banking organizations, including the Company, to retain, through a one-time permanent election, the existing capital treatment for accumulated other comprehensive income;
- implement a new capital conservation buffer of common equity Tier 1 capital equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% common equity Tier 1 capital ratio and be phased in over a three-year period beginning January 1, 2016, which buffer is generally required to make capital distributions and pay executive bonuses;
- increase capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments;

- require the deduction of mortgage servicing assets and deferred tax assets that exceed 10% of common equity Tier 1 capital in each category and 15% of common equity Tier 1 capital in the aggregate; and
- remove references to credit ratings consistent with the Dodd-Frank Act and establish due diligence requirements for securitization exposures.

Under the final rules, compliance is required beginning January 1, 2015, for most banking organizations, including the Company, subject to a transition period for several aspects of the final rules, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. Requirements to maintain higher levels of capital could adversely impact our return on equity. We are still in the process of assessing the impacts of these complex final rules; however, we believe that we will continue to exceed all estimated well-capitalized regulatory requirements on a fully phased-in basis. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview and Strategy - Financial Regulatory Reform."

Liquidity Requirements

Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. However, the Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation.

Capital Planning and Stress Testing Requirements

On October 12, 2012, the Federal Reserve published two final rules implementing the company-run stress test requirements mandated by the Dodd-Frank Act: one for U.S. bank holding companies with total consolidated assets of $10 billion to $50 billion, and one for U.S. bank holding companies with total consolidated assets of $50 billion or more. Under the rule applicable to the Company, which became effective November 15, 2012, we are required to conduct annual company-run stress tests using data as of September 30 of each year and different scenarios provided by the Federal Reserve. Submissions are due to the Federal Reserve during the first quarter of each following year. For further discussion of capital planning and stress testing requirements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview and Strategy - Financial Regulatory Reform."

Payment of Dividends and Share Repurchases

We are a legal entity separate and distinct from our banking and non-banking subsidiaries. Since our consolidated net income consists largely of net income of our bank and non-bank subsidiaries, our ability to pay dividends depends largely upon our receipt of dividends from our subsidiaries. There are various federal and state law limitations on the extent to which our banking subsidiaries can declare and pay dividends to us, including minimum regulatory capital requirements, federal and state banking law requirements concerning the payment of dividends out of net profits or surplus, and general regulatory oversight to prevent unsafe or unsound practices. No assurances can be given that the banks will, in any circumstances, pay dividends to the Company.

In general, applicable federal and state banking laws prohibit, without prior regulatory approval, insured depository institutions, such as our bank subsidiaries, from making dividend distributions if such distributions are not paid out of available earnings, or would cause the institution to fail to meet applicable minimum capital requirements. In addition, our right, and the right of our shareholders and creditors, to participate in any distribution of the assets or earnings of our bank and non-bank subsidiaries is further subject to the prior claims of creditors of our subsidiaries.

Our ability to declare and pay dividends to our shareholders is similarly limited by federal banking law and Federal Reserve regulations and policy. Federal Reserve policy provides that a bank holding company should not pay dividends unless (i) the bank holding company's net income over the last four quarters (net of dividends paid) is sufficient to fully fund the dividends, (ii) the prospective rate of earnings retention appears consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries and (iii) the bank holding company will continue to meet minimum required capital adequacy ratios. The policy also provides that a bank holding company should inform the Federal Reserve reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in a material adverse change to the bank holding company's capital structure. Bank holding companies also are required to consult with the

Federal Reserve before increasing dividends or redeeming or repurchasing capital instruments. Additionally, the Federal Reserve could prohibit or limit the payment of dividends by a bank holding company if it determines that payment of the dividend would constitute an unsafe or unsound practice.

FDICIA and Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, requires the federal bank regulatory agencies to take “prompt corrective action” regarding FDIC-insured depository institutions that do not meet minimum capital requirements. Depository institutions are placed into one of five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A institution that fails to remain well-capitalized will be subject to a series of restrictions that increase as its capital condition worsens. For example, institutions that are less than well-capitalized are barred from soliciting, taking or rolling over brokered deposits. FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) if the depository institution would be undercapitalized thereafter. Undercapitalized depository institutions are subject to growth limitations and must submit a capital restoration plan, which must be guaranteed by the institution's holding company. In addition, an undercapitalized institution is subject to increased monitoring and asset growth restrictions and is subject to greater regulatory approval requirements. The FDICIA also provides for enhanced supervisory authority over undercapitalized institutions, including authority for the appointment of a conservator or receiver for the institution. Guidance from the federal banking agencies also indicates that a holding company may be required to provide assurances that a subsidiary bank will comply with any requirements imposed on it under prompt corrective action.

As a result of the Dodd-Frank Act, bank holding companies will be subject to an “early remediation” regime that is substantially similar to the prompt corrective action regime applicable to banks. The remedial actions also increase as the condition of the holding company deteriorates, although the proposed holding company regime would use several forward-looking triggers to identify when a holding company is in troubled condition, beyond just the capital ratios used under the prompt corrective action regime.

As of December 31, 2013 and 2012, each of the Company's banks was categorized as “well capitalized.” In order to maintain the Company's designation as a financial holding company, each of the banks is required to maintain capital ratios at or above the “well capitalized” levels. Management is committed to maintaining the Company's capital levels above the “well capitalized” levels established by the Federal Reserve for bank holding companies.

Enforcement Authority

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

FDIA

The FDIA imposes various requirements on insured depository institutions, including our subsidiary banks. Among other things, the FDIA includes requirements applicable to the closure of branches; merger or consolidation by or with another insured bank; additional disclosures to depositors with respect to terms and interest rates applicable to deposit accounts; uniform regulations for extensions of credit secured by real estate; restrictions on activities of and investments by state-chartered banks; and increased reporting requirements on agricultural loans and loans to small businesses. Under the “cross-guarantee” provision of the FDIA, insured depository institutions such as the banks may be liable to the FDIC for any losses incurred, or reasonably expected to be incurred, by the FDIC resulting from the default of, or FDIC assistance to, any other commonly controlled insured depository institution. All of our subsidiary banks are commonly controlled within the meaning of the cross-guarantee provision.

The FDIA also requires the federal bank regulatory agencies to prescribe standards of safety and soundness, by regulations or guidelines, relating generally to operations and management, asset growth, asset quality, earnings, stock valuation and compensation. The federal bank regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards pursuant to the FDIA. The guidelines establish general standards relating to internal controls

and information systems, informational security, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder.

Insurance of Deposit Accounts

The deposits of each of our subsidiary banks are insured by the DIF up to applicable limits. The Dodd-Frank Act increased the standard maximum deposit insurance amount to $250,000 per depositor retroactive to January 1, 2009. Although the legislation provided unlimited deposit insurance of the net amount of certain non-interest-bearing transaction accounts that program expired on December 31, 2012.

As insured depository institutions, each of our subsidiary banks is subject to deposit insurance assessments based on the risk it poses to the DIF, as determined by the capital category and supervisory category to which it is assigned. The FDIC has authority to raise or lower assessment rates on insured deposits in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments. In light of the significant increase in depository institution failures in 2008-2010 and the increase of deposit insurance limits, the DIF incurred substantial losses during recent years. To bolster reserves in the DIF, the Dodd-Frank Act increased the minimum reserve ratio of the DIF to 1.35% of insured deposits and deleted the statutory cap for the reserve ratio. In December 2010, the FDIC set the designated reserve ratio at 2%, 65 basis points above the statutory minimum. In April 2011, the FDIC implemented changes required by the Dodd-Frank Act to revise the definition of the assessment base for calculating deposit insurance premiums from the amount of insured deposits held by an institution to the institution's average total consolidated assets less average tangible equity. The FDIC also changed the assessment rates, providing that they will initially range from 2.5 basis points to 45 basis points. The FDIC has indicated that these changes generally will not require an increase in the level of assessments for depository institutions with less than $10 billion in assets, such as each of our bank subsidiaries, and may result in decreased assessments for such institutions. However, there is a risk that the banks' deposit insurance premiums will again increase if failures of insured depository institutions continue to deplete the DIF.

In addition, the Deposit Insurance Fund Act of 1996 authorizes the Financing Corporation (“FICO”) to impose assessments on DIF assessable deposits in order to service the interest on FICO's bond obligations. The FICO annualized assessment rate is $0.62 and $0.64 per $100 of deposits for the first quarter of 2014 and the first quarter of 2013, respectively.

Limits on Loans to One Borrower and Loans to Insiders

Federal and state banking laws impose limits on the amount of credit a bank can extend to any one person (or group of related persons). The Dodd-Frank Act expanded the scope of these restrictions for national banks under federal law to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions. Provisions of the Dodd-Frank Act also amended the FDIA to prohibit state-chartered banks (including certain of our banking subsidiaries) from engaging in derivative transactions unless the state lending limit laws take into account credit exposure to such transactions.

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

Additional Provisions Regarding Deposit Accounts

The Dodd-Frank Act eliminated prohibitions under federal law against the payment of interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts. Depending upon the market response, this change could have an adverse impact on our interest expense.

Federal Reserve regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2014 the first $13.3 million of otherwise reservable balances are exempt from the reserve requirements; for transaction accounts aggregating more than $13.3 million to $89.0 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $89.0 million, the reserve requirement is $2,271,000 plus 10% of the aggregate amount of total transaction accounts in excess of $89.0 million. These reserve requirements are subject to annual adjustment by the Federal Reserve. Our banks are in compliance with the foregoing requirements.

De Novo Branching

The Dodd-Frank Act amended the FDIA and the National Bank Act to allow national banks and state banks, with the approval of their regulators, to establish de novo branches in states other than the bank's home state as if such state was the bank's home state.

In 2009, the FDIC adopted enhanced supervisory procedures for de novo banks, which extended the special supervisory period for such banks from three to seven years. Throughout the de novo period, newly chartered banks will be subject to higher capital requirements, more frequent examinations and other requirements.

Anti-Tying Provisions

Under the anti-tying provisions of the BHC Act, among other things, each of our subsidiary banks is prohibited from conditioning the availability of any product or service, or varying the price for any product or service, on the requirement that the customer obtain some additional product or service from the bank or any of its affiliates, other than loans, deposits and trust services.

Transactions with Affiliates

Certain “covered” transactions between a bank and its holding company or other non-bank affiliates are subject to various restrictions imposed by state and federal law and regulation. Such “covered transactions” include loans and other extensions of credit by the bank to the affiliate, investments in securities issued by the affiliate, purchases of assets from the affiliate, payments of fees or other distributions to the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of the affiliate. In general, these affiliate transaction rules limit the amount of covered transactions between an institution and a single affiliate, as well as the aggregate amount of covered transactions between an institution and all of its affiliates. In addition, covered transactions that are credit transactions must be secured by acceptable collateral, and all covered transactions must be on terms that are at least as favorable to the institution as then-prevailing in the market for comparable transactions with unaffiliated entities. Transactions between affiliated banks may be subject to certain exemptions under applicable federal law.

Community Reinvestment Act

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

Compliance with Consumer Protection Laws

The banks and some operating subsidiaries are also subject to many federal consumer protection statutes and regulations including the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the FCRA, the Electronic Fund Transfer Act, the Consumer Financial Protection Act, the Federal Trade Commission Act and analogous state statutes, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Servicemembers Civil Relief Act and the Home Mortgage Disclosure Act. Wintrust Mortgage, as a division of Barrington Bank, must also comply with many of these consumer protection statutes and regulations. Violation of these statutes can lead to significant potential liability for damages and penalties, in litigation by consumers as well as enforcement actions by regulators. Some of the key requirements of these laws:

- require specific disclosures of the terms of credit, and regulate underwriting and other practices for mortgage loans and other types of credit;
- require specific disclosures about deposit account terms, and the electronic transfers that can be made to or from accounts at the banks;
- provide limited consumer liability for unauthorized transactions;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- require notifications about the approval or decline of credit applications, the reasons for a decline, and the credit scores used to make credit decisions;
- prohibit unfair, deceptive or abusive acts or practices;

- require mortgage lenders to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;
- forbid the payment of referral fees for any settlement service as part of a real estate transaction;
- prohibit certain lending practices and limit escrow amounts with respect to real estate transactions;
- provide interest rate reductions and other protections for servicemembers called to active duty; and
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

During the past several years, Congress has amended these laws and federal regulators have proposed and finalized a number of significant amendments to the regulations implementing these laws. Among other things, the Federal Reserve, the FDIC and the OCC have adopted new rules applicable to the banks (and in some cases, Wintrust Mortgage, as a division of Barrington Bank) that govern consumer credit practices and disclosures, as well as rules that govern overdraft practices and disclosures. These rules may affect the profitability of our consumer banking activities.

As described above, the Dodd-Frank Act established the CFPB. The law transferred to the CFPB existing regulatory authority with respect to many of these consumer related regulations, and gave the CFPB new authority under the Consumer Financial Protection Act. In July 2011, many of the consumer financial protection functions previously assigned to other federal agencies shifted to the CFPB. The CFPB now has broad rulemaking authority over a wide range of consumer protection laws that apply to banks and other providers of financial products and services, including the authority to prohibit "unfair, deceptive or abusive practices," to ensure that all consumers have access to markets for consumer financial products and services, and to ensure that such markets are fair, transparent and competitive. The Dodd-Frank Act also required the CFPB to adopt a number of new specific regulatory requirements. These new rules may increase the costs of engaging in these activities for all market participants, including our subsidiaries. In addition to the CFPB, other federal and state regulators have issued, and may in the future issue, regulations and guidance affecting aspects of our business. The developments may impose additional burdens on us and our subsidiaries. The CFPB has broad supervisory, examination and enforcement authority. Although we and our subsidiary banks are not subject to CFPB examination, the actions taken by the CFPB, including from its rulemaking authority, may influence enforcement actions and positions taken by other federal and state regulators, including those with jurisdiction over us and our subsidiaries. Finally, the Dodd-Frank Act authorizes state attorneys general and other state officials to enforce consumer protection rules issued by the CFPB.

Mortgage Related Rule Changes Generally

The Dodd-Frank Act amended the Truth in Lending Act and the Real Estate Settlement Procedures Act to impose a number of new requirements regarding the origination and servicing of residential mortgage loans. These amendments created a variety of new consumer protections. First, it significantly expands underwriting requirements applicable to loans secured by 1-4 family residential real property and augments federal law combating predatory lending practices. In addition to numerous new disclosure requirements, the Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset-backed securities that the securitizer issues, if the loans have not complied with the ability-to-repay standards. The risk retention requirement generally will be 5%, but could be increased or decreased by regulation.

Ability to Repay Rule

On January 10, 2013, the CFPB issued a final rule, effective January 10, 2014, that implements the Dodd-Frank Act's ability-to-repay requirements and clarifies the presumption of compliance for "qualified mortgages." In assessing a borrower's ability to repay a mortgage-related obligation, lenders generally must consider eight underwriting factors: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) monthly payment on the subject transaction; (iv) monthly payment on any simultaneous loan; (v) monthly payment for all mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) monthly debt-to-income ratio or residual income; and (viii) credit history. The final rule also includes guidance regarding the application of, and methodology for evaluating, these factors.

Further, the final rule also clarifies that qualified mortgages do not include "no-doc" loans and loans with negative amortization, interest-only payments, balloon payments, terms in excess of 30 years, or points and fees paid by the borrower that exceed 3% of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the monthly payment must be calculated on the highest payment that will occur in the first five years of the loan, and the borrower's total debt-to-income ratio generally may not be more than 43%. The final rule also provides that certain mortgages that satisfy the general product feature requirements for qualified mortgages and that also satisfy the

underwriting requirements of Fannie Mae and Freddie Mac (while they operate under federal conservatorship or receivership), or the U.S. Department of Housing and Urban Development, Department of Veterans Affairs, or Department of Agriculture or Rural Housing Service, are also considered to be qualified mortgages. This second category of qualified mortgages will phase out as the aforementioned federal agencies issue their own rules regarding qualified mortgages, the conservatorship of Fannie Mae and Freddie Mac ends, and, in any event, after seven years. As set forth in the Dodd-Frank Act, subprime (or higher-priced) mortgage loans are subject to the ability-to-repay requirement, and the final rule provides for a rebuttable presumption of lender compliance for those loans. The final rule also applies the ability-to-repay requirement to prime loans, while also providing a conclusive presumption of compliance (i.e., a safe harbor) for prime loans that are also qualified mortgages. Additionally, the final rule generally prohibits prepayment penalties (subject to certain

exceptions) and sets forth a 3-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

Changes to Mortgage Loan Originator Compensation

Previously existing regulations concerning the compensation of mortgage loan originators have been amended. As a result of these amendments, mortgage loan originators may not receive compensation based on a mortgage transaction’s terms or conditions other than the amount of credit extended under the mortgage loan. Further, the new standards limit the total points and fees that a bank and/or a broker may charge on conforming and jumbo loans to 3% of the total loan amount. Mortgage loan originators may receive compensation from a consumer or from a lender, but not both. These rules contain requirements designed to prohibit mortgage loan originators from “steering” consumers to loans that provide mortgage loan originators with greater compensation. In addition, the rules contain other requirements concerning recordkeeping.

Mortgage Loan Servicing

On January 17, 2013, the CFPB announced rules to implement certain provisions of the Dodd-Frank Act relating to mortgage servicing. The new servicing rules require servicers to meet certain benchmarks for loan servicing and customer service in general. Servicers must provide periodic billing statements and certain required notices and acknowledgments, promptly credit borrowers’ accounts for payments received and promptly investigate complaints by borrowers and are required to take additional steps before purchasing insurance to protect the lender’s interest in the property. The new servicing rules also call for additional notice, review and timing requirements with respect to delinquent borrowers. The new servicing rules took effect on January 10, 2014.

In order to ensure compliance with the Dodd-Frank Act mortgage-related rules the Company consolidated it’s consumer mortgage loan origination and loan servicing operations within the Wintrust Mortgage division of Barrington Bank. All consumer mortgage applications are taken through Wintrust Mortgage which has extensively trained loan originators located at each of our branches. While in certain limited cases our banks may offer specialized consumer mortgages to our customers, we expect that on a going forward basis consumer mortgages for all of our banks will be originated and closed by Wintrust Mortgage. Wintrust Mortgage then sells loans to third parties or to our banks. To the extent that we retain consumer mortgage loans in our bank portfolios, our banks have engaged the Wintrust Mortgage to provide loan servicing. We believe that by centralizing loan origination and servicing operations we will not only meet the new compliance requirements but reduce costs associated with such compliance.

Federal Preemption

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

Debit Interchange

The Dodd-Frank Act added a new statutory requirement that interchange fees for electronic debit transactions that are paid to or charged by payment card issuers (including our bank subsidiaries) be reasonable and proportional to the cost incurred by the issuer. The Act also gave the Federal Reserve the authority to establish rules regarding these interchange fees. The Federal Reserve issued final regulations that were effective in October 2011, and that limit interchange fees for electronic debit transactions to 21 cents plus .05% of the transaction, plus an additional one cent per transaction fraud adjustment. The rule also imposes requirements regarding routing and exclusivity of electronic debit transactions, and generally requires that debit cards be usable in at least two unaffiliated networks.

Anti-Money Laundering Programs

The Bank Secrecy Act (“BSA”) and USA PATRIOT Act of 2001 contain anti-money laundering (“AML”) and financial transparency provisions intended to detect, and prevent the use of the U.S. financial system for, money laundering and terrorist financing activities. The BSA, as amended by the USA PATRIOT Act, requires depository institutions and their holding companies to undertake activities including maintaining an AML program, verifying the identity of clients, monitoring for and reporting suspicious transactions, reporting on cash transactions exceeding specified thresholds, and responding to requests for information by regulatory authorities and law enforcement agencies. Each of our subsidiary banks is subject to the BSA and, therefore, is required to provide its employees with AML training,

designate an AML compliance officer and undergo an annual, independent audit to assess the effectiveness of its AML program. We have implemented policies, procedures and internal controls that are designed to comply with these AML requirements.

Protection of Client Information

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

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

Violation of these legal requirements may expose us to regulatory action and private litigation, including claims for damages and penalties. In addition, a security incident can cause substantial reputational harm.

Broker-Dealer and Investment Adviser Regulation

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

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

As a registered broker-dealer, WHI is subject to the SEC's net capital rule as well as the net capital requirements of the SROs of which it is a member. Net capital rules, which specify minimum capital requirements, are generally designed

to measure general financial integrity and liquidity and require that at least a minimum amount of net assets be kept in relatively liquid form. Rules of FINRA and other SROs also impose limitations and requirements on the transfer of member organizations' assets. Compliance with net capital requirements may limit the Company's operations requiring the intensive use of capital. These requirements restrict the Company's ability to withdraw capital from WHI, which in turn may limit its ability to pay dividends, repay debt or redeem or purchase shares of its own outstanding stock. WHI is a member of the Securities Investor Protection Corporation ("SIPC"), which subject to certain limitations, serves to oversee the liquidation of a member brokerage firm, and to return missing cash, stock and other securities owed to the firm's brokerage customers, in the event a member broker-dealer fails. The general SIPC

protection for customers' securities accounts held by a member broker-dealer is up to $500,000 for each eligible customer, including a maximum of $250,000 for cash claims. SIPC does not protect brokerage customers against investment losses.

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

Employees

At December 31, 2013, the Company and its subsidiaries employed a total of 3,413 full-time-equivalent employees. The Company provides its employees with comprehensive medical and dental benefit plans, life insurance plans, 401(k) plans and an employee stock purchase plan. The Company considers its relationship with its employees to be good.

Available Information

The Company’s Internet address is www.wintrust.com. The Company makes available at this address, free of charge, its annual report on Form 10-K, its annual reports to shareholders, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

Supplemental Statistical Data

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

Investment Securities Portfolio

The following table presents the fair value of the Company's available-for-sale securities portfolio, by investment category, as of December 31, 2013, 2012 and 2011:

(Dollars in thousands)	2013	2012	2011
U.S. Treasury	$336,095	$219,487	$16,173
U.S. Government agencies	895,688	990,039	765,916
Municipal	152,716	110,471	60,098
Corporate notes:			
Financial issuers	128,944	140,675	142,644
Other	6,094	14,131	27,292
Mortgage-backed: (1)			
Mortgage-backed securities	548,198	197,260	218,612
Collateralized mortgage obligations	57,027	74,314	29,939
Other equity securities	51,528	49,699	31,123
Total available-for-sale securities	$2,176,290	$1,796,076	$1,291,797

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

Tables presenting the carrying amounts and gross unrealized gains and losses for securities available-for-sale at December 31, 2013 and 2012 are included by reference to Note 3 to the Consolidated Financial Statements presented under Item 8 of this report. The fair value of available-for-sale securities as of December 31, 2013, by maturity distribution, is as follows:

(Dollars in thousands)	Within 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Mortgage-backed	Other Equities	Total
U.S. Treasury	$12,029	142,144	181,922	—	—	—	336,095
U.S. Government agencies	236,420	81,304	88,296	489,668	—	—	895,688
Municipal	18,257	38,265	37,150	59,044	—	—	152,716
Corporate notes:							
Financial issuers	250	92,762	22,652	13,280	—	—	128,944
Other	2,212	3,882	—	—	—	—	6,094
Mortgage-backed: (1)							
Mortgage-backed securities	—	—	—	—	548,198	—	548,198
Collateralized mortgage obligations	—	—	—	—	57,027	—	57,027
Other equity securities	—	—	—	—	—	51,528	51,528
Total available-for-sale securities	$269,168	358,357	330,020	561,992	605,225	51,528	2,176,290

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

The weighted average yield for each range of maturities of securities, on a tax-equivalent basis, is shown below as of December 31, 2013:

	Within 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Mortgage-backed	Other Equities	Total
U.S. Treasury	0.42 %	0.38 %	1.61 %	—	—	—	1.05 %
U.S. Government agencies	0.35 %	0.48 %	2.87 %	3.18 %	—	—	2.16 %

Municipal	2.53 %	2.87 %	3.61 %	4.38 %	—	—	3.59 %
Corporate notes:							
Financial issuers	0.61 %	1.50 %	1.66 %	5.39 %	—	—	1.93 %
Other	2.54 %	2.42 %	—	—	—	—	2.46 %
Mortgage-backed: (1)							
Mortgage-backed securities	—	—	—	—	3.20 %	—	3.20 %
Collateralized mortgage obligations	—	—	—	—	2.17 %	—	2.17 %
Other equity securities	—	—	—	—	—	4.24 %	4.24 %
Total available-for-sale securities	0.52 %	0.98 %	2.18 %	3.36 %	3.10 %	4.24 %	2.39 %

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Operating Environment

Difficult economic conditions have adversely affected our company and the financial services industry in general and further deterioration in economic conditions may materially adversely affect our business, financial condition, results of operations and cash flows.

The U.S. economy was in a recession from the third quarter of 2008 to the second quarter of 2009, and economic activity continues to be restrained. The housing and real estate markets have also been experiencing extraordinary slowdowns since 2007. Additionally, unemployment rates remained historically high during these periods. These factors have had a significant negative effect on us and other companies in the financial services industry. As a lending institution, our business is directly affected by the ability of our borrowers to repay their loans, as well as by the value of collateral, such as real estate, that secures many of our loans. Market turmoil has led to an increase in charge-offs and has negatively impacted consumer confidence and the level of business activity. However, net charge-offs, excluding covered loans, decreased to $56.1 million in 2013 from $74.8 million in 2012 and non-performing loans, excluding covered loans, decreased to $103.3 million as of December 31, 2013 from $118.1 million as of December 31, 2012. Our balance of other real estate owned ("OREO"), excluding covered other real estate owned, was $50.5 million at December 31, 2013 and $62.9 million at December 31, 2012. Continued weakness or further deterioration in the economy, real estate markets or unemployment rates, particularly in the markets in which we operate, will likely diminish the ability of our borrowers to repay loans that we have given them, the value of any collateral securing such loans and may cause increases in delinquencies, problem assets, charge-offs and provision for credit losses, all of which could materially adversely affect our financial condition and results of operations. Further, the underwriting and credit monitoring policies and procedures that we have adopted may not prevent losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

We maintain an allowance for loan losses that is intended to absorb credit losses that we expect to incur in our loan portfolio. At each balance sheet date, our management determines the amount of the allowance for loan losses based

on our estimate of probable and reasonably estimable losses in our loan portfolio, taking into account probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified.

Because our allowance for loan losses represents an estimate of probable losses, there is no certainty that it will be adequate over time to cover credit losses in the portfolio, particularly if there is continued deterioration in general economic or market conditions or events that adversely affect specific customers. In 2013, we charged off $56.1 million in loans, excluding covered loans, (net

of recoveries) and decreased our allowance for loan losses, excluding the allowance for covered loans, from $107.4 million at December 31, 2012 to $96.9 million at December 31, 2013. Our allowance for loan losses, excluding the allowance for covered loans, represents 0.75% of total loans, excluding covered loans outstanding at December 31, 2013, compared to 0.91% at December 31, 2012.

Although we believe our loan loss allowance is adequate to absorb probable and reasonably estimable losses in our loan portfolio, if our estimates are inaccurate and our actual loan losses exceed the amount that is anticipated, our financial condition and liquidity could be materially adversely affected.

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

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

The repayment of our commercial loans is dependent upon the financial success and viability of the borrower. If the economy remains weak for a prolonged period or experiences further deterioration or if the industry or market in which the borrower operates weakens, our borrowers may experience depressed or dramatic and sudden decreases in revenues that could hinder their ability to repay their loans. Our commercial loan portfolio totaled $3.3 billion or 25% of our total loan portfolio, at December 31, 2013, compared to $2.9 billion, or 24% of our total loan portfolio, at December 31, 2012.

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

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

As of both December 31, 2013 and December 31, 2012, approximately 40%, of our total loan portfolio was secured by real estate, the majority of which is commercial real estate. The commercial and residential real estate market continues to experience a variety of difficulties. In particular, market conditions in the Chicago metropolitan area, in which a majority of our real estate loans are concentrated, have declined significantly beginning in 2007. As a result of increased levels of commercial and consumer delinquencies and declining real estate values, which reduce the customer's borrowing power and the value of the collateral securing the loan, for the last six years, we have experienced higher than normal levels of charge-offs and provisions for loan losses. Increases in commercial and consumer delinquency levels or additional declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

Unanticipated changes in prevailing interest rates and the effects of changing regulation could adversely affect our net interest income, which is our largest source of income.

Wintrust is exposed to interest rate risk in its core banking activities of lending and deposit taking, since changes in prevailing interest rates affect the value of our assets and liabilities. Such changes may adversely affect our net interest income, which is the difference between interest income and interest expense. Our net interest income is affected by

the fact that assets and liabilities reprice at different times and by different amounts as interest rates change. Net interest income represents our largest component of net income, and was $550.6 million and $519.5 million for the years ended December 31, 2013 and 2012, respectively.

Each of our businesses may be affected differently by a given change in interest rates. For example, we expect that the results of our mortgage banking business in selling loans into the secondary market would be negatively impacted during periods of rising interest rates, whereas falling interest rates could have a negative impact on the net interest spread earned on deposits as we would be unable to lower the rates on many interest bearing deposit accounts of our customers to the same extent as many of our higher yielding asset classes.
Additionally, increases in interest rates may adversely influence the growth rate of loans and deposits, the quality of our loan portfolio, loan and deposit pricing, the volume of loan originations in our mortgage banking business and the value that we can recognize on the sale of mortgage loans in the secondary market.
We seek to mitigate our interest rate risk through several strategies, which may not be successful. With the relatively low interest rates that prevailed in recent years, we were able to augment the total return of our investment securities portfolio by selling call options on fixed-income securities that we own. We recorded fee income of approximately, $4.8 million and $10.5 million and $13.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. We also mitigate our interest rate risk by entering into interest rate swaps and other interest rate derivative contracts from time to time with counterparties. To the extent that the market value of any derivative contract moves to a negative market value, we are subject to loss if the counterparty defaults. In the future, there can be no assurance that such mitigation strategies will be available or successful.
Our liquidity position may be negatively impacted if economic conditions continue to suffer.
Liquidity is a measure of whether our cash flows and liquid assets are sufficient to satisfy current and future financial obligations, such as demand for loans, deposit withdrawals and operating costs. Our liquidity position is affected by a number of factors, including the amount of cash and other liquid assets on hand, payment of interest and dividends on debt and equity instruments that we have issued, capital we inject into our bank subsidiaries, proceeds we raise through the issuance of securities, our ability to draw upon our revolving credit facility and dividends received from our banking subsidiaries. Our future liquidity position may be adversely affected by multiple factors, including:

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

Continued weakness or worsening of the economy, real estate markets or unemployment levels may increase the likelihood that one or more of these events will occur. If our liquidity is adversely affected, it may have a material adverse effect on our business, results of operations and financial condition.
The financial services industry is very competitive, and if we are not able to compete effectively, we may lose market share and our business could suffer.
We face competition in attracting and retaining deposits, making loans, and providing other financial services (including wealth management services) throughout our market area. Our competitors include national, regional and other community banks, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies, factoring companies and other non-bank financial companies. Many of these competitors have substantially greater resources and market presence than Wintrust and, as a result of their size, may be able to offer a broader range of products and services, better pricing for those products and services , or newer technologies to deliver those products and services than we can. Several of our local competitors have experienced improvements in their financial condition over the past year and are better positioned to compete for loans, acquisitions and personnel. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and payment systems, and for banks that do not have a physical presence in our markets to compete for deposits.
Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service and high ethical standards;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the ability to expand our market position;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

If we are unable to compete effectively, we will lose market share and income from deposits, loans and other products may be reduced. This could adversely affect our profitability and have a material adverse effect on our business, financial condition and results of operations.
If we are unable to continue to identify favorable acquisitions or successfully integrate our acquisitions, our growth may be limited and our results of operations could suffer.
In the past several years, we have completed numerous acquisitions of banks, other financial service related companies and financial service related assets, including acquisitions of troubled financial institutions, as more fully described below. We expect to continue to make such acquisitions in the future. Wintrust seeks merger or acquisition partners that are culturally similar, have experienced management, possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Failure to successfully identify and complete acquisitions likely will result in Wintrust achieving slower growth. Acquiring other banks, businesses or branches involves various risks commonly associated with acquisitions, including, among other things:

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

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of Wintrust's tangible book value and net income per common share may occur as a result of any future transaction. In addition, certain acquisitions may expose us to additional regulatory risks, including from foreign governments. Our ability to comply with any such regulations will impact the success of any such acquisitions. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.
Our participation in FDIC-assisted acquisitions may present additional risks to our financial condition and results of operations.
As part of our growth strategy, we have made opportunistic partial acquisitions of troubled financial institutions in transactions facilitated by the FDIC through our bank subsidiaries. These acquisitions, and any future FDIC-assisted transactions we may undertake, involve greater risk than traditional acquisitions because they are typically conducted on an accelerated basis, allowing less time for us to prepare for and evaluate possible transactions, or to prepare for integration of an acquired institution. These transactions also present risks of customer loss, strain on management resources related to collection and management of problem loans and problems related to the integration of operations and personnel of the acquired financial institutions. As a result, there can be no assurance that we will be able to successfully integrate the financial institutions we acquire, or that we will realize the anticipated benefits of the acquisitions. Additionally, while the FDIC may agree to assume certain losses in transactions that it facilitates, there can be no assurances that we would not be required to raise additional capital as a condition to, or as a result of, participation in an FDIC-assisted transaction. Any such transactions and related issuances of stock may have dilutive effect on earnings per share. Furthermore, we may face competition from other financial institutions with respect to proposed FDIC-assisted transactions.
We are also subject to certain risks relating to our loss sharing agreements with the FDIC. Under a loss sharing agreement, the FDIC generally agrees to reimburse the acquiring bank for a portion of any losses relating to covered assets of the acquired financial institution. This is an important financial term of any FDIC-assisted transaction, as troubled financial institutions often have poorer asset quality. As a condition to reimbursement, however, the FDIC requires the acquiring bank to follow certain servicing procedures. A failure to follow servicing procedures or any other breach of a loss sharing agreement by us could result in the loss of FDIC reimbursement. While we have

established a group dedicated to servicing the loans covered by the FDIC loss sharing agreements, there can be no assurance that we will be able to comply with the FDIC servicing procedures. In addition, reimbursable losses and recoveries under loss sharing agreements are based on the book value of the relevant loans and other assets as determined by the FDIC as of the effective dates of the acquisitions. The amount that the acquiring banks realize on these assets could differ materially from the carrying value that will be reflected in our financial statements, based upon the timing and amount of collections on the covered loans in future periods. Any failure to receive reimbursement, or any material differences between the amount of reimbursements that we do receive and the carrying value reflected in our financial statements, could have a material negative effect on our financial condition and results of operations.

An actual or perceived reduction in our financial strength may cause others to reduce or cease doing business with us, which could result in a decrease in our net interest income and fee revenues.
Our customers rely upon our financial strength and stability and evaluate the risks of doing business with us. If we experience diminished financial strength or stability, actual or perceived, including due to market or regulatory developments, announced or rumored business developments or results of operations, or a decline in stock price, customers may withdraw their deposits or otherwise seek services from other banking institutions and prospective customers may select other service providers. The risk that we may be perceived as less creditworthy relative to other market participants is increased in the current market environment, where the consolidation of financial institutions, including major global financial institutions, is resulting in a smaller number of much larger counterparties and competitors. If customers reduce their deposits with us or select other service providers for all or a portion of the services that we provide them, net interest income and fee revenues will decrease accordingly, and could have a material adverse effect on our results of operations.
If our growth requires us to raise additional capital, that capital may not be available when it is needed or the cost of that capital may be very high.
We are required by regulatory authorities to maintain adequate levels of capital to support our operations (see "-Risks Related to Our Regulatory Environment-If we fail to meet our regulatory capital ratios, we may be forced to raise capital or sell assets") and as we grow, internally and through acquisitions, the amount of capital required to support our operations grows as well. We may need to raise additional capital to support continued growth both internally and through acquisitions. Any capital we obtain may result in the dilution of the interests of existing holders of our common stock.
Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time which are outside our control and on our financial condition and performance. If we cannot raise additional capital when needed, or on terms acceptable to us, our ability to further expand our operations through internal growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and negatively affected.
Disruption in the financial markets could result in lower fair values for our investment securities portfolio.
The Company's available-for-sale and trading securities are carried at fair value. Major disruptions in the capital markets experienced in the past six years have impacted investor demand for all classes of securities and resulted in volatility in the fair values of the Company's investment securities.
Accounting standards require the Company to categorize these according to a fair value hierarchy. As of December 31, 2013, over 97% of the Company's available-for-sale securities were categorized in level 2 of the fair value hierarchy (meaning that their fair values were determined by quoted prices for similar assets or other observable inputs). Significant prolonged reduced investor demand could manifest itself in lower fair values for these securities and may result in recognition of an other-than-temporary or permanent impairment of these assets, which could lead to accounting charges and have a material adverse effect on the Company's financial condition and results of operations.
The remaining securities in our investment securities portfolio were categorized as level 3 (meaning that their fair values were determined by inputs that are unobservable in the market and therefore require a greater degree of management judgment). The determination of fair value for securities categorized in level 3 involves significant judgment due to the complexity of factors contributing to the valuation, many of which are not readily observable in the market. Recent market disruptions make valuation of such securities even more difficult and subjective. In addition, the nature of the business of the third party source that is valuing the securities at any given time could impact the valuation of the securities. Consequently, the ultimate sales price for any of these securities could vary significantly from the recorded fair value at December 31, 2013, especially if the security is sold during a period of illiquidity or market disruption or as part of a large block of securities under a forced transaction.
There can be no assurance that decline in market value associated with these disruptions will not result in other-than-temporary or permanent impairments of these assets, which would lead to accounting charges which could have a material negative effect on our business, financial condition and results of operations.
New lines of business and new products and services are essential to our ability to compete but may subject us to additional risks.

We continually implement new lines of business and offer new products and services within existing lines of business to offer our customers a competitive array of products and services. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology can increase efficiency and enable financial institutions to better serve customers and to reduce costs. However, some new technologies needed to compete effectively result in incremental operating costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to

create additional efficiencies in operations. Many of our competitors, because of their larger size and available capital, have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could cause a loss of customers and have a material adverse effect on our business.

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

Failures of our information technology systems may adversely affect our operations.

We are increasingly dependent upon computer and other information technology systems to manage our business. We rely upon information technology systems to process, record, monitor and disseminate information about our operations. In some cases, we depend on third parties to provide or maintain these systems. While we perform a review of controls instituted by our critical vendors in accordance with industry standards, we must rely on the continued maintenance of these controls by the outside party, including safeguards over the security of customer data. If any of our financial, accounting or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. Security breaches in our online banking systems could also have an adverse effect on our reputation and could subject us to possible liability. Our systems may also be affected by events that are beyond our control, which may include, for example, computer viruses, electrical or telecommunications outages or other damage to our property or assets. Although we take precautions against malfunctions and security breaches, our efforts may not be adequate to prevent problems that could materially adversely affect our business, financial condition and results of operations.

Failures by or of our vendors may adversely affect our operations.

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

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

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

business, financial condition, and results of operations.

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

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

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

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

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

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

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

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

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

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

We engage in the origination and purchase of residential mortgages for sale into the secondary market. In connection with such sales, we make certain representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. Due, in part, to recent increased mortgage payment delinquency rates and declining housing prices, we have been receiving such requests for loan repurchases and indemnification payments relating to the representations and warranties with respect to such loans. We have been able to reach settlements with a number of purchasers, and believe that we have established appropriate reserves with respect to indemnification requests. While we have recently

received fewer requests for indemnification, it is possible that the number of such requests will increase or that we will not be able to reach settlements with respect to such requests in the future. Accordingly, it is possible that losses incurred in connection with loan repurchases and indemnification payments may be in excess of our financial statement reserves, and we may be required to increase such reserves and may sustain additional losses associated with such loan repurchases and indemnification payments in the future. Increases to our reserves and losses incurred by us in connection with actual loan repurchases and indemnification payments in excess of our reserves could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

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

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

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

Our financial results have been and will continue to be impacted by our strategy of branch openings and de novo bank formations. We expect to increase the opening of additional branches as market conditions improve and, if the interest rate environment and economic climate and regulatory conditions become favorable, may resume de novo bank formations. Based on our experience, we believe that it generally takes over 13 months for de novo banks to first achieve operational profitability, depending on the number of banking facilities opened, the impact of organizational and overhead expenses, the start-up phase of generating deposits and the time lag typically involved in redeploying deposits into attractively priced loans and other higher yielding earning assets. However, it may take longer than expected or more than the amount of time Wintrust has historically experienced for new banks and/or banking facilities to reach profitability, and there can be no guarantee that these branches or banks will ever be profitable. Moreover, the FDIC's recent issuance extending the enhanced supervisory period for de novo banks from three to seven years, including higher capital requirements during this period, could also delay a new bank's ability to contribute to the Company's earnings and impact the Company's willingness to expand through de novo bank formation. To the extent we undertake additional de novo bank, branch and business formations, our level of reported net income, return on average equity and return on average assets will be impacted by startup costs associated with such operations, and it is likely to continue to experience the effects of higher expenses relative to operating income from the new operations. These expenses may be higher than we expected or than our experience has shown, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to examinations and challenges by tax authorities, and changes in federal and state tax laws and changes in interpretation of existing laws can impact our financial results.

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

interpretation of existing law, including provisions impacting tax rates, apportionment, consolidation or combination, income, expenses and credits may have a material adverse effect on our business, financial condition and results of operations.

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

Our accounting policies are fundamental to understanding our financial results and financial condition. Some of these policies require use of estimates and assumptions that affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience

material losses. From time to time, the Financial Accounting Standards Board ("FASB") and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

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

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

Anti-takeover provisions could negatively impact our shareholders.

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

The ability of a third party to acquire us is also limited under applicable banking regulations. The Bank Holding Company Act of 1956 requires any “bank holding company” (as defined in that Act) to obtain the approval of the Federal Reserve prior to acquiring more than 5% of our outstanding common stock. Any person other than a bank holding company is required to obtain prior approval of the Federal Reserve to acquire 10% or more of our outstanding common stock under the Change in Bank Control Act of 1978. Any holder of 25% or more of our outstanding common stock, other than an individual, is subject to regulation as a bank holding company under the Bank Holding Company Act. For purposes of calculating ownership thresholds under these banking regulations, bank regulators would likely at least take the position that the minimum number of shares, and could take the position that the maximum number of shares, of Wintrust common stock that a holder is entitled to receive pursuant to securities convertible into or settled in Wintrust common stock, including pursuant to Wintrust's warrants to purchase Wintrust common stock held by such holder, must be taken into account in calculating a shareholder's aggregate holdings of Wintrust common stock.

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

Risks Related to Our Regulatory Environment

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

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

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

We have recently undergone credit rating of our financial obligations for the first time. We have been rated by Fitch Ratings as BBB.

Our creditworthiness is not fixed and should be expected to change over time as a result of company performance and industry conditions. We cannot give any assurances that our credit ratings will remain at current levels, and it is possible that our ratings could be lowered or withdrawn by Fitch Ratings. Any actual or threatened downgrade or withdrawal of our credit rating could affect our perception in the marketplace and ability to raise capital, and could increase our debt financing costs.
Legislative and regulatory actions taken now or in the future regarding the financial services industry may significantly increase our costs or limit our ability to conduct our business in a profitable manner.

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

The Dodd-Frank Act, enacted in 2010, significantly changed the bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, including heightened capital requirements, and to prepare numerous studies and reports for Congress. The Dodd-Frank Act amended the laws governing federal preemption of state laws as applied to national banks, and eliminated federal preemption for subsidiaries of national banks. These changes may subject our national banks and their subsidiaries and divisions, including Wintrust Mortgage, to additional state regulation. With regard to mortgage lending, the Dodd-Frank Act imposed new requirements regarding the origination and servicing of residential mortgage loans. The law created a variety of new consumer protections, including limitations on the manner by which loan originators may be compensated and an obligation of the part of lenders to assess and verify a borrower's “ability to repay” a residential mortgage loan.

The Dodd-Frank Act also enhanced provisions relating to affiliate and insider lending restrictions and loans-to-one-borrower limitations. Federal and state banking laws impose limits on the amount of credit a bank can extend to any one person (or group of related persons). The Dodd-Frank Act expanded the scope of these restrictions for national banks under federal law to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions. Provisions of the Dodd-Frank Act also amended the FDIA to prohibit state-chartered banks (including certain of our banking subsidiaries) from engaging in derivative transactions unless the state lending limit laws take into account credit exposure to such transactions.

Additional discussion of the Dodd-Frank Act may be found in this report under “Business - Supervision and Regulation” and “Management's Discussion and Analysis of Financial Condition and Results of Operations-Overview and Strategy-Financial Regulatory Reform.”

Given the uncertainty associated with the manner in which many provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies, the full extent of the impact that its requirements will have on our operations is unclear. However, its requirements may, individually or in the aggregate, have a material adverse effect

upon the Company's business, results of operations, cash flows and financial position.

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

The Dodd-Frank Act also established the CFPB within the Federal Reserve, which now regulates consumer financial products and services. On July 21, 2011, many of the consumer financial protection functions previously assigned to other federal agencies shifted to the CFPB. The CFPB now has broad rulemaking authority over a wide range of consumer protection laws that apply to banks and other providers of consumer financial services, including the authority to prohibit “unfair, deceptive or abusive acts or practices,” and to enact regulations to ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent and competitive. The Dodd-Frank Act also required the CFPB to adopt a number of new specific regulatory requirements. These new rules may increase the costs of engaging in these activities for all

market participants, including our subsidiaries. Additionally, the CFPB has broad supervisory, examination and enforcement authority. Although we and our subsidiary banks are not subject to CFPB examination, the actions taken by the CFPB may influence enforcement actions and positions taken by other federal and state regulators, including those with jurisdiction over us and our subsidiaries. In addition, in the wake of the mortgage crisis of the last few years, federal and state banking regulators are closely examining the mortgage and mortgage servicing activities of depository financial institutions. Should the regulatory agencies have serious concerns with respect to our operations in this regard, the effect of such concerns could have a material adverse effect on our profits. Finally, the Dodd-Frank Act authorizes state attorneys general and other state officials to enforce certain consumer protection rules issued by the CFPB.

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

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. Over the course of 2013, the CFPB has issued several rules on mortgage lending, notably a rule requiring all home mortgage lenders to determine a borrower's ability to repay the loan. Loans with certain terms and conditions and that otherwise meet the definition of a "qualified mortgage" may be protected from liability to a borrower for failing to make the necessary determinations. In either case, we may find it necessary to tighten our mortgage loan underwriting standards in response to the CFPB rules, which may constrain our ability to make loans consistent with our business strategies. It is our policy not to make predatory loans and to determine borrowers' ability to repay, but the law and related rules create the potential for increased liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.
Regulatory initiatives regarding bank capital requirements may require heightened capital.

The Dodd-Frank Act, which reformed the regulation of financial institutions in a comprehensive manner, and the Basel III regulatory capital reforms, which will increase both the amount and quality of capital that financial institutions must hold will both impact our capital requirements. Specifically, in July 2013, the U.S. federal banking authorities approved the implementation of the Basel III Rule. The Basel III Rule is applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than $500 million). The Basel III Rule not only increases most of the required minimum regulatory capital ratios, it introduces a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Rule also expands the current definition of capital by establishing additional criteria that capital instruments must meet to be considered Additional Tier 1 Capital (i.e., Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that now generally qualify as Tier 1 Capital will not qualify or their qualifications will change when the Basel III Rule is fully implemented. The Basel III Rule has maintained the general structure of the current prompt corrective action thresholds while incorporating the increased requirements, including the Common Equity Tier 1 Capital ratio. In order to be a “well-capitalized” depository institution under the new regime, an institution must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more, a Tier 1 Capital ratio of 8% or more, a Total Capital ratio of 10% or more, and a leverage ratio of 5% or more. Institutions must also maintain a capital conservation buffer consisting of Common Equity Tier 1 Capital. Generally, financial institutions will become subject to the Basel III Rule on January 1, 2015 with a phase-in period through 2019 for many of the changes.

The implementation of these provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, will impact the profitability of our business activities and may

change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition and results of operations. Our management is actively reviewing the provisions of the Dodd-Frank Act and the Basel III Rule, many of which are to be phased-in over the next several months and years, and assessing the probable impact on our operations. However, the ultimate effect of these changes on the financial services industry in general, and us in particular, is uncertain at this time.

In October 2012, the Federal Reserve published a final rule implementing the stress test requirements under the Dodd-Frank Act, which are designed to evaluate the sufficiency of a banking organization's capital to support its operations during periods of stress. As a bank holding company with between $10 billion and $50 billion in total consolidated assets, we were required to conduct annual stress tests based on scenarios provided by the Federal Reserve, beginning in the fall of 2013, and will be required to

publicly disclose the results of our 2014 stress tests in 2015. This stress test requirement has increased our compliance costs. We anticipate that our pro forma capital ratios, as reflected in the stress test calculations under the required stress test scenarios, will be an important factor considered by the Federal Reserve Board in evaluating whether proposed payments of dividends or stock repurchases are consistent with its prudential expectations. Requirements to maintain higher levels of capital or liquidity to address potential adverse stress scenarios could adversely impact our net income and our return on equity.

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

Recent insured institution failures, as well as deterioration in banking and economic conditions, have significantly increased FDIC loss provisions, resulting in a decline of its deposit insurance fund to historical lows. In addition, the Dodd-Frank Act made permanent a temporary increase in the limit on FDIC coverage to $250,000 per depositor. These developments have caused our FDIC insurance premiums to increase, and may cause additional increases. Certain provisions of the Dodd-Frank Act may further affect our FDIC insurance premiums. The Dodd-Frank Act includes provisions that change the assessment base for federal deposit insurance from the amount of insured deposits to average total consolidated assets less average tangible capital, eliminate the maximum size of the DIF, eliminate the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds, and increase the minimum reserve ratio of the DIF from 1.15% to 1.35%. Beginning in late 2010, the FDIC has issued regulations implementing some of these changes. There is a risk that the banks' deposit insurance premiums will continue to increase if failures of insured depository institutions continue to deplete the DIF. Any such increase may negatively impact our financial condition and results of operations.

Risks Related to Our Niche Businesses

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

We provide financing for the payment of commercial insurance premiums and life insurance premiums on a national basis through our wholly owned subsidiary, FIFC, and financing for the payment of commercial insurance premiums in Canada through our wholly owned subsidiary, FIFC Canada. Commercial insurance premium finance loans involve a different, and possibly higher, risk of delinquency or collection than life insurance premium finance loans and the loan portfolios of our bank subsidiaries because these loans are issued primarily through relationships with a large number of unaffiliated insurance agents and because the borrowers are located nationwide. As a result, risk management and general supervisory oversight may be difficult. As of December 31, 2013, we had $2.2 billion of commercial insurance premium finance loans outstanding, of which $1.9 billion were originated in the U.S. by FIFC and $274.8 million were originated in Canada by FIFC Canada. Together, these loans represented 16% of our total loan portfolio as of such date.

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

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

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

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

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

Widespread financial difficulties or credit downgrades among commercial and life insurance providers could lessen the value of the collateral securing our premium finance loans and impair the financial condition and liquidity of FIFC and FIFC Canada.
FIFC and FIFC Canada's premium finance loans are primarily secured by the insurance policies financed by the loans. These insurance policies are written by a large number of insurance companies geographically dispersed throughout the country. Our premium finance receivables balances finance insurance policies which are spread among a large number of insurers; however, one of the insurers represents approximately 12% of such balances and two additional insurers each of which represents approximately 4% of such balances. FIFC and FIFC Canada consistently monitor carrier ratings and financial performance of our carriers. While FIFC and FIFC Canada can mitigate its risks as a result of this monitoring to the extent that commercial or life insurance providers experience widespread difficulties or credit downgrades, the value of our collateral will be reduced. FIFC and FIFC Canada are also subject to the possibility of insolvency of insurance carriers in the commercial and life insurance businesses that are in possession of our collateral. If one or more large nationwide insurers were to fail, the value of our portfolio could be significantly negatively impacted. A significant downgrade in the value of the collateral supporting our premium finance business could impair our ability to create liquidity for this business, which, in turn could negatively impact our ability to expand.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's executive offices are located at 9700 W. Higgins Road, Rosemont, Illinois. The Company's banks operate through 124 banking facilities, the majority of which are owned. The Company owns 182 automatic teller machines, the majority of which are housed at banking locations. The banking facilities are located in communities throughout the Chicago metropolitan area and southern Wisconsin. Excess space in certain properties is leased to third parties.

The Company's wealth management subsidiaries have one location in downtown Chicago, one in Appleton, Wisconsin, and one in Florida, all of which are leased, as well as office locations at several of our banks. Wintrust Mortgage, a division of Barrington Bank, is headquartered in our corporate headquarters in Rosemont, Illinois and has 48 locations in eleven states, all of which are leased, as well as office locations at several of our banks. FIFC has one location in Northbrook, Illinois which is owned and locations in Jersey City, New Jersey and Long Island, New York which are leased. FIFC Canada has two locations in Canada that are leased, located in Toronto, Ontario and Vancouver, British Columbia. Tricom has one location in Menomonee Falls, Wisconsin which is owned. In addition, the Company owns other real estate acquired for further expansion that, when considered in the aggregate, is not material to the Company's financial position.

ITEM 3. LEGAL PROCEEDINGS

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

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

On March 15, 2012, a former mortgage loan originator employed by Wintrust Mortgage Company, named Wintrust, Barrington Bank and its subsidiary, Wintrust Mortgage Company, as defendants in a Fair Labor Standards Act class action lawsuit filed in the U.S. District Court for the Northern District of Illinois (the "FLSA Litigation"). The suit asserts that Wintrust Mortgage Company violated the federal Fair Labor Standards Act and challenges the manner in which Wintrust Mortgage Company classified its loan originators and compensated them for their work. The suit also seeks to assert these claims as a class. On September 30, 2013, the Court entered an order conditionally certifying an "opt-in" class in this case. Notice to the potential class members was sent on or about October 22, 2013, primarily informing the putative class of the right to opt-into the class and setting a deadline for same. Approximately 15% of the notice recipients joined the class. However, the Company anticipates that about half of these new class members will ultimately be excluded from the class. The Company has reserved an amount for the FLSA Litigation that is immaterial to its results of operations or financial condition. Such class action litigation necessarily involves substantial uncertainty and it is not possible at this time to predict the ultimate resolution or to determine whether, or to what extent, any loss with respect to this litigation may exceed the amounts reserved by the Company.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

The Company's common stock is traded on The NASDAQ Global Select Stock Market under the symbol WTFC. The following table sets forth the high and low sales prices reported on NASDAQ for the common stock by fiscal quarter during 2013 and 2012.

	2013		2012	
	High	Low	High	Low
Fourth Quarter	$47.80	$40.61	$39.81	$34.40
Third Quarter	42.28	38.38	39.04	34.51
Second Quarter	38.70	34.63	36.85	31.67
First Quarter	38.66	35.90	36.57	28.61

Performance Graph

The following performance graph compares the five-year percentage change in the Company's cumulative shareholder return on common stock compared with the cumulative total return on composites of (1) all NASDAQ Global Select Market stocks for United States companies (broad market index) and (2) all NASDAQ Global Select Market bank stocks (peer group index). Cumulative total return is computed by dividing the sum of the cumulative amount of dividends for the measurement period and the difference between the Company's share price at the end and the beginning of the measurement period by the share price at the beginning of the measurement period. The NASDAQ Global Select Market for United States companies' index comprises all domestic common shares traded on the NASDAQ Global Select Market and the NASDAQ Small-Cap Market. The NASDAQ Global Select Market bank stocks index comprises all banks traded on the NASDAQ Global Select Market and the NASDAQ Small-Cap Market. This graph and other information furnished in the section titled "Performance Graph" under this Part II, Item 5 of this Form 10-K shall not be deemed to be "soliciting" materials or to be "filed" with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

	2008	2009	2010	2011	2012	2013
Wintrust Financial Corporation	100.00	151.00	162.76	139.43	182.36	229.03
NASDAQ — Total US	100.00	129.26	151.94	152.42	177.46	236.88
NASDAQ — Bank Index	100.00	98.65	109.85	81.92	110.37	150.79

Approximate Number of Equity Security Holders

As of February 21, 2014 there were approximately 1,473 shareholders of record of the Company’s common stock.

Dividends on Common Stock

The Company’s Board of Directors approved the first semi-annual dividend on the Company’s common stock in January 2000 and has continued to approve a semi-annual dividend since that time. The payment of dividends is subject to statutory restrictions and restrictions arising under the terms of the Company's 5.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series C (the "Series C Preferred Stock"), the terms of the Company’s Trust Preferred Securities offerings and under certain financial covenants in the Company’s credit agreement. Under the terms of the Company’s revolving credit facility amended on November 7, 2013, the Company is prohibited from paying dividends on any equity interests, including its common stock and preferred stock, if such payments would cause the Company to be in default under its credit facility.

Following is a summary of the cash dividends paid in 2013 and 2012:

Record Date	Payable Date	Dividend per Share [(1)]
August 8, 2013	August 22, 2013	$0.09
February 7, 2013	February 21, 2013	$0.09
August 9, 2012	August 23, 2012	$0.09
February 9, 2012	February 23, 2012	$0.09

(1) Semi-annual dividend

On January 23, 2014, Wintrust Financial Corporation announced that the Company’s Board of Directors approved a quarterly cash dividend of $0.10 per share of outstanding common stock. The dividend was payable on February 20, 2014 to shareholders of record as of February 6, 2014.

Because the Company’s consolidated net income consists largely of net income of the banks and certain wealth management subsidiaries, the Company’s ability to pay dividends generally depends upon its receipt of dividends from these entities. The banks’ ability to pay dividends is regulated by banking statutes. See “Supervision and Regulation - Payment of Dividends and Share Repurchases” on page 11 of this Form 10-K. During 2013, 2012 and 2011, the banks paid $112.8 million, $45.0 million and $27.8 million, respectively, in dividends to the Company.

Reference is also made to Note 20 to the Consolidated Financial Statements and “Liquidity and Capital Resources” contained in this Form 10-K for a description of the restrictions on the ability of certain subsidiaries to transfer funds to the Company in the form of dividends.

Recent Sales of Unregistered Securities

On January 22, 2013 the Company entered into an Agreement and Plan of Merger to acquire First Lansing Bancorp, Inc (“FLB”). The transaction closed on May 1, 2013. At closing, the Company issued 648,286 shares of common stock as consideration for the merger. Based on representations and warranties made by the shareholders of FLB, including representations to the Company as to their accredited investor status, their investment intent and financial sophistication, the common stock was issued in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 (the “Securities Act”) in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act and Regulation D and/or S thereunder.

On July 26, 2011 the Company entered into an Agreement and Plan of Merger to acquire Elgin State Bancorp, Inc (“ESBI”). The transaction closed on September 30, 2011. At closing, the Company issued 353,650 shares of common stock to the shareholders of ESBI as consideration for the merger. Based on representations and warranties made by the shareholders of ESBI, including representation to the Company as to their accredited investor status, their investment intent and financial sophistication, the common stock was issued in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act by virtue of Section 4 (2) and Regulation D.

On May 4, 2011 the Company entered into an Agreement and Plan of Merger to acquire Great Lakes Advisors. The transaction closed on July 1, 2011. At closing, the Company issued 529,087 shares of common stock to the shareholders of Great Lakes Advisors as consideration for the merger. Based on representations and warranties made by the shareholders of Great Lakes Advisors, including representations to the Company as to their accredited investor status, their investment intent and financial sophistication, the common stock was issued in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act by virtue of Section 4 (2) and Regulation

D.

Issuer Purchases of Equity Securities

No purchases of the Company's common shares were made by or on behalf of the Company or any "affiliated purchaser" as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during the year ended December 31, 2013. There is currently no authorization to repurchase shares of outstanding common stock.

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended December 31,				
(Dollars in thousands, except per share data)	2013	2012	2011	2010	2009
Selected Financial Condition Data (at end of year):					
Total assets	$18,097,783	$17,519,613	$15,893,808	$13,980,156	$12,215,620
Total loans, excluding covered loans	12,896,602	11,828,943	10,521,377	9,599,886	8,411,771
Total deposits	14,668,789	14,428,544	12,307,267	10,803,673	9,917,074
Junior subordinated debentures	249,493	249,493	249,493	249,493	249,493
Total shareholders' equity	1,900,589	1,804,705	1,543,533	1,436,549	1,138,639
Selected Statements of Income Data:					
Net interest income	$550,627	$519,516	$461,377	$415,836	$311,876
Net revenue [1]	773,024	745,608	651,075	607,996	629,523
Pre-tax adjusted earnings [2]	275,999	274,873	221,547	196,078	122,665
Net income	137,210	111,196	77,575	63,329	73,069
Net income per common share – Basic	3.33	2.81	2.08	1.08	2.23
Net income per common share – Diluted	2.75	2.31	1.67	1.02	2.18
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Net interest margin [2]	3.50 %	3.49 %	3.42 %	3.37 %	3.01 %
Non-interest income to average assets	1.27	1.37	1.27	1.42	2.78
Non-interest expense to average assets	2.88	2.96	2.82	2.82	3.01
Net overhead ratio [2] [3]	1.60	1.59	1.55	1.40	0.23
Net overhead ratio - pre-tax adjusted earnings [2] [3]	1.57	1.48	1.61	1.62	1.66
Efficiency ratio [2] [4]	64.57	65.85	64.58	63.77	54.44
Efficiency ratio - pre-tax adjusted earnings [2] [4]	64.01	62.38	63.67	64.70	72.25
Return on average assets	0.79	0.67	0.52	0.47	0.64
Return on average common equity [2]	7.56	6.60	5.12	3.01	6.70
Return on average tangible common equity [2]	9.93	8.70	6.70	4.36	10.86
Average total assets	$17,468,249	$16,529,617	$14,920,160	$13,556,612	$11,415,322
Average total shareholders' equity	1,856,706	1,696,276	1,484,720	1,352,135	1,081,792
Average loans to average deposits ratio (excluding covered loans)	88.9 %	87.8 %	88.3 %	91.1 %	90.5 %
Average loans to average deposits ratio (including covered loans)	92.1	92.6	92.8	93.4	90.5
Common Share Data at end of year:					
Market price per common share	$46.12	$36.70	$28.05	$33.03	$30.79
Book value per common share [2]	$38.47	$37.78	$34.23	$32.73	$35.27
	$29.93	$29.28	$26.72	$25.80	$23.22

Tangible common book value per share [2]										
Common shares outstanding	46,116,583		36,858,355		35,978,349		34,864,068		24,206,819	
Other Data at end of year: [7]										
Leverage Ratio	10.5	%	10.0	%	9.4	%	10.1	%	9.3	%
Tier 1 Capital to risk-weighted assets	12.2		12.1		11.8		12.5		11.0	
Total Capital to risk-weighted assets	12.9		13.1		13.0		13.8		12.4	
Tangible Common Equity ratio (TCE) [2] [6]	7.8		7.4		7.5		8.0		4.7	
Tangible Common Equity ratio, assuming full conversion of preferred stock [2] [6]	8.5		8.4		7.8		8.3		7.1	
Allowance for credit losses [5]	$97,641		$121,988		$123,612		$118,037		$101,831	
Non-performing loans	103,334		118,083		120,084		141,958		131,804	
Allowance for credit losses[5] to total loans, excluding covered loans	0.76	%	1.03	%	1.17	%	1.23	%	1.21	%
Non-performing loans to total loans, excluding covered loans	0.80		1.00		1.14		1.48		1.57	
Number of:										
Bank subsidiaries	15		15		15		15		15	
Non-bank subsidiaries	8		8		7		8		8	
Banking offices	124		111		99		86		78	

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

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

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

(4) The efficiency ratio is calculated by dividing total non-interest expense by tax-equivalent net revenue (less securities gains or losses). A lower ratio indicates more efficient revenue generation.

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

(6) Total shareholders’ equity minus preferred stock and total intangible assets divided by total assets minus total intangible assets

(7) Asset quality ratios exclude covered loans.

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

Forward Looking Statements

This document contains forward-looking statements within the meaning of federal securities laws. Forward-looking information can be identified through the use of words such as "intend," "plan," "project," "expect," "anticipate," "believe," "estimate," "contemplate," "possible," "point," "will," "may," "should," "would" and "could." Forward-looking statements and information are not historical facts, are premised on many factors and assumptions, and represent only management's expectations, estimates and projections regarding future events. Similarly, these statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include, but are not limited to, those listed below and the Risk Factors discussed in Item 1A on page 20 of this Form 10-K. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Such forward-looking statements may be deemed to include, among other things, statements relating to the Company's future financial performance, the performance of its loan portfolio, the expected amount of future credit reserves and charge-offs, delinquency trends, growth plans, regulatory developments, securities that the Company may offer from time to time, and management's long-term performance goals, as well as statements relating to the anticipated effects on financial condition and results of operations from expected developments or events, the Company's business and growth strategies, including future acquisitions of banks, specialty finance or wealth management businesses, internal growth and plans to form additional de novo banks or branch offices. Actual results could differ materially from those addressed in the forward-looking statements as a result of numerous factors, including the following:

- negative economic conditions that adversely affect the economy, housing prices, the job market and other factors that may affect the Company's liquidity and the performance of its loan portfolios, particularly in the markets in which it operates;
- the extent of defaults and losses on the Company's loan portfolio, which may require further increases in its allowance for credit losses;
- estimates of fair value of certain of the Company's assets and liabilities, which could change in value significantly from period to period;
- the financial success and economic viability of the borrowers of our commercial loans;
- market conditions in the commercial real estate market in the Chicago metropolitan area;
- the extent of commercial and consumer delinquencies and declines in real estate values, which may require further increases in the Company's allowance for loan and lease losses;
- inaccurate assumptions in our analytical and forecasting models used to manage our loan portfolio;
- changes in the level and volatility of interest rates, the capital markets and other market indices that may affect, among other things, the Company's liquidity and the value of its assets and liabilities;
- competitive pressures in the financial services business which may affect the pricing of the Company's loan and deposit products as well as its services (including wealth management services);
- failure to identify and complete favorable acquisitions in the future or unexpected difficulties or developments related to the integration of the Company's recent or future acquisitions;
- unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;
- any negative perception of the Company's reputation or financial strength;
- ability to raise additional capital on acceptable terms when needed;
- disruption in capital markets, which may lower fair values for the Company's investment portfolio;
- ability to use technology to provide products and services that will satisfy customer demands and create efficiencies in operations;
- adverse effects on our information technology systems resulting from failures, human error or tampering;
-

adverse effects of failures by our vendors to provide agreed upon services in the manner and at the cost agreed, particularly our information technology vendors;

- increased costs as a result of protecting our customers from the impact of stolen debit card information;
- accuracy and completeness of information the Company receives about customers and counterparties to make credit decisions;
- ability of the Company to attract and retain senior management experienced in the banking and financial services industries;
- environmental liability risk associated with lending activities;
- the impact of any claims or legal actions, including any effect on our reputation;
- losses incurred in connection with repurchases and indemnification payments related to mortgages;
- the loss of customers as a result of technological changes allowing consumers to complete their financial transactions without the use of a bank;
- the soundness of other financial institutions;
- the expenses and delayed returns inherent in opening new branches and de novo banks;

- examinations and challenges by tax authorities;
- changes in accounting standards, rules and interpretations and the impact on the Company's financial statements;
- the ability of the Company to receive dividends from its subsidiaries;
- a decrease in the Company's regulatory capital ratios, including as a result of further declines in the value of its loan portfolios, or otherwise;
- legislative or regulatory changes, particularly changes in regulation of financial services companies and/or the products and services offered by financial services companies, including those resulting from the Dodd-Frank Act;
- a lowering of our credit rating;
- restrictions upon our ability to market our products to consumers and limitations on our ability to profitably operate our mortgage business resulting from the Dodd-Frank Act;
- increased costs of compliance, heightened regulatory capital requirements and other risks associated with changes in regulation and the current regulatory environment, including the Dodd-Frank Act;
- the impact of heightened capital requirements;
- increases in the Company's FDIC insurance premiums, or the collection of special assessments by the FDIC;
- delinquencies or fraud with respect to the Company's premium finance business;
- credit downgrades among commercial and life insurance providers that could negatively affect the value of collateral securing the Company's premium finance loans;
- the Company's ability to comply with covenants under its credit facility; and
- fluctuations in the stock market, which may have an adverse impact on the Company's wealth management business and brokerage operation.

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

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

The following discussion highlights the significant factors affecting the operations and financial condition of Wintrust for the three years ended December 31, 2013. This discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto, and Selected Financial Highlights appearing elsewhere within this Form 10-K.

OPERATING SUMMARY

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

	Years Ended December 31,						% or Basis Point (bp)change	% or Basis Point (bp)change
(Dollars in thousands, except per share data)	2013		2012		2011		2012 to 2013	2011 to 2012
Net income	$137,210		$111,196		$77,575		23%	43%
Net income per common share — Diluted	2.75		2.31		1.67		19	38
Pre-tax adjusted earnings [1]	275,999		274,873		221,547		—	24
Net revenue [2]	773,024		745,608		651,075		4	15
Net interest income	550,627		519,516		461,377		6	13
Net interest margin [1]	3.50	%	3.49	%	3.42	%	1bp	7bp
Net overhead ratio [1] [3]	1.60		1.59		1.55		1	4
Net overhead ratio, based on pre-tax adjusted earnings [1] [3]	1.57		1.48		1.61		9	(13)
Efficiency ratio [1] [4]	64.57		65.85		64.58		(128)	127
Efficiency ratio, based on pre-tax adjusted earnings [1] [4]	64.01		62.38		63.67		163	(129)
Return on average assets	0.79		0.67		0.52		12	15
Return on average common equity[1]	7.56		6.60		5.12		96	148
Return on average tangible common equity [1]	9.93		8.70		6.70		123	200
At end of period								
Total assets	$18,097,783		$17,519,613		$15,893,808		3%	10%
Total loans, excluding loans held-for-sale, excluding covered loans	12,896,602		11,828,943		10,521,377		9	12
Total loans, including loans held-for-sale, excluding covered loans	13,230,929		12,241,143		10,841,901		8	13
Total deposits	14,668,789		14,428,544		12,307,267		2	17
Total shareholders' equity	1,900,589		1,804,705		1,543,533		5	17
Tangible common equity ratio (TCE) [1]	7.8	%	7.4	%	7.5	%	40bp	(10)bp
Tangible common equity ratio, assuming full conversion of preferred stock [1]	8.5		8.4		7.8		10bp	60bp
Book value per common share [1]	$38.47		$37.78		$34.23		2%	10%
	29.93		29.28		26.72		2	10

Tangible common book value per common share [1]					
Market price per common share	46.12	36.70	28.05	26	31

(1) See "Non-GAAP Financial Measures/Ratios" for additional information on this performance measure/ratio
(2) Net revenue is net interest income plus non-interest income
(3) The net overhead ratio is calculated by netting total non-interest expense and total non-interest income, annualizing this amount, and dividing by that period's total average assets. A lower ratio indicates a higher degree of efficiency.
(4) The efficiency ratio is calculated by dividing total non-interest expense by tax-equivalent net revenues (less securities gains or losses). A lower ratio indicates more efficient revenue generation.

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

NON-GAAP FINANCIAL MEASURES/RATIOS

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

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

The net overhead ratio and the efficiency ratio are primarily reviewed by the Company based on pre-tax adjusted earnings. The Company believes that these measures provide a more meaningful view of the Company’s operating efficiency and expense management. The net overhead ratio, based on pre-tax adjusted earnings, is calculated by netting total adjusted non-interest expense and total adjusted non-interest income, annualizing this amount, and dividing it by total average assets. Adjusted non-interest expense is calculated by subtracting OREO expenses, covered loan collection expense, defeasance cost and fees to terminate repurchase agreements. Adjusted non-interest income is calculated by adding back the recourse obligation on loans previously sold and subtracting gains or adding back losses on FDIC indemnification asset amortization, foreign currency remeasurement, investment partnerships, bargain purchase, trading and available-for-sale securities activity.

The efficiency ratio, based on pre-tax adjusted earnings, is calculated by dividing adjusted non-interest expense by adjusted taxable-equivalent net revenue. Adjusted taxable-equivalent net revenue is comprised of fully taxable equivalent net interest income and adjusted non-interest income.

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

	Years Ended December 31,									
(Dollars and shares in thousands, except per share data)	2013		2012		2011		2010		2009	
Calculation of Net Interest Margin and Efficiency Ratio										
(A) Interest Income (GAAP)	$630,709		$627,021		$605,793		$593,107		$527,614	
Taxable-equivalent adjustment:										
-Loans	842		576		458		334		462	
-Liquidity management assets	1,407		1,363		1,224		1,377		1,720	
-Other earning assets	11		8		12		17		38	
Interest Income — FTE	$632,969		$628,968		$607,487		$594,835		$529,834	
(B) Interest Expense (GAAP)	80,082		107,505		144,416		177,271		215,738	
Net interest income — FTE	$552,887		$521,463		$463,071		$417,564		$314,096	
(C) Net Interest Income (GAAP) (A minus B)	$550,627		$519,516		$461,377		$415,836		$311,876	
(D) Net interest margin (GAAP)	3.49	%	3.47	%	3.41	%	3.35	%	2.99	%
Net interest margin — FTE	3.50		3.49		3.42		3.37		3.01	
(E) Efficiency ratio (GAAP)	64.76		66.02		64.75		63.95		54.64	
Efficiency ratio — FTE	64.57		65.85		64.58		63.77		54.44	
Efficiency ratio — Based on pre-tax adjusted earnings	64.01		62.38		63.67		64.70		72.25	
(F) Net overhead ratio (GAAP)	1.60		1.59		1.55		1.40		0.23	
Net overhead ratio — Based on pre-tax adjusted earnings	1.57		1.48		1.61		1.62		1.66	
Calculation of Tangible Common Equity ratio (at period end)										
Total shareholders' equity	$1,900,589		$1,804,705		$1,543,533		$1,436,549		$1,138,639	
(G) Less: Preferred stock	(126,477	)	(176,406	)	(49,768	)	(49,640	)	(284,824	)
Less: Intangible assets	(393,760	)	(366,348	)	(327,538	)	(293,765	)	(291,649	)
(H) Total tangible common shareholders' equity	$1,380,352		$1,261,951		$1,166,227		$1,093,144		$562,166	
Total assets	$18,097,783		$17,519,613		$15,893,808		$13,980,156		$12,215,620	
Less: Intangible assets	(393,760	)	(366,348	)	(327,538	)	(293,765	)	(291,649	)
(I) Total tangible assets	$17,704,023		$17,153,265		$15,566,270		$13,686,391		$11,923,971	
Tangible common equity ratio (H/I)	7.8	%	7.4	%	7.5	%	8.0	%	4.7	%
Tangible common equity ratio, assuming full conversion of preferred stock ((H-G)/I)	8.5		8.4		7.8		8.3		7.1	
Calculation of Pre-Tax Adjusted Earnings										
Income before taxes	$224,440		$180,132		$128,033		$100,807		$117,504	
Add: Provision for credit losses	46,033		76,436		102,638		124,664		167,932	
Add: OREO expenses, net	5,834		22,103		26,340		19,331		18,963	
Add: Recourse obligation on loans previously sold	(692	)	—		439		10,970		937	
	1,716		4,759		2,831		689		—	

Add: Covered loan collection expense					
Add: Defeasance cost	—	996	—	—	—
Add: FDIC indemnification asset amortization	372	1,387	769	—	—
Add: (Loss) gain on foreign currency remeasurement	(164)	(1)	—	—	—
Add: Fees for termination of repurchase agreements	—	2,110	—	—	—
Less: (Gain) loss from investment partnerships	(3,648)	(2,551)	600	(1,155)	(138)
Less: Gain on bargain purchases, net	—	(7,503)	(37,974)	(44,231)	(156,013)
Less: Trading (gains) losses, net	(892)	1,900	(337)	(5,165)	(26,788)
Add: Losses (gains) on available-for-sale securities, net	3,000	(4,895)	(1,792)	(9,832)	268
Pre-tax adjusted earnings	$275,999	$274,873	$221,547	$196,078	$122,665
Calculation of book value per share					
Total shareholders’ equity	$1,900,589	$1,804,705	$1,543,533	$1,436,549	$1,138,639
Less: Preferred stock	(126,477)	(176,406)	(49,768)	(49,640)	(284,824)
(J) Total common equity	$1,774,112	$1,628,299	$1,493,765	$1,386,909	$853,815
Actual common shares outstanding	46,117	36,858	35,978	34,864	24,207
Add: TEU conversion shares	—	6,241	7,666	7,512	—
(K) Common shares used for book value calculation	46,117	43,099	43,644	42,376	24,207
Book value per share (J/K)	$38.47	$37.78	$34.23	$32.73	$35.27
Tangible common book value per share (H/K)	29.93	29.28	26.72	25.80	23.22
Calculation of return on average common equity					
(L) Net income applicable to common shares	$128,815	$102,103	$73,447	$32,325	$53,513
Add: After-tax intangible asset amortization	2,827	2,668	2,076	1,720	1,732
(M) Tangible net income applicable to common shares	$131,642	$104,771	$75,523	$34,045	$55,245
Total average shareholders' equity	$1,856,706	$1,696,276	$1,484,720	$1,352,135	$1,081,792
Less: Average preferred stock	(153,724)	(149,373)	(49,701)	(279,865)	(283,357)
(N) Total average common shareholders' equity	$1,702,982	$1,546,903	$1,435,019	$1,072,270	$798,435
Less: Average intangible assets	(376,762)	(342,969)	(307,298)	(291,375)	(289,593)
(O) Total average tangible common shareholders' equity	$1,326,220	$1,203,934	$1,127,721	$780,895	$508,842
Return on average common equity (L/N)	7.56%	6.60%	5.12%	3.01%	6.70%
Return on average tangible common equity (M/O)	9.93	8.70	6.70	4.36	10.86

OVERVIEW AND STRATEGY

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

2013 Highlights

The Company recorded net income of $137.2 million for the year of 2013 compared to $111.2 million and $77.6 million for the years of 2012 and 2011, respectively. The results for 2013 demonstrate continued operating strengths as loans outstanding increased, credit quality measures improved, net interest margin remained stable and our deposit funding base continued its beneficial shift toward an aggregate lower cost of funds. The Company also continues to take advantage of the opportunities that have resulted from distressed credit markets – specifically, a dislocation of assets, banks and people in the overall market.

The Company increased its loan portfolio, excluding covered loans, from $11.8 billion at December 31, 2012 to $12.9 billion at December 31, 2013. This increase was primarily a result of the Company's commercial banking initiative, growth in the premium finance receivables as well as acquisition transactions. The Company is focused on making new loans, including in the commercial and commercial real estate sector, where opportunities that meet our underwriting standards exist. For more information regarding changes in the Company's loan portfolio, see "Analysis of Financial Condition – Interest Earning Assets" and Note 4 "Loans" of the Consolidated Financial Statements presented under Item 8 of this report.

Management considers the maintenance of adequate liquidity to be important to the management of risk. Accordingly, during 2013, the Company continued its practice of maintaining appropriate funding capacity to provide the Company with adequate liquidity for its ongoing operations. In this regard, the Company benefited from its strong deposit base, a liquid short-term investment portfolio and its access to funding from a variety of external funding sources. At December 31, 2013, the Company had overnight liquid funds and interest-bearing deposits with banks of $759.4 million compared to $1.4 billion at December 31, 2012. The decrease in liquidity from 2012 is primarily a result of the Company utilizing liquidity to fund loan growth in 2013.

The Company recorded net interest income of $550.6 million in 2013 compared to $519.5 million and $461.4 million in 2012 and 2011, respectively. The higher level of net interest income recorded in 2013 compared to 2012 resulted from an increase in average earning assets of $837.3 million. This average earning asset growth was primarily a result of the $1.2 billion increase in average loans, excluding covered loans, partially offset by a $175.1 million decrease in average covered loans and a $209.3 million decrease in liquidity management and other earning assets. The majority of the increase in average loans, excluding covered loans, consisted of increases of $387.8 million in commercial loans, $442.6 million in commercial real estate loans, $232.2 million in U.S.-originated commercial premium finance receivables, $117.3 million in Canadian-originated commercial premium finance receivables and $133.2 million in life premium finance receivables, partially offset by a $35.8 million decrease in mortgage loans held-for-sale and a $55.7 million decrease in home equity loans and other loans. The average earning asset growth of $837.3 million over the past 12 months was primarily funded by a $777.8 million increase in the average balances of interest-bearing deposits and an increase in the average balance of demand deposits of $428.6 million, partially offset by a decrease of $490.8 million of average wholesale funding.

Non-interest income totaled $222.4 million in 2013, decreasing $3.7 million, or 2%, compared to 2012. The decrease in 2013 compared to 2012 was primarily attributable to lower bargain purchase gains, decreased fees from covered call options, higher losses on available for sale securities and lower mortgage banking revenues, partially offset by higher wealth management revenues, service charges on deposit accounts and trading gains. Mortgage banking revenue in 2013 compared to 2012 decreased $3.1 million. The decrease in 2013 resulted primarily from a decrease in gains on sales of loans, which was driven by lower origination volumes primarily due to a softening of the refinance market in 2013.

Non-interest expense totaled $502.6 million in 2013, increasing $13.5 million, or 3%, compared to 2012. The increase compared to 2012 was primarily attributable to a $20.2 million increase in salaries and employee benefits. The increase in salaries and employee benefits was, in turn, attributable to a $14.3 million increase in salaries resulting

from additional employees from acquisitions and larger staffing as the company grows, a $3.6 million increase in bonus expense and commissions primarily attributable to increases in variable pay based revenue, and a $2.2 million increase in employee benefits (primarily health plan and payroll taxes related).

The Current Economic Environment

The economic environment in 2013 was characterized by continued low interest rates and renewed competition as banks have experienced improvements in their financial condition allowing them to be more active in the lending market. While management believes interest rates will rebound over time, the Company has employed certain strategies to manage net income in the current rate environment, including those discussed below.

Net Interest Income

The Company has leveraged its internal loan pipeline and external growth opportunities to grow its earning assets base. The Company has also continued its efforts to shift a greater portion of its deposit base to non-interest bearing. Non-interest bearing deposits as a percentage of total deposits was 19% on December 31, 2013 as compared to 17% on December 31, 2012. In 2013 the Company was able to slightly increase its net interest margin primarily due to a decrease in the rates on interest-bearing liabilities. As a result of the growth in earning assets, increased net interest margin and improvement in deposit mix, the Company increased its net interest income by $31.1 million in 2013 compared to 2012.

The Company has continued its practice of writing call options against certain U.S. Treasury and Agency securities to economically hedge the security positions and receive fee income to compensate for net interest margin compression. Although the Company wrote fewer options in 2013 as compared to previous years, the Company recognized $4.8 million in fees on covered call options. In accordance with accounting guidance, these fees are not recorded as a component of net interest income, however the fee contribution is considered by the Company to be an additional return on the investment portfolio.

The Company utilizes “back to back” interest rate derivative transactions, primarily interest rate swaps, to receive floating rate interest payments related to customer loans. In these arrangements, the Company makes a floating rate loan to a borrower who prefers to pay a fixed rate. To accommodate the risk management strategy of certain qualified borrowers, the Company enters a swap with its borrower to effectively convert the borrower's variable rate loan to a fixed rate. However, in order to minimize the Company's exposure on these transactions and continue to receive a floating rate, the Company simultaneously executes an offsetting mirror-image derivative with a third party.

Non-Interest Income

In preparation for a rising rate environment, the Company has purchased interest rate cap contracts to offset the negative impact on the net interest margin in a rising rate environment caused by the repricing of variable rate liabilities and lack of repricing of fixed rate loans and securities. As of December 31, 2013, the Company held seven interest rate cap derivatives with a total notional value of $880.0 million which are not designated as accounting hedges but are considered to be an economic hedge for the potential rise in interest rates. Because these are not accounting hedges, fluctuations in the cap values are recorded in earnings. In 2013, volatility in interest rates resulted in increased cap valuations as compared to 2012. The Company recognized $558,000 in trading gains in 2013 related to the mark to market of these interest rate caps.

The current interest rate environment impacts the profitability and mix of the Company's mortgage banking business which generated revenues of $106.9 million in 2013, representing 14% of total net revenue. Mortgage banking revenue is comprised of gains on originations for new home purchases as well as mortgage refinancing. Mortgage banking revenue is partially offset by corresponding commission and overhead costs. In 2013, approximately 57% of originations were mortgages associated with new home purchases while 43% of originations were related to refinancing of mortgages. As the housing market and economy have improved, a higher percentage of originations have been attributed to new home purchases.

In 2013, the Company acquired certain assets and liabilities of Surety Financial Services. Management believes that increased regulatory and economic challenges will impact the mortgage banking industry leading to consolidation in this industry. The Company continues to evaluate strategic opportunities, like Surety, to expand our mortgage banking business.

Non-Interest Expense

Management believes expense management is important amid the low interest rate environment and increased competition to enhance profitability. Cost control and an efficient infrastructure should position the Company appropriately as it continues its growth strategy. Management continues to be disciplined in its approach to growth

and will leverage the Company's existing expense infrastructure to expand its presence in existing and complimentary markets. Management believes that its recent acquisitions have provided operating capacity for balance sheet growth without a commensurate increase in operating expenses which should provide improvement in its overhead ratio, holding all else equal.

Potentially impacting the cost control strategies discussed above, the Company anticipates increased costs resulting from the changing regulatory environment in which we operate. We have already experienced increases in compliance-related costs and we expect that compliance with the Dodd-Frank Act and its implementing regulations will require us to invest significant additional management attention and resources.

Credit Quality

The Company's credit quality metrics demonstrated significant improvement in 2013. The Company continues to address non-performing assets and remains disciplined in its approach to grow without sacrificing asset quality. Management primarily reviews credit quality excluding covered loans as those loans are obtained through FDIC-assisted acquisitions and therefore potential credit losses are subject to indemnification by the FDIC.
In particular:

- The Company’s 2013 provision for credit losses, excluding covered loans, totaled $46.0 million, a decrease of $26.4 million when compared to 2012 and a decrease of $56.6 million when compared to 2011. Net charge-offs, excluding covered loans, decreased to $56.1 million in 2013 (of which $42.7 million related to commercial and commercial real estate loans), compared to $74.8 million in 2012 (of which $58.1 million related to commercial and commercial real estate loans) and $103.3 million in 2011 (of which $92.0 million related to commercial and commercial real estate loans).

- The Company decreased its allowance for loan losses, excluding covered loans, to $96.9 million at December 31, 2013, reflecting a decrease of $10.4 million, or 10%, when compared to 2012. At December 31, 2013, approximately $48.7 million, or 50%, of the allowance for loan losses, excluding covered loans, was associated with commercial real estate loans and another $23.1 million, or 24%, was associated with commercial loans.

- The Company has significant exposure to commercial real estate. At December 31, 2013, $4.2 billion, or 32%, of our loan portfolio was commercial real estate, with more than 92% located in our market area. The commercial real estate loan portfolio was comprised of $282.0 million related to land, residential and commercial construction, $642.2 million related to office buildings loans, $656.3 million related to retail loans, $633.9 million related to industrial use loans, $566.5 million related to multi-family loans and $1.4 billion related to mixed use and other use types. In analyzing the commercial real estate market, the Company does not rely upon the assessment of broad market statistical data, in large part because the Company’s market area is diverse and covers many communities, each of which is impacted differently by economic forces affecting the Company’s general market area. As such, the extent of the decline in real estate valuations can vary meaningfully among the different types of commercial and other real estate loans made by the Company. The Company uses its multi-chartered structure and local management knowledge to analyze and manage the local market conditions at each of its banks. As of December 31, 2013, the Company had approximately $46.9 million of non-performing commercial real estate loans representing approximately 1% of the total commercial real estate loan portfolio.

- Total non-performing loans (loans on non-accrual status and loans more than 90 days past due and still accruing interest), excluding covered loans, were $103.3 million (of which $46.9 million, or 45%, was related to commercial real estate) at December 31, 2013, a decrease of $14.7 million compared to December 31, 2012. Non-performing loans decreased due to both a decline in the volume of new non-performing loans as well as the continued reduction in existing non-performing loans through the efforts of our credit workout teams.

- The Company’s other real estate owned, excluding covered other real estate owned, decreased by $12.4 million, to $50.5 million during 2013, from $62.9 million at December 31, 2012. The decrease in other real estate owned is primarily a result of disposals during 2013. The $50.5 million of other real estate owned as of December 31, 2013 was comprised of $3.9 million of residential real estate development property, $41.1 million of commercial real estate property and $5.5 million of residential real estate property.

During 2013, Management continued its efforts to aggressively resolve problem loans through liquidation, rather than retention, of loans or real estate acquired as collateral through the foreclosure process. This strategic effort was implemented in 2009. Management believes that some financial institutions have taken a longer term view of problem loan situations, hoping to realize higher values on acquired collateral through extended marketing efforts or an improvement in market conditions. Management believed that the distressed macro-economic conditions would

continue to exist in 2013 and that the banking industry's continued elevated levels in non-performing loans would lead to many properties being sold by financial institutions, thus saturating the market and possibly driving fair values of non-performing loans and foreclosed collateral further downwards. Accordingly, since 2009 the Company has attempted to liquidate as many non-performing loans and assets as possible. Management believes these actions will serve the Company well in the future by providing some protection for the Company from further valuation deterioration and permitting Management to spend less time on resolution of problem loans and more time on growing the Company's core business and the evaluation of other opportunities presented by this volatile economic environment. The Company continues to take advantage of the opportunities that many times result from distressed credit markets — specifically, a dislocation of assets, banks and people in the overall market.

The level of loans past due 30 days or more and still accruing interest, excluding covered loans, totaled $140.7 million as of December 31, 2013, decreasing $11.3 million compared to the balance of $152.0 million as of December 31, 2012. Management continues to direct significant attention toward the prompt identification, management and resolution of problem loans. Additionally in 2013, the Company restructured certain loans by providing economic concessions to borrowers to better align the terms of their loans with their current ability to pay. At December 31, 2013, approximately $107.1 million in loans had terms modified, with $78.6 million of these modified loans in accruing status. These actions helped financially stressed borrowers maintain their homes or businesses and kept these loans in an accruing status for the Company. The Company considers restructuring loans when it appears that both the borrower and the Company can benefit and preserve a solid and sustainable relationship. See Note 5 – Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans of the Consolidated Financial Statements presented under Item 8 of this report for additional discussion of restructured loans.

The Company enters into residential mortgage loan sale agreements with investors in the normal course of business. The Company's practice is generally not to retain long-term fixed rate mortgages on its balance sheet in order to mitigate interest rate risk, and consequently sells most of such mortgages into the secondary market. These agreements provide recourse to investors through certain representations concerning credit information, loan documentation, collateral and insurability. Investors request the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. An increase in requests for loss indemnification can negatively impact mortgage banking revenue as additional recourse expense. The liability for estimated losses on repurchase and indemnification claims for residential mortgage loans previously sold to investors was $3.8 million and $4.3 million at December 31, 2013 and 2012, respectively.

Community Banking

As of December 31, 2013, our community banking franchise consisted of 15 community banks with 124 locations. Through these banks, we provide banking and financial services primarily to individuals, small to mid-sized businesses, local governmental units and institutional clients residing primarily in the banks' local service areas. These services include traditional deposit products such as demand, NOW, money market, savings and time deposit accounts, as well as a number of unique deposit products targeted to specific market segments. The banks also offer home equity, home mortgage, consumer, real estate and commercial loans, safe deposit facilities, ATMs, internet banking and other innovative and traditional services specially tailored to meet the needs of customers in their market areas. Profitability of our community banking franchise is primarily driven by our net interest income and margin, our funding mix and related costs, the level of non-performing loans and other real estate owned, the amount of mortgage banking revenue and our history of acquiring banking operations and establishing de novo banks.

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

Funding mix and related costs. Our most significant source of funding is core deposits, which are comprised of non-interest bearing deposits, non-brokered interest-bearing transaction accounts, savings deposits and domestic time deposits. Our branch network is our principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Our profitability has been bolstered in recent years as fixed term certificates of deposit have been renewing at lower rates given the historically low interest rate levels in the marketplace recently and growth in non-interest bearing deposits as a result of the Company's commercial banking initiative.

Level of non-performing loans and other real estate owned. The level of non-performing loans and other real estate owned can significantly impact our profitability as these loans and other real estate owned do not accrue any income, can be subject to charge-offs and write-downs due to deteriorating market conditions and generally result in additional legal and collections expenses. While these costs, specifically problem loan expenses, have been at elevated levels in recent years, the Company recorded less expense in 2013 as a result of improvement in credit quality during the year.

Mortgage banking revenue. Our community banking franchise is also influenced by the level of fees generated by the origination of residential mortgages and the sale of such mortgages into the secondary market by Wintrust Mortgage. The Company recognized a decrease of $3.1 million in mortgage banking revenue in 2013 compared to 2012 as a result of a decrease in gains on sales of loans, which was driven by lower origination volumes primarily due to a softening of the refinance market in 2013. The Company recognized increased mortgage banking revenue in 2012 compared to 2011 as a result of an increase in gains on sales of loans, which was driven by higher origination volumes in 2012 due to a favorable mortgage interest rate environment.

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

mature, offset by the costs of establishing and acquiring banks and opening new branch facilities. From our experience, it generally takes over 13 months for new banks to achieve operational profitability depending on the number and timing of branch facilities added.

In determining the timing of the opening of additional branches of existing banks, and the acquisition of additional banks, we consider many factors, particularly our perceived ability to obtain an adequate return on our invested capital driven largely by the then existing cost of funds and lending margins, the general economic climate and the level of competition in a given market. We began to slow the rate of growth of new locations in 2007 due to tightening net interest margins on new business which, in the opinion of management, did not provide enough net interest spread to be able to garner a sufficient return on our invested capital. From the second quarter of 2008 to the first quarter of 2010, we did not establish a new banking location either through a de novo opening or through an acquisition, due to the financial system crisis and recessionary economy and our decision to utilize our capital to support our existing franchise rather than deploy our capital for expansion through new locations which tend to operate at a loss in the early months of operation. Thus, while expansion activity from 2007 through 2009 had been at a level below earlier periods in our history, we have resumed the formation of additional branches and acquisitions of additional banks. See discussion of 2012 and 2013 acquisition activity in the “Recent Acquisition Transactions” section below.

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

Specialty Finance

Through our specialty finance segment, we offer financing of insurance premiums for businesses and individuals; accounts receivable financing, value-added, out-sourced administrative services; and other specialty finance businesses. Our wholly owned subsidiary, FIFC, engages in the insurance premium finance receivables business, our most significant specialized lending niche, including commercial insurance premium finance and life insurance premium finance. We also engage in commercial insurance premium finance in Canada through our wholly owned subsidiary FIFC Canada. Our wholly owned subsidiary, Tricom, provides high-yielding, short-term accounts receivable financing and value-added, outsourced administrative services, such as data processing of payrolls, billing and cash management services to the temporary staffing industry.

Financing of Commercial Insurance Premiums

FIFC and FIFC Canada originated approximately $5.0 billion in commercial insurance premium finance receivables in 2013. FIFC and FIFC Canada make loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. The loans are originated by FIFC and FIFC Canada working through independent medium and large insurance agents and brokers located throughout the United States and Canada. The insurance premiums financed are primarily for commercial customers’ purchases of liability, property and casualty and other commercial insurance. This lending involves relatively rapid turnover of the loan portfolio and high volume of loan originations. Because of the indirect nature of this lending and because the borrowers are located nationwide, this segment is more susceptible to third party fraud than relationship lending. In the second quarter of 2010, fraud perpetrated against a number of premium finance companies in the industry, including the property and casualty division of FIFC, increased both the Company’s net charge-offs and provision for credit losses by $15.7 million. Actions have been taken by the Company to decrease the likelihood of this type of loss from recurring in this line of business for the Company by the enhancement of various control procedures to mitigate the risks associated with this

lending. The Company conducted a thorough review of the FIFC premium finance — commercial portfolio and found no signs of similar situations. In the second quarter of 2011, the Company recovered $5.0 million from insurance coverage of the $15.7 million fraud loss. The Company continues to pursue additional recoveries, but does not anticipate any significant additional recoveries.

The majority of these loans are purchased by the banks in order to more fully utilize their lending capacity as these loans generally

provide the banks with higher yields than alternative investments. Historically, FIFC originations that were not purchased by the banks were sold to unrelated third parties with servicing retained. However, during the third quarter of 2009, FIFC sold $695 million in commercial premium finance receivables to our indirect subsidiary, FIFC Premium Funding I, LLC, which in turn sold

$600 million in aggregate principal amount of notes backed by such premium finance receivables in a securitization transaction sponsored by FIFC. On August 15, 2012 all outstanding notes sold to investors were paid off by the securitization entity.

The primary driver of profitability related to the financing of commercial insurance premiums is the net interest spread that FIFC and FIFC Canada can produce between the yields on the loans generated and the cost of funds allocated to the business unit. The commercial insurance premium finance business is a competitive industry and yields on loans are influenced by the market rates offered by our competitors. We fund these loans through our deposits, the cost of which is influenced by competitors in the retail banking markets in the Chicago and Milwaukee metropolitan areas.

Financing of Life Insurance Premiums

FIFC finances life insurance policy premiums generally used for estate planning purposes of high net-worth borrowers. In 2009, FIFC expanded this niche lending business segment when it purchased a portfolio of domestic life insurance premium finance loans for an aggregate purchase price of $745.9 million.

FIFC originated approximately $482.3 million in life insurance premium finance receivables in 2013. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and/or legal counsel. The cash surrender value of the life insurance policy is the primary form of collateral. In addition, these loans often are secured with a letter of credit, marketable securities or certificates of deposit. In some cases, FIFC may make a loan that has a partially unsecured position. Similar to the commercial insurance premium finance receivables, the majority of life insurance premium finance receivables are purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments.

The Company believes that its life insurance premium finance loans have a lower level of risk and delinquency than the Company’s commercial and residential real estate loans because of the nature of the collateral. The life insurance policy is the primary form of collateral. If cash surrender value is not sufficient, then letters of credit, marketable securities or certificates of deposit are used to provide additional security. Since the collateral is highly liquid and generally has a value in excess of the loan amount, any defaults or delinquencies are generally cured relatively quickly by the borrower or the collateral is generally liquidated in an expeditious manner to satisfy the loan obligation. As of December 31, 2013, greater than 99% of life insurance premium finance loans are fully secured. However, less than 1% of the loans are partially unsecured and in those cases, a greater risk exists for default. No loans are originated on a fully unsecured basis.

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

Wealth Management

We offer a full range of wealth management services including trust and investment services, asset management solutions, securities brokerage services, and 401(k) and retirement plan services through three separate subsidiaries (WHI, CTC and Great Lakes Advisors).

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

Financial Regulatory Reform

The Dodd-Frank Act contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. Our banking regulators have introduced, and continue to introduce, new regulations, supervisory guidance, and enforcement actions related to the Dodd-Frank Act. We are unable to predict the nature, extent, or impact of any additional changes to statutes or regulations, including the interpretation, implementation, or enforcement thereof, which may occur in the future.

The exact impact of the changing regulatory environment on our business and operations depends upon the final implementing regulations and the actions of our competitors, customers, and other market participants. However, the changes mandated by the Dodd-Frank Act, as well as other possible legislative and regulatory changes, generally could have a significant impact on us by, for example, requiring us to change our business practices; requiring us to meet more stringent capital, liquidity and leverage ratio requirements; limiting our ability to pursue business opportunities; imposing additional costs on us; limiting fees we can charge for services; impacting the value of our assets; or otherwise adversely affecting our businesses. We have already experienced significant increases in compliance related costs and we expect that compliance with the Dodd-Frank Act and its' implementing regulations will require us to invest significant additional management attention and resources. We will continue to monitor the impact that the implementation of applicable rules, regulations and policies arising out of the Dodd-Frank Act will have on our organization.

Recent Rules Regarding Mortgage Origination and Servicing

The CFPB has indicated that the mortgage industry is an area of supervisory focus. In 2013, the CFPB released final regulations governing a wide variety of mortgage origination and servicing practices to implement provisions of the Dodd-Frank Act. Among other things, these regulations require mortgage lenders to assess and verify borrowers' “ability to pay” and establish a safe harbor for mortgages that meet certain criteria. For mortgages that do not meet the safe harbor's criteria, the Dodd-Frank Act provides for enhanced liability for the mortgage lender as well as assignees. The CFPB’s new regulations also cover compensation of loan officers and brokers, escrow accounts for payment of taxes and insurance, mortgage billing statements, force-placed insurance, and servicing practices with respect to delinquent borrowers and loss mitigation procedures. We have centralized our mortgage origination and servicing operations and implemented compliance programs for each of these new requirements as applicable to our business. For further discussion of the rules related to mortgage origination and servicing and our compliance see “Business - Supervision and Regulation.”

In addition to changes to the specific regulations governing our mortgage business, regulatory enforcement policies remain an important consideration in the operation of our business. In 2012, for example, the largest mortgage lenders and servicers entered into settlements with federal and state regulators regarding mortgage origination and servicing practices. While the Company, the banks and Wintrust Mortgage were not parties to these settlements, and are not subject to examination by the CFPB, the terms of the settlements may influence regulators' future actions and expectations of mortgage lenders generally.

There are additional proposals to further amend some of these statutes and their implementing regulations, and there may be additional proposals or final amendments in 2014 or beyond. For example, proposals to reform the residential mortgage market may include changes to the operations of Fannie Mae and Freddie Mac (including potential winding down of operations), and reduction of mortgage loan products available in Federal Housing Administration programs.

Developments Related to Capital and Liquidity

After an extended rulemaking process that included a prolonged comment period, in July 2013, the federal banking agencies approved the implementation of sweeping regulatory capital reforms and promulgated rules effecting certain changes required by the Dodd-Frank Act (the “Basel III Rule”). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of regulations by each of the agencies. The Basel III Rule is applicable to all U.S. banks that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than $500 million).

The Basel III Rule not only increases most of the required minimum capital ratios, but it introduces the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock),

retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also expanded the definition of capital as in effect currently by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. For banks of our size, a number of instruments that now qualify as Tier 1 Capital will not qualify, or their qualifications will change. For example, cumulative preferred stock and certain hybrid capital instruments, including trust preferred securities, will no longer qualify as Tier 1 Capital of any kind. Noncumulative perpetual preferred stock, which now qualifies as simple Tier 1 Capital, will not qualify as Common Equity Tier

1 Capital, but will qualify as Additional Tier 1 Capital. The Basel III Rule also constrains the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event such assets exceed a certain percentage of a bank's Common Equity Tier 1 Capital.
The Basel III Rule requires:

- A new required ratio of minimum Common Equity Tier 1 equal to 4.5% of risk-weighted assets;
- An increase in the minimum required amount of Tier 1 Capital from the current level of 4% of total assets to 6% of risk-weighted assets;
- A continuation of the current minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and
- A minimum leverage ratio of Tier 1 Capital to total assets equal to 4% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 attributable to a capital conservation buffer to be phased in over three years beginning in 2016. The purpose of the conservation buffer is to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the fully phased-in conservation buffer increases the minimum ratios depicted above to 7% for Common Equity Tier 1, 8.5% for Tier 1 Capital and 10.5% for Total Capital.
The Basel III Rule maintained the general structure of the current prompt corrective action framework, while incorporating the increased requirements. The prompt corrective action guidelines were also revised to add the Common Equity Tier 1 Capital ratio. In order to be a "well-capitalized" depository institution under the new regime, a bank and holding company must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more; a Tier 1 Capital ratio of 8% or more; a Total Capital ratio of 10% or more; and a leverage ratio of 5% or more. It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer discussed above. Generally, financial institutions (except for large, internationally active financial institutions) become subject to the new rules on January 1, 2015. However, there will be separate phase-in/phase-out periods for: (i) the capital conservation buffer; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; and (iv) changes to the prompt corrective action rules. The phase-in periods commence on January 1, 2016 and extended until 2019. We believe we will continue to exceed all estimated well-capitalized regulatory requirements on a fully phased-in basis.
In October 2012, the Federal Reserve published a final rule implementing the stress test requirements under the Dodd-Frank Act, which are designed to evaluate the sufficiency of a banking organization's capital to support its operations during periods of stress. As a bank holding company with between $10 billion and $50 billion in total consolidated assets, we were required to conduct annual stress tests based on scenarios provided by the Federal Reserve, beginning in the fall of 2013. Beginning with our 2014 stress test, we will also be required to publicly disclose the results of our stress tests. While depository institutions that meet certain asset thresholds are subject to the stress test requirements, currently none of our subsidiary banks will be subject to the recent stress test rules.
Recent Acquisition Transactions
Non-FDIC-Assisted Transactions
Acquisition of Diamond Bancorp
On October 18, 2013, the Company completed its acquisition of Diamond Bancorp, Inc. ("Diamond"). Diamond was the parent company of Diamond Bank, FSB ("Diamond Bank"), which operated four banking locations in Chicago, Schaumburg, Elmhurst, and Northbrook, Illinois. As part of the transaction, Diamond Bank was merged into the Company's wholly-owned subsidiary bank, North Shore Community Bank. Diamond Bank had approximately $169 million in assets and $140 million in deposits as of the acquisition date, prior to purchase accounting adjustments. The Company recorded goodwill of $8.4 million on the acquisition.

Acquisition of certain assets and liabilities of Surety Financial Services
On October 1, 2013, the Company announced that its subsidiary, Barrington Bank through its division Wintrust Mortgage, acquired certain assets and assumed certain liabilities of the mortgage banking business of Surety Financial

Services ("Surety") of Sherman Oaks, California. Surety had five offices located in southern California which originated approximately $1.0 billion in the twelve months prior to the acquisition date.

Acquisition of First Lansing Bancorp, Inc

On May 1, 2013, the Company completed its acquisition of First Lansing Bancorp, Inc. FLB was the parent company of First National Bank of Illinois, which operated seven banking locations in the south and southwest suburbs of Chicago, Illinois as well as one location in northwest Indiana. As part of this transaction, FNBI was merged into Old Plank Trail Bank. FLB had approximately $372 million in assets and $330 million in deposits as of the acquisition date, prior to purchase accounting adjustments. The Company recorded goodwill of $14.0 million on the acquisition.

Acquisition of HPK Financial Corporation.

On December 12, 2012, the Company completed its acquisition of HPK Financial Corporation ("HPK"). HPK was the parent company of Hyde Park Bank & Trust Company, an Illinois state bank, ("Hyde Park Bank"), which operated two banking locations in the Hyde Park neighborhood of Chicago, Illinois. As part of the transaction, Hyde Park Bank merged into the Company's wholly-owned subsidiary bank, Beverly Bank, and the two acquired banking locations are operating as branches of Beverly Bank under the brand name Hyde Park Bank. HPK had approximately $358 million in assets and $243 million in deposits as of the acquisition date. The Company recorded goodwill of $12.6 million on the acquisition.

Acquisition of Macquarie Premium Funding Inc.

On June 8, 2012, the Company, through its wholly-owned subsidiary Lake Forest Bank, completed its acquisition of Macquarie Premium Funding Inc., the Canadian insurance premium funding unit of Macquarie Group. Through this transaction, Lake Forest Bank acquired approximately $213 million of gross premium finance receivables outstanding. The Company recorded goodwill of approximately $22 million on the acquisition.

Acquisition of a Branch of Suburban Bank & Trust

On April 13, 2012, the Company's wholly-owned subsidiary bank, Old Plank Trail Bank, completed its acquisition of a branch of Suburban located in Orland Park, Illinois. Through this transaction, Old Plank Trail Bank acquired approximately $52 million of deposits and $3 million of loans. The Company recorded goodwill of $1.5 million on the branch acquisition.

Acquisition of the Trust Operations of Suburban Bank & Trust

On March 30, 2012, the Company's wholly-owned subsidiary, CTC, completed its acquisition of the trust operations of Suburban. Through this transaction, CTC acquired trust accounts having assets under administration of approximately $160 million, in addition to land trust accounts and various other assets. The Company recorded goodwill of $1.8 million on this acquisition.

FDIC-Assisted Transactions

On September 28, 2012, the Company's wholly-owned subsidiary Old Plank Trail Bank, acquired certain assets and liabilities and the banking operations of First United Bank in an FDIC-assisted transaction. First United Bank operated four locations in Illinois; one in Crete, two in Frankfort and one in Steger, as well as one location in St. John, Indiana and had approximately $328.4 million in total assets and $316.9 million in total deposits as of the acquisition date. Old Plank Trail Bank acquired substantially all of First United Bank's assets at a discount of approximately 9.3% and assumed all of the non-brokered deposits at a premium of 0.60%. In connection with the acquisition, Old Plank Trail Bank entered into a loss sharing agreement with the FDIC whereby Old Plank Trail Bank will share in losses with the FDIC on certain loans and foreclosed real estate at First United Bank.

On July 20, 2012, the Company's wholly-owned subsidiary Hinsdale Bank, assumed the deposits and banking operations of Second Federal in an FDIC-assisted transaction. Second Federal operated three locations in Illinois; two in Chicago (Brighton Park and Little Village neighborhoods) and one in Cicero, and had $169.1 million in total deposits as of the acquisition date. Hinsdale Bank assumed substantially all of Second Federal's non-brokered deposits at a premium of $100,000. See "Divestiture of Previous FDIC-Assisted Acquisition" below.

On February 10, 2012, the Company announced that its wholly-owned subsidiary bank, Barrington Bank, acquired certain assets and liabilities and the banking operations of Charter National in an FDIC-assisted transaction. Charter National operated two locations: one in Hoffman Estates and one in Hanover Park and had approximately $92.4 million in total assets and $90.1 million in total deposits as of the acquisition date. Barrington Bank acquired

substantially all of Charter National's assets at a discount of approximately 4.1% and assumed all of the non-brokered deposits at no premium. In connection with the acquisition, Barrington Bank entered into a loss sharing agreement with the FDIC whereby Barrington Bank will share in losses with the FDIC on certain loans and foreclosed real estate at Charter National.

Loans comprise the majority of the assets acquired in FDIC-assisted 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, OREO, and certain other assets. Additionally, the loss share agreements with the FDIC require the Company to reimburse the FDIC in the event that actual losses on covered assets are lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to loss-sharing agreements as "covered loans"

and use the term “covered assets” to refer to covered loans, covered OREO and certain other covered assets. At their respective acquisition dates, the Company estimated the fair value of the reimbursable losses, which were approximately $67.2 million and$13.2 million, related to the First United Bank, and Charter National, respectively. As no loans were acquired by the Company in the acquisition of Second Federal, there is no fair value of reimbursable losses. 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 assets, 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. The FDIC-assisted transactions resulted in bargain purchase gains of $6.7 million for First United Bank, $43,000 for Second Federal and $785,000 for Charter National, which are shown as a component of non-interest income on the Company’s Consolidated Statements of Income.

Other Completed Transactions

Divestiture of Previous FDIC-Assisted Acquisition

On February 1, 2013, Hinsdale Bank completed the sale of the deposits and the current banking operations of Second Federal, which were acquired in an FDIC-assisted transaction described above, to an unaffiliated credit union.

Stock Offerings

On March 14, 2012, the Company announced the sale of 126,500 shares, or $126,500,000 aggregate liquidation preference, of Series C Preferred Stock. Dividends will be payable on the Series C Preferred Stock when, as, and if, declared by Wintrust’s Board of Directors on a non-cumulative basis quarterly in arrears on January 15, April 15, July 15 and October 15 of each year at a rate of 5.00% per year on the liquidation preference of $1,000 per share.

The holders of the Series C Preferred Stock will have the right at any time to convert each share of Series C Preferred Stock into 24.3132 shares of Wintrust common stock, which represents an initial conversion price of $41.13 per share of Wintrust common stock, plus cash in lieu of fractional shares. The initial conversion price represents a 17.5% conversion premium to the volume-weighted average price of Wintrust common stock on March 13, 2012 of approximately $35.00 per share. The conversion rate, and thus the conversion price, will be subject to adjustment under certain circumstances. On or after April 15, 2017, Wintrust will have the right under certain circumstances to cause the Series C Preferred Stock to be converted into shares of Wintrust common stock, plus cash in lieu of fractional shares.

Conversion of Preferred Stock

On August 26, 2008, the Company sold 50,000 shares of its Series A Preferred Stock. The terms of the Series A Preferred Stock provided that holders of the Series A Preferred Stock may convert their shares into common stock at any time. On July 19, 2013, pursuant to such terms, the holder of the Company's Series A Preferred Stock elected to convert all 50,000 shares of the Series A Preferred Stock issued and outstanding into 1,944,000 shares of the Company's common stock, no par value, at a conversion rate of 38.88 shares of common stock per share of Series A Preferred Stock. No separate consideration was paid to the Company for the issuance of the shares of the Company’s common stock.

Tangible Equity Units

In December 2010, the Company sold 4.6 million 7.50% tangible equity units at a public offering price of $50.00 per unit. Each tangible equity unit was comprised of a prepaid common stock purchase contract and a junior subordinated amortizing note due December 15, 2013. In December 2013, the Company settled the prepaid common stock purchase contract by delivering approximately 6.1 million shares of the Company’s common stock to the holders of the purchase contract. No separate consideration was paid to the Company for the issuance of the shares of the Company's common stock. The Company also made the final payment on the junior subordinated amortizing note.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The Company's Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States and prevailing practices of the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments, and as such have a greater possibility that changes in those estimates and assumptions could produce financial results that are materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an

impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event, are based on information available as of the date of the financial statements; accordingly, as information changes, the financial statements could reflect different estimates and assumptions.
A summary of the Company's significant accounting policies is presented in Note 1 to the Consolidated Financial Statements. These policies, along with the disclosures presented in the other financial statement notes and in this Management's Discussion and Analysis section, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views critical accounting policies to include the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be most subject to revision as new information becomes available.

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

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

Loans Acquired with Evidence of Credit Quality Deterioration since Origination

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

Estimations of Fair Value

A portion of the Company's assets and liabilities are carried at fair value on the Consolidated Statements of Condition, with changes in fair value recorded either through earnings or other comprehensive income in accordance with applicable accounting principles generally accepted in the United States. These include the Company's trading account securities, available-for-sale securities, derivatives, mortgage loans held-for-sale and mortgage servicing rights. The estimation of fair value also affects certain other mortgage loans held-for-sale, which are not recorded at fair value but are recorded at the lower of cost or market. The determination of fair value is important for certain other assets, including goodwill and other intangible assets, impaired loans, and other real estate owned that are periodically

evaluated for impairment using fair value estimates.

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

comprehensive income. See Note 23 to the Consolidated Financial Statements later in this report for a further discussion of fair value measurements.

Impairment Testing of Goodwill

The Company performs impairment testing of goodwill on an annual basis or more frequently when events warrant, using a qualitative or quantitative approach. Valuations are estimated in good faith by management through the use of publicly available valuations of comparable entities and discounted cash flow models using internal financial projections in the reporting unit's business plan.

The goodwill impairment analysis involves a two-step process. The first step is a comparison of the reporting unit's fair value to its carrying value. If the carrying value of a reporting unit was determined to have been higher than its fair value, the second step would have to be performed to measure the amount of impairment loss. The second step allocates the fair value to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical purchase price allocation analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

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

As of December 31, 2013, the Company had three reporting units; Community Banking, Specialty Finance and Wealth Management. Based on the Company's 2013 goodwill impairment testing of each reporting unit on their respective annual testing dates, the fair values for all three reporting units were in excess of their carrying value. No goodwill impairment was indicated for any of the reporting units.

Derivative Instruments

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

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

Income Taxes

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

On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are reassessed on a quarterly basis, if business events or circumstances warrant.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of Wintrust's results of operations requires an understanding that a majority of the Company's bank subsidiaries have been started as new banks since December 1991. Wintrust is still a relatively young company that has a strategy of continuing to build its customer base and securing broad product penetration in each marketplace that it serves. The Company has expanded its banking franchise from three banks with five offices in 1994 to 15 banks with 124 offices at the end of 2013. FIFC has matured from its limited operations in 1991 to a company that generated, on a national basis, $4.9 billion in premium finance receivables in 2013. FIFC Canada, acquired in 2012, originated $628.5 million in Canadian commercial premium finance receivables in 2013. In addition, the wealth management companies have been building a team of experienced professionals who are located within a majority of the banks.

Earnings Summary

Net income for the year ended December 31, 2013, totaled $137.2 million, or $2.75 per diluted common share, compared to $111.2 million, or $2.31 per diluted common share, in 2012, and $77.6 million, or $1.67 per diluted common share, in 2011. During 2013, net income increased by $26.0 million while earnings per diluted common share increased by $0.44. During 2012, net income increased by $33.6 million while earnings per diluted common share increased by $0.64. Financial results in 2013 increased from 2012 as a result of decreases in interest expense on deposits, the provision for credit losses and OREO expense, as well as an increase in wealth management revenues partially offset by increased salary and employee benefit costs, and fewer bargain purchase gains, gains on available-for-sale securities and fees from covered call options. Financial results in 2012 increased from 2011 as a result of increases in mortgage banking revenue and interest income on loans as well as decreases in both interest expense on deposits and the provision for credit losses partially offset by increased salary and employee benefit costs and fewer bargain purchase gains.

Net Interest Income

The primary source of the Company's revenue is net interest income. Net interest income is the difference between interest income and fees on earning assets, such as loans and securities, and interest expense on the liabilities to fund those assets, including interest bearing deposits and other borrowings. The amount of net interest income is affected by both changes in the level of interest rates and the amount and composition of earning assets and interest bearing liabilities. Net interest margin represents tax-equivalent net interest income as a percentage of the average earning assets during the period.

Tax-equivalent net interest income in 2013 totaled $552.9 million, up from $521.5 million in 2012 and $463.1 million in 2011, representing an increase of $31.4 million, or 6%, in 2013 and an increase of $58.4 million, or 13%, in 2012. The table presented later in this section, titled "Changes in Interest Income and Expense," presents the dollar amount of changes in interest income and expense, by major category, attributable to changes in the volume of the balance sheet category and changes in the rate earned or paid with respect to that category of assets or liabilities for 2013 and 2012. Average earning assets increased $837.3 million, or 6%, in 2013 and $1.4 billion, or 10%, in 2012. Loans are the most significant component of the earning asset base as they earn interest at a higher rate than the other earning assets. Average loans, excluding covered loans, increased $1.2 billion, or 11%, in 2013 and $1.4 billion, or 14%, in 2012. Total average loans, excluding covered loans, as a percentage of total average earning assets were 81%, 77% and 75% in 2013, 2012 and 2011, respectively. The average yield on loans, excluding covered loans, was 4.34% in 2013, 4.60% in 2012 and 5.03% in 2011, reflecting a decrease of 26 basis points in 2013 and a decrease of 43 basis points in 2012. The lower loan yields in 2013 compared to 2012 and 2012 compared to 2011 are a result of the negative impact of both competitive and economic pricing pressures. The average rate paid on interest bearing deposits, the largest component of the Company's interest bearing liabilities, was 0.45% in 2013, 0.62% in 2012 and 0.88% in 2011, representing a decrease of 17 basis points in 2013 and 26 basis points in 2012. The lower level of interest bearing deposits rates in 2013 compared to 2012 and 2012 compared to 2011 was primarily due to continued downward re-pricing of retail deposits in recent years. Net interest margin increased slightly to 3.50% in 2013 compared to 3.49% in 2012.

Net interest income and net interest margin were also affected by amortization of valuation adjustments to earning assets and interest-bearing liabilities of acquired businesses. Under the acquisition method of accounting, assets and

liabilities of acquired businesses are required to be recognized at their estimated fair value at the date of acquisition. These valuation adjustments represent the difference between the estimated fair value and the carrying value of assets and liabilities acquired. These adjustments are amortized into interest income and interest expense based upon the estimated remaining lives of the assets and liabilities acquired, typically on an accelerated basis.

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

The following table sets forth the average balances, the interest earned or paid thereon, and the effective interest rate, yield or cost for each major category of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2013, 2012 and 2011. The yields and costs include loan origination fees and certain direct origination costs that are considered adjustments to yields. Interest income on non-accruing loans is reflected in the year that it is collected, to the extent it is not applied to principal. Such amounts are not material to net interest income or the net change in net interest income in any year. Non-accrual loans are included in the average balances. Net interest income and the related net interest margin have been adjusted to reflect tax-exempt income, such as interest on municipal securities and loans, on a tax-equivalent basis. This table should be referred to in conjunction with this analysis and discussion of the financial condition and results of operations.

	Years Ended December 31,								
	2013			2012			2011		
(Dollars in thousands)	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Assets									
Interest bearing deposits with banks	$612,205	$1,644	0.27%	$971,978	$1,552	0.16%	$898,967	$3,419	0.38%
Securities	1,925,520	41,205	2.14	1,764,676	42,047	2.38	1,895,566	49,740	2.62
Federal funds sold and securities purchased under resale agreements	19,498	27	0.14	26,500	39	0.14	45,624	116	0.25
Total liquidity management assets (1) (7)	2,557,223	42,876	1.68%	2,763,154	43,638	1.58%	2,840,157	53,275	1.88%
Other earning assets (1) (2) (7)	26,554	816	3.07	29,967	882	2.94	28,570	816	2.86
Loans, net of unearned income (1) (3) (6) (7)	12,742,202	553,035	4.34	11,520,499	530,446	4.60	10,145,462	509,870	5.03
Covered loans (6)	462,518	36,242	7.84	637,607	54,002	8.47	520,550	43,526	8.36
Total earning assets (7)	15,788,497	632,969	4.01%	14,951,227	628,968	4.21%	13,534,739	607,487	4.49%
Allowance for loan losses	(124,970)			(134,946)			(127,660)		
Cash and due from banks	222,453			172,215			138,795		
Other assets	1,582,269			1,541,121			1,374,286		
Total assets	$17,468,249			$16,529,617			$14,920,160		
Liabilities and Shareholders' Equity									
Deposits — interest bearing:									
NOW accounts	$2,049,573	$3,009	0.15%	$1,787,001	$3,996	0.22%	$1,568,151	$5,614	0.36%
Wealth management deposits	987,885	706	0.07	923,974	974	0.11	705,736	740	0.10
Money market accounts	3,048,045	7,199	0.24	2,381,731	7,358	0.31	1,985,881	8,639	0.44

Savings accounts	1,300,681	2,744	0.21	1,036,350	2,221	0.21	795,828	2,188	0.27
Time deposits	4,460,670	39,533	0.89	4,940,000	53,756	1.09	4,956,926	70,757	1.43
Total interest bearing deposits	11,846,854	53,191	0.45%	11,069,056	68,305	0.62%	10,012,522	87,938	0.88%
Federal Home Loan Bank advances	423,221	11,013	2.60	459,972	12,104	2.63	449,874	16,320	3.63
Notes payable and other borrowings	269,311	4,341	1.61	437,970	8,965	2.05	384,256	11,023	2.87
Secured borrowings — owed to securitization investors	—	—	—	273,753	5,087	1.86	600,000	12,113	2.02
Subordinated notes	10,521	168	1.57	22,158	428	1.90	43,411	750	1.70
Junior subordinated notes	249,493	11,369	4.49	249,493	12,616	4.97	249,493	16,272	6.43
Total interest-bearing liabilities	$12,799,400	$80,082	0.62%	$12,512,402	$107,505	0.86%	$11,739,556	$144,416	1.23%
Non-interest bearing deposits	2,487,761			2,059,160			1,481,594		
Other liabilities	324,382			261,779			214,290		
Equity	1,856,706			1,696,276			1,484,720		
Total liabilities and shareholders' equity	$17,468,249			$16,529,617			$14,920,160		
Interest rate spread (4) (7)			3.39%			3.35%			3.26%
Net free funds/contribution (5)	$2,989,097		0.11%	$2,438,825		0.14%	$1,795,183		0.16%
Net interest income/Net interest margin (7)		$552,887	3.50%		$521,463	3.49%		$463,071	3.42%

(1) Interest income on tax-advantaged loans, trading securities and securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate of 35%. The total adjustments for the years ended December 31, 2013, 2012 and 2011 were $2.3 million, $1.9 million and $1.7 million, respectively.

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

(3) Loans, net of unearned income, include loans held-for-sale and non-accrual loans.

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

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

(6) Interest income includes the amortization of the accretable yield related to purchased loans acquired with evidence of credit quality deterioration since origination as well as any coupon interest received on these loans. See Note 4 to the Consolidated Financial Statements for further discussion of the amortization of the accretable yield to interest income.

(7) See "Supplemental Financial Measures/Ratios" for additional information on this performance ratio.

Changes In Interest Income and Expense

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

	Years Ended December 31,					
	2013 Compared to 2012			2012 Compared to 2011		
(Dollars in thousands)	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change
Interest income:						
Interest bearing deposits with banks	$808	(716)	92	$(2,133)	266	(1,867)
Securities	(4,256)	3,414	(842)	(4,498)	(3,195)	(7,693)
Federal funds sold and securities purchased under resale agreements	—	(12)	(12)	(39)	(38)	(77)
Total liquidity management assets	(3,448)	2,686	(762)	(6,670)	(2,967)	(9,637)
Other earning assets	38	(104)	(66)	24	42	66
Loans, net of unearned income	(30,630)	53,219	22,589	(46,208)	66,784	20,576
Covered loans	(3,754)	(14,006)	(17,760)	572	9,904	10,476
Total interest income	(37,794)	41,795	4,001	(52,282)	73,763	21,481
Interest Expense:						
Deposits — interest bearing:						
NOW accounts	(1,384)	397	(987)	(2,362)	744	(1,618)
Wealth management deposits	(261)	(7)	(268)	55	179	234
Money market accounts	(1,863)	1,704	(159)	(2,854)	1,573	(1,281)
Savings accounts	—	523	523	(545)	578	33
Time deposits	(8,161)	(6,062)	(14,223)	(16,724)	(277)	(17,001)
Total interest expense — deposits	(11,669)	(3,445)	(15,114)	(22,430)	2,797	(19,633)
Federal Home Loan Bank advances	(133)	(958)	(1,091)	(4,619)	403	(4,216)
Notes payable and other borrowings	(1,647)	(2,977)	(4,624)	(3,478)	1,420	(2,058)
Secured borrowings — owed to securitization investors	(2,538)	(2,549)	(5,087)	(898)	(6,128)	(7,026)
Subordinated notes	(64)	(196)	(260)	78	(400)	(322)
Junior subordinated notes	(1,212)	(35)	(1,247)	(3,700)	44	(3,656)
Total interest expense	(17,263)	(10,160)	(27,423)	(35,047)	(1,864)	(36,911)
Net interest income	$(20,531)	51,955	31,424	$(17,235)	75,627	58,392

The changes in net interest income are created by changes in both interest rates and volumes. In the table above, volume variances are computed using the change in volume multiplied by the previous year's rate. Rate variances are computed using the change in rate multiplied by the previous year's volume. The change in interest due to both rate and volume has been allocated between factors in proportion to the relationship of the absolute dollar amounts of the change in each. The change in interest due to a difference in the number of days in the year resulting from the 2012 leap year has been allocated entirely to the change due to volume.

Non-Interest Income

Non-interest income totaled $222.4 million in 2013, $226.1 million in 2012 and $189.7 million in 2011, reflecting a decrease of 2% in 2013 compared to 2012 and an increase of 19% in 2012 compared to 2011.

The following table presents non-interest income by category for 2013, 2012 and 2011:

	Years ended December 31,			2013 compared to 2012		2012 compared to 2011	
(Dollars in thousands)	2013	2012	2011	$ Change	% Change	$ Change	% Change
Brokerage	$29,281	25,477	24,601	$3,804	15 %	$876	4 %
Trust and asset management	33,761	27,203	19,916	6,558	24	7,287	37
Total wealth management	63,042	52,680	44,517	10,362	20	8,163	18
Mortgage banking	106,857	109,970	56,942	(3,113)	(3)	53,028	93
Service charges on deposit accounts	20,366	16,971	14,963	3,395	20	2,008	13
(Losses) gains on available-for-sale securities	(3,000)	4,895	1,792	(7,895)	NM	3,103	173
Fees from covered call options	4,773	10,476	13,570	(5,703)	(54)	(3,094)	(23)
Gain on bargain purchases, net	—	7,503	37,974	(7,503)	NM	(30,471)	(80)
Trading gains (losses), net	892	(1,900)	337	2,792	NM	(2,237)	NM
Other:							
Interest rate swap fees	7,629	9,381	6,770	(1,752)	(19)	2,611	39
Bank Owned Life Insurance	3,446	2,920	2,569	526	18	351	14
Administrative services	3,390	3,281	3,071	109	3	210	7
Miscellaneous	15,002	9,915	7,193	5,087	51	2,722	38
Total Other	29,467	25,497	19,603	3,970	16	5,894	30
Total Non-Interest Income	$222,397	226,092	189,698	$(3,695)	(2)%	$36,394	19 %

NM—Not Meaningful

Wealth management revenue is comprised of the trust and asset management revenue of the CTC and Great Lakes Advisors and the brokerage commissions, managed money fees and insurance product commissions at WHI.

Brokerage revenue is directly impacted by trading volumes. In 2013, brokerage revenue totaled $29.3 million, reflecting an increase of $3.8 million, or 15%, compared to 2012. In 2012, brokerage revenue totaled $25.5 million, reflecting an increase of $876,000, or 4%, compared to 2011. The increases in brokerage revenue in 2013 and 2012 can be attributed to increased customer trading activity.

Trust and asset management revenue totaled $33.8 million in 2013, an increase of $6.6 million, or 24%, compared to 2012. Trust and asset management revenue totaled $27.2 million in 2012, an increase of $7.3 million, or 37%, compared to 2011. Trust and asset management fees are based primarily on the market value of the assets under management or administration. Higher asset levels from new customers and new financial advisors along with market appreciation helped drive revenue growth in 2013 and 2012.

Mortgage banking revenue includes revenue from activities related to originating, selling and servicing residential real estate loans for the secondary market. Mortgage banking revenue totaled $106.9 million in 2013, $110.0 million in 2012, and $56.9 million in 2011, reflecting a decrease of $3.1 million, or 3%, in 2013, and an increase of $53.0 million, or 93%, in 2012. Mortgages originated and sold totaled $3.7 billion in 2013 compared to $3.9 billion in 2012 and $2.5 billion in 2011. The decrease in mortgage banking revenue in 2013 compared to 2012 can be mostly

attributed to lower origination volumes, primarily due to the softening of the refinance market, which resulted in fewer gains on sales of loans in 2013. The increase in mortgage banking revenue in 2012 compared to 2011 results primarily from an increase in gains on sales of loans, due to higher origination volumes as a result of a favorable mortgage interest rate environment.

A summary of mortgage banking activities is shown below:

(Dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Mortgage loans originated and sold	$3,708,364	$3,866,012	$2,545,385
Mortgage loans serviced for others	961,619	1,005,372	958,749
Fair value of mortgage servicing rights (MSRs)	8,946	6,750	6,700
MSRs as a percentage of loans serviced	0.93 %	0.67 %	0.70 %

Service charges on deposit accounts totaled $20.4 million in 2013, $17.0 million in 2012 and $15.0 million in 2011, reflecting an increase of 20% in 2013 and 13% in 2012. The increase in recent years is primarily a result of higher account analysis fees on deposit accounts which have increased as a result of the Company's commercial banking initiative as well as additional service charges on deposit accounts from acquired institutions.

The Company recognized $3.0 million of losses on available-for-sale securities in 2013 compared to net gains of $4.9 million in 2012 and $1.8 million in 2011. The decrease in gains on available-for-sale securities in 2013 compared to 2012 related to other-than-temporary impairment recorded on one security as a result of the Volcker Rule. The increase in net gains from 2011 to 2012 resulted primarily from Management's decision to sell certain securities in conjunction with the termination of longer-term, higher rate repurchase agreements in the fourth quarter of 2012. The Company did not recognize any other-than-temporary impairment charges in 2012 and 2011.

Fees from covered call option transactions totaled $4.8 million in 2013, $10.5 million in 2012 and $13.6 million in 2011. The Company has typically written call options with terms of less than three months against certain U.S. Treasury and agency securities held in its portfolio for liquidity and other purposes. Management has effectively entered into these transactions with the goal of economically hedging security positions and enhancing its overall return on its investment portfolio by using fees generated from these options to compensate for net interest margin compression. These option transactions are designed to increase the total return associated with holding certain investment securities and do not qualify as hedges pursuant to accounting guidance. Fees from covered call options decreased primarily as a result of fewer option transactions entered in 2013 compared to 2012 resulting in lower premiums received by the Company. Fees from covered call option transactions decreased in 2012 compared to 2011 primarily as a result of less market volatility in 2012 resulting in lower premiums received by the Company. There were no outstanding call option contracts at December 31, 2013, December 31, 2012 or December 31, 2011.

There were no gains on bargain purchases in 2013, $7.5 million in 2012, and $38.0 million in 2011, reflecting a decrease of $7.5 million in 2013 and a decrease of $30.5 million in 2012. The variance in bargain purchase gains recognized each year is a result of the number and magnitude of acquisitions transactions in a given year. Gain on bargain purchases recognized in 2012 primarily relates to the FDIC-assisted acquisitions of First United Bank by Old Plank Trail Bank and Charter National by Barrington Bank. The gain on bargain purchases in 2011 relates to the FDIC-assisted acquisition of The Bank of Commerce by Schaumburg Bank and the FDIC-assisted acquisitions of Community First Bank-Chicago and First Chicago Bank & Trust by Northbrook Bank.

The Company recognized $892,000 of trading gains in 2013, trading losses of $1.9 million in 2012, and trading gains of $337,000 in 2011. The fluctuation in 2013 and 2012 is primarily the result of fair value adjustments related to interest rate cap derivatives not designated as hedges that the Company uses to manage interest rate risk associated with rising rates on various fixed rate, longer term earning assets.

Interest rate swap fee revenue totaled $7.6 million in 2013, $9.4 million in 2012 and $6.8 million in 2011. Swap fee revenues result from interest rate hedging transactions related to both customer-based trades and the related matched trades with inter-bank dealer counterparties. The revenue recognized on this customer-based activity is sensitive to the pace of organic loan growth, the shape of the yield curve and the customers’ expectations of interest rates. The decrease in swap fee revenue in 2013 compared to 2012 primarily results from fewer swap transactions in 2013. Alternatively, swap fees increased in 2012 compared to 2011 as the swap program expanded in 2012.

Bank owned life insurance (“BOLI”) generated non-interest income of $3.4 million in 2013, $2.9 million in 2012 and $2.6 million in 2011. This income typically represents adjustments to the cash surrender value of BOLI policies. The Company initially purchased BOLI to consolidate existing term life insurance contracts of executive officers and to

mitigate the mortality risk associated with death benefits provided for in executive employment contracts and in connection with certain deferred compensation arrangements. The Company has also assumed additional BOLI policies as the result of the acquisition of certain banks. The cash surrender value of BOLI totaled $118.5 million at December 31, 2013 and $104.6 million at December 31, 2012, and is included in other assets.

Administrative services revenue generated by Tricom was $3.4 million in 2013, $3.3 million in 2012 and $3.1 million in 2011. This revenue comprises income from administrative services, such as data processing of payrolls, billing and cash management services, to temporary staffing service clients located throughout the United States. Tricom also earns interest and fee income from providing high-yielding, short-term accounts receivable financing to this same client base, which is included in the net interest income category. The increases in recent years are a result of an increase in the volume of Tricom’s client billings.
Miscellaneous other non-interest income totaled $15.0 million in 2013, $9.9 million in 2012 and $7.2 million in 2011. Miscellaneous income includes loan servicing fees, income from other investments, service charges and other fees. Fluctuation in miscellaneous other income for 2013 compared to 2012 primarily resulted from income related to certain partnerships investments of $3.6 million in 2013 compared to $2.6 million in 2012, as well as a $1.0 million increase in FDIC indemnification asset accretion. The fluctuations in miscellaneous other income for 2012 compared to 2011 can be primarily attributed to the Company's investments in certain partnerships. which resulted in market value gains of $2.6 million in 2012 and losses of $600,000 in 2011.

Non-Interest Expense

Non-interest expense totaled $502.6 million in 2013, and increased $13.5 million, or 3%, compared to 2012. In 2012, non-interest expense totaled $489.0 million, and increased $68.6 million, or 16%, compared to 2011.

The following table presents non-interest expense by category for 2013, 2012 and 2011:

	Years ended December 31,			2013 compared to 2012		2012 compared to 2011	
(Dollars in thousands)	2013	2012	2011	$ Change	% Change	$ Change	% Change
Salaries and employee benefits:							
Salaries	$170,123	155,800	138,452	$14,323	9 %	$17,348	13 %
Commissions and bonus	87,837	84,199	55,721	3,638	4	28,478	51
Benefits	50,834	48,590	43,612	2,244	5	4,978	11
Total salaries and employee benefits	308,794	288,589	237,785	20,205	7	50,804	21
Equipment	26,450	23,222	18,267	3,228	14	4,955	27
Occupancy, net	36,633	32,294	28,764	4,339	13	3,530	12
Data processing	18,672	15,739	14,568	2,933	19	1,171	8
Advertising and marketing	11,051	9,438	8,380	1,613	17	1,058	13
Professional fees	14,922	15,262	16,874	(340)	(2)	(1,612)	(10)
Amortization of other intangible assets	4,627	4,324	3,425	303	7	899	26
FDIC insurance	12,728	13,422	14,143	(694)	(5)	(721)	(5)
OREO expenses, net	5,834	22,103	26,340	(16,269)	(74)	(4,237)	(16)
Other:							
Commissions — 3rd party brokers	5,078	4,140	3,829	938	23	311	8
Postage	5,591	5,729	4,672	(138)	(2)	1,057	23
Stationery and supplies	3,987	4,003	3,818	(16)	—	185	5
Miscellaneous	48,184	50,775	39,539	(2,591)	(5)	11,236	28
Total other	62,840	64,647	51,858	(1,807)	(3)	12,789	25
Total Non-Interest Expense	$502,551	489,040	420,404	$13,511	3 %	$68,636	16 %

Salaries and employee benefits is the largest component of non-interest expense, accounting for 61% of the total in 2013, 59% of the total in 2012 and 57% of the total in 2011. For the year ended December 31, 2013, salaries and employee benefits totaled $308.8 million and increased $20.2 million, or 7%, compared to 2012. This increase can be attributed to a $14.3 million increase in salaries resulting from additional employees from acquisitions and larger staffing as the company grows, a $3.6 million increase in bonus expense and commissions primarily attributable to variable pay based revenue and a $2.2 million increase in employee benefits (primarily health plan and payroll taxes related). For the year ended December 31, 2012, salaries and employee benefits totaled $288.6 million and increased $50.8 million, or 21%, compared to 2011. This increase can be attributed to a $17.3 million increase in salaries resulting from additional employees from acquisitions and larger staffing as the Company grows, a $28.5 million increase in bonus expense and commissions attributable to variable pay based revenue and the Company's long term incentive program and a $5.0 million increase in employee benefits (primarily health plan and payroll taxes related).

Equipment expense, which includes furniture, equipment and computer software, depreciation and repairs and maintenance costs, totaled $26.5 million in 2013, $23.2 million in December 31, 2012 and $18.3 million in 2011, reflecting an increase of 14% in 2013 and an increase of 27% in 2012. The increase in equipment expense in 2013 is a result of both additional equipment depreciation related to the increasing number of facilities due to acquisition activity and increased software licensing fees. The increase in equipment expense in 2012 compared to 2011 is a result of additional equipment depreciation as well as maintenance and repair costs associated with the increasing number of facilities due to acquisition activity.

Occupancy expense for the years 2013, 2012 and 2011 was $36.6 million, $32.3 million and $28.8 million, respectively, reflecting increases of 13% in 2013 and 12% in 2012. Occupancy expense includes depreciation on premises, real estate taxes, utilities and maintenance of premises, as well as net rent expense for leased premises. The increase in 2013 and 2012 is primarily the result of depreciation and property taxes on owned locations which were obtained in the Company's acquisitions.

Data processing expenses totaled $18.7 million in 2013, $15.7 million in 2012 and $14.6 million in 2011, representing an increase of 19% in 2013 and an increase of 8% in 2012. The amount of data processing expenses incurred fluctuates based on the overall

growth of loan and deposit accounts as well as additional expenses recorded related to bank acquisition transactions.
Data processing expenses increased in 2013 compared to 2012 and 2011 due to growth in the Company.
Advertising and marketing expenses totaled $11.1 million for 2013, $9.4 million for 2012 and $8.4 million for 2011. Marketing costs are necessary to promote the Company's commercial banking capabilities, the Company's MaxSafe® suite of products, to announce new branch openings as well as the expansion of the wealth management business, to continue to promote community-based products and to attract loans and deposits. The level of marketing expenditures depends on the type of marketing programs utilized which are determined based on the market area, targeted audience, competition and various other factors. Management continues to utilize mass market media promotions as well as targeted marketing programs in certain market areas. In 2013 and 2012, the Company incurred increased advertising and marketing costs as a result of rebranding initiatives to increase Wintrust's name recognition associated with the overall goal of becoming "Chicago's Bank."
Professional fees include legal, audit and tax fees, external loan review costs and normal regulatory exam assessments. These fees totaled $14.9 million in 2013, $15.3 million in 2012 and $16.9 million in 2011. The decrease in 2013 and 2012 compared to 2011 was a result of incurring fewer legal expenses in 2013 and 2012 primarily related to less expenditures related to the collection of problem loans.
Amortization of other intangibles assets relates to the amortization of core deposit premiums and customer list intangibles established in connection with certain business combinations. See Note 9 of the Consolidated Financial Statements for further information on these intangible assets.
FDIC insurance expense totaled $12.7 million in 2013, $13.4 million in 2012 and $14.1 million in 2011. Effective April 1, 2011, standards applied in FDIC assessments set forth in the FDIA were revised by the Dodd-Frank Act. These revisions modified definitions of a company's insurance assessment base and assessment rates. FDIC assessment rates have declined over the past three years resulting in decreased FDIC insurance expense in 2013 compared to 2012 and in 2012 compared to 2011.
OREO expenses include all costs associated with obtaining, maintaining and selling other real estate owned properties as well as valuation adjustments. This expense was $5.8 million in 2013, $22.1 million in 2012, and $26.3 million in 2011. OREO expenses decreased in 2013 compared to 2012 due to lower valuation adjustments and gains on OREO sales in 2013. In 2012, OREO expenses decreased compared to 2011 as a result of lower losses recognized on the sale of OREO properties during 2012.
Miscellaneous non-interest expense includes ATM expenses, correspondent banking charges, directors' fees, telephone, travel and entertainment, corporate insurance, dues and subscriptions, problem loan expenses and lending origination costs that are not deferred. This category decreased $2.6 million, or 5%, in 2013 and increased $11.2 million, or 28%, in 2012. The decrease in 2013 compared to 2012 can be primarily attributed to a decrease in lending expense and covered asset expense. The increase in 2012 compared to 2011 can be attributed to $2.1 million of fees paid on termination of approximately $68.4 million longer-term higher rate repurchase agreements, $1.0 million of defeasance costs incurred by the Company to repurchase a portion of secured borrowings owed to securitization investors held by third parties, as well as increases in covered asset expenses and general growth in the Company's business in 2012.

Income Taxes

The Company recorded income tax expense of $87.2 million in 2013, $68.9 million in 2012 and $50.5 million in 2011. The effective tax rates were 38.9%, 38.3% and 39.4% in 2013, 2012 and 2011, respectively. Please refer to Note 18 to the Consolidated Financial Statements for further discussion and analysis of the Company's tax position, including a reconciliation of the tax expense computed at the statutory tax rate to the Company's actual tax expense.

Operating Segment Results

As described in Note 25 to the Consolidated Financial Statements, the Company’s operations consist of three primary segments: community banking, specialty finance and wealth management. The Company’s profitability is primarily dependent on the net interest income, provision for credit losses, non-interest income and operating expenses of its community banking segment. For purposes of internal segment profitability, management allocates certain intersegment and parent company balances. Management allocates a portion of revenues to the specialty finance segment related to loans originated by the specialty finance segment and sold to the community banking segment. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates a portion of the net interest income earned by the community banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. Finally, expenses incurred at the Wintrust parent company are allocated to each segment based on each segment's risk-weighted assets.

The community banking segment’s net interest income for the year ended December 31, 2013 totaled $448.2 million as compared to $430.4 million for the same period in 2012, an increase of $17.8 million, or 4%, and the segment’s net interest income in 2012 compared to 2011 increased $59.7 million or 16%. The increases in 2013 compared to 2012 as well as 2012 compared to 2011 were primarily attributable to earning assets acquired in bank acquisitions in each period and the ability to gather interest-bearing deposits at more reasonable rates. Provision for credit losses decreased to $45.4 million in 2013 compared to $75.0 million in 2012 and $102.9 million in 2011. Provision for credit losses decreased in 2013 compared to 2012 as well as 2012 compared to 2011 because of improved credit quality ratios, including reduced levels of non-performing loans. Non-interest income for the community banking segment decreased $15.8 million, or 9%, in 2013 when compared to the 2012 total of $166.3 million. This decrease was primarily attributable to decreases in gains on available-for-sale securities, fees from covered call options and bargain purchase gains. The community banking segment’s non-interest income totaled $166.3 million in 2012, an increase of $27.1 million, or 19%, when compared to the 2011 total of $139.2 million. This increase was primarily attributable to an increase in mortgage banking revenues. The community banking segment’s net income for the year ended December 31, 2013 totaled $88.4 million, an increase of $15.1 million, compared to net income of $73.3 million in 2012. Net income for the year ended December 31, 2012 of $73.3 million was an increase of $33.2 million as compared to net income in 2011 of $40.1 million.

The specialty finance segment’s net interest income totaled $73.9 million for the year ended December 31, 2013, an increase of $9.9 million, or 15%, over the $64.0 million in 2012. The specialty finance segment’s net interest income totaled $64.0 million for the year ended December 31, 2012, a decrease of $8.9 million, or 12%, from the $72.9 million in 2011. The specialty finance segment’s non-interest income totaled $30.9 million for the year ended December 31, 2013 compared to $26.8 million in 2012 and $15.1 million in 2011. The increase in non-interest income is a result of increased originations of premium finance receivables, including originations from FIFC Canada acquired in 2012. For 2013, our commercial premium finance operations, life insurance premium finance operations and accounts receivable finance operations accounted for 59%, 33% and 8%, respectively, of the total revenues of our specialty finance business. Net income of the specialty finance segment totaled $38.1 million, $31.4 million and $33.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The wealth management segment reported net interest income of $14.1 million for 2013, $12.3 million for 2012 and $11.2 million for 2011. Net interest income is primarily comprised of an allocation of net interest income earned by the community banking segment on non-interest bearing and interest-bearing wealth management customer account balances on deposit at the banks. The allocated net interest income included in this segment’s profitability was $13.8 million ($8.4 million after tax) in 2013, $12.0 million ($7.4 million after tax) in 2012 and $11.1 million ($6.7 million after tax) in 2011. Wealth management customer account balances on deposit at the banks averaged $782.7 million, $686.3 million and $657.2 million in 2013, 2012 and 2011, respectively. This segment recorded non-interest income of $65.6 million for 2013 as compared to $54.5 million for 2012 and $47.8 million for 2011. This increase is primarily due to a growth in assets from new customers and new financial advisors, as well as an increase in existing customer activity and market appreciation. Distribution of wealth management services through each bank continues to be a focus of the Company as the number of brokers in its banks continues to increase. Wintrust is committed to growing the wealth management segment in order to better service its customers and create a more diversified revenue stream.

This segment reported net income of $10.7 million for 2013 compared to $6.5 million for 2012 and $4.5 million for 2011.

ANALYSIS OF FINANCIAL CONDITION

Total assets were $18.1 billion at December 31, 2013, representing an increase of $578.2 million, or 3%, when compared to December 31, 2012. Total funding, which includes deposits, all notes and advances, including secured borrowings and the junior subordinated debentures, was $15.6 billion at December 31, 2013 and $15.4 billion at December 31, 2012. See Notes 3, 4, and 11 through 15 of the Consolidated Financial Statements for additional period-end detail on the Company's interest-earning assets and funding liabilities.

Interest-Earning Assets

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

	Years Ended December 31,								
	2013			2012			2011		
(Dollars in thousands)	Balance	Percent		Balance	Percent		Balance	Percent	
Loans:									
Commercial	$3,005,880	19	%	$2,618,117	18	%	$2,130,706	16	%
Commercial real estate	4,076,844	26		3,634,205	24		3,403,865	25	
Home equity	753,181	5		824,107	6		885,111	7	
Residential real estate [1]	772,753	5		789,190	5		518,643	4	
Premium finance receivables	3,946,647	25		3,463,918	23		3,035,213	22	
Indirect consumer loans	63,655	—		72,349	—		57,913	—	
Other loans	123,242	1		118,613	1		114,011	1	
Total loans, net of unearned income[2] excluding covered loans	$12,742,202	81	%	$11,520,499	77	%	$10,145,462	75	%
Covered loans	462,518	3		637,607	4		520,550	4	
Total average loans [2]	$13,204,720	84	%	$12,158,106	81	%	$10,666,012	79	%
Liquidity management assets [3]	$2,557,223	16	%	$2,763,154	19	%	$2,840,157	21	%
Other earning assets [4]	26,554	—		29,967	—		28,570	—	
Total average earning assets	$15,788,497	100	%	$14,951,227	100	%	$13,534,739	100	%
Total average assets	$17,468,249			$16,529,617			$14,920,160		
Total average earning assets to total average assets		90	%		90	%		91	%

(1) Includes mortgage loans held-for-sale

(2) Includes loans held-for-sale and non-accrual loans

(3) Liquidity management assets include available-for-sale securities, Federal Home Loan Bank and Federal Reserve Bank stock, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements

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

Total average earning assets increased $837.3 million, or 6%, in 2013 and $1.4 billion, or 10%, in 2012. Average earning assets comprised 90% of average total assets in 2013 compared to 90% and 91% of average total assets in 2012 and 2011, respectively.

Loans. Average total loans, net of unearned income, totaled $13.2 billion and increased $1.0 billion, or 9%, in 2013 and $1.5 billion, or 14%, in 2012. Average commercial loans totaled $3.0 billion in 2013, and increased $387.8 million, or 15%, over the average balance in 2012, while average commercial real estate loans totaled $4.1 billion in 2013, increasing $442.6 million, or 12%, since 2012. From 2011 to 2012, average commercial loans increased $487.4 million, or 23%, while average commercial real estate loans increased by $230.3 million, or 7%. Combined, these categories comprised 54% of the average loan portfolio in 2013 and 51% in 2012. The growth realized in these categories for 2013 and 2012 is primarily attributable to increased business development efforts and various bank acquisitions.

Home equity loans averaged $753.2 million in 2013, and decreased $70.9 million, or 9%, when compared to the average balance in 2012. Home equity loans averaged $824.1 million in 2012, and decreased $61.0 million, or 7%, when compared to the average balance in 2011. Unused commitments on home equity lines of credit totaled $747.1 million at December 31, 2013 and $750.9 million at December 31, 2012. As a result of economic conditions, the Company has been actively managing its home equity

portfolio to ensure that diligent pricing, appraisal and other underwriting activities continue to exist. The Company has not sacrificed asset quality or pricing standards when originating new home equity loans. Our home equity loan portfolio has performed well in light of the variability in the overall residential real estate market. The number of new home equity line of credit commitments originated by us has decreased due to a decline in homeowners' desire to use their remaining equity as collateral.

Residential real estate loans averaged $772.8 million in 2013, and decreased $16.4 million, or 2%, from the average balance in 2012. This category includes mortgage loans held-for-sale. By selling residential mortgage loans into the secondary market, the Company eliminates the interest-rate risk associated with these loans, as they are predominantly long-term fixed rate loans, and provides a source of non-interest revenue. Mortgage loans held-for-sale decreased during the period as a result of lower origination volumes due to the impact of higher rates on refinancing activity as well as competitive pricing pressure. In 2012, residential real estate loans averaged $789.2 million, and increased $270.5 million, or 52%, from the average balance in 2011 as a result of higher origination volumes due to a favorable mortgage interest rate environment in 2012.

Average premium finance receivables totaled $3.9 billion in 2013, and accounted for 30% of the Company's average total loans. Premium finance receivables consist of a commercial portfolio and a life portfolio, comprising 54% and 46%, respectively, of the average total balance for 2013 compared to 52% and 48%, respectively, for 2012. In 2013, average premium finance receivables increased $482.7 million, or 14%, compared to 2012. The increase during 2013 compared to 2012 was the result of continued originations within the portfolio due to the effective marketing and customer servicing. Approximately $5.5 billion of premium finance receivables were originated in 2013 compared to approximately $4.8 billion in 2012. In 2012, average premium finance receivables increased $428.7 million, or 14%, from the average balance of $3.0 billion in 2011. The increase in the average balance of premium finance receivables in 2012 is a result of increased originations within the portfolio due to the effective marketing and customer servicing, slightly higher average new loan size, and the acquisition of Macquarie Premium Funding Inc.

Indirect consumer loans are comprised primarily of automobile loans originated at Hinsdale Bank. These loans were financed from networks of unaffiliated automobile dealers located throughout the Chicago metropolitan area with which the Company has established relationships. The risks associated with the Company's portfolios are diversified among many individual borrowers. Like other consumer loans, the indirect consumer loans are subject to the Banks' established credit standards. Management regards substantially all of these loans as prime quality loans. In the fourth quarter of 2012, the Company once again ceased the origination of indirect automobile loans through Hinsdale Bank as a result of competitive pricing pressures. During 2013, 2012 and 2011 average indirect consumer loans totaled $63.7 million, $72.3 million and $57.9 million, respectively.

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

Covered loans averaged $462.5 million in 2013, and decreased $175.1 million, or 27%, when compared to 2012. In 2012, average covered loans totaled $637.6 million and increased $117.1 million from 2011. Covered loans represent loans acquired in FDIC-assisted transactions. These loans are subject to loss sharing agreements with the FDIC. The FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, foreclosed real estate, and certain other assets. See Note 8 — Business Combinations for a discussion of these acquisitions, including the aggregation of these loans by risk characteristics when determining the initial and subsequent fair value.

Liquidity Management Assets. Funds that are not utilized for loan originations are used to purchase investment securities and short- term money market investments, to sell as federal funds and to maintain in interest-bearing deposits with banks. The balances of these assets fluctuate frequently based on deposit inflows, the level of other funding sources and loan demand. Average liquidity management assets accounted for 16% of total average earning assets in 2013, 19% in 2012 and 21% in 2011. Average liquidity management assets decreased $205.9 million in 2013 compared to 2012, and $77.0 million in 2012 compared to 2011. The balances of liquidity management assets can

fluctuate based on management's ongoing effort to manage liquidity and for asset liability management purposes.
Other earning assets. Other earning assets include brokerage customer receivables and trading account securities. In the normal course of business, WHI activities involve the execution, settlement, and financing of various securities transactions. WHI's customer securities activities are transacted on either a cash or margin basis. In margin transactions, WHI, under an agreement with the out- sourced securities firm, extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in customer's accounts. In connection with these activities, WHI executes and the out-sourced firm clears customer transactions relating to the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose WHI to off-balance-sheet risk, particularly in volatile trading markets, in the event margin requirements are not sufficient to fully cover losses that customers may incur. In

the event a customer fails to satisfy its obligations, WHI under an agreement with the out-sourced securities firm, may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. WHI seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. WHI monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or to reduce positions when necessary.

Deposits and Other Funding Sources

Total deposits at December 31, 2013, were $14.7 billion, increasing $240.2 million, or 2%, compared to the $14.4 billion at December 31, 2012. Average deposit balances in 2013 were $14.3 billion, reflecting an increase of $1.2 billion, or 9%, compared to the average balances in 2012. During 2012, average deposits increased $1.6 billion, or 14%, compared to the prior year.

The increase in year end and average deposits in 2013 over 2012 is primarily attributable to the Company's acquisition activity in 2012 and 2013, as well as additional deposits associated with the increased commercial lending relationships. The Company continues to see a beneficial shift in its deposit mix as average non-interest bearing deposits increased $428.6 million, or 21% in 2013 compared to 2012.

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

	Years Ended December 31,								
	2013			2012			2011		
(Dollars in thousands)	Balance	Percent		Balance	Percent		Balance	Percent	
Non-interest bearing deposits	$2,487,761	17	%	$2,059,160	16	%	$1,481,594	13	%
NOW accounts	2,049,573	14		1,787,001	13		1,568,151	14	
Wealth management deposits	987,885	7		923,974	7		705,736	6	
Money market accounts	3,048,045	21		2,381,731	18		1,985,881	17	
Savings accounts	1,300,681	9		1,036,350	8		795,828	7	
Time certificates of deposit	4,460,670	32		4,940,000	38		4,956,926	43	
Total average deposits	$14,334,615	100	%	$13,128,216	100	%	$11,494,116	100	%

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

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

	Years Ended December 31,								
	2013			2012			2011		
(Dollars in thousands)	Balance	Percent		Balance	Percent		Balance	Percent	
North Shore Community Bank	$1,816,775	13	%	$1,613,126	12	%	$1,307,488	11	%
Lake Forest Bank	1,721,068	12		1,623,683	12		1,411,410	12	
Northbrook Bank	1,380,842	11		1,446,483	11		1,340,877	12	
Hinsdale Bank	1,265,361	9		1,275,591	10		1,136,330	10	
Barrington Bank	1,061,249	7		1,023,330	8		928,459	8	
Libertyville Bank	988,953	7		986,780	7		941,939	8	
Old Plank Trail Bank	873,408	6		414,873	3		279,399	2	
Village Bank	833,258	6		769,100	6		644,556	6	
Town Bank	732,828	5		696,806	5		629,235	6	
Beverly Bank	642,836	4		378,234	3		337,484	3	
Crystal Lake Bank	620,385	4		598,540	5		563,268	5	
Schaumburg Bank	617,328	4		555,355	4		469,167	4	
State Bank of the Lakes	604,301	4		606,061	5		590,497	5	
Wheaton Bank	598,263	4		609,606	5		591,791	5	
St. Charles Bank	577,760	4		530,648	4		322,216	3	
Total deposits	$14,334,615	100	%	$13,128,216	100	%	$11,494,116	100	%
Percentage increase from prior year		9	%		14	%		11	%

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

The composition of average other funding sources in 2013, 2012 and 2011 is presented in the following table:

	Years Ended December 31,								
	2013			2012			2011		
(Dollars in thousands)	Average Balance	Percent of Total		Average Balance	Percent of Total		Average Balance	Percent of Total	
Notes payable	$6,032	1	%	$19,895	1	%	$2,489	—	%
Federal Home Loan Bank advances	423,221	44		459,972	32		449,874	26	
Secured borrowings—owed to securitization investors	—	—		273,753	19		600,000	35	
Subordinated notes	10,521	1		22,158	2		43,411	3	
Short-term borrowings	234,153	25		385,299	27		343,785	20	
Junior subordinated debentures	249,493	26		249,493	17		249,493	14	
Other	29,126	3		32,776	2		37,982	2	
Total other funding sources	$952,546	100	%	$1,443,346	100	%	$1,727,034	100	%

Notes payable balances represent the balances on a loan agreement with unaffiliated banks and an unsecured promissory note as a result of the Great Lakes Advisors acquisition. The loan agreement is a $100.0 million revolving

credit facility and a $1.0 million term loan available for corporate purposes such as to provide capital to fund continued growth at existing bank subsidiaries, possible future acquisitions and for other general corporate matters. In 2013, the Company amended the terms of the $100.0 million revolving credit facility and repaid and terminated the $1.0 million term loan. At December 31, 2013, the Company had $364,000

of notes payable outstanding as compared to $2.1 million outstanding at December 31, 2012. See Note 12 of the Consolidated Financial Statements for further discussion.
FHLB advances provide the banks with access to fixed rate funds which are useful in mitigating interest rate risk and achieving an acceptable interest rate spread on fixed rate loans or securities. FHLB advances to the banks totaled $417.8 million at December 31, 2013 and $414.1 million at December 31, 2012. See Note 13 to the Consolidated Financial Statements for further discussion of the terms of these advances.
The average balance of secured borrowings represents the consolidation of a qualifying special-purpose entity ("QSPE"). In connection with the securitization, premium finance receivables—commercial were transferred to FIFC Premium Funding, LLC, a QSPE. Instruments issued by the QSPE included $600 million Class A notes that had an annual interest rate of LIBOR plus 1.45% (the “Notes”). 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. During 2012, the Company repurchased $239.2 million of the Notes in the open market effectively defeasing a portion of the Notes. During the third quarter of 2012, the QSPE completely paid-off the remaining portion of the Notes resulting in no balance remaining at December 31, 2013 and 2012, compared to a balance of $600.0 million at December 31, 2011.
The Company borrowed $75.0 million under three separate $25.0 million subordinated note agreements. Each subordinated note required annual principal payments of $5.0 million beginning in the sixth year of the note and had a term of ten years with final maturity dates in 2012, 2013 and 2015. During 2012, two subordinated notes issued in October 2002 and April 2003 with remaining balances of $5.0 million and $10.0 million, respectively, were paid off prior to maturity. During 2013, the remaining subordinated note issued in October 2005 with a remaining balance of $10.0 million was paid off prior to maturity. Subordinated notes totaled $15.0 million at December 31, 2012. See Note 14 to the Consolidated Financial Statements for further discussion of the terms of the notes.
Short-term borrowings include securities sold under repurchase agreements and federal funds purchased. These borrowings totaled $235.3 million and $238.4 million at December 31, 2013 and 2012, respectively. Securities sold under repurchase agreements represent sweep accounts for certain customers in connection with master repurchase agreements at the banks as well as short-term borrowings from banks and brokers. This funding category fluctuates based on customer preferences and daily liquidity needs of the banks, their customers and the banks’ operating subsidiaries. See Note 15 to the Consolidated Financial Statements for further discussion of these borrowings.

The Company has $249.5 million of junior subordinated debentures outstanding as of December 31, 2013 and 2012. The amounts reflected on the balance sheet represent the junior subordinated debentures issued to nine trusts by the Company and equal the amount of the preferred and common securities issued by the trusts. See Note 16 of the Consolidated Financial Statements for further discussion of the Company’s junior subordinated debentures. Junior subordinated debentures, subject to certain limitations, currently qualify as Tier 1 regulatory capital. Interest expense on these debentures is deductible for tax purposes, resulting in a cost-efficient form of regulatory capital.
Other borrowings include debt issued by the Company in conjunction with its tangible equity unit offering in December 2010 and a fixed-rate promissory note entered into in August 2012 related to an office building complex owned by the Company. In December 2013, the debt issued in conjunction with its tangible equity unit offering was paid-off at maturity. At December 31, 2013, the fixed-rate promissory note related to an office building complex had an outstanding balance of $19.3 million. See Note 15 and 24 to the Consolidated Financial Statements for further discussion of these borrowings.
Shareholders’ Equity. Total shareholders’ equity was $1.9 billion at December 31, 2013, an increase of $95.9 million from the December 31, 2012 total of $1.8 billion. The increase in 2013 was primarily a result of net income of $137.2 million in 2013 less common and preferred stock dividends of $6.9 million and $8.4 million, respectively, $6.8 million credited to surplus for stock-based compensation costs, $41.4 million from the issuance of shares of the Company’s common stock (and related tax benefit) related to acquisitions and pursuant to various stock compensation plans, and $2.8 million in net unrealized gains on cash flow hedges, net of tax, partially offset by $60.3 million in net unrealized losses from available-for-sale securities, net of tax, $13.2 million of foreign currency translation adjustments, net of tax, and $3.5 million of common stock repurchased by the Company.

Changes in shareholders' equity from 2011 to 2012 were primarily a result of net income of $111.2 million in 2012 less common and preferred stock dividends of $6.5 million and $9.1 million respectively, $9.1 million credited to surplus for stock-based compensation costs, $122.7 million from the issuance of Series C Preferred Stock, net of costs, $30.8 million from the issuance of shares of the Company's common stock (and related tax benefit) related to acquisitions and pursuant to various stock compensation plans, $2.5 million in net unrealized gains from available-for-sale securities, net of tax, $1.8 million net unrealized gains from cash flow hedges, net of tax, and $6.3 million of foreign currency translation adjustments, net of tax, offset by $7.8 million of common stock repurchased by the Company.

LOAN PORTFOLIO AND ASSET QUALITY

Loan Portfolio

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

	2013		2012		2011		2010	
(Dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% o Tot
Commercial	$3,253,687	25 %	$2,914,798	24 %	$2,498,313	22 %	$2,049,326	21
Commercial real-estate	4,230,035	32	3,864,118	31	3,514,261	31	3,338,007	34
Home equity	719,137	5	788,474	6	862,345	8	914,412	9
Residential real-estate	434,992	3	367,213	3	350,289	3	353,336	3
Premium finance receivables—commercial	2,167,565	16	1,987,856	16	1,412,454	13	1,265,500	13
Premium finance receivables—life insurance	1,923,698	15	1,725,166	14	1,695,225	15	1,521,886	15
Indirect consumer	50,680	—	77,333	1	64,545	1	51,147	1
Other loans	116,808	1	103,985	1	123,945	1	106,272	1
Total loans, net of unearned income, excluding covered loans	$12,896,602	97 %	$11,828,943	96 %	$10,521,377	94 %	$9,599,886	97
Covered loans	346,431	3	560,087	4	651,368	6	334,353	3
Total loans	$13,243,033	100%	$12,389,030	100%	$11,172,745	100%	$9,934,239	100

Commercial and commercial real estate loans. Our commercial and commercial real estate loan portfolios are comprised primarily of commercial real estate loans and lines of credit for working capital purposes. The table below sets forth information regarding the types, amounts and performance of our loans within these portfolios (excluding covered loans) as of December 31, 2013 and 2012:

As of December 31, 2013 (Dollars in thousands)	Balance	% of Total Balance		Non-accrual	> 90 Days Past Due and Still Accruing	Allowance For Loan Losses Allocation
Commercial:						
Commercial and industrial	$1,836,206	24.5	%	$10,143	$—	$ 14,547
Franchise	220,383	2.9		—	—	1,576
Mortgage warehouse lines of credit	67,470	0.9		—	—	477
Community Advantage — homeowner associations	90,894	1.2		—	—	—
Aircraft	10,241	0.1		—	—	18
Asset-based lending	735,093	9.8		637	—	5,174
Tax exempt	161,239	2.2		—	—	1,158
Leases	109,831	1.5		—	—	4
Other	11,147	0.1		—	—	75
Purchased non-covered commercial loans (1)	11,183	0.2		—	274	63
Total commercial	$3,253,687	43.4	%	$10,780	$274	$ 23,092
Commercial Real-Estate:						
Residential construction	$38,500	0.5	%	$149	$—	$ 775
Commercial construction	136,706	1.8		6,969	—	2,329
Land	106,785	1.4		2,814	—	3,001
Office	642,241	8.6		10,087	—	6,524
Industrial	633,938	8.5		5,654	—	5,521
Retail	656,259	8.8		10,862	—	6,536
Multi-family	566,537	7.6		2,035	—	10,473
Mixed use and other	1,372,454	18.3		8,088	230	13,499
Purchased non-covered commercial real-estate (1)	76,615	1.1		—	18,582	—
Total commercial real-estate	$4,230,035	56.6	%	$46,658	$18,812	$ 48,658
Total commercial and commercial real-estate	$7,483,722	100.0	%	$57,438	$19,086	$ 71,750
Commercial real-estate—collateral location by state:						
Illinois	$3,557,982	84.1	%			
Wisconsin	346,810	8.2				
Total primary markets	$3,904,792	92.3	%			
Florida	66,737	1.6				
Arizona	15,551	0.4				
Indiana	78,621	1.9				
Other (no individual state greater than 0.5%)	164,334	3.8				
Total	$4,230,035	100.0	%			

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

As of December 31, 2012 (Dollars in thousands)	Balance	% of Total Balance		Nonaccrual	> 90 Days Past Due and Still Accruing	Allowance For Loan Losses Allocation
Commercial:						
Commercial and industrial	$1,628,203	24.0	%	$19,409	$—	$ 17,040
Franchise	196,395	2.9		1,792	—	2,880
Mortgage warehouse lines of credit	215,076	3.2		—	—	2,134
Community Advantage—homeowner associations	81,496	1.2		—	—	204
Aircraft	17,364	0.3		—	—	44
Asset-based lending	572,438	8.4		536	—	5,066
Tax exempt	91,824	1.4		—	—	1,041
Leases	90,443	1.3		—	—	248
Other	16,549	0.2		—	—	137
Purchased non-covered commercial loans (1)	5,010	0.1		—	496	—
Total commercial	$2,914,798	43.0	%	$21,737	$496	$ 28,794
Commercial Real-Estate:						
Residential construction	$40,401	0.6	%	$3,110	$—	$ 1,301
Commercial construction	170,955	2.5		2,159	—	3,194
Land	134,197	2.0		11,299	—	4,829
Office	569,711	8.4		4,196	—	5,446
Industrial	577,937	8.5		2,089	—	5,516
Retail	568,896	8.4		7,792	—	5,292
Multi-family	396,691	5.9		2,586	—	10,644
Mixed use and other	1,349,254	19.9		16,742	—	15,913
Purchased non-covered commercial real-estate (1)	56,076	0.8		—	749	—
Total commercial real-estate	$3,864,118	57.0	%	$49,973	$749	$ 52,135
Total commercial and commercial real-estate	$6,778,916	100.0	%	$71,710	$1,245	$ 80,929
Commercial real-estate—collateral location by state:						
Illinois	$3,094,376	80.1	%			
Wisconsin	321,070	8.3				
Total primary markets	$3,415,446	88.4	%			
Florida	70,316	1.8				
Arizona	38,262	1.0				
Indiana	49,675	1.3				
Other (no individual state greater than 0.5%)	290,419	7.5				
Total	$3,864,118	100.0	%			

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

We make commercial loans for many purposes, including working capital lines, which are generally renewable annually and supported by business assets, personal guarantees and additional collateral; loans to condominium and homeowner associations originated through Barrington Bank's Community Advantage program; and franchise lending at Lake Forest Bank. Commercial business lending is generally considered to involve a higher degree of risk than

traditional consumer bank lending. However, as a result of recent improvement in credit quality within the overall commercial portfolio, our allowance for loan losses in our commercial loan portfolio is $23.1 million as of December 31, 2013 compared to $28.8 million as of December 31, 2012.

Our commercial real estate loans are generally secured by a first mortgage lien and assignment of rents on the property. Since most of our bank branches are located in the Chicago metropolitan area and southeastern Wisconsin, 92.3% of our commercial real estate loan portfolio is located in this region. Commercial real estate market conditions continued to be under stress in 2013, however we have been able to effectively manage and reduce our total non-performing commercial real estate loans. As of December 31, 2013, our allowance for loan losses related to this portfolio is $48.7 million compared to $52.1 million as of December 31, 2012.

The Company also participates in mortgage warehouse lending by providing interim funding to unaffiliated mortgage bankers to finance residential mortgages originated by such bankers for sale into the secondary market. The Company’s loans to the mortgage bankers are secured by the business assets of the mortgage companies as well as the specific mortgage loans funded by the Company, after they have been pre-approved for purchase by third party end lenders. The Company may also provide interim financing for

packages of mortgage loans on a bulk basis in circumstances where the mortgage bankers desire to competitively bid on a number of mortgages for sale as a package in the secondary market. Amounts advanced with respect to any particular mortgage loan are usually required to be repaid within 21 days. During 2013, our mortgage warehouse lines decreased to $67.5 million as of December 31, 2013 from $215.1 million as of December 31, 2012 as a result of lower origination volumes in 2013 as refinance activity declined as well as competitive pricing pressure.

Home equity loans. Our home equity loans and lines of credit are originated by each of our banks in their local markets where we have a strong understanding of the underlying real estate value. Our banks monitor and manage these loans, and we conduct an automated review of all home equity loans and lines of credit at least twice per year. This review collects current credit performance for each home equity borrower and identifies situations where the credit strength of the borrower is declining, or where there are events that may influence repayment, such as tax liens or judgments. Our banks use this information to manage loans that may be higher risk and to determine whether to obtain additional credit information or updated property valuations. As a result of this work and general market conditions, we have modified our home equity offerings and changed our policies regarding home equity renewals and requests for subordination. In a limited number of situations, the unused availability on home equity lines of credit was frozen.

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

Our home equity loan portfolio has performed well in light of the deterioration in the overall residential real estate market. The number of new home equity line of credit commitments originated by us has decreased due to declines in housing valuations that have decreased the amount of equity against which homeowners may borrow, and a decline in homeowners’ desire to use their remaining equity as collateral.

Residential real estate mortgages. Our residential real estate portfolio predominantly includes one- to four-family adjustable rate mortgages that have re-pricing terms generally from one to three years, construction loans to individuals and bridge financing loans for qualifying customers. As of December 31, 2013, our residential loan portfolio totaled $435.0 million, or 3% of our total outstanding loans.

Our adjustable rate mortgages relate to properties located principally in the Chicago metropolitan area and southeastern Wisconsin or vacation homes owned by local residents, and may have terms based on differing indexes. These adjustable rate mortgages are often non-agency conforming because the outstanding balance of these loans exceeds the maximum balance that can be sold into the secondary market. Adjustable rate mortgage loans decrease the interest rate risk we face on our mortgage portfolio. However, this risk is not eliminated due to the fact that such loans generally provide for periodic and lifetime limits on the interest rate adjustments among other features. Additionally, adjustable rate mortgages may pose a higher risk of delinquency and default because they require borrowers to make larger payments when interest rates rise. To date, we have not seen a significant elevation in delinquencies and foreclosures in our residential loan portfolio. As of December 31, 2013, $15.0 million of our residential real estate mortgages, or 3.5% of our residential real estate loan portfolio, excluding loans acquired with evidence of credit quality deterioration since origination, were classified as nonaccrual, $6.7 million were 30 to 89 days past due (1.6%) and $410.4 million were current (94.9%). We believe that since our loan portfolio consists primarily of locally originated loans, and since the majority of our borrowers are longer-term customers with lower LTV ratios, we face a relatively low risk of borrower default and delinquency.

While we generally do not originate loans for our own portfolio with long-term fixed rates due to interest rate risk considerations, we can accommodate customer requests for fixed rate loans by originating such loans and then selling them into the secondary market, for which we receive fee income, or by selectively retaining certain of these loans within the banks’ own portfolios where they are non-agency conforming, or where the terms of the loans make them favorable to retain. A portion of the loans we sold into the secondary market were sold with the servicing of those loans retained. The amount of loans serviced for others as of December 31, 2013 and 2012 was $961.6 million and

$1.0 billion, respectively. All other mortgage loans sold into the secondary market were sold without the retention of servicing rights.

It is not our practice to underwrite, and we have no plans to underwrite, subprime, Alt A, no or little documentation loans, or option ARM loans. As of December 31, 2013, approximately $17.1 million of our mortgages consist of interest-only loans.

Premium finance receivables — commercial. FIFC and FIFC Canada originated approximately $5.0 billion in commercial insurance premium finance receivables during 2013. FIFC and FIFC Canada makes loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. The loans are originated by working through independent medium and large insurance agents and brokers located throughout the United States and Canada. The insurance premiums financed are primarily for commercial customers' purchases of liability, property and casualty and other commercial insurance.

This lending involves relatively rapid turnover of the loan portfolio and high volume of loan originations. Because of the indirect nature of this lending through third party agents and brokers and because the borrowers are located nationwide and in Canada, this segment is more susceptible to third party fraud than relationship lending. The Company performs ongoing credit and other reviews of the agents and brokers, and performs various internal audit steps to mitigate against the risk of any fraud.

The majority of these loans are purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments. However, during the third quarter of 2009, FIFC initially sold $695 million in commercial premium finance receivables to our indirect subsidiary, FIFC Premium Funding I, LLC, which in turn sold $600 million in aggregate principal amount of notes backed by such premium finance receivables in a securitization transaction sponsored by FIFC. During 2012, the Company completely paid-off these notes. See Note 6 of the Consolidated Financial Statements presented under Item 8 of this report for further discussion of this securitization transaction.

Premium finance receivables — life insurance. FIFC originated approximately $482.3 million in life insurance premium finance receivables in 2013 as compared to $412.1 million in 2012. The Company has experienced increased competition and pricing pressure within the current market in 2013. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and legal counsel. The life insurance policy is the primary form of collateral. In addition, these loans often are secured with a letter of credit, marketable securities or certificates of deposit. In some cases, FIFC may make a loan that has a partially unsecured position.

Indirect consumer loans. As part of its strategy to pursue specialized earning asset niches to augment loan generation within the banks' target markets, the Company established fixed-rate automobile loan financing at Hinsdale Bank funded indirectly through unaffiliated automobile dealers. The risks associated with the Company's portfolios are diversified among many individual borrowers. Management regards substantially all of these loans as prime quality loans. In the fourth quarter of 2012, the Company ceased the origination of indirect automobile loans through Hinsdale Bank as a result of competitive pricing pressures.

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

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

Foreign. The Company had approximately $275.0 million of loans to businesses of foreign countries as of December 31, 2013 compared to $268.1 million at December 31, 2012.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table classifies the commercial loan portfolios at December 31, 2013 by date at which the loans re-price or mature, and the type of rate:

(Dollars in thousands)	One year or less	From one to five years	Over five years	Total
Commercial				
Fixed rate	$82,813	$379,569	$153,110	$615,492
Variable rate				
With floor feature	554,815	605	—	555,420
Without floor feature	2,065,465	7,491	9,819	2,082,775
Total commercial	2,703,093	387,665	162,929	3,253,687
Commercial real-estate				
Fixed rate	358,038	1,332,888	156,774	1,847,700

Variable rate				
With floor feature	495,165	7,986	—	503,151
Without floor feature	1,841,390	36,460	1,334	1,879,184
Total commercial real-estate	2,694,593	1,377,334	158,108	4,230,035
Premium finance receivables, net of unearned income				
Fixed rate	2,129,264	141,996	—	2,271,260
Variable rate				
With floor feature	—	—	—	—
Without floor feature	1,820,003	—	—	1,820,003
Total premium finance receivables [(1)]	$3,949,267	$141,996	$—	$4,091,263

(1) Includes the commercial and consumer portion of the premium finance receivables—life insurance portfolio.

Past Due Loans and Non-performing Assets

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

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

Each loan officer is responsible for monitoring his or her loan portfolio, recommending a credit risk rating for each loan in his or her portfolio and ensuring the credit risk ratings are appropriate. These credit risk ratings are then ratified by the bank's chief credit officer and/or concurrence credit officer. Credit risk ratings are determined by evaluating a number of factors including, a borrower's financial strength, cash flow coverage, collateral protection and guarantees. A third party loan review firm independently reviews a significant portion of the loan portfolio at each of the Company's subsidiary banks to evaluate the appropriateness of the management-assigned credit risk ratings. These ratings are subject to further review at each of our bank subsidiaries by the applicable regulatory authority, including the Federal Reserve Bank of Chicago, the Office of the Comptroller of the Currency, the State of Illinois and the State of Wisconsin and our internal audit staff.

The Company's problem loan reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the Company's Managed Asset Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company's Managed Asset Division, the credit risk rating is reviewed and a portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company's impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of

commercial real-estate collateral, an independent third party appraisal is ordered by the Company’s Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions. An appraisal is ordered at least once a year for these loans, or more often if market conditions dictate. In the event that the underlying value of the collateral cannot be easily determined, a detailed valuation methodology is prepared by the Managed Asset Division. A summary of this analysis is provided to the directors’ loan committee of the bank which originated the credit for approval of a charge-off, if necessary.

Through the credit risk rating process, loans are reviewed to determine if they are performing in accordance with the original contractual terms. If the borrower has failed to comply with the original contractual terms, further action may be required by the Company, including a downgrade in the credit risk rating, movement to non-accrual status, a charge-off or the establishment of a specific impairment reserve. In the event a collateral shortfall is identified during the credit review process, the Company will work with the borrower for a principal reduction and/or a pledge of additional collateral and/or additional guarantees. In the event that these options are not available, the loan may be subject to a downgrade of the credit risk rating. If we determine that a loan amount or portion thereof, is uncollectible the loan’s credit risk rating is immediately downgraded to an 8 or 9 and the uncollectible amount is charged-off. Any loan that has a partial charge-off continues to be assigned a credit risk rating of an 8 or 9 for the duration of time that a balance remains outstanding. The Managed Asset Division undertakes a thorough and ongoing analysis to determine if additional impairment and/or charge-offs are appropriate and to begin a workout plan for the credit to minimize actual losses.

The Company’s approach to workout plans and restructuring loans is built on the credit-risk rating process. A modification of a loan with an existing credit risk rating of six or worse or a modification of any other credit, which will result in a restructured credit risk rating of six or worse must be reviewed for troubled debt restructuring ("TDR") classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of a loan is considered to be a TDR if both (1) the borrower is experiencing financial difficulty and (2) for economic or legal reasons, the bank grants a concession to a borrower that it would not otherwise consider. The modification of a loan where the credit risk rating is five or better both before and after such modification is not considered to be a TDR. Based on the Company’s credit risk rating system, it considers that borrowers whose credit risk rating is five or better are not experiencing financial difficulties and therefore, are not considered TDRs.

TDRs, which are by definition considered impaired loans, are reviewed at the time of modification and on a quarterly basis to determine if a specific reserve is needed. The carrying amount of the loan is compared to the expected payments to be received under the modified terms, discounted at the loan’s original rate, or for collateral dependent loans, to the fair value of the collateral less the estimated cost to sell. Any shortfall is recorded as a specific reserve.

For non-TDR loans, if based on current information and events, it is probable that the Company will be unable to collect all amounts due to it according to the contractual terms of the loan agreement, a loan is considered impaired, and a specific impairment reserve analysis is performed and if necessary, a specific reserve is established. In determining the appropriate reserve for collateral-dependent loans, the Company considers the results of appraisals for the associated collateral.

Non-Performing Assets, excluding covered assets

The following table sets forth Wintrust's non-performing assets and troubled debt restructurings performing under the contractual terms of the loan agreement, excluding covered assets, and loans acquired with credit quality deterioration since origination, as of the dates shown:

(Dollars in thousands)	2013	2012	2011	2010	2009
Loans past due greater than 90 days and still accruing [(1)]:					
Commercial	$—	$—	$—	$478	$561
Commercial real-estate	230	—	—	—	—
Home equity	—	100	—	—	—
Residential real-estate	—	—	—	—	412
Premium finance receivables – commercial	8,842	10,008	5,281	8,096	6,271
Premium finance receivables – life insurance	—	—	—	—	—
Indirect consumer	105	189	314	318	461
Consumer and other	—	32	—	1	95
Total loans past due greater than 90 days and still accruing	9,177	10,329	5,595	8,893	7,800
Non-accrual loans [(2)]:					
Commercial	10,780	21,737	19,018	16,382	16,509
Commercial real-estate	46,658	49,973	66,508	93,963	80,639
Home equity	10,071	13,423	14,164	7,425	8,883
Residential real-estate	14,974	11,728	6,619	6,085	3,779
Premium finance receivables – commercial	10,537	9,302	7,755	8,587	11,878
Premium finance receivables – life insurance	—	25	54	180	704
Indirect consumer	55	55	138	191	995
Consumer and other	1,082	1,511	233	252	617
Total non-accrual loans	94,157	107,754	114,489	133,065	124,004
Total non-performing loans:					
Commercial	10,780	21,737	19,018	16,860	17,070
Commercial real-estate	46,888	49,973	66,508	93,963	80,639
Home equity	10,071	13,523	14,164	7,425	8,883
Residential real-estate	14,974	11,728	6,619	6,085	4,191
Premium finance receivables – commercial	19,379	19,310	13,036	16,683	18,149
Premium finance receivables – life insurance	—	25	54	180	704
Indirect consumer	160	244	452	509	1,456
Consumer and other	1,082	1,543	233	253	712
Total non-performing loans	$103,334	$118,083	$120,084	$141,958	$131,804
Other real estate owned	43,632	56,174	79,093	71,214	80,163
Other real estate owned – obtained in acquisition	6,822	6,717	7,430	—	—
Other repossessed assets	542	—	—	—	—
Total non-performing assets	$154,330	$180,974	$206,607	$213,172	$211,967
TDRs performing under the contractual terms of the loan agreement	$78,610	$106,119	$119,920	$81,144	$31,753
Total non-performing loans by category as a percent of its own respective					

category’s period-end balance:										
Commercial	0.33	%	0.75	%	0.76	%	0.82	%	0.98	%
Commercial real-estate	1.11		1.29		1.89		2.81		2.45	
Home equity	1.40		1.72		1.64		0.81		0.95	
Residential real-estate	3.44		3.19		1.89		1.72		1.37	
Premium finance receivables – commercial	0.89		0.97		0.92		1.32		2.49	
Premium finance receivables – life insurance	—		—		—		0.01		0.06	
Indirect consumer	0.32		0.32		0.70		0.99		1.48	
Consumer and other	0.93		1.48		0.19		0.24		0.65	
Total non-performing loans	0.80	%	1.00	%	1.14	%	1.48	%	1.57	%
Total non-performing assets, as a percentage of total assets	0.85	%	1.03	%	1.30	%	1.52	%	1.74	%
Allowance for loan losses as a percentage of total non-performing loans	93.80	%	90.91	%	91.92	%	80.24	%	74.56	%

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

(2) Non-accrual loans included TDRs totaling $28.5 million, $20.4 million, $10.6 million, $20.0 million and $679,000 as of the years ended 2013, 2012, 2011, 2010 and 2009, respectively.

Non-performing Commercial and Commercial Real Estate

The commercial non-performing loan category totaled $10.8 million as of December 31, 2013 compared to $21.7 million as of December 31, 2012, while the non-performing commercial real estate loan category totaled $46.9 million as of December 31, 2013 compared to $50.0 million as of December 31, 2012. Management is pursuing the resolution of all credits in this category. At this time, management believes reserves are adequate to absorb inherent losses that may occur upon the ultimate resolution of these credits.

Non-performing Residential Real Estate and Home Equity

The non-performing residential real estate and home equity loans totaled $25.0 million as of December 31, 2013. The balance decreased $206,000 from December 31, 2012. The December 31, 2013 non-performing balance is comprised of $15.0 million of residential real estate (70 individual credits) and $10.1 million of home equity loans (47 individual credits). On average, this is approximately 8 non-performing residential real estate loans and home equity loans per chartered bank within the Company. The Company believes control and collection of these loans is very manageable. At this time, management believes reserves are adequate to absorb inherent losses that may occur upon the ultimate resolution of these credits.

Non-performing Commercial Premium Finance Receivables

The table below presents the level of non-performing property and casualty premium finance receivables as of December 31, 2013 and 2012, and the amount of net charge-offs for the years then ended.

	December 31,	
(Dollars in thousands)	2013	2012
Non-performing premium finance receivables — commercial	$19,379	$19,310
- as a percent of premium finance receivables — commercial	0.89 %	0.97 %
Net charge-offs of premium finance receivables — commercial	$3,955	$2,880
- as a percent of average premium finance receivables — commercial	0.19 %	0.16 %

Fluctuations in this category may occur due to timing and nature of account collections from insurance carriers. The Company’s underwriting standards, regardless of the condition of the economy, have remained consistent. We anticipate that net charge-offs and non-performing asset levels in the near term will continue to be at levels that are within acceptable operating ranges for this category of loans. Management is comfortable with administering the collections at this level of non-performing property and casualty premium finance receivables and believes reserves are adequate to absorb inherent losses that may occur upon the ultimate resolution of these credits.

Due to the nature of collateral for commercial premium finance receivables, it customarily takes 60-150 days to convert the collateral into cash. Accordingly, the level of non-performing commercial premium finance receivables is not necessarily indicative of the loss inherent in the portfolio. In the event of default, Wintrust has the power to cancel the insurance policy and collect the unearned portion of the premium from the insurance carrier. In the event of cancellation, the cash returned in payment of the unearned premium by the insurer should generally be sufficient to cover the receivable balance, the interest and other charges due. Due to notification requirements and processing time by most insurance carriers, many receivables will become delinquent beyond 90 days while the insurer is processing the return of the unearned premium. Management continues to accrue interest until maturity as the unearned premium is ordinarily sufficient to pay-off the outstanding balance and contractual interest due.

Loan Portfolio Aging

The following table shows, as of December 31, 2013, only 0.9% of the entire portfolio, excluding covered loans, is in a non-performing loan (non-accrual or greater than 90 days past due and still accruing interest) with only 0.9% either one or two payments past due. In total, 98.2% of the Company’s total loan portfolio, excluding covered loans, as of December 31, 2013 is current according to the original contractual terms of the loan agreements.

The tables below show the aging of the Company’s loan portfolio at December 31, 2013 and 2012:

As of December 31, 2013 (Dollars in thousands)	Non-accrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$10,143	$—	$4,938	$7,404	$1,813,721	$1,836,206
Franchise	—	—	400	—	219,983	220,383
Mortgage warehouse lines of credit	—	—	—	—	67,470	67,470
Community Advantage – homeowners association	—	—	—	—	90,894	90,894
Aircraft	—	—	—	—	10,241	10,241
Asset-based lending	637	—	388	1,878	732,190	735,093
Tax exempt	—	—	—	—	161,239	161,239
Leases	—	—	—	788	109,043	109,831
Other	—	—	—	—	11,147	11,147
Purchased non-covered commercial (1)	—	274	156	1,685	9,068	11,183
Total commercial	10,780	274	5,882	11,755	3,224,996	3,253,687
Commercial real-estate:						
Residential construction	149	—	—	—	38,351	38,500
Commercial construction	6,969	—	—	505	129,232	136,706
Land	2,814	—	4,224	619	99,128	106,785
Office	10,087	—	2,265	3,862	626,027	642,241
Industrial	5,654	—	585	914	626,785	633,938
Retail	10,862	—	837	2,435	642,125	656,259
Multi-family	2,035	—	—	348	564,154	566,537
Mixed use and other	8,088	230	3,943	15,949	1,344,244	1,372,454
Purchased non-covered commercial real-estate (1)	—	18,582	3,540	5,238	49,255	76,615
Total commercial real-estate	46,658	18,812	15,394	29,870	4,119,301	4,230,035
Home equity	10,071	—	1,344	3,060	704,662	719,137
Residential real estate	14,974	—	1,689	5,032	410,430	432,125
Purchased non-covered residential real estate (1)	—	1,988	—	—	879	2,867
Premium finance receivables						
Commercial insurance loans	10,537	8,842	6,912	24,094	2,117,180	2,167,565
Life insurance loans	—	—	2,524	1,808	1,495,460	1,499,792
Purchased life insurance loans (1)	—	—	—	—	423,906	423,906

Indirect consumer	55	105	29	353	50,138	50,680
Consumer and other	1,082	—	47	657	113,818	115,604
Purchased non-covered consumer and other [1]	—	181	—	—	1,023	1,204
Total loans, net of unearned income, excluding covered loans	$94,157	$30,202	$33,821	$76,629	$12,661,793	$12,896,602
Covered loans	9,425	56,282	5,877	7,937	266,910	346,431
Total loans, net of unearned income	$103,582	$86,484	$39,698	$84,566	$12,928,703	$13,243,033

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

As of December 31, 2013	Non-accrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Aging as a % of Loan Balance:						
Commercial						
Commercial and industrial	0.6 %	— %	0.3 %	0.4 %	98.7 %	100.0 %
Franchise	—	—	0.2	—	99.8	100.0
Mortgage warehouse lines of credit	—	—	—	—	100.0	100.0
Community Advantage – homeowners association	—	—	—	—	100.0	100.0
Aircraft	—	—	—	—	100.0	100.0
Asset-based lending	0.1	—	0.1	0.3	99.5	100.0
Tax exempt	—	—	—	—	100.0	100.0
Leases	—	—	—	0.7	99.3	100.0
Other	—	—	—	—	100.0	100.0
Purchased non-covered commercial (1)	—	2.5	1.4	15.1	81.0	100.0
Total commercial	0.3	—	0.2	0.4	99.1	100.0
Commercial real-estate:						
Residential construction	0.4	—	—	—	99.6	100.0
Commercial construction	5.1	—	—	0.4	94.5	100.0
Land	2.6	—	4.0	0.6	92.8	100.0
Office	1.6	—	0.4	0.6	97.4	100.0
Industrial	0.9	—	0.1	0.1	98.9	100.0
Retail	1.7	—	0.1	0.4	97.8	100.0
Multi-family	0.4	—	—	0.1	99.5	100.0
Mixed use and other	0.6	—	0.3	1.2	97.9	100.0
Purchased non-covered commercial real-estate (1)	—	24.3	4.6	6.8	64.3	100.0
Total commercial real-estate	1.1	0.4	0.4	0.7	97.4	100.0
Home equity	1.4	—	0.2	0.4	98.0	100.0
Residential real estate	3.5	—	0.4	1.2	94.9	100.0
Purchased non-covered residential real estate (1)	—	69.3	—	—	30.7	100.0
Premium finance receivables						
Commercial insurance loans	0.5	0.4	0.3	1.1	97.7	100.0
Life insurance loans	—	—	0.2	0.1	99.7	100.0
Purchased life insurance loans (1)	—	—	—	—	100.0	100.0
Indirect consumer	0.1	0.2	0.1	0.7	98.9	100.0
Consumer and other	0.9	—	—	0.6	98.5	100.0
Purchased non-covered consumer and other (1)	—	15.0	—	—	85.0	100.0
Total loans, net of unearned income, excluding covered loans	0.7 %	0.2 %	0.3 %	0.6 %	98.2 %	100.0 %
Covered loans	2.7	16.2	1.7	2.3	77.1	100.0

Total loans, net of unearned income	0.8	%	0.7	%	0.3	%	0.6	%	97.6	%	100.0	%

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

As of December 31, 2012 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$19,409	$—	$5,520	$15,410	$1,587,864	$1,628,203
Franchise	1,792	—	—	—	194,603	196,395
Mortgage warehouse lines of credit	—	—	—	—	215,076	215,076
Community Advantage – homeowners association	—	—	—	—	81,496	81,496
Aircraft	—	—	148	—	17,216	17,364
Asset-based lending	536	—	1,126	6,622	564,154	572,438
Tax exempt	—	—	—	—	91,824	91,824
Leases	—	—	—	896	89,547	90,443
Other	—	—	—	—	16,549	16,549
Purchased non-covered commercial [(1)]	—	496	432	7	4,075	5,010
Total commercial	21,737	496	7,226	22,935	2,862,404	2,914,798
Commercial real-estate:						
Residential construction	3,110	—	4	41	37,246	40,401
Commercial construction	2,159	—	885	386	167,525	170,955
Land	11,299	—	632	9,014	113,252	134,197
Office	4,196	—	1,889	3,280	560,346	569,711
Industrial	2,089	—	6,042	4,512	565,294	577,937
Retail	7,792	—	1,372	998	558,734	568,896
Multi-family	2,586	—	3,949	1,040	389,116	396,691
Mixed use and other	16,742	—	6,660	13,349	1,312,503	1,349,254
Purchased non-covered commercial real-estate [(1)]	—	749	2,663	2,508	50,156	56,076
Total commercial real-estate	49,973	749	24,096	35,128	3,754,172	3,864,118
Home equity	13,423	100	1,592	5,043	768,316	788,474
Residential real estate	11,728	—	2,763	8,250	343,616	366,357
Purchased non-covered residential real estate [(1)]	—	—	200	—	656	856
Premium finance receivables						
Commercial insurance loans	9,302	10,008	6,729	19,597	1,942,220	1,987,856
Life insurance loans	25	—	—	5,531	1,205,151	1,210,707
Purchased life insurance loans [(1)]	—	—	—	—	514,459	514,459
Indirect consumer	55	189	51	442	76,596	77,333
Consumer and other	1,511	32	167	433	99,010	101,153
Purchased non-covered consumer and other [(1)]	—	66	32	101	2,633	2,832
Total loans, net of unearned income, excluding covered loans	$107,754	$11,640	$42,856	$97,460	$11,569,233	$11,828,943
Covered loans	1,988	122,350	16,108	7,999	411,642	560,087

Total loans, net of unearned income	$109,742	$133,990	$58,964	$105,459	$11,980,875	$12,389,030

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

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As of December 31, 2012	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Aging as a % of Loan Balance:						
Commercial						
Commercial and industrial	1.2 %	— %	0.3 %	1.0 %	97.5 %	100.0 %
Franchise	0.9	—	—	—	99.1	100.0
Mortgage warehouse lines of credit	—	—	—	—	100.0	100.0
Community Advantage – homeowners association	—	—	—	—	100.0	100.0
Aircraft	—	—	0.9	—	99.1	100.0
Asset-based lending	0.1	—	0.2	1.2	98.5	100.0
Tax exempt	—	—	—	—	100.0	100.0
Leases	—	—	—	1.0	99.0	100.0
Other	—	—	—	—	100.0	100.0
Purchased non-covered commercial [(1)]	—	9.9	8.6	0.1	81.4	100.0
Total commercial	0.8	—	0.3	0.8	98.1	100.0
Commercial real-estate						
Residential construction	7.7	—	—	0.1	92.2	100.0
Commercial construction	1.3	—	0.5	0.2	98.0	100.0
Land	8.4	—	0.5	6.7	84.4	100.0
Office	0.7	—	0.3	0.6	98.4	100.0
Industrial	0.4	—	1.1	0.8	97.7	100.0
Retail	1.4	—	0.2	0.2	98.2	100.0
Multi-family	0.7	—	1.0	0.3	98.0	100.0
Mixed use and other	1.2	—	0.5	1.0	97.3	100.0
Purchased non-covered commercial real-estate [(1)]	—	1.3	4.8	4.5	89.4	100.0
Total commercial real-estate	1.3	—	0.6	0.9	97.2	100.0
Home equity	1.7	—	0.2	0.6	97.5	100.0
Residential real estate	3.2	—	0.8	2.3	93.7	100.0
Purchased non-covered residential real estate [(1)]	—	—	23.4	—	76.6	100.0
Premium finance receivables						
Commercial insurance loans	0.5	0.5	0.3	1.0	97.7	100.0
Life insurance loans	—	—	—	0.5	99.5	100.0
Purchased life insurance loans [(1)]	—	—	—	—	100.0	100.0
Indirect consumer	0.1	0.2	0.1	0.6	99.0	100.0
Consumer and other	1.5	—	0.2	0.4	97.9	100.0
Purchased non-covered consumer and other [(1)]	—	2.3	1.1	3.6	93.0	100.0
Total loans, net of unearned income, excluding covered loans	0.9 %	0.1 %	0.4 %	0.8 %	97.8 %	100.0 %
Covered loans	0.4	21.8	2.9	1.4	73.5	100.0

Total loans, net of unearned income	0.9	%	1.1	%	0.5	%	0.9	%	96.6	%	100.0	%

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

As of December 31, 2013, only $33.8 million of all loans, excluding covered loans, or 0.3%, were 60 to 89 days past due and $76.6 million, or 0.6%, were 30 to 59 days (or one payment) past due. As of December 31, 2012, $42.9 million of all loans, excluding covered loans, or 0.4%, were 60 to 89 days past due and $97.5 million, or 0.8%, were 30 to 59 days (or one payment) past due. The majority of the commercial and commercial real estate loans shown as 60 to 89 days and 30 to 59 days past due are included on the Company’s internal problem loan reporting system. Loans on this system are closely monitored by management on a monthly basis. Commercial and commercial real-estate loans with delinquencies from 30 to 89 days past-due decreased $29.9 million since December 31, 2012.

The Company’s home equity and residential loan portfolios continue to exhibit low delinquency ratios. Home equity loans at December 31, 2013 that are current with regard to the contractual terms of the loan agreement represent 98.0% of the total home equity portfolio. Residential real estate loans, excluding loans acquired with evidence of credit quality deterioration since origination, at December 31, 2013 that are current with regards to the contractual terms of the loan agreements comprise 94.9% of these residential real estate loans outstanding.

Non-performing Loans Rollforward

The table below presents a summary of non-performing loans, excluding covered loans, and loans acquired with evidence of credit quality deterioration since origination, as of December 31, 2013 and 2012 and shows the changes in the balance during 2013 and 2012:

(Dollars in thousands)	2013	2012
Balance at beginning of period	$118,083	$120,084
Additions, net	94,076	109,378
Return to performing status	(11,692)	(3,137)
Payments received	(35,066)	(41,250)
Transfers to OREO	(21,531)	(25,275)
Charge-offs	(38,662)	(48,408)
Net change for niche loans [1]	(1,874)	6,691
Balance at end of period	$103,334	$118,083

(1) This includes activity for premium finance receivables, mortgages held for investment by Wintrust Mortgage and indirect consumer loans

Loans with evidence of credit quality deterioration since origination are excluded from non-performing loans as they continue to earn interest income from the related accretable yield, independent of performance with contractual terms of the loan. See Note 5 of the Consolidated Financial Statements for further discussion of non-performing loans and the loan aging during the respective periods.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of the probable and reasonably estimable loan losses that our loan portfolio is expected to incur. The allowance for loan losses is determined quarterly using a methodology that incorporates important risk characteristics of each loan, as described below under "How We Determine the Allowance for Credit Losses." This process is subject to review at each of our bank subsidiaries by the applicable regulatory authority, including the Federal Reserve Bank of Chicago, the OCC, the State of Illinois and the State of Wisconsin.

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

	December 31, 2013		December 31, 2012		December 31, 2011		December 31, 2010		December 31, 2009	
(Dollars in thousands)	Amount	% of Loan Type to Total Loans	Amount	% of Loan Type to Total Loans	Amount	% of Loan Type to Total Loans	Amount	% of Loan Type to Total Loans	Amount	% of Loan Type to Total Loans
Allowance for loan losses and allowance for covered loan losses allocation:										
Commercial	$23,092	25 %	$28,794	24 %	$31,237	22 %	$31,777	21 %	$28,012	21 %
Commercial real-estate	48,658	32	52,135	31	56,405	31	62,618	34	50,952	39
Home equity	12,611	5	12,734	6	7,712	8	6,213	9	9,013	11
Residential real-estate	5,108	3	5,560	3	5,028	3	5,107	3	3,139	4
Premium finance receivables – commercial	4,842	16	5,530	16	6,109	13	5,482	13	2,836	9
Premium finance receivables – life insurance	741	15	566	14	1,105	15	837	15	980	14
Indirect consumer	182	—	267	1	645	1	526	1	1,368	1
Consumer and other	1,688	1	1,765	1	2,140	1	1,343	1	1,977	1
Total allowance for loan losses	96,922	97	107,351	96	110,381	94	113,903	97	98,277	100
Covered loans	10,092	3	13,454	4	12,977	6	—	3	—	—
Total allowance for loan losses and allowance for covered loan losses	$107,014	100%	$120,805	100%	$123,358	100%	$113,903	100%	$98,277	100%
Allowance category as a percent of total allowance for loan losses and allowance for covered loan losses:										
Commercial	22 %		24 %		25 %		28 %		29 %	
Commercial real-estate	45		43		46		55		52	
Home equity	12		11		6		5		9	

Residential real-estate	5		5		4		4		3	
Premium finance receivables—commercial	5		5		5		5		3	
Premium finance receivables—life insurance	1		—		1		1		1	
Indirect consumer	—		—		1		1		1	
Consumer and other	1		1		1		1		2	
Total allowance for loan losses	91		89		89		100		100	
Covered loans	9		11		11		—		—	
Total allowance for loan losses	100	%	100	%	100	%	100	%	100	%
Allowance for losses on lending-related commitments:										
Commercial and commercial real estate	$719		$14,647		$13,231		$4,134		$3,554	
Total allowance for credit losses including allowance for covered loan losses	$107,733		$135,452		$136,589		$118,037		$101,831	

Management determined that the allowance for loan losses was appropriate at December 31, 2013, and that the loan portfolio is well diversified and well secured, without undue concentration in any specific risk area. While this process involves a high degree of management judgment, the allowance for credit losses is based on a comprehensive, well documented, and consistently applied analysis of the Company's loan portfolio. This analysis takes into consideration all available information existing as of the financial statement date, including environmental factors such as economic, industry, geographical and political factors. The relative level of allowance for credit losses is reviewed and compared to industry peers. This review encompasses the levels of total nonperforming loans, portfolio mix, portfolio concentrations, current geographic risks and overall levels of net charge-offs. Historical trending of both the Company's results and the industry peers is also reviewed to analyze comparative significance.

Allowance for Credit Losses, excluding covered loans

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

(Dollars in thousands)	2013	2012	2011	2010	2009
Allowance for loan losses at beginning of year	$107,351	$110,381	$113,903	$98,277	$69,767
Provision for credit losses	45,984	72,412	97,920	124,664	167,932
Other adjustments	(938)	(1,333)	—	1,943	—
Reclassification from (to) allowance for unfunded lending-related commitments	640	693	1,904	(1,301)	(2,037)
Charge-offs:					
Commercial	14,123	22,405	31,951	18,592	35,022
Commercial real estate	32,745	43,539	62,698	61,873	89,114
Home equity	6,361	9,361	5,020	5,926	4,605
Residential real estate	2,958	4,060	4,115	1,143	1,067
Premium finance receivables – commercial	5,063	3,751	6,617	23,005	8,153
Premium finance receivables – life insurance	17	29	275	233	—
Indirect consumer	130	221	244	967	1,848
Consumer and other	980	1,024	1,532	1,141	644
Total charge-offs	62,377	84,390	112,452	112,880	140,453
Recoveries:					
Commercial	1,655	1,220	1,258	1,140	450
Commercial real estate	2,526	6,635	1,386	914	792
Home equity	432	428	64	24	815
Residential real estate	289	22	10	12	—
Premium finance receivables – commercial	1,108	871	6,006	781	651
Premium finance receivables – life insurance	13	69	12	—	—
Indirect consumer	53	103	220	198	179
Consumer and other	186	240	150	131	181
Total recoveries	6,262	9,588	9,106	3,200	3,068
Net charge-offs, excluding covered loans	(56,115)	(74,802)	(103,346)	(109,680)	(137,385)
Allowance for loan losses at year end	$96,922	$107,351	$110,381	$113,903	$98,277
Allowance for unfunded lending-related commitments at year end	$719	$14,647	$13,231	$4,134	$3,554
Allowance for credit losses at year end	$97,641	$121,998	$123,612	$118,037	$101,831
Net charge-offs by category as a percentage of its own respective category's average:					
Commercial	0.41%	0.81%	1.44%	0.95%	2.18%
Commercial real estate	0.74	1.02	1.80	1.83	2.59
Home equity	0.79	1.08	0.56	0.64	0.41
Residential real estate	0.35	0.51	0.79	0.19	0.21
	0.19	0.16	0.04	1.74	0.67

Premium finance receivables – commercial					
Premium finance receivables – life insurance	—	—	0.02	0.02	—
Indirect consumer	0.12	0.16	0.04	1.09	1.24
Consumer and other	0.65	0.66	1.21	0.93	0.35
Total loans, net of unearned income, excluding covered loans	0.44 %	0.65 %	1.02 %	1.16 %	1.65 %
Net charge-offs as a percentage of the provision for credit losses	122.04 %	103.30 %	105.54 %	87.98 %	81.81 %
Year-end total loans (excluding covered loans)	$12,896,602	$11,828,943	$10,521,377	$9,599,886	$8,411,771
Allowance for loan losses as a percentage of loans at end of year	0.75 %	0.91 %	1.05 %	1.19 %	1.17 %
Allowance for credit losses as a percentage of loans at end of year	0.76 %	1.03 %	1.17 %	1.23 %	1.21 %

The allowance for credit losses, excluding the allowance for covered loan losses, is comprised of an allowance for loan losses, which is determined with respect to loans that we have originated, and an allowance for lending-related commitments. Our allowance for lending-related commitments is determined with respect to funds that we have committed to lend but for which funds have not yet been disbursed and is computed using a methodology similar to that used to determine the allowance for loan losses. The allowance for unfunded lending-related commitments totaled $719,000 as of December 31, 2013 compared to $14.6 million as of December 31, 2012. The decrease since the prior year was primarily attributable to the funding of two letters of credit in 2013.

Additions to the allowance for loan losses are charged to earnings through the provision for credit losses. Charge-offs represent the amount of loans that have been determined to be uncollectible during a given period, and are deducted from the allowance for loan losses, and recoveries represent the amount of collections received from loans that had previously been charged off, and are credited to the allowance for loan losses. See Note 5 of the Consolidated Financial Statements for further discussion of activity within the allowance for loan losses during the period and the relationship with respective loan balances for each loan category and the total loan portfolio, excluding covered loans.

How We Determine the Allowance for Credit Losses

The allowance for loan losses includes an element for estimated probable but undetected losses and for imprecision in the credit risk models used to calculate the allowance. As part of the Problem Loan Reporting system review, the Company analyzes the loan for purposes of calculating our specific impairment reserves and a general reserve. See Note 5 of the Consolidated Financial Statements for further discussion of the specific impairment reserve and general reserve as it relates to the allowance for credit losses for each loan category and the total loan portfolio, excluding covered loans.

Specific Impairment Reserves:

Loans with a credit risk rating of a 6 through 9 are reviewed on a monthly basis to determine if (a) an amount is deemed uncollectible (a charge-off) or (b) it is probable that the Company will be unable to collect amounts due in accordance with the original contractual terms of the loan (impaired loan). If a loan is impaired, the carrying amount of the loan is compared to the expected payments to be reserved, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral less the estimated cost to sell. Any shortfall is recorded as a specific impairment reserve.

At December 31, 2013, the Company had $162.2 million of impaired loans with $92.2 million of this balance requiring $8.3 million of specific impairment reserves. At December 31, 2012, the Company had $204.5 million of impaired loans with $90.0 million of this balance requiring $13.6 million of specific impairment reserves. The most significant fluctuations in impaired loans requiring specific impairment reserves from 2012 to 2013 occurred within the mixed use and other, and home equity portfolios. The recorded investment of the mixed use and other portfolio requiring specific impairment increased $6.7 million, however, specific impairment decreased $1.6 million. These fluctuations were the result of charge-offs on various loans as well as transfers to OREO. The recorded investment of the home equity portfolio requiring specific impairment decreased $3.3 million, which was primarily the result of one large customer charge-off during the period. See Note 5 of the Consolidated Financial Statements for further discussion of impaired loans and the related specific impairment reserve.

General Reserves:

For loans with a credit risk rating of 1 through 7, reserves are established based on the type of loan collateral, if any, and the assigned credit risk rating. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on the average historical loss experience over a three-year period, and consideration of current environmental factors and economic trends, all of which may be susceptible to significant change.

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

- historical loss experience;
- changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- changes in national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio;
- changes in the nature and volume of the portfolio and in the terms of the loans;
- changes in the experience, ability, and depth of lending management and other relevant staff;

- changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans;
- changes in the quality of the bank's loan review system;
- changes in the underlying collateral for collateral dependent loans;
- the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the bank's existing portfolio.

In the second quarter of 2012, the Company modified its historical loss experience analysis to incorporate three−year average loss rate assumptions. Prior to this, the Company employed a five−year average loss rate assumption analysis. The three−year average loss rate assumption analysis is computed for each of the Company's collateral codes. The historical loss experience is combined with the specific loss factor for each combination of collateral and credit risk rating which is then applied to each individual loan balance to determine an appropriate general reserve. The historical loss rates are updated on a quarterly basis and are driven by the performance of the portfolio and any changes to the specific loss factors are driven by management judgment and analysis of the factors described above.

The reasons for the migration to a three-year average historical loss rate from the previous five-year average historical loss rate analysis are:

- The three-year average is more relevant to the inherent losses in the core bank loan portfolio as the charge-off rates from earlier periods are no longer as relevant in comparison to the more recent periods. Earlier periods had historically low credit losses which then built up to a peak in credit losses as a result of the stressed economic environment and depressed real estate valuations that affected both the U.S. economy, generally, and the Company's local markets, specifically during that time. Since the end of 2009 there has been no evidence in the Company's loan portfolio of a return to the level of charge-offs experienced at the height of the credit crisis.

- Migrating to a three-year historical average loss rate reduces the need for management judgment factors related to national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio as the three-year average is now more closely aligned with the credit risk in our portfolio today.

The Company also analyzes the four- and five-year average historical loss rates on a quarterly basis as a comparison.

Home Equity and Residential Real Estate Loans

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

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

Premium Finance Receivables and Indirect Consumer Loans

The determination of the appropriate allowance for loan losses for premium finance receivables and indirect consumer loans is based solely on the aging (collection status) of the portfolios. Due to the large number of generally smaller sized and homogeneous credits in these portfolios, these loans are not individually assigned a credit risk rating. Loss

factors are assigned to each delinquency category in order to calculate an allowance for credit losses. The allowance for loan losses for these categories is entirely a general reserve.

Effects of Economic Recession and Real Estate Market

The Company’s primary markets, which are mostly in suburban Chicago, have not experienced the same levels of credit deterioration in residential mortgage and home equity loans as certain other major metropolitan markets, however, the Company's markets have clearly been under stress. As of December 31, 2013, home equity loans and residential mortgages comprised 5% and 3%, respectively, of the Company’s total loan portfolio. At December 31, 2013 (excluding covered loans), approximately only 5.1% of all of the Company’s residential mortgage loans, excluding loans acquired with evidence of credit quality deterioration, and approximately only 2.0% of all of the Company’s home equity loans are on nonaccrual status or more than one payment past due. Current delinquency statistics of these two portfolios, demonstrating that although there is stress in the Chicago metropolitan and southeastern Wisconsin markets, our portfolios of residential mortgages and home equity loans are performing reasonably well as reflected in the aging of the Company’s loan portfolio table shown earlier in this section.

Methodology in Assessing Impairment and Charge-off Amounts

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

In many cases, the Company simultaneously values the underlying collateral by marketing the property to market participants interested in purchasing properties of the same type. If the Company receives offers or indications of interest, we will analyze the price and review market conditions to assess whether in light of such information the appraised value overstates the likely price and that a lower price would be a better assessment of the market value of the property and would enable us to liquidate the collateral. Additionally, the Company takes into account the strength of any guarantees and the ability of the borrower to provide value related to those guarantees in determining the ultimate charge-off or reserve associated with any impaired loans. Accordingly, the Company may charge-off a loan to a value below the net appraised value if it believes that an expeditious liquidation is desirable in the circumstance and it has legitimate offers or other indications of interest to support a value that is less than the net appraised value. Alternatively, the Company may carry a loan at a value that is in excess of the appraised value if the Company has a guarantee from a borrower that the Company believes has realizable value. In evaluating the strength of any guarantee, the Company evaluates the financial wherewithal of the guarantor, the guarantor’s reputation, and the guarantor’s willingness and desire to work with the Company. The Company then conducts a review of the strength of a guarantee on a frequency established as the circumstances and conditions of the borrower warrant.

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

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

In other cases, the Company may allow the borrower to conduct a “short sale,” which is a sale where the Company allows the borrower to sell the property at a value less than the amount of the loan. Many times, it is possible for the

current owner to receive a better price than if the property is marketed by a financial institution which the market place perceives to have a greater desire to liquidate the property at a lower price. To the extent that we allow a short sale at a price below the value indicated by an appraisal, we may take a charge-off beyond the value that an appraisal would have indicated.

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

Having determined the net value based on the factors such as those noted above and compared that value to the book value of the loan, the Company arrives at a charge-off amount or a specific reserve included in the allowance for loan losses. In summary, for collateral dependent loans, appraisals are used as the fair value starting point in the estimate of net value. Estimated costs to sell

are deducted from the appraised value to arrive at the net appraised value. Although an external appraisal is the primary source of valuation utilized for charge-offs on collateral dependent loans, alternative sources of valuation may become available between appraisal dates. As a result, we may utilize values obtained through these alternating sources, which include purchase and sale agreements, legitimate indications of interest, negotiated short sales, realtor price opinions, sale of the note or support from guarantors, as the basis for charge-offs. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. In addition, if an appraisal is not deemed current, a discount to appraised value may be utilized. Any adjustments from appraised value to net value are detailed and justified in an impairment analysis, which is reviewed and approved by the Company's Managed Assets Division.

TDRs

At December 31, 2013, the Company had $107.1 million in loans modified in TDRs. The $107.1 million in TDRs represents 149 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability to pay. The balance decreased from $126.5 million representing 165 credits at December 31, 2012.

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

Subsequent to its restructuring, any TDR with a below market rate concession that becomes nonaccrual, will remain classified by the Company as a TDR for its duration and will be included in the Company's nonperforming loans. Each TDR was reviewed for impairment at December 31, 2013 and approximately $4.8 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. Additionally, at December 31, 2013, the Company was committed to lend additional funds to borrowers totaling $1.9 million under the contractual terms related to TDRs.

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

(Dollars in thousands)	December 31, 2013	December 31, 2012
Accruing TDRs:		
Commercial	$6,045	$11,871
Commercial real estate	69,225	89,906
Residential real estate and other	3,340	4,342
Total accruing TDRs	$78,610	$106,119
Non-accrual TDRs: (1)		
Commercial	$1,343	$6,124
Commercial real estate	24,310	12,509
Residential real estate and other	2,840	1,721
Total non-accrual TDRs	$28,493	$20,354
Total TDRs:		
Commercial	$7,388	$17,995
Commercial real estate	93,535	102,415
Residential real estate and other	6,180	6,063
Total TDRs	$107,103	$126,473
Weighted-average contractual interest rate of TDRs	4.12 %	4.11 %

(1) Included in total non-performing loans.

TDR Rollforward

The table below presents a summary of TDRs as of December 31, 2013, 2012 and 2011, and shows the changes in the balance during those periods:

Year Ended December 31, 2013 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$17,995	$102,415	$6,063	$126,473
Additions during the period	708	19,676	2,296	22,680
Reductions:				
Charge-offs	(3,146)	(8,658)	(369)	(12,173)
Transferred to OREO and other repossessed assets	(3,800)	(1,948)	(103)	(5,851)
Removal of TDR loan status [(1)]	(2,932)	(1,003)	—	(3,935)
Payments received	(1,437)	(16,947)	(1,707)	(20,091)
Balance at period end	$7,388	$93,535	$6,180	$107,103

Year Ended December 31, 2012 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$10,834	$112,796	$6,888	$130,518
Additions during the period	14,312	56,564	1,672	72,548
Reductions:				
Charge-offs	(5,160)	(13,259)	(1,396)	(19,815)
Transferred to OREO and other repossessed assets	—	(4,096)	(449)	(4,545)
Removal of TDR loan status [(1)]	(363)	(6,365)	(273)	(7,001)
Payments received	(1,628)	(43,225)	(379)	(45,232)
Balance at period end	$17,995	$102,415	$6,063	$126,473

Year Ended December 31, 2011 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$18,028	$81,366	$1,796	$101,190
Additions during the period	6,956	87,656	5,916	100,528
Reductions:				
Charge-offs	(5,959)	(16,396)	(753)	(23,108)
Transferred to OREO and other repossessed assets	—	(8,288)	—	(8,288)
Removal of TDR loan status [(1)]	(6,588)	(9,537)	—	(16,125)
Payments received	(1,603)	(22,005)	(71)	(23,679)
Balance at period end	$10,834	$112,796	$6,888	$130,518

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

Potential Problem Loans

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

Loan Concentrations

Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. The Company had no concentrations of loans exceeding 10% of total loans at December 31, 2013, except for loans included in the specialty

finance operating segment, which are diversified throughout the United States and Canada.

Other Real Estate Owned

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

(Dollars in thousands)	Year Ended December 31, 2013	December 31, 2012
Balance at beginning of period	$62,891	$86,523
Disposal/resolved	(34,071)	(42,324)
Transfers in at fair value, less costs to sell	20,825	30,651
Additions from acquisition	8,591	2,923
Fair value adjustments	(7,782)	(14,882)
Balance at end of period	$50,454	$62,891

(Dollars in thousands)	Period End December 31, 2013	December 31, 2012
Residential real estate	$5,452	$9,077
Residential real estate development	3,859	12,144
Commercial real estate	41,143	41,670
Total	$50,454	$62,891

Liquidity and Capital Resources

The Company and the banks are subject to various regulatory capital requirements established by the federal banking agencies that take into account risk attributable to balance sheet and off-balance sheet activities. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly discretionary — actions by regulators, that if undertaken could have a direct material effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the banks must meet specific capital guidelines that involve quantitative measures of the Company’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Federal Reserve’s capital guidelines require bank holding companies to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%, of which at least 4.0% must be in the form of Tier 1 Capital. The Federal Reserve also requires a minimum leverage ratio of Tier 1 Capital to total assets of 3.0% for strong bank holding companies (those rated a composite “1” under the Federal Reserve’s rating system). For all other bank holding companies, the minimum ratio of Tier 1 Capital to total assets is 4.0%. In addition the Federal Reserve continues to consider the Tier 1 leverage ratio in evaluating proposals for expansion or new activities.

The following table summarizes the capital guidelines for bank holding companies, as well as certain ratios relating to the Company’s equity and assets as of December 31, 2013, 2012 and 2011:

	Minimum Ratios	Well Capitalized Ratios	2013	2012	2011
Tier 1 Leverage Ratio	4.0%	5.0%	10.5%	10.0%	9.4%
Tier 1 Capital to Risk-Weighted Assets	4.0%	6.0%	12.2%	12.1%	11.8%

Total Capital to Risk-Weighted Assets	8.0 %	10.0 %	12.9 %	13.1 %	13.0 %
Total average equity to total average assets	N/A	N/A	10.6 %	10.3 %	10.0 %
Dividend payout ratio	N/A	N/A	6.5 %	7.8 %	10.8 %

As reflected in the table, each of the Company’s capital ratios at December 31, 2013, exceeded the well-capitalized ratios established by the Federal Reserve. Refer to Note 20 of the Consolidated Financial Statements for further information on the capital positions of the banks.

The Company’s principal sources of funds at the holding company level are dividends from its subsidiaries, borrowings under its loan agreement with unaffiliated banks and proceeds from the issuances of subordinated debt and additional equity. Refer to Notes 12, 14, 16 and 24 of the Consolidated Financial Statements for further information on the Company’s notes payable, subordinated notes, junior subordinated debentures and shareholders’ equity, respectively. Management is committed to maintaining the Company’s capital levels above the “Well Capitalized” levels established by the Federal Reserve for bank holding companies.

In March 2012, the Company issued and sold 126,500 shares of non-cumulative perpetual convertible preferred stock, Series C, liquidation preference $1,000 per share for $126.5 million in an equity offering. Net proceeds to the Company totaled $122.7 million after deducting offering costs. If declared, dividends on the Series C Preferred Stock are payable quarterly in arrears at a rate of 5.00% per annum. The Series C Preferred Stock is convertible into common stock at the option of the holder at a conversion rate of 24.3132 shares of common stock per share of Series C Preferred Stock. In 2013, pursuant to such terms, certain holders of the Series C Preferred Stock elected to convert 23 shares of Series C Preferred Stock into 559 shares of the Company's common stock, no par value. On and after April 15, 2017, the Company will have the right under certain circumstances to cause the Series C Preferred Stock to be converted into common stock if the closing price of the Company’s common stock exceeds a certain amount.

In December 2010, the Company sold 4.6 million 7.50% tangible equity units (“TEU”) at a public offering price of $50.00 per unit. The Company received net proceeds of $222.7 million after deducting underwriting discounts and commissions and estimated offering expenses. Each tangible equity unit was composed of a prepaid stock purchase contract and a junior subordinated amortizing note that was paid-off in December 2013. For additional discussion of the TEUs, see Note 24 and 15 of the Consolidated Financial Statements.

The Company’s Board of Directors approved the first semi-annual dividend on the Company’s common stock in January 2000 and has continued to approve semi-annual dividends since that time. The payment of dividends is also subject to statutory restrictions and restrictions arising under the terms of the Company's 5.00% non-cumulative perpetual convertible preferred stock, Series C, the Company’s trust preferred securities offerings units and under certain financial covenants in the Company’s credit agreement. Under the terms of the Company’s revolving credit facility entered into on October 30, 2009 (and amended most recently on November 7, 2013), the Company is prohibited from paying dividends on any equity interests, including its common stock and preferred stock, if such payments would cause the Company to be in default under its credit facility. In January and July of 2013 and 2012, Wintrust declared semi-annual cash dividends of $0.09 per common share. In January 2014, Wintrust declared a quarterly cash dividend of $0.10 per common share. Taking into account the limitations on the payment of dividends, the final determination of timing, amount and payment of dividends is at the discretion of the Company’s Board of Directors and will depend on the Company’s earnings, financial condition, capital requirements and other relevant factors.

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

At January 1, 2014, subject to minimum capital requirements at the banks, approximately $147.4 million was available as dividends from the banks without prior regulatory approval and without compromising the banks’ well-capitalized positions.

Since the banks are required to maintain their capital at the well-capitalized level (due to the Company being a financial holding company), funds otherwise available as dividends from the banks are limited to the amount that would not reduce any of the banks’ capital ratios below the well-capitalized level. During 2013, 2012 and 2011 the subsidiaries paid dividends to Wintrust totaling $112.8 million, $45.0 million, and $27.8 million, respectively.

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

Core deposits are the most stable source of liquidity for community banks due to the nature of long-term relationships generally established with depositors and the security of deposit insurance provided by the FDIC. Core deposits are generally defined in the industry as total deposits less time deposits with balances greater than $100,000. Due to the affluent nature of many of the

communities that the Company serves, management believes that many of its time deposits with balances in excess of $100,000 are also a stable source of funds. Currently, standard deposit insurance coverage is $250,000 per depositor per insured bank, for each account ownership category.

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

	December 31,				
(Dollars in thousands)	2013	2012	2011	2010	2009
Total deposits	$14,668,789	14,428,544	12,307,267	10,803,673	9,917,074
Brokered Deposits [(1)]	476,139	787,812	674,013	639,687	927,722
Brokered deposits as a percentage of total deposits [(1)]	3.2 %	5.5 %	5.5 %	5.9 %	9.4 %

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

The banks routinely accept deposits from a variety of municipal entities. Typically, these municipal entities require that banks pledge marketable securities to collateralize these public deposits. At December 31, 2013 and 2012, the banks had approximately $815.9 million and $690.7 million, respectively, of securities collateralizing public deposits and other short-term borrowings. Public deposits requiring pledged assets are not considered to be core deposits, however they provide the Company with a reliable, lower cost, short-term funding source than what is available through many other wholesale alternatives.

As discussed in Note 6 of the Consolidated Financial Statements, in September 2009, the Company's subsidiary, FIFC, sponsored a QSPE that issued $600 million in aggregate principal amount of its Notes. The QSPE's obligations under the Notes were secured by loans made to buyers of property and casualty insurance policies to finance the related premiums payable by the buyers to the insurance companies for the policies. At the time of issuance, the Notes were eligible collateral under TALF and certain investors therefore received non-recourse funding from the New York Fed in order to purchase the Notes. As a result, FIFC believes it received greater proceeds at lower interest rates from the securitization than it otherwise would have received in a non-TALF-eligible transaction. During 2012, the Company repurchased $239.2 million, respectively, of the Notes in the open market effectively defeasing a portion of the Notes. During the third quarter of 2012, the QSPE completely paid-off the remaining portion of the Notes resulting in no balance remaining at December 31, 2013 and 2012, compared to a balance of $600.0 million at 2011.

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

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

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

Contractual Obligations. The following table presents, as of December 31, 2013, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the Consolidated Financial Statements:

		Payments Due in				
(Dollars in thousands)	Note Reference	One year or less	From one to three years	From three to five years	Over five years	Total
Deposits	11	$13,082,834	1,374,231	206,102	5,622	14,668,789
Notes payable	12	364	—	—	—	364
FHLB advances [(1)]	13	90,262	172,500	130,000	25,000	417,762
Subordinated notes	14	—	—	—	—	—
Other borrowings	15	235,918	1,095	17,727	—	254,740
Junior subordinated debentures	16	—	—	—	249,493	249,493
Operating leases	17	5,112	10,032	8,036	9,851	33,031
Purchase obligations [(2)]		34,012	23,294	1,497	471	59,274
Total		$13,448,502	1,581,152	363,362	290,437	15,683,453

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

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

The Company also enters into derivative contracts under which the Company is required to either receive cash from or pay cash to counterparties depending on changes in interest rates. Derivative contracts are carried at fair value representing the net present value of expected future cash receipts or payments based on market rates as of the balance sheet date. Because the derivative assets and liabilities recorded on the balance sheet at December 31, 2013 do not represent the amounts that may ultimately be paid under these contracts, these assets and liabilities are not included in the table of contractual obligations presented above.

Commitments.

The following table presents a summary of the amounts and expected maturities of significant commitments as of December 31, 2013. Further information on these commitments is included in Note 21 of the Consolidated Financial Statements.

(Dollars in thousands)	One year or less	From one to three years	From three to five years	Over five years	Total
Commitment type:					
Commercial, commercial real estate and construction	$1,468,118	984,869	239,515	46,158	2,738,660
Residential real estate	194,285	—	—	—	194,285
Revolving home equity lines of credit	747,122	—	—	—	747,122
Letters of credit	95,974	67,622	2,179	452	166,227
Commitments to sell mortgage loans	472,080	—	—	—	472,080

Contingencies. The Company enters into residential mortgage loan sale agreements with investors in the normal course of business. These agreements usually require certain representations concerning credit information, loan documentation, collateral and insurability. Investors have requested the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. Upon completion of its own investigation, the Company generally repurchases or provides indemnification on certain loans. Indemnification requests are generally received within two years subsequent to sale. Management maintains a liability for estimated losses on loans expected to be repurchased or on which indemnification is expected to be provided and regularly evaluates the adequacy of this recourse liability based on trends in repurchase and indemnification requests,

actual loss experience, known and inherent risks in the loans and current economic conditions. At December 31, 2013, the liability for estimated losses on repurchase and indemnification was $3.8 million and was included in other liabilities on the balance sheet.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Effects of Inflation

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

Asset-Liability Management

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

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

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

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

Management measures its exposure to changes in interest rates using many different interest rate scenarios. One interest rate scenario utilized is to measure the percentage change in net interest income assuming a ramped increase and decrease of 100 and 200 basis points that occurs in equal steps over a twelve-month time horizon. Utilizing this measurement concept, the interest rate risk of the Company, expressed as a percentage change in net interest income over a one-year time horizon due to changes in interest rates, at December 31, 2013 and December 31, 2012, is as follows:

	+200 Basis Points	+100 Basis Points	-100 Basis Points	-200 Basis Points
Percentage change in net interest income due to a ramped 100 and 200 basis point shift in the yield curve:				
December 31, 2013	5.0 %	2.4 %	(5.0)%	(10.0)%
December 31, 2012	5.1 %	2.4 %	(3.5)%	(7.6)%

This simulation analysis is based upon actual cash flows and repricing characteristics for balance sheet instruments and incorporates management's projections of the future volume and pricing of each of the product lines offered by the Company as well as other pertinent assumptions. Actual results may differ from these simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.
One method utilized by financial institutions to manage interest rate risk is to enter into derivative financial instruments. A derivative financial instrument includes interest rate swaps, interest rate caps and floors, futures, forwards, option contracts and other financial instruments with similar characteristics. Additionally, the Company enters into commitments to fund certain mortgage loans

(interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors. See Note 22 of the Financial Statements presented under Item 8 of this report for further information on the Company's derivative financial instruments.

During 2013 and 2012, the Company entered into certain covered call option transactions related to certain securities held by the Company. The Company uses these option transactions (rather than entering into other derivative interest rate contracts, such as interest rate floors) to economically hedge positions and increase the total return associated with the related securities. Although the revenue received from these options is recorded as non-interest income rather than interest income, the increased return attributable to the related securities from these options contributes to the Company's overall profitability. The Company's exposure to interest rate risk may be impacted by these transactions. To mitigate this risk, the Company may acquire fixed rate term debt or use other financial derivative instruments. There were no covered call options outstanding as of December 31, 2013 or 2012.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Wintrust Financial Corporation and subsidiaries

We have audited the accompanying consolidated statements of condition of Wintrust Financial Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wintrust Financial Corporation and subsidiaries at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Wintrust Financial Corporation and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
February 28, 2014

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

	December 31,	
(In thousands, except per share data)	2013	2012
Assets		
Cash and due from banks	$253,408	$284,731
Federal funds sold and securities purchased under resale agreements	10,456	30,297
Interest-bearing deposits with other banks	495,574	1,035,743
Available-for-sale securities, at fair value	2,176,290	1,796,076
Trading account securities	497	583
Federal Home Loan Bank and Federal Reserve Bank stock	79,261	79,564
Brokerage customer receivables	30,953	24,864
Mortgage loans held-for-sale, at fair value	332,485	385,033
Mortgage loans held-for-sale, at lower of cost or market	1,842	27,167
Loans, net of unearned income, excluding covered loans	12,896,602	11,828,943
Covered loans	346,431	560,087
Total loans	13,243,033	12,389,030
Less: Allowance for loan losses	96,922	107,351
Less: Allowance for covered loan losses	10,092	13,454
Net loans	13,136,019	12,268,225
Premises and equipment, net	531,947	501,205
FDIC indemnification asset	85,672	208,160
Accrued interest receivable and other assets	569,619	511,617
Goodwill	374,547	345,401
Other intangible assets	19,213	20,947
Total assets	$18,097,783	$17,519,613
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	$2,721,771	$2,396,264
Interest bearing	11,947,018	12,032,280
Total deposits	14,668,789	14,428,544
Notes payable	364	2,093
Federal Home Loan Bank advances	417,762	414,122
Other borrowings	254,740	274,411
Secured borrowings—owed to securitization investors	—	—
Subordinated notes	—	15,000
Junior subordinated debentures	249,493	249,493
Trade date securities payable	303,088	—
Accrued interest payable and other liabilities	302,958	331,245
Total liabilities	16,197,194	15,714,908
Shareholders' Equity:		
Preferred stock, no par value; 20,000,000 shares authorized:		
Series A - $1,000 liquidation value; No shares issued and outstanding at December 31, 2013 and 50,000 shares issued and outstanding at December 31, 2012	—	49,906
Series C - $1,000 liquidation value; 126,477 and 126,500 shares issued and outstanding at December 31, 2013 and 2012, respectively	126,477	126,500

Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at December 31, 2013 and 2012; 46,181,588 shares and 37,107,684 shares issued at December 31, 2013 and 2012, respectively	46,181	37,108
Surplus	1,117,032	1,036,295
Treasury stock, at cost, 65,005 shares and 249,329 shares at December 31, 2013 and 2012, respectively	(3,000)	(7,838)
Retained earnings	676,935	555,023
Accumulated other comprehensive (loss) income	(63,036)	7,711
Total shareholders' equity	1,900,589	1,804,705
Total liabilities and shareholders' equity	$18,097,783	$17,519,613

See accompanying Notes to Consolidated Financial Statements

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
(In thousands, except per share data)	2013	2012	2011
Interest income			
Interest and fees on loans	$588,435	$583,872	$552,938
Interest bearing deposits with banks	1,644	1,552	3,419
Federal funds sold and securities purchased under resale agreements	27	38	116
Securities	37,025	38,134	46,219
Trading account securities	25	28	44
Federal Home Loan Bank and Federal Reserve Bank stock	2,773	2,550	2,297
Brokerage customer receivables	780	847	760
Total interest income	630,709	627,021	605,793
Interest expense			
Interest on deposits	53,191	68,305	87,938
Interest on Federal Home Loan Bank advances	11,014	12,103	16,320
Interest on notes payable and other borrowings	4,341	8,966	11,023
Interest on secured borrowings—owed to securitization investors	—	5,087	12,113
Interest on subordinated notes	167	428	750
Interest on junior subordinated debentures	11,369	12,616	16,272
Total interest expense	80,082	107,505	144,416
Net interest income	550,627	519,516	461,377
Provision for credit losses	46,033	76,436	102,638
Net interest income after provision for credit losses	504,594	443,080	358,739
Non-interest income			
Wealth management	63,042	52,680	44,517
Mortgage banking	106,857	109,970	56,942
Service charges on deposit accounts	20,366	16,971	14,963
(Losses) gains on available-for-sale securities, net	(3,000)	4,895	1,792
Fees from covered call options	4,773	10,476	13,570
Gain on bargain purchases, net	—	7,503	37,974
Trading gains (losses), net	892	(1,900)	337
Other	29,467	25,497	19,603
Total non-interest income	222,397	226,092	189,698
Non-interest expense			
Salaries and employee benefits	308,794	288,589	237,785
Equipment	26,450	23,222	18,267
Occupancy, net	36,633	32,294	28,764
Data processing	18,672	15,739	14,568
Advertising and marketing	11,051	9,438	8,380
Professional fees	14,922	15,262	16,874
Amortization of other intangible assets	4,627	4,324	3,425
FDIC insurance	12,728	13,422	14,143
OREO expenses, net	5,834	22,103	26,340
Other	62,840	64,647	51,858
Total non-interest expense	502,551	489,040	420,404
Income before taxes	224,440	180,132	128,033

Income tax expense	87,230	68,936	50,458
Net income	$137,210	$111,196	$77,575
Preferred stock dividends and discount accretion	8,395	9,093	4,128
Net income applicable to common shares	$128,815	$102,103	$73,447
Net income per common share—Basic	$3.33	$2.81	$2.08
Net income per common share—Diluted	$2.75	$2.31	$1.67
Cash dividends declared per common share	$0.18	$0.18	$0.18
Weighted average common shares outstanding	38,699	36,365	35,355
Dilutive potential common shares	11,249	11,669	8,636
Average common shares and dilutive common shares	49,948	48,034	43,991

See accompanying Notes to Consolidated Financial Statements

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(In thousands)	2013	2012	2011
Net income	$137,210	$111,196	$77,575
Unrealized (losses) gains on securities			
Before tax	(102,790)	8,793	4,467
Tax effect	40,608	(3,332)	(1,862)
Net of tax	(62,182)	5,461	2,605
Less: Reclassification of net (losses) gains included in net income			
Before tax	(3,000)	4,895	1,792
Tax effect	1,193	(1,940)	(712)
Net of tax	(1,807)	2,955	1,080
Net unrealized (losses) gains on securities	(60,375)	2,506	1,525
Unrealized gains on derivative instruments			
Before tax	4,702	2,960	1,690
Tax effect	(1,872)	(1,170)	(581)
Net unrealized gains on derivative instruments	2,830	1,790	1,109
Foreign currency translation adjustment			
Before tax	(17,564)	8,249	—
Tax effect	4,362	(1,956)	—
Net foreign currency translation adjustment	(13,202)	6,293	—
Total other comprehensive (loss) income	(70,747)	10,589	2,634
Comprehensive income	$66,463	$121,785	$80,209

See accompanying Notes to Consolidated Financial Statements

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

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 31, 2010	$49,640	$34,864	$965,203	$—	$392,354	$ (5,512)	$1,436,549
Net income	—	—	—	—	77,575	—	77,575
Other comprehensive income, net of tax	—	—	—	—	—	2,634	2,634
Cash dividends declared on common stock	—	—	—	—	(6,344)	—	(6,344)
Dividends on preferred stock	—	—	—	—	(4,000)	—	(4,000)
Accretion on preferred stock	128	—	—	—	(128)	—	—
Common stock repurchases	—	—	—	(112)	—	—	(112)
Stock-based compensation	—	—	5,692	—	—	—	5,692
Common stock issued for:							
Acquisitions	—	883	25,603	—	—	—	26,486
Exercise of stock options and warrants	—	86	1,504	—	—	—	1,590
Restricted stock awards	—	57	(132)	—	—	—	(75)
Employee stock purchase plan	—	67	2,032	—	—	—	2,099
Director compensation plan	—	25	1,414	—	—	—	1,439
Balance at December 31, 2011	$49,768	$35,982	$1,001,316	$(112)	$459,457	$ (2,878)	$1,543,533
Net income	—	—	—	—	111,196	—	111,196
Other comprehensive income, net of tax	—	—	—	—	—	10,589	10,589
Cash dividends declared on common stock	—	—	—	—	(6,537)	—	(6,537)
Dividends on preferred stock	—	—	—	—	(8,955)	—	(8,955)
Accretion on preferred stock	138	—	—	—	(138)	—	—
Stock-based compensation	—	—	9,072	—	—	—	9,072
Issuance of Series C preferred stock	126,500	—	(3,810)	—	—	—	122,690

Common stock issued for:							
Acquisitions	—	398	14,162	—	—	—	14,560
Exercise of stock options and warrants	—	503	11,904	(6,717)	—	—	5,690
Restricted stock awards	—	132	(117)	(1,009)	—	—	(994)
Employee stock purchase plan	—	71	2,254	—	—	—	2,325
Director compensation plan	—	22	1,514	—	—	—	1,536
Balance at December 31, 2012	$176,406	$37,108	$1,036,295	$(7,838)	$555,023	$ 7,711	$1,804,705
Net income	—	—	—	—	137,210	—	137,210
Other comprehensive loss, net of tax	—	—	—	—	—	(70,747)	(70,747)
Cash dividends declared on common stock	—	—	—	—	(6,903)	—	(6,903)
Dividends on preferred stock	—	—	—	—	(8,325)	—	(8,325)
Accretion on preferred stock	70	—	—	—	(70)	—	—
Stock-based compensation	—	—	6,799	—	—	—	6,799
Conversion of Series A preferred stock to common stock	(49,976)	1,944	48,032	—	—	—	—
Conversion of Series C preferred stock to common stock	(23)	1	22	—	—	—	—
Settlement of prepaid common stock purchase contracts	—	5,870	(14,212)	8,342	—	—	—
Common stock issued for:							
Acquisitions	—	648	22,422	—	—	—	23,070
Exercise of stock options and warrants	—	372	13,613	(3,215)	—	—	10,770
Restricted stock awards	—	145	182	(289)	—	—	38
Employee stock purchase plan	—	62	2,397	—	—	—	2,459
Director compensation plan	—	31	1,482	—	—	—	1,513
Balance at December 31, 2013	$126,477	$46,181	$1,117,032	$(3,000)	$676,935	$ (63,036)	$1,900,589

See accompanying Notes to Consolidated Financial Statements.

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(In thousands)	2013	2012	2011
Operating Activities:			
Net income	$137,210	$111,196	$77,575
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for credit losses	46,033	76,436	102,638
Depreciation and amortization	26,180	24,676	19,469
Deferred income tax expense (benefit)	1,539	(23,315)	(639)
Stock-based compensation expense	6,799	9,072	5,692
Tax (expense) benefit from stock-based compensation arrangements	(831)	1,392	129
Excess tax benefits from stock-based compensation arrangements	(474)	(841)	(306)
Net amortization (accretion) of premium on securities	2,934	(1,034)	4,434
Mortgage servicing rights fair value change, net	(1,739)	4,101	4,673
Originations and purchases of mortgage loans held-for-sale	(3,708,364)	(3,866,012)	(2,545,385)
Proceeds from sales of mortgage loans held-for-sale	3,862,030	3,865,863	2,638,162
Bank owned life insurance income, net of claims	(3,446)	(2,920)	(2,569)
Decrease in trading securities, net	86	1,907	2,389
Net (increase) decrease in brokerage customer receivables	(6,089)	3,061	(3,376)
Gains on mortgage loans sold	(75,793)	(91,527)	(41,854)
Losses (gains) on available-for-sale securities, net	3,000	(4,895)	(1,792)
Gain on bargain purchases, net	—	(7,503)	(37,974)
Loss on sales of premises and equipment, net	23	333	29
Net loss on sales and fair value adjustments of other real estate owned	136	15,316	20,110
Decrease in accrued interest receivable and other assets, net	54,300	15,605	12,582
(Decrease) increase in accrued interest payable and other liabilities, net	(21,749)	137,743	(9,720)
Net Cash Provided by Operating Activities	321,785	268,654	244,267
Investing Activities:			
Proceeds from maturities of available-for-sale securities	295,807	588,281	1,483,986
Proceeds from sales of available-for-sale securities	138,274	2,399,035	1,265,046
Purchases of available-for-sale securities	(489,131)	(2,570,373)	(3,087,864)
Net cash (paid) received for acquisitions	(14,491)	64,351	91,571
Divestiture of operations	(149,100)	—	—
Proceeds from sales of other real estate owned	100,162	88,633	59,076
Proceeds received from the FDIC related to reimbursements on covered assets	53,443	169,689	92,595
Net decrease (increase) in interest-bearing deposits with banks	643,626	(212,564)	140,684
Net increase in loans	(781,693)	(948,601)	(802,926)
Purchases of premises and equipment, net	(37,694)	(74,326)	(79,132)
Net Cash Used for Investing Activities	(240,797)	(495,875)	(836,964)
Financing Activities:			
(Decrease) increase in deposit accounts	(78,946)	1,251,792	385,335

(Decrease) increase in other borrowings, net	(22,396)	(306,786)	226,050
Decrease in Federal Home Loan Bank advances, net	(18,000)	(70,000)	—
Repayment of subordinated notes	(15,000)	(20,000)	(15,000)
Payoff of secured borrowing	—	(600,000)	—
Excess tax benefits from stock-based compensation arrangements	474	841	306
Net proceeds from issuance of Series C preferred stock	—	122,690	—
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	19,113	14,891	3,586
Common stock repurchases	(3,504)	(7,726)	(112)
Dividends paid	(13,893)	(13,157)	(10,344)
Net Cash (Used for) Provided by Financing Activities	(132,152)	372,545	589,821
Net (Decrease) Increase in Cash and Cash Equivalents	(51,164)	145,324	(2,876)
Cash and Cash Equivalents at Beginning of Period	315,028	169,704	172,580
Cash and Cash Equivalents at End of Period	$263,864	$315,028	$169,704
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for:			
Interest	$83,395	$109,173	$146,982
Income taxes, net	97,703	82,067	57,474
Acquisitions:			
Fair value of assets acquired, including cash and cash equivalents	559,694	1,158,925	1,257,085
Value ascribed to goodwill and other intangible assets	35,056	42,588	37,198
Fair value of liabilities assumed	511,603	1,160,084	1,220,189
Non-cash activities			
Transfer to other real estate owned from loans	81,526	30,651	59,669
Common stock issued for acquisitions	23,070	14,560	27,091

See accompanying Notes to Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies
The accounting and reporting policies of Wintrust and its subsidiaries conform to generally accepted accounting principles in the United States and prevailing practices of the banking industry. In the preparation of the consolidated financial statements, management is required to make certain estimates and assumptions that affect the reported amounts contained in the consolidated financial statements. Management believes that the estimates made are reasonable; however, changes in estimates may be required if economic or other conditions change beyond management’s expectations. Reclassifications of certain prior year amounts have been made to conform to the current year presentation. The following is a summary of the Company’s more significant accounting policies.
Principles of Consolidation
The consolidated financial statements of Wintrust include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.
Earnings per Share
Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The weighted-average number of common shares outstanding is increased by the assumed conversion of outstanding convertible preferred stock and tangible equity unit shares from the beginning of the year or date of issuance, if later, and the number of common shares that would be issued assuming the exercise of stock options, the issuance of restricted shares and stock warrants using the treasury stock method. The adjustments to the weighted-average common shares outstanding are only made when such adjustments will dilute earnings per common share. Net income applicable to common shares used in the diluted earnings per share calculation can be affected by the conversion of the Company's preferred stock. Where the effect of this conversion would reduce the loss per share or increase the income per share, net income applicable to common shares is not adjusted by the associated preferred dividends.
Business Combinations
The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, “Business Combinations” (“ASC 805”). The Company recognizes the full fair value of the assets acquired and liabilities assumed, immediately expenses transaction costs and accounts for restructuring plans separately from the business combination. There is no separate recognition of the acquired allowance for loan losses on the acquirer’s balance sheet as credit related factors are incorporated directly into the fair value of the loans recorded at the acquisition date. The excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired is recorded as goodwill. Alternatively, a gain is recorded equal to the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid.
Results of operations of the acquired business are included in the income statement from the effective date of acquisition.
Cash Equivalents
For purposes of the consolidated statements of cash flows, Wintrust considers cash on hand, cash items in the process of collection, non-interest bearing amounts due from correspondent banks, federal funds sold and securities purchased under resale agreements with original maturities of three months or less, to be cash equivalents.
Securities
The Company classifies securities upon purchase in one of three categories: trading, held-to-maturity, or available-for-sale. Debt and equity securities held for resale are classified as trading securities. Debt securities for which the Company has the ability and positive intent to hold until maturity are classified as held-to-maturity. All other securities are classified as available-for-sale as they may be sold prior to maturity in response to changes in the Company’s interest rate risk profile, funding needs, demand for collateralized deposits by public entities or other reasons.
Held-to-maturity securities are stated at amortized cost, which represents actual cost adjusted for premium amortization and discount accretion using methods that approximate the effective interest method. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of related taxes, included in shareholders’ equity

as a separate component of other comprehensive income.

Trading account securities are stated at fair value. Realized and unrealized gains and losses from sales and fair value adjustments are included in other non-interest income.

Declines in the fair value of investment securities available for sale (with certain exceptions for debt securities noted below) that are deemed to be other-than-temporary are charged to earnings as a realized loss, and a new cost basis for the securities is established. In evaluating other-than-temporary impairment, management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Declines in the fair value of debt securities below amortized cost are deemed to be other-than-temporary in circumstances where: (1) the Corporation has the intent to sell a security; (2) it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis; or (3) the Corporation does not expect to recover the entire amortized cost basis of the security. If the Corporation intends to sell a security or if it is more likely than not that the Corporation will be required to sell the security before recovery, an other-than-temporary impairment write-down is recognized in earnings equal to the difference between the security's amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the other-than-temporary impairment write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. Interest and dividends, including amortization of premiums and accretion of discounts, are recognized as interest income when earned. Realized gains and losses on sales (using the specific identification method) and declines in value judged to be other-than-temporary are included in non-interest income.

Federal Home Loan Bank and Federal Reserve Bank Stock

Investments in Federal Home Loan Bank and Federal Reserve Bank stock are restricted as to redemption and are carried at cost.

Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements

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

Brokerage Customer Receivables

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

Mortgage Loans Held-for-Sale

Mortgage loans are classified as held-for-sale when originated or acquired with the intent to sell the loan into the secondary market. Market conditions or other developments may change management's intent with respect to the disposition of these loans and loans previously classified as mortgage loans held-for-sale may be reclassified to the loan portfolio.

ASC 825, "Financial Instruments" provides entities with an option to report selected financial assets and liabilities at fair value. Mortgage loans originated by Wintrust Mortgage are measured at fair value which is determined by reference to investor prices for loan products with similar characteristics. Changes in fair value are recognized in mortgage banking revenue.

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

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

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

The Company maintains its allowance for loan losses at a level believed appropriate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of internal problem loan reporting system loans and actual loss experience, changes in the composition of the loan portfolio, historical loss experience, changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices, changes in experience, ability and depth of lending management and staff, changes in national and local economic and business conditions and developments, including the condition of various market segments and changes in the volume and severity of past due and classified loans and trends in the volume of non-accrual loans, troubled debt restructurings and other loan modifications. The allowance for loan losses also includes an element for estimated probable but undetected losses and for imprecision in the credit risk models used to calculate the allowance. Loans with a credit risk rating of a 6 through 9 are reviewed on a monthly basis to determine if (a) an amount is deemed uncollectible (a charge-off) or (b) it is probable that the Company will be unable to collect amounts due in accordance with the original contractual terms of the loan (an impaired loan). If a loan is impaired, the carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral less the estimated cost to sell. Any shortfall is recorded as a specific reserve. For loans with a credit risk rating of 7 or better, reserves are established based on the type of loan collateral, if any, and the assigned credit risk rating. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on the average historical loss experience over a three year period, and consideration of current environmental factors and economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more frequently if deemed necessary.

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

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

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

of the provision for credit losses.

Mortgage Servicing Rights

Mortgage Servicing Rights ("MSRs") are recorded in the Consolidated Statements of Condition at fair value in accordance with ASC 860, "Transfers and Servicing." The Company originates mortgage loans for sale to the secondary market, the majority of which are sold without retaining servicing rights. There are certain loans, however, that are originated and sold with servicing rights retained. MSRs associated with loans originated and sold, where servicing is retained, are capitalized at the time of sale at fair value based on the future net cash flows expected to be realized for performing the servicing activities, and included in other assets in the Consolidated Statements of Condition. The change in the fair value of MSRs is recorded as a component of mortgage banking revenue in non-interest income in the Consolidated Statements of Income. For purposes of measuring fair value, a third party valuation is obtained. This valuation stratifies the servicing rights into pools based on homogenous characteristics, such as product type and interest rate. The fair value of each servicing rights pool is calculated based on the present value of estimated

future cash flows using a discount rate commensurate with the risk associated with that pool, given current market conditions. Estimates of fair value include assumptions about prepayment speeds, interest rates and other factors which are subject to change over time. Changes in these underlying assumptions could cause the fair value of MSRs to change significantly in the future.

Premises and Equipment

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

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

FDIC Indemnification Asset

In conjunction with FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. These agreements cover realized losses on loans, foreclosed real estate and certain other assets. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets are also separately measured from the related loans and foreclosed real estate and recorded as FDIC indemnification assets on the Consolidated Statements of Condition. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the loss share assets. Reductions to expected losses, to the extent such reductions to expected losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the loss share assets. Additional expected losses, to the extent such expected losses result in the recognition of an allowance for loan losses, will increase the loss share assets. The corresponding accretion is recorded as a component of non-interest income on the Consolidated Statements of Income. Although these assets are contractual receivables from the FDIC, there are no contractual interest rates.

Other Real Estate Owned

Other real estate owned is comprised of real estate acquired in partial or full satisfaction of loans and is included in other assets. Other real estate owned is recorded at its estimated fair value less estimated selling costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the allowance for loan losses. Subsequent changes in value are reported as adjustments to the carrying amount and are recorded in other non-interest expense. Gains and losses upon sale, if any, are also charged to other non-interest expense.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. In accordance with accounting standards, goodwill is not amortized, but rather is tested for impairment on an annual basis or more frequently when events warrant, using a qualitative or quantitative approach. Intangible assets which have finite lives are amortized over their estimated useful

lives and also are subject to impairment testing. All of the Company’s other intangible assets have finite lives and are amortized over varying periods not exceeding twenty years.
Bank-Owned Life Insurance
The Company owns BOLI on certain executives. BOLI balances are recorded at their cash surrender values and are included in other assets. Changes in the cash surrender values are included in non-interest income. At December 31, 2013 and 2012, BOLI totaled $118.5 million and $104.6 million, respectively.

Derivative Instruments

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

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset or liability attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Formal documentation of the relationship between a derivative instrument and a hedged asset or liability, as well as the risk-management objective and strategy for undertaking each hedge transaction and an assessment of effectiveness is required at inception to apply hedge accounting. In addition, formal documentation of ongoing effectiveness testing is required to maintain hedge accounting.

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

Cash flow hedges are accounted for by recording the changes in the fair value of the derivative instrument on the statement of condition as either a freestanding asset or liability, with a corresponding offset recorded in other comprehensive income within shareholders' equity, net of deferred taxes. Amounts are reclassified from accumulated other comprehensive income to interest expense in the period or periods the hedged forecasted transaction affects earnings.

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

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

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

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

Periodically, the Company sells options to an unrelated bank or dealer for the right to purchase certain securities held within the banks' investment portfolios ("covered call options"). These option transactions are designed primarily as an economic hedge to increase the total return associated with holding these securities as earning assets. These transactions are not designated in hedging relationships pursuant to accounting guidance and, accordingly, changes in

fair values of these contracts, are reported in other non-interest income.

Trust Assets, Assets Under Management and Brokerage Assets

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

Income Taxes

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

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

Stock-Based Compensation Plans

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

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

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

Comprehensive Income

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

Stock Repurchases

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

Foreign Currency Translation

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

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

(2) Recent Accounting Pronouncements
Repossession of Residential Real Estate Collateral
In January 2014, the FASB issued ASU No. 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Topic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure," to address diversity in practice and clarify guidance regarding the accounting for an in-substance repossession or foreclosure of residential real estate collateral. This ASU clarifies that an in-substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor. Additionally, this ASU requires disclosure of both the amount of foreclosed residential real estate property held by the Company and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. This guidance is effective for fiscal years beginning after December 15, 2014. Other than requiring additional disclosures, the Company does not expect adoption of this guidance to have a material impact on the Company's consolidated financial statements.
(3) Available-for-Sale Securities
A summary of the available-for-sale securities portfolio presenting carrying amounts and gross unrealized gains and losses as of December 31, 2013 and 2012 is as follows:

	December 31, 2013				December 31, 2012			
(Dollars in thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
U.S. Treasury	$354,262	$141	$(18,308)	$336,095	$220,226	$198	$(937)	$219,487
U.S. Government agencies	950,086	1,680	(56,078)	895,688	986,186	4,839	(986)	990,039
Municipal	154,463	2,551	(4,298)	152,716	107,868	2,899	(296)	110,471
Corporate notes:								
Financial issuers	129,362	1,993	(2,411)	128,944	142,205	2,452	(3,982)	140,675
Other	5,994	105	(5)	6,094	13,911	220	—	14,131
Mortgage-backed: (1)								
Mortgage-backed securities	562,708	3,537	(18,047)	548,198	188,485	8,805	(30)	197,260
Collateralized mortgage obligations	57,711	258	(942)	57,027	73,386	928	—	74,314
Other equity securities	50,532	1,493	(497)	51,528	52,846	215	(3,362)	49,699
Total available-for-sale securities	$2,265,118	$11,758	$(100,586)	$2,176,290	$1,785,113	$20,556	$(9,593)	$1,796,076

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

The following table presents the portion of the Company's available-for-sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013:

	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	$75,695	$(62)	$181,922	$(18,246)	$257,617	$(18,308)
U.S. Government agencies	399,982	(47,860)	53,431	(8,218)	453,413	(56,078)
Municipal	66,368	(3,757)	10,529	(541)	76,897	(4,298)
Corporate notes:						
Financial issuers	21,296	(49)	66,834	(2,362)	88,130	(2,411)
Other	995	(5)	—	—	995	(5)
Mortgage-backed:						
Mortgage-backed securities	270,522	(18,008)	2,922	(39)	273,444	(18,047)
Collateralized mortgage obligations	40,449	(942)	—	—	40,449	(942)
Other equity securities	8,272	(205)	5,709	(292)	13,981	(497)
Total	$883,579	$(70,888)	$321,347	$(29,698)	$1,204,926	$(100,586)

The following table presents the portion of the Company's available-for-sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasury	$199,250	$(937)	$—	$—	$199,250	$(937)
U.S. Government agencies	200,408	(986)	—	—	200,408	(986)
Municipal	26,782	(295)	512	(1)	27,294	(296)
Corporate notes:						
Financial issuers	4,644	(13)	91,970	(3,969)	96,614	(3,982)
Other	—	—	—	—	—	—
Mortgage-backed:						
Mortgage-backed securities	20,198	(30)	—	—	20,198	(30)
Collateralized mortgage obligations	—	—	—	—	—	—
Other equity securities	5,960	(40)	22,078	(3,322)	28,038	(3,362)
Total	$457,242	$(2,301)	$114,560	$(7,292)	$571,802	$(9,593)

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

The Company does not consider securities with unrealized losses at December 31, 2013 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 treasury notes, corporate securities of financial issuers, and agency bonds. Unrealized losses recognized on treasury notes and agency bonds are the result of increases in yields for similar types of securities which have a longer duration and maturity. The unrealized losses on corporate securities of financial issuers were comprised primarily of three trust-preferred securities. These securities continue to make contractual interest payments and have issuers with strong capital ratios.

In the fourth quarter of 2013, the Company recorded an other-than-temporary impairment charge related to a money market preferred security. The Company recognized this charge because it estimated that it would not be able to recover its amortized basis prior to its anticipated sale of the security as a result of the Volcker Rule.
The following table provides information as to the amount of gross gains and gross losses realized, other-than-temporary impairment charges and proceeds received through the sales of available-for-sale investment securities:

	Years Ended December 31,		
(Dollars in thousands)	2013	2012	2011
Realized gains	$434	$4,918	$1,874
Realized losses	(106)	(23)	(82)
Net realized gains	$328	$4,895	$1,792
Other than temporary impairment charges	(3,328)	—	—
(Losses) gains on available-for-sale securities, net	$(3,000)	$4,895	$1,792
Proceeds from sales of available-for-sale securities, net	$138,274	$2,399,035	$1,265,046

Net losses on available-for-sale securities resulted in an income tax benefit included in total income tax expense of $1.2 million in 2013. Net gains on available-for-sale securities resulted in income tax expense of $1.9 million in 2012 and $705,000 in 2011.
The amortized cost and fair value of securities as of December 31, 2013 and December 31, 2012, 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:

	December 31, 2013		December 31, 2012	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$268,847	$269,168	$188,594	$189,015
Due in one to five years	358,108	358,357	419,588	419,654
Due in five to ten years	350,372	330,020	361,037	362,135
Due after ten years	616,840	561,992	501,177	503,999
Mortgage-backed	620,419	605,225	261,871	271,574
Other equity securities	50,532	51,528	52,846	49,699
Total available-for-sale securities	$2,265,118	$2,176,290	$1,785,113	$1,796,076

At December 31, 2013 and December 31, 2012, securities having a carrying value of $1.2 billion and $1.1 billion, 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 December 31, 2013, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders' equity.

(4) Loans

A summary of the loan portfolio at December 31, 2013 and 2012 is as follows:

(Dollars in thousands)	December 31, 2013		December 31, 2012	
Balance:				
Commercial	$3,253,687		$2,914,798	
Commercial real-estate	4,230,035		3,864,118	
Home equity	719,137		788,474	
Residential real-estate	434,992		367,213	
Premium finance receivables—commercial	2,167,565		1,987,856	
Premium finance receivables—life insurance	1,923,698		1,725,166	
Indirect consumer	50,680		77,333	
Consumer and other	116,808		103,985	
Total loans, net of unearned income, excluding covered loans	$12,896,602		$11,828,943	
Covered loans	346,431		560,087	
Total loans	$13,243,033		$12,389,030	
Mix:				
Commercial	25	%	24	%
Commercial real-estate	32		31	
Home equity	5		6	
Residential real-estate	3		3	
Premium finance receivables—commercial	16		16	
Premium finance receivables—life insurance	15		14	
Indirect consumer	—		1	
Consumer and other	1		1	
Total loans, net of unearned income, excluding covered loans	97	%	96	%
Covered loans	3		4	
Total loans	100	%	100	%

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $41.9 million and $41.1 million at December 31, 2013 and 2012, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as loans acquired with evidence of credit quality deterioration since origination are recorded net of credit discounts. See “Acquired Loan Information at Acquisition,” below.

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 $(9.2) million and $13.2 million at December 31, 2013 and 2012, respectively. The net credit balance at December 31, 2013 is primarily the result of purchase accounting adjustments related to the acquisition of FNBI and Diamond during 2013.

Certain real estate loans, including mortgage loans held-for-sale, and home equity loans with balances totaling approximately $2.9 billion and $2.5 billion at December 31, 2013 and 2012, respectively, were pledged as collateral to secure the availability of borrowings from certain federal agency banks. At December 31, 2013, approximately $2.4 billion of these pledged loans are included in a blanket pledge of qualifying loans to the FHLB. The remaining $461.2 million of pledged loans was used to secure potential borrowings at the Federal Reserve Bank discount window. At December 31, 2013 and 2012, the banks borrowed $417.8 million and $414.1 million, respectively, from the FHLB in connection with these collateral arrangements. See Note 13 – Federal Home Loan Bank Advances for a summary of these borrowings.

The Company’s loan portfolio is generally comprised of loans to consumers and small to medium-sized businesses located within the geographic market areas that the banks serve. The premium finance receivables portfolios are made to customers throughout the United States and Canada and the majority of the indirect consumer loans were generated through a network of local automobile dealers. 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 assure access to collateral, in the event of default, through adherence to state lending laws and the Company's credit monitoring procedures.

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

As part of our previous 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 following table presents the unpaid principal balance and carrying value for these acquired loans:

(Dollars in thousands)	December 31, 2013		December 31, 2012	
	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	$453,944	$338,517	$674,868	$503,837
Life insurance premium finance loans acquisition	437,155	423,906	536,503	514,459

The following table provides estimated details on loans acquired in 2013 as of the date of acquisition:

(Dollars in thousands)	FNBI	Diamond
Contractually required payments including interest	$32,022	$47,853
Less: Nonaccretable difference	8,890	12,898
Cash flows expected to be collected [1]	23,132	34,955
Less: Accretable yield	2,055	3,451
Fair value of loans acquired with evidence of credit quality deterioration since origination	$21,077	$31,504

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

See Note 5 – Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion regarding the allowance for loan losses associated with loans acquired with evidence of credit quality deterioration since origination at December 31, 2013.

Accretable Yield Activity — Loans with evidence of credit quality deterioration since origination

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

(Dollars in thousands)	Years Ended December 31, 2013		2012	
	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	$143,224	$13,055	$173,120	$18,861
Acquisitions	5,428	—	8,217	—
Accretable yield amortized to interest income	(36,898)	(8,795)	(52,101)	(11,441)
Accretable yield amortized to indemnification asset [1]	(36,202)	—	(66,798)	—
Reclassification from non-accretable difference [2]	50,873	2,840	64,603	4,096
(Decreases) increases in interest cash flows due to payments and changes in interest rates	(18,770)	1,154	16,183	1,539
Accretable yield, ending balance [3]	$107,655	$8,254	$143,224	$13,055

(1) Represents the portion of the current period accreted yield, resulting from lower expected losses, applied to reduce the loss share indemnfication asset.
(2) Reclassification is the result of subsequent increases in expected principal cash flows.
(3) As of December 31, 2013, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset for the bank acquisitions is $33.7 million. The remainder of the accretable yield related to bank acquisitions is expected to be amortized to interest income.

Accretion to interest income from loans acquired in bank acquisitions totaled $36.9 million and $52.1 million in 2013 and 2012, respectively. These amounts include accretion from both covered and non-covered loans, and are included together within interest and fees on loans in the Consolidated Statements of Income.

(5) Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans
The tables below show the aging of the Company's loan portfolio at December 31, 2013 and 2012:

As of December 31, 2013 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$10,143	$—	$4,938	$7,404	$1,813,721	$1,836,206
Franchise	—	—	400	—	219,983	220,383
Mortgage warehouse lines of credit	—	—	—	—	67,470	67,470
Community Advantage — homeowners association	—	—	—	—	90,894	90,894
Aircraft	—	—	—	—	10,241	10,241
Asset-based lending	637	—	388	1,878	732,190	735,093
Tax exempt	—	—	—	—	161,239	161,239
Leases	—	—	—	788	109,043	109,831
Other	—	—	—	—	11,147	11,147
Purchased non-covered commercial [1]	—	274	156	1,685	9,068	11,183
Total commercial	10,780	274	5,882	11,755	3,224,996	3,253,687
Commercial real-estate:						
Residential construction	149	—	—	—	38,351	38,500
Commercial construction	6,969	—	—	505	129,232	136,706
Land	2,814	—	4,224	619	99,128	106,785
Office	10,087	—	2,265	3,862	626,027	642,241
Industrial	5,654	—	585	914	626,785	633,938
Retail	10,862	—	837	2,435	642,125	656,259
Multi-family	2,035	—	—	348	564,154	566,537
Mixed use and other	8,088	230	3,943	15,949	1,344,244	1,372,454
Purchased non-covered commercial real-estate [1]	—	18,582	3,540	5,238	49,255	76,615
Total commercial real-estate	46,658	18,812	15,394	29,870	4,119,301	4,230,035
Home equity	10,071	—	1,344	3,060	704,662	719,137
Residential real estate	14,974	—	1,689	5,032	410,430	432,125
Purchased non-covered residential real estate [1]	—	1,988	—	—	879	2,867
Premium finance receivables						
Commercial insurance loans	10,537	8,842	6,912	24,094	2,117,180	2,167,565
Life insurance loans	—	—	2,524	1,808	1,495,460	1,499,792
Purchased life insurance loans [1]	—	—	—	—	423,906	423,906
Indirect consumer	55	105	29	353	50,138	50,680
Consumer and other	1,082	—	47	657	113,818	115,604
Purchased non-covered consumer and other [1]	—	181	—	—	1,023	1,204
Total loans, net of unearned income, excluding covered	$94,157	$30,202	$33,821	$76,629	$12,661,793	$12,896,602

loans						
Covered loans	9,425	56,282	5,877	7,937	266,910	346,431
Total loans, net of unearned income	$103,582	$86,484	$39,698	$84,566	$12,928,703	$13,243,033

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

As of December 31, 2012 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$19,409	$—	$5,520	$15,410	$1,587,864	$1,628,203
Franchise	1,792	—	—	—	194,603	196,395
Mortgage warehouse lines of credit	—	—	—	—	215,076	215,076
Community Advantage — homeowners association	—	—	—	—	81,496	81,496
Aircraft	—	—	148	—	17,216	17,364
Asset-based lending	536	—	1,126	6,622	564,154	572,438
Tax exempt	—	—	—	—	91,824	91,824
Leases	—	—	—	896	89,547	90,443
Other	—	—	—	—	16,549	16,549
Purchased non-covered commercial (1)	—	496	432	7	4,075	5,010
Total commercial	21,737	496	7,226	22,935	2,862,404	2,914,798
Commercial real-estate						
Residential construction	3,110	—	4	41	37,246	40,401
Commercial construction	2,159	—	885	386	167,525	170,955
Land	11,299	—	632	9,014	113,252	134,197
Office	4,196	—	1,889	3,280	560,346	569,711
Industrial	2,089	—	6,042	4,512	565,294	577,937
Retail	7,792	—	1,372	998	558,734	568,896
Multi-family	2,586	—	3,949	1,040	389,116	396,691
Mixed use and other	16,742	—	6,660	13,349	1,312,503	1,349,254
Purchased non-covered commercial real-estate (1)	—	749	2,663	2,508	50,156	56,076
Total commercial real-estate	49,973	749	24,096	35,128	3,754,172	3,864,118
Home equity	13,423	100	1,592	5,043	768,316	788,474
Residential real estate	11,728	—	2,763	8,250	343,616	366,357
Purchased non-covered residential real estate (1)	—	—	200	—	656	856
Premium finance receivables						
Commercial insurance loans	9,302	10,008	6,729	19,597	1,942,220	1,987,856
Life insurance loans	25	—	—	5,531	1,205,151	1,210,707
Purchased life insurance loans (1)	—	—	—	—	514,459	514,459
Indirect consumer	55	189	51	442	76,596	77,333
Consumer and other	1,511	32	167	433	99,010	101,153
Purchased non-covered consumer and other (1)	—	66	32	101	2,633	2,832
Total loans, net of unearned income, excluding covered loans	$107,754	$11,640	$42,856	$97,460	$11,569,233	$11,828,943
Covered loans	1,988	122,350	16,108	7,999	411,642	560,087
	$109,742	$133,990	$58,964	$105,459	$11,980,875	$12,389,030

Total loans, net of unearned income

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

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Our ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, we operate a credit risk rating system under which our credit management personnel assign a credit risk rating (1 to 10 rating) to each loan at the time of origination and review loans on a regular basis.

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

The Company's Problem Loan Reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the Company's Managed Asset Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company's Managed Asset Division, the credit risk rating is reviewed and a portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company's impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company's Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.

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

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

Non-performing loans include all non-accrual loans (8 and 9 risk ratings) as well as loans 90 days past due and still accruing interest, excluding loans acquired with evidence of credit quality deterioration since origination. The remainder of the portfolio is considered performing under the contractual terms of the loan agreement. The following table presents the recorded investment based on performance of loans by class, excluding covered loans, per the most recent analysis at December 31, 2013 and 2012:

	Performing		Non-performing		Total	
(Dollars in thousands)	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Loan Balances:						
Commercial						
Commercial and industrial	$1,826,063	$1,608,794	$10,143	$19,409	$1,836,206	$1,628,203
Franchise	220,383	194,603	—	1,792	220,383	196,395
Mortgage warehouse lines of credit	67,470	215,076	—	—	67,470	215,076
Community Advantage—homeowners association	90,894	81,496	—	—	90,894	81,496
Aircraft	10,241	17,364	—	—	10,241	17,364
Asset-based lending	734,456	571,902	637	536	735,093	572,438
Tax exempt	161,239	91,824	—	—	161,239	91,824
Leases	109,831	90,443	—	—	109,831	90,443
Other	11,147	16,549	—	—	11,147	16,549
Purchased non-covered commercial [(1)]	11,183	5,010	—	—	11,183	5,010
Total commercial	3,242,907	2,893,061	10,780	21,737	3,253,687	2,914,798
Commercial real-estate						
Residential construction	38,351	37,291	149	3,110	38,500	40,401
Commercial construction	129,737	168,796	6,969	2,159	136,706	170,955
Land	103,971	122,898	2,814	11,299	106,785	134,197
Office	632,154	565,515	10,087	4,196	642,241	569,711
Industrial	628,284	575,848	5,654	2,089	633,938	577,937
Retail	645,397	561,104	10,862	7,792	656,259	568,896
Multi-family	564,502	394,105	2,035	2,586	566,537	396,691
Mixed use and other	1,364,136	1,332,512	8,318	16,742	1,372,454	1,349,254
Purchased non-covered commercial real-estate [(1)]	76,615	56,076	—	—	76,615	56,076
Total commercial real-estate	4,183,147	3,814,145	46,888	49,973	4,230,035	3,864,118
Home equity	709,066	774,951	10,071	13,523	719,137	788,474
Residential real estate	417,151	354,629	14,974	11,728	432,125	366,357
Purchased non-covered residential real estate [(1)]	2,867	856	—	—	2,867	856
Premium finance receivables						
Commercial insurance loans	2,148,186	1,968,546	19,379	19,310	2,167,565	1,987,856
Life insurance loans	1,499,792	1,210,682	—	25	1,499,792	1,210,707
Purchased life insurance loans [(1)]	423,906	514,459	—	—	423,906	514,459
Indirect consumer	50,520	77,089	160	244	50,680	77,333
Consumer and other	114,522	99,610	1,082	1,543	115,604	101,153

Purchased non-covered consumer and other [1]	1,204	2,832	—	—	1,204	2,832
Total loans, net of unearned income, excluding covered loans	$12,793,268	$11,710,860	$103,334	$118,083	$12,896,602	$11,828,943

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

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A summary of the activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the years ended December 31, 2013 and 2012 is as follows:

Year Ended December 31, 2013 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses								
Allowance for loan losses at beginning of period	$28,794	$52,135	$12,734	$5,560	$6,096	$267	$1,765	$107,351
Other adjustments	(51)	(783)	3	(88)	(19)	—	—	(938)
Reclassification to/from allowance for unfunded lending-related commitments	—	640	—	—	—	—	—	640
Charge-offs	(14,123)	(32,745)	(6,361)	(2,958)	(5,080)	(130)	(980)	(62,377)
Recoveries	1,655	2,526	432	289	1,121	53	186	6,262
Provision for credit losses	6,817	26,885	5,803	2,305	3,465	(8)	717	45,984
Allowance for loan losses at period end	$23,092	$48,658	$12,611	$5,108	$5,583	$182	$1,688	$96,922
Allowance for unfunded lending-related commitments at period end	$—	$719	$—	$—	$—	$—	$—	$719
Allowance for credit losses at period end	$23,092	$49,377	$12,611	$5,108	$5,583	$182	$1,688	$97,641
Individually evaluated for impairment	1,392	4,653	1,593	655	—	—	109	8,402
Collectively evaluated for impairment	21,637	44,724	11,018	4,390	5,583	182	1,578	89,112
Loans acquired with deteriorated credit quality	63	—	—	63	—	—	1	127
Loans at period end								
Individually evaluated for impairment	$17,628	$117,149	$10,297	$17,901	$—	$55	$1,534	$164,564
Collectively evaluated for impairment	3,224,876	4,036,271	708,840	414,224	3,667,357	50,625	114,070	12,216,263
	11,183	76,615	—	2,867	423,906	—	1,204	515,775

Loans acquired
with deteriorated
credit quality

Year Ended December 31, 2012 (Dollars in thousands)	Commercial	Commercial Real-estate	Home Equity	Residential Real-estate	Premium Finance Receivable	Indirect Consumer	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses								
Allowance for loan losses at beginning of period	$31,237	$56,405	$7,712	$5,028	$7,214	$645	$2,140	$110,381
Other adjustments	(151)	(1,054)	(4)	(124)	—	—	—	(1,333)
Reclassification to/from allowance for unfunded lending-related commitments	45	648	—	—	—	—	—	693
Charge-offs	(22,405)	(43,539)	(9,361)	(4,060)	(3,780)	(221)	(1,024)	(84,390)
Recoveries	1,220	6,635	428	22	940	103	240	9,588
Provision for credit losses	18,848	33,040	13,959	4,694	1,722	(260)	409	72,412
Allowance for loan losses at period end	$28,794	$52,135	$12,734	$5,560	$6,096	$267	$1,765	$107,351
Allowance for unfunded lending-related commitments at period end	$—	$14,647						