WINTRUST FINANCIAL CORP
Form 10-Q
August 08, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-35077

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common Stock — no par value, 55,810,134 shares, as of July 31, 2017

Table of Contents

TABLE OF CONTENTS

		Page
	PART I. — FINANCIAL INFORMATION	
ITEM 1.	Financial Statements	1
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	55
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risks	93
ITEM 4.	Controls and Procedures	95
	PART II. — OTHER INFORMATION	
ITEM 1.	Legal Proceedings	96
ITEM 1A.	Risk Factors	96
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	97
ITEM 3.	Defaults Upon Senior Securities	NA
ITEM 4.	Mine Safety Disclosures	NA
ITEM 5.	Other Information	NA
ITEM 6.	Exhibits	97
	Signatures	98
	Index of Exhibits	99

Table of Contents

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

(In thousands, except share data)	(Unaudited) June 30, 2017	December 31, 2016	(Unaudited) June 30, 2016
Assets			
Cash and due from banks	$296,105	$267,194	$267,551
Federal funds sold and securities purchased under resale agreements	56	2,851	4,024
Interest bearing deposits with banks	1,011,635	980,457	693,269
Available-for-sale securities, at fair value	1,649,636	1,724,667	637,663
Held-to-maturity securities, at amortized cost ($787.5 million, $607.6 million and $1.0 billion fair value at June 30, 2017, December 31, 2016 and June 30, 2016 respectively)	793,376	635,705	992,211
Trading account securities	1,987	1,989	3,613
Federal Home Loan Bank and Federal Reserve Bank stock	80,812	133,494	121,319
Brokerage customer receivables	23,281	25,181	26,866
Mortgage loans held-for-sale	382,837	418,374	554,256
Loans, net of unearned income, excluding covered loans	20,743,332	19,703,172	18,174,655
Covered loans	50,119	58,145	105,248
Total loans	20,793,451	19,761,317	18,279,903
Allowance for loan losses	(129,591)	(122,291)	(114,356)
Allowance for covered loan losses	(1,074)	(1,322)	(2,412)
Net loans	20,662,786	19,637,704	18,163,135
Premises and equipment, net	605,211	597,301	595,792
Lease investments, net	191,248	129,402	103,749
Accrued interest receivable and other assets	577,359	593,796	670,014
Trade date securities receivable	133,130	—	1,079,238
Goodwill	500,260	498,587	486,095
Other intangible assets	19,546	21,851	21,821
Total assets	$26,929,265	$25,668,553	$24,420,616
Liabilities and Shareholders’ Equity			
Deposits:			
Non-interest bearing	$6,294,052	$5,927,377	$5,367,672
Interest bearing	16,311,640	15,731,255	14,674,078
Total deposits	22,605,692	21,658,632	20,041,750
Federal Home Loan Bank advances	318,270	153,831	588,055
Other borrowings	277,710	262,486	252,611
Subordinated notes	139,029	138,971	138,915
Junior subordinated debentures	253,566	253,566	253,566
Trade date securities payable	5,151	—	40,000
Accrued interest payable and other liabilities	490,389	505,450	482,124
Total liabilities	24,089,807	22,972,936	21,797,021
Shareholders’ Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series C - $1,000 liquidation value; no shares issued and outstanding at June 30, 2017, and 126,257 shares issued and outstanding at December 31, 2016 and June 30, 2016, respectively	—	126,257	126,257

Series D - $25 liquidation value; 5,000,000 shares issued and outstanding at June 30, 2017, December 31, 2016 and June 30, 2016, respectively	125,000	125,000	125,000
Common stock, no par value; $1.00 stated value; 100,000,000 shares authorized at June 30, 2017, December 31, 2016 and June 30, 2016; 55,801,665 shares issued at June 30, 2017, 51,978,289 shares issued at December 31, 2016 and 51,708,585 shares issued at June 30, 2016	55,802	51,978	51,708
Surplus	1,511,080	1,365,781	1,350,751
Treasury stock, at cost, 101,738 shares at June 30, 2017, 97,749 shares at December 31, 2016, and 89,430 shares at June 30, 2016	(4,884)	(4,589)	(4,145)
Retained earnings	1,198,997	1,096,518	1,008,464
Accumulated other comprehensive loss	(46,537)	(65,328)	(34,440)
Total shareholders’ equity	2,839,458	2,695,617	2,623,595
Total liabilities and shareholders’ equity	$26,929,265	$25,668,553	$24,420,616

See accompanying notes to unaudited consolidated financial statements.

1

Table of Contents

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

(In thousands, except per share data)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Interest income				
Interest and fees on loans	$212,709	$178,530	$412,023	$351,657
Interest bearing deposits with banks	1,634	793	3,257	1,539
Federal funds sold and securities purchased under resale agreements	1	1	2	2
Investment securities	15,524	16,398	29,097	33,588
Trading account securities	4	14	15	25
Federal Home Loan Bank and Federal Reserve Bank stock	1,153	1,112	2,223	2,049
Brokerage customer receivables	156	216	323	435
Total interest income	231,181	197,064	446,940	389,295
Interest expense				
Interest on deposits	18,471	13,594	34,741	26,375
Interest on Federal Home Loan Bank advances	2,933	2,984	4,523	5,870
Interest on other borrowings	1,149	1,086	2,288	2,144
Interest on subordinated notes	1,786	1,777	3,558	3,554
Interest on junior subordinated debentures	2,433	2,353	4,841	4,573
Total interest expense	26,772	21,794	49,951	42,516
Net interest income	204,409	175,270	396,989	346,779
Provision for credit losses	8,891	9,129	14,100	17,163
Net interest income after provision for credit losses	195,518	166,141	382,889	329,616
Non-interest income				
Wealth management	19,905	18,852	40,053	37,172
Mortgage banking	35,939	36,807	57,877	58,542
Service charges on deposit accounts	8,696	7,726	16,961	15,132
Gains (losses) on investment securities, net	47	1,440	(8)	2,765
Fees from covered call options	890	4,649	1,649	6,361
Trading losses, net	(420)	(316)	(740)	(484)
Operating lease income, net	6,805	4,005	12,587	6,811
Other	18,110	11,636	30,358	27,252
Total non-interest income	89,972	84,799	158,737	153,551
Non-interest expense				
Salaries and employee benefits	106,502	100,894	205,818	196,705
Equipment	9,909	9,307	18,911	18,074
Operating lease equipment depreciation	5,662	3,385	10,298	5,435
Occupancy, net	12,586	11,943	25,687	23,891
Data processing	7,804	7,138	15,729	13,657
Advertising and marketing	8,726	6,941	13,876	10,720
Professional fees	7,510	5,419	12,170	9,478
Amortization of other intangible assets	1,141	1,248	2,305	2,546
FDIC insurance	3,874	4,040	8,030	7,653
OREO expense, net	739	1,348	2,404	1,908
Other	19,091	19,306	36,434	34,632
Total non-interest expense	183,544	170,969	351,662	324,699
Income before taxes	101,946	79,971	189,964	158,468
Income tax expense	37,049	29,930	66,689	59,316

Net income	$64,897	$50,041	$123,275	$99,152
Preferred stock dividends	2,050	3,628	5,678	7,256
Net income applicable to common shares	$62,847	$46,413	$117,597	$91,896
Net income per common share—Basic	$1.15	$0.94	$2.20	$1.88
Net income per common share—Diluted	$1.11	$0.90	$2.11	$1.80
Cash dividends declared per common share	$0.14	$0.12	$0.28	$0.24
Weighted average common shares outstanding	54,775	49,140	53,528	48,794
Dilutive potential common shares	1,812	3,965	2,981	3,887
Average common shares and dilutive common shares	56,587	53,105	56,509	52,681

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	$64,897	$50,041	$123,275	$99,152
Unrealized gains on securities				
Before tax	17,593	5,968	24,972	31,144
Tax effect	(6,910)	(2,244)	(9,810)	(12,232)
Net of tax	10,683	3,724	15,162	18,912
Reclassification of net gains (losses) included in net income				
Before tax	47	1,440	(8)	2,765
Tax effect	(18)	(565)	3	(1,086)
Net of tax	29	875	(5)	1,679
Reclassification of amortization of unrealized gains and losses on investment securities transferred to held-to-maturity from available-for-sale				
Before tax	22	(3,832)	1,450	(7,257)
Tax effect	(9)	1,506	(570)	2,845
Net of tax	13	(2,326)	880	(4,412)
Net unrealized gains on securities	10,641	5,175	14,287	21,645
Unrealized (losses) gains on derivative instruments				
Before tax	(310)	(523)	1,305	(45)
Tax effect	123	206	(511)	18
Net unrealized (losses) gains on derivative instruments	(187)	(317)	794	(27)
Foreign currency adjustment				
Before tax	3,820	856	5,035	9,203
Tax effect	(987)	(244)	(1,325)	(2,553)
Net foreign currency adjustment	2,833	612	3,710	6,650
Total other comprehensive income	13,287	5,470	18,791	28,268
Comprehensive income	$78,184	$55,511	$142,066	$127,420

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at January 1, 2016	$251,287	$48,469	$1,190,988	$(3,973)	$928,211	$ (62,708)	$2,352,274
Net income	—	—	—	—	99,152	—	99,152
Other comprehensive income, net of tax	—	—	—	—	—	28,268	28,268
Cash dividends declared on common stock	—	—	—	—	(11,643)	—	(11,643)
Dividends on preferred stock	—	—	—	—	(7,256)	—	(7,256)
Stock-based compensation	—	—	4,752	—	—	—	4,752
Conversion of Series C preferred stock to common stock	(30)	1	29	—	—	—	—
Common stock issued for:							
New issuance, net of costs	—	3,000	149,823	—	—	—	152,823
Exercise of stock options and warrants	—	97	2,991	—	—	—	3,088
Restricted stock awards	—	87	114	(172)	—	—	29
Employee stock purchase plan	—	29	1,270	—	—	—	1,299
Director compensation plan	—	25	784	—	—	—	809
Balance at June 30, 2016	$251,257	$51,708	$1,350,751	$(4,145)	$1,008,464	$ (34,440)	$2,623,595
Balance at January 1, 2017	$251,257	$51,978	$1,365,781	$(4,589)	$1,096,518	$ (65,328)	$2,695,617
Net income	—	—	—	—	123,275	—	123,275
Other comprehensive income, net of tax	—	—	—	—	—	18,791	18,791
Cash dividends declared on common stock	—	—	—	—	(15,118)	—	(15,118)
Dividends on preferred stock	—	—	—	—	(5,678)	—	(5,678)
Stock-based compensation	—	—	5,746	—	—	—	5,746
Conversion of Series C preferred stock to common stock	(126,257)	3,121	123,136	—	—	—	—
Common stock issued for:							
Exercise of stock options and warrants	—	573	14,488	—	—	—	15,061
Restricted stock awards	—	79	(79)	(295)	—	—	(295)
Employee stock purchase plan	—	19	1,230	—	—	—	1,249
Director compensation plan	—	32	778	—	—	—	810
Balance at June 30, 2017	$125,000	$55,802	$1,511,080	$(4,884)	$1,198,997	$ (46,537)	$2,839,458

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

(In thousands)	Six Months Ended June 30, 2017	June 30, 2016
Operating Activities:		
Net income	$123,275	$99,152
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Provision for credit losses	14,100	17,163
Depreciation, amortization and accretion, net	29,958	27,296
Stock-based compensation expense	5,746	4,752
Net amortization of premium on securities	3,198	1,840
Accretion of discount on loans	(11,979)	(15,849)
Mortgage servicing rights fair value change, net	(1,265)	(4,291)
Originations and purchases of mortgage loans held-for-sale	(1,856,725)	(1,948,890)
Proceeds from sales of mortgage loans held-for-sale	1,928,870	1,825,686
Bank owned life insurance ("BOLI") income	(1,873)	(1,729)
Decrease (increase) in trading securities, net	2	(3,165)
Net decrease in brokerage customer receivables	1,900	765
Gains on mortgage loans sold	(43,547)	(43,014)
Losses (gains) on investment securities, net	8	(2,765)
Gains on early extinguishment of debt	—	(4,305)
(Gains) losses on sales of premises and equipment, net	(140)	3
Net losses on sales and fair value adjustments of other real estate owned	896	322
Increase in accrued interest receivable and other assets, net	(45,232)	(116,118)
(Decrease) increase in accrued interest payable and other liabilities, net	(22,451)	70,756
Net Cash Provided by (Used for) Operating Activities	124,741	(92,391)
Investing Activities:		
Proceeds from maturities of available-for-sale securities	138,516	529,463
Proceeds from maturities of held-to-maturity securities	50,923	319
Proceeds from sales and calls of available-for-sale securities	9,729	1,071,996
Proceeds from calls of held-to-maturity securities	51,062	281,981
Purchases of available-for-sale securities	(185,245)	(1,526,467)
Purchases of held-to-maturity securities	(256,532)	(350,078)
Redemption (purchase) of Federal Home Loan Bank and Federal Reserve Bank stock, net	52,682	(19,738)
Net cash paid in business combinations	(284)	(18,133)
Proceeds from sales of other real estate owned	8,601	19,455
Proceeds received from the FDIC related to reimbursements on covered assets	791	420
Net increase in interest bearing deposits with banks	(31,178)	(81,250)
Net increase in loans	(1,032,772)	(942,958)
Redemption of BOLI	—	659
Purchases of premises and equipment, net	(26,260)	(24,235)
Net Cash Used for Investing Activities	(1,219,967)	(1,058,566)
Financing Activities:		
Increase in deposit accounts	947,150	1,302,188
Increase (decrease) in subordinated notes and other borrowings, net	15,163	(13,249)
Increase (decrease) in Federal Home Loan Bank advances, net	163,000	(271,025)
Proceeds from the issuance of common stock, net	—	152,823

Redemption of junior subordinated debentures, net	—	(10,695)
Issuance of common shares resulting from the exercise of stock options, employee stock purchase plan and conversion of common stock warrants	17,120	5,766
Common stock repurchases for tax withholdings related to stock-based compensation	(295)	(172)
Dividends paid	(20,796)	(18,899)
Net Cash Provided by Financing Activities	1,121,342	1,146,737
Net Increase (Decrease) in Cash and Cash Equivalents	26,116	(4,220)
Cash and Cash Equivalents at Beginning of Period	270,045	275,795
Cash and Cash Equivalents at End of Period	$296,161	$271,575

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (“2016 Form 10-K”). Operating results reported for the period are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management’s expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of the Company's significant accounting policies are included in Note 1 - “Summary of Significant Accounting Policies” of the 2016 Form 10-K.

(2) Recent Accounting Developments

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, which created “Revenue from Contracts with Customers (Topic 606),” to clarify the principles for recognizing revenue and develop a common revenue standard for customer contracts. This ASU provides guidance regarding how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also added a new subtopic to the codification, ASC 340-40, “Other Assets and Deferred Costs: Contracts with Customers” to provide guidance on costs related to obtaining and fulfilling a customer contract. Furthermore, the new standard requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. At the time ASU No. 2014-09 was issued, the guidance was effective for fiscal years beginning after December 15, 2016. In July 2015, the FASB approved a deferral of the effective date by one year, which would result in the guidance becoming effective for fiscal years beginning after December 15, 2017.

The FASB has continued to issue various Updates to clarify and improve specific areas of ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” to clarify the implementation guidance within ASU No. 2014-09 surrounding principal versus agent considerations and its impact on revenue recognition. In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,” to also clarify the implementation guidance within ASU No. 2014-09 related to these two topics. In May 2016, the FASB issued ASU No. 2016-11, “Revenue Recognition (Topic 605) and Derivative and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting,” to remove certain areas of SEC Staff Guidance from those specific Topics. In May 2016 and December 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” and ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,” to clarify specific aspects of implementation, including the collectability criterion, exclusion of sales taxes collected from a transaction price, noncash consideration, contract modifications, completed contracts at transition, the applicability of loan guarantee fees, impairment of capitalized contract costs and certain disclosure requirements. In February 2017, the FASB issued ASU No. 2017-05, “Other

Table of Contents

Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," to clarify the implementation guidance within ASU No. 2014-09 surrounding transfers of nonfinancial assets, including partial sales of such assets, and its impact on revenue recognition. Like ASU No. 2014-09, this guidance is effective for fiscal years beginning after December 15, 2017.

The Company is currently evaluating the impact on the consolidated financial statements of adopting this new guidance. The Company is currently assessing specific characteristics of the various sources of revenues previously identified as being affected by the new guidance and has reviewed specific contracts related to those sources. As certain significant revenue sources such as interest income are considered not in-scope, the Company does not believe the new guidance will have a significant impact on its consolidated financial statements. The Company expects to adopt the new guidance using the modified retrospective approach.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," to improve the accounting for financial instruments. This ASU requires equity investments with readily determinable fair values to be measured at fair value with changes recognized in net income regardless of classification. For equity investments without a readily determinable fair value, the value of the investment would be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer instead of fair value, unless a qualitative assessment indicates impairment. Additionally, this ASU requires the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. This guidance is effective for fiscal years beginning after December 15, 2017 and is to be applied prospectively with a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," to improve transparency and comparability across entities regarding leasing arrangements. This ASU requires the recognition of a separate lease liability representing the required discounted lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Additionally, this ASU provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures to the notes of the financial statements. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach, including the option to apply certain practical expedients.

The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements. Excluding any impact from the clarification of contracts representing a lease, the Company expects to recognize separate lease liabilities and right to use assets for the amounts related to certain facilities under operating lease agreements disclosed in Note 15 - Minimum Lease Commitments in the 2016 Form 10-K. Additionally, the Company does not expect to significantly change operating lease agreements prior to adoption.

Derivatives

In March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships," to clarify guidance surrounding the effect on an

existing hedging relationship of a change in the counterparty to a derivative instrument that has been designated as a hedging instrument. This ASU states that a change in counterparty to such derivative instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance was effective for fiscal years beginning after December 15, 2016 and did not have a material impact on the Company's consolidated financial statements.

Equity Method Investments

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

Table of Contents

income be recognized in earnings at the date the investment qualifies for such accounting. This guidance was effective for fiscal years beginning after December 15, 2016 and did not have a material impact on the Company's consolidated financial statements.

Employee Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," to simplify the accounting for several areas of share-based payment transactions. This included the recognition of all excess tax benefits and tax deficiencies as income tax expense instead of surplus, the classification on the statement of cash flows of excess tax benefits and taxes paid when the employer withholds shares for tax-withholding purposes. Additionally, related to forfeitures, the ASU provides the option to estimate the number of awards that are expected to vest or account for forfeitures as they occur. This guidance was effective for fiscal years beginning after December 15, 2016. In the first six months of 2017, the Company recorded $3.9 million of excess tax benefits within income tax expense on the Consolidated Statements of Income as a result of adoption.

Allowance for Credit Losses

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

The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements as well as the impact on current systems and processes. Specifically, the Company has established a group consisting of individuals from the various areas of the Company tasked with transitioning to the new requirements. At this time, the Company is reviewing potential methodologies for estimating expected credit losses using reasonable and supportable forecast information and has identified certain data and system requirements.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)," to clarify the presentation of specific types of cash flow receipts and payments, including the payment of debt prepayment or debt extinguishment costs, contingent consideration cash payments paid subsequent to the acquisition date and proceeds from settlement of BOLI policies. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied under a retrospective approach, if practicable. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," to clarify the classification and presentation of changes in restricted cash on the statement of cash flows. This guidance is effective for fiscal years beginning after December 15,

2017, including interim periods within those fiscal years, and is to be applied under a retrospective approach. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,” to improve the accounting for intra-entity transfers of assets other than inventory. This ASU allows the recognition of current and deferred income taxes for such transfers prior to the subsequent sale of the transferred assets to an outside party. Initial recognition of current and deferred income taxes is currently prohibited for intra-entity transfers of assets other than inventory. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach through cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Table of Contents

Consolidation

In October 2016, the FASB issued ASU No. 2016-17, “Consolidation (Topic 810): Interest Held through Related Parties That Are under Common Control,” to amend guidance from ASU No. 2015-02 regarding how a reporting entity treats indirect interests in a variable interest entity (“VIE”) held through related parties under common control when determining whether the reporting entity is the primary beneficiary of such VIE. This guidance was effective for fiscal years beginning after December 15, 2016 and did not have a material impact on the Company's consolidated financial statements.

Business Combinations

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” to improve such definition and, as a result, assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or as business combinations. The definition of a business impacts many areas of accounting including acquisitions, disposals, goodwill and consolidation. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied under a prospective approach. The Company expects the adoption of this new guidance to impact the determination of whether future acquisitions are considered a business combination and the resulting impact of such determination on the consolidated financial statements.

Goodwill

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

Compensation

In March 2017, the FASB issued ASU No. 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. An entity will be required to report the service cost component of such costs in the same line item or items as other compensation costs related to services rendered. Additionally, only the service cost component will be eligible for capitalization when applicable. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied under a retrospective approach related to presentation of the service cost component and a prospective approach related to capitalization of such costs. Early adoption is permitted as of the beginning of an annual period that has not been issued or made available for issuance. The Company has not early adopted this guidance. When adopted, the Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” to clarify when modification accounting is appropriate for changes to the terms and conditions of a share-based payment award. An entity will be required to account for such changes as a modification

unless certain criteria is met. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied under a prospective approach for awards modified on or after the adoption date. Early adoption is permitted as of the beginning of an annual period that has not been issued or made available for issuance. The Company has not early adopted this guidance. When adopted, the Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Amortization of Premium on Certain Debt Securities

In March 2017, the FASB issued ASU No. 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,” to amend the amortization period for certain purchased callable debt securities held at a premium. The amortization period for such securities will be shortened to the earliest call date. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied under a modified retrospective approach. Early adoption is permitted as of the beginning of an annual period that

has not been issued or made available for issuance. The Company has not early adopted this guidance. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

(3) Business Combinations

Non-FDIC Assisted Bank Acquisitions

On November 18, 2016, the Company acquired First Community Financial Corporation ("FCFC"). FCFC was the parent company of First Community Bank. Through this transaction, the Company acquired First Community Bank's two banking locations in Elgin, Illinois. First Community Bank was merged into the Company's wholly-owned subsidiary St. Charles Bank & Trust Company ("St. Charles Bank"). The Company acquired assets with a fair value of approximately $187.2 million, including approximately $79.5 million of loans, and assumed deposits with a fair value of approximately $150.3 million. Additionally, the Company recorded goodwill of $13.0 million on the acquisition.

On August 19, 2016, the Company, through its wholly-owned subsidiary Lake Forest Bank & Trust Company ("Lake Forest Bank"), acquired approximately $561.4 million in performing loans and related relationships from an affiliate of GE Capital Franchise Finance. The loans are to franchise operators (primarily quick service restaurant concepts) in the Midwest and in the Western portion of the United States.

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

FDIC-Assisted Transactions

From 2010 to 2012, the Company acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of nine financial institutions in FDIC-assisted transactions. Loans comprise the majority of the assets acquired in nearly all of these FDIC-assisted transactions, most of which are subject to loss sharing agreements with the FDIC whereby the FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned ("OREO"), and certain other assets. Additionally, clawback provisions within these loss share agreements with the FDIC require the Company to reimburse the FDIC in the event that actual losses on covered assets are lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to these loss sharing agreements as "covered loans" and uses the term "covered assets" to refer to covered loans, covered OREO and certain other covered assets. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.

The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as an FDIC indemnification asset or other liability in the Consolidated Statements of Condition. The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The fair value for loans reflected expected credit losses at the acquisition date. Therefore, the Company will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration subsequent to the acquisition date. See Note 7 — Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion of the allowance on covered loans.

The loss share agreements with the FDIC cover realized losses on loans, foreclosed real estate and certain other assets and require the Company to record loss share assets and liabilities that are measured separately from the loan

portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets and liabilities are recorded as FDIC indemnification assets and other liabilities, respectively, on the Consolidated Statements of Condition. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the FDIC indemnification assets. Reductions to expected losses, to the extent such reductions to expected losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the FDIC indemnification assets and, if necessary, increase any loss share liability when necessary reductions exceed the current value of the FDIC indemnification assets. In accordance with the clawback provision noted above, the Company may be required to reimburse the FDIC when actual losses are less than certain thresholds established for each loss share agreement. The balance of these estimated reimbursements in accordance with clawback provisions and any related amortization are adjusted periodically for changes in the expected losses on covered assets. On the Consolidated Statements

Table of Contents

of Condition, estimated reimbursements from clawback provisions are recorded as a reduction to the FDIC indemnification asset or, if necessary, an increase to the loss share liability, which is included within accrued interest payable and other liabilities. In the second quarter of 2017, the Company recorded a $4.9 million reduction to the estimated loss share liability as a result of an adjustment related to such clawback provisions. Although these assets are contractual receivables from the FDIC and these liabilities are contractual payables to the FDIC, there are no contractual interest rates. Additional expected losses, to the extent such expected losses result in recognition of an allowance for covered loan losses, will increase the FDIC indemnification asset or reduce the FDIC indemnification liability. The corresponding amortization is recorded as a component of non-interest income on the Consolidated Statements of Income.

The following table summarizes the activity in the Company's FDIC indemnification liability during the periods indicated:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Balance at beginning of period	$18,263	$10,029	$16,701	$6,100
Reductions from reimbursable expenses	(75)	(648)	(157)	(730)
Amortization	455	506	699	866
Changes in expected reimbursements (to) from the FDIC for changes in expected credit losses and reimbursable expenses	(3,673)	1,785	(2,659)	5,073
Payments received from the FDIC	405	57	791	420
Balance at end of period	$15,375	$11,729	$15,375	$11,729

Mortgage Banking Acquisitions

On February 14, 2017, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of American Homestead Mortgage, LLC ("AHM"). The Company recorded goodwill of $999,000 on the acquisition.

PCI Loans

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

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

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

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

(4) Cash and Cash Equivalents

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

Table of Contents

(5) Investment Securities

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

	June 30, 2017			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$119,804	$ —	$(723)	$119,081
U.S. Government agencies	158,162	22	(674)	157,510
Municipal	121,610	2,774	(264)	124,120
Corporate notes:				
Financial issuers	60,340	71	(810)	59,601
Other	1,000	—	(3)	997
Mortgage-backed: [1]				
Mortgage-backed securities	1,139,734	2,301	(31,704)	1,110,331
Collateralized mortgage obligations	42,845	433	(319)	42,959
Equity securities	32,642	3,028	(633)	35,037
Total available-for-sale securities	$1,676,137	$ 8,629	$(35,130)	$1,649,636
Held-to-maturity securities				
U.S. Government agencies	$585,071	$ 556	$(7,461)	$578,166
Municipal	208,305	2,298	(1,280)	209,323
Total held-to-maturity securities	$793,376	$ 2,854	$(8,741)	$787,489

	December 31, 2016			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	$142,741	$ 1	$(759)	$141,983
U.S. Government agencies	189,540	47	(435)	189,152
Municipal	129,446	2,969	(606)	131,809
Corporate notes:				
Financial issuers	65,260	132	(1,000)	64,392
Other	1,000	—	(1)	999
Mortgage-backed: [1]				
Mortgage-backed securities	1,185,448	284	(54,330)	1,131,402
Collateralized mortgage obligations	30,105	67	(490)	29,682
Equity securities	32,608	3,429	(789)	35,248
Total available-for-sale securities	$1,776,148	$ 6,929	$(58,410)	$1,724,667
Held-to-maturity securities				
U.S. Government agencies	$433,343	$ 7	$(24,470)	$408,880
Municipal	202,362	647	(4,287)	198,722
Total held-to-maturity securities	$635,705	$ 654	$(28,757)	$607,602

	June 30, 2016			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				

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

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

Table of Contents

The following table presents the portion of the Company's available-for-sale and held-to-maturity securities portfolios which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at June 30, 2017:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities						
U.S. Treasury	$119,081	$(723)	$—	$—	$119,081	$(723)
U.S. Government agencies	152,149	(674)	—	—	152,149	(674)
Municipal	145,960	(155)	5,852	(109)	151,812	(264)
Corporate notes:						
Financial issuers	—	—	35,154	(810)	35,154	(810)
Other	997	(3)	—	—	997	(3)
Mortgage-backed:						
Mortgage-backed securities	932,800	(31,704)	—	—	932,800	(31,704)
Collateralized mortgage obligations	11,809	(122)	7,353	(197)	19,162	(319)
Equity securities	10,189	(271)	5,138	(362)	15,327	(633)
Total available-for-sale securities	$1,372,985	$(33,652)	$53,497	$(1,478)	$1,426,482	$(35,130)
Held-to-maturity securities						
U.S. Government agencies	$363,692	$(7,461)	$—	$—	$363,692	$(7,461)
Municipal	73,447	(1,280)	—	—	73,447	(1,280)
Total held-to-maturity securities	$437,139	$(8,741)	$—	$—	$437,139	$(8,741)

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

The Company does not consider securities with unrealized losses at June 30, 2017 to be other-than-temporarily impaired. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily corporate notes and mortgage-backed securities. Unrealized losses recognized on corporate notes and mortgage-backed securities are the result of increases in yields for similar types of securities.

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

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Realized gains	$48	$1,487	$48	$4,037
Realized losses	(1)	(47)	(56)	(1,272)

Net realized gains (losses)	$47	$1,440	$(8)	$2,765
Other than temporary impairment charges	—	—	—	—
Gains (losses) on investment securities, net	$47	$1,440	$(8)	$2,765
Proceeds from sales and calls of available-for-sale securities	$3,724	$1,068,795	$9,729	$1,071,996
Proceeds from calls of held-to-maturity securities	2	183,738	51,062	281,981

Table of Contents

The amortized cost and fair value of securities as of June 30, 2017, December 31, 2016 and June 30, 2016, 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 determined to be available-for-sale are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties:

	June 30, 2017		December 31, 2016		June 30, 2016	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities						
Due in one year or less	$125,706	$125,170	$145,353	$145,062	$214,917	$215,290
Due in one to five years	289,688	289,243	321,019	320,423	113,263	113,395
Due in five to ten years	38,213	39,463	27,319	28,451	28,111	30,870
Due after ten years	7,309	7,433	34,296	34,399	13,459	14,021
Mortgage-backed	1,182,579	1,153,290	1,215,553	1,161,084	203,012	207,508
Equity securities	32,642	35,037	32,608	35,248	51,426	56,579
Total available-for-sale securities	$1,676,137	$1,649,636	$1,776,148	$1,724,667	$624,188	$637,663
Held-to-maturity securities						
Due in one year or less	$—	$—	$—	$—	$—	$—
Due in one to five years	32,925	32,776	29,794	29,416	27,505	27,738
Due in five to ten years	172,398	172,800	69,664	67,820	68,691	70,121
Due after ten years	588,053	581,913	536,247	510,366	896,015	912,320
Total held-to-maturity securities	$793,376	$787,489	$635,705	$607,602	$992,211	$1,010,179

Securities having a fair value of $1.5 billion at June 30, 2017 as well as securities having a fair value of $1.4 billion at December 31, 2016 and June 30, 2016 were pledged as collateral for public deposits, trust deposits, Federal Home Loan Bank ("FHLB") advances, securities sold under repurchase agreements and derivatives. At June 30, 2017, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders’ equity.

Table of Contents

(6) Loans

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

(Dollars in thousands)	June 30, 2017		December 31, 2016		June 30, 2016	
Balance:						
Commercial	$6,406,289		$6,005,422		$5,144,533	
Commercial real estate	6,402,494		6,196,087		5,848,334	
Home equity	689,483		725,793		760,904	
Residential real estate	762,810		705,221		653,664	
Premium finance receivables—commercial	2,648,386		2,478,581		2,478,280	
Premium finance receivables—life insurance	3,719,043		3,470,027		3,161,562	
Consumer and other	114,827		122,041		127,378	
Total loans, net of unearned income, excluding covered loans	$20,743,332		$19,703,172		$18,174,655	
Covered loans	50,119		58,145		105,248	
Total loans	$20,793,451		$19,761,317		$18,279,903	
Mix:						
Commercial	31	%	30	%	28	%
Commercial real estate	31		31		31	
Home equity	3		4		4	
Residential real estate	3		4		4	
Premium finance receivables—commercial	13		12		14	
Premium finance receivables—life insurance	18		18		17	
Consumer and other	1		1		1	
Total loans, net of unearned income, excluding covered loans	100	%	100	%	99	%
Covered loans	—		—		1	
Total loans	100	%	100	%	100	%

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

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $81.0 million at June 30, 2017, $69.6 million at December 31, 2016 and $64.1 million at June 30, 2016. PCI loans are recorded net of credit discounts. See "Acquired Loan Information at Acquisition" below.

Total loans, excluding PCI loans, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $6.5 million at June 30, 2017, $2.6 million at December 31, 2016 and $(5.0) million at June 30, 2016. The net credit balance at June 30, 2016, is primarily the result of purchase accounting adjustments related to acquisitions in 2016 and 2015.

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

Table of Contents

Acquired Loan Information at Acquisition—PCI Loans

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

	June 30, 2017		December 31, 2016	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
PCI loans	$443,216	$412,519	$509,446	$471,786

See Note 7—Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion regarding the allowance for loan losses associated with PCI loans at June 30, 2017.

Accretable Yield Activity - PCI Loans

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

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Accretable yield, beginning balance	$45,762	$59,218	$49,408	$63,902
Acquisitions	(105)	125	426	1,266
Accretable yield amortized to interest income	(5,477)	(5,199)	(11,076)	(10,656)
Accretable yield amortized to indemnification asset/liability (1)	(361)	(1,624)	(715)	(3,795)
Reclassification from non-accretable difference (2)	3,554	2,536	6,089	6,729
Decreases in interest cash flows due to payments and changes in interest rates	2,137	574	1,378	(1,816)
Accretable yield, ending balance (3)	$45,510	$55,630	$45,510	$55,630

(1) Represents the portion of the current period accreted yield, resulting from lower expected losses, applied to reduce the loss share indemnification asset or increase the loss share indemnification liability.
(2) Reclassification is the result of subsequent increases in expected principal cash flows.
(3) As of June 30, 2017, the Company estimates that the remaining accretable yield balance to be amortized to the indemnification asset or liability for the bank acquisitions is $448,000. The remainder of the accretable yield related to bank acquisitions is expected to be amortized to interest income.

Accretion to interest income accounted for under ASC 310-30 totaled $5.5 million and $5.2 million in the second quarter of 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, the Company recorded accretion to interest income of $11.1 million and $10.7 million, respectively. These amounts include accretion from both covered and non-covered loans, and are both included within interest and fees on loans in the Consolidated Statements of Income.

16

Table of Contents

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

The tables below show the aging of the Company's loan portfolio at June 30, 2017, December 31, 2016 and June 30, 2016:

As of June 30, 2017 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	$ 8,720	$ —	$ 5,917	$ 12,658	$ 4,067,237	$ 4,094,532
Franchise	—	—	—	—	838,394	838,394
Mortgage warehouse lines of credit	—	—	—	2,361	232,282	234,643
Asset-based lending	936	—	983	7,293	862,694	871,906
Leases	535	—	—	60	356,009	356,604
PCI - commercial (1)	—	1,572	162	—	8,476	10,210
Total commercial	10,191	1,572	7,062	22,372	6,365,092	6,406,289
Commercial real estate:						
Construction	2,408	—	—	—	707,179	709,587
Land	202	—	—	6,455	105,496	112,153
Office	4,806	—	607	7,725	874,546	887,684
Industrial	2,193	—	—	709	789,889	792,791
Retail	1,635	—	—	15,081	903,778	920,494
Multi-family	354	—	—	1,186	813,058	814,598
Mixed use and other	5,382	—	713	7,590	2,005,265	2,018,950
PCI - commercial real estate (1)	—	8,768	322	3,303	133,844	146,237
Total commercial real estate	16,980	8,768	1,642	42,049	6,333,055	6,402,494
Home equity	9,482	—	855	2,858	676,288	689,483
Residential real estate, including PCI	14,292	775	1,273	300	746,170	762,810
Premium finance receivables						
Commercial insurance loans	10,456	5,922	4,951	11,713	2,615,344	2,648,386
Life insurance loans	—	1,046	—	16,977	3,474,686	3,492,709
PCI - life insurance loans (1)	—	—	—	—	226,334	226,334
Consumer and other, including PCI	439	125	331	515	113,417	114,827
Total loans, net of unearned income, excluding covered loans	$ 61,840	$ 18,208	$ 16,114	$ 96,784	$ 20,550,386	$ 20,743,332
Covered loans	1,961	2,504	113	598	44,943	50,119
Total loans, net of unearned income	$ 63,801	$ 20,712	$ 16,227	$ 97,382	$ 20,595,329	$ 20,793,451

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

Table of Contents

As of December 31, 2016 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	$ 13,441	$ 174	$ 2,341	$ 11,779	$ 3,716,977	$ 3,744,712
Franchise	—	—	—	493	869,228	869,721
Mortgage warehouse lines of credit	—	—	—	—	204,225	204,225
Asset-based lending	1,924	—	135	1,609	871,402	875,070
Leases	510	—	—	1,331	293,073	294,914
PCI - commercial [1]	—	1,689	100	2,428	12,563	16,780
Total commercial	15,875	1,863	2,576	17,640	5,967,468	6,005,422
Commercial real estate						
Construction	2,408	—	—	1,824	606,007	610,239
Land	394	—	188	—	104,219	104,801
Office	4,337	—	4,506	1,232	857,599	867,674
Industrial	7,047	—	4,516	2,436	756,602	770,601
Retail	597	—	760	3,364	907,872	912,593
Multi-family	643	—	322	1,347	805,312	807,624
Mixed use and other	6,498	—	1,186	12,632	1,931,859	1,952,175
PCI - commercial real estate [1]	—	16,188	3,775	8,888	141,529	170,380
Total commercial real estate	21,924	16,188	15,253	31,723	6,110,999	6,196,087
Home equity	9,761	—	1,630	6,515	707,887	725,793
Residential real estate, including PCI	12,749	1,309	936	8,271	681,956	705,221
Premium finance receivables						
Commercial insurance loans	14,709	7,962	5,646	14,580	2,435,684	2,478,581
Life insurance loans	—	3,717	17,514	16,204	3,182,935	3,220,370
PCI - life insurance loans [1]	—	—	—	—	249,657	249,657
Consumer and other, including PCI	439	207	100	887	120,408	122,041
Total loans, net of unearned income, excluding covered loans	$ 75,457	$ 31,246	$ 43,655	$ 95,820	$ 19,456,994	$ 19,703,172
Covered loans	2,121	2,492	225	1,553	51,754	58,145
Total loans, net of unearned income	$ 77,578	$ 33,738	$ 43,880	$ 97,373	$ 19,508,748	$ 19,761,317

As of June 30, 2016 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial, industrial and other	$ 16,414	$ —	$ 1,412	$ 22,317	$ 3,416,432	$ 3,456,575
Franchise	—	—	560	87	289,258	289,905
Mortgage warehouse lines of credit	—	—	—	—	270,586	270,586
Asset-based lending	—	235	1,899	6,421	834,112	842,667
Leases	387	—	48	—	267,639	268,074
PCI - commercial [1]	—	1,956	630	1,426	12,714	16,726
Total commercial	16,801	2,191	4,549	30,251	5,090,741	5,144,533
Commercial real estate:						
Construction	673	—	46	7,922	396,264	404,905
Land	1,725	—	—	340	103,816	105,881

Office	6,274	—	5,452	4,936	892,791	909,453
Industrial	10,295	—	1,108	719	754,647	766,769
Retail	916	—	535	6,450	889,945	897,846
Multi-family	90	—	2,077	1,275	775,075	778,517
Mixed use and other	4,442	—	4,285	8,007	1,795,931	1,812,665
PCI - commercial real estate (1)	—	27,228	1,663	2,608	140,799	172,298
Total commercial real estate	24,415	27,228	15,166	32,257	5,749,268	5,848,334
Home equity	8,562	—	380	4,709	747,253	760,904
Residential real estate, including PCI	12,413	1,479	1,367	299	638,106	653,664
Premium finance receivables						
Commercial insurance loans	14,497	10,558	6,966	9,456	2,436,803	2,478,280
Life insurance loans	—	—	46,651	11,953	2,811,356	2,869,960
PCI - life insurance loans (1)	—	—	—	—	291,602	291,602
Consumer and other, including PCI	475	226	610	1,451	124,616	127,378
Total loans, net of unearned income, excluding covered loans	$ 77,163	$ 41,682	$ 75,689	$ 90,376	$ 17,889,745	$ 18,174,655
Covered loans	2,651	6,810	697	1,610	93,480	105,248
Total loans, net of unearned income	$ 79,814	$ 48,492	$ 76,386	$ 91,986	$ 17,983,225	$ 18,279,903

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

Table of Contents

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

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

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

Through the credit risk rating process, loans are reviewed to determine if they are performing in accordance with the original contractual terms. If the borrower has failed to comply with the original contractual terms, further action may be required by the Company, including a downgrade in the credit risk rating, movement to non-accrual status, a charge-off or the establishment of a specific impairment reserve. If a loan amount, or portion thereof, is determined to be 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.

Table of Contents

Non-performing loans include all non-accrual loans (8 and 9 risk ratings) as well as loans 90 days past due and still accruing interest, excluding PCI and covered loans. The remainder of the portfolio is considered performing under the contractual terms of the loan agreement. The following table presents the recorded investment based on performance of loans by class, excluding covered loans, per the most recent analysis at June 30, 2017, December 31, 2016 and June 30, 2016:

(Dollars in thousands)	Performing			Non-performing			Total		
	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30 2016
Loan Balances:									
Commercial									
Commercial, industrial and other	$4,085,812	$3,731,097	$3,440,161	$8,720	$13,615	$16,414	$4,094,532	$3,744,712	$3,456
Franchise	838,394	869,721	289,905	—	—	—	838,394	869,721	289,905
Mortgage warehouse lines of credit	234,643	204,225	270,586	—	—	—	234,643	204,225	270,586
Asset-based lending	870,970	873,146	842,432	936	1,924	235	871,906	875,070	842,667
Leases	356,069	294,404	267,687	535	510	387	356,604	294,914	268,074
PCI - commercial [(1)]	10,210	16,780	16,726	—	—	—	10,210	16,780	16,726
Total commercial	6,396,098	5,989,373	5,127,497	10,191	16,049	17,036	6,406,289	6,005,422	5,144,5
Commercial real estate									
Construction	707,179	607,831	404,232	2,408	2,408	673	709,587	610,239	404,905
Land	111,951	104,407	104,156	202	394	1,725	112,153	104,801	105,881
Office	882,878	863,337	903,179	4,806	4,337	6,274	887,684	867,674	909,453
Industrial	790,598	763,554	756,474	2,193	7,047	10,295	792,791	770,601	766,769
Retail	918,859	911,996	896,930	1,635	597	916	920,494	912,593	897,846
Multi-family	814,244	806,981	778,427	354	643	90	814,598	807,624	778,517
Mixed use and other	2,013,568	1,945,677	1,808,223	5,382	6,498	4,442	2,018,950	1,952,175	1,812,6
PCI - commercial real estate[(1)]	146,237	170,380	172,298	—	—	—	146,237	170,380	172,298
Total commercial real estate	6,385,514	6,174,163	5,823,919	16,980	21,924	24,415	6,402,494	6,196,087	5,848,3
Home equity	680,001	716,032	752,342	9,482	9,761	8,562	689,483	725,793	760,904
Residential real estate, including PCI	748,339	692,472	641,251	14,471	12,749	12,413	762,810	705,221	653,664
Premium finance receivables									
Commercial insurance loans	2,632,008	2,455,910	2,453,225	16,378	22,671	25,055	2,648,386	2,478,581	2,478,2
Life insurance loans	3,491,663	3,216,653	2,869,960	1,046	3,717	—	3,492,709	3,220,370	2,869,9
PCI - life insurance loans [(1)]	226,334	249,657	291,602	—	—	—	226,334	249,657	291,602
Consumer and other, including PCI	114,325	121,458	126,740	502	583	638	114,827	122,041	127,378
Total loans, net of unearned income, excluding covered loans	$20,674,282	$19,615,718	$18,086,536	$69,050	$87,454	$88,119	$20,743,332	$19,703,172	$18,174

(1)

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

Table of Contents

A summary of activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the three and six months ended June 30, 2017 and 2016 is as follows:

Three months ended June 30, 2017 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivables	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 46,582	$ 52,633	$ 12,203	$ 5,530	$ 7,559	$ 1,312	$ 125,819
Other adjustments	(2)	(47)	—	(3)	22	—	(30)
Reclassification from allowance for unfunded lending-related commitments	92	14	—	—	—	—	106
Charge-offs	(913)	(1,985)	(1,631)	(146)	(1,878)	(175)	(6,728)
Recoveries	561	276	144	54	404	33	1,472
Provision for credit losses	6,038	1,448	418	708	245	95	8,952
Allowance for loan losses at period end	$ 52,358	$ 52,339	$ 11,134	$ 6,143	$ 6,352	$ 1,265	$ 129,591
Allowance for unfunded lending-related commitments at period end	$ 500	$ 1,205	$—	$—	$ —	$—	$ 1,705
Allowance for credit losses at period end	$ 52,858	$ 53,544	$ 11,134	$ 6,143	$ 6,352	$ 1,265	$ 131,296
Individually evaluated for impairment	$ 2,528	$ 1,473	$ 1,296	$ 764	$ —	$ 91	$ 6,152
Collectively evaluated for impairment	49,692	51,952	9,838	5,306	6,352	1,174	124,314
Loans acquired with deteriorated credit quality	638	119	—	73	—	—	830
Loans at period end							
Individually evaluated for impairment	$ 14,469	$ 34,690	$ 9,633	$ 20,859	$ —	$ 421	$ 80,072
Collectively evaluated for impairment	6,381,610	6,221,567	679,850	708,042	6,141,095	113,319	20,245,483
Loans acquired with deteriorated credit quality	10,210	146,237	—	3,736	226,334	1,087	387,604
Loans held at fair value	—	—	—	30,173	—	—	30,173

Three months ended June 30, 2016 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivables	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 38,435	$ 45,263	$ 12,915	$ 5,164	$ 7,205	$ 1,189	$ 110,171
Other adjustments	(59)	(70)	—	(9)	4	—	(134)
Reclassification from allowance for unfunded lending-related commitments	—	(40)	—	—	—	—	(40)
Charge-offs	(721)	(502)	(2,046)	(693)	(1,911)	(224)	(6,097)

Recoveries	121	296	71	31	633	35	1,187
Provision for credit losses	3,878	1,877	443	912	1,883	276	9,269
Allowance for loan losses at period end	$ 41,654	$ 46,824	$ 11,383	$ 5,405	$ 7,814	$ 1,276	$ 114,356
Allowance for unfunded lending-related commitments at period end	$ —	$ 1,070	$—	$—	$ —	$—	$ 1,070
Allowance for credit losses at period end	$ 41,654	$ 47,894	$ 11,383	$ 5,405	$ 7,814	$ 1,276	$ 115,426
Individually evaluated for impairment	$ 3,417	$ 2,121	$ 477	$ 625	$ —	$ 5	$ 6,645
Collectively evaluated for impairment	37,571	45,736	10,906	4,720	7,814	1,271	108,018
Loans acquired with deteriorated credit quality	666	37	—	60	—	—	763
Loans at period end							
Individually evaluated for impairment	$ 21,173	$ 49,284	$ 8,562	$ 17,281	$ —	$ 536	$ 96,836
Collectively evaluated for impairment	5,106,634	5,626,752	752,342	615,831	5,348,240	126,842	17,576,641
Loans acquired with deteriorated credit quality	16,726	172,298	—	4,258	291,602	—	484,884
Loans held at fair value	—	—	—	16,294	—	—	16,294

21

Table of Contents

Six months ended June 30, 2017 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 44,493	$ 51,422	$ 11,774	$ 5,714	$ 7,625	$ 1,263	$ 122,291
Other adjustments	(21)	(83)	—	(7)	25	—	(86)
Reclassification from allowance for unfunded lending-related commitments	—	(32)	—	—	—	—	(32)
Charge-offs	(1,554)	(2,246)	(2,256)	(475)	(3,305)	(309)	(10,145)
Recoveries	834	830	209	232	1,016	174	3,295
Provision for credit losses	8,606	2,448	1,407	679	991	137	14,268
Allowance for loan losses at period end	$ 52,358	$ 52,339	$ 11,134	$ 6,143	$ 6,352	$ 1,265	$ 129,591
Allowance for unfunded lending-related commitments at period end	$ 500	$ 1,205	$—	$ —	$ —	$ —	$ 1,705
Allowance for credit losses at period end	$ 52,858	$ 53,544	$ 11,134	$ 6,143	$ 6,352	$ 1,265	$ 131,296

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

A summary of activity in the allowance for covered loan losses for the three and six months ended June 30, 2017 and 2016 is as follows:

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

(Dollars in thousands)	2017	2016	2017	2016
Balance at beginning of period	$1,319	$2,507	$1,322	$3,026
Provision for covered loan losses before benefit attributable to FDIC loss share agreements	(303)	(702)	(838)	(2,648)
Benefit attributable to FDIC loss share agreements	242	562	670	2,119
Net provision for covered loan losses	(61)	(140)	(168)	(529)
Increase/decrease in FDIC indemnification liability/asset	(242)	(562)	(670)	(2,119)
Loans charged-off	(120)	(143)	(336)	(373)
Recoveries of loans charged-off	178	750	926	2,407
Net recoveries	58	607	590	2,034
Balance at end of period	$1,074	$2,412	$1,074	$2,412

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

Table of Contents

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

Impaired Loans

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

(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016
Impaired loans (included in non-performing and TDRs):			
Impaired loans with an allowance for loan loss required (1)	$29,037	$ 33,146	$42,968
Impaired loans with no allowance for loan loss required	50,281	57,370	53,008
Total impaired loans (2)	$79,318	$ 90,516	$95,976
Allowance for loan losses related to impaired loans	$5,633	$ 6,377	$6,611
TDRs	$33,091	$ 41,708	$49,635

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

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

The following tables present impaired loans by loan class, excluding covered loans, for the periods ended as follows:

	As of June 30, 2017			For the Six Months Ended June 30, 2017	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$2,969	$ 3,006	$ 1,499	$3,061	$ 83
Asset-based lending	511	512	293	704	21
Leases	2,504	2,508	235	2,578	62
Commercial real estate					
Construction	7,632	7,632	957	7,665	165
Land	1,750	1,750	7	1,750	32
Office	1,314	1,418	32	1,318	44
Industrial	—	—	—	—	—
Retail	1,582	1,631	130	1,596	40
Multi-family	1,513	1,513	27	1,518	28
Mixed use and other	1,455	1,531	302	1,478	35
Home equity	1,901	1,950	1,296	1,920	35
Residential real estate	5,815	6,090	764	5,731	118
Consumer and other	91	93	91	96	2
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$6,815	$ 7,785	$ —	$7,285	$ 213

Asset-based lending	425	425	—	764	16
Leases	852	852	—	879	26
Commercial real estate					
Construction	1,504	1,504	—	1,534	33
Land	2,375	2,472	—	2,380	56
Office	3,973	5,074	—	4,076	131
Industrial	2,193	3,622	—	4,328	190
Retail	1,188	1,273	—	1,188	51
Multi-family	89	174	—	89	4
Mixed use and other	7,761	9,299	—	8,494	239
Home equity	7,732	11,260	—	8,906	258
Residential real estate	15,044	17,068	—	15,203	368
Consumer and other	330	434	—	333	11
Total impaired loans, net of unearned income	$79,318	$ 90,876	$ 5,633	$84,874	$ 2,261

Table of Contents

(Dollars in thousands)	As of December 31, 2016 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Twelve Months Ended December 31, 2016 Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$2,601	$ 2,617	$ 1,079	$2,649	$ 134
Asset-based lending	233	235	26	235	10
Leases	2,441	2,443	107	2,561	128
Commercial real estate					
Construction	5,302	5,302	86	5,368	164
Land	1,283	1,283	1	1,303	47
Office	2,687	2,697	324	2,797	137
Industrial	5,207	5,843	1,810	7,804	421
Retail	1,750	1,834	170	2,039	101
Multi-family	—	—	—	—	—
Mixed use and other	3,812	4,010	592	4,038	195
Home equity	1,961	1,873	1,233	1,969	75
Residential real estate	5,752	6,327	849	5,816	261
Consumer and other	117	121	100	131	7
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$12,534	$ 14,704	$ —	$14,944	$ 948
Asset-based lending	1,691	2,550	—	8,467	377
Leases	873	873	—	939	56
Commercial real estate					
Construction	4,003	4,003	—	4,161	81
Land	3,034	3,503	—	3,371	142
Office	3,994	5,921	—	4,002	323
Industrial	2,129	2,436	—	2,828	274
Retail	—	—	—	—	—
Multi-family	1,903	1,987	—	1,825	84
Mixed use and other	6,815	7,388	—	6,912	397
Home equity	8,033	10,483	—	8,830	475
Residential real estate	11,983	14,124	—	12,041	622
Consumer and other	378	489	—	393	26
Total impaired loans, net of unearned income	$90,516	$ 103,046	$ 6,377	$105,423	$ 5,485

(Dollars in thousands)	As of June 30, 2016 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Six Months Ended June 30, 2016 Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					

Commercial					
Commercial, industrial and other	$10,253	$ 12,866	$ 3,280	$10,172	$ 375
Asset-based lending	—	—	—	—	—
Leases	387	387	128	390	10
Commercial real estate					
Construction	—	—	—	—	—
Land	4,538	4,538	18	4,592	83
Office	2,401	3,059	176	2,427	70
Industrial	7,369	7,773	1,514	7,552	195
Retail	7,007	7,024	264	7,064	95
Multi-family	1,274	1,274	15	1,066	18
Mixed use and other	3,040	3,162	109	3,063	73
Home equity	1,349	1,511	477	1,443	30
Residential real estate	5,230	5,840	625	5,289	123
Consumer and other	120	148	5	123	4
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial, industrial and other	$10,092	$ 10,950	$ —	$10,045	$ 328
Asset-based lending	—	—	—	—	—
Leases	—	—	—	—	—
Commercial real estate					
Construction	2,677	2,677	—	2,693	77
Land	2,979	7,492	—	3,001	254
Office	6,967	8,715	—	7,107	227
Industrial	3,966	5,093	—	4,326	168
Retail	1,122	1,122	—	1,129	27
Multi-family	90	174	—	119	3
Mixed use and other	5,435	5,960	—	5,498	159
Home equity	7,213	9,674	—	8,356	219
Residential real estate	12,051	14,180	—	11,997	308
Consumer and other	416	494	—	427	14
Total impaired loans, net of unearned income	$95,976	$ 114,113	$ 6,611	$97,879	$ 2,860

Table of Contents

TDRs

At June 30, 2017, the Company had $33.1 million in loans modified in TDRs. The $33.1 million in TDRs represents 77 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability to pay.

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

A modification of a loan, excluding PCI loans, with an existing credit risk rating of 6 or worse or a modification of any other credit, which will result in a restructured credit risk rating of six or worse, must be reviewed for possible TDR classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of these loans is considered to be a TDR if both (1) the borrower is experiencing financial difficulty and (2) for economic or legal reasons, the bank grants a concession to a borrower that it would not otherwise consider. The modification of a loan, excluding PCI loans, where the credit risk rating is 5 or better both before and after such modification is not considered to be a TDR. Based on the Company's credit risk rating system, it considers that borrowers whose credit risk rating is 5 or better are not experiencing financial difficulties and therefore, are not considered TDRs.

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

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

Each TDR was reviewed for impairment at June 30, 2017 and approximately $953,000 of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. For TDRs in which impairment is calculated by the present value of future cash flows, the Company records interest income representing the decrease in impairment resulting from the passage of time during the respective period, which differs from interest income from contractually required interest on these specific loans. During the three months ended June 30, 2017 and 2016, the Company recorded $49,000 and $135,000, respectively, of interest income, which was reflected as a decrease in impairment. For the six months ended June 30, 2017 and 2016, the Company recorded $104,000 and $225,000, respectively, of interest income, which was reflected as a decrease in impairment.

TDRs may arise in which, due to financial difficulties experienced by the borrower, the Company obtains through physical possession one or more collateral assets in satisfaction of all or part of an existing credit. Once possession is obtained, the Company reclassifies the appropriate portion of the remaining balance of the credit from loans to OREO, which is included within other assets in the Consolidated Statements of Condition. For any residential real estate property collateralizing a consumer mortgage loan, the Company is considered to possess the related collateral only if legal title is obtained upon completion of foreclosure, or the borrower conveys all interest in the residential real estate property to the Company through completion of a deed in lieu of foreclosure or similar legal agreement. Excluding covered OREO, at June 30, 2017, the Company had $8.4 million of foreclosed residential real estate properties included within OREO. Furthermore, the recorded investment in residential mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process totaled $12.4 million at June 30, 2017.

Table of Contents

The tables below present a summary of the post-modification balance of loans restructured during the three and six months ended June 30, 2017 and 2016, respectively, which represent TDRs:

Three months ended June 30, 2017 (Dollars in thousands)	Total (1)(2)		Extension at Below Market Terms (2)		Reduction of Interest Rate (2)		Modification to Interest-only Payments (2)		Forgiveness of Debt(2)	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Mixed use and other	—	—	—	—	—	—	—	—	—	—
Residential real estate and other	4	2,210	4	2,210	3	2,161	—	—	—	—
Total loans	4	$ 2,210	4	$ 2,210	3	$ 2,161	—	$ —	—	$ —

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

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

During the three months ended June 30, 2017, four loans totaling $2.2 million were determined to be TDRs, compared to two loans totaling $655,000 during the three months ended June 30, 2016. Of these loans extended at below market terms, the weighted average extension had a term of approximately 54 months during the quarter ended June 30, 2017 compared to 36 months for the quarter ended June 30, 2016. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 195 basis points and 275 basis points during the three months ended June 30, 2017 and 2016, respectively. Interest-only payments terms were approximately six months during the three months ended June 30, 2016. Additionally, no principal balances were forgiven in the second quarter of 2017 compared to $300,000 of principal balance forgiven in the second quarter of 2016.

Six months ended June 30, 2017 (Dollars in thousands)	Total (1)(2)	Extension at Below Market	Reduction of Interest Rate (2)	Modification to Interest-only Payments (2)	Forgiveness of Debt(2)

			Terms (2)							
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	1	$ 95	1	$ 95	—	$ —	—	$	——	$ —
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Mixed use and other	1	1,245	1	1,245	—	—	—	—	—	—
Residential real estate and other	6	2,383	6	2,383	5	2,334	—	—	—	—
Total loans	8	$ 3,723	8	$ 3,723	5	$ 2,334	—	$	——	$ —

(1) TDRs may have more than one modification representing a concession. As such, TDRs during the period may be represented in more than one of the categories noted above.

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

26

Table of Contents

Six months ended June 30, 2016 (Dollars in thousands)	Total [1][2]		Extension at Below Market Terms [2]		Reduction of Interest Rate [2]		Modification to Interest-only Payments [2]		Forgiveness of Debt[2]	
	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial, industrial and other	2	$ 317	2	$ 317	—	$ —	—	$ —	1	$ 275
Commercial real estate										
Office	1	450	1	450	—	—	—	—	—	—
Industrial	6	7,921	6	7,921	3	7,196	—	—	—	—
Mixed use and other	2	150	2	150	—	—	—	—	—	—
Residential real estate and other	2	540	1	380	2	540	1	380	—	—
Total loans	13	$ 9,378	12	$ 9,218	5	$ 7,736	1	$ 380	1	$ 275

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

During the six months ended June 30, 2017, eight loans totaling $3.7 million were determined to be TDRs, compared to 13 loans totaling $9.4 million in the same period of 2016. Of these loans extended at below market terms, the weighted average extension had a term of approximately 36 months during the six months ended June 30, 2017 compared to six months for the six months ended June 30, 2016. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 184 basis points and 30 basis points for the year-to-date periods June 30, 2017 and 2016, respectively. Interest-only payment terms were approximately six months during the six months ended June 30, 2016. Additionally, no principal balances were forgiven in the first six months of 2017 compared to $300,000 of principal balance forgiven during the same period of 2016.

The following table presents a summary of all loans restructured in TDRs during the twelve months ended June 30, 2017 and 2016, and such loans which were in payment default under the restructured terms during the respective periods below:

(Dollars in thousands)	As of June 30, 2017 Total [1][3]		Three Months Ended June 30, 2017 Payments in Default [2][3]		Six Months Ended June 30, 2017 Payments in Default [2][3]	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial, industrial and other	2	$ 123	1	$ 28	1	$ 28
Leases	2	2,949	—	—	—	—
Commercial real estate						
Office	—	—	—	—	—	—
Industrial	—	—	—	—	—	—
Mixed use and other	1	1,245	—	—	—	—
Residential real estate and other	11	2,925	1	232	1	232
Total loans	16	$ 7,242	2	$ 260	2	$ 260

(Dollars in thousands)

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

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

Table of Contents

(8) Goodwill and Other Intangible Assets

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

(Dollars in thousands)	January 1, 2017	Goodwill Acquired	Impairment Loss	Goodwill Adjustments	June 30, 2017
Community banking	$427,781	$ 999	$ —	$ (152)	$428,628
Specialty finance	38,692	—	—	826	39,518
Wealth management	32,114	—	—	—	32,114
Total	$498,587	$ 999	$ —	$ 674	$500,260

The community banking segment's goodwill increased $847,000 in the first six months of 2017 primarily as a result of the acquisition of AHM. The specialty finance segment's goodwill increased $826,000 in the first six months of 2017 as a result of foreign currency translation adjustments related to the Canadian acquisitions.

At June 30, 2017, the Company utilized a quantitative approach for its annual goodwill impairment test of the community banking segment and determined that no impairment existed at that time. At December 31, 2016, the Company utilized a quantitative approach for its annual goodwill impairment tests of the specialty finance and wealth management segments and determined that no impairment existed at that time. At each reporting date between annual goodwill impairment tests, the Company considers potential indicators of impairment. As of June 30, 2017, the Company identified no such indicators of goodwill impairment within the specialty finance and wealth management segments.

A summary of finite-lived intangible assets as of the dates shown and the expected amortization as of June 30, 2017 is as follows:

(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016
Community banking segment:			
Core deposit intangibles:			
Gross carrying amount	$37,272	$ 37,272	$34,998
Accumulated amortization	(23,632)	(21,614)	(19,654)
Net carrying amount	$13,640	$ 15,658	$15,344
Specialty finance segment:			
Customer list intangibles:			
Gross carrying amount	$1,800	$ 1,800	$1,800
Accumulated amortization	(1,221)	(1,159)	(1,100)
Net carrying amount	$579	$ 641	$700
Wealth management segment:			
Customer list and other intangibles:			
Gross carrying amount	$7,940	$ 7,940	$7,940
Accumulated amortization	(2,613)	(2,388)	(2,163)
Net carrying amount	$5,327	$ 5,552	$5,777
Total other intangible assets, net	$19,546	$ 21,851	$21,821

Estimated amortization	
Actual in six months ended June 30, 2017	$2,305
Estimated remaining in 2017	2,086
Estimated—2018	3,778
Estimated—2019	3,206
Estimated—2020	2,580
Estimated—2021	2,039

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

Table of Contents

in connection with prior acquisitions within the wealth management segment are being amortized over a ten-year period on a straight-line basis.

Total amortization expense associated with finite-lived intangibles totaled approximately $2.3 million and $2.5 million for the six months ended June 30, 2017 and 2016, respectively.

(9) Deposits

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

(Dollars in thousands)	June 30, 2017		December 31, 2016		June 30, 2016	
Balance:						
Non-interest bearing	$6,294,052		$5,927,377		$5,367,672	
NOW and interest bearing demand deposits	2,459,238		2,624,442		2,450,710	
Wealth management deposits	2,464,162		2,209,617		1,904,121	
Money market	4,449,385		4,441,811		4,384,134	
Savings	2,419,463		2,180,482		1,851,863	
Time certificates of deposit	4,519,392		4,274,903		4,083,250	
Total deposits	$22,605,692		$21,658,632		$20,041,750	
Mix:						
Non-interest bearing	28	%	27	%	27	%
NOW and interest bearing demand deposits	11		12		12	
Wealth management deposits	11		10		10	
Money market	19		21		22	
Savings	11		10		9	
Time certificates of deposit	20		20		20	
Total deposits	100	%	100	%	100	%

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

(10) FHLB Advances, Other Borrowings and Subordinated Notes

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

(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016
FHLB advances	$318,270	$ 153,831	$588,055
Other borrowings:			
Notes payable	44,959	52,445	59,937
Short-term borrowings	46,280	61,809	38,798
Other	49,765	18,154	18,564
Secured borrowings	136,706	130,078	135,312
Total other borrowings	277,710	262,486	252,611
Subordinated notes	139,029	138,971	138,915
Total FHLB advances, other borrowings and subordinated notes	$735,009	$ 555,288	$979,581

FHLB Advances

FHLB advances consist of obligations of the banks and are collateralized by qualifying commercial and residential real estate and home equity loans and certain securities. FHLB advances are stated at par value of the debt adjusted for unamortized prepayment fees paid at the time of prior restructurings of FHLB advances and unamortized fair value adjustments recorded in connection with advances acquired through acquisitions.

Notes Payable

At June 30, 2017, notes payable represented a $45.0 million term facility ("Term Facility"), which is part of a $150.0 million loan agreement ("Credit Agreement") with unaffiliated banks dated December 15, 2014. The Credit Agreement consists of the Term Facility with an original outstanding balance of $75.0 million and a $75.0 million revolving credit facility ("Revolving Credit Facility"). At June 30, 2017, the Company had a balance of $45.0 million compared to $52.4 million at December 31, 2016 and $59.9 million at June 30, 2016 under the Term Facility. The Term Facility is stated at par of the current outstanding balance of the debt adjusted for unamortized costs paid by the Company in relation to the debt issuance. The Company was contractually required to borrow the entire amount of the Term Facility on June 15, 2015 and all such borrowings must be repaid by June 15, 2020. Beginning September 30, 2015, the Company was required to make straight-line quarterly amortizing payments on the Term Facility. At June 30, 2017, December 31, 2016 and June 30, 2016, the Company had no outstanding balance under the Revolving Credit Facility. As no outstanding balance exists on the Revolving Credit Facility, unamortized costs paid by the Company in relation to the issuance of this debt are classified in other assets on the Consolidated Statements of Condition. In December 2015, the Company amended the Credit Agreement, effectively extending the maturity date on the Revolving Credit Facility from December 14, 2015 to December 12, 2016. In December 2016, the Company again amended the Credit Agreement, effectively extending the maturity date on the Revolving Credit Facility from December 12, 2016 to December 11, 2017.

Borrowings under the Credit Agreement that are considered “Base Rate Loans” bear interest at a rate equal to the sum of (1) 50 basis points (in the case of a borrowing under the Revolving Credit Facility) or 75 basis points (in the case of a borrowing under the Term Facility) plus (2) the highest of (a) the federal funds rate plus 50 basis points, (b) the lender's prime rate, and (c) the Eurodollar Rate (as defined below) that would be applicable for an interest period of one month plus 100 basis points. Borrowings under the agreement that are considered “Eurodollar Rate Loans” bear interest at a rate equal to the sum of (1) 150 basis points (in the case of a borrowing under the Revolving Credit Facility) or 175 basis points (in the case of a borrowing under the Term Facility) plus (2) the LIBOR rate for the applicable period, as adjusted for statutory reserve requirements for eurocurrency liabilities (the “Eurodollar Rate”). A commitment fee is payable quarterly equal to 0.20% of the actual daily amount by which the lenders' commitment under the Revolving Credit Facility exceeded the amount outstanding under such facility.

Borrowings under the Credit Agreement are secured by pledges of and first priority perfected security interests in the Company's equity interest in its bank subsidiaries and contain several restrictive covenants, including the maintenance of various capital adequacy levels, asset quality and profitability ratios, and certain restrictions on dividends and other indebtedness. At June 30, 2017, the Company was in compliance with all such covenants. The Revolving Credit Facility and the Term Facility are available to be utilized, as needed, to provide capital to fund continued growth at the Company’s banks and to serve as an interim source of funds for acquisitions, common stock repurchases or other general corporate purposes.

Short-term Borrowings

Short-term borrowings include securities sold under repurchase agreements and federal funds purchased. These borrowings totaled $46.3 million at June 30, 2017 compared to $61.8 million at December 31, 2016 and $38.8 million at June 30, 2016. At June 30, 2017, December 31, 2016 and June 30, 2016, securities sold under repurchase agreements represent $46.3 million, $61.8 million and $38.8 million, respectively, of customer sweep accounts in connection with master repurchase agreements at the banks. The Company records securities sold under repurchase agreements at their gross value and does not offset positions on the Consolidated Statements of Condition. As of June 30, 2017, the Company had pledged securities related to its customer balances in sweep accounts of $69.4 million. Securities pledged for customer balances in sweep accounts and short-term borrowings from brokers are

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

Table of Contents

The following is a summary of these securities pledged as of June 30, 2017 disaggregated by investment category and maturity of the related customer sweep account, and reconciled to the outstanding balance of securities sold under repurchase agreements:

(Dollars in thousands)	Overnight Sweep Collateral
Available-for-sale securities pledged	
Mortgage-backed securities	$ 44,372
Held-to-maturity securities pledged	
U.S. Government agencies	25,000
Total collateral pledged	$ 69,372
Excess collateral	23,092
Securities sold under repurchase agreements	$ 46,280

Other Borrowings

Other borrowings at June 30, 2017 represent a fixed-rate promissory note issued by the Company in June 2017 ("Fixed-Rate Promissory Note") related to and secured by two office buildings owned by the Company, and non-recourse notes issued by the Company to other banks related to certain capital leases. At June 30, 2017, the Fixed-Rate Promissory Note had a balance of $49.5 million. Under the Fixed-Rate Promissory Note, the Company will make monthly principal payments and pay interest at a fixed rate of 3.36% until maturity on June 30, 2022. Under a previous fixed-rate promissory note with an unrelated creditor related to and secured by an office building owned by the Company, other borrowings totaled $17.7 million and $18.0 million at December 31, 2016 and June 30, 2016, respectively. In June 2017, this previous fixed-rate promissory note was paid-off upon the Company's issuance of the Fixed-Rate Promissory Note. At June 30, 2017, the non-recourse notes related to certain capital leases totaled $300,000 compared to $447,000 and $591,000 at December 31, 2016 and June 30, 2016, respectively.

Secured Borrowings

Secured borrowings at June 30, 2017 primarily represents transactions to sell an undivided co-ownership interest in all receivables owed to the Company's subsidiary, FIFC Canada. In December 2014, FIFC Canada sold such interest to an unrelated third party in exchange for a cash payment of approximately C$150 million pursuant to a receivables purchase agreement (“Receivables Purchase Agreement”). The Receivables Purchase Agreement was amended in December 2015, effectively extending the maturity date from December 15, 2015 to December 15, 2017. Additionally, at that time, the unrelated third party paid an additional C$10 million, which increased the total payments to C$160 million. These transactions were not considered sales of receivables and, as such, related proceeds received are reflected on the Company’s Consolidated Statements of Condition as a secured borrowing owed to the unrelated third party, net of unamortized debt issuance costs, and translated to the Company’s reporting currency as of the respective date. At June 30, 2017, the translated balance of the secured borrowing totaled $123.4 million compared to $119.0 million at December 31, 2016 and $123.7 million at June 30, 2016. Additionally, the interest rate under the Receivables Purchase Agreement at June 30, 2017 was 1.6431%. The remaining $13.3 million within secured borrowings at June 30, 2017 represents other sold interests in certain loans by the Company that were not considered sales and, as such, related proceeds received are reflected on the Company’s Consolidated Statements of Condition as a secured borrowing owed to the various unrelated third parties.

Subordinated Notes

At June 30, 2017, the Company had outstanding subordinated notes totaling $139.0 million compared to $139.0 million and $138.9 million outstanding at December 31, 2016 and June 30, 2016, respectively. The notes have a stated

interest rate of 5.00% and mature in June 2024. These notes are stated at par adjusted for unamortized costs paid related to the issuance of this debt.

(11) Junior Subordinated Debentures

As of June 30, 2017, the Company owned 100% of the common securities of eleven trusts, Wintrust Capital Trust III, Wintrust Statutory Trust IV, Wintrust Statutory Trust V, Wintrust Capital Trust VII, Wintrust Capital Trust VIII, Wintrust Capital Trust IX, Northview Capital Trust I, Town Bankshares Capital Trust I, First Northwest Capital Trust I, Suburban Illinois Capital Trust II, and Community Financial Shares Statutory Trust II (the “Trusts”) set up to provide long-term financing. The Northview, Town, First Northwest, Suburban, and Community Financial Shares capital trusts were acquired as part of the acquisitions of Northview Financial Corporation, Town Bankshares, Ltd., First Northwest Bancorp, Inc., Suburban and CFIS, respectively. The Trusts were formed for purposes of issuing trust preferred securities to third-party investors and investing the proceeds from the issuance of

Table of Contents

the trust preferred securities and common securities solely in junior subordinated debentures issued by the Company (or assumed by the Company in connection with an acquisition), with the same maturities and interest rates as the trust preferred securities. The junior subordinated debentures are the sole assets of the Trusts. In each Trust, the common securities represent approximately 3% of the junior subordinated debentures and the trust preferred securities represent approximately 97% of the junior subordinated debentures.

In January 2016, the Company acquired $15.0 million of the $40.0 million of trust preferred securities issued by Wintrust Capital Trust VIII from a third-party investor. The purchase effectively extinguished $15.0 million of junior subordinated debentures related to Wintrust Capital Trust VIII and resulted in a $4.3 million gain from the early extinguishment of debt.

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

The following table provides a summary of the Company's junior subordinated debentures as of June 30, 2017. The junior subordinated debentures represent the par value of the obligations owed to the Trusts.

(Dollars in thousands)	Common Securities	Trust Preferred Securities	Junior Subordinated Debentures	Rate Structure	Contractual rate at 6/30/2017		Issue Date	Maturity Date	Earliest Redemption Date
Wintrust Capital Trust III	$ 774	$ 25,000	$ 25,774	L+3.25	4.41	%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	619	20,000	20,619	L+2.80	4.10	%	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	1,238	40,000	41,238	L+2.60	3.90	%	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	1,550	50,000	51,550	L+1.95	3.20	%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	1,238	25,000	26,238	L+1.45	2.75	%	08/2005	09/2035	09/2010
Wintrust Capital Trust IX	1,547	50,000	51,547	L+1.63	2.88	%	09/2006	09/2036	09/2011
Northview Capital Trust I	186	6,000	6,186	L+3.00	4.17	%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	186	6,000	6,186	L+3.00	4.17	%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	155	5,000	5,155	L+3.00	4.30	%	05/2004	05/2034	05/2009
Suburban Illinois Capital Trust II	464	15,000	15,464	L+1.75	3.00	%	12/2006	12/2036	12/2011
Community Financial Shares Statutory Trust II	109	3,500	3,609	L+1.62	2.87	%	06/2007	09/2037	06/2012
Total			$ 253,566		3.45	%			

The junior subordinated debentures totaled $253.6 million at June 30, 2017, December 31, 2016 and June 30, 2016.

The interest rates on the variable rate junior subordinated debentures are based on the three-month LIBOR rate and reset on a quarterly basis. At June 30, 2017, the weighted average contractual interest rate on the junior subordinated debentures was 3.45%. The Company entered into interest rate swaps and caps to hedge the variable cash flows on certain junior subordinated debentures. The hedge-adjusted rate on the junior subordinated debentures as of June 30, 2017, was 3.59%. Distributions on the common and preferred securities issued by the Trusts are payable quarterly at a rate per annum equal to the interest rates being earned by the Trusts on the junior subordinated debentures. Interest expense on the junior subordinated debentures is deductible for income tax purposes.

The Company has guaranteed the payment of distributions and payments upon liquidation or redemption of the trust preferred securities, in each case to the extent of funds held by the Trusts. The Company and the Trusts believe that,

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

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

Table of Contents

and the amount in excess of those certain limitations, subject to certain restrictions, was included in Tier 2 capital. Starting in 2016, none of the junior subordinated debentures qualified as Tier 1 regulatory capital of the Company resulting in $245.5 million of the junior subordinated debentures, net of common securities, being included in the Company's Tier 2 regulatory capital.

(12) Segment Information

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

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

For purposes of internal segment profitability, management allocates certain intersegment and parent company balances. Management allocates a portion of revenues to the specialty finance segment related to loans and leases originated by the specialty finance segment and sold or assigned to the community banking segment. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates a portion of the net interest income earned by the community banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. See Note 9 — Deposits, for more information on these deposits. Finally, expenses incurred at the Wintrust parent company are allocated to each segment based on each segment's risk-weighted assets.

The segment financial information provided in the following tables has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the segments are substantially similar to those described in “Summary of Significant Accounting Policies” in Note 1 of the Company’s 2016 Form 10-K. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment.

Table of Contents

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

(Dollars in thousands)	Three months ended June 30, 2017	June 30, 2016	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	$166,329	$142,251	$24,078	17 %
Specialty Finance	28,558	24,352	4,206	17
Wealth Management	4,919	4,383	536	12
Total Operating Segments	199,806	170,986	28,820	17
Intersegment Eliminations	4,603	4,284	319	7
Consolidated net interest income	$204,409	$175,270	$29,139	17 %
Non-interest income:				
Community Banking	$65,007	$60,813	$4,194	7 %
Specialty Finance	13,721	12,482	1,239	10
Wealth Management	20,573	19,863	710	4
Total Operating Segments	99,301	93,158	6,143	7
Intersegment Eliminations	(9,329)	(8,359)	(970)	(12)
Consolidated non-interest income	$89,972	$84,799	$5,173	6 %
Net revenue:				
Community Banking	$231,336	$203,064	$28,272	14 %
Specialty Finance	42,279	36,834	5,445	15
Wealth Management	25,492	24,246	1,246	5
Total Operating Segments	299,107	264,144	34,963	13
Intersegment Eliminations	(4,726)	(4,075)	(651)	(16)
Consolidated net revenue	$294,381	$260,069	$34,312	13 %
Segment profit:				
Community Banking	$46,026	$34,576	$11,450	33 %
Specialty Finance	14,849	12,044	2,805	23
Wealth Management	4,022	3,421	601	18
Consolidated net income	$64,897	$50,041	$14,856	30 %
Segment assets:				
Community Banking	$22,032,302	$20,190,707	$1,841,595	9 %
Specialty Finance	4,255,109	3,645,077	610,032	17
Wealth Management	641,854	584,832	57,022	10
Consolidated total assets	$26,929,265	$24,420,616	$2,508,649	10 %

Table of Contents

(Dollars in thousands)	Six months ended June 30, 2017	June 30, 2016	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	$322,609	$283,949	$ 38,660	14 %
Specialty Finance	55,370	45,532	9,838	22
Wealth Management	9,975	8,866	1,109	13
Total Operating Segments	387,954	338,347	49,607	15
Intersegment Eliminations	9,035	8,432	603	7
Consolidated net interest income	$396,989	$346,779	$ 50,210	14 %
Non-interest income:				
Community Banking	$107,723	$106,480	$ 1,243	1 %
Specialty Finance	27,877	24,885	2,992	12
Wealth Management	41,375	38,615	2,760	7
Total Operating Segments	176,975	169,980	6,995	4
Intersegment Eliminations	(18,238)	(16,429)	(1,809)	(11)
Consolidated non-interest income	$158,737	$153,551	$ 5,186	3 %
Net revenue:				
Community Banking	$430,332	$390,429	$ 39,903	10 %
Specialty Finance	83,247	70,417	12,830	18
Wealth Management	51,350	47,481	3,869	8
Total Operating Segments	564,929	508,327	56,602	11
Intersegment Eliminations	(9,203)	(7,997)	(1,206)	(15)
Consolidated net revenue	$555,726	$500,330	$ 55,396	11 %
Segment profit:				
Community Banking	$83,703	$69,333	$ 14,370	21 %
Specialty Finance	30,947	23,516	7,431	32
Wealth Management	8,625	6,303	2,322	37
Consolidated net income	$123,275	$99,152	$ 24,123	24 %

(13) Derivative Financial Instruments

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

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

into foreign currency contracts to manage foreign exchange risk associated with certain foreign currency denominated assets.

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

Table of Contents

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

The table below presents the fair value of the Company's derivative financial instruments as of June 30, 2017, December 31, 2016 and June 30, 2016:

(Dollars in thousands)	Derivative Assets			Derivative Liabilities		
	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016
Derivatives designated as hedging instruments under ASC 815:						
Interest rate derivatives designated as Cash Flow Hedges	$8,644	$ 8,011	$12	$—	$ —	$1,577
Interest rate derivatives designated as Fair Value Hedges	2,074	2,228	—	26	—	999
Total derivatives designated as hedging instruments under ASC 815	$10,718	$ 10,239	$12	$26	$ —	$2,576
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate derivatives	$35,929	$ 38,974	$89,024	$35,317	$ 37,665	$88,316
Interest rate lock commitments	2,875	4,265	11,435	182	1,325	2,973
Forward commitments to sell mortgage loans	78	2,037	—	1,961	—	6,496
Foreign exchange contracts	103	879	581	165	849	551
Total derivatives not designated as hedging instruments under ASC 815	$38,985	$ 46,155	$101,040	$37,625	$ 39,839	$98,336
Total Derivatives	$49,703	$ 56,394	$101,052	$37,651	$ 39,839	$100,912

Cash Flow Hedges of Interest Rate Risk

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

As of June 30, 2017, the Company had four interest rate swap derivatives designated as cash flow hedges of variable rate deposits. The interest rate swap derivatives had notional amounts of $200.0 million, $250.0 million, $275.0 million and $200.0 million and mature in June 2019, July 2019, August 2019 and June 2020, respectively.

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

Table of Contents

The table below provides details on each of these cash flow hedges as of June 30, 2017:

	June 30, 2017	
(Dollars in thousands) Maturity Date	Notional Amount	Fair Value Asset (Liability)
Interest Rate Swaps:		
June 2019	$200,000	$ 96
July 2019	250,000	3,750
August 2019	275,000	4,671
June 2020	200,000	122
Total Interest Rate Swaps	$925,000	$ 8,639
Interest Rate Caps:		
September 2017	$50,000	$ —
September 2017	40,000	5
Total Interest Rate Caps	$90,000	$ 5
Total Cash Flow Hedges	$1,015,000	$ 8,644

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

(Dollars in thousands)	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Unrealized gain (loss) at beginning of period	$8,559	$(3,051)	$6,944	$(3,529)
Amount reclassified from accumulated other comprehensive loss to interest expense on deposits and junior subordinated debentures	821	832	1,037	1,555
Amount of (loss) gain recognized in other comprehensive income	(1,131)	(1,355)	268	(1,600)
Unrealized gain (loss) at end of period	$8,249	$(3,574)	$8,249	$(3,574)

As of June 30, 2017, the Company estimates that during the next twelve months, $2.3 million will be reclassified from accumulated other comprehensive gain as an increase to interest expense.

Fair Value Hedges of Interest Rate Risk

Interest rate swaps designated as fair value hedges involve the payment of fixed amounts to a counterparty in exchange for the Company receiving variable payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2017, the Company has eleven interest rate swaps with an aggregate notional amount of $121.1 million that were designated as fair value hedges associated with fixed rate commercial and industrial and commercial franchise loans as well as life insurance premium finance receivables.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged item in the same line item as the offsetting loss or gain on the related derivatives. The Company recognized a net gain of $40,000 and $17,000 in other income related to hedge ineffectiveness for the three months ended June 30, 2017 and 2016, respectively. On a year-to-date basis, the Company recognized a net gain of $29,000 and a net loss of $22,000 in other income related to hedge ineffectiveness for the six months ended June 30, 2017 and 2016, respectively.

Table of Contents

The following table presents the gain/(loss) and hedge ineffectiveness recognized on derivative instruments and the related hedged items that are designated as a fair value hedge accounting relationship as of June 30, 2017 and 2016:

(Dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivative Three Months Ended		Amount of Gain Recognized in Income on Hedged Item Three Months Ended		Income Statement Gain due to Hedge Ineffectiveness Three Months Ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Interest rate swaps	Trading losses, net	$ (333)	$ (329)	$ 373	$ 346	$ 40	$ 17

(Dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivative Six Months Ended		Amount of Gain Recognized in Income on Hedged Item Six Months Ended		Income Statement Gain/(Loss) due to Hedge Ineffectiveness Six Months Ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Interest rate swaps	Trading losses, net	$ (181)	$ (883)	$ 210	$ 861	$ 29	$ (22)

Non-Designated Hedges

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

Interest Rate Derivatives—The Company has interest rate derivatives, including swaps and option products, resulting from a service the Company provides to certain qualified borrowers. The Company’s banking subsidiaries execute certain derivative products (typically interest rate swaps) directly with qualified commercial borrowers to facilitate their respective risk management strategies. For example, these arrangements allow the Company’s commercial borrowers to effectively convert a variable rate loan to a fixed rate. In order to minimize the Company’s exposure on these transactions, the Company simultaneously executes offsetting derivatives with third parties. In most cases, the offsetting derivatives have mirror-image terms, which result in the positions’ changes in fair value substantially offsetting through earnings each period. However, to the extent that the derivatives are not a mirror-image and because of differences in counterparty credit risk, changes in fair value will not completely offset resulting in some earnings impact each period. Changes in the fair value of these derivatives are included in non-interest income. At June 30, 2017, the Company had interest rate derivative transactions with an aggregate notional amount of approximately $4.8 billion (all interest rate swaps and caps with customers and third parties) related to this program. These interest rate derivatives had maturity dates ranging from July 2017 to February 2045.

Mortgage Banking Derivatives—These derivatives include interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. It is the Company’s practice to enter into forward commitments for the future delivery of a portion of our residential mortgage loan production when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on its commitments to fund the loans as well as on its portfolio of

mortgage loans held-for-sale. The Company's mortgage banking derivatives have not been designated as being in hedge relationships. At June 30, 2017, the Company had forward commitments to sell mortgage loans with an aggregate notional amount of approximately $824.3 million and interest rate lock commitments with an aggregate notional amount of approximately $446.2 million. The fair values of these derivatives were estimated based on changes in mortgage rates from the dates of the commitments. Changes in the fair value of these mortgage banking derivatives are included in mortgage banking revenue.

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

Table of Contents

As of June 30, 2017 the Company held foreign currency derivatives with an aggregate notional amount of approximately $39.7 million.

Other Derivatives—Periodically, the Company will sell options to a bank or dealer for the right to purchase certain securities held within the banks' investment portfolios (covered call options). These option transactions are designed primarily to mitigate overall interest rate risk and to increase the total return associated with the investment securities portfolio. These options do not qualify as accounting hedges pursuant to ASC 815, and, accordingly, changes in fair value of these contracts are recognized as other non-interest income. There were no covered call options outstanding as of June 30, 2017, December 31, 2016 or June 30, 2016.

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

(Dollars in thousands)		Three Months Ended		Six Months Ended	
Derivative	Location in income statement	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Interest rate swaps and caps	Trading losses, net	$(365)	$(432)	$(668)	$(356)
Mortgage banking derivatives	Mortgage banking revenue	(48)	(2,707)	690	(843)
Covered call options	Fees from covered call options	890	4,649	1,649	6,361
Foreign exchange contracts	Trading losses, net	(64)	(173)	(92)	(236)

Credit Risk

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

The Company has agreements with certain of its interest rate derivative counterparties that contain cross-default provisions, which provide that if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. The Company also has agreements with certain of its derivative counterparties that contain a provision allowing the counterparty to terminate the derivative positions if the Company fails to maintain its status as a well or adequately capitalized institution, which would require the Company to settle its obligations under the agreements. As of June 30, 2017, the fair value of interest rate derivatives in a net liability position that were subject to such agreements, which includes accrued interest related to these agreements, was $11.3 million. If the Company had breached any of these provisions and the derivatives were terminated as a result, the Company would have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

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

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

Table of Contents

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

	Derivative Assets			Derivative Liabilities		
	Fair Value			Fair Value		
(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016
Gross Amounts Recognized	$46,647	$ 49,213	$89,036	$35,343	$ 37,665	$90,892
Less: Amounts offset in the Statements of Financial Condition	—	—	—	—	—	—
Net amount presented in the Statements of Financial Condition	$46,647	$ 49,213	$89,036	$35,343	$ 37,665	$90,892
Gross amounts not offset in the Statements of Financial Condition						
Offsetting Derivative Positions	(15,828)	(14,441)	(161)	(15,828)	(14,441)	(161)
Collateral Posted [(1)]	(3,150)	(8,530)	—	(19,515)	(12,400)	(90,731)
Net Credit Exposure	$27,669	$ 26,242	$88,875	$—	$ 10,824	$—

(1) As of June 30, 2017 and June 30, 2016, the Company posted collateral of $21.0 million and $94.2 million, respectively, which resulted in excess collateral with its counterparties. For purposes of this disclosure, the amount of posted collateral is limited to the amount offsetting the derivative liability.

(14) Fair Values of Assets and Liabilities

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

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

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

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

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

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

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

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

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

At June 30, 2017, the Company classified $77.3 million of municipal securities as Level 3. These municipal securities are bond issues for various municipal government entities primarily located in the Chicago metropolitan area and southern Wisconsin and are privately placed, non-rated bonds without CUSIP numbers. The Company also classified $4.1 million of U.S. government agencies as Level 3 at June 30, 2017. The Company's methodology for pricing these securities focuses on three distinct inputs: equivalent rating, yield and other pricing terms. To determine the rating for a given non-rated municipal bond, the Investment Operations Department references a publicly issued bond by the same issuer if available. A reduction is then applied to the rating obtained from the comparable bond, as the Company believes if liquidated, a non-rated bond would be valued less than a similar bond with a verifiable rating. The reduction applied by the Company is one complete rating grade (i.e. a "AA" rating for a comparable bond would be reduced to "A" for the Company's valuation). In the second quarter of 2017, all of the ratings derived in the above process by Investment Operations were BBB or better, for both bonds with and without comparable bond proxies. The fair value measurement of municipal bonds is sensitive to the rating input, as a higher rating typically results in an increased valuation. The remaining pricing inputs used in the bond valuation are observable. Based on the rating determined in the above process, Investment Operations obtains a corresponding current market yield curve available to market participants. Other terms including coupon, maturity date, redemption price, number of coupon payments per year, and accrual method are obtained from the individual bond term sheets. Certain municipal bonds held by the Company at June 30, 2017 have a call date that has passed, and are now continuously callable. When valuing these bonds, the fair value is capped at par value as the Company assumes a market participant would not pay more than par for a continuously callable bond. To determine the rating for the U.S. government agency securities, the Investment Operations Department assigned a AAA rating as it is guaranteed by the U.S. government.

At June 30, 2017 and December 31, 2016, the Company held no equity securities classified as Level 3 compared to $25.2 million at June 30, 2016. At June 30, 2016, the securities in Level 3 were primarily comprised of auction rate preferred securities. The Company's valuation methodology at that time included modeling the contractual cash flows of the underlying preferred securities and applying a discount to these cash flows by a market spread derived from the market price of the securities underlying debt. In 2016, the Company exchanged these auction rate securities for the underlying preferred securities, resulting in a $2.4 million gain on the nonmonetary sale. The Company classified the preferred securities received as Level 2 in the fair value hierarchy at the time of the transaction due to observable inputs other than quoted prices existing for the preferred securities.

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

Loans held-for-investment—The fair value for loans in which the Company elected the fair value option is estimated by discounting future scheduled cash flows for the specific loan through maturity, adjusted for estimated credit losses and prepayments. At June 30, 2017, the Company classified $30.2 million of loans held-for-investment as Level 3. The weighted average discount rate used as an input to value these loans at June 30, 2017 was 3.70% with discount rates applied ranging from 3%-4%. The higher the rate utilized to discount estimated future cash flows, the lower the fair value measurement. As noted above, the fair value estimate also includes assumptions of prepayment speeds and credit losses. The Company included a prepayments speed assumption of 9.42% at June 30, 2017. Prepayment speeds are inversely related to the fair value of these loans as an increase in prepayment speeds results in a decreased valuation. Additionally, the weighted average credit loss rate used as an input to value the specific loans was 0.89% with credit loss rates ranging from 0%-3% at June 30, 2017.

Mortgage servicing rights ("MSRs")—Fair value for MSRs is determined utilizing a valuation model which calculates the fair value of each servicing rights based on the present value of estimated future cash flows. The Company uses a

discount rate commensurate with the risk associated with each servicing rights, given current market conditions. At June 30, 2017, the Company classified $27.3 million of MSRs as Level 3. The weighted average discount rate used as an input to value the MSRs at June 30, 2017 was 9.81% with discount rates applied ranging from 9%-16%. The higher the rate utilized to discount estimated future cash flows, the lower the fair value measurement. The fair value of MSRs was also estimated based on other assumptions including prepayment speeds and the cost to service. Prepayment speeds used as an input to value the MSRs at June 30, 2017 ranged from 0%-34% or a weighted average prepayment speed of 9.64%. Further, for current and delinquent loans, the Company assumed a weighted average cost of servicing of $65 and $422, respectively, per loan. Prepayment speeds and the cost to service are both inversely related to the fair value of MSRs as an increase in prepayment speeds or the cost to service results in a decreased valuation.

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

Table of Contents

measured on a net basis by counterparty portfolio. The fair value for mortgage-related derivatives is based on changes in mortgage rates from the date of the commitments. The fair value of foreign currency derivatives is computed based on change in foreign currency rates stated in the contract compared to those prevailing at the measurement date.

At June 30, 2017, the Company classified $1.0 million of derivative assets related to interest rate locks as Level 3. The fair value of interest rate locks is based on prices obtained for loans with similar characteristics from third parties, adjusted for the pull-through rate, which represents the Company's best estimate of the likelihood that a committed loan will ultimately fund. The weighted-average pull-through rate at June 30, 2017 was 89.79% with pull-through rates applied ranging from 40% to 100%. Pull-through rates are directly related to the fair value of interest rate locks as an increase in the pull-through rate results in an increased valuation

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

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

	June 30, 2017			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$119,081	$ —	$119,081	$—
U.S. Government agencies	157,510	—	153,400	4,110
Municipal	124,120	—	46,779	77,341
Corporate notes	60,598	—	60,598	—
Mortgage-backed	1,153,290	—	1,153,290	—
Equity securities	35,037	—	35,037	—
Trading account securities	1,987	—	1,987	—
Mortgage loans held-for-sale	382,837	—	382,837	—
Loans held-for-investment	30,173	—	—	30,173
MSRs	27,307	—	—	27,307
Nonqualified deferred compensation assets	10,556	—	10,556	—
Derivative assets	49,703	—	48,656	1,047
Total	$2,152,199	$ —	$2,012,221	$139,978
Derivative liabilities	$37,651	$ —	$37,651	$—

	December 31, 2016			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$141,983	$ —	$141,983	$ —
U.S. Government agencies	189,152	—	189,152	—
Municipal	131,809	—	52,183	79,626
Corporate notes	65,391	—	65,391	—
Mortgage-backed	1,161,084	—	1,161,084	—
Equity securities	35,248	—	35,248	—
Trading account securities	1,989	—	1,989	—
Mortgage loans held-for-sale	418,374	—	418,374	—
Loans held-for-investment	22,137	—	—	22,137
MSRs	19,103	—	—	19,103

Nonqualified deferred compensation assets	9,228	—	9,228	—
Derivative assets	56,394	—	54,103	2,291