WINTRUST FINANCIAL CORP
Form 10-Q
May 09, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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	**(I.R.S. Employer**
or organization)	**Identification No.)**

727 North Bank Lane

Lake Forest, Illinois 60045

(Address of principal executive offices)

(847) 615-4096

(Registrant s telephone number, including area code)

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

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

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

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

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, 36,318,332 shares, as of April 30, 2012

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

		Page
ITEM 1.	Financial Statements.	1
ITEM 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations.	48
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk.	92
ITEM 4.	Controls and Procedures.	94
	PART II. OTHER INFORMATION	
ITEM 1.	Legal Proceedings.	NA
ITEM 1A.	Risk Factors.	94
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	94
ITEM 3.	Defaults Upon Senior Securities.	NA
ITEM 4.	Mine Safety Disclosures.	NA
ITEM 5.	Other Information.	NA
ITEM 6.	Exhibits.	95
.	Signatures.	96

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share data)	**(Unaudited) March 31, 2012**	December 31, 2011	(Unaudited) March 31, 2011
Assets			
Cash and due from banks	**$ 146,014**	$ 148,012	$ 140,919
Federal funds sold and securities purchased under resale agreements	**14,588**	21,692	33,575
Interest-bearing deposits with other banks (balance restricted for securitization investors of $529,418 at March 31, 2012, $272,592 at December 31, 2011, and $35,630 at March 31, 2011)	**900,755**	749,287	946,193
Available-for-sale securities, at fair value	**1,869,344**	1,291,797	1,710,321
Trading account securities	**1,140**	2,490	2,229
Federal Home Loan Bank and Federal Reserve Bank stock	**88,216**	100,434	85,144
Brokerage customer receivables	**31,085**	27,925	25,361
Mortgage loans held-for-sale, at fair value	**339,600**	306,838	92,151
Mortgage loans held-for-sale, at lower of cost or market	**10,728**	13,686	2,335
Loans, net of unearned income, excluding covered loans	**10,717,384**	10,521,377	9,561,802
Covered loans	**691,220**	651,368	431,299
Total loans	**11,408,604**	11,172,745	9,993,101
Less: Allowance for loan losses	**111,023**	110,381	115,049
Less: Allowance for covered loan losses	**17,735**	12,977	4,844
Net loans (balance restricted for securitization investors of $156,132 at March 31, 2012, $411,532 at December 31, 2011, and $647,793 at March 31, 2011)	**11,279,846**	11,049,387	9,873,208
Premises and equipment, net	**434,700**	431,512	369,785
FDIC indemnification asset	**263,212**	344,251	124,785
Accrued interest receivable and other assets	**463,394**	444,912	394,292
Trade date securities receivable		634,047	
Goodwill	**307,295**	305,468	281,940
Other intangible assets	**22,101**	22,070	12,056
Total assets	**$ 16,172,018**	$ 15,893,808	$ 14,094,294
Liabilities and Shareholders Equity			
Deposits:			
Non-interest bearing	**$ 1,901,753**	$ 1,785,433	$ 1,279,256
Interest bearing	**10,764,100**	10,521,834	9,635,913
Total deposits	**12,665,853**	12,307,267	10,915,169
Notes payable	**52,639**	52,822	1,000
Federal Home Loan Bank advances	**466,391**	474,481	423,500
Other borrowings	**411,037**	443,753	250,032
Secured borrowings - owed to securitization investors	**428,000**	600,000	600,000
Subordinated notes	**35,000**	35,000	50,000
Junior subordinated debentures	**249,493**	249,493	249,493
Trade date securities payable		47	10,000

Accrued interest payable and other liabilities	**175,684**	187,412	141,847
Total liabilities	**14,484,097**	14,350,275	12,641,041
Shareholders Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series A - $1,000 liquidation value; 50,000 shares issued and outstanding at March 31, 2012, December 31, 2011 and March 31, 2011	**49,802**	49,768	49,672
Series C - $1,000 liquidation value; 126,500 shares issued and outstanding at March 31, 2012, and no shares issued and outstanding at December 31, 2011 and March 31, 2011	**126,500**		
Common stock, no par value; $1.00 stated value; 60,000,000 shares authorized; 36,521,562 shares issued at March 31, 2012, 35,981,950 shares issued at December 31, 2011, and 34,947,251 shares issued at March 31, 2011	**36,522**	35,982	34,947
Surplus	**1,008,326**	1,001,316	967,587
Treasury stock, at cost, 232,182 shares at March 31, 2012, 3,601 shares at December 31, 2011, and 1,069 shares at March 31, 2011	**(6,559)**	(112)	(74)
Retained earnings	**478,160**	459,457	404,580
Accumulated other comprehensive loss	**(4,830)**	(2,878)	(3,459)
Total shareholders equity	**1,687,921**	1,543,533	1,453,253
Total liabilities and shareholders equity	**$ 16,172,018**	$ 15,893,808	$ 14,094,294

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share data)	Three Months Ended March 31, 2012	2011
Interest income		
Interest and fees on loans	**$ 143,555**	$ 136,543
Interest bearing deposits with banks	**248**	936
Federal funds sold and securities purchased under resale agreements	**12**	32
Securities	**11,847**	9,540
Trading account securities	**9**	13
Federal Home Loan Bank and Federal Reserve Bank stock	**604**	550
Brokerage customer receivables	**211**	166
Total interest income	**156,486**	147,780
Interest expense		
Interest on deposits	**18,030**	23,956
Interest on Federal Home Loan Bank advances	**3,584**	3,958
Interest on notes payable and other borrowings	**3,102**	2,630
Interest on secured borrowings - owed to securitization investors	**2,549**	3,040
Interest on subordinated notes	**169**	212
Interest on junior subordinated debentures	**3,157**	4,370
Total interest expense	**30,591**	38,166
Net interest income	**125,895**	109,614
Provision for credit losses	**17,400**	25,344
Net interest income after provision for credit losses	**108,495**	84,270
Non-interest income		
Wealth management	**12,401**	10,236
Mortgage banking	**18,534**	11,631
Service charges on deposit accounts	**4,208**	3,311
Gains on available-for-sale securities, net	**816**	106
Gain on bargain purchases	**840**	9,838
Trading gains (losses)	**146**	(440)
Other	**10,078**	6,205
Total non-interest income	**47,023**	40,887
Non-interest expense		
Salaries and employee benefits	**69,030**	56,099
Equipment	**5,400**	4,264
Occupancy, net	**8,062**	6,505
Data processing	**3,618**	3,523
Advertising and marketing	**2,006**	1,614
Professional fees	**3,604**	3,546
Amortization of other intangible assets	**1,049**	689
FDIC insurance	**3,357**	4,518
OREO expenses, net	**7,178**	5,808

Other	**14,455**	11,543
Total non-interest expense	**117,759**	98,109
Income before taxes	**37,759**	27,048
Income tax expense	**14,549**	10,646
Net income	**$ 23,210**	$ 16,402
Preferred stock dividends and discount accretion	**$ 1,246**	$ 1,031
Net income applicable to common shares	**$ 21,964**	$ 15,371
Net income per common share - Basic	**$ 0.61**	$ 0.44
Net income per common share - Diluted	**$ 0.50**	$ 0.36
Cash dividends declared per common share	**$ 0.09**	$ 0.09
Weighted average common shares outstanding	**36,207**	34,928
Dilutive potential common shares	**7,530**	7,794
Average common shares and dilutive common shares	**43,737**	42,722

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 March 31, 2012	2011
Net income	**$ 23,210**	$ 16,402
Unrealized gains (losses) on securities		
Before tax	**(3,219)**	1,370
Tax effect	**1,276**	(558)
Net of tax	**(1,943)**	812
Reclassification of net gains included in net income		
Before tax	**816**	106
Tax effect	**(327)**	(43)
Net of tax	**489**	63
Net unrealized gains (losses) on securities	**(2,432)**	749
Unrealized gains on derivative instruments		
Before tax	**796**	2,121
Tax effect	**(316)**	(817)
Net of tax	**480**	1,304
Total other comprehensive income (loss)	**(1,952)**	2,053
Comprehensive income	**$ 21,258**	$ 18,455

See accompanying notes to unaudited consolidated financial statements.

3

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholder s equity
Balance at December 31, 2010	$ 49,640	$ 34,864	$ 965,203	$	$ 392,354	$ (5,512)	$ 1,436,549
Net income					16,402		16,402
Other comprehensive income, net of tax						2,053	2,053
Cash dividends declared on common stock					(3,145)		(3,145)
Dividends on preferred stock					(999)		(999)
Accretion on preferred stock	32				(32)		
Common stock repurchases				(74)			(74)
Stock-based compensation			1,094				1,094
Common stock issued for:							
Exercise of stock options and warrants		33	546				579
Restricted stock awards		12	(16)				(4)
Employee stock purchase plan		13	423				436
Director compensation plan		25	337				362
Balance at March 31, 2011	$ 49,672	$ 34,947	$ 967,587	$ (74)	$ 404,580	$ (3,459)	$ 1,453,253
Balance at December 31, 2011	**$ 49,768**	**$ 35,982**	**$ 1,001,316**	**$ (112)**	**$ 459,457**	**$ (2,878)**	**$ 1,543,533**
Net income					**23,210**		**23,210**
Other comprehensive income, net of tax						**(1,952)**	**(1,952)**
Cash dividends declared on common stock					**(3,261)**		**(3,261)**
Dividends on preferred stock					**(1,212)**		**(1,212)**
Accretion on preferred stock	**34**				**(34)**		
Stock-based compensation			**2,289**				**2,289**
Issuance of Series C preferred stock	**126,500**		**(3,810)**				**122,690**
Common stock issued for:							
Exercise of stock options and warrants		**407**	**7,822**	**(5,592)**			**2,637**
Restricted stock awards		**94**	**(94)**	**(855)**			**(855)**
Employee stock purchase plan		**17**	**465**				**482**
Director compensation plan		**22**	**338**				**360**
Balance at March 31, 2012	**$ 176,302**	**$ 36,522**	**$ 1,008,326**	**$ (6,559)**	**$ 478,160**	**$ (4,830)**	**$ 1,687,921**

See accompanying notes to unaudited consolidated financial statements.

4

Table of Contents

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Three Months Ended March 31, 2012	2011
Operating Activities:		
Net income	**$ 23,210**	$ 16,402
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	**17,400**	25,344
Depreciation and amortization	**5,627**	5,551
Stock-based compensation expense	**2,289**	1,094
Tax benefit from stock-based compensation arrangements	**12**	235
Excess tax benefits from stock-based compensation arrangements	**(643)**	(194)
Net (accretion) amortization of (discount) premium on securities	**(2,092)**	4,176
Mortgage servicing rights fair value change and amortization, net	**(514)**	(140)
Originations and purchases of mortgage loans held-for-sale	**(714,655)**	(562,088)
Proceeds from sales of mortgage loans held-for-sale	**699,315**	843,209
Bank owned life insurance income, net of claims	**(919)**	(876)
Decrease in trading securities, net	**1,350**	2,650
Net increase in brokerage customer receivables	**(3,160)**	(812)
Gains on mortgage loans sold	**(14,464)**	(4,160)
Gains on available-for-sale securities, net	**(816)**	(106)
Gain on bargain purchases	**(840)**	(9,838)
Debt defeasance costs	**848**	
Loss on sales of premises and equipment, net	**12**	
Decrease in accrued interest receivable and other assets, net	**107,929**	47,043
Decrease in accrued interest payable and other liabilities, net	**(11,689)**	(16,406)
Net Cash Provided by Operating Activities	**108,200**	351,084
Investing Activities:		
Proceeds from maturities of available-for-sale securities	**280,110**	284,469
Proceeds from sales of available-for-sale securities	**737,369**	50,142
Purchases of available-for-sale securities	**(952,853)**	(541,199)
Net cash received for acquisitions	**8,191**	21,371
Net increase in interest-bearing deposits with banks	**(151,033)**	(56,222)
Net (increase) decrease in loans	**(206,246)**	17,691
Purchases of premises and equipment, net	**(8,501)**	(10,557)
Net Cash Used for Investing Activities	**(292,963)**	(234,305)
Financing Activities:		
Increase (decrease) in deposit accounts	**269,326**	(100,938)
Decrease in other borrowings, net	**(34,141)**	(10,808)
Decrease in Federal Home Loan Bank advances, net	**(8,000)**	
Excess tax benefits from stock-based compensation arrangements	**643**	194
Net proceeds from issuance of preferred stock	**122,690**	
Debt defeasance	**(172,848)**	
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	**8,699**	905
Common stock repurchases	**(6,447)**	(74)
Dividends paid	**(4,261)**	(4,144)

Net Cash Provided by (Used for) Financing Activities	**175,661**	(114,865)
Net (Decrease) Increase in Cash and Cash Equivalents	**(9,102)**	1,914
Cash and Cash Equivalents at Beginning of Period	**169,704**	172,580
Cash and Cash Equivalents at End of Period	**$ 160,602**	$ 174,494

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. 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, 2011 (2011 Form 10-K). Operating results reported for the three-month 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 our significant accounting policies are included in Note 1 Summary of Significant Accounting Policies of the Company s 2011 Form 10-K.

(2) Recent Accounting Developments

Goodwill Impairment Testing

In September 2011, the FASB issued ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which presents a qualitative approach to test goodwill for impairment. This ASU provides entities the option to assess qualitative factors to determine if impairment of goodwill exists. If examination of the qualitative factors yields a determination that it is not more likely than not that impairment exists, then it is not necessary for the Company to perform the two-step impairment test. This guidance is effective for fiscal periods beginning after December 15, 2011. As such, the Company will consider this guidance in conjunction with its goodwill impairment testing in 2012. Adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which amends the presentation formats permitted for reporting other comprehensive income. This ASU no longer allows other comprehensive income to be presented as part of the statement of changes in shareholder s equity. Entities must present other comprehensive income and its components in a single statement along with net income or in a separate, consecutive statement of other comprehensive income. This guidance is effective for fiscal and interim periods beginning after December 15, 2011. However, in December 2011, the FASB issued ASU No. 2011-12 Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 which deferred the ASU No. 2011-05 provision requiring companies to present reclassification adjustments for each component of other comprehensive income in both net income and other comprehensive income on the face of the financial statements. This deferral does not change the requirement to present items of net income, other comprehensive income and total comprehensive income in either a continuous statement or consecutive statements as of the effective date noted above. The Company adopted ASU No. 2011-05 in the first quarter of 2012 and is including separate consolidated statements of comprehensive income in accordance with the above guidance.

Amended Guidance for Fair Value Measurement and Disclosure

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, which amends the language used to describe U.S. GAAP requirements for measuring fair value and for disclosing information about fair value measurements. The amended language

Table of Contents

seeks to clarify the application of existing guidance as well as change the measurement and disclosure of a few specific items. The principles changed include measurement of financial instruments that are managed within a portfolio and application of premiums and discounts in fair value measurement. The new guidance will also require additional disclosures including expanded disclosures for measurements categorized within level three of the fair value hierarchy, disclosures for nonfinancial assets at fair value and disclosure displaying the fair value hierarchy by level for items in the statement of financial position that are not measured at fair value but for which a fair value is required to be disclosed. The guidance is effective during interim and annual periods beginning after December 15, 2011. The Company adopted this guidance in the first quarter of 2012 and is including additional disclosures to address the topics presented within this ASU. See Footnote 15 - Fair Value of Assets and Liabilities for the additional disclosures.

Changes to the Effective Control Assessment in Accounting for Transfers

In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements, which amends the criteria used to determine when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. The changes presented in this ASU are intended to improve the accounting for these transactions by removing the criterion requiring the transferor to have the ability to repurchase or redeem the transferred financial assets from the assessment of effective control. The guidance in this update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively. The adoption of this guidance in the first quarter of 2012 did not have a material impact on the Company s consolidated financial statements.

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

FDIC-Assisted Transactions

Since April 2010, the Company has acquired the banking operations, including the acquisition of certain assets and the assumption of liabilities, of seven financial institutions in FDIC-assisted transactions.

The following table presents details related to these transactions:

(Dollars in thousands)	Lincoln Park	Wheatland	Ravenswood	Community First Bank - Chicago	The Bank of Commerce	First Chicago	Charter National
Date of acquisition	April 23, 2010	April 23, 2010	August 6, 2010	February 4, 2011	March 25, 2011	July 8, 2011	February 10, 2012
Fair value of assets acquired, at the acquisition date	$ 157,078	$ 343,870	$ 173,919	$ 50,891	$ 173,986	$ 768,873	$ 92,409
Fair value of loans acquired, at the acquisition date	103,420	175,277	97,956	27,332	77,887	330,203	45,555
Fair value of liabilities assumed, at the acquisition date	192,018	415,560	122,943	49,779	168,472	741,508	91,570

Loans comprise the majority of the assets acquired in these 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, the loss share agreements with the FDIC require the Company to reimburse the FDIC in the event that actual losses on covered assets are lower than the original loss estimates agreed upon with the FDIC with respect of such assets in the loss share agreements. The Company refers to the loans subject to 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. On February 10, 2012, the Company announced that its wholly-owned subsidiary bank, Barrington Bank, acquired certain assets and liabilities and the banking operations of Charter National Bank and Trust (Charter National) in an FDIC-assisted transaction. At the acquisition date, the Company estimated the fair value of the reimbursable losses to be approximately $13.2 million. In 2011, the Company estimated the fair value of the reimbursable losses to be approximately $273.3 million for the First Chicago Bank & Trust (First Chicago) acquisition, $48.9 million for The Bank of Commerce (TBOC) acquisition and $6.7 million for the Community First Bank-Chicago (CFBC) acquisition, at their respective acquisition dates. For the three acquisitions subject to loss share agreements in 2010, the Company estimated the fair value of the reimbursable losses to be approximately $44.0 million for the Ravenswood Bank (Ravenswood) acquisition, and $113.8 million for the Lincoln Park Savings Bank (Lincoln Park) and Wheatland Bank (Wheatland) acquisitions. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of covered asset losses.

The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as an FDIC indemnification asset 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. 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 Charter National acquisition resulted in bargain purchase gain of approximately $840,000. The 2011 transactions resulted in bargain purchase gains of a total of $38.0 million, including $27.4 million for First Chicago, $8.6 million for TBOC and $2.0 million for CFBC, and are shown as a component of non-interest income on the Company s Consolidated Statements of Income. In 2010, FDIC-assisted transactions resulted in bargain purchase gains of a total of $33.3 million, including $6.8 million for Ravenswood, $22.3 million for Wheatland, and $4.2 million for Lincoln Park.

As stated above, in conjunction with FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. These agreements cover realized losses on loans, foreclosed real estate and certain other assets. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets are also separately measured from the related loans and foreclosed real estate and recorded as FDIC indemnification assets on the Consolidated Statements of Condition. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the 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. Although these assets are contractual receivables from the FDIC, there are no contractual interest rates. Additions to expected losses will require an increase to the allowance for loan losses and a corresponding increase to the FDIC indemnification assets. The corresponding accretion 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 asset during the periods indicated:

	Three Months Ended	
(Dollars in thousands)	**March 31, 2012**	March 31, 2011
Balance at beginning of period	**$ 344,251**	$ 118,182
Additions	**20,028**	51,159
Accretion	**(1,576)**	359
Changes in expected reimbursements from the FDIC for changes in expected credit losses	**(17,213)**	(9,406)
Payments received from the FDIC	**(82,278)**	(35,509)
Balance at end of period	**$ 263,212**	$ 124,785

Other Bank Acquisitions 2011

On September 30, 2011, the Company acquired Elgin State Bancorp, Inc. (ESBI). ESBI was the parent company of Elgin State Bank, which operated three banking locations in Elgin, Illinois. As part of this transaction, Elgin State Bank was merged into the Company s wholly-owned subsidiary bank, St. Charles Bank & Trust Company (St. Charles). St. Charles acquired assets with a fair value of approximately $263.2 million, including $146.7 million of loans, and assumed liabilities with a fair value of approximately $248.4 million, including $241.1 million of deposits. Additionally, the Company recorded goodwill of $5.0 million on the acquisition.

Wealth Management Acquisitions

On March 30, 2012, the Company s wholly-owned subsidiary, The Chicago Trust Company, N.A. (CTC), completed its previously announced acquisition of the trust operations of Suburban Bank & Trust Company (Suburban). Through this transaction, CTC acquired trust accounts having assets under administration of approximately $160 million, in addition to land trust accounts. The Company recorded goodwill of $1.8 million on the acquisition. Certain purchase price allocations for the trust operations of Suburban are preliminary. The final allocation is not expected to result in material changes.

On July 1, 2011, the Company acquired Great Lakes Advisors, Inc. (Great Lakes Advisors), a Chicago-based investment manager with approximately $2.4 billion in assets under management. The Company acquired assets with a fair value of approximately $26.0 million and assumed liabilities with a fair value of approximately $8.8 million. The Company recorded goodwill of $15.7 million on the acquisition.

Mortgage Banking Acquisitions

On April 13, 2011, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of River City Mortgage, LLC (River City) of Bloomington, Minnesota. Licensed to originate loans in five states, and with offices in Minnesota, Nebraska and North Dakota, River City originated nearly $500 million in mortgage loans in 2010.

On February 3, 2011, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of Woodfield Planning Corporation (Woodfield) of Rolling Meadows, Illinois. With offices in Rolling Meadows, Illinois and Crystal Lake, Illinois, Woodfield originated approximately $180 million in mortgage loans in 2010.

Purchased loans with evidence of credit quality deterioration since origination

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

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

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

See Note 6 Loans, for more information on loans acquired with evidence of credit quality deterioration since origination.

(4) Cash and Cash Equivalents

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

Table of Contents

(5) Available-for-sale Securities

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

	March 31, 2012			
(Dollars in thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
U.S. Treasury	$ 23,063	$ 128	$ (2)	$ 23,189
U.S. Government agencies	682,847	4,082	(4,149)	682,780
Municipal	67,970	1,963	(18)	69,915
Corporate notes and other:				
Financial issuers	148,492	2,569	(9,044)	142,017
Other	26,475	329	(5)	26,799
Mortgage-backed: (1)				
Agency	846,380	11,866	(806)	857,440
Non-agency CMOs	28,423	286	(1)	28,708
Other equity securities	42,664	111	(4,279)	38,496
Total available-for-sale securities	$ 1,866,314	$ 21,334	$ (18,304)	$ 1,869,344

	December 31, 2011			
(Dollars in thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
U.S. Treasury	$ 16,028	$ 145	$	$ 16,173
U.S. Government agencies	760,533	5,596	(213)	765,916
Municipal	57,962	2,159	(23)	60,098
Corporate notes and other:				
Financial issuers	149,229	1,914	(8,499)	142,644
Other	27,070	287	(65)	27,292
Mortgage-backed: (1)				
Agency	206,549	12,078	(15)	218,612
Non-agency CMOs	29,767	175	(3)	29,939
Other equity securities	37,595	48	(6,520)	31,123
Total available-for-sale securities	$ 1,284,733	$ 22,402	$ (15,338)	$ 1,291,797

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

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

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses

U.S. Treasury	$ 1,998	$ (2)	$	$	$ 1,998	$ (2)
U.S. Government agencies	349,222	(4,149)			349,222	(4,149)
Municipal	6,249	(18)			6,249	(18)
Corporate notes and other:						
Financial issuers	48,590	(4,654)	51,556	(4,390)	100,146	(9,044)
Other	1,085	(5)			1,085	(5)
Mortgage-backed:						
Agency	657,358	(806)			657,358	(806)
Non-agency CMOs	907	(1)			907	(1)
Other equity securities	26,121	(4,279)			26,121	(4,279)
Total	$ 1,091,530	$ (13,914)	$ 51,556	$ (4,390)	$ 1,143,086	$ (18,304)

Table of Contents

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 March 31, 2012 to be other-than-temporarily impaired. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Securities with continuous unrealized losses existing for more than twelve months were primarily corporate securities of financial issuers. The corporate securities of financial issuers in this category were comprised of four fixed-to-floating rate bonds and three trust-preferred securities, all of which continue to be considered investment grade. Additionally, a review of the issuers indicated that they each have strong capital ratios.

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

	Three Months Ended March 31,	
(Dollars in thousands)	**2012**	2011
Realized gains	**$ 828**	$ 106
Realized losses	**(12)**	
Net realized gains	**$ 816**	$ 106
Other than temporary impairment charges		
Gains on available- for-sale securities, net	**$ 816**	$ 106
Proceeds from sales of available-for-sale securities	**$ 737,369**	$ 50,142

The amortized cost and fair value of securities as of March 31, 2012 and December 31, 2011, by contractual maturity, are shown in the following table. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Mortgage-backed securities are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties:

	March 31, 2012		December 31, 2011	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Due in one year or less	**$ 79,980**	**$ 80,351**	$ 121,400	$ 121,662
Due in one to five years	**496,724**	**494,391**	532,828	530,632
Due in five to ten years	**106,545**	**105,856**	95,279	95,508
Due after ten years	**265,598**	**264,102**	261,315	264,321
Mortgage-backed	**874,803**	**886,148**	236,316	248,551
Other equity securities	**42,664**	**38,496**	37,595	31,123
Total available-for-sale securities	**$ 1,866,314**	**$ 1,869,344**	$ 1,284,733	$ 1,291,797

At March 31, 2012 and December 31, 2011, securities having a carrying value of $1.1 billion, which include securities traded but not yet settled, were pledged as collateral for public deposits, trust deposits, FHLB advances, securities sold under repurchase agreements and derivatives. At March 31, 2012, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders equity.

11

Table of Contents

(6) Loans

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

(Dollars in thousands)	**March 31, 2012**	December 31, 2011	March 31, 2011
Balance:			
Commercial	**$ 2,544,456**	$ 2,498,313	$ 1,937,561
Commercial real-estate	**3,585,760**	3,514,261	3,356,562
Home equity	**840,364**	862,345	891,332
Residential real-estate	**361,327**	350,289	344,909
Premium finance receivables - commercial	**1,512,630**	1,412,454	1,337,851
Premium finance receivables - life insurance	**1,693,763**	1,695,225	1,539,521
Indirect consumer	**67,445**	64,545	52,379
Consumer and other	**111,639**	123,945	101,687
Total loans, net of unearned income, excluding covered loans	**$ 10,717,384**	$ 10,521,377	$ 9,561,802
Covered loans	**691,220**	651,368	431,299
Total loans	**$ 11,408,604**	$ 11,172,745	$ 9,993,101
Mix:			
Commercial	**22%**	22%	19%
Commercial real-estate	**32**	31	34
Home equity	**7**	8	9
Residential real-estate	**3**	3	4
Premium finance receivables - commercial	**13**	13	13
Premium finance receivables - life insurance	**15**	15	15
Indirect consumer	**1**	1	1
Consumer and other	**1**	1	1
Total loans, net of unearned income, excluding covered loans	**94%**	94%	96%
Covered loans	**6**	6	4
Total loans	**100%**	100%	100%

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were $36.8 million at March 31, 2012, and $34.6 million at December 31, 2011 and at March 31, 2011, respectively. Certain life insurance premium finance receivables attributable to the life insurance premium finance loan acquisition in 2009 as well as the covered loans acquired in the FDIC-assisted acquisitions starting in 2010 are recorded net of credit discounts. See Acquired Loan Information at Acquisition below.

Indirect consumer loans include auto, boat and other indirect consumer loans. Total loans, excluding loans acquired with evidence of credit quality deterioration since origination, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $12.6 million at March 31, 2012, $12.8 million at December 31, 2011 and $11.5 million at March 31, 2011.

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

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

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

As part of our acquisition of a portfolio of life insurance premium finance loans in 2009 as well as the bank acquisitions starting in 2010, we acquired loans for which there was evidence of credit quality deterioration since origination and we determined that it was probable that the Company would be unable to collect all contractually required principal and interest payments.

Table of Contents

The following table presents the unpaid principal balance and carrying value for loans acquired with evidence of credit quality deterioration since origination:

	March 31, 2012		December 31, 2011	
(Dollars in thousands)	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
Bank acquisitions	**849,194**	**622,859**	866,874	596,946
Life insurance premium finance loans acquisition	**590,152**	**560,404**	632,878	598,463

For loans acquired with evidence of credit quality deterioration since origination as a result of acquisitions during the three months ended March 31, 2012, the following table provides estimated details on these loans at the date of acquisition:

(Dollars in thousands)	Charter National
Contractually required payments including interest	$ 40,475
Less: Nonaccretable difference	11,855
Cash flows expected to be collected [(1)]	28,620
Less: Accretable yield	2,288
Fair value of loans acquired with evidence of credit quality deterioration since origination	$ 26,332

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

See Note 7 Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for further discussion regarding the allowance for loan losses associated with loans acquired with evidence of credit quality deterioration since origination at March 31, 2012.

Accretable Yield Activity

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

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
(Dollars in thousands)	Bank Acquisitions	Life Insurance Premium Finance Loans	Bank Acquisitions	Life Insurance Premium Finance Loans
Accretable yield, beginning balance	**$ 173,120**	**$ 18,861**	$ 39,809	$ 33,315
Acquisitions	**2,288**		7,107	
Accretable yield amortized to interest income	**(14,892)**	**(3,737)**	(7,072)	(9,052)
Accretable yield amortized to indemnification asset [(1)]	**(21,377)**		(7,087)	
Reclassification from non-accretable difference [(2)]	**41,601**		48,844	184

Increases in interest cash flows due to payments and changes in interest rates	**1,482**	**724**	9,731	1,096
Accretable yield, ending balance	**$ 182,222**	**$ 15,848**	$ 91,332	$ 25,543

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

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

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 March 31, 2012, December 31, 2011 and March 31, 2011:

As of March 31, 2012 (Dollars in thousands)	**Nonaccrual**	**90+ days and still accruing**	**60-89 days past due**	**30-59 days past due**	**Current**	**Total Loans**
Loan Balances:						
Commercial						
Commercial and industrial	$ 17,392	$	$ 9,210	$ 24,634	$ 1,454,783	$ 1,506,019
Franchise	1,792			100	167,385	169,277
Mortgage warehouse lines of credit					136,438	136,438
Community Advantage - homeowners association					75,786	75,786
Aircraft	260		428	1,189	18,014	19,891
Asset-based lending	391		926	970	472,524	474,811
Municipal					76,885	76,885
Leases				11	77,660	77,671
Other					1,733	1,733
Purchased non-covered commercial (1)		424	1,063		4,458	5,945
Total commercial	19,835	424	11,627	26,904	2,485,666	2,544,456
Commercial real-estate:						
Residential construction	1,807			4,469	49,835	56,111
Commercial construction	2,389		3,100		159,230	164,719
Land	25,306		6,606	6,833	145,297	184,042
Office	8,534		4,310	5,471	542,393	560,708
Industrial	1,864		6,683	10,101	572,255	590,903
Retail	7,323	73		8,797	511,884	528,077
Multi-family	3,708		1,496	4,691	315,043	324,938
Mixed use and other	11,773		17,745	30,689	1,063,733	1,123,940
Purchased non-covered commercial real-estate (1)		2,959	301	1,601	47,461	52,322
Total commercial real-estate	62,704	3,032	40,241	72,652	3,407,131	3,585,760
Home equity	12,881		2,049	6,576	818,858	840,364
Residential real estate	5,329		453	13,530	341,358	360,670
Purchased non-covered residential real estate (1)					657	657
Premium finance receivables						
Commercial insurance loans	7,650	4,619	3,360	17,612	1,479,389	1,512,630
Life insurance loans				389	1,132,970	1,133,359
Purchased life insurance loans (1)					560,404	560,404
Indirect consumer	152	257	53	317	66,666	67,445
Consumer and other	121		20	1,601	109,723	111,465
Purchased non-covered consumer and other (1)					174	174
Total loans, net of unearned income, excluding covered loans	$ 108,672	$ 8,332	$ 57,803	$ 139,581	$ 10,402,996	$ 10,717,384
Covered loans		182,011	20,254	28,249	460,706	691,220
Total loans, net of unearned income	$ 108,672	$ 190,343	$ 78,057	$ 167,830	$ 10,863,702	$ 11,408,604

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

As of December 31, 2011 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$ 16,154	$	$ 7,496	$ 15,797	$ 1,411,004	$ 1,450,451
Franchise	1,792				140,983	142,775
Mortgage warehouse lines of credit					180,450	180,450
Community Advantage - homeowners association					77,504	77,504
Aircraft			709	170	19,518	20,397
Asset-based lending	1,072		749	11,026	452,890	465,737
Municipal					78,319	78,319
Leases				431	71,703	72,134
Other					2,125	2,125
Purchased non-covered commercial (1)		589	74		7,758	8,421
Total commercial	19,018	589	9,028	27,424	2,442,254	2,498,313
Commercial real-estate						
Residential construction	1,993		4,982	1,721	57,115	65,811
Commercial construction	2,158			150	167,568	169,876
Land	31,547		4,100	6,772	136,112	178,531
Office	10,614		2,622	930	540,280	554,446
Industrial	2,002		508	4,863	548,429	555,802
Retail	5,366		5,268	8,651	517,444	536,729
Multi-family	4,736		3,880	347	305,594	314,557
Mixed use and other	8,092		7,163	20,814	1,050,585	1,086,654
Purchased non-covered commercial real-estate (1)		2,198		252	49,405	51,855
Total commercial real-estate	66,508	2,198	28,523	44,500	3,372,532	3,514,261
Home equity	14,164		1,351	3,262	843,568	862,345
Residential real estate	6,619		2,343	3,112	337,522	349,596
Purchased non-covered residential real estate (1)					693	693
Premium finance receivables						
Commercial insurance loans	7,755	5,281	3,850	13,787	1,381,781	1,412,454
Life insurance loans	54			423	1,096,285	1,096,762
Purchased life insurance loans (1)					598,463	598,463
Indirect consumer	138	314	113	551	63,429	64,545
Consumer and other	233		170	1,070	122,393	123,866
Purchased non-covered consumer and other (1)				2	77	79
Total loans, net of unearned income, excluding covered loans	$ 114,489	$ 8,382	$ 45,378	$ 94,131	$ 10,258,997	$ 10,521,377
Covered loans		174,727	25,507	24,799	426,335	651,368
Total loans, net of unearned income	$ 114,489	$ 183,109	$ 70,885	$ 118,930	$ 10,685,332	$ 11,172,745

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

Table of Contents

As of March 31, 2011 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$ 24,277	$ 150	$ 3,233	$ 9,201	$ 1,240,796	$ 1,277,657
Franchise	1,792				112,584	114,376
Mortgage warehouse lines of credit					33,482	33,482
Community Advantage - homeowners association					75,948	75,948
Aircraft	74				22,243	22,317
Asset-based lending			216	2,355	299,328	301,899
Municipal					60,376	60,376
Leases	14			88	51,404	51,506
Other						
Purchased non-covered commercial (1)						
Total commercial	26,157	150	3,449	11,644	1,896,161	1,937,561
Commercial real-estate						
Residential construction	7,891		1,057	3,587	78,832	91,367
Commercial construction	1,396	692	2,469	680	116,311	121,548
Land	26,974		7,366	12,455	183,419	230,214
Office	17,945		1,705	3,059	534,558	557,267
Industrial	1,251	524	1,672	8,499	483,690	495,636
Retail	12,824		4,994	5,810	499,486	523,114
Multi-family	5,968		1,107	5,059	281,729	293,863
Mixed use and other	19,752	781	7,187	19,835	995,998	1,043,553
Purchased non-covered commercial real-estate (1)						
Total commercial real-estate	94,001	1,997	27,557	58,984	3,174,023	3,356,562
Home equity	11,184		3,366	6,603	870,179	891,332
Residential real estate	4,909		918	5,174	333,908	344,909
Purchased non-covered residential real estate (1)						
Premium finance receivables						
Commercial insurance loans	9,550	6,319	4,433	14,428	1,303,121	1,337,851
Life insurance loans	342		1,130	5,580	857,393	864,445
Purchased life insurance loans (1)					675,076	675,076
Indirect consumer	320	310	182	657	50,910	52,379
Consumer and other	147	1	185	394	100,960	101,687
Purchased non-covered consumer and other (1)						
Total loans, net of unearned income, excluding covered loans	$ 146,610	$ 8,777	$ 41,220	$ 103,464	$ 9,261,731	$ 9,561,802
Covered loans		116,298	5,288	24,855	284,858	431,299
Total loans, net of unearned income	$ 146,610	$ 125,075	$ 46,508	$ 128,319	$ 9,546,589	$ 9,993,101

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

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

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

The Company s Problem Loan Reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the Company s Managed Asset Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company s Managed Asset Division, the credit risk rating is reviewed and a

Table of Contents

portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company s impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company s Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.

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

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

Non-performing loans include all non-accrual loans (8 and 9 risk ratings) as well as loans 90 days past due and still accruing interest, excluding loans acquired with evidence of credit quality deterioration since origination. The remainder of the portfolio not classified as non-performing are 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 March 31, 2012, December 31, 2011, and March 31, 2011:

	Performing			**Non-performing**			**Total**		
(Dollars in thousands)	**March 31, 2012**	December 31, 2011	March 31, 2011	**March 31, 2012**	December 31, 2011	March 31, 2011	**March 31, 2012**	December 31, 2011	March 31, 2011
Loan Balances:									
Commercial									
Commercial and industrial	**$ 1,488,627**	$ 1,434,297	$ 1,253,230	**$ 17,392**	$ 16,154	$ 24,427	**$ 1,506,019**	$ 1,450,451	$ 1,277,657
Franchise	**167,485**	140,983	112,584	**1,792**	1,792	1,792	**169,277**	142,775	114,376
Mortgage warehouse lines of credit	**136,438**	180,450	33,482				**136,438**	180,450	33,482
Community Advantage - homeowners association	**75,786**	77,504	75,948				**75,786**	77,504	75,948
Aircraft	**19,631**	20,397	22,243	**260**		74	**19,891**	20,397	22,317
Asset-based lending	**474,420**	464,665	301,899	**391**	1,072		**474,811**	465,737	301,899
Municipal	**76,885**	78,319	60,376				**76,885**	78,319	60,376
Leases	**77,671**	72,134	51,492			14	**77,671**	72,134	51,506
Other	**1,733**	2,125					**1,733**	2,125	
Purchased non-covered commercial [(1)]	**5,945**	8,421					**5,945**	8,421	
Total commercial	**2,524,621**	2,479,295	1,911,254	**19,835**	19,018	26,307	**2,544,456**	2,498,313	1,937,561
Commercial real-estate									
Residential construction	**54,304**	63,818	83,476	**1,807**	1,993	7,891	**56,111**	65,811	91,367
Commercial construction	**162,330**	167,718	119,460	**2,389**	2,158	2,088	**164,719**	169,876	121,548
Land	**158,736**	146,984	203,240	**25,306**	31,547	26,974	**184,042**	178,531	230,214
Office	**552,174**	543,832	539,322	**8,534**	10,614	17,945	**560,708**	554,446	557,267
Industrial	**589,039**	553,800	493,861	**1,864**	2,002	1,775	**590,903**	555,802	495,636
Retail	**520,681**	531,363	510,290	**7,396**	5,366	12,824	**528,077**	536,729	523,114

Multi-family	**321,230**	309,821	287,895	**3,708**	4,736	5,968	**324,938**	314,557	293,863
Mixed use and other	**1,112,167**	1,078,562	1,023,020	**11,773**	8,092	20,533	**1,123,940**	1,086,654	1,043,553
Purchased non-covered commercial real-estate (1)	**52,322**	51,855					**52,322**	51,855	
Total commercial real-estate	**3,522,983**	3,447,753	3,260,564	**62,777**	66,508	95,998	**3,585,760**	3,514,261	3,356,562
Home equity	**827,483**	848,181	880,148	**12,881**	14,164	11,184	**840,364**	862,345	891,332
Residential real estate	**355,341**	342,977	340,000	**5,329**	6,619	4,909	**360,670**	349,596	344,909
Purchased non-covered residential real estate (1)	**657**	693					**657**	693	
Premium finance receivables									
Commercial insurance loans	**1,500,361**	1,399,418	1,321,982	**12,269**	13,036	15,869	**1,512,630**	1,412,454	1,337,851
Life insurance loans	**1,133,359**	1,096,708	864,103		54	342	**1,133,359**	1,096,762	864,445
Purchased life insurance loans (1)	**560,404**	598,463	675,076				**560,404**	598,463	675,076
Indirect consumer	**67,036**	64,093	51,749	**409**	452	630	**67,445**	64,545	52,379
Consumer and other	**111,344**	123,633	101,539	**121**	233	148	**111,465**	123,866	101,687
Purchased non-covered consumer and other (1)	**174**	79					**174**	79	
Total loans, net of unearned income, excluding covered loans	**$ 10,603,763**	$ 10,401,293	$ 9,406,415	**$ 113,621**	$ 120,084	$ 155,387	**$ 10,717,384**	$ 10,521,377	$ 9,561,802

(1) Purchased loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30.

Table of Contents

A summary of activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the three months ended March 31, 2012 and 2011 is as follows:

Three Months Ended March 31, 2012	2,509,353	2,509,353	2,509,353	2,509,353	2,509,353	2,509,353	2,509,353	2,509,353
(Dollars in thousands)	**Commercial**	**Commercial Real-estate**	**Home Equity**	**Residential Real-estate**	**Premium Finance Receivable**	**Indirect Consumer**	**Consumer and Other**	**Total, Excluding Covered Loans**
Allowance for credit losses								
Allowance for loan losses at beginning of period	**$ 31,237**	**$ 56,405**	**$ 7,712**	**$ 5,028**	**$ 7,214**	**$ 645**	**$ 2,140**	**$ 110,381**
Other adjustments	**$ (3)**	**$ (222)**	**$ 1**	**$ (14)**	**$**	**$**	**$**	**(238)**
Reclassification to/from allowance for unfunded lending-related commitments	**45**	**107**						**152**
Charge-offs	**(3,262)**	**(8,229)**	**(2,590)**	**(175)**	**(850)**	**(51)**	**(310)**	**(15,467)**
Recoveries	**257**	**131**	**162**	**2**	**298**	**30**	**161**	**1,041**
Provision for credit losses	**4,945**	**5,760**	**2,635**	**710**	**1,446**	**19**	**(361)**	**15,154**
Allowance for loan losses at period end	**$ 33,219**	**$ 53,952**	**$ 7,920**	**$ 5,551**	**$ 8,108**	**$ 643**	**$ 1,630**	**$ 111,023**
Allowance for unfunded lending-related commitments at period end	**$**	**$ 13,078**	**$**	**$**	**$**	**$**	**$**	**$ 13,078**
Allowance for credit losses at period end	**$ 33,219**	**$ 67,030**	**$ 7,920**	**$ 5,551**	**$ 8,108**	**$ 643**	**$ 1,630**	**$ 124,101**
Individually evaluated for impairment	**3,705**	**25,336**	**3,056**	**1,362**		**7**	**1**	**33,467**
Collectively evaluated for impairment	**29,514**	**41,694**	**4,864**	**4,189**	**8,108**	**636**	**1,629**	**90,634**
Loans acquired with deteriorated credit quality								
Loans at period end								
Individually evaluated for impairment	**$ 29,158**	**$ 197,221**	**$ 14,495**	**$ 10,791**	**$**	**$ 77**	**$ 221**	**$ 251,963**
Collectively evaluated for impairment	**2,509,353**	**3,336,217**	**825,869**	**349,879**	**2,645,989**	**67,368**	**111,244**	**9,845,919**
Loans acquired with deteriorated credit quality	**5,945**	**52,322**		**657**	**560,404**		**174**	**619,502**

Three Months Ended March 31, 2011 (Dollars in thousands)	$2,509,353 Commercial	$2,509,353 Commercial Real-estate	$2,509,353 Home Equity	$2,509,353 Residential Real-estate	$2,509,353 Premium Finance Receivable	$2,509,353 Indirect Consumer	$2,509,353 Consumer and Other	$2,509,353 Total, Excluding Covered Loans
Allowance for credit losses								
Allowance for loan losses at beginning of period	$ 31,777	$ 62,618	$ 6,213	$ 5,107	$ 6,319	$ 526	$ 1,343	$ 113,903
Reclassification to/from allowance for unfunded lending-related commitments		2,116						2,116
Charge-offs	(9,140)	(13,342)	(773)	(1,275)	(1,537)	(120)	(160)	(26,347)
Recoveries	266	338	8	2	268	66	53	1,001
Provision for credit losses	5,203	14,390	1,018	1,884	1,640	85	156	24,376
Allowance for loan losses at period end	$ 28,106	$ 66,120	$ 6,466	$ 5,718	$ 6,690	$ 557	$ 1,392	$ 115,049
Allowance for unfunded lending-related commitments at period end	$	$ 2,018	$	$	$	$	$	$ 2,018
Allowance for credit losses at period end	$ 28,106	$ 68,138	$ 6,466	$ 5,718	$ 6,690	$ 557	$ 1,392	$ 117,067