FreightCar America, Inc.
Form 4
May 15, 2017

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
SCHMITT ANDREW B

(Last) (First) (Middle)

TWO NORTH RIVERSIDE PLAZA SUITE 1300

(Street)

CHICAGO, IL 60606

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FreightCar America, Inc. [RAIL]

3. Date of Earliest Transaction (Month/Day/Year)
05/11/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/11/2017		A (1)		3,170	A	$ 0 (2)	15,230	D	
Common Stock								40,000 (3)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCHMITT ANDREW B TWO NORTH RIVERSIDE PLAZA SUITE 1300 CHICAGO, IL 60606	X			

Signatures

/s/ Georgia L. Vlamis, as attorney in fact	05/15/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Exempt issuance of restricted shares under Rule 16(b)-3 pursuant to the Issuer's 2005 Long Term Incentive Plan.

(2) The restricted shares were granted pursuant to the Issuer's 2005 Long Term Incentive Plan, for which no consideration was paid by the recipient. The restricted shares represent shares granted as part of the annual retainer for serving as director of the Issuer. The shares will vest at the close of business on the earlier of (i) May 11, 2018 or (ii) the last trading day before the date of the Company's 2018 annual meeting of shareholders.

(3) These shares are held in the Andrew B & Margaret Anne Schmitt Community Property Trust for which the reporting person and his spouse are the settlors, trustees and beneficiaries.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Office

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Mixed use and other

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Explanation of Responses:

—

—

—

—

—

—

—

—

Residential real estate and other

20

3,679

20

3,679

7

621

—

—

—

Explanation of Responses:

—

Total loans

22

$
4,233

22

$
4,233

7

$
621

—

$
—

—

$
—

(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.

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Three months ended September 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	3	$ 1,408	—	$ —	—	$ —	3	$ 1,408	—	$ —
Franchise	—	—	—	—	—	—	—	—	—	—
Leases	—	—	—	—	—	—	—	—	—	—
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Mixed use and other	—	—	—	—	—	—	—	—	—	—
Residential real estate and other	2	255	1	186	2	255	—	—	1	69
Total loans	5	$ 1,663	1	$ 186	2	$ 255	3	$ 1,408	1	$ 69

(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 September 30, 2018, 22 loans totaling $4.2 million were determined to be TDRs, compared to five loans totaling $1.7 million during the three months ended September 30, 2017. Of these loans extended at below market terms, the weighted average extension had a term of approximately 72 months during the quarter ended September 30, 2018 compared to 36 months for the quarter ended September 30, 2017. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 140 basis points and 225 basis points during the three months ended September 30, 2018 and 2017, respectively. Interest-only payment terms were approximately two months during the three months ended September 30, 2017. Additionally, no principal balances were forgiven in the third quarter of 2018 compared to $73,000 of principal balances forgiven in the third quarter of 2017.

Nine months ended September 30, 2018 (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	4	$13,442	3	$692	—	$ —	1	$ 12,750	—	$ —
Franchise	3	5,157	1	35	—	—	2	5,122	—	—
Leases	1	239	1	239	—	—	—	—	—	—
Commercial real estate										
Office	1	59	1	59	—	—	—	—	—	—
Mixed use and other	1	85	1	85	1	85	—	—	—	—
Residential real estate and other	31	5,846	31	5,846	12	1,417	—	—	—	—
Total loans	41	$24,828	38	$6,956	13	$ 1,502	3	$ 17,872	—	$ —

Nine months ended September 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	4	$ 1,503	1	$ 95	—	$ —	3	$ 1,408	—	$ —
Franchise	—	—	—	—	—	—	—	—	—	—
Leases	—	—	—	—	—	—	—	—	—	—
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Mixed use and other	1	1,245	1	1,245	—	—	—	—	—	—
Residential real estate and other	8	2,638	7	2,569	7	2,589	—	—	1	69
Total loans	13	$ 5,386	9	$ 3,909	7	$ 2,589	3	$ 1,408	1	$ 69

(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 nine months ended September 30, 2018, 41 loans totaling $24.8 million were determined to be TDRs, compared to 13 loans totaling $5.4 million in the same period of 2017. Of these loans extended at below market terms, the weighted average extension had a term of approximately 64 months during the nine months ended September 30, 2018 compared to 36 months for the nine months ended

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September 30, 2017. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 160 basis points and 188 basis points for the year-to-date periods September 30, 2018 and 2017, respectively. Interest-only payment terms were approximately seven months during the nine months ended September 30, 2018 compared to two months during the same period of 2017. Additionally, no principal balances were forgiven in the first nine months of 2018 compared to $73,000 of principal balances forgiven in the first nine months of 2017.

The following table presents a summary of all loans restructured in TDRs during the twelve months ended September 30, 2018 and 2017, and such loans which were in payment default under the restructured terms during the respective periods below:

(Dollars in thousands)	As of September 30, 2018		Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Total (1)(3)		Payments in Default (2)(3)		Payments in Default (2)(3)	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial, industrial and other	5	$15,714	3	$ 2,447	3	$ 2,447
Franchise	6	21,413	2	5,122	2	5,122
Leases	1	239	—	—	—	—
Commercial real estate						
Office	1	59	—	—	—	—
Industrial	—	—	—	—	—	—
Mixed use and other	1	85	1	85	1	85
Residential real estate and other	35	6,257	7	1,457	7	1,457
Total loans	49	$43,767	13	$ 9,111	13	$ 9,111

(Dollars in thousands)	As of September 30, 2017		Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Total (1)(3)		Payments in Default (2)(3)		Payments in Default (2)(3)	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial, industrial and other	4	$ 1,503	—	$ —	—	$ —
Franchise	—	—	—	—	—	—
Leases	2	2,949	—	—	—	—
Commercial real estate						
Office	—	—	—	—	—	—
Mixed use and other	1	1,245	1	1,245	1	1,245
Residential real estate and other	12	3,137	1	52	2	284
Total loans	19	$ 8,834	2	$ 1,297	3	$ 1,529

(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.

(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, 2018	Goodwill Acquired	Impairment Loss	Goodwill Adjustments	September 30, 2018
Community banking	$ 429,520	$ 36,307	$ —	$ —	$ 465,827
Specialty finance	40,250	—	—	(631)	39,619
Wealth management	32,114	—	—	—	32,114
Total	$ 501,884	$ 36,307	$ —	$ (631)	$ 537,560

The community banking segment's goodwill increased $36.3 million in the first nine months of 2018 primarily as a result of the acquisition of CSC and Veterans First. The specialty finance segment's goodwill decreased $631,000 in the first nine months of 2018 as a result of foreign currency translation adjustments related to the Canadian acquisitions.

At June 30, 2018, the Company utilized a qualitative approach for its annual goodwill impairment test of the community banking segment and determined that it is not more likely than not that an impairment existed at that time. At December 31, 2017, 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

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tests, the Company considers potential indicators of impairment. As of September 30, 2018, the Company identified no such indicators of goodwill impairment within the community banking, specialty finance and wealth management segments.

A summary of intangible assets as of the dates shown and the expected amortization of finite-lived intangible assets as of September 30, 2018 is as follows:

(Dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2017
Community banking segment:			
Core deposit intangibles with finite lives:			
Gross carrying amount	$ 44,395	$ 37,272	$ 37,272
Accumulated amortization	(28,142)	(25,427)	(24,550)
Net carrying amount	$ 16,253	$ 11,845	$ 12,722
Trademark with indefinite lives:			
Carrying amount	5,800	—	—
Total net carrying amount	$ 22,053	$ 11,845	$ 12,722
Specialty finance segment:			
Customer list intangibles with finite lives:			
Gross carrying amount	$ 1,967	$ 1,972	$ 1,972
Accumulated amortization	(1,407)	(1,298)	(1,258)
Net carrying amount	$ 560	$ 674	$ 714
Wealth management segment:			
Customer list and other intangibles with finite lives:			
Gross carrying amount	$ 7,940	$ 7,940	$ 7,940
Accumulated amortization	(3,175)	(2,838)	(2,725)
Net carrying amount	$ 4,765	$ 5,102	$ 5,215
Total other intangible assets, net	$ 27,378	$ 17,621	$ 18,651

Estimated amortization	
Actual in nine months ended September 30, 2018	$3,164
Estimated remaining in 2018	1,253
Estimated—2019	4,517
Estimated—2020	3,681
Estimated—2021	3,014
Estimated—2022	2,388

The core deposit intangibles recognized in connection with prior bank acquisitions are amortized over a ten-year period on an accelerated basis. The customer list intangibles recognized in connection with the purchase of life insurance premium finance assets in 2009 are being amortized over an 18-year period on an accelerated basis while the customer list intangibles recognized in connection with prior acquisitions within the wealth management segment are being amortized over a ten-year period on a straight-line basis. Indefinite-lived intangible assets consist of certain trade and domain names recognized in connection with the Veterans First acquisition. As indefinite-lived intangible assets are not amortized, the Company assesses impairment on at least an annual basis.

Total amortization expense associated with finite-lived intangibles totaled approximately $3.2 million and $3.4 million for the nine months ended September 30, 2018 and 2017, respectively.

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(9) Mortgage Servicing Rights ("MSRs")

The following is a summary of the changes in the carrying value of MSRs, accounted for at fair value, for the periods indicated:

(Dollars in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Balance at beginning of the period	$63,194	$27,307	$33,676	$19,103
Additions from loans sold with servicing retained	11,340	4,948	23,388	13,162
Additions from acquisitions	—	—	13,806	—
Estimate of changes in fair value due to:				
Payoffs and paydowns	(1,081)	(641)	(3,647)	(1,632)
Changes in valuation inputs or assumptions	1,077	(2,200)	7,307	(1,219)
Fair value at end of the period	$74,530	$29,414	$74,530	$29,414
Unpaid principal balance of mortgage loans serviced for others	$5,904,300	$2,622,411		

The Company recognizes MSR assets upon the sale of residential real estate loans to external third parties when it retains the obligation to service the loans and the servicing fee is more than adequate compensation. The initial recognition of MSR assets from loans sold with servicing retained and subsequent changes in fair value of all MSRs are recognized in mortgage banking revenue. MSRs are subject to changes in value from actual and expected prepayment of the underlying loans. The Company does not specifically hedge the value of its MSRs.

Fair values are determined by using a discounted cash flow model that incorporates the objective characteristics of the portfolio as well as subjective valuation parameters that purchasers of servicing would apply to such portfolios sold into the secondary market. The subjective factors include loan prepayment speeds, discount rates, servicing costs and other economic factors. The Company uses a third party to assist in the valuation of MSRs.

(10) Deposits

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

(Dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2017
Balance:			
Non-interest bearing	$6,399,213	$6,792,497	$6,502,409
NOW and interest bearing demand deposits	2,512,259	2,315,055	2,273,025
Wealth management deposits	2,520,120	2,323,699	2,171,758
Money market	5,429,921	4,515,353	4,607,995
Savings	2,595,164	2,829,373	2,673,201
Time certificates of deposit	5,460,038	4,407,370	4,666,675
Total deposits	$24,916,715	$23,183,347	$22,895,063
Mix:			
Non-interest bearing	26 %	29 %	28 %
NOW and interest bearing demand deposits	10	10	10
Wealth management deposits	10	10	10
Money market	22	20	20
Savings	10	12	12
Time certificates of deposit	22	19	20
Total deposits	100 %	100 %	100 %

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

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(11) 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)	September 30, 2018	December 31, 2017	September 30, 2017
FHLB advances	$ 615,000	$ 559,663	$ 468,962
Other borrowings:			
Notes payable	149,799	41,222	41,216
Short-term borrowings	17,431	17,209	19,959
Other	48,043	49,131	49,502
Secured borrowings	158,298	158,561	141,003
Total other borrowings	373,571	266,123	251,680
Subordinated notes	139,172	139,088	139,052
Total FHLB advances, other borrowings and subordinated notes	$ 1,127,743	$ 964,874	$ 859,694

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

On September 18, 2018, the Company established a $150.0 million term facility ("Term Facility"), which is part of a $200.0 million loan agreement ("Credit Agreement") with unaffiliated banks. The Credit Agreement consists of the Term Facility with an original outstanding balance of $150.0 million and a $50.0 million revolving credit facility ("Revolving Credit Facility"). At September 30, 2018, the Company had a notes payable balance of $149.8 million 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 September 18, 2018 and all such borrowings must be repaid by September 18, 2023. Beginning December 31, 2018, the Company is required to make quarterly payments of principal plus interest on the Term Facility. At September 30, 2018, 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.

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) 125 basis points (in the case of a borrowing under the Revolving Credit Facility) or 125 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 September 30, 2018, 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.

In connection with the establishment of the Credit Agreement, all outstanding notes payable under a $150.0 million loan agreement with unaffiliated banks dated December 15, 2014 (as subsequently amended) were paid in full. This loan agreement consisted of a term facility with an original outstanding balance of $75.0 million and a $75.0 million revolving credit facility. The Company had a balance under this loan agreement of $41.2 million at December 31, 2017 and $41.2 million at September 30, 2017.

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Short-term Borrowings

Short-term borrowings include securities sold under repurchase agreements and federal funds purchased. These borrowings totaled $17.4 million at September 30, 2018 compared to $17.2 million at December 31, 2017 and $20.0 million at September 30, 2017. At September 30, 2018, December 31, 2017 and September 30, 2017, securities sold under repurchase agreements represent $17.4 million, $17.2 million and $20.0 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 September 30, 2018, the Company had pledged securities related to its customer balances in sweep accounts of $35.9 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.

The following is a summary of these securities pledged as of September 30, 2018 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	$ 9,547
Held-to-maturity securities pledged	
U.S. Government agencies	26,364
Total collateral pledged	$ 35,911
Excess collateral	18,480
Securities sold under repurchase agreements	$ 17,431

Other Borrowings

Other borrowings at September 30, 2018 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 September 30, 2018, the Fixed-Rate Promissory Note had a balance of $48.0 million compared to $49.0 million at December 31, 2017 and $49.3 million at September 30, 2017. 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. The Fixed-Rate Promissory Note contains several restrictive covenants, including the maintenance of various capital adequacy levels, asset quality and profitability ratios, and certain restrictions on dividends and indebtedness. At September 30, 2018, the Company was in compliance with all such covenants. At September 30, 2018, there were no non-recourse notes related to certain capital leases, compared to $151,000 and $225,000 at December 31, 2017 and September 30, 2017, respectively.

Secured Borrowings

Secured borrowings at September 30, 2018 primarily represents transactions to sell an undivided co-ownership interest in all receivables owed to the Company's subsidiary, First Insurance Funding of Canada ("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. The Receivables Purchase Agreement was again amended in December 2017, effectively extending the maturity date from December 15, 2017 to December 16, 2019. Additionally, in December 2017, the unrelated third party paid an additional C$10 million, which increased the total payments to C$170 million. In June 2018, the unrelated third party paid an additional C$20 million, which increased the total payments to C$190 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 September 30, 2018, the translated balance of the secured borrowing totaled $147.2 million compared to $135.1 million at December 31, 2017 and $128.3 million at September 30, 2017. Additionally, the interest rate under the Receivables Purchase Agreement at September 30, 2018 was 2.7189%. The remaining $11.1 million within secured borrowings at September 30, 2018

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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 September 30, 2018, the Company had outstanding subordinated notes totaling $139.2 million compared to $139.1 million and $139.1 million outstanding at December 31, 2017 and September 30, 2017, 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.

(12) Junior Subordinated Debentures

As of September 30, 2018, the Company owned 100% of the common securities of eleven trusts, Wintrust Capital Trust III, Wintrust Statutory Trust IV, Wintrust Statutory Trust V, Wintrust Capital Trust VII, Wintrust Capital Trust VIII, Wintrust Capital Trust IX, Northview Capital Trust I, Town Bankshares Capital Trust I, First Northwest Capital Trust I, Suburban Illinois Capital Trust II, and Community Financial Shares Statutory Trust II (the "Trusts") set up to provide long-term financing. The Northview, Town, First Northwest, Suburban, and Community Financial Shares capital trusts were acquired as part of the acquisitions of Northview Financial Corporation, Town Bankshares, Ltd., First Northwest Bancorp, Inc., Suburban and CFIS, respectively. The Trusts were formed for purposes of issuing trust preferred securities to third-party investors and investing the proceeds from the issuance of the trust preferred securities and common securities solely in junior subordinated debentures issued by the Company (or assumed by the Company in connection with an acquisition), with the same maturities and interest rates as the trust preferred securities. The junior subordinated debentures are the sole assets of the Trusts. In each Trust, the common securities represent approximately 3% of the junior subordinated debentures and the trust preferred securities represent approximately 97% of the junior subordinated debentures.

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

The following table provides a summary of the Company's junior subordinated debentures as of September 30, 2018. 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 9/30/2018		Issue Date	Maturity Date	Earliest Redemption Date
Wintrust Capital Trust III	$ 774	$ 25,000	$ 25,774	L+3.25	5.59	%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	619	20,000	20,619	L+2.80	5.20	%	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	1,238	40,000	41,238	L+2.60	5.00	%	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	1,550	50,000	51,550	L+1.95	4.28	%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	1,238	25,000	26,238	L+1.45	3.85	%	08/2005	09/2035	09/2010
Wintrust Capital Trust IX	1,547	50,000	51,547	L+1.63	3.96	%	09/2006	09/2036	09/2011
Northview Capital Trust I	186	6,000	6,186	L+3.00	5.34	%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	186	6,000	6,186	L+3.00	5.34	%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	155	5,000	5,155	L+3.00	5.40	%	05/2004	05/2034	05/2009
Suburban Illinois Capital Trust II	464	15,000	15,464	L+1.75	4.08	%	12/2006	12/2036	12/2011

Community Financial Shares Statutory Trust II	109	3,500	3,609	L+1.62	3.95	%	06/2007	09/2037	06/2012
Total			$ 253,566		4.55	%			

The junior subordinated debentures totaled $253.6 million at September 30, 2018, December 31, 2017 and September 30, 2017.

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 September 30, 2018, the weighted average contractual interest rate on the junior subordinated debentures was 4.55%. 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.

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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.

At September 30, 2018, the Company included $245.5 million of the junior subordinated debentures, net of common securities, in Tier 2 regulatory capital.

(13) Revenue from Contracts with Customers

As of January 1, 2018, the Company adopted ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” and all subsequent updates issued to clarify and improve specific areas of ASU 2014-09. The Company elected to adopt the new guidance using the modified retrospective approach applied to all contracts as of the date of initial application at January 1, 2018. Under the modified retrospective approach, the Company recognized no cumulative effect adjustment to the opening balance of retained earnings at the date of initial application.

Disaggregation of Revenue

As certain significant revenue sources related to financial instruments such as interest income are considered not in-scope, ASU 2014-09 did not have a significant impact on the Company's consolidated financial statements. The following table presents revenue from contracts with customers, considered in-scope under ASU 2014-09, disaggregated by the revenue source:

(Dollars in thousands)		Three Months Ended		Nine Months Ended	
Revenue from contracts with customers	Location in income statement	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Brokerage and insurance product commissions	Wealth management	$5,579	$ 5,127	$17,394	$ 16,796
Trust	Wealth management	3,003	2,932	9,646	9,477
Asset management	Wealth management	14,052	11,744	41,197	33,583
Total wealth management		22,634	19,803	68,237	59,856
Mortgage broker fees	Mortgage banking	295	412	862	1,142
Service charges on deposit accounts	Service charges on deposit accounts	9,331	8,645	27,339	25,606
Administrative services	Other non-interest income	1,099	1,052	3,365	3,062
Card related fees	Other non-interest income	2,328	1,471	5,583	4,315
Other deposit related fees	Other non-interest income	3,035	3,032	8,927	8,243
Total revenue from contracts with customers		$38,722	$ 34,415	$114,313	$ 102,224

Wealth Management Revenue

Wealth management revenue is comprised of brokerage and insurance product commissions, managed money fees and trust and asset management revenue of the Company's three wealth management subsidiaries: Wintrust Investments, Great Lakes Advisors, LLC ("GLA") and The Chicago Trust Company, N.A. ("CTC"). All wealth management revenue is recognized in the wealth management segment.

Brokerage and insurance product commissions consists primarily of commissions earned from trade execution services on behalf of customers and from selling mutual funds, insurance and other investment products to customers. For trade execution services, the Company recognizes commissions and receives payment from the brokerage customers at the point of transaction execution. Commissions received from the investment or insurance product providers are recognized at the point of sale of the product. The

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Company also receives trail and other commissions from providers for certain plans. These are generally based on qualifying account values and are recognized once the performance obligation, specific to each provider, is satisfied on a monthly, quarterly or annual basis.

Trust revenue is earned from trust and custody services that are generally performed over time. Revenue is determined periodically based on a schedule of fees applied to the value of each customer account using a time-elapsed method to measure progress toward complete satisfaction of the performance obligation. Fees are typically billed on a calendar month or quarter basis in advance or in arrears depending upon the contract. Additional fees earned for certain extraordinary services performed on behalf of the customers are recognized when the service has been performed.

Asset management revenue is earned from money management and advisory services that are performed over time. Revenue is based primarily on the market value of assets under management or administration using a time-elapsed method to measure progress toward complete satisfaction of the performance obligation. Fees are typically billed on a calendar month or quarter basis in advance or in arrears depending upon the contract. Certain programs provide the customer with an option of paying fees as a percentage of the account value or incurring commission charges for each trade similar to brokerage and insurance product commissions. Trade commissions and any other fees received for additional services are recognized at a point in time once the performance obligation is satisfied.

Mortgage Broker Fees

For customers desiring a mortgage product not currently offered by the Company, the Company may refer such customers and, with permission, direct such customers' applications to certain third party mortgage brokers. Mortgage broker fees are received from these brokers for such customer referrals upon settlement of the underlying mortgage. The Company's entitlement to the consideration is contingent on the settlement of the mortgage which is highly susceptible to factors outside of the Company's influence, such as third party broker's underwriting requirements. Also, the uncertainty surrounding the consideration could be resolved in varying lengths of time, dependent upon the third party brokers. Therefore, mortgage broker fees are recognized at the settlement of the underlying mortgage when the consideration is received. Broker fees are recognized in the community banking segment.

Service Charges on Deposit Accounts

Service charges on deposit accounts include fees charged to deposit customers for various services, including account analysis services, and are based on factors such as the size and type of customer, type of product and number of transactions. The fees are based on a standard schedule of fees and, depending on the nature of the service performed, the service is performed at a point in time or over a period of a month. When the service is performed at a point in time, the Company recognizes and receives revenue when the service has been performed. When the service is performed over a period of a month, the Company recognizes and receives revenue in the month the service has been performed. Service charges on deposit accounts are recognized in the community banking segment.

Administrative Services

Administrative services revenue is earned from providing outsourced administrative services, such as data processing of payrolls, billing and cash management services, to temporary staffing service clients located throughout the United States. Fees are charged periodically (typically a payroll cycle) and computed in accordance with the contractually determined rate applied to the total gross billings administered for the period. The revenue is recognized over the period using a time-elapsed method to measure progress toward complete satisfaction of the performance obligation. Other fees are charged on a per occurrence basis as the service is provided in the billing cycle. The Company has certain contracts with customers to perform outsourced administrative services and short-term accounts receivable financing. For these contracts, the total fee is allocated between the administrative services revenue and interest income during the client onboarding process based on the specific client and services provided. Administrative services revenue is recognized in the specialty finance segment.

Card and Deposit Related Fees

Card related fees include interchange and merchant revenue, and fees related to debit and credit cards. Interchange revenue is related to the Company issued debit cards. Other deposit related fees primarily include pay by phone processing fees, ATM and safe deposit box fees, check order charges and foreign currency related fees. Card and deposit related fees are generally based on volume of transactions and are recognized at the point in time when the service has been performed. For any consideration that is constrained, the revenue is recognized once the uncertainty is known. Upfront fees received from certain contracts are recognized

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on a straight line basis over the term of the contract. Card and deposit related fees are recognized in the community banking segment.

Contract Balances

The following table provides information about contract assets, contract liabilities and receivables from contracts with customers:

(Dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2017
Contract assets	$ —	$ —	$ —
Contract liabilities	$ 1,429	$ 1,706	$ 1,799
Mortgage broker fees receivable	$ 9	$ 69	$ 69
Administrative services receivable	2,425	—	—
Wealth management receivable	7,779	8,102	7,443
Card related fees receivable	—	202	89
Total receivables from contracts with customer	$ 10,213	$ 8,373	$ 7,601

Contract liabilities represent upfront fees that the Company received at inception of certain contracts. The revenue recognized that was included in the contract liability balance at beginning of the period totaled $278,000 and $267,000 for the nine months ended September 30, 2018 and 2017, respectively. Receivables are recognized in the period the Company provides services when the Company's right to consideration is unconditional. Card related fee receivable is the result of volume based fee that the Company receives from a customer on an annual basis in the second quarter of each year. Payment terms on other invoiced amounts are typically 30 days or less. Contract liabilities and receivables from contracts with customers are included within the accrued interest payable and other liabilities and accrued interest receivable and other assets line items, respectively, in the Consolidated Statements of Condition.

Transaction price allocated to the remaining performance obligations

For contracts with an original expected length of more than one year, the following table presents the estimated future timing of recognition of upfront fees related to card and deposit related fees. These upfront fees represent performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

(Dollars in thousands)	
Estimated remaining in 2018	$92
Estimated—2019	369
Estimated—2020	369
Estimated—2021	303
Estimated—2022	153
Estimated—2023	143
Total	$1,429

Practical Expedients and Exemptions

The Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised service to a customer and when the customer pays for that services is one year or less.

The Company recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

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(14) 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 10 — 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 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 2017 Form 10-K. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment.

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

(Dollars in thousands)	Three months ended September 30, 2018	September 30, 2017	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	$202,435	$176,526	$25,909	15 %
Specialty Finance	36,398	30,501	5,897	19
Wealth Management	4,048	4,557	(509)	(11)
Total Operating Segments	242,881	211,584	31,297	15
Intersegment Eliminations	4,682	4,404	278	6
Consolidated net interest income	$247,563	$215,988	$31,575	15 %
Non-interest income:				
Community Banking	$69,776	$52,554	$17,222	33 %
Specialty Finance	16,963	16,315	648	4
Wealth Management	23,535	20,371	3,164	16
Total Operating Segments	110,274	89,240	21,034	24
Intersegment Eliminations	(10,344)	(9,509)	(835)	(9)
Consolidated non-interest income	$99,930	$79,731	$20,199	25 %
Net revenue:				
Community Banking	$272,211	$229,080	$43,131	19 %
Specialty Finance	53,361	46,816	6,545	14
Wealth Management	27,583	24,928	2,655	11
Total Operating Segments	353,155	300,824	52,331	17
Intersegment Eliminations	(5,662)	(5,105)	(557)	(11)
Consolidated net revenue	$347,493	$295,719	$51,774	18 %
Segment profit:				
Community Banking	$63,735	$44,799	$18,936	42 %
Specialty Finance	22,971	17,043	5,928	35
Wealth Management	5,242	3,784	1,458	39
Consolidated net income	$91,948	$65,626	$26,322	40 %
Segment assets:				
Community Banking	$24,590,027	$22,426,049	$2,163,978	10 %
Specialty Finance	4,897,664	4,305,960	591,704	14
Wealth Management	655,040	626,153	28,887	5
Consolidated total assets	$30,142,731	$27,358,162	$2,784,569	10 %

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(Dollars in thousands)	Nine months ended September 30, 2018	September 30, 2017	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	$583,926	$ 499,135	$ 84,791	17 %
Specialty Finance	100,104	85,871	14,233	17
Wealth Management	12,729	14,532	(1,803)	(12)
Total Operating Segments	696,759	599,538	97,221	16
Intersegment Eliminations	14,056	13,439	617	5
Consolidated net interest income	$710,815	$ 612,977	$ 97,838	16 %
Non-interest income:				
Community Banking	$192,028	$ 160,277	$ 31,751	20 %
Specialty Finance	49,005	44,192	4,813	11
Wealth Management	69,789	61,746	8,043	13
Total Operating Segments	310,822	266,215	44,607	17
Intersegment Eliminations	(29,980)	(27,747)	(2,233)	(8)
Consolidated non-interest income	$280,842	$ 238,468	$ 42,374	18 %
Net revenue:				
Community Banking	$775,954	$ 659,412	$ 116,542	18 %
Specialty Finance	149,109	130,063	19,046	15
Wealth Management	82,518	76,278	6,240	8
Total Operating Segments	1,007,581	865,753	141,828	16
Intersegment Eliminations	(15,924)	(14,308)	(1,616)	(11)
Consolidated net revenue	$991,657	$ 851,445	$ 140,212	16 %
Segment profit:				
Community Banking	$187,395	$ 128,502	$ 58,893	46 %
Specialty Finance	61,482	47,990	13,492	28
Wealth Management	14,632	12,409	2,223	18
Consolidated net income	$263,509	$ 188,901	$ 74,608	39 %

(15) 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 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.

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As of January 1, 2018, the Company elected to early adopt ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income in the same period and in the same income statement line as changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivative financial instruments accounted for as cash flow hedges 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 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 September 30, 2018, December 31, 2017 and September 30, 2017:

	Derivative Assets			Derivative Liabilities		
(Dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2017	September 30, 2018	December 31, 2017	September 30, 2017
Derivatives designated as hedging instruments under ASC 815:						
Interest rate derivatives designated as Cash Flow Hedges	$16,271	$ 11,914	$ 8,643	$—	$ 12	$ —
Interest rate derivatives designated as Fair Value Hedges	5,126	2,932	2,036	—	—	53
Total derivatives designated as hedging instruments under ASC 815	$21,397	$ 14,846	$ 10,679	$—	$ 12	$ 53
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate derivatives	$69,865	$ 34,139	$ 34,489	$69,342	$ 33,704	$ 33,982
Interest rate lock commitments	4,128	2,843	2,851	—	269	1
Forward commitments to sell mortgage loans	12	14	19	1,330	1,457	1,495
Foreign exchange contracts	751	227	160	709	229	242
Total derivatives not designated as hedging instruments under ASC 815	$74,756	$ 37,223	$ 37,519	$71,381	$ 35,659	$ 35,720
Total Derivatives	$96,153	$ 52,069	$ 48,198	$71,381	$ 35,671	$ 35,773

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 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 collars designated as cash flow hedges involve the receipt of amounts in which the interest rate specified in the contract exceeds the agreed upon cap strike price or the payment of amounts in which the interest rate specified in the contract is below the agreed upon floor strike price at the end of each period.

As of September 30, 2018, the Company had eight interest rate swap derivatives designated as cash flow hedges of variable rate deposits and one interest rate collar derivative designated as a cash flow hedge of variable rate debt. When the relationship between the hedged item and hedging instrument is highly effective at achieving offsetting changes in cash flows attributable to the hedged risk, changes in the fair value of these cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified to interest expense as interest payments are made on such variable rate deposits. The changes in fair value (net of tax) are separately disclosed in the Consolidated Statements of Comprehensive Income.

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The table below provides details on each of these cash flow hedges as of September 30, 2018:

	September 30, 2018	
(Dollars in thousands)	Notional	Fair Value
Maturity Date	Amount	Asset (Liability)
Interest Rate Swaps:		
June 2019	$200,000	$ 1,445
July 2019	250,000	3,275
August 2019	275,000	4,399
January 2020	175,000	1,554
January 2020	25,000	222
April 2020	50,000	317
April 2020	200,000	1,267
June 2020	200,000	3,741
Interest Rate Collars:		
September 2023	150,000	51
Total Cash Flow Hedges	$1,525,000	$ 16,271

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

	Three months ended		Nine months ended	
(Dollars in thousands)	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Unrealized gain at beginning of period	$16,059	$ 8,249	$11,902	$ 6,944
Amount reclassified from accumulated other comprehensive loss to interest expense on deposits and junior subordinated debentures	(2,319)	14	(4,338)	1,051
Amount of gain recognized in other comprehensive income	2,531	380	8,707	648
Unrealized gain at end of period	$16,271	$ 8,643	$16,271	$ 8,643

As of September 30, 2018, the Company estimates that during the next twelve months $14.2 million will be reclassified from accumulated other comprehensive gain (loss) as a reduction 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 September 30, 2018, the Company has twelve interest rate swaps with an aggregate notional amount of $164.2 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. Two of these interest rate swaps with an aggregate notional amount of $55.3 million were effective starting after September 30, 2018.

For derivatives designated and that qualify as fair value hedges, the net gain or loss from the entire change in the fair value of the derivative instrument is recognized in the same income statement line item as the earnings effect, including the net gain or loss, of the hedged item (interest income earned on fixed rate loans) when the hedged item affects earnings.

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The following table presents the carrying amount of the hedged assets/(liabilities) and the cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged assets/(liabilities) that are designated as a fair value hedge accounting relationship as of September 30, 2018:

		September 30, 2018		
(Dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location in the Statement of Condition	Carrying Amount of the Hedged Assets/(Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Remaining for any Hedged Assets (Liabilities) for which Hedge Accounting has been Discontinued
Interest rate swaps	Loans, net of unearned income, excluding covered loans	$129,496	$ (5,082)	$ —

The following table presents the loss or gain recognized related to derivative instruments that are designated as fair value hedges for the respective periods:

(Dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location of (Loss)/Gain Recognized in Income on Derivative	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Interest rate swaps	Interest and fees on loans	$ (25)	$ (55)

During the three months ended September 30, 2018, one interest rate swap designated as a fair value hedge accounting relationship was terminated as a result of the full prepayment of the underlying loan (hedged asset). At the time of the termination, the fair value of the interest rate swap asset was approximately $1.4 million with an offsetting cumulative amount of fair value hedging adjustments included in the carrying value of the underlying loan totaling $1.6 million. As the underlying loan was fully paid-off, the remaining cumulative amount of fair value hedging adjustments included in the carrying value of the underlying loan was recorded to interest income.

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 other non-interest income. At September 30, 2018, the Company had interest rate derivative transactions with an aggregate notional amount of approximately $6.1 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 October 2018 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 September 30, 2018, the Company had forward commitments to sell mortgage loans with an aggregate notional amount of approximately $698.2 million and interest rate lock commitments with an aggregate notional amount of approximately $379.5 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.

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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. As of September 30, 2018 the Company held foreign currency derivatives with an aggregate notional amount of approximately $37.9 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 September 30, 2018, December 31, 2017 or September 30, 2017.

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		Nine Months Ended	
Derivative	Location in income statement	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest rate swaps and caps	Trading (losses) gains, net	$ (55)	$ (94)	$ 89	$ (762)
Mortgage banking derivatives	Mortgage banking revenue	(1,122)	708	858	1,398
Covered call options	Fees from covered call options	627	1,143	2,893	2,792
Foreign exchange contracts	Trading (losses) gains, net	(18)	(23)	51	(115)

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 September 30, 2018, 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 $162,000. 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.

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

	Derivative Assets			Derivative Liabilities		
	Fair Value			Fair Value		
(Dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2017	September 30, 2018	December 31, 2017	September 30, 2017
Gross Amounts Recognized	$91,262	$ 48,985	$ 45,168	$69,342	$ 33,716	$ 34,035
Less: Amounts offset in the Statements of Financial Condition	—	—	—	—	—	—
Net amount presented in the Statements of Financial Condition	$91,262	$ 48,985	$ 45,168	$69,342	$ 33,716	$ 34,035
Gross amounts not offset in the Statements of Financial Condition						
Offsetting Derivative Positions	$(7,887)	(14,878)	(16,213)	$(7,887)	(14,878)	(16,213)
Collateral Posted	(76,530)	(18,060)	(2,950)	(340)	(2,220)	(17,130)
Net Credit Exposure	$6,845	$ 16,047	$ 26,005	$61,115	$ 16,618	$ 692

(16) 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 inputs 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. The 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 securities, trading account securities and equity securities with readily determinable fair value—Fair values for available-for-sale securities, trading account securities and equity securities with readily determinable fair value 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.

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At September 30, 2018, the Company classified $97.6 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 $3.3 million of U.S. government agencies as Level 3 at September 30, 2018. 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 rated, 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). For bond issues without comparable bond proxies, a rating of "BBB" was assigned. In the third quarter of 2018, all of the ratings derived by the Investment Operations Department using the above process were "BBB" or better. 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 September 30, 2018 are 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.

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. The Company uses a discount rate based on the actual coupon rate of the underlying loan. At September 30, 2018, the Company classified $13.5 million of loans held-for-investment as Level 3. The weighted average discount rate used as an input to value these loans at September 30, 2018 was 4.57% with discount rates applied ranging from 4%-5%. 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 10.31% at September 30, 2018. 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 discount used as an input to value the specific loans was 1.00% with credit loss discount ranging from 0%-7% at September 30, 2018.

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 September 30, 2018, the Company classified $74.5 million of MSRs as Level 3. The weighted average discount rate used as an input to value the pool of MSRs at September 30, 2018 was 10.03% with discount rates applied ranging from 7%-18%. 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 September 30, 2018 ranged from 0%-81% or a weighted average prepayment speed of 10.03%. Further, for current and delinquent loans, the Company assumed a weighted average cost of servicing of $78 and $274, 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. See Note 9 - Mortgage Servicing Rights ("MSRs") for further discussion of MSRs.

Derivative instruments—The Company’s derivative instruments include interest rate swaps, caps and collars, 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, caps and collars are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. The credit risk associated with derivative financial instruments that are subject to master netting agreements is measured on a net basis by counterparty portfolio. The fair value for mortgage-related derivatives is based on changes in mortgage rates from the date of the commitments. The fair value of foreign currency derivatives is computed based on change in foreign currency rates stated in the contract compared to those prevailing at the measurement date.

At September 30, 2018, the Company classified $2.5 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 September 30, 2018 was 91.12% with pull-through rates applied ranging from 20% to 100%.

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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:

	September 30, 2018			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$124,761	$ —	$124,761	$—
U.S. Government agencies	111,020	—	107,705	3,315
Municipal	133,373	—	35,787	97,586
Corporate notes	93,453	—	93,453	—
Mortgage-backed	1,702,378	—	1,702,378	—
Trading account securities	688	—	688	—
Equity securities with readily determinable fair value	36,414	—	36,414	—
Mortgage loans held-for-sale	338,111	—	338,111	—
Loans held-for-investment	77,883	—	64,427	13,456
MSRs	74,530	—	—	74,530
Nonqualified deferred compensation assets	12,503	—	12,503	—
Derivative assets	96,153	—	93,661	2,492
Total	$2,801,267	$ —	$2,609,888	$191,379
Derivative liabilities	$71,381	$ —	$71,381	$—

	December 31, 2017			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$143,822	$ —	$143,822	$—
U.S. Government agencies	156,915	—	153,136	3,779
Municipal	115,352	—	38,171	77,181
Corporate notes	31,050	—	31,050	—
Mortgage-backed	1,319,725	—	1,319,725	—
Equity securities	36,802	—	36,802	—
Trading account securities	995	—	995	—
Mortgage loans held-for-sale	313,592	—	313,592	—
Loans held-for-investment	33,717	—	—	33,717
MSRs	33,676	—	—	33,676
Nonqualified deferred compensation assets	11,065	—	11,065	—
Derivative assets	52,069	—	49,912	2,157
Total	$2,248,780	$ —	$2,098,270	$150,510
Derivative liabilities	$35,671	$ —	$35,671	$—

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	September 30, 2017			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$144,145	$ —	$144,145	$—
U.S. Government agencies	159,328	—	155,385	3,943
Municipal	116,016	—	47,633	68,383
Corporate notes	60,614	—	60,614	—
Mortgage-backed	1,149,448	—	1,149,448	—
Equity securities	36,352	—	36,352	—
Trading account securities	643	—	643	—
Mortgage loans held-for-sale	370,282	—	370,282	—
Loans held-for-investment	29,704	—	—	29,704
MSRs	29,414	—	—	29,414
Nonqualified deferred compensation assets	10,824	—	10,824	—
Derivative assets	48,198	—	46,982	1,216
Total	$2,154,968	$ —	$2,022,308	$132,660
Derivative liabilities	$35,773	$ —	$35,773	$—

The aggregate remaining contractual principal balance outstanding as of September 30, 2018, December 31, 2017 and September 30, 2017 for mortgage loans held-for-sale measured at fair value under ASC 825 was $317.4 million, $299.5 million and $356.4 million, respectively, while the aggregate fair value of mortgage loans held-for-sale was $338.1 million, $313.6 million and $370.3 million, for the same respective periods, as shown in the above tables. There were $622,000 of loans past due greater than 90 days and still accruing in the mortgage loans held-for-sale portfolio as of September 30, 2018 and no loans as of December 31, 2017 and September 30, 2017.

The changes in Level 3 assets measured at fair value on a recurring basis during the three and nine months ended September 30, 2018 and 2017 are summarized as follows:

(Dollars in thousands)	Municipal	U.S. Government Agencies	Loans held-for-investment	Mortgage servicing rights	Derivative Assets
Balance at July 1, 2018	$96,566	$ 3,482	$ 13,764	$ 63,194	$ 3,819
Total net gains (losses) included in:					
Net income [(1)]	—	—	(32)	11,336	(1,327)
Other comprehensive loss	(2,573)	(9)	—	—	—
Purchases	4,830	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(1,237)	(158)	(1,520)	—	—
Net transfers into/(out of) Level 3	—	—	1,244	—	—
Balance at September 30, 2018	$97,586	$ 3,315	$ 13,456	$ 74,530	$ 2,492

(1) Changes in the balance of MSRs and derivative assets related to fair value adjustments are recorded as components of mortgage banking revenue. Changes in the balance of loans held-for-investment related to fair value adjustments are recorded as other non-interest income.

Explanation of Responses:

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(Dollars in thousands)	Municipal	U.S. Government Agencies	Loans held-for-investment	Mortgage servicing rights	Derivative Assets
Balance at January 1, 2018	$ 77,181	$ 3,779	$ 33,717	$ 33,676	$ 2,157
Total net gains (losses) included in:					
Net income [1]	—	—	(1,420)	27,048	335
Other comprehensive loss	(5,658)	(306)	—	—	—
Purchases [2]	31,846	—	—	13,806	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(5,783)	(158)	(24,177)	—	—
Net transfers into/(out of) Level 3	—	—	5,336	—	—
Balance at September 30, 2018	$ 97,586	$ 3,315	$ 13,456	$ 74,530	$ 2,492

(Dollars in thousands)	Municipal	U.S. Government Agencies	Loans held-for-investment	Mortgage servicing rights	Derivative Assets
Balance at July 1, 2017	$ 77,341	$ 4,110	$ 30,173	$ 27,307	$ 1,047
Total net gains (losses) included in:					
Net income [1]	—	—	177	2,107	169
Other comprehensive income (loss)	(4,113)	(167)	—	—	—
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(4,845)	—	(4,504)	—	—
Net transfers into/(out of) Level 3	—	—	3,858	—	—
Balance at September 30, 2017	$ 68,383	$ 3,943	$ 29,704	$ 29,414	$ 1,216

(Dollars in thousands)	Municipal	U.S. Government Agencies	Loans held-for-investment	Mortgage servicing rights	Derivative Assets
Balance at January 1, 2017	$ 79,626	$ —	$ 22,137	$ 19,103	$ 2,291
Total net gains (losses) included in:					
Net income [1]	—	—	1,369	10,311	(1,075)
Other comprehensive income (loss)	(1,084)	(340)	—	—	—
Purchases	10,879	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(21,038)	—	(9,995)	—	—
Net transfers into/(out of) Level 3	—	4,283	16,193	—	—
Balance at September 30, 2017	$ 68,383	$ 3,943	$ 29,704	$ 29,414	$ 1,216

(1) Changes in the balance of MSRs and derivative assets related to fair value adjustments are recorded as components of mortgage banking revenue. Changes in the balance of loans held-for-investment related to fair value adjustments are recorded as other non-interest income.

(2) Purchased as a part of the Veterans First business combination. See Note 3 - Business Combinations for further discussion.

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Explanation of Responses:

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Also, the Company may be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from impairment charges on individual assets. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at the end of the period, the following table provides the carrying value of the related individual assets or portfolios at September 30, 2018.

	September 30, 2018					
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Three Months Ended September 30, 2018 Fair Value Losses Recognized, net	Nine Months Ended September 30, 2018 Fair Value Losses Recognized, net
Impaired loans—collateral based	$106,219	$ —	$ —	$106,219	$ 3,978	$ 11,152
Other real estate owned [(1)]	28,303	—	—	28,303	1,504	5,173
Total	$134,522	$ —	$ —	$134,522	$ 5,482	$ 16,325

(1) Fair value losses recognized, net on other real estate owned include valuation adjustments and charge-offs during the respective period.

Impaired loans—A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. A loan modified in a TDR is an impaired loan according to applicable accounting guidance. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the fair value of the underlying collateral. Impaired loans are considered a fair value measurement where an allowance is established based on the fair value of collateral. Appraised values, which may require adjustments to market-based valuation inputs, are generally used on real estate collateral-dependent impaired loans.

The Company's Managed Assets Division is primarily responsible for the valuation of Level 3 inputs of impaired loans. For more information on the Managed Assets Division review of impaired loans refer to Note 7 – Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans. At September 30, 2018, the Company had $132.5 million of impaired loans classified as Level 3. Of the $132.5 million of impaired loans, $106.2 million were measured at fair value based on the underlying collateral of the loan as shown in the table above. The remaining $26.3 million were valued based on discounted cash flows in accordance with ASC 310.

Other real estate owned —Other real estate owned is comprised of real estate acquired in partial or full satisfaction of loans and is included in other assets. Other real estate owned is recorded at its estimated fair value less estimated selling costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the allowance for loan losses. Subsequent changes in value are reported as adjustments to the carrying amount and are recorded in other non-interest expense. Gains and losses upon sale, if any, are also charged to other non-interest expense. Fair value is generally based on third party appraisals and internal estimates that are adjusted by a discount representing the estimated cost of sale and is therefore considered a Level 3 valuation.

The Company's Managed Assets Division is primarily responsible for the valuation of Level 3 inputs for other real estate owned. At September 30, 2018, the Company had $28.3 million of other real estate owned classified as Level 3. The unobservable input applied to other real estate owned relates to the 10% reduction to the appraisal value representing the estimated cost of sale of the foreclosed property. A higher discount for the estimated cost of sale results in a decreased carrying value.

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The valuation techniques and significant unobservable inputs used to measure both recurring and non-recurring Level 3 fair value measurements at September 30, 2018 were as follows:

(Dollars in thousands)	Fair Value	Valuation Methodology	Significant Unobservable Input	Range of Inputs	Weighted Average of Inputs	Impact to valuation from an increased or higher input value
Measured at fair value on a recurring basis:						
Municipal Securities	$97,586	Bond pricing	Equivalent rating	BBB-AA+	N/A	Increase
U.S. Government agencies	3,315	Bond pricing	Equivalent rating	AAA	AAA	Increase
Loans held-for-investment	13,456	Discounted cash flows	Discount rate	4%-5%	4.57%	Decrease
			Credit discount	0%-7%	1.00%	Decrease
			Constant prepayment rate (CPR)	10.31%	10.31%	Decrease
MSRs	74,530	Discounted cash flows	Discount rate	7%-18%	10.03%	Decrease
			Constant prepayment rate (CPR)	0%-81%	10.03%	Decrease
			Cost of servicing	$15-$200	$78	Decrease
			Cost of servicing - delinquent	$200-$1,000	$274	Decrease
Derivatives	2,492	Discounted cash flows	Pull-through rate	20%-100%	91.12%	Increase
Measured at fair value on a non-recurring basis:						
Impaired loans—collateral based	$106,219	Appraisal value	Appraisal adjustment - cost of sale	10%	10.00%	Decrease
Other real estate owned	28,303	Appraisal value	Appraisal adjustment - cost of sale	10%	10.00%	Decrease

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

	At September 30, 2018		At December 31, 2017		At September 30, 2017	
(Dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:						
Cash and cash equivalents	$279,993	$279,993	$277,591	$277,591	$251,952	$251,952
Interest bearing deposits with banks	1,137,044	1,137,044	1,063,242	1,063,242	1,218,728	1,218,728
Available-for-sale securities	2,164,985	2,164,985	1,803,666	1,803,666	1,665,903	1,665,903
Held-to-maturity securities	966,438	911,597	826,449	812,516	819,340	807,036
Trading account securities	688	688	995	995	643	643
Equity securities with readily determinable fair value	36,414	36,414	—	—	—	—
FHLB and FRB stock, at cost	99,998	99,998	89,989	89,989	87,192	87,192
Brokerage customer receivables	15,649	15,649	26,431	26,431	23,631	23,631
Mortgage loans held-for-sale, at fair value	338,111	338,111	313,592	313,592	370,282	370,282
Loans held-for-investment, at fair value	77,883	77,883	33,717	33,717	29,704	29,704
Loans held-for-investment, at amortized cost	23,046,068	23,261,545	21,607,080	21,768,978	20,929,678	21,064,801
MSRs	74,530	74,530	33,676	33,676	29,414	29,414
Nonqualified deferred compensation assets	12,503	12,503	11,065	11,065	10,824	10,824
Derivative assets	96,153	96,153	52,069	52,069	48,198	48,198
Accrued interest receivable and other	254,879	254,879	227,649	227,649	225,435	225,435
Total financial assets	$28,601,336	$28,761,972	$26,367,211	$26,515,176	$25,710,924	$25,833,743
Financial Liabilities						
Non-maturity deposits	$19,456,677	$19,456,677	$18,775,977	$18,775,977	$18,228,388	$18,228,388
Deposits with stated maturities	5,460,038	5,475,048	4,407,370	4,350,004	4,666,675	4,608,760
FHLB advances	615,000	615,342	559,663	544,750	468,962	454,753
Other borrowings	373,571	373,571	266,123	266,123	251,680	251,680
Subordinated notes	139,172	146,838	139,088	144,266	139,052	145,376
Junior subordinated debentures	253,566	258,488	253,566	264,696	253,566	240,305
Derivative liabilities	71,381	71,381	35,671	35,671	35,773	35,773
FDIC indemnification liability	—	—	—	—	15,472	15,472
Accrued interest payable	15,374	15,374	8,030	8,030	9,177	9,177
Total financial liabilities	$26,384,779	$26,412,719	$24,445,488	$24,389,517	$24,068,745	$23,989,684

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

The following methods and assumptions were used by the Company in estimating fair values of financial instruments that were not previously disclosed.

Held-to-maturity securities. Held-to-maturity securities include U.S. Government-sponsored agency securities and municipal bonds issued by various municipal government entities primarily located in the Chicago metropolitan area and southern Wisconsin. Fair values for held-to-maturity securities are typically based on prices obtained from independent pricing vendors. In accordance with ASC 820, the Company has categorized these held-to-maturity securities as a Level 2 fair value measurement. Fair values for certain other held-to-maturity securities are based on the bond pricing methodology discussed previously related to certain available-for-sale securities. In accordance with ASC 820, the Company has categorized these held-to-maturity securities as a Level 3 fair value measurement.

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Loans held-for-investment, at amortized cost. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are analyzed by type such as commercial, residential real estate, etc. Each category is further segmented by interest rate type (fixed and variable) and term. For variable-rate loans that reprice frequently, estimated fair values are based on carrying values. The fair value of residential loans is based on secondary market sources for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value for other fixed rate loans is estimated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect credit and interest rate risks inherent in the loan. The primary impact of credit risk on the present value of the loan portfolio, however, was assessed through the use of the allowance for loan losses, which is believed to represent the current fair value of probable incurred losses for purposes of the fair value calculation. In accordance with ASC 820, the Company has categorized loans as a Level 3 fair value measurement.

Deposits with stated maturities. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently in effect for deposits of similar remaining maturities. In accordance with ASC 820, the Company has categorized deposits with stated maturities as a Level 3 fair value measurement.

FHLB advances. The fair value of FHLB advances is obtained from the FHLB which uses a discounted cash flow analysis based on current market rates of similar maturity debt securities to discount cash flows. In accordance with ASC 820, the Company has categorized FHLB advances as a Level 3 fair value measurement.

Subordinated notes. The fair value of the subordinated notes is based on a market price obtained from an independent pricing vendor. In accordance with ASC 820, the Company has categorized subordinated notes as a Level 2 fair value measurement.

Junior subordinated debentures. The fair value of the junior subordinated debentures is based on the discounted value of contractual cash flows. In accordance with ASC 820, the Company has categorized junior subordinated debentures as a Level 3 fair value measurement.

(17) Stock-Based Compensation Plans

In May 2015, the Company’s shareholders approved the 2015 Stock Incentive Plan (“the 2015 Plan”) which provides for the issuance of up to 5,485,000 shares of common stock. The 2015 Plan replaced the 2007 Stock Incentive Plan (“the 2007 Plan”) which replaced the 1997 Stock Incentive Plan (“the 1997 Plan”). The 2015 Plan, the 2007 Plan and the 1997 Plan are collectively referred to as “the Plans.” The 2015 Plan has substantially similar terms to the 2007 Plan and the 1997 Plan. Awards granted under the Plans for which common shares are not issued by reason of cancellation, forfeiture, lapse of such award or settlement of such award in cash, are again available under the 2015 Plan. All grants made after the approval of the 2015 Plan are made pursuant to the 2015 Plan. As of September 30, 2018, approximately 3.4 million shares were available for future grants assuming the maximum number of shares are issued for the performance awards outstanding. The Plans cover substantially all employees of Wintrust. The Compensation Committee of the Board of Directors administers all stock-based compensation programs and authorizes all awards granted pursuant to the Plans.

The Plans permit the grant of incentive stock options, non-qualified stock options, stock appreciation rights, stock awards, restricted share or unit awards, performance awards and other incentive awards valued in whole or in part by reference to the Company’s common stock, all on a stand alone, combination or tandem basis. The Company historically awarded stock-based compensation in the form of time-vested non-qualified stock options and time-vested restricted share unit awards (“restricted shares”). The grants of options provide for the purchase of shares of the Company’s common stock at the fair market value of the stock on the date the options are granted. Stock options generally vest ratably over periods of three to five years and have a maximum term of seven years from the date of grant. Restricted shares entitle the holders to receive, at no cost, shares of the Company's common stock. Restricted shares generally vest over periods of one to five years from the date of grant.

Beginning in 2011, the Company has awarded annual grants under the Long-Term Incentive Program ("LTIP"), which is administered under the Plans. The LTIP is designed in part to align the interests of management with the interests of shareholders, foster retention, create a long-term focus based on sustainable results and provide participants with a target long-term incentive opportunity. It is anticipated that LTIP awards will continue to be granted annually. LTIP grants generally consist of a combination of time-vested non-qualified stock options, performance-based stock awards and performance-based cash awards. Performance-based stock and cash awards granted under the LTIP are contingent upon the achievement of pre-established long-term performance goals set in advance by the Compensation Committee over a three-year period starting at the beginning of each calendar year. These performance awards are granted at a target level, and based on the Company's achievement of the pre-established long-term goals, the actual payouts can range from 0% to a maximum of 150% (for awards granted after 2014) or 200% (for awards granted prior to 2015) of the target award. The awards vest in the quarter after the end of the performance period upon certification of the payout by the Compensation Committee of the Board of Directors. Holders of performance-based stock awards are entitled to receive, at no cost, the shares earned based on the achievement of the pre-established long-term goals.

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Holders of restricted share awards and performance-based stock awards received under the Plans are not entitled to vote or receive cash dividends (or cash payments equal to the cash dividends) on the underlying common shares until the awards are vested and issued. Shares that are vested but not issuable pursuant to deferred compensation arrangements accrue additional shares based on the value of dividends otherwise paid. Except in limited circumstances, these awards are canceled upon termination of employment without any payment of consideration by the Company.

Stock-based compensation is measured as the fair value of an award on the date of grant, and the measured cost is recognized over the period which the recipient is required to provide service in exchange for the award. The fair values of restricted share and performance-based stock awards are determined based on the average of the high and low trading prices on the grant date, and the fair value of stock options is estimated using a Black-Scholes option-pricing model that utilizes various assumptions. Option-pricing models require the input of highly subjective assumptions and are sensitive to changes in the option's expected life and the price volatility of the underlying stock, which can materially affect the fair value estimate. Options granted since the inception of the LTIP in 2011 were primarily granted as LTIP awards. Expected life of options granted since the inception of the LTIP awards has been based on the safe harbor rule of the SEC Staff Accounting Bulletin No. 107 “Share-Based Payment” as the Company believes historical exercise data may not provide a reasonable basis to estimate the expected term of these options. Expected stock price volatility is based on historical volatility of the Company's common stock, which correlates with the expected life of the options, and the risk-free interest rate is based on comparable U.S. Treasury rates. Management reviews and adjusts the assumptions used to calculate the fair value of an option on a periodic basis to better reflect expected trends. No options were granted in the nine month periods ended September 30, 2018 and September 30, 2017.

Stock based compensation is recognized based upon the number of awards that are ultimately expected to vest, taking into account expected forfeitures. In addition, for performance-based awards, an estimate is made of the number of shares expected to vest as a result of actual performance against the performance criteria in the award to determine the amount of compensation expense to recognize. The estimate is reevaluated periodically and total compensation expense is adjusted for any change in estimate in the current period. Stock-based compensation expense recognized in the Consolidated Statements of Income was $3.2 million in the third quarter of 2018 and $2.4 million in the third quarter of 2017, and $10.3 million and $8.2 million for the 2018 and 2017 year-to-date periods, respectively.

A summary of the Company's stock option activity for the nine months ended September 30, 2018 and September 30, 2017 is presented below:

Stock Options	Common Shares	Weighted Average Strike Price	Remaining Contractual Term (1)	Intrinsic Value (2) ($000)
Outstanding at January 1, 2018	1,084,756	$ 41.98		
Granted	—	—		
Exercised	(271,674)	41.36		
Forfeited or canceled	(6,942)	39.81		
Outstanding at September 30, 2018	806,140	$ 42.20	3.3	$ 34,452
Exercisable at September 30, 2018	609,752	$ 42.42	3.0	$ 25,924

Stock Options	Common Shares	Weighted Average Strike Price	Remaining Contractual Term (1)	Intrinsic Value (2) ($000)
Outstanding at January 1, 2017	1,698,912	$ 41.50		

Granted	—	—		
Exercised	(499,222)	40.57		
Forfeited or canceled	(16,378)	43.07		
Outstanding at September 30, 2017	1,183,312	$ 41.87	4.2	$ 43,122
Exercisable at September 30, 2017	640,759	$ 41.58	3.5	$ 23,532

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

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

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The aggregate intrinsic value of options exercised during the nine months ended September 30, 2018 and September 30, 2017, was $12.9 million and $16.3 million, respectively. Cash received from option exercises under the Plan for the nine months ended September 30, 2018 and September 30, 2017 was $11.2 million and $20.3 million, respectively.

A summary of the Plans' restricted share activity for the nine months ended September 30, 2018 and September 30, 2017 is presented below:

Restricted Shares	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1	127,787	$ 53.33	133,425	$ 49.94
Granted	28,506	87.65	14,249	72.53
Vested and issued	(10,438)	56.88	(10,695)	46.03
Forfeited or canceled	(982)	55.39	(2,551)	52.26
Outstanding at September 30	144,873	$ 59.82	134,428	$ 52.60
Vested, but not issuable at September 30	90,294	$ 51.88	89,563	$ 51.59

A summary of the Plans' performance-based stock award activity, based on the target level of the awards, for the nine months ended September 30, 2018 and September 30, 2017 is presented below:

Performance-based Stock	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1	359,196	$ 54.37	298,180	$ 43.64
Granted	134,326	88.28	145,829	72.60
Vested and issued	(82,307)	44.39	(68,712)	46.85
Forfeited	(13,582)	59.18	(14,164)	52.81
Outstanding at September 30	397,633	$ 67.72	361,133	$ 54.36
Vested, but deferred at September 30	21,477	$ 43.52	13,616	$ 42.66

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

(18) Shareholders’ Equity and Earnings Per Share

Series D Preferred Stock

In June 2015, the Company issued and sold 5,000,000 shares of fixed-to-floating non-cumulative perpetual preferred stock, Series D, liquidation preference $25 per share (the “Series D Preferred Stock”) for $125.0 million in a public offering. When, as and if declared, dividends on the Series D Preferred Stock are payable quarterly in arrears at a fixed rate of 6.50% per annum from the original issuance date to, but excluding, July 15, 2025, and from (and including) that date at a floating rate equal to three-month LIBOR plus a spread of 4.06% per annum.

Series C Preferred Stock

In March 2012, the Company issued and sold 126,500 shares of non-cumulative perpetual convertible preferred stock, Series C, liquidation preference $1,000 per share (the “Series C Preferred Stock”) for $126.5 million in a public offering. When, as and if declared, dividends on the Series C Preferred Stock were payable quarterly in arrears at a rate of 5.00% per annum. The Series C Preferred Stock was convertible into common stock at the option of the holder subject to customary anti-dilution adjustments. Additionally, on and after April 15, 2017, the Company had the right under certain circumstances to cause the Series C Preferred Stock to be converted into common stock if the closing price of the Company’s common stock exceeded a certain amount. On April 25, 2017, 2,073 shares of the Series C Preferred Stock were converted at the option of the respective holder into 51,244 shares of the Company's common stock, pursuant to the terms of the Series C Preferred Stock. On April 27, 2017, the Company caused a mandatory conversion of its remaining 124,184 shares of Series C Preferred Stock into 3,069,828 shares of the Company's

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common stock at a conversion rate of 24.72 shares of common stock per share of Series C Preferred Stock. Cash was paid in lieu of fractional shares for an amount considered insignificant.

Common Stock Warrant

Pursuant to the U.S. Department of the Treasury's (the "U.S. Treasury") Capital Purchase Program, on December 19, 2008, the Company issued to the U.S. Treasury a warrant to exercise 1,643,295 warrant shares of Wintrust common stock with a term of 10 years. The exercise price, subject to customary anti-dilution, was $22.57 at September 30, 2018. In February 2011, the U.S. Treasury sold all of its interest in the warrant issued to it in a secondary underwritten public offering. During the first nine months of 2018 15,951 warrant shares were exercised, which resulted in 11,764 shares of common stock issued. At September 30, 2018, all remaining holders of the interest in the warrant were able to exercise 7,410 warrant shares.

Other

At the January 2018 Board of Directors meeting, a quarterly cash dividend of $0.19 per share ($0.76 on an annualized basis) was declared. It was paid on February 22, 2018 to shareholders of record as of February 8, 2018. At the April 2018 Board of Directors meeting, a quarterly cash dividend of $0.19 per share ($0.76 on an annualized basis) was declared. It was paid on May 24, 2018 to shareholders of record as of May 10, 2018. At the July 2018 Board of Directors meeting, a quarterly cash dividend of $0.19 per share ($0.76 on an annualized basis) was declared. It was paid on August 23, 2018 to shareholders of record as of August 9, 2018.

Accumulated Other Comprehensive Income (Loss)

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

	Accumulated Unrealized Losses on Securities	Accumulated Unrealized Gains on Derivative Instruments	Accumulated Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
Balance at July 1, 2018	$ (54,885)	$ 11,748	$ (38,079)	$ (81,216)
Other comprehensive (loss) income during the period, net of tax, before reclassifications	(13,277)	1,851	1,942	(9,484)
Amount reclassified from accumulated other comprehensive loss into net income, net of tax	(730)	(1,696)	—	(2,426)
Amount reclassified from accumulated other comprehensive loss related to amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale, net of tax	(24)	—	—	(24)
Net other comprehensive (loss) income during the period, net of tax	$ (14,031)	$ 155	$ 1,942	$ (11,934)
Balance at September 30, 2018	$ (68,916)	$ 11,903	$ (36,137)	$ (93,150)
Balance at January 1, 2018	$ (15,813)	$ 7,164	$ (33,186)	$ (41,835)
Cumulative effect adjustment from the adoption of:				
ASU 2016-01	(1,880)	—	—	(1,880)
ASU 2018-02	(4,517)	1,543	—	(2,974)
	(46,665)	6,368	(2,951)	(43,248)

Other comprehensive (loss) income during the period, net of tax, before reclassifications				
Amount reclassified from accumulated other comprehensive income (loss) into net income, net of tax	(5)	(3,172)	—	(3,177)
Amount reclassified from accumulated other comprehensive loss related to amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale, net of tax	(36)	—	—	(36)
Net other comprehensive (loss) income during the period, net of tax	$ (46,706)	$ 3,196	$ (2,951)	$ (46,461)
Balance at September 30, 2018	$ (68,916)	$ 11,903	$ (36,137)	$ (93,150)

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	Accumulated Unrealized Losses on Securities	Accumulated Unrealized Gains on Derivative Instruments	Accumulated Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
Balance at July 1, 2017	$ (15,022)	$ 4,959	$ (36,474)	$ (46,537)
Other comprehensive income during the period, net of tax, before reclassifications	653	228	4,206	5,087
Amount reclassified from accumulated other comprehensive income into net income, net of tax	(24)	8	—	(16)
Amount reclassified from accumulated other comprehensive loss related to amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale, net of tax	(20)	—	—	(20)
Net other comprehensive income during the period, net of tax	$ 609	$ 236	$ 4,206	$ 5,051
Balance at September 30, 2017	$ (14,413)	$ 5,195	$ (32,268)	$ (41,486)
Balance at January 1, 2017	$ (29,309)	$ 4,165	$ (40,184)	$ (65,328)
Other comprehensive income during the period, net of tax, before reclassifications	15,815	393	7,916	24,124
Amount reclassified from accumulated other comprehensive income into net income, net of tax	(19)	637	—	618
Amount reclassified from accumulated other comprehensive loss related to amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale, net of tax	(900)	—	—	(900)
Net other comprehensive income during the period, net of tax	$ 14,896	$ 1,030	$ 7,916	$ 23,842
Balance at September 30, 2017	$ (14,413)	$ 5,195	$ (32,268)	$ (41,486)

Details Regarding the Component of Accumulated Other Comprehensive Income	Amount Reclassified from Accumulated Other Comprehensive Income for the Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017	Impacted Line on the Consolidated Statements of Income
Accumulated unrealized losses on securities					
Gains included in net income	$1,001	$39	$6	$31	Gains (losses) on investment securities, net
	1,001	39	6	31	Income before taxes
Tax effect	$(271)	$(15)	$(1)	$(12)	Income tax expense
Net of tax	$730	$24	$5	$19	Net income
Accumulated unrealized losses on derivative instruments					
Amount reclassified to interest expense on deposits	$(2,319)	$(380)	$(4,338)	$(15)	Interest on deposits
Amount reclassified to interest expense on junior subordinated debentures	—	394	—	1,066	Interest on junior subordinated debentures
	2,319	(14)	4,338	(1,051)	Income before taxes

Tax effect	$(623)	$6	$(1,166)	$414	Income tax expense
Net of tax	$1,696	$(8)	$3,172	$(637)	Net income

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Earnings per Share

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

(In thousands, except per share data)		Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income		$91,948	$ 65,626	$263,509	$ 188,901
Less: Preferred stock dividends		2,050	2,050	6,150	7,728
Net income applicable to common shares—Basic	(A)	89,898	63,576	257,359	181,173
Add: Dividends on convertible preferred stock, if dilutive		—	—	—	1,578
Net income applicable to common shares—Diluted	(B)	89,898	63,576	257,359	182,751
Weighted average common shares outstanding	(C)	56,366	55,796	56,268	54,292
Effect of dilutive potential common shares					
Common stock equivalents		918	966	912	988
Convertible preferred stock, if dilutive		—	—	—	1,317
Total dilutive potential common shares		918	966	912	2,305
Weighted average common shares and effect of dilutive potential common shares	(D)	57,284	56,762	57,180	56,597
Net income per common share:					
Basic	(A/C)	$1.59	$ 1.14	$4.57	$ 3.34
Diluted	(B/D)	$1.57	$ 1.12	$4.50	$ 3.23

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

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

The following discussion and analysis of financial condition as of September 30, 2018 compared with December 31, 2017 and September 30, 2017, and the results of operations for the three and nine month periods ended September 30, 2018 and September 30, 2017, should be read in conjunction with the unaudited consolidated financial statements and notes contained in this report and the risk factors discussed herein and under Item 1A of the Company's 2017 Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties and, as such, future results could differ significantly from management's current expectations. See the last section of this discussion for further information on forward-looking statements.

Introduction

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

Overview

Third Quarter Highlights

The Company recorded net income of $91.9 million for the third quarter of 2018 compared to $65.6 million in the third quarter of 2017. The results for the third quarter of 2018 demonstrate continued momentum on our operating strengths including steady loan and deposit growth and increased revenue from wealth management and mortgage banking services. Combined with the noted continued loan growth, the improvement in net interest margin during the third quarter of 2018 compared to the same period of 2017 resulted in higher net interest income in the current period. Additionally, the Company's effective tax rate decreased from 37.0% in the third quarter of 2017 to 25.1% in the third quarter of 2018 primarily due to the reduction of the federal corporate tax rate effective in 2018 as a result of the enactment of the Tax Act.

The Company increased its loan portfolio, excluding covered loans, from $20.9 billion at September 30, 2017 and $21.6 billion at December 31, 2017 to $23.1 billion at September 30, 2018. The increase in the current quarter compared to the prior quarters was primarily a result of the Company's growth in the commercial, commercial real estate, commercial premium finance receivables and life insurance premium finance receivables portfolios. The Company is focused on making new loans, including in the commercial and commercial real estate sector, where opportunities that meet our underwriting standards exist. For more information regarding changes in the Company's loan portfolio, see Financial Condition – Interest Earning Assets and Note 6 - Loans of the Consolidated Financial Statements in Item 1 of this report.

The Company recorded net interest income of $247.6 million in the third quarter of 2018 compared to $216.0 million in the third quarter of 2017. The higher level of net interest income recorded in the third quarter of 2018 compared to the third quarter of 2017 resulted primarily from a $2.0 billion increase in average loans, excluding covered loans, and a substantial improvement in the yield on earning assets. This was partially offset by an increase in the average balance and cost of interest-bearing liabilities (see "Net Interest Income" for further detail).

Non-interest income totaled $99.9 million in the third quarter of 2018 compared to $79.7 million in the third quarter of 2017. This increase was primarily the result of increases from wealth management revenue, higher mortgage banking revenue and increased income on bank-owned life insurance (see “Non-Interest Income” for further detail).

Non-interest expense totaled $213.6 million in the third quarter of 2018, increasing $30.1 million, or 16%, compared to the third quarter of 2017. The increase compared to the third quarter of 2017 was primarily attributable to higher salary and employee benefit costs caused by the addition of employees from acquisitions, merit-based salary increases for current employees effective in February 2018, an increase of the minimum wage for eligible hourly employees effective in March 2018, higher bonus and long-term performance-based incentive compensation due to higher earnings, increased professional fees primarily due to certain consulting agreements paid in relation to the acquisition of CSC, higher occupancy expenses, higher data processing expenses and an increase in advertising and marketing expenses (see “Non-Interest Expense” for further detail).

Management considers the maintenance of adequate liquidity to be important to the management of risk. During the third quarter of 2018, the Company continued its practice of maintaining appropriate funding capacity to provide the Company with adequate liquidity for its ongoing operations. In this regard, the Company benefited from its strong deposit base, a liquid short-term investment

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portfolio and its access to funding from a variety of external funding sources. At September 30, 2018, the Company had approximately $1.4 billion in overnight liquid funds and interest-bearing deposits with banks.

RESULTS OF OPERATIONS

Earnings Summary

The Company's key operating measures and growth rates for the three and nine months ended September 30, 2018, as compared to the same period last year, are shown below:

	Three months ended		
(Dollars in thousands, except per share data)	September 30, 2018	September 30, 2017	Percentage (%) or Basis Point (bp) Change
Net income	$91,948	$ 65,626	40 %
Net income per common share—Diluted	1.57	1.12	40
Net revenue (1)	347,493	295,719	18
Net interest income	247,563	215,988	15
Net interest margin	3.59 %	3.43 %	16 bp
Net interest margin - fully taxable equivalent (non-GAAP) (2)	3.61	3.46	15
Net overhead ratio (3)	1.53	1.53	—
Return on average assets	1.24	0.96	28
Return on average common equity	11.86	9.15	271
Return on average tangible common equity (non-GAAP) (2)	14.64	11.39	325

	Nine months ended		
(Dollars in thousands, except per share data)	September 30, 2018	September 30, 2017	Percentage (%) or Basis Point (bp) Change
Net income	$263,509	$188,901	39 %
Net income per common share—Diluted	4.50	3.23	39
Net revenue (1)	991,657	851,445	16
Net interest income	710,815	612,977	16
Net interest margin	3.58 %	3.40	18 bp
Net interest margin - fully taxable equivalent (non-GAAP) (2)	3.60	3.43	17
Net overhead ratio (3)	1.56	1.52	4
Return on average assets	1.23	0.97	26
Return on average common equity	11.71	9.21	250
Return on average tangible common equity (non-GAAP) (2)	14.47	11.62	285
At end of period			
Total assets	$30,142,731	$27,358,162	10 %
Total loans, excluding loans held-for-sale, excluding covered loans	23,123,951	20,912,781	11
Total loans, including loans held-for-sale, excluding covered loans	23,462,062	21,283,063	10
Total deposits	24,916,715	22,895,063	9
Total shareholders' equity	3,179,822	2,908,925	9
Book value per common share (2)	54.19	49.86	9
Tangible common book value per share (2)	44.16	40.53	9
Market price per common share	84.94	78.31	8
Excluding covered loans:			
Allowance for credit losses to total loans (4)	0.65 %	0.64 %	1 bp
Non-performing loans to total loans	0.55	0.37	18

(1) Net revenue is net interest income plus non-interest income.
(2) See following section titled, “Supplementary Financial Measures/Ratios” for additional information on this performance measure/ratio.
(3) The net overhead ratio is calculated by netting total non-interest expense and total non-interest income, annualizing this amount, and dividing by that period’s total average assets. A lower ratio indicates a higher degree of efficiency.
(4) The allowance for credit losses includes both the allowance for loan losses and the allowance for lending-related commitments.

Certain returns, yields, performance ratios, and quarterly growth rates are “annualized” in this presentation and throughout this report to represent an annual time period. This is done for analytical purposes to better discern for decision-making purposes underlying performance trends when compared to full-year or year-over-year amounts. For example, balance sheet growth rates are most often expressed in terms of an annual rate. As such, 5% growth during a quarter would represent an annualized growth rate of 20%.

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SUPPLEMENTAL FINANCIAL MEASURES/RATIOS

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

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

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A reconciliation of certain non-GAAP performance measures and ratios used by the Company to evaluate and measure the Company’s performance to the most directly comparable GAAP financial measures is shown below:

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
(Dollars and shares in thousands)	2018	2017	2018	2017
Calculation of Net Interest Margin and Efficiency Ratio				
(A) Interest Income (GAAP)	$304,962	$247,688	$850,214	$694,628
Taxable-equivalent adjustment:				
- Loans	941	1,033	2,423	2,654
- Liquidity Management Assets	575	921	1,672	2,694
- Other Earning Assets	3	5	7	12
(B) Interest Income - FTE	$306,481	$249,647	$854,316	$699,988
(C) Interest Expense (GAAP)	57,399	31,700	139,399	81,651
(D) Net Interest Income - FTE (B minus C)	$249,082	$217,947	$714,917	$618,337
(E) Net Interest Income (GAAP) (A minus C)	$247,563	$215,988	$710,815	$612,977
Net interest margin (GAAP-derived)	3.59 %	3.43 %	3.58 %	3.40 %
Net interest margin - FTE	3.61 %	3.46 %	3.60 %	3.43 %
(F) Non-interest income	$99,930	$79,731	$280,842	$238,468
(G) Gains (losses) on investment securities, net	90	39	(249)	31
(H) Non-interest expense	213,637	183,575	614,755	535,237
Efficiency ratio (H/(E+F-G))	61.50 %	62.09 %	61.98 %	62.86 %
Efficiency ratio - FTE (H/(D+F-G))	61.23 %	61.68 %	61.72 %	62.47 %
Calculation of Tangible Common Equity ratio (at period end)				
Total shareholders’ equity	$3,179,822	$2,908,925		
Less: Non-convertible preferred stock	(125,000)	(125,000)		
Less: Intangible assets	(564,938)	(520,672)		
(I) Total tangible common shareholders’ equity	$2,489,884	$2,263,253		
Total assets	$30,142,731	$27,358,162		
Less: Intangible assets	(564,938)	(520,672)		
(J) Total tangible assets	$29,577,793	$26,837,490		
Tangible common equity ratio (I/J)	8.4 %	8.4 %		
Calculation of book value per share				
Total shareholders’ equity	$3,179,822	$2,908,925		
Less: Preferred stock	(125,000)	(125,000)		
(K) Total common equity	$3,054,822	$2,783,925		
(L) Actual common shares outstanding	56,377	55,838		
Book value per common share (K/L)	$54.19	$49.86		
Tangible common book value per share (I/L)	$44.16	$40.53		
Calculation of return on average common equity				
(M) Net income applicable to common shares	89,898	63,576	257,359	181,173
Add: After-tax intangible asset amortization	871	672	2,366	2,169
(N) Tangible net income applicable to common shares	90,769	64,248	259,725	183,342
Total average shareholders' equity	3,131,943	2,882,682	3,064,396	2,808,072
Less: Average preferred stock	(125,000)	(125,000)	(125,000)	(178,632)
(O) Total average common shareholders' equity	3,006,943	2,757,682	2,939,396	2,629,440
Less: Average intangible assets	(547,552)	(520,333)	(539,281)	(520,006)
(P) Total average tangible common shareholders’ equity	2,459,391	2,237,349	2,400,115	2,109,434

Return on average common equity, annualized (M/O)	11.86	%	9.15	%	11.71	%	9.21	%
Return on average tangible common equity, annualized (N/P)	14.64	%	11.39	%	14.47	%	11.62	%

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Critical Accounting Policies

The Company’s Consolidated Financial Statements are prepared in accordance with GAAP in the United States and prevailing practices of the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments, and as such have a greater possibility that changes in those estimates and assumptions could produce financial results that are materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event, are based on information available as of the date of the financial statements; accordingly, as information changes, the financial statements could reflect different estimates and assumptions. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views critical accounting policies to include the determination of the allowance for loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be most subject to revision as new information becomes available. For a more detailed discussion on these critical accounting policies, see “Summary of Critical Accounting Policies” beginning on page 55 of the Company’s 2017 Form 10-K.

Net Income

Net income for the quarter ended September 30, 2018 totaled $91.9 million, an increase of $26.3 million, or 40%, compared to the quarter ended September 30, 2017. On a per share basis, net income for the third quarter of 2018 totaled $1.57 per diluted common share compared to $1.12 for the third quarter of 2017.

The most significant factors impacting net income for the third quarter of 2018 as compared to the same period in the prior year include an increase in net interest income as a result of growth in earning assets and an improvement in net interest margin, an increase in wealth management revenue, higher mortgage banking revenue, higher BOLI income and a reduction in the Company's effective tax rate due to the reduction of the federal corporate tax rate as a result of the Tax Act. These improvements were partially offset by an increase in non-interest expense primarily attributable to higher salary and employee benefit costs caused by the addition of employees from the CSC and Veterans First acquisitions, merit-based salary increases for current employees effective in February 2018, an increase of the minimum wage for eligible hourly employees effective in March 2018, higher bonus and long-term performance-based incentive compensation due to higher earnings, higher occupancy expenses, increased data processing costs, higher professional fees from increased consulting costs driven by certain consulting agreements paid in relation to the acquisition of CSC and an increase in marketing costs from spending related to deposit generation and brand awareness to grow our loan and deposit portfolios.

Net Interest Income

The primary source of the Company’s revenue is net interest income. Net interest income is the difference between interest income and fees on earnings assets, such as loans and securities, and interest expense on the liabilities to fund those assets, including interest bearing deposits and other borrowings. The amount of net interest income is affected by both changes in the level of interest rates, and the amount and composition of earning assets and interest bearing liabilities.

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Quarter Ended September 30, 2018 compared to the Quarters Ended June 30, 2018 and September 30, 2017

The following table presents a summary of the Company's average balances, net interest income and related net interest margins, including a calculation on a fully taxable equivalent basis, for the third quarter of 2018 as compared to the second quarter of 2018 (sequential quarters) and third quarter of 2017 (linked quarters):

	Average Balance for three months ended,			Interest for three months ended,			Yield/Rate for three months ended,		
(Dollars in thousands)	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	Septem 2017
Interest-bearing deposits with banks and cash equivalents(1)	$998,004	$759,425	$1,003,572	$5,423	$3,244	$3,272	2.16 %	1.71 %	1.29 %
Investment securities (2)	3,046,272	2,890,828	2,652,119	22,285	20,454	16,979	2.90	2.84	2.54
FHLB and FRB stock	88,335	115,119	81,928	1,235	1,455	1,080	5.54	5.07	5.23
Liquidity management assets(3)(8)	$4,132,611	$3,765,372	$3,737,619	$28,943	$25,153	$21,331	2.78 %	2.68 %	2.26 %
Other earning assets(3)(4)(8)	17,862	21,244	25,844	178	172	163	3.95	3.24	2.49
Mortgage loans held-for-sale	380,235	403,967	336,604	5,285	4,226	3,223	5.51	4.20	3.80
Loans, net of unearned income(3)(5)(8)	22,823.378	22,283,541	20,858,618	272,075	255,875	224,330	4.73	4.61	4.27
Covered loans	—	—	48,415	—	—	600	—	—	4.91
Total earning assets(8)	$27,354,086	$26,474,124	$25,007,100	$306,481	$285,426	$249,647	4.45 %	4.32 %	3.96 %
Allowance for loan and covered loan losses	(148,503)	(147,192)	(135,519)						
Cash and due from banks	268,006	270,240	242,186						
Other assets	2,051,520	1,970,407	1,898,528						
Total assets	$29,525,109	$28,567,579	$27,012,295						
NOW and interest bearing demand deposits	$2,519,445	$2,295,268	$2,344,848	$2,479	$1,901	$1,313	0.39 %	0.33 %	0.22 %
Wealth management deposits	2,517,141	2,365,191	2,320,674	8,287	6,992	4,715	1.31	1.19	0.81
Money market accounts	5,369,324	4,883,645	4,471,342	13,260	8,111	3,505	0.98	0.67	0.31
Savings accounts	2,672,077	2,702,665	2,581,946	2,907	2,709	2,162	0.43	0.40	0.33
Time deposits	5,214,637	4,557,187	4,573,081	21,803	15,580	11,960	1.66	1.37	1.04
Interest-bearing deposits	$18,292,624	$16,803,956	$16,291,891	$48,736	$35,293	$23,655	1.06 %	0.84 %	0.58 %

Federal Home Loan Bank advances	429,739	1,006,407	324,996	1,947	4,263	2,151	1.80	1.70	2.63
Other borrowings	268,278	240,066	268,850	2,003	1,698	1,482	2.96	2.84	2.19
Subordinated notes	139,155	139,125	139,035	1,773	1,787	1,772	5.10	5.14	5.10
Junior subordinated debentures	253,566	253,566	253,566	2,940	2,836	2,640	4.54	4.42	4.07
Total interest-bearing liabilities	$19,383,362	$18,443,120	$17,278,338	$57,399	$45,877	$31,700	1.17 %	1.00 %	0.73 %
Non-interest bearing deposits	6,461,195	6,539,731	6,419,326						
Other liabilities	548,609	520,574	431,949						
Equity	3,131,943	3,064,154	2,882,682						
Total liabilities and shareholders' equity	$29,525,109	$28,567,579	$27,012,295						
Interest rate spread(6)(8)							3.28 %	3.32 %	3.23 %
Less: Fully tax-equivalent adjustment				(1,519)	(1,379)	(1,959)	(0.02)	(0.02)	(0.03)
Net free funds/contribution(7)	$7,970,724	$8,031,004	$7,728,762				0.33	0.31	0.23
Net interest income/ margin(8) (GAAP)				$247,563	$238,170	$215,988	3.59 %	3.61 %	3.43 %
Fully tax-equivalent adjustment				1,519	$1,379	$1,959	0.02	0.02	0.03
Net interest income/ margin - FTE (8)				$249,082	$239,549	$217,947	3.61 %	3.63 %	3.46 %

(1) Includes interest-bearing deposits from banks, federal funds sold and securities purchased under resale agreements.

(2) Investment securities includes investment securities classified as available-for-sale and held-to-maturity, and equity securities with readily determinable fair values. Equity securities without readily determinable fair values are included within other assets.

(3) Interest income on tax-advantaged loans, trading securities and investment securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate in effect as of the applicable period. The total adjustments for the three months ended September 30, 2018, June 30, 2018 and September 30, 2017 were $1.5 million, $1.4 million and $2.0 million respectively.

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

(5) Loans, net of unearned income, include non-accrual loans.

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

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

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

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For the third quarter of 2018, net interest income totaled $247.6 million, an increase of $9.4 million as compared to the second quarter of 2018, and an increase of $31.6 million as compared to the third quarter of 2017. Net interest margin was 3.59% (3.61% on a fully tax-equivalent basis) during the third quarter of 2018 compared to 3.61% (3.63% on a fully tax-equivalent basis) during the second quarter of 2018, and 3.43% (3.46% on a fully tax-equivalent basis) during the third quarter of 2017.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

The following table presents a summary of the Company's net interest income and related net interest margin, including a calculation on a fully taxable equivalent basis, for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017:

(Dollars in thousands)	Average Balance for nine months ended, September 30, 2018	September 30, 2017	Interest for nine months ended, September 30, 2018	September 30, 2017	Yield/Rate for nine months ended, September 30, 2018	September 30, 2017
Interest-bearing deposits with banks and cash equivalents (1)	$836,710	$836,373	$11,463	$ 6,531	1.83 %	1.04 %
Investment securities (2)	2,943,802	2,541,061	62,398	47,849	2.83	2.52
FHLB and FRB stock	102,893	91,774	3,988	3,303	5.18	4.81
Liquidity management assets(3)(8)	$3,883,405	$3,469,208	$77,849	$ 57,683	2.68 %	2.22 %
Other earning assets(3)(4)(8)	22,190	25,612	524	508	3.15	2.65
Mortgage loans held-for-sale	355,491	313,675	12,329	9,041	4.64	3.85
Loans, net of unearned income(3)(5)(8)	22,276,827	20,263,832	763,614	630,591	4.58	4.16
Covered loans	—	52,339	—	2,165	—	5.53
Total earning assets(8)	$26,537,913	$24,124,666	$854,316	$ 699,988	4.30 %	3.88 %
Allowance for loan and covered loan losses	(146,287)	(131,695)				
Cash and due from banks	264,294	238,136				
Other assets	1,984,460	1,865,702				
Total assets	$28,640,380	$26,096,809				
NOW and interest bearing demand deposits	$2,357,768	$2,441,911	$5,765	$ 3,620	0.33 %	0.20 %
Wealth management deposits	2,378,468	2,165,610	20,721	9,894	1.16	0.61
Money market accounts	4,927,639	4,438,537	26,038	8,433	0.71	0.25
Savings accounts	2,728,986	2,380,688	8,348	4,999	0.41	0.28
Time deposits	4,701,247	4,369,688	49,706	31,450	1.41	0.96
Interest-bearing deposits	$17,094,108	$15,796,434	$110,578	$ 58,396	0.86 %	0.49 %
Federal Home Loan Bank advances	768,029	399,171	9,849	6,674	1.71	2.24
Other borrowings	257,175	254,854	5,400	3,770	2.81	1.98
Subordinated notes	139,125	139,008	5,333	5,330	5.11	5.11
Junior subordinated debentures	253,566	253,566	8,239	7,481	4.28	3.89
Total interest-bearing liabilities	$18,512,003	$16,843,033	$139,399	$ 81,651	1.01 %	0.65 %
Non-interest bearing deposits	6,546,269	6,039,329				
Other liabilities	517,712	406,375				
Equity	3,064,396	2,808,072				
Total liabilities and shareholders' equity	$28,640,380	$26,096,809				
Interest rate spread(6)(8)					3.29 %	3.23 %
Less: Fully tax-equivalent adjustment			(4,102)	(5,360)	(0.02)	(0.03)

Net free funds/contribution[7]	$8,025,910	$7,281,633			0.31		0.20	
Net interest income/ margin[8] (GAAP)			$710,815	$ 612,977	3.58	%	3.40	%
Fully tax-equivalent adjustment			4,102	5,360	0.02		0.03	
Net interest income/ margin - FTE [8]			$714,917	$ 618,337	3.60	%	3.43	%

(1) Includes interest-bearing deposits from banks, federal funds sold and securities purchased under resale agreements.

(2) Investment securities includes investment securities classified as available-for-sale and held-to-maturity, and equity securities with readily determinable fair values. Equity securities without readily determinable fair values are included within other assets.

(3) Interest income on tax-advantaged loans, trading securities and investment securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate in effect as of the applicable period. The total adjustments for the nine months ended September 30, 2018 and 2017 were $4.1 million and $5.4 million respectively.

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

(5) Loans, net of unearned income, include non-accrual loans.

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

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

(8) See “Supplemental Financial Measures/Ratios” for additional information on this performance ratio.

Explanation of Responses:

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For the first nine months of 2018, net interest income totaled $710.8 million, an increase of $97.8 million as compared to the first nine months of 2017. Net interest margin was 3.58% (3.60% on a fully tax-equivalent basis) for the first nine months of 2018 compared to 3.40% (3.43% on a fully tax-equivalent basis) for the same period of 2017.

Analysis of Changes in Net Interest Income (GAAP)

The following table presents an analysis of the changes in the Company's net interest income comparing the three month periods ended September 30, 2018 to June 30, 2018 and September 30, 2017 and the nine month periods ended September 30, 2018 and September 30, 2017. The reconciliations set forth the changes in the GAAP-derived net interest income as a result of changes in volumes, changes in rates and differing number of days in each period:

(Dollars in thousands)	Third Quarter of 2018 Compared to Second Quarter of 2018	Third Quarter of 2018 Compared to Third Quarter of 2017	First Nine Months of 2018 Compared to First Nine Months of 2017
Net interest income (GAAP) for comparative period	$238,170	$215,988	$612,977
Change due to mix and growth of earning assets and interest-bearing liabilities (volume)	9,098	20,396	60,067
Change due to interest rate fluctuations (rate)	(2,294)	11,179	37,771
Change due to number of days in each period	2,589	—	—
Net interest income (GAAP) for the period ended September 30, 2018	$247,563	$247,563	$710,815
Fully tax-equivalent adjustment	1,519	1,519	4,102
Net interest income - FTE	$249,082	$249,082	$714,917

Non-interest Income

The following table presents non-interest income by category for the periods presented:

(Dollars in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ Change	% Change
Brokerage	$5,579	$ 5,127	$452	9 %
Trust and asset management	17,055	14,676	2,379	16
Total wealth management	$22,634	$ 19,803	$2,831	14 %
Mortgage banking	42,014	28,184	13,830	49
Service charges on deposit accounts	9,331	8,645	686	8
Gains on investment securities, net	90	39	51	NM
Fees from covered call options	627	1,143	(516)	(45)
Trading (losses) gains, net	(61)	(129)	68	(53)
Operating lease income, net	9,132	8,461	671	8
Other:				
Interest rate swap fees	2,359	1,762	597	34
BOLI	3,190	897	2,293	NM
Administrative services	1,099	1,052	47	4
Early pay-offs of capital leases	11	—	11	NM
Miscellaneous	9,504	9,874	(370)	(4)
Total Other	$16,163	$ 13,585	$2,578	19 %

Total Non-Interest Income	$99,930	$ 79,731	$20,199	25 %

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(Dollars in thousands)	Nine Months Ended September 30, 2018	September 30, 2017	$ Change	% Change
Brokerage	$17,394	$ 16,796	$598	4 %
Trust and asset management	50,843	43,060	7,783	18
Total wealth management	$68,237	$ 59,856	$8,381	14 %
Mortgage banking	112,808	86,061	26,747	31
Service charges on deposit accounts	27,339	25,606	1,733	7
(Losses) gains on investment securities, net	(249)	31	(280)	NM
Fees from covered call options	2,893	2,792	101	4
Trading gains (losses), net	166	(869)	1,035	NM
Operating lease income, net	27,569	21,048	6,521	31
Other:				
Interest rate swap fees	8,425	5,416	3,009	56
BOLI	5,448	2,770	2,678	97
Administrative services	3,365	3,062	303	10
Early pay-offs of capital leases	598	1,221	(623)	(51)
Miscellaneous	24,243	31,474	(7,231)	(23)
Total Other	$42,079	$ 43,943	$(1,864)	(4)%
Total Non-Interest Income	$280,842	$ 238,468	$42,374	18 %

NM - Not Meaningful

Notable contributions to the change in non-interest income are as follows:

The increase in wealth management revenue during the current period as compared to the same period of 2017 is primarily attributable to growth in assets under management along with market appreciation related to managed money accounts with fees based on assets under management. Wealth management revenue is comprised of the trust and asset management revenue of The Chicago Trust Company and Great Lakes Advisors and the brokerage commissions, managed money fees and insurance product commissions at Wintrust Investments.

The increase in mortgage banking revenue in the current quarter as compared to the same period of 2017 resulted primarily from increased revenue from loans originated and sold, higher positive fair market value adjustment to MSRs and higher servicing income as the Company's loan servicing portfolio increased due to the acquisition of Veterans First, partially offset by lower production margins. Mortgage banking revenue includes revenue from activities related to originating, selling and servicing residential real estate loans for the secondary market. Mortgage revenue is also impacted by changes in the fair value of MSRs as the Company does not hedge this change in fair value. The Company originates mortgage loans held-for-sale with associated MSRs either retained or released. The Company records MSRs at fair value on a recurring basis.

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The table below presents additional selected information regarding mortgage banking revenue for the respective periods.

(Dollars in thousands)	Three months ended September 30, 2018	September 30, 2017	Nine Months Ended September 30, 2018	September 30, 2017
Retail originations	$642,213	$809,961	$1,949,036	$2,398,328
Correspondent originations	310,446	145,999	559,896	414,357
Veterans First originations	199,774	—	518,726	—
Total originations (A)	$1,152,433	$955,960	$3,027,658	$2,812,685
Purchases as a percentage of originations	76 %	80 %	77 %	78 %
Refinances as a percentage of originations	24	20	23	22
Total	100 %	100 %	100 %	100 %
Production Margin:				
Production revenue [1] (B)	$25,253	$24,038	$73,593	$69,855
Production margin (B/A)	2.19 %	2.51 %	2.43 %	2.48 %
Mortgage Servicing:				
Loans serviced for others (C)	$5,904,300	$2,622,411		
MSRs, at fair value (D)	74,530	29,414		
Percentage of MSRs to loans serviced for others (D/C)	1.26 %	1.12 %		
Components of Mortgage Banking Revenue:				
Production revenue	$25,253	$24,038	$73,593	$69,855
MSR capitalization, net of payoffs and paydowns	10,249	4,308	19,731	11,531
MSR fair value adjustments	1,077	(2,201)	7,307	(1,220)
Servicing income	3,942	1,702	10,352	4,475
Other	1,493	337	1,825	1,420
Total mortgage banking revenue	$42,014	$28,184	$112,808	$86,061

(1) Production revenue represents revenue earned from the origination and subsequent sale of mortgages, including gains on loans sold and fees from originations, processing and other related activities, and excludes servicing fees, changes in fair value of servicing rights and changes to the mortgage recourse obligation.

The Company has typically written call options with terms of less than three months against certain U.S. Treasury and agency securities held in its portfolio for liquidity and other purposes. Management has effectively entered into these transactions with the goal of economically hedging security positions and enhancing its overall return on its investment portfolio by using fees generated from these options to compensate for net interest margin compression. These option transactions are designed to mitigate overall interest rate risk and do not qualify as hedges pursuant to accounting guidance. There were no outstanding call option contracts at September 30, 2018 and September 30, 2017.

The increase in operating lease income in the current year periods compared to the prior year periods is primarily related to growth in business from the Company's leasing divisions.

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Non-interest Expense

The following table presents non-interest expense by category for the periods presented:

(Dollars in thousands)	Three months ended September 30, 2018	September 30, 2017	$ Change	% Change
Salaries and employee benefits:				
Salaries	$69,893	$ 57,689	$12,204	21 %
Commissions and incentive compensation	34,046	32,095	1,951	6
Benefits	19,916	16,467	3,449	21
Total salaries and employee benefits	$123,855	$ 106,251	$17,604	17 %
Equipment	10,827	9,947	880	9
Operating lease equipment depreciation	7,370	6,794	576	8
Occupancy, net	14,404	13,079	1,325	10
Data processing	9,335	7,851	1,484	19
Advertising and marketing	11,120	9,572	1,548	16
Professional fees	9,914	6,786	3,128	46
Amortization of other intangible assets	1,163	1,068	95	9
FDIC insurance	4,205	3,877	328	8
OREO expense, net	596	590	6	1
Other:				
Commissions—3rd party brokers	1,059	990	69	7
Postage	2,205	1,814	391	22
Miscellaneous	17,584	14,956	2,628	18
Total other	$20,848	$ 17,760	$3,088	17 %
Total Non-Interest Expense	$213,637	$ 183,575	$30,062	16 %

(Dollars in thousands)	Nine months ended September 30, 2018	September 30, 2017	$ Change	% Change
Salaries and employee benefits:				
Salaries	$198,855	$ 167,912	$30,943	18 %
Commissions and incentive compensation	101,902	92,788	9,114	10
Benefits	57,209	51,369	5,840	11
Total salaries and employee benefits	357,966	312,069	45,897	15
Equipment	31,426	28,858	2,568	9
Operating lease equipment depreciation	20,843	17,092	3,751	22
Occupancy, net	41,834	38,766	3,068	8
Data processing	26,580	23,580	3,000	13
Advertising and marketing	31,726	23,448	8,278	35
Professional fees	23,047	18,956	4,091	22
Amortization of other intangible assets	3,164	3,373	(209)	(6)
FDIC insurance	13,165	11,907	1,258	11
OREO expense, net	4,502	2,994	1,508	50
Other:				
Commissions—3rd party brokers	3,485	3,121	364	12
Postage	6,638	5,336	1,302	24
Miscellaneous	50,379	45,737	4,642	10
Total other	60,502	54,194	6,308	12
Total Non-Interest Expense	$614,755	$ 535,237	$79,518	15 %

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Explanation of Responses:

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Notable contributions to the change in non-interest expense are as follows:

Salaries and employee benefits expense increased in the current period compared to the same period of 2017, primarily as a result of the addition of employees from the CSC and Veterans First acquisition and the growth of the Company, merit-based salary increases for current employees effective in February 2018, an increase of the minimum wage for eligible hourly employees effective in March 2018 and higher bonus and long-term performance-based incentive compensation due to higher earnings.

Operating lease equipment depreciation increased in the current quarter compared to the same period of 2017, primarily as a result of growth in business from the Company's leasing divisions.

Occupancy expense increased in the third quarter of 2018 compared to the same quarter of 2017, primarily as a result of higher maintenance and repairs and real estate taxes. Occupancy expense includes depreciation on premises, real estate taxes and insurance, utilities and maintenance of premises, as well as net rent expense for leased premises.

The increase in advertising and marketing expenses during the current quarter compared to the same period of 2017 is primarily related to higher expenses from community sponsorships as well as increased spending related to deposit generation and brand awareness to grow our loan and deposit portfolios. Marketing costs are incurred to promote the Company's brand, commercial banking capabilities, the Company's various products, to attract loans and deposits and to announce new branch openings as well as the expansion of the Company's non-bank businesses. The level of marketing expenditures depends on the timing of sponsorship programs and type of marketing programs utilized which are determined based on the market area, targeted audience, competition and various other factors.

The increase in professional fees during the current quarter compared to the same period of 2017 is primarily related to higher fees on consulting services. The increase in consulting fees was driven by certain consulting agreements paid in relation to the acquisition of Delaware Place Bank totaling $2.1 million. Approximately $147,000 of additional payments will be made in the fourth quarter related to these agreements. Professional fees include legal, audit and tax fees, external loan review costs, consulting arrangements and normal regulatory exam assessments.

Income Taxes

The Company recorded income tax expense of $30.9 million in the third quarter of 2018 compared to $32.0 million in the second quarter of 2018 and $38.6 million in the third quarter of 2017. The effective tax rates were 25.13% in the third quarter of 2018, 26.33% in the second quarter of 2018 and 37.05% in the third quarter of 2017. During the nine months ended September 30, 2018, the Company recorded income tax expense of $89.0 million (25.24% effective tax rate) compared to $105.3 million (35.79% effective tax rate) for the same period of 2017. The lower effective tax rates for the 2018 quarterly and year-to-date periods as compared to 2017 were primarily due to the reduction of the federal statutory income tax rates effective in 2018 as a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017. During the third quarter of 2018, the Company finalized the provisional amounts recorded for the year ended December 31, 2017 related to the Tax Cuts and Jobs Act and recorded an additional net tax benefit of $1.2 million. The effective tax rates were also impacted by excess tax benefits related to share-based compensation. These excess tax benefits were $370,000 in the third quarter of 2018 and $712,000 in the second quarter of 2018, compared to $1.1 million in the third quarter of 2017. Excess tax benefits were $3.7 million and $5.0 million for the year to date periods of 2018 and 2017, respectively. Excess tax benefits are expected to be higher in the first quarter when the majority of the Company's share-based awards vest, and will fluctuate throughout the year based on the Company's stock price and timing of employee stock option exercises and vesting of other share-based awards.

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Operating Segment Results

As described in Note 14 to the Consolidated Financial Statements in Item 1, the Company’s operations consist of three primary segments: community banking, specialty finance and wealth management. The Company’s profitability is primarily dependent on the net interest income, provision for credit losses, non-interest income and operating expenses of its community banking segment. For purposes of internal segment profitability, management allocates certain intersegment and parent company balances. Management allocates a portion of revenues to the specialty finance segment related to loans 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. Finally, expenses incurred at the Wintrust parent company are allocated to each segment based on each segment's risk-weighted assets.

The community banking segment’s net interest income for the quarter ended September 30, 2018 totaled $202.4 million as compared to $176.5 million for the same period in 2017, an increase of $25.9 million, or 15%. On a year-to-date basis, net interest income for the segment increased by $84.8 million from $499.1 million for the nine months ended September 30, 2017 to $583.9 million for the nine months ended September 30, 2018. The increase in both three and nine month periods is primarily attributable to growth in earning assets and higher net interest margin. The community banking segment’s non-interest income totaled $69.8 million in the third quarter of 2018, an increase of $17.2 million, or 33%, when compared to the third quarter of 2017 total of $52.6 million. On a year-to-date basis, non-interest income totaled $192.0 million for the nine months ended September 30, 2018, an increase of $31.8 million, or 20%, compared to $160.3 million in the nine months ended September 30, 2017. The increase in non-interest income in the third quarter and year-to-date periods was primarily attributable to an increase in mortgage banking revenue, higher interest rate swap fees and increased service charges on deposit accounts. The community banking segment’s net income for the quarter ended September 30, 2018 totaled $63.7 million, an increase of $18.9 million as compared to net income in the third quarter of 2017 of $44.8 million. On a year-to-date basis, the community banking segment's net income was $187.4 million for the first nine months of 2018 as compared to $128.5 million for the first nine months of 2017.

The specialty finance segment's net interest income totaled $36.4 million for the quarter ended September 30, 2018, compared to $30.5 million for the same period in 2017, an increase of $5.9 million, or 19%. On a year-to-date basis, net interest income increased by $14.2 million in the first nine months of 2018 as compared to the first nine months of 2017. The increase during both periods is primarily attributable to growth in earning assets and higher yields on the premium finance receivables portfolios. The specialty finance segment’s non-interest income totaled $17.0 million and $16.3 million for the three month periods ended September 30, 2018 and 2017, respectively. On a year-to-date basis, non-interest income increased by $4.8 million in the first nine months of 2018 as compared to the first nine months of 2017. The increase in non-interest income in the current year periods is primarily the result of higher originations and increased balances related to the commercial premium finance portfolio and growth in business from the Company's leasing division. Our commercial premium finance operations, life insurance finance operations, lease financing operations and accounts receivable finance operations accounted for 40%, 36%, 18% and 6%, respectively, of the total revenues of our specialty finance business for the nine month period ended September 30, 2018. The net income of the specialty finance segment for the quarter ended September 30, 2018 totaled $23.0 million as compared to $17.0 million for the quarter ended September 30, 2017. On a year-to-date basis, the net income of the specialty finance segment for the nine months ended September 30, 2018 totaled $61.5 million as compared to $48.0 million for the nine months ended September 30, 2017.

The wealth management segment reported net interest income of $4.0 million for the third quarter of 2018 compared to $4.6 million in the same quarter of 2017. On a year-to-date basis, net interest income totaled $12.7 million for the first nine months of 2018 as compared to $14.5 million for the first nine months of 2017. Net interest income for this segment is primarily comprised of an allocation of the net interest income earned by the community banking segment on non-interest bearing and interest-bearing wealth management customer account balances on deposit at the banks. Wealth management customer account balances on deposit at the banks averaged $874.8 million and $1.0 billion in the first nine months of 2018 and 2017, respectively. This segment recorded non-interest income of $23.5 million for the third quarter of 2018 compared to $20.4 million for the third quarter of 2017. On a year-to-date basis, the wealth management segment's non-interest income totaled $69.8 million during the first nine months of 2018 as compared to $61.7 million in the first nine months of 2017. Distribution of wealth management services through each bank continues to be a focus of the Company as the number of financial advisors in its banks continues to increase. The Company is committed to growing the wealth management segment in order to better service its customers and create a more diversified revenue stream. The wealth management segment’s net income totaled $5.2 million for the third quarter of 2018 compared to $3.8 million for the third quarter of 2017. On a year-to-date basis, the wealth management segment's net income totaled $14.6 million and $12.4 million for the nine month periods ended September 30, 2018 and 2017, respectively.

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Financial Condition

Total assets were $30.1 billion at September 30, 2018, representing an increase of $2.8 billion, or 10%, when compared to September 30, 2017 and an increase of approximately $0.7 billion, or 9% on an annualized basis, when compared to June 30, 2018. Total funding, which includes deposits, all notes and advances, including secured borrowings and the junior subordinated debentures, was $26.3 billion at September 30, 2018, $25.7 billion at June 30, 2018, and $24.0 billion at September 30, 2017. See Notes 5, 6, 10, 11 and 12 of the Consolidated Financial Statements presented under Item 1 of this report for additional period-end detail on the Company's interest-earning assets and funding liabilities.

Interest-Earning Assets

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

	Three Months Ended								
	September 30, 2018			June 30, 2018			September 30, 2017		
(Dollars in thousands)	Balance	Percent		Balance	Percent		Balance	Percent	
Mortgage loans held-for-sale	$380,235	1	%	$403,967	2	%	$336,604	1	%
Loans, net of unearned income									
Commercial	7,337,150	27		7,167,150	27		6,399,589	26	
Commercial real estate	6,658,800	24		6,624,140	25		6,401,278	26	
Home equity	589,242	2		609,455	2		679,668	2	
Residential real estate	847,703	3		834,633	3		778,033	3	
Premium finance receivables	7,257,505	27		6,912,264	26		6,470,190	26	
Other loans	132,978	1		135,899	1		129,860	1	
Total loans, net of unearned income excluding covered loans	$22,823,378	84	%	$22,283,541	84	%	$20,858,618	84	%
Covered loans	—	—		—	—		48,415	—	
Total average loans (1)	$22,823,378	84	%	$22,283,541	84	%	$20,907,033	84	%
Liquidity management assets (2)	$4,132,611	15	%	$3,765,372	14	%	$3,737,619	15	%
Other earning assets (3)	17,862	—		21,244	—		25,844	—	
Total average earning assets	$27,354,086	100	%	$26,474,124	100	%	$25,007,100	100	%
Total average assets	$29,525,109			$28,567,579			$27,012,295		
Total average earning assets to total average assets		93	%		93	%		93	%

(1) Includes non-accrual loans

(2) Liquidity management assets include investment securities, other securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements

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

Mortgage loans held-for-sale. Average mortgage loans held-for-sale totaled $380.2 million in the third quarter of 2018, compared to $404.0 million in the second quarter of 2018 and $336.6 million in the third quarter of 2017. By selling residential mortgage loans into the secondary market, the Company eliminates the interest-rate risk associated with these loans, as they are predominantly long-term fixed rate loans, and provides a source of non-interest revenue.
Loans, net of unearned income. Average total loans, net of unearned income, totaled $22.8 billion in the third quarter of 2018, increasing $1.9 billion, or 9%, from the third quarter of 2017 and $539.8 million, or 10% on an annualized basis, from the second quarter of 2018. Combined, the commercial and commercial real estate loan categories comprised 61% of the average loan portfolio in both of the third quarter of 2018 and 2017. Growth realized in these categories for the third quarter of 2018 as compared to the sequential and prior year periods is primarily attributable to increased business development efforts and the acquisition of CSC.

Home equity loan portfolio averaged $589.2 million in the third quarter of 2018, and decreased $90.4 million, or 13% from the average balance of $679.7 million in same period of 2017. The Company has been actively managing its home equity portfolio to ensure that diligent pricing, appraisal and other underwriting activities continue to exist.

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Residential real estate loans averaged $847.7 million in the third quarter of 2018, and increased $69.7 million, or 9% from the average balance of $778.0 million in same period of 2017. Additionally, compared to the quarter ended June 30, 2018, the average balance increased $13.1 million, or 6% on an annualized basis. The Company's residential real estate portfolio predominantly includes one- to four-family adjustable rate mortgage loans that have repricing terms generally from one to three years, construction loans to individuals and bridge financing loans for qualifying customers.

Average premium finance receivables totaled $7.3 billion in the third quarter of 2018, and accounted for 32% of the Company's average total loans. The increase during the third quarter of 2018 compared to both the second quarter of 2018 and the third quarter of 2017 was the result of continued originations within the portfolio due to the effective marketing and customer servicing. Approximately $1.9 billion of premium finance receivables were originated in the third quarter of 2018 compared to $1.8 billion during the same period of 2017. Premium finance receivables consist of a commercial portfolio and a life portfolio comprising approximately 40% and 60%, respectively, of the average total balance of premium finance receivables for the third quarter of 2018, and 42% and 58%, respectively, for the third quarter of 2017.

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

Covered loans represented loans acquired through eight FDIC-assisted transactions, all of which occurred prior to 2013. These loans were subject to loss sharing agreements with the FDIC. The FDIC agreed to reimburse the Company for 80% of losses incurred on the purchased loans, foreclosed real estate, and certain other assets. On October 16, 2017, the Company entered into agreements with the FDIC that terminated all existing loss share agreements with the FDIC. The Company is solely responsible for all future charge-offs, recoveries, gains, losses and expenses related to the previously covered assets as the FDIC no longer shares in those amounts. See Note 3 of the Consolidated Financial Statements presented under Item 1 of this report for a discussion of these acquisitions, including the aggregation of these loans by risk characteristics when determining the initial and subsequent fair value.

Liquidity management assets. Funds that are not utilized for loan originations are used to purchase investment securities and short term money market investments, to sell as federal funds and to maintain in interest bearing deposits with banks. The balances of these assets can fluctuate based on management's ongoing effort to manage liquidity and for asset liability management purposes.

Other earning assets. Other earning assets include brokerage customer receivables and trading account securities. In the normal course of business, Wintrust Investments activities involve the execution, settlement, and financing of various securities transactions. Wintrust Investments customer securities activities are transacted on either a cash or margin basis. In margin transactions, Wintrust Investments, under an agreement with an out-sourced securities firm, extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in customer's accounts. In connection with these activities, Wintrust Investments executes and the out-sourced firm clears customer transactions relating to the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose Wintrust Investments to off-balance-sheet risk, particularly in volatile trading markets, in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event a customer fails to satisfy its obligations, Wintrust Investments under the agreement with the outsourced securities firm, may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. Wintrust

Investments seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. Wintrust Investments monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or to reduce positions when necessary.

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

	Nine Months Ended			
	September 30, 2018		September 30, 2017	
(Dollars in thousands)	Balance	Percent	Balance	Percent
Mortgage loans held-for-sale	$355,491	1 %	$313,675	1 %
Loans:				
Commercial	7,115,633	27	6,173,563	26
Commercial real estate	6,624,613	25	6,306,508	26
Home equity	615,623	2	698,956	3
Residential real estate	837,389	3	747,487	3
Premium finance receivables	6,952,069	26	6,211,151	26
Other loans	131,500	1	126,167	1
Total loans, net of unearned income excluding covered loans	$22,276,827	84 %	$20,263,832	85 %
Covered loans	—	—	52,339	—
Total average loans (1)	$22,276,827	84 %	$20,316,171	85 %
Liquidity management assets (2)	$3,883,405	15 %	$3,469,208	14 %
Other earning assets (3)	22,190	—	25,612	—
Total average earning assets	$26,537,913	100 %	$24,124,666	100 %
Total average assets	$28,640,380		$26,096,809	
Total average earning assets to total average assets		93 %		92 %

(1) Includes non-accrual loans

(2) Liquidity management assets include investment securities, other securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements

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

Total average loans for the first nine months of 2018 increased $2.0 billion or 10% over the previous year period. Similar to the quarterly discussion above, approximately $942.1 million of this increase relates to the commercial portfolio, $318.1 million of this increase relates to the commercial real estate portfolio and $740.9 million of this increase relates to the premium finance receivables portfolio.

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LOAN PORTFOLIO AND ASSET QUALITY

Loan Portfolio

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

	September 30, 2018		December 31, 2017		September 30, 2017	
(Dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial	$7,473,958	32 %	$6,787,677	31 %	$6,456,034	31 %
Commercial real estate	6,746,774	29	6,580,618	30	6,400,781	31
Home equity	578,844	3	663,045	3	672,969	3
Residential real estate	924,250	4	832,120	4	789,499	3
Premium finance receivables—commercial	2,885,327	12	2,634,565	12	2,664,912	13
Premium finance receivables—life insurance	4,398,971	19	4,035,059	19	3,795,474	18
Consumer and other	115,827	1	107,713	1	133,112	1
Total loans, net of unearned income, excluding covered loans	$23,123,951	100%	$21,640,797	100%	$20,912,781	100%
Covered loans	—	—	—	—	46,601	—
Total loans	$23,123,951	100%	$21,640,797	100%	$20,959,382	100%

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Commercial and commercial real estate loans. Our commercial and commercial real estate loan portfolios are comprised primarily of commercial real estate loans and lines of credit for working capital purposes. The table below sets forth information regarding the types and amounts of our loans within these portfolios (excluding covered loans) as of September 30, 2018 and 2017:

	As of September 30, 2018			As of September 30, 2017		
(Dollars in thousands)	Balance	% of Total Balance	Allowance For Loan Losses Allocation	Balance	% of Total Balance	Allowance For Loan Losses Allocation
Commercial:						
Commercial, industrial and other	$4,805,486	33.8 %	$45,111	$4,120,533	32.0 %	$38,708
Franchise	937,290	6.6	8,962	853,716	6.6	6,154
Mortgage warehouse lines of credit	171,860	1.2	1,350	194,370	1.5	1,438
Asset-based lending	1,033,851	7.3	9,389	896,336	7.0	7,683
Leases	509,675	3.6	1,338	381,394	3.0	1,208
PCI - commercial loans (1)	15,796	0.1	594	9,685	0.1	544
Total commercial	$7,473,958	52.6 %	$66,744	$6,456,034	50.2 %	$55,735
Commercial Real Estate:						
Construction	$798,330	5.6 %	$9,259	$673,977	5.2 %	$7,565
Land	119,004	0.9	3,816	102,753	0.8	3,354
Office	940,777	6.6	6,339	880,951	6.9	6,249
Industrial	885,931	6.2	6,002	836,485	6.5	5,538
Retail	887,702	6.2	8,195	934,239	7.3	6,107
Multi-family	923,893	6.5	8,900	864,985	6.7	8,873
Mixed use and other	2,086,455	14.7	15,717	1,974,315	15.4	14,270
PCI - commercial real estate (1)	104,682	0.7	18	133,076	1.0	84
Total commercial real estate	$6,746,774	47.4 %	$58,246	$6,400,781	49.8 %	$52,040
Total commercial and commercial real estate	$14,220,732	100.0 %	$124,990	$12,856,815	100.0 %	$107,775
Commercial real estate - collateral location by state:						
Illinois	$5,213,719	77.3 %		$4,981,379	77.8 %	
Wisconsin	694,205	10.3		683,229	10.7	
Total primary markets	$5,907,924	87.6 %		$5,664,608	88.5 %	
Indiana	151,725	2.2		140,749	2.2	
Florida	50,819	0.8		114,599	1.8	
Arizona	58,880	0.9		58,192	0.9	
Michigan	45,502	0.7		44,664	0.7	
California	54,692	0.8		36,366	0.6	
Other	477,232	7.0		341,603	5.3	
Total	$6,746,774	100.0 %		$6,400,781	100.0 %	

(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.

We make commercial loans for many purposes, including working capital lines, which are generally renewable annually and supported by business assets, personal guarantees and additional collateral. Commercial business lending is generally considered to involve a slightly higher degree of risk than traditional consumer bank lending. Primarily as a result of growth in the commercial portfolio, our allowance for loan losses in our commercial loan portfolio is $66.7

million as of September 30, 2018 compared to $55.7 million as of September 30, 2017.

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Our commercial real estate loans are generally secured by a first mortgage lien and assignment of rents on the property. Since most of our bank branches are located in the Chicago metropolitan area and southern Wisconsin, 87.6% of our commercial real estate loan portfolio is located in this region as of September 30, 2018. While commercial real estate market conditions are generally considered to be good, a few of our specific markets have stress conditions. We have been able to effectively manage our total non-performing commercial real estate loans. As of September 30, 2018, our allowance for loan losses related to this portfolio is $58.2 million compared to $52.0 million as of September 30, 2017.

The Company also participates in mortgage warehouse lending by providing interim funding to unaffiliated mortgage bankers to finance residential mortgages originated by such bankers for sale into the secondary market. The Company's loans to the mortgage bankers are secured by the business assets of the mortgage companies as well as the specific mortgage loans funded by the Company, after they have been pre-approved for purchase by third party end lenders. The Company may also provide interim financing for packages of mortgage loans on a bulk basis in circumstances where the mortgage bankers desire to competitively bid on a number of mortgages for sale as a package in the secondary market. Amounts advanced with respect to any particular mortgage loan are usually required to be repaid within 21 days. Mortgage warehouse lines portfolio totaled $171.9 million as of September 30, 2018 compared to $194.4 million as of September 30, 2017.

Home equity loans. Our home equity loans and lines of credit are originated by each of our banks in their local markets where we have a strong understanding of the underlying real estate value. Our banks monitor and manage these loans, and we conduct an automated review of all home equity loans and lines of credit at least twice per year. This review collects current credit performance for each home equity borrower and identifies situations where the credit strength of the borrower is declining, or where there are events that may influence repayment, such as tax liens or judgments. Our banks use this information to manage loans that may be higher risk and to determine whether to obtain additional credit information or updated property valuations.

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

Residential real estate. Our residential real estate portfolio predominantly includes one- to four-family adjustable rate mortgages that have repricing terms generally from one to three years, construction loans to individuals and bridge financing loans for qualifying customers. As of September 30, 2018, our residential loan portfolio totaled $924.3 million, or 4% of our total outstanding loans.

Our adjustable rate mortgages relate to properties located principally in the Chicago metropolitan area and southern Wisconsin or vacation homes owned by local residents. These adjustable rate mortgages are often non-agency conforming. Adjustable rate mortgage loans decrease the interest rate risk we face on our mortgage portfolio. However, this risk is not eliminated due to the fact that such loans generally provide for periodic and lifetime limits on the interest rate adjustments among other features. Additionally, adjustable rate mortgages may pose a higher risk of delinquency and default because they require borrowers to make larger payments when interest rates rise. As of September 30, 2018, $16.1 million of our residential real estate mortgages, or 1.7% of our residential real estate loan portfolio were classified as nonaccrual, $1.9 million were 90 or more days past due and still accruing (0.2%), $2.3

million were 30 to 89 days past due (0.3%) and $904.0 million were current (97.8%). We believe that since our loan portfolio consists primarily of locally originated loans, and since the majority of our borrowers are longer-term customers with lower LTV ratios, we face a relatively low risk of borrower default and delinquency.

While we generally do not originate loans for our own portfolio with long-term fixed rates due to interest rate risk considerations, we can accommodate customer requests for fixed rate loans by originating such loans and then selling them into the secondary market, for which we receive fee income. We may also selectively retain certain of these loans within the banks’ own portfolios where they are non-agency conforming, or where the terms of the loans make them favorable to retain. A portion of the loans we sold into the secondary market were sold with the servicing of those loans retained. The amount of loans serviced for others as of September 30, 2018 and 2017 was $5.9 billion and $2.6 billion, respectively. All other mortgage loans sold into the secondary market were sold without the retention of servicing rights.

The Government National Mortgage Association ("GNMA") optional repurchase programs allow financial institutions acting as servicers to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution was the original transferor of such loans. At the option of the servicer and without prior authorization from GNMA, the servicer may repurchase such delinquent loans for an amount equal to the remaining principal balance of the loan. Under FASB

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ASC Topic 860, “Transfers and Servicing,” this buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When the Company is deemed to have regained effective control over these loans under the unconditional buy-back option and the expected benefit of the potential buy-back is more than trivial, the loans can no longer be reported as sold and must be brought back onto the balance sheet as loans, regardless of whether the Company intends to exercise the buy-back option. These loans are reported as loans held-for-investment, part of the residential real estate portfolio, with the offsetting liability being reported in accrued interest payable and other liabilities. Rebooked GNMA loans held-for-investment amounted to $64.4 million at September 30, 2018, compared to no balance at September 30, 2017.

It is not our current practice to underwrite, and we have no plans to underwrite, subprime, Alt A, no or little documentation loans, or option ARM loans. As of September 30, 2018, approximately $1.3 million of our mortgage loans consist of interest-only loans.

Premium finance receivables – commercial. FIRST Insurance Funding and FIFC Canada originated approximately $1.7 billion in commercial insurance premium finance receivables in the third quarter of 2018 as compared to $1.6 billion of originations in the third quarter of 2017. During the nine months ended September 30, 2018 and 2017, FIRST Insurance Funding and FIFC Canada originated approximately $5.1 billion and $4.6 billion, respectively, in commercial insurance premium finance receivables

FIRST Insurance Funding and FIFC Canada make loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. The loans are originated by working through independent medium and large insurance agents and brokers located throughout the United States and Canada. The insurance premiums financed are primarily for commercial customers’ purchases of liability, property and casualty and other commercial insurance.

This lending involves relatively rapid turnover of the loan portfolio and high volume of loan originations. Because of the indirect nature of this lending through third party agents and brokers and because the borrowers are located nationwide and in Canada, this segment is more susceptible to third party fraud than relationship lending. The Company performs ongoing credit and other reviews of the agents and brokers, and performs various internal audit steps to mitigate against the risk of any fraud. The majority of these loans are purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments.

Premium finance receivables—life insurance. Wintrust Life Finance originated approximately $200.0 million in life insurance premium finance receivables in the third quarter of 2018 as compared to $205.9 million of originations in the third quarter of 2017. During the nine months ended September 30, 2018 and 2017, Wintrust Life Finance originated approximately $654.6 million and $653.1 million, respectively, in life insurance premium finance receivables.

The Company continues to experience increased competition and pricing pressure within the current market. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and legal counsel. The life insurance policy is the primary form of collateral. In addition, these loans often are secured with a letter of credit, marketable securities or certificates of deposit. In some cases, Wintrust Life Finance may make a loan that has a partially unsecured position.

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

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

Covered loans. Covered loans represent loans acquired through eight FDIC-assisted transactions, all of which occurred prior to 2013. These loans were subject to loss sharing agreements with the FDIC. The FDIC agreed to reimburse the Company for 80% of losses incurred on the purchased loans, foreclosed real estate, and certain other assets. On October 16, 2017, the Company entered into agreements with the FDIC that terminated all existing loss share agreements with the FDIC. Starting on October 16,
2017, the Company is solely responsible for all charge-offs, recoveries, gains, losses and expenses related to the previously covered assets as the FDIC no longer shares in those amounts. See Note 3 of the Consolidated Financial Statements presented under Item 1 of this report for a discussion of these acquisitions, including the aggregation of these loans by risk characteristics when determining the initial and subsequent fair value.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table classifies the loan portfolio at September 30, 2018 by date at which the loans reprice or mature, and the type of rate exposure:

As of September 30, 2018 (Dollars in thousands)	One year or less	From one to five years	Over five years	Total
Commercial				
Fixed rate	$140,679	$1,016,116	$691,306	$1,848,101
Variable rate	5,619,143	6,714	—	5,625,857
Total commercial	$5,759,822	$1,022,830	$691,306	$7,473,958
Commercial real estate				
Fixed rate	378,163	1,860,693	283,884	2,522,740
Variable rate	4,194,363	28,461	1,210	4,224,034
Total commercial real estate	$4,572,526	$1,889,154	$285,094	$6,746,774
Home equity				
Fixed rate	10,787	11,906	27,167	49,860
Variable rate	528,984	—	—	528,984
Total home equity	$539,771	$11,906	$27,167	$578,844
Residential real estate				
Fixed rate	32,621	23,239	206,214	262,074
Variable rate	60,733	274,323	327,120	662,176
Total residential real estate	$93,354	$297,562	$533,334	$924,250
Premium finance receivables - commercial				
Fixed rate	2,811,527	73,800	—	2,885,327
Variable rate	—	—	—	—
Total premium finance receivables - commercial	$2,811,527	$73,800	$—	$2,885,327
Premium finance receivables - life insurance				
Fixed rate	12,739	2,855	3,955	19,549
Variable rate	4,379,422	—	—	4,379,422
Total premium finance receivables - life insurance	$4,392,161	$2,855	$3,955	$4,398,971
Consumer and other				
Fixed rate	70,151	9,729	2,313	82,193
Variable rate	33,592	42	—	33,634
Total consumer and other	$103,743	$9,771	$2,313	$115,827
Total per category				
Fixed rate	3,456,667	2,998,338	1,214,839	7,669,844
Variable rate	14,816,237	309,540	328,330	15,454,107
Total loans, net of unearned income, excluding covered loans	$18,272,904	$3,307,878	$1,543,169	$23,123,951
Variable Rate Loan Pricing by Index:				
Prime	$2,457,259			
One- month LIBOR	7,772,158			
Three- month LIBOR	457,638			
Twelve- month LIBOR	4,529,883			
Other	237,169			
Total variable rate	$15,454,107			

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Past Due Loans and Non-Performing Assets

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

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

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

The Company's problem loan reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the

Company's Managed Asset Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company's Managed Asset Division, the credit risk rating is reviewed and a portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company's impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company's Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions. An appraisal is ordered at least once a year for these loans, or more often if market conditions dictate. In the event that the underlying value of the collateral cannot be easily determined, a detailed valuation methodology is prepared by the Managed Asset Division. A summary of this analysis is provided to the directors' loan committee of the bank which originated the credit for approval of a charge-off, if necessary.

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

The Company's approach to workout plans and restructuring loans is built on the credit-risk rating process. A modification of a loan with an existing credit risk rating of 6 or worse or a modification of any other credit, which will result in a restructured credit risk rating of 6 or worse must be reviewed for TDR classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of a loan is considered to be a TDR if both (1) the borrower is experiencing financial difficulty and (2) for economic or legal reasons, the bank grants a concession to a borrower that it would not otherwise consider. The modification of a loan where the credit risk rating is 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.

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

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

Non-performing Assets, excluding covered assets

The following table sets forth Wintrust's non-performing assets and TDRs performing under the contractual terms of the loan agreement, excluding covered assets and PCI loans, as of the dates shown:

(Dollars in thousands)	September 30, 2018	June 30, 2018	December 31, 2017 (3)	September 30, 2017
Loans past due greater than 90 days and still accruing (1):				
Commercial	$ 5,122	$—	$—	$ —
Commercial real estate	—	—	—	—
Home equity	—	—	—	—
Residential real estate	—	—	3,278	—
Premium finance receivables—commercial	7,028	5,159	9,242	9,584
Premium finance receivables—life insurance	—	—	—	6,740
Consumer and other	233	224	40	159
Total loans past due greater than 90 days and still accruing	12,383	5,383	12,560	16,483
Non-accrual loans (2):				
Commercial	58,587	18,388	15,696	13,931
Commercial real estate	17,515	19,195	22,048	14,878
Home equity	8,523	9,096	8,978	7,581
Residential real estate	16,062	15,825	17,977	14,743
Premium finance receivables—commercial	13,802	14,832	12,163	9,827
Premium finance receivables—life insurance	—	—	—	—
Consumer and other	355	563	740	540
Total non-accrual loans	114,844	77,899	77,602	61,500
Total non-performing loans:				
Commercial	63,709	18,388	15,696	13,931
Commercial real estate	17,515	19,195	22,048	14,878
Home equity	8,523	9,096	8,978	7,581
Residential real estate	16,062	15,825	21,255	14,743
Premium finance receivables—commercial	20,830	19,991	21,405	19,411
Premium finance receivables—life insurance	—	—	—	6,740
Consumer and other	588	787	780	699
Total non-performing loans	$ 127,227	$ 83,282	$ 90,162	$ 77,983
Other real estate owned	14,924	18,925	20,244	17,312
Other real estate owned—from acquisitions	13,379	16,406	20,402	20,066
Other repossessed assets	294	305	153	301
Total non-performing assets	$ 155,824	$ 118,918	$ 130,961	$ 115,662
TDRs performing under the contractual terms of the loan agreement	31,487	57,249	39,683	26,972
Total non-performing loans by category as a percent of its own respective category's period-end balance:				
Commercial	0.85 %	0.25 %	0.23 %	0.22 %
Commercial real estate	0.26	0.29	0.34	0.23
Home equity	1.47	1.53	1.35	1.13
Residential real estate	1.74	1.77	2.55	1.87
Premium finance receivables—commercial	0.72	0.71	0.81	0.73
Premium finance receivables—life insurance	—	—	—	0.18
Consumer and other	0.51	0.65	0.72	0.53
Total non-performing loans	0.55 %	0.37 %	0.42 %	0.37 %

Total non-performing assets, as a percentage of total assets	0.52	%	0.40	%	0.47	%	0.42	%
Allowance for loan losses as a percentage of total non-performing loans	117.71	%	172.19	%	152.95	%	170.70	%

(1) Loans past due greater than 90 days and still accruing interest included TDRs totaling $5.1 million as of September 30, 2018. As of June 30, 2018, December 31, 2017 and September 30, 2017, no TDRs were past due greater than 90 days and still accruing interest.

(2) Non-accrual loans included TDRs totaling $34.7 million, $8.1 million, $10.1 million and $6.2 million as of September 30, 2018, June 30, 2018, December 31, 2017 and September 30, 2017 respectively.

(3) Includes $2.6 million of non-performing loans and $2.9 million of other real estate owned reclassified from covered assets
as a result of the termination of all existing loss share agreements with the FDIC during the fourth quarter of 2017.

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Management is pursuing the resolution of all credits in this category. At this time, management believes reserves are appropriate to absorb inherent losses that are expected upon the ultimate resolution of these credits.

Loan Portfolio Aging

The tables below show the aging of the Company's loan portfolio at September 30, 2018 and June 30, 2018:

As of September 30, 2018 (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	$ 41,322	$ —	$ 2,535	$ 16,451	$ 4,745,178	$ 4,805,486
Franchise	16,351	5,122	—	—	915,817	937,290
Mortgage warehouse lines of credit	—	—	3,000	—	168,860	171,860
Asset-based lending	910	—	590	9,083	1,023,268	1,033,851
Leases	4	—	—	80	509,591	509,675
PCI - commercial (1)	—	3,372	15	—	12,409	15,796
Total commercial	58,587	8,494	6,140	25,614	7,375,123	7,473,958
Commercial real estate						
Construction	1,554	—	1,823	16,228	778,725	798,330
Land	228	—	365	—	118,411	119,004
Office	1,532	—	4,058	3,021	932,166	940,777
Industrial	178	—	122	145	885,486	885,931
Retail	10,586	—	4,570	10,645	861,901	887,702
Multi-family	318	—	—	1,162	922,413	923,893
Mixed use and other	3,119	—	9,654	11,503	2,062,179	2,086,455
PCI - commercial real estate (1)	—	5,578	6,448	1,380	91,276	104,682
Total commercial real estate	17,515	5,578	27,040	44,084	6,652,557	6,746,774
Home equity	8,523	—	1,075	3,478	565,768	578,844
Residential real estate, including PCI	16,062	1,865	1,714	603	904,006	924,250
Premium finance receivables						
Commercial insurance loans	13,802	7,028	5,945	13,239	2,845,313	2,885,327
Life insurance loans	—	—	—	22,016	4,203,465	4,225,481
PCI - life insurance loans (1)	—	—	—	—	173,490	173,490
Consumer and other, including PCI	355	295	430	329	114,418	115,827
Total loans, net of unearned income	$ 114,844	$ 23,260	$ 42,344	$ 109,363	$ 22,834,140	$ 23,123,951

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Aging as a % of Loan Balance: As of September 30, 2018	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Commercial						
Commercial, industrial and other	0.9 %	— %	0.1 %	0.3 %	98.7 %	100.0 %
Franchise	1.7	0.5	—	—	97.8	100.0
Mortgage warehouse lines of credit	—	—	1.7	—	98.3	100.0
Asset-based lending	0.1	—	0.1	0.9	98.9	100.0
Leases	—	—	—	—	100.0	100.0
PCI - commercial (1)	—	21.3	0.1	—	78.6	100.0
Total commercial	0.8	0.1	0.1	0.3	98.7	100.0
Commercial real estate						
Construction	0.2	—	0.2	2.0	97.6	100.0
Land	0.2	—	0.3	—	99.5	100.0
Office	0.2	—	0.4	0.3	99.1	100.0
Industrial	—	—	—	—	100.0	100.0
Retail	1.2	—	0.5	1.2	97.1	100.0
Multi-family	—	—	—	0.1	99.9	100.0
Mixed use and other	0.1	—	0.5	0.6	98.8	100.0
PCI - commercial real estate (1)	—	5.3	6.2	1.3	87.2	100.0
Total commercial real estate	0.3	0.1	0.4	0.7	98.5	100.0
Home equity	1.5	—	0.2	0.6	97.7	100.0
Residential real estate, including PCI	1.7	0.2	0.2	0.1	97.8	100.0
Premium finance receivables						
Commercial insurance loans	0.5	0.2	0.2	0.5	98.6	100.0
Life insurance loans	—	—	—	0.5	99.5	100.0
PCI - life insurance loans (1)	—	—	—	—	100.0	100.0
Consumer and other, including PCI	0.3	0.3	0.4	0.3	98.7	100.0
Total loans, net of unearned income	0.5 %	0.1 %	0.2 %	0.5 %	98.7 %	100.0 %

As of June 30, 2018 (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	$ 13,543	$ —	1,384	9,196	4,597,666	4,621,789
Franchise	2,438	—	408	—	954,493	957,339
Mortgage warehouse lines of credit	—	—	—	—	200,060	200,060
Asset-based lending	2,158	—	1,146	6,411	1,033,040	1,042,755
Leases	249	—	—	89	458,276	458,614
PCI - commercial (1)	—	882	126	227	7,268	8,503
Total commercial	18,388	882	3,064	15,923	7,250,803	7,289,060
Commercial real estate						
Construction	1,554	—	—	1,098	804,583	807,235
Land	228	—	—	478	114,651	115,357
Office	1,333	—	207	1,403	891,406	894,349
Industrial	185	—	—	1,126	881,214	882,525
Retail	11,540	—	372	5,473	850,254	867,639
Multi-family	342	—	—	611	951,095	952,048
Mixed use and other	4,013	—	408	9,856	1,934,965	1,949,242

PCI - commercial real estate [(1)]	—	3,194	3,132	7,637	92,726	106,689
Total commercial real estate	19,195	3,194	4,119	27,682	6,520,894	6,575,084
Home equity	9,096	—	—	3,226	581,178	593,500
Residential real estate, including PCI	15,825	1,472	3,637	1,534	873,002	895,470
Premium finance receivables						
Commercial insurance loans	14,832	5,159	8,848	10,535	2,794,078	2,833,452
Life insurance loans	—	—	26,770	17,211	4,074,685	4,118,666
PCI - life insurance loans [(1)]	—	—	—	—	183,622	183,622
Consumer and other, including PCI	563	286	150	310	120,397	121,706
Total loans, net of unearned income	$ 77,899	$ 10,993	$ 46,588	$ 76,421	$ 22,398,659	$ 22,610,560

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Aging as a % of Loan Balance: As of June 30, 2018	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Commercial						
Commercial, industrial and other	0.3 %	— %	— %	0.2 %	99.5 %	100.0 %
Franchise	0.3	—	—	—	99.7	100.0
Mortgage warehouse lines of credit	—	—	—	—	100.0	100.0
Asset-based lending	0.2	—	0.1	0.6	99.1	100.0
Leases	0.1	—	—	—	99.9	100.0
PCI - commercial (1)	—	10.4	1.5	2.7	85.4	100.0
Total commercial	0.3	—	—	0.2	99.5	100.0
Commercial real estate						
Construction	0.2	—	—	0.1	99.7	100.0
Land	0.2	—	—	0.4	99.4	100.0
Office	0.1	—	—	0.2	99.7	100.0
Industrial	—	—	—	0.1	99.9	100.0
Retail	1.3	—	—	0.6	98.1	100.0
Multi-family	—	—	—	0.1	99.9	100.0
Mixed use and other	0.2	—	—	0.5	99.3	100.0
PCI - commercial real estate (1)	—	3.0	2.9	7.2	86.9	100.0
Total commercial real estate	0.3	—	0.1	0.4	99.2	100.0
Home equity	1.5	—	—	0.5	98.0	100.0
Residential real estate, including PCI	1.8	0.2	0.4	0.2	97.4	100.0
Premium finance receivables						
Commercial insurance loans	0.5	0.2	0.3	0.4	98.6	100.0
Life insurance loans	—	—	0.6	0.4	99.0	100.0
PCI - life insurance loans (1)	—	—	—	—	100.0	100.0
Consumer and other, including PCI	0.5	0.2	0.1	0.3	98.9	100.0
Total loans, net of unearned income	0.3 %	— %	0.2 %	0.3 %	99.2 %	100.0 %

(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.

As of September 30, 2018, $42.3 million of all loans or 0.2%, were 60 to 89 days past due and $109.4 million of all loans or 0.5%, were 30 to 59 days (or one payment) past due. As of June 30, 2018, $46.6 million of all loans or 0.2%, were 60 to 89 days past due and $76.4 million, or 0.3%, were 30 to 59 days (or one payment) past due. Many of the commercial and commercial real estate loans shown as 60 to 89 days and 30 to 59 days past due are included on the Company’s internal problem loan reporting system. Loans on this system are closely monitored by management on a monthly basis.

The Company's home equity and residential loan portfolios continue to exhibit low delinquency ratios. Home equity loans at September 30, 2018 that were current with regard to the contractual terms of the loan agreement represent 97.7% of the total home equity portfolio. Residential real estate loans at September 30, 2018 that were current with regards to the contractual terms of the loan agreements comprise 97.8% of total residential real estate loans outstanding.

Non-performing Loans Rollforward

The table below presents a summary of non-performing loans, excluding covered loans and PCI loans, for the periods presented:

(Dollars in thousands)	Three Months Ended September 30, 2018	September 30, 2017	Nine Months Ended September 30, 2018	September 30, 2017
Balance at beginning of period	$83,282	$69,050	$90,162	$87,454
Additions, net	56,864	10,622	73,875	30,119
Return to performing status	(3,782)	(603)	(8,294)	(3,170)
Payments received	(6,212)	(6,633)	(13,370)	(22,931)
Transfer to OREO and other repossessed assets	(659)	(1,072)	(6,168)	(5,276)
Charge-offs	(3,108)	(2,295)	(8,631)	(7,919)
Net change for niche loans [(1)]	842	8,914	(347)	(294)
Balance at end of period	$127,227	$77,983	$127,227	$77,983

(1) This includes activity for premium finance receivables and indirect consumer loans.

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PCI loans are excluded from non-performing loans as they continue to earn interest income from the related accretable yield, independent of performance with contractual terms of the loan. See Note 7 of the Consolidated Financial Statements in Item 1 for further discussion of non-performing loans and the loan aging during the respective periods.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of the probable and reasonably estimable loan losses that are inherent in the loan portfolio. The allowance for loan losses is determined quarterly using a methodology that incorporates important risk characteristics of each loan, as described below under "How We Determine the Allowance for Credit Losses" in this Item 2. This process is subject to review at each of our bank subsidiaries by the applicable regulatory authority, including the FRB of Chicago, the OCC, the State of Illinois and the State of Wisconsin.

Management determined that the allowance for loan losses was appropriate at September 30, 2018, and that the loan portfolio is well diversified and well secured, without undue concentration in any specific risk area. While this process involves a high degree of management judgment, the allowance for credit losses is based on a comprehensive, well documented, and consistently applied analysis of the Company's loan portfolio. This analysis takes into consideration all available information existing as of the financial statement date, including environmental factors such as economic, industry, geographical and political factors. The relative level of allowance for credit losses is reviewed and compared to industry peers. This review encompasses levels of total non-performing loans, portfolio mix, portfolio concentrations, current geographic risks and overall levels of net charge-offs. Historical trending of both the Company's results and the industry peers is also reviewed to analyze comparative significance.

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Allowance for Credit Losses, excluding covered loans

The following table summarizes the activity in our allowance for credit losses during the periods indicated.

(Dollars in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Allowance for loan losses at beginning of period	$143,402	$129,591	$137,905	$ 122,291
Provision for credit losses	11,042	7,942	24,431	22,210
Other adjustments	(18)	(39)	(102)	(125)
Reclassification to allowance for unfunded lending-related commitments	(2)	94	24	62
Charge-offs:				
Commercial	3,219	2,265	8,116	3,819
Commercial real estate	208	989	1,176	3,235
Home equity	561	968	1,530	3,224
Residential real estate	337	267	1,088	742
Premium finance receivables—commercial	2,512	1,716	10,487	5,021
Premium finance receivables—life insurance	—	—	—	—
Consumer and other	144	213	732	522
Total charge-offs	6,981	6,418	23,129	16,563
Recoveries:				
Commercial	304	801	1,232	1,635
Commercial real estate	193	323	4,267	1,153
Home equity	142	178	436	387
Residential real estate	466	55	2,028	287
Premium finance receivables—commercial	1,142	499	2,502	1,515
Premium finance receivables—life insurance	—	—	—	—
Consumer and other	66	93	162	267
Total recoveries	2,313	1,949	10,627	5,244
Net charge-offs	(4,668)	(4,469)	(12,502)	(11,319)
Allowance for loan losses at period end	$149,756	$133,119	$149,756	$ 133,119
Allowance for unfunded lending-related commitments at period end	1,245	1,276	1,245	1,276
Allowance for credit losses at period end	$151,001	$134,395	$151,001	$ 134,395
Annualized net charge-offs by category as a percentage of its own respective category's average:				
Commercial	0.16 %	0.09 %	0.13 %	0.05 %
Commercial real estate	0.00	0.04	(0.06)	0.04
Home equity	0.28	0.46	0.24	0.54
Residential real estate	(0.06)	0.11	(0.15)	0.08
Premium finance receivables—commercial	0.19	0.18	0.39	0.18
Premium finance receivables—life insurance	0.00	0.00	0.00	0.00
Consumer and other	0.23	0.37	0.58	0.27
Total loans, net of unearned income, excluding covered loans	0.08 %	0.08 %	0.08 %	0.07 %
Net charge-offs as a percentage of the provision for credit losses	42.27 %	56.27 %	51.17 %	50.96 %
Loans at period-end, excluding covered loans	$23,123,951	$20,912,781		

Allowance for loan losses as a percentage of loans at period end	0.65 %	0.64 %
Allowance for credit losses as a percentage of loans at period end	0.65 %	0.64 %

The allowance for credit losses, excluding the allowance for covered loan losses, is comprised of an allowance for loan losses, which is determined with respect to loans that we have originated, and an allowance for lending-related commitments. Our allowance for lending-related commitments is determined with respect to funds that we have committed to lend but for which funds have not yet been disbursed and is computed using a methodology similar to that used to determine the allowance for loan losses. The allowance for unfunded lending-related commitments totaled $1.2 million and $1.3 million as of September 30, 2018 and September 30, 2017, respectively.

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Additions to the allowance for loan losses are charged to earnings through the provision for credit losses. Charge-offs represent the amount of loans that have been determined to be uncollectible during a given period, and are deducted from the allowance for loan losses, and recoveries represent the amount of collections received from loans that had previously been charged off, and are credited to the allowance for loan losses. See Note 7 of the Consolidated Financial Statements presented under Item 1 of this report for further discussion of activity within the allowance for loan losses during the period and the relationship with respective loan balances for each loan category and the total loan portfolio, excluding covered loans.

How We Determine the Allowance for Credit Losses

The allowance for loan losses includes an element for estimated probable but undetected losses and for imprecision in the credit risk models used to calculate the allowance. If the loan is impaired, the Company analyzes the loan for purposes of calculating our specific impairment reserves as part of the Problem Loan Reporting system review. A general reserve is separately determined for loans not considered impaired. See Note 7 of the Consolidated Financial Statements presented under Item 1 of this report for further discussion of the specific impairment reserve and general reserve as it relates to the allowance for credit losses for each loan category and the total loan portfolio, excluding covered loans.

Specific Impairment Reserves:

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

At September 30, 2018, the Company had $132.5 million of impaired loans with $83.3 million of this balance requiring $14.4 million of specific impairment reserves. At June 30, 2018, the Company had $120.3 million of impaired loans with $40.0 million of this balance requiring $8.5 million of specific impairment reserves. The most significant fluctuations in the recorded investment of impaired loans with specific impairment from June 30, 2018 to September 30, 2018 occurred within the commercial, industrial and other and commercial franchise portfolios. The recorded investment and specific impairment reserves in commercial, industrial and other portfolio increased by $27.6 million and $5.3 million, respectively, which was primarily the result of certain loans becoming nonperforming and requiring $5.9 million of specific impairment reserve during the third quarter of 2018. The recorded investment and specific impairment reserves in commercial franchise portfolio increased by $13.9 million and $430,000, respectively, which was primarily the result of one relationship becoming non-performing and requiring $1.6 million of specific impairment reserve. See Note 7 of the Consolidated Financial Statements presented under Item 1 of this report for further discussion of impaired loans and the related specific impairment reserve.

General Reserves:

For loans with a credit risk rating of 1 through 7 that are not considered impaired loans, reserves are established based on the type of loan collateral, if any, and the assigned credit risk rating. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on the average historical loss experience over a six-year period, and consideration of current environmental factors and economic trends, all of which may be susceptible to significant change.

We determine this component of the allowance for loan losses by classifying each loan into (i) categories based on the type of collateral that secures the loan (if any), and (ii) one of ten categories based on the credit risk rating of the loan, as described above under "Past Due Loans and Non-Performing Assets" in this Item 2. Each combination of collateral and credit risk rating is then assigned a specific loss factor that incorporates the following factors:

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

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

In 2018, the Company modified its historical loss experience analysis by incorporating eight-year average loss rate assumptions for its historical loss experience to capture an extended credit cycle. The current eight-year average loss rate assumption analysis is computed for each of the Company's collateral codes. The historical loss experience is combined with the specific loss factor for each combination of collateral and credit risk rating which is then applied to each individual loan balance to determine an appropriate general reserve. The historical loss rates are updated on a quarterly basis and are driven by the performance of the portfolio and any changes to the specific loss factors are driven by management judgment and analysis of the factors described above. The Company also analyzes the three-, four-, five- and six-year average historical loss rates on a quarterly basis as a comparison.

Home Equity and Residential Real Estate Loans:

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

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

Residential real estate loans that are downgraded to a credit risk rating of 6 through 9 also enter the problem loan reporting system and have the underlying collateral evaluated by the Managed Assets Division.

Premium Finance Receivables:

The determination of the appropriate allowance for loan losses for premium finance receivables is based on the assigned credit risk rating of loans in the portfolio. Loss factors are assigned to each risk rating in order to calculate an allowance for credit losses. The allowance for loan losses for these categories is entirely a general reserve.

Methodology in Assessing Impairment and Charge-off Amounts

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

In many cases, the Company simultaneously values the underlying collateral by marketing the property to market participants interested in purchasing properties of the same type. If the Company receives offers or indications of interest, we will analyze the price and review market conditions to assess whether in light of such information the appraised value overstates the likely price and that a lower price would be a better assessment of the market value of the property and would enable us to liquidate the collateral. Additionally, the Company takes into account the strength of any guarantees and the ability of the borrower to provide

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value related to those guarantees in determining the ultimate charge-off or reserve associated with any impaired loans. Accordingly, the Company may charge-off a loan to a value below the net appraised value if it believes that an expeditious liquidation is desirable in the circumstance and it has legitimate offers or other indications of interest to support a value that is less than the net appraised value. Alternatively, the Company may carry a loan at a value that is in excess of the appraised value if the Company has a guarantee from a borrower that the Company believes has realizable value. In evaluating the strength of any guarantee, the Company evaluates the financial wherewithal of the guarantor, the guarantor's reputation, and the guarantor's willingness and desire to work with the Company. The Company then conducts a review of the strength of a guarantee on a frequency established as the circumstances and conditions of the borrower warrant.

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

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

In other cases, the Company may allow the borrower to conduct a "short sale," which is a sale where the Company allows the borrower to sell the property at a value less than the amount of the loan. Many times, it is possible for the current owner to receive a better price than if the property is marketed by a financial institution which the market place perceives to have a greater desire to liquidate the property at a lower price. To the extent that we allow a short sale at a price below the value indicated by an appraisal, we may take a charge-off beyond the value that an appraisal would have indicated.

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

Having determined the net value based on the factors such as those noted above and compared that value to the book value of the loan, the Company arrives at a charge-off amount or a specific reserve included in the allowance for loan losses. In summary, for collateral dependent loans, appraisals are used as the fair value starting point in the estimate of net value. Estimated costs to sell are deducted from the appraised value to arrive at the net appraised value. Although an external appraisal is the primary source of valuation utilized for charge-offs on collateral dependent loans, alternative sources of valuation may become available between appraisal dates. As a result, we may utilize values obtained through these alternating sources, which include purchase and sale agreements, legitimate indications of interest, negotiated short sales, realtor price opinions, sale of the note or support from guarantors, as the basis for charge-offs. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. In addition, if an appraisal is not deemed current, a discount to appraised value may be utilized. Any adjustments from appraised value to net value are detailed and justified in an impairment analysis, which is reviewed and approved by the Company's Managed Assets Division.

TDRs

At September 30, 2018, the Company had $66.2 million in loans modified in TDRs. The $66.2 million in TDRs represents 111 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability to pay. The balance increased from $65.3 million representing 94 credits at June 30, 2018 and increased from $33.2 million representing 78 credits at September 30, 2017.

Concessions were granted on a case-by-case basis working with these borrowers to find modified terms that would assist them in retaining their businesses or their homes and attempt to keep these loans in an accruing status for the Company. Typical concessions include reduction of the interest rate on the loan to a rate considered lower than market and other modification of terms including forgiveness of a portion of the loan balance, extension of the maturity date, and/or modifications from principal and interest payments to interest-only payments for a certain period. See Note 7 of the Consolidated Financial Statements in Item 1 of this report for further discussion regarding the effectiveness of these modifications in keeping the modified loans current based upon contractual terms.

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Subsequent to its restructuring, any TDR that becomes nonaccrual or more than 90 days past-due and still accruing interest will be included in the Company's non-performing loans. Each TDR was reviewed for impairment at September 30, 2018 and approximately $3.9 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. Additionally, at September 30, 2018, the Company was committed to lend an additional $720,000 of funds to borrowers under the contractual terms of TDRs.

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

(Dollars in thousands)	September 30, 2018	June 30, 2018	September 30, 2017
Accruing TDRs:			
Commercial	$8,794	$37,560	$3,774
Commercial real estate	14,160	15,086	16,475
Residential real estate and other	8,533	4,603	6,723
Total accruing TDRs	$31,487	$57,249	$26,972
Non-accrual TDRs: (1)			
Commercial	$30,452	$1,671	$2,493
Commercial real estate	1,326	1,362	1,492
Residential real estate and other	2,954	5,028	2,226
Total non-accrual TDRs	$34,732	$8,061	$6,211
Total TDRs:			
Commercial	$39,246	$39,231	$6,267
Commercial real estate	15,486	16,448	17,967
Residential real estate and other	11,487	9,631	8,949
Total TDRs	$66,219	$65,310	$33,183
Weighted-average contractual interest rate of TDRs	5.48 %	5.46 %	4.39 %

(1) Included in total non-performing loans.

TDR Rollforward

The tables below present a summary of TDRs as of September 30, 2018 and September 30, 2017, and shows the changes in the balance during those periods:

Three Months Ended September 30, 2018 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$ 39,231	$ 16,448	$ 9,631	$65,310
Additions during the period	554	—	3,679	4,233
Reductions:				
Charge-offs	—	—	(83)	(83)
Transferred to OREO and other repossessed assets	—	—	—	—
Removal of TDR loan status	(395)	(461)	—	(856)
Payments received	(144)	(501)	(1,740)	(2,385)
Balance at period end	$ 39,246	$ 15,486	$ 11,487	$66,219

(1) Loan was previously classified as a TDR and subsequently performed in compliance with the loan's modified terms for a period of six months (including over a calendar year-end) at a modified interest rate which represented a

market rate at the time of restructuring. Per our TDR policy, the TDR classification is removed.

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Three Months Ended September 30, 2017 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$ 4,996	$ 19,188	$ 8,907	$33,091
Additions during the period	1,407	—	256	1,663
Reductions:				
Charge-offs	—	—	(31)	(31)
Transferred to OREO and other repossessed assets	—	(160)	(69)	(229)
Removal of TDR loan status (1)	—	—	—	—
Payments received	(136)	(1,061)	(114)	(1,311)
Balance at period end	$ 6,267	$ 17,967	$ 8,949	$33,183

Nine Months Ended September 30, 2018 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$ 23,917	$ 17,500	$ 8,369	$49,786
Additions during the period	18,838	144	5,846	24,828
Reductions:				
Charge-offs	(2,208)	—	(453)	(2,661)
Transferred to OREO and other repossessed assets	—	—	—	—
Removal of TDR loan status (1)	(395)	(631)	—	(1,026)
Payments received	(906)	(1,527)	(2,275)	(4,708)
Balance at period end	$ 39,246	$ 15,486	$ 11,487	$66,219

Nine Months Ended September 30, 2017 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$ 6,130	$ 28,146	$ 7,432	$41,708
Additions during the period	1,502	1,245	2,639	5,386
Reductions:				
Charge-offs	(315)	(925)	(108)	(1,348)
Transferred to OREO and other repossessed assets	—	(770)	(165)	(935)
Removal of TDR loan status (1)	(610)	(2,331)	—	(2,941)
Payments received	(440)	(7,398)	(849)	(8,687)
Balance at period end	$ 6,267	$ 17,967	$ 8,949	$33,183

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

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Other Real Estate Owned ("OREO")

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

(Dollars in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Balance at beginning of period	$35,331	$ 39,361	$40,646	$ 40,282
Disposal/resolved	(7,291)	(2,391)	(15,527)	(9,305)
Transfers in at fair value, less costs to sell	349	898	6,939	7,131
Transfers in from covered OREO subsequent to loss share expiration	—	—	—	760
Additions from acquisition	1,418	—	1,418	—
Fair value adjustments	(1,504)	(490)	(5,173)	(1,490)
Balance at end of period	$28,303	$ 37,378	$28,303	$ 37,378

(Dollars in thousands)	Period End September 30, 2018	June 30, 2018	September 30, 2017
Residential real estate	$3,735	$5,155	$ 7,236
Residential real estate development	1,952	2,205	676
Commercial real estate	22,616	27,971	29,466
Total	$28,303	$35,331	$ 37,378

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Deposits

Total deposits at September 30, 2018 were $24.9 billion, an increase of $2.0 billion, or 9%, compared to total deposits at September 30, 2017. See Note 10 to the Consolidated Financial Statements in Item 1 of this report for a summary of period end deposit balances.

The following table sets forth, by category, the maturity of time certificates of deposit as of September 30, 2018:

Time Certificates of Deposit Maturity/Re-pricing Analysis As of September 30, 2018 (Dollars in thousands)	CDARs & Brokered Certificates of Deposit (1)	MaxSafe Certificates of Deposit (1)	Variable Rate Certificates of Deposit (2)	Other Fixed Rate Certificates of Deposit (1)	Total Time Certificates of Deposits	Weighted-Average Rate of Maturing Time Certificates of Deposit (3)
1-3 months	$ 75,033	$ 38,489	$ 107,833	$ 880,119	$ 1,101,474	1.39 %
4-6 months	59	27,323	—	831,304	858,686	1.45 %
7-9 months	249	22,001	—	817,515	839,765	1.63 %
10-12 months	75,019	22,576	—	641,856	739,451	1.71 %
13-18 months	—	19,863	—	670,023	689,886	1.78 %
19-24 months	—	4,859	—	582,323	587,182	2.35 %
24+ months	1,000	19,346	—	623,248	643,594	2.46 %
Total	$ 151,360	$ 154,457	$ 107,833	$ 5,046,388	$ 5,460,038	1.76 %

(1) This category of certificates of deposit is shown by contractual maturity date.

(2) This category includes variable rate certificates of deposit and savings certificates with the majority repricing on at least a monthly basis.

(3) Weighted-average rate excludes the impact of purchase accounting fair value adjustments.

The following table sets forth, by category, the composition of average deposit balances and the relative percentage of total average deposits for the periods presented:

	Three Months Ended					
	September 30, 2018		June 30, 2018		September 30, 2017	
(Dollars in thousands)	Balance	Percent	Balance	Percent	Balance	Percent
Non-interest bearing	$6,461,195	26 %	$6,539,731	27 %	$6,419,326	29 %
NOW and interest bearing demand deposits	2,519,445	10	2,295,268	10	2,344,848	10
Wealth management deposits	2,517,141	10	2,365,191	10	2,320,674	10
Money market	5,369,324	22	4,883,645	21	4,471,342	20
Savings	2,672,077	11	2,702,665	12	2,581,946	11
Time certificates of deposit	5,214,637	21	4,557,187	20	4,573,081	20
Total average deposits	$24,753,819	100 %	$23,343,687	100 %	$22,711,217	100 %

Total average deposits for the third quarter of 2018 were $24.8 billion, an increase of $2.0 billion, or 9.0%, from the third quarter of 2017. The increase in average deposits is primarily attributable to the CSC acquisition and branch openings along with additional deposits associated with relationships from marketing efforts during 2018.

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

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Explanation of Responses:

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Brokered Deposits

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

	September 30,		December 31,		
(Dollars in thousands)	2018	2017	2017	2016	2015
Total deposits	$24,916,715	$22,895,063	$23,183,347	$21,658,632	$18,639,634
Brokered deposits	1,842,895	1,280,492	1,445,306	1,159,475	862,026
Brokered deposits as a percentage of total deposits	7.4 %	5.6 %	6.2 %	5.4 %	4.6 %

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

Other Funding Sources

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

The following table sets forth, by category, the composition of the average balances of other funding sources for the quarterly periods presented:

	Three Months Ended		
	September 30,	June 30,	September 30,
(Dollars in thousands)	2018	2018	2017
FHLB advances	$429,739	$1,006,407	$324,996
Other borrowings:			
Notes payable	46,913	33,645	44,878
Short-term borrowings	16,814	14,985	34,674
Secured borrowings	156,399	142,948	139,549
Other	48,152	48,488	49,749
Total other borrowings	$268,278	$240,066	$268,850
Subordinated notes	139,155	139,125	139,035
Junior subordinated debentures	253,566	253,566	253,566
Total other funding sources	$1,090,738	$1,639,164	$986,447

FHLB advances provide the banks with access to fixed rate funds which are useful in mitigating interest rate risk and achieving an acceptable interest rate spread on fixed rate loans or securities. Additionally, the banks have the ability to borrow shorter-term, overnight funding from the FHLB for other general purposes. FHLB advances to the banks totaled $615.0 million at September 30, 2018, compared to $667.0 million at June 30, 2018 and $469.0 million at September 30, 2017.

Notes payable balances as of September 30, 2018 represent the balances on a $200.0 million loan agreement with unaffiliated banks consisting of a $50.0 million revolving credit facility and a $150.0 million term facility. Both loan facilities are available for corporate purposes such as to provide capital to fund continued growth at existing bank subsidiaries, possible future acquisitions and for other general corporate matters. At September 30, 2018, the Company had a balance under the term facility of $149.8 million. The Company was contractually required to borrow the entire amount of the term facility on September 18, 2018 and all such borrowings must be repaid by September 18, 2023. At September 30, 2018 the Company had no outstanding balance on the $50.0 million revolving credit facility.

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In connection with the establishment of the $200.0 million loan agreement, all outstanding notes payable balances under a $150.0 million loan agreement with unaffiliated banks consisting of a $75.0 million revolving credit facility and a $75.0 million term facility were paid in full. This $150.0 million loan agreement was also available for corporate purposes such as to provide capital to fund continued growth at existing bank subsidiaries, possible future acquisitions and for other general corporate matters. At June 30, 2018 and September 30, 2017, the Company had a balance under the term facility of $30.0 million and $41.2 million, respectively. At June 30, 2018 and September 30, 2017, the Company had no outstanding balance on the $75.0 million revolving credit facility.
Short-term borrowings include securities sold under repurchase agreements and federal funds purchased. These borrowings totaled $17.4 million at September 30, 2018 compared to $21.4 million at June 30, 2018 and $20.0 million at September 30, 2017. Securities sold under repurchase agreements represent sweep accounts for certain customers in connection with master repurchase agreements at the banks. This funding category typically fluctuates based on customer preferences and daily liquidity needs of the banks, their customers and the banks' operating subsidiaries.

The average balance of secured borrowings primarily represents a third party Canadian transaction ("Canadian Secured Borrowing"). Under the Canadian Secured Borrowing, in December 2014, the Company, through its subsidiary, FIFC Canada, sold an undivided co-ownership interest in all receivables owed to FIFC Canada 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. The Receivables Purchase Agreement was again amended in December 2017, effectively extending the maturity date from December 15, 2017 to December 16, 2019. Additionally, in December 2017, the unrelated third party paid an additional C$10 million, which increased the total payments to C$170 million. In June 2018, the unrelated third party paid an additional C$20 million, which increased the total payments to C$190 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 and translated to the Company's reporting currency as of the respective date. The translated balance of the Canadian Secured Borrowing under the Receivables Purchase Agreement totaled $147.2 million at September 30, 2018 compared to $144.6 million at June 30, 2018 and $128.3 million at September 30, 2017. At September 30, 2018, the interest rate of the Canadian Secured Borrowing was 2.7189%. The remaining balance within secured borrowings at March 31, 2018 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.

Other borrowings at September 30, 2018 include 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 September 30, 2018, the Fixed-Rate Promissory Note had a balance of $48.0 million compared to $48.4 million at June 30, 2018 and $49.3 million at September 30, 2017. Under the Fixed-Rate Promissory Note, the Company makes monthly principal payments and pay interest at a fixed rate of 3.36% until maturity on June 30, 2022. At September 30, 2018, there were no non-recourse notes related to certain capital leases.

At September 30, 2018, the Company had outstanding subordinated notes totaling $139.2 million compared to $139.1 million and $139.1 million outstanding at June 30, 2018 and September 30, 2017, 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.

The Company had $253.6 million of junior subordinated debentures outstanding as of September 30, 2018, June 30, 2018 and September 30, 2017. The amounts reflected on the balance sheet represent the junior subordinated debentures issued to eleven trusts by the Company and equal the amount of the preferred and common securities issued by the trusts. At September 30, 2018, the Company included $245.5 million of the junior subordinated debentures, net of common securities, in Tier 2 regulatory capital.

See Notes 11 and 12 of the Consolidated Financial Statements presented under Item 1 of this report for details of period end balances and other information for these various funding sources.

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Shareholders' Equity

The following tables reflect various consolidated measures of capital as of the dates presented and the capital guidelines established by the FRB for a bank holding company:

	September 30, 2018	June 30, 2018	September 30, 2017
Leverage ratio	9.3 %	9.4 %	9.2 %
Tier 1 capital to risk-weighted assets	10.0	10.0	10.0
Common equity Tier 1 capital to risk-weighted assets	9.5	9.6	9.5
Total capital to risk-weighted assets	12.0	12.1	12.2
Total average equity-to-total average assets(1)	10.6	10.7	10.7

(1) Based on quarterly average balances.

	Minimum Capital Requirements	Well Capitalized
Leverage ratio	4.0 %	5.0 %
Tier 1 capital to risk-weighted assets	6.0	8.0
Common equity Tier 1 capital to risk-weighted assets	4.5	6.5
Total capital to risk-weighted assets	8.0	10.0

The Company's principal sources of funds at the holding company level are dividends from its subsidiaries, borrowings under its loan agreement with unaffiliated banks and proceeds from the issuances of subordinated debt and additional equity. Refer to Notes 11, 12 and 18 of the Consolidated Financial Statements in Item 1 for further information on these various funding sources. Management is committed to maintaining the Company's capital levels above the "Well Capitalized" levels established by the FRB for bank holding companies.

The Company's Board of Directors approves dividends from time to time, however, the ability to declare a dividend is limited by the Company's financial condition, the terms of the Company's Series D preferred stock, the terms of the Company's Trust Preferred Securities offerings and under certain financial covenants in the Company's revolving and term facilities. In January, April and July of 2018, the Company declared a quarterly cash dividend of $0.19 per common share. In January, April, July and October of 2017, the Company declared a quarterly cash dividend of $0.14 per common share.

See Note 18 of the Consolidated Financial Statements presented under Item 1 of this report for details on the Company's issuance of Series D and Series C preferred stock in June 2015 and March 2012, respectively, as well as details on the mandatory conversion of the Series C preferred stock in April 2017. The Company hereby incorporates by reference Note 18 of the Consolidated Financial Statements presented under Item 1 of this report in its entirety.

Announced Acquisitions

On July 31, 2018, the Company announced that its subsidiary Northbrook Bank & Trust Company signed a definitive agreement to acquire certain assets and assume certain liabilities of American Enterprise Bank ("AEB") which is headquartered in Buffalo Grove, Illinois. As of June 30, 2018, AEB had approximately $200 million in assets, including approximately $151 million in loans and approximately $157 million in deposits. The assets to be acquired include substantially all of AEB's loans, investment securities and customer deposits at closing, as well as specified OREO properties. Excluded assets and liabilities include real property owned by AEB (other than OREO properties).

LIQUIDITY

Wintrust manages the liquidity position of its banking operations to ensure that sufficient funds are available to meet customers' needs for loans and deposit withdrawals. The liquidity to meet these demands is provided by maturing assets, liquid assets that can be converted to cash and the ability to attract funds from external sources. Liquid assets refer to money market assets such as Federal funds sold and interest bearing deposits with banks, as well as available-for-sale debt securities which are not pledged to secure public funds.

The Company believes that it has sufficient funds and access to funds to meet its working capital and other needs. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation - Interest-Earning Assets, -Deposits, -

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Other Funding Sources and -Shareholders' Equity sections of this report for additional information regarding the Company's liquidity position.

INFLATION

A banking organization's assets and liabilities are primarily monetary. Changes in the rate of inflation do not have as great an impact on the financial condition of a bank as do changes in interest rates. Moreover, interest rates do not necessarily change at the same percentage as inflation. Accordingly, changes in inflation are not expected to have a material impact on the Company. An analysis of the Company's asset and liability structure provides the best indication of how the organization is positioned to respond to changing interest rates. See "Quantitative and Qualitative Disclosures About Market Risk" section of this report for additional information.

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of federal securities laws. Forward-looking information can be identified through the use of words such as “intend,” “plan,” “project,” “expect,” “anticipate,” “believe,” “estimate,” “contemplate,” “possible,” “will,” “may,” “should,” “would” and “could.” Forward-looking statements and informa not historical facts, are premised on many factors and assumptions, and represent only management’s expectations, estimates and projections regarding future events. Similarly, these statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include, but are not limited to, those listed below and the Risk Factors discussed under Item 1A of the Company’s 2017 Annual Report on Form 10-K and in any of the Company’s subsequent SEC filings. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Such forward-looking statements may be deemed to include, among other things, statements relating to the Company’s future financial performance, the performance of its loan portfolio, the expected amount of future credit reserves and charge-offs, delinquency trends, growth plans, regulatory developments, securities that the Company may offer from time to time, and management’s long-term performance goals, as well as statements relating to the anticipated effects on financial condition and results of operations from expected developments or events, the Company’s business and growth strategies, including future acquisitions of banks, specialty finance or wealth management businesses, internal growth and plans to form additional de novo banks or branch offices. Actual results could differ materially from those addressed in the forward-looking statements as a result of numerous factors, including the following:

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

- security breaches, including denial of service attacks, hacking, social engineering attacks, malware intrusion or data corruption attempts and identity theft;
- adverse effects on our information technology systems resulting from failures, human error or cyberattacks;
- adverse effects of failures by our vendors to provide agreed upon services in the manner and at the cost agreed, particularly our information technology vendors;
- increased costs as a result of protecting our customers from the impact of stolen debit card information;
- accuracy and completeness of information the Company receives about customers and counterparties to make credit decisions;
- ability of the Company to attract and retain senior management experienced in the banking and financial services industries;
- environmental liability risk associated with lending activities;
- the impact of any claims or legal actions to which the Company is subject, including any effect on our reputation;
- losses incurred in connection with repurchases and indemnification payments related to mortgages and increases in reserves associated therewith;
- the loss of customers as a result of technological changes allowing consumers to complete their financial transactions without

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the use of a bank;
- the soundness of other financial institutions;
- the expenses and delayed returns inherent in opening new branches and de novo banks;
- examinations and challenges by tax authorities, and any unanticipated impact of the Tax Act;
- changes in accounting standards, rules and interpretations such as the new CECL standard, and the impact on the Company’s financial statements;
- the ability of the Company to receive dividends from its subsidiaries;
- uncertainty about the future of LIBOR;
- a decrease in the Company’s capital ratios, including as a result of declines in the value of its loan portfolios, or otherwise;
- legislative or regulatory changes, particularly changes in regulation of financial services companies and/or the products and services offered by financial services companies;
- a lowering of our credit rating;
- changes in U.S. monetary policy and changes to the Federal Reserve’s balance sheet as a result of the end of its program of quantitative easing or otherwise;
- restrictions upon our ability to market our products to consumers and limitations on our ability to profitably operate our mortgage business resulting from the Dodd-Frank Act;
- increased costs of compliance, heightened regulatory capital requirements and other risks associated with changes in regulation and the regulatory environment;
- the impact of heightened capital requirements;
- increases in the Company’s FDIC insurance premiums, or the collection of special assessments by the FDIC;
- delinquencies or fraud with respect to the Company’s premium finance business;
- credit downgrades among commercial and life insurance providers that could negatively affect the value of collateral securing the Company’s premium finance loans;
- the Company’s ability to comply with covenants under its credit facility; and
- fluctuations in the stock market, which may have an adverse impact on the Company’s wealth management business and brokerage operation.

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

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ITEM 3
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

The following interest rate scenarios display the percentage change in net interest income over a one-year time horizon assuming increases of 100 and 200 basis points and decreases of 100 basis points. The Static Shock Scenario results incorporate actual cash flows and repricing characteristics for balance sheet instruments following an instantaneous, parallel change in market rates based upon a static (i.e. no growth or constant) balance sheet. Conversely, the Ramp Scenario results incorporate management's projections of future volume and pricing of each of the product lines following a gradual, parallel change in market rates over twelve months. Actual results may differ from these simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies. The interest rate sensitivity for both the Static Shock and Ramp Scenarios at September 30, 2018, June 30, 2018 and September 30, 2017 is as follows:

Static Shock Scenarios	+200 Basis Points	+100 Basis Points	-100 Basis Points
September 30, 2018	18.1%	9.1 %	(10.0)%
June 30, 2018	19.3%	9.7 %	(10.7)%
September 30, 2017	19.5%	9.8 %	(12.9)%

Ramp Scenarios

	+200 Basis Points	+100 Basis Points	-100 Basis Points
September 30, 2018	8.5 %	4.3 %	(4.2)%
June 30, 2018	8.7 %	4.5 %	(4.4)%
September 30, 2017	9.0 %	4.6 %	(5.3)%

One method utilized by financial institutions, including the Company, to manage interest rate risk is to enter into derivative financial instruments. Derivative financial instruments include interest rate swaps, interest rate caps, floors and collars, futures, forwards, option contracts and other financial instruments with similar characteristics. Additionally, the Company enters into commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future

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delivery of mortgage loans to third party investors. See Note 15 of the Consolidated Financial Statements in Item 1 of this report for further information on the Company's derivative financial instruments.

During the first nine months of 2018 and 2017, the Company entered into certain covered call option transactions related to certain securities held by the Company. The Company uses these option transactions (rather than entering into other derivative interest rate contracts, such as interest rate floors) to economically hedge positions and compensate for net interest margin compression by increasing the total return associated with the related securities through fees generated from these options. Although the revenue received from these options is recorded as non-interest income rather than interest income, the increased return attributable to the related securities from these options contributes to the Company's overall profitability. The Company's exposure to interest rate risk may be impacted by these transactions. To mitigate this risk, the Company may acquire fixed rate term debt or use financial derivative instruments. There were no covered call options outstanding as of September 30, 2018 and 2017.

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ITEM 4
CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer carried out an evaluation under their supervision, with the participation of other members of management as they deemed appropriate, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as contemplated by Exchange Act Rule 13a-15. Based upon, and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, in all material respects, in timely alerting them to material information relating to the Company (and its consolidated subsidiaries) required to be included in the periodic reports the Company is required to file and submit to the SEC under the Exchange Act.

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the period that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II —

Item 1: Legal Proceedings

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

On January 15, 2015, Lehman Brothers Holdings, Inc. (“Lehman Holdings”) sent a demand letter asserting that Wintrust Mortgage must indemnify it for losses arising from loans sold by Wintrust Mortgage to Lehman Brothers Bank, FSB under a Loan Purchase Agreement between Wintrust Mortgage, as successor to SGB Corporation, and Lehman Brothers Bank. The demand was the precursor for triggering the alternative dispute resolution process mandated by the U.S. Bankruptcy Court for the Southern District of New York. Lehman Holdings triggered the mandatory alternative dispute resolution process on October 16, 2015. On February 3, 2016, following a ruling by the federal Court of Appeals for the Tenth Circuit that was adverse to Lehman Holdings on the statute of limitations that is applicable to similar loan purchase claims, Lehman Holdings filed a complaint against Wintrust Mortgage and 150 other entities from which it had purchased loans in the U.S. Bankruptcy Court for the Southern District of New York. The mandatory mediation was held on March 16, 2016, but did not result in a consensual resolution of the dispute. The court entered a case management order governing the litigation on November 1, 2016. Lehman Holdings filed an amended complaint against Wintrust Mortgage on December 29, 2016. On March 31, 2017, Wintrust Mortgage moved to dismiss the amended complaint for lack of subject matter jurisdiction and improper venue or to transfer venue. Argument on the motions to dismiss were heard on June 12, 2018. The motion to dismiss for lack of subject matter jurisdiction was denied on August 14, 2018 and the defendants’ motion to transfer venue denied on October 2, 2018. Wintrust Mortgage has appealed the denial of its motion to dismiss based on improper venue and its motion to transfer venue.

On October 2, 2018, Lehman Holdings asked the court for permission to amend its complaints against Wintrust Mortgage and the other defendants to add loans allegedly purchased from the defendants and sold to various RMBS trusts. The court has considered the request and indicated her willingness to allow Lehman Holdings to assert the additional claims, but no determination of the procedure Lehman Holdings should use to assert the new claims, whether via amendment or a supplemental pleading, has been made. Lehman Holdings has not provided Wintrust Mortgage with sufficient information to allow Wintrust Mortgage to assess the merits of Lehman Holding’s additional claims or to estimate either the likelihood or amount of any potential liability for the additional claims.

The Company has reserved an amount for the Lehman Holdings action that is immaterial to its results of operations or financial condition. Such litigation and threatened litigation actions necessarily involve substantial uncertainty and it is not possible at this time to predict the ultimate resolution or to determine whether, or to what extent, any loss with respect to these legal proceedings may exceed the amounts reserved by the Company.

On April 9, 2018, JPMorgan Chase & Co. as successor in interest to Bear Stearns and certain related Bear Stearns entities (collectively, “JPMC”) sent a demand letter to Wintrust Mortgage asserting an indemnification claim of approximately $4.6 million. JPMC alleges that it incurred this loss due to its reliance on misrepresentations in the loans Wintrust Mortgage originated, underwrote and sold to JPMC in the years prior to 2009. JPMC has since amended and reduced its claim to an immaterial amount. JPMC has not provided Wintrust Mortgage with sufficient information concerning the loans allegedly at issue to allow Wintrust Mortgage to assess the merits of JPMC’s allegations or to estimate either the likelihood or amount of any potential liability.

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

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

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Item 1A: Risk Factors

There have been no material changes from the risk factors set forth under Part I, Item 1A "Risk Factors" in the Company's Form 10-K for the fiscal year ended December 31, 2017.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

No purchases of the Company's common shares were made by or on behalf of the Company or any "affiliated purchaser" as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during the three months ended September 30, 2018. There is currently no authorization to repurchase shares of outstanding common stock.

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Item 6: Exhibits:

(a) Exhibits

10.1	Credit Agreement, dated as of September 18, 2018, among the Company, the lenders named therein, and Wells Fargo Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 19, 2018).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

(1) Includes the following financial information included in the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders’ Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		WINTRUST FINANCIAL CORPORATION (Registrant)
Date:	November 9, 2018	/s/ DAVID L. STOEHR
		David L. Stoehr Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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