

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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from _____ to _____

Commission File Number 001-35077

WINTRUST FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Illinois
(State of incorporation or organization)

36-3873352
(I.R.S. Employer Identification No.)

**9700 W. Higgins Road, Suite 800
Rosemont, Illinois 60018**

(Address of principal executive offices)
(847) 939-9000

(Registrant's telephone number, including area code)

<u>Title of Each Class</u>	<u>Ticker Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, no par value	WTFC	The NASDAQ Global Select Market
Series D Preferred Stock, no par value	WTFCM	The NASDAQ Global Select Market
Depository Shares, Each Representing a 1/1,000 th Interest in a Share of 6.875% Fixed-Rate Reset Non-Cumulative Perpetual Series E Preferred Stock, no par value	WTFCP	The NASDAQ Global Select Market

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock — no par value, 57,635,908 shares, as of November 2, 2020

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PART I
ITEM 1. FINANCIAL STATEMENTS

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share data)	(Unaudited) September 30, 2020	December 31, 2019	(Unaudited) September 30, 2019
Assets			
Cash and due from banks	\$ 308,639	\$ 286,167	\$ 448,755
Federal funds sold and securities purchased under resale agreements	56	309	59
Interest-bearing deposits with banks	3,825,823	2,164,560	2,260,806
Available-for-sale securities, at fair value	2,946,459	3,106,214	2,270,059
Held-to-maturity securities, at amortized cost, net of allowance for credit losses of \$63 at September 30, 2020 (\$575.9 million, \$1.1 billion and \$1.1 billion fair value at September 30, 2020, December 31, 2019 and September 30, 2019 respectively)	560,267	1,134,400	1,095,802
Trading account securities	1,720	1,068	3,204
Equity securities with readily determinable fair value	54,398	50,840	46,086
Federal Home Loan Bank and Federal Reserve Bank stock	135,568	100,739	92,714
Brokerage customer receivables	16,818	16,573	14,943
Mortgage loans held-for-sale, at fair value	959,671	377,313	464,727
Loans, net of unearned income	32,135,555	26,800,290	25,710,171
Allowance for loan losses	(325,959)	(156,828)	(161,763)
Net loans	31,809,596	26,643,462	25,548,408
Premises and equipment, net	774,288	754,328	721,856
Lease investments, net	230,373	231,192	228,647
Accrued interest receivable and other assets	1,424,728	1,061,141	1,087,864
Goodwill	644,644	645,220	584,315
Other intangible assets	38,670	47,057	43,657
Total assets	\$ 43,731,718	\$ 36,620,583	\$ 34,911,902
Liabilities and Shareholders' Equity			
Deposits:			
Non-interest bearing	\$ 10,409,747	\$ 7,216,758	\$ 7,067,960
Interest bearing	25,434,675	22,890,380	21,642,419
Total deposits	35,844,422	30,107,138	28,710,379
Federal Home Loan Bank advances	1,228,422	674,870	574,847
Other borrowings	507,395	418,174	410,488
Subordinated notes	436,385	436,095	435,979
Junior subordinated debentures	253,566	253,566	253,566
Trade date securities payable	—	—	226
Accrued interest payable and other liabilities	1,387,439	1,039,490	986,092
Total liabilities	39,657,629	32,929,333	31,371,577
Shareholders' Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series D - \$25 liquidation value; 5,000,000 shares issued and outstanding at September 30, 2020, December 31, 2019 and September 30, 2019	125,000	125,000	125,000
Series E - \$25,000 liquidation value; 11,500 shares issued and outstanding at September 30, 2020 and no shares issued and outstanding at December 31, 2019 and September 30, 2019	287,500	—	—
Common stock, no par value; \$1.00 stated value; 100,000,000 shares authorized at September 30, 2020, December 31, 2019 and September 30, 2019; 58,322,775 shares issued at September 30, 2020, 57,950,803 shares issued at December 31, 2019 and 56,824,911 shares issued at September 30, 2019	58,323	57,951	56,825
Surplus	1,647,049	1,650,278	1,574,011
Treasury stock, at cost, 720,784 shares at September 30, 2020, 128,912 shares at December 31, 2019, and 126,482 shares at September 30, 2019	(44,891)	(6,931)	(6,799)
Retained earnings	2,001,949	1,899,630	1,830,165
Accumulated other comprehensive loss	(841)	(34,678)	(38,877)
Total shareholders' equity	4,074,089	3,691,250	3,540,325
Total liabilities and shareholders' equity	\$ 43,731,718	\$ 36,620,583	\$ 34,911,902

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
(In thousands, except per share data)				
Interest income				
Interest and fees on loans	\$ 280,479	\$ 314,277	\$ 877,064	\$ 920,425
Mortgage loans held-for-sale	5,791	3,478	13,720	8,791
Interest-bearing deposits with banks	1,181	10,326	7,259	20,832
Federal funds sold and securities purchased under resale agreements	—	310	102	310
Investment securities	21,819	24,758	81,391	80,435
Trading account securities	6	20	26	33
Federal Home Loan Bank and Federal Reserve Bank stock	1,774	1,294	5,116	4,088
Brokerage customer receivables	106	164	361	497
Total interest income	311,156	354,627	985,039	1,035,411
Interest expense				
Interest on deposits	39,084	76,168	156,576	204,168
Interest on Federal Home Loan Bank advances	4,947	1,774	13,241	8,417
Interest on other borrowings	3,012	3,466	9,994	10,624
Interest on subordinated notes	5,474	5,470	16,452	10,051
Interest on junior subordinated debentures	2,703	2,897	8,266	9,111
Total interest expense	55,220	89,775	204,529	242,371
Net interest income	255,936	264,852	780,510	793,040
Provision for credit losses	25,026	10,834	213,040	46,038
Net interest income after provision for credit losses	230,910	254,018	567,470	747,002
Non-interest income				
Wealth management	24,957	23,999	73,534	72,115
Mortgage banking	108,544	50,864	259,194	106,433
Service charges on deposit accounts	11,497	9,972	33,182	28,097
Gains (losses) on investment securities, net	411	710	(3,140)	2,938
Fees from covered call options	—	—	2,292	2,427
Trading gains (losses), net	183	11	(902)	(204)
Operating lease income, net	11,717	12,025	35,486	34,554
Other	13,284	17,556	46,182	48,592
Total non-interest income	170,593	115,137	445,828	294,952
Non-interest expense				
Salaries and employee benefits	164,042	141,024	454,960	400,479
Equipment	17,251	13,314	47,931	37,843
Operating lease equipment depreciation	9,425	8,907	27,977	25,994
Occupancy, net	15,830	14,991	50,270	47,157
Data processing	5,689	6,522	24,468	20,251
Advertising and marketing	7,880	13,375	26,446	36,078
Professional fees	6,488	8,037	20,896	19,821
Amortization of other intangible assets	2,701	2,928	8,384	8,827
FDIC insurance	6,772	148	17,988	7,851
OREO expense, net	(168)	1,170	(807)	3,092
Other	28,309	24,138	79,715	71,142
Total non-interest expense	264,219	234,554	758,228	678,535
Income before taxes	137,284	134,601	255,070	363,419
Income tax expense	29,969	35,480	63,284	93,686
Net income	\$ 107,315	\$ 99,121	\$ 191,786	\$ 269,733
Preferred stock dividends	10,286	2,050	14,386	6,150
Net income applicable to common shares	\$ 97,029	\$ 97,071	\$ 177,400	\$ 263,583
Net income per common share—Basic	\$ 1.68	\$ 1.71	\$ 3.08	\$ 4.65

Net income per common share—Diluted	<u>\$ 1.67</u>	<u>\$ 1.69</u>	<u>\$ 3.06</u>	<u>\$ 4.60</u>
Cash dividends declared per common share	<u>\$ 0.28</u>	<u>\$ 0.25</u>	<u>\$ 0.84</u>	<u>\$ 0.75</u>
Weighted average common shares outstanding	57,597	56,690	57,595	56,627
Dilutive potential common shares	449	773	469	724
Average common shares and dilutive common shares	<u>58,046</u>	<u>57,463</u>	<u>58,064</u>	<u>57,351</u>

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net income	\$ 107,315	\$ 99,121	\$ 191,786	\$ 269,733
Unrealized (losses) gains on available-for-sale securities				
Before tax	(14,563)	18,231	81,859	82,683
Tax effect	3,881	(4,860)	(21,816)	(22,156)
Net of tax	(10,682)	13,371	60,043	60,527
Reclassification of net gains on available-for-sale securities included in net income				
Before tax	50	400	200	856
Tax effect	(14)	(108)	(54)	(230)
Net of tax	36	292	146	626
Reclassification of amortization of unrealized gains on investment securities transferred to held-to-maturity from available-for-sale				
Before tax	54	58	178	416
Tax effect	(14)	(16)	(47)	(114)
Net of tax	40	42	131	302
Net unrealized (losses) gains on available-for-sale securities	(10,758)	13,037	59,766	59,599
Unrealized gains (losses) on derivative instruments				
Before tax	10,393	(6,848)	(31,167)	(34,012)
Tax effect	(2,770)	1,834	8,325	9,097
Net unrealized gains (losses) on derivative instruments	7,623	(5,014)	(22,842)	(24,915)
Foreign currency adjustment				
Before tax	3,716	(1,889)	(3,939)	4,234
Tax effect	(825)	418	852	(923)
Net foreign currency adjustment	2,891	(1,471)	(3,087)	3,311
Total other comprehensive (loss) income	(244)	6,552	33,837	37,995
Comprehensive income	\$ 107,071	\$ 105,673	\$ 225,623	\$ 307,728

See accompanying notes to unaudited consolidated financial statements.

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

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at June 30, 2019	\$ 125,000	\$ 56,794	\$ 1,569,969	\$ (6,650)	\$ 1,747,266	\$ (45,429)	\$ 3,446,950
Net income	—	—	—	—	99,121	—	99,121
Other comprehensive income, net of tax	—	—	—	—	—	6,552	6,552
Cash dividends declared on common stock, \$0.25 per share	—	—	—	—	(14,172)	—	(14,172)
Dividends on preferred stock, \$0.41 per share	—	—	—	—	(2,050)	—	(2,050)
Stock-based compensation	—	—	1,995	—	—	—	1,995
Common stock issued for:							
Exercise of stock options and warrants	—	17	718	(149)	—	—	586
Restricted stock awards	—	2	(2)	—	—	—	—
Employee stock purchase plan	—	11	771	—	—	—	782
Director compensation plan	—	1	560	—	—	—	561
Balance at September 30, 2019	\$ 125,000	\$ 56,825	\$ 1,574,011	\$ (6,799)	\$ 1,830,165	\$ (38,877)	\$ 3,540,325
Balance at January 1, 2019	\$ 125,000	\$ 56,518	\$ 1,557,984	\$ (5,634)	\$ 1,610,574	\$ (76,872)	\$ 3,267,570
Cumulative effect adjustment from the adoption of ASU 2017-08	—	—	—	—	(1,531)	—	(1,531)
Net income	—	—	—	—	269,733	—	269,733
Other comprehensive income, net of tax	—	—	—	—	—	37,995	37,995
Cash dividends declared on common stock, \$0.75 per share	—	—	—	—	(42,461)	—	(42,461)
Dividends on preferred stock, \$1.23 per share	—	—	—	—	(6,150)	—	(6,150)
Stock-based compensation	—	—	8,278	—	—	—	8,278
Common stock issued for:							
Exercise of stock options and warrants	—	112	4,225	(724)	—	—	3,613
Restricted stock awards	—	144	(144)	(441)	—	—	(441)
Employee stock purchase plan	—	32	2,099	—	—	—	2,131
Director compensation plan	—	19	1,569	—	—	—	1,588
Balance at September 30, 2019	\$ 125,000	\$ 56,825	\$ 1,574,011	\$ (6,799)	\$ 1,830,165	\$ (38,877)	\$ 3,540,325
Balance at June 30, 2020	\$ 412,500	\$ 58,294	\$ 1,643,864	\$ (44,891)	\$ 1,921,048	\$ (597)	\$ 3,990,218
Net income	—	—	—	—	107,315	—	107,315
Other comprehensive loss, net of tax	—	—	—	—	—	(244)	(244)
Cash dividends declared on common stock, \$0.28 per share	—	—	—	—	(16,128)	—	(16,128)
Dividends on Series D preferred stock, \$0.41 per share and Series E preferred stock, \$716.15 per share	—	—	—	—	(10,286)	—	(10,286)
Stock-based compensation	—	—	1,255	—	—	—	1,255
Common stock issued for:							
Exercise of stock options and warrants	—	7	490	—	—	—	497
Restricted stock awards	—	2	(2)	—	—	—	—
Employee stock purchase plan	—	20	827	—	—	—	847
Director compensation plan	—	—	615	—	—	—	615
Balance at September 30, 2020	\$ 412,500	\$ 58,323	\$ 1,647,049	\$ (44,891)	\$ 2,001,949	\$ (841)	\$ 4,074,089
Balance at January 1, 2020	\$ 125,000	\$ 57,951	\$ 1,650,278	\$ (6,931)	\$ 1,899,630	\$ (34,678)	\$ 3,691,250
Cumulative effect adjustment from the adoption of ASU 2016-13, net of tax	—	—	—	—	(26,717)	—	(26,717)
Net income	—	—	—	—	191,786	—	191,786
Other comprehensive income, net of tax	—	—	—	—	—	33,837	33,837
Cash dividends declared on common stock, \$0.84 per share	—	—	—	—	(48,364)	—	(48,364)
Dividends on Series D preferred stock, \$1.23 per share and Series E preferred stock, \$716.15 per share	—	—	—	—	(14,386)	—	(14,386)
Common stock repurchased under authorized program	—	—	—	(37,116)	—	—	(37,116)
Stock-based compensation	—	—	(1,023)	—	—	—	(1,023)
Issuance of Series E preferred stock	287,500	—	(9,857)	—	—	—	277,643

Common stock issued for:

Exercise of stock options and warrants	—	105	3,923	(92)	—	—	3,936
Restricted stock awards	—	195	(195)	(752)	—	—	(752)
Employee stock purchase plan	—	52	2,180	—	—	—	2,232
Director compensation plan	—	20	1,743	—	—	—	1,763
Balance at September 30, 2020	\$ 412,500	\$ 58,323	\$ 1,647,049	\$ (44,891)	\$ 2,001,949	\$ (841)	\$ 4,074,089

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2020	September 30, 2019
(In thousands)		
Operating Activities:		
Net income	\$ 191,786	\$ 269,733
Adjustments to reconcile net income to net cash used for operating activities		
Provision for credit losses	213,040	46,038
Depreciation, amortization and accretion, net	71,295	64,838
Stock-based compensation expense	(1,023)	8,278
Net amortization of premium on securities	8,079	4,501
Accretion of discount and deferred fees on loans, net	(60,451)	(17,335)
Mortgage servicing rights fair value change, net	48,497	30,417
Originations and purchases of mortgage loans held-for-sale	(5,653,486)	(3,252,539)
Proceeds from sales of mortgage loans held-for-sale	5,208,962	3,118,102
Bank owned life insurance ("BOLI") income	(1,884)	(3,469)
Increase in trading securities, net	(652)	(1,512)
Net increase in brokerage customer receivables	(245)	(2,334)
Gains on mortgage loans sold	(260,622)	(96,631)
Losses (gains) on investment securities, net	3,140	(2,938)
Losses on sales of premises and equipment, net	192	43
Net (gains) losses on sales and fair value adjustments of other real estate owned	(933)	1,823
Increase in accrued interest receivable and other assets, net	(154,912)	(181,144)
Decrease in accrued interest payable and other liabilities, net	(33,935)	(8,826)
Net Cash Used for Operating Activities	(423,152)	(22,955)
Investing Activities:		
Proceeds from maturities and calls of available-for-sale securities	1,005,968	391,434
Proceeds from maturities and calls of held-to-maturity securities	698,305	341,912
Proceeds from sales of available-for-sale securities	502,676	905,926
Proceeds from sales of equity securities with readily determinable fair value	6,530	16,200
Proceeds from sales and capital distributions of equity securities without readily determinable fair value	1,691	1,461
Purchases of available-for-sale securities	(1,273,798)	(1,098,566)
Purchases of held-to-maturity securities	(125,220)	(373,394)
Purchases of equity securities with readily determinable fair value	(11,367)	(25,677)
Purchases of equity securities without readily determinable fair value	(3,666)	(1,847)
Purchases of Federal Home Loan Bank and Federal Reserve Bank stock, net	(34,829)	(1,360)
(Purchases of) distributions from investments in partnerships, net	(606)	1,532
Net cash received in business combinations	—	748
Proceeds from sales of other real estate owned	6,937	9,656
Net increase in interest-bearing deposits with banks	(1,662,172)	(1,161,452)
Net increase in loans	(5,174,163)	(1,744,613)
Redemption of BOLI	—	326
Purchases of premises and equipment, net	(54,392)	(51,450)
Net Cash Used for Investing Activities	(6,118,106)	(2,789,164)
Financing Activities:		
Increase in deposit accounts, net	5,737,721	2,454,510
Increase in other borrowings, net	91,823	10,950
Increase in Federal Home Loan Bank advances, net	553,500	148,442
Proceeds from the issuance of subordinated notes, net	—	296,617
Proceeds from the issuance of preferred stock, net	277,643	—
Cash payments to settle contingent consideration liabilities recognized in business combinations	(4,523)	(66)
Issuance of common shares resulting from the exercise of stock options, employee stock purchase plan and conversion of common stock warrants	8,023	8,056

Common stock repurchases under authorized program	(37,116)	—
Common stock repurchases for tax withholdings related to stock-based compensation	(844)	(1,165)
Dividends paid	(62,750)	(48,611)
Net Cash Provided by Financing Activities	6,563,477	2,868,733
Net Increase in Cash and Cash Equivalents	22,219	56,614
Cash and Cash Equivalents at Beginning of Period	286,476	392,200
Cash and Cash Equivalents at End of Period	\$ 308,695	\$ 448,814

See accompanying notes to unaudited consolidated financial statements.

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

The accompanying interim consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with U.S. generally accepted accounting principles (“GAAP”). The interim unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 (“2019 Form 10-K”). Operating results reported for the period are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable; however, changes in estimates may be required if economic or other conditions develop differently from management’s expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for credit losses, including the allowance for loan losses, the allowance for unfunded commitment losses and the allowance for held-to-maturity securities losses, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available. Descriptions of the Company’s significant accounting policies are included in Note 1 - “Summary of Significant Accounting Policies” of the 2019 Form 10-K, some of which were superseded by the Company’s adoption of certain accounting standards as of January 1, 2020. For further discussion of the Company’s adoption of such accounting standards as of January 1, 2020, see Note 2 - “Recent Accounting Developments”.

(2) Recent Accounting Developments

Allowance for Credit Losses

In June 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” to replace the incurred loss methodology for recognizing credit losses, which delays recognition until it is probable a loss has been incurred, with a methodology that reflects an estimate of all expected credit losses and considers additional reasonable and supportable forecasted information when determining lifetime credit loss estimates. This impacts the calculation of an allowance for credit losses for all financial assets measured under the amortized cost basis, including held-to-maturity debt securities and purchased credit deteriorated (“PCD”) assets at the time of and subsequent to acquisition. Additionally, credit losses related to available-for-sale debt securities would be recorded through the allowance for credit losses and not as a direct adjustment to the amortized cost of the securities.

The FASB has continued to issue various updates to clarify and improve specific areas of ASU No. 2016-13. In November 2018, the FASB issued ASU No. 2018-19, “Codification Improvements to Topic 326, Financial Instruments-Credit Losses,” to clarify the implementation guidance within ASU No. 2016-13 surrounding narrow aspects of Topic 326, including the impact of the guidance on operating lease receivables. In May 2019, FASB issued ASU No. 2019-05, “Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief,” allowing for the irrevocable election of the fair value option for certain financial assets, on an instrument-by-instrument basis, within the scope previously measured at amortized cost basis. In February 2020, the FASB issued ASU No. 2020-02, “Financial Instruments - Credit Losses (Topic 326) and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842),” which adds and amends SEC Staff Guidance paragraphs within these Topics in the Codification to reflect the issuance of SEC Staff Accounting Bulletin (SAB) No. 119, which includes the SEC’s general

statement on measuring current expected credit losses, and information on developing, reporting, and validating a systematic methodology. ASU No. 2020-02 was effective upon issuance.

In May 2020, federal and state banking regulators issued the final "Interagency Policy Statement on Allowance for Credit Losses." The policy statement was issued to maintain conformance with GAAP and FASB Accounting Standards Codification ("ASC") Topic 326 and does not prescribe how estimation methods are used, nor how key assumptions are determined. The final guidance describes the measurement of expected credit losses, including the design, documentation, and validation of expected credit loss estimation processes, internal controls over these processes, and the responsibilities of boards of directors and management, in addition to examiner reviews of the allowance for credit losses. The final Policy Statement replaces the existing policy statements related to the allowance for loan and lease losses under the prior incurred loss methodology and was effective upon adoption of ASC Topic 326.

The Company adopted ASU No. 2016-13 and all subsequent updates issued to clarify and improve specific areas of this ASU as of January 1, 2020. Guidance was adopted under a modified retrospective approach and, at January 1, 2020, the Company recognized a cumulative-effect adjustment to the allowance for credit losses of \$47.4 million representing current expected credit losses on financial instruments. Of this amount, \$33.2 million was recorded to the allowance for unfunded commitment losses within accrued interest and other liabilities and \$74,000 was recorded to the allowance for held-to-maturity securities losses presented as a reduction to the carrying balance of held-to-maturity debt securities, both on the Company's Consolidated Statements of Condition, with an offsetting amount recorded directly to retained earnings, net of taxes. The remaining \$14.2 million cumulative effect adjustment was recorded to the allowance for loan losses, presented separately on the Company's Consolidated Statements of Condition. Of the amount recorded to the allowance for loan losses, \$11.0 million related to PCD loans with such offsetting amount added directly to the carrying balance of the loans and the remaining \$3.2 million not related to PCD loans recorded directly to retained earnings, net of taxes, on the Company's Consolidated Statements of Condition.

Further, as noted above, certain accounting policy elections are available under the new rules. The Company utilized the following approach to such elections:

- The Company elected to not measure an allowance for credit losses on accrued interest as such accrued interest is written off in a timely manner when deemed uncollectible. Any such write-off of accrued interest will reverse previously recognized interest income.
- The Company elected to not include accrued interest within presentation and disclosures of the carrying amount of financial assets held at amortized cost. This election is applicable to the various disclosures included within the Company's financial statements. Accrued interest related to financial assets held at amortized cost is included within accrued interest receivable and other assets within the Company's Consolidated Statements of Condition and totaled \$116.9 million at September 30, 2020.
- The Company elected to estimate expected credit losses by measuring the face amount or unpaid principal balance component of the amortized cost basis of a financial asset separately from other components such as premiums, discount and deferred fees and costs.
- The Company elected to not maintain current accounting policies for existing purchase credit impaired ("PCI") financial assets. Upon adoption, such assets were considered PCD assets and measured accordingly under the new rules.

See Note 7 - Allowance for Credit Losses for further information on the Company's current expected credit losses methodology.

Legislation and Regulations Issued as a Result of the COVID-19 Pandemic

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act" or the "Act"), which provides entities with optional temporary relief from certain accounting and financial reporting requirements under U.S. GAAP.

Section 4013 of the CARES Act allows financial institutions to suspend application of certain current troubled debt restructuring ("TDR") accounting guidance under ASC 310-40 for loan modifications related to the COVID-19 pandemic made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 national emergency, provided certain criteria are met. This relief can be applied to loan modifications for borrowers that were not more than 30 days past due as of December 31, 2019 and to loan modifications that defer or delay the payment of principal or interest, or change the interest rate on the loan. The Company chose to apply this relief to eligible loan modifications.

In April 2020, federal and state banking regulators issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus to provide separate relief, specifically indicating that if a modification is either short-term (e.g., six months) or mandated by a federal or state government in response to the COVID-19

pandemic, the borrower is not considered to be experiencing financial difficulty and thus does not represent a TDR under ASC 310-40. Additionally, in August 2020, regulators issued the Joint Statement on Additional Loan Accommodations Related to COVID-19 Event to provide prudent risk management and consumer protection principles for financial institutions to consider while working with borrowers as loans near the end of initial loan accommodation periods applicable during the COVID-19 pandemic. The Company continues to prudently work with borrowers negatively impacted by the COVID-19 pandemic while managing credit risks and recognizing appropriate allowance for credit losses on its loan portfolio.

The CARES Act also provided financial institutions with the option to defer adoption of ASU No. 2016-13 until the earlier of the date the COVID-19 national emergency comes to an end or December 31, 2020. The Company did not elect to defer adoption and elected to adopt ASU No. 2016-13 and all subsequent updates issued to clarify and improve specific areas of this ASU as of January 1, 2020.

The business tax provisions of the Act include temporary changes to income and non-income based tax laws, including immediate recovery of qualified improvement property costs and acceleration of Alternative Minimum Tax ("AMT") credits. These provisions are not expected to have a material impact on the Company's deferred taxes.

Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," to simplify the accounting for income taxes by removing certain exceptions to the general principles of ASC 740. The guidance also improves consistent application by clarifying and amending existing guidance from ASC 740. This guidance is effective for fiscal years beginning after December 15, 2020, including interim periods therein and is to be applied on a retrospective, modified retrospective or prospective approach, depending on the specific amendment. Early adoption is permitted. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Investment Securities

In January 2020, the FASB issued ASU No. 2020-01, "Clarifying the Interactions Between Investments-Equity Securities (ASC Topic 321), Investments-Equity Method and Joint Ventures (ASC Topic 323), and Derivatives and Hedging (ASC Topic 815)," which amends ASC 323, Investments-Equity Method & Joint Ventures to clarify that an entity should consider observable transactions that require it to either apply or discontinue using the equity method of accounting for purposes of applying the measurement alternative in accordance with ASC 321, Investments-Equity Securities, immediately before applying or discontinuing the equity method under ASC 323.

The guidance also amends ASC 815, Derivatives & Hedging, to clarify that, when determining the accounting for certain non-derivative forward contracts and purchased options, an entity should not consider how to account for the resulting investments upon eventual settlement or exercise, and that an entity should evaluate the remaining characteristics in accordance with ASC 815 to determine the accounting for those forward contracts and purchased options.

This guidance is effective for fiscal years beginning after December 15, 2020, including interim periods therein, and is to be applied under a prospective approach. Early adoption is permitted. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Codification Improvements to Financial Instruments

In March 2020, the FASB issued ASU No. 2020-03, "Codification Improvements to Financial Instruments," to clarify and improve various aspects of financial instruments guidance, including amending ASC 326, Financial Instruments-Credit Losses, to align the contractual term used to measure expected credit losses for a lease to be consistent with the lease term determined under ASC 842, Leases, and amending ASC 860, Transfers and Servicing, to clarify that, when an entity regains control of financial assets previously sold, an allowance for credit losses should be recognized in accordance with ASC 326.

The guidance also amends ASC 820, Fair Value Measurement, to clarify the applicability of the portfolio exception to non-financial items accounted for as derivatives, and amends ASC 942, Financial Services, to clarify the applicability of certain disclosure requirements in ASC 320, Investments-Debt Securities, to depository and lending institutions. Amendments to clarify Codification sections relevant to the accounting for certain fees and costs related to exchanges or modifications of debt instruments within ASC 470, Debt, is also provided.

As the Company has already adopted the standards amended by this ASU, this guidance is effective upon issuance. Amendments to ASC 326 were applied under a modified retrospective approach through a cumulative-effect adjustment recognized by the

Company directly to retained earnings on the Company's Consolidated Statements of Condition. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Reference Rate Reform

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848)," which provides temporary optional relief for contracts modified as a result of reference rate reform meeting certain modification criteria, generally allowing an entity to account for contract modifications occurring due to reference rate reform as an event that does not require contract remeasurement or reassessment of a previous accounting determination at the modification date. The guidance also includes temporary optional expedients intended to provide relief from various hedge effectiveness requirements for hedging relationships affected by reference rate reform, provided certain criteria are met, and allows a one-time election to sell or transfer to either available-for-sale or trading any held-to-maturity ("HTM") debt securities that refer to an interest rate affected by reference rate reform and were classified as HTM prior to January 1, 2020. This guidance is effective upon issuance and can be applied prospectively, with certain exceptions, through December 31, 2022. The Company continues to evaluate the impact of adopting this new guidance on its consolidated financial statements.

Debt

In August 2020, the FASB issued ASU No. 2020-06, "Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity," which includes provisions for reducing the number of accounting models used in accounting for convertible debt instruments and convertible preferred stock, amending derivatives and earnings-per-share (EPS) guidance and expanding disclosures for convertible debt instruments and EPS. This guidance is effective for fiscal years beginning after December 15, 2021, including interim periods therein, and is to be applied under either a full or modified retrospective approach. Early adoption is permitted. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

SEC Amendments to Financial Disclosures about Acquired and Disposed Businesses

In May 2020, the SEC issued a final rule on "Amendments to Financial Disclosures about Acquired and Disposed Businesses," which provides for specific disclosure changes, including revising the investment and income significance tests, conforming the significance threshold and tests for a disposed business to those used for an acquired business, permitting abbreviated financial statements for certain acquisitions of a component of an entity, and reducing the maximum number of years for which financial statements are required for acquired businesses from three years to two years, among other amendments. This guidance is effective on January 1, 2021 and early compliance is permitted. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

SEC Update of Statistical Disclosures for Bank and Savings and Loan Registrants

In September 2020, the SEC issued a final rule on the "Update of Statistical Disclosures for Bank and Savings and Loan Registrants," which adopts rules to update statistical disclosure requirements for banking registrants. The amendments update and expand the disclosures that registrants are required to provide, codify certain Industry Guide 3 disclosure items and eliminate other Guide 3 disclosures that overlap with SEC rules, GAAP or IFRS standards. In addition, Guide 3 is being rescinded and replaced with a new subpart of Regulation S-K. The SEC ruling is applicable to fiscal years beginning after December 15, 2021 and early compliance is permitted. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

(3) Business Combinations and Asset Acquisitions

Bank Acquisitions

On November 1, 2019, the Company completed its acquisition of SBC, Incorporated ("SBC"). SBC was the parent company of Countryside Bank. Through this business combination, the Company acquired Countryside Bank's six banking offices located in Countryside, Burbank, Darien, Homer Glen, Oak Brook and Chicago, Illinois. As of the acquisition date, the Company acquired approximately \$619.8 million in assets, including approximately \$423.0 million in loans, and approximately \$507.8 million in deposits. The Company recorded goodwill of approximately \$40.3 million related to the acquisition.

On October 7, 2019, the Company completed its acquisition of STC Bancshares Corp. ("STC"). STC was the parent company of STC Capital Bank. Through this business combination, the Company acquired STC Capital Bank's five banking offices located

in the communities of St. Charles, Geneva and South Elgin, Illinois. As of the acquisition date, the Company acquired approximately \$250.1 million in assets, including approximately \$174.3 million in loans, and approximately \$201.2 million in deposits. The Company recorded goodwill of approximately \$19.1 million related to the acquisition.

On May 24, 2019, the Company completed its acquisition of Rush-Oak Corporation ("ROC"). ROC was the parent company of Oak Bank. Through this business combination, the Company acquired Oak Bank's one banking location in Chicago, Illinois, as well as approximately \$223.4 million in assets, including loans with a fair value of approximately \$124.7 million, and deposits with a fair value of approximately \$161.2 million. The Company recorded goodwill of \$11.7 million on the acquisition.

(4) Cash and Cash Equivalents

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

(5) Investment Securities

The following tables are a summary of the investment securities portfolios as of the dates shown:

	September 30, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
Available-for-sale securities				
U.S. Treasury	\$ 279,903	\$ 206	\$ (1)	\$ 280,108
U.S. Government agencies	172,951	5,715	—	178,666
Municipal	150,333	3,996	(134)	154,195
Corporate notes:				
Financial issuers	106,764	455	(4,110)	103,109
Other	1,000	26	—	1,026
Mortgage-backed: ⁽¹⁾				
Mortgage-backed securities	2,121,423	94,543	(11)	2,215,955
Collateralized mortgage obligations	13,036	365	(1)	13,400
Total available-for-sale securities	\$ 2,845,410	\$ 105,306	\$ (4,257)	\$ 2,946,459
Held-to-maturity securities				
U.S. Government agencies	\$ 349,415	\$ 4,396	\$ —	\$ 353,811
Municipal	210,915	11,339	(118)	222,136
Total held-to-maturity securities	\$ 560,330	\$ 15,735	\$ (118)	\$ 575,947
Less: Allowance for credit losses ⁽²⁾	(63)			
Held-to-maturity securities, net of allowance for credit losses	\$ 560,267			
Equity securities with readily determinable fair value	\$ 53,250	\$ 1,537	\$ (389)	\$ 54,398

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

(2) As of January 1, 2020, the Company adopted ASU 2016-13 related to credit losses on financial assets held at amortized cost. As a result of such adoption, the Company measured an allowance for credit losses related to lifetime expected credit losses on held-to-maturity investment securities.

December 31, 2019				
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	\$ 120,275	\$ 813	\$ —	\$ 121,088
U.S. Government agencies	365,639	3,557	(3,754)	365,442
Municipal	141,701	3,785	(168)	145,318
Corporate notes:				
Financial issuers	97,051	761	(4,002)	93,810
Other	1,000	31	—	1,031
Mortgage-backed: ⁽¹⁾				
Mortgage-backed securities	2,328,383	21,240	(3,013)	2,346,610
Collateralized mortgage obligations	32,775	280	(140)	32,915
Total available-for-sale securities	\$ 3,086,824	\$ 30,467	\$ (11,077)	\$ 3,106,214
Held-to-maturity securities				
U.S. Government agencies	\$ 902,974	\$ 2,159	\$ (5,460)	\$ 899,673
Municipal	231,426	7,536	(239)	238,723
Total held-to-maturity securities	\$ 1,134,400	\$ 9,695	\$ (5,699)	\$ 1,138,396
Equity securities with readily determinable fair value	\$ 48,044	\$ 3,511	\$ (715)	\$ 50,840

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

September 30, 2019				
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. Treasury	\$ 220,756	\$ 914	\$ —	\$ 221,670
U.S. Government agencies	221,891	3,569	(1)	225,459
Municipal	141,311	4,896	(103)	146,104
Corporate notes:				
Financial issuers	97,058	126	(4,233)	92,951
Other	1,000	53	—	1,053
Mortgage-backed: ⁽¹⁾				
Mortgage-backed securities	1,529,749	18,682	(1,762)	1,546,669
Collateralized mortgage obligations	35,880	370	(97)	36,153
Total available-for-sale securities	\$ 2,247,645	\$ 28,610	\$ (6,196)	\$ 2,270,059
Held-to-maturity securities				
U.S. Government agencies	\$ 859,011	\$ 3,310	\$ (2,187)	\$ 860,134
Municipal	236,791	8,211	(233)	244,769
Total held-to-maturity securities	\$ 1,095,802	\$ 11,521	\$ (2,420)	\$ 1,104,903
Equity securities with readily determinable fair value	\$ 43,941	\$ 2,794	\$ (649)	\$ 46,086

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

Equity securities without readily determinable fair values totaled \$30.0 million as of September 30, 2020. Equity securities without readily determinable fair values are included as part of accrued interest receivable and other assets in the Company's Consolidated Statements of Condition. The Company monitors its equity investments without readily determinable fair values to identify potential transactions that may indicate an observable price change in orderly transactions for the identical or a similar investment of the same issuer, requiring adjustment to its carrying amount. The Company recorded no upward adjustments related to such observable price changes for the three months ended September 30, 2020 and a \$393,000 upward adjustment for the nine months ended September 30, 2020. No downward adjustments on such securities were recorded for the three and nine month periods ended September 30, 2020. The Company conducts a quarterly assessment of its equity securities without readily determinable fair values to determine whether impairment exists in such securities, considering, among other factors, the nature of the securities, financial condition of the issuer and expected future cash flows. During the three months ended September 30, 2020, the Company recorded

no impairment of equity securities without readily determinable fair values and \$2.1 million of impairment during the nine month period ending September 30, 2020.

The following table presents the portion of the Company's available-for-sale investment securities portfolios that have gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at September 30, 2020:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
Available-for-sale securities						
U.S. Treasury	\$ 109,968	\$ (1)	\$ —	\$ —	\$ 109,968	\$ (1)
U.S. Government agencies	—	—	—	—	—	—
Municipal	38,446	(132)	113	(2)	38,559	(134)
Corporate notes:						
Financial issuers	—	—	69,869	(4,110)	69,869	(4,110)
Other	—	—	—	—	—	—
Mortgage-backed:						
Mortgage-backed securities	989	(10)	62	(1)	1,051	(11)
Collateralized mortgage obligations	—	—	348	(1)	348	(1)
Total available-for-sale securities	\$ 149,403	\$ (143)	\$ 70,392	\$ (4,114)	\$ 219,795	\$ (4,257)

The Company conducts a regular assessment of its investment securities to determine whether securities are experiencing credit losses. Factors for consideration include the nature of the securities, credit ratings or financial condition of the issuer, the extent of the unrealized loss, expected cash flows, market conditions and the Company's ability to hold the securities through the anticipated recovery period.

The Company does not consider available-for-sale securities with unrealized losses at September 30, 2020 to be experiencing credit losses and recognized no resulting allowance for credit losses for such individually assessed credit losses. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost bases, which may be the maturity dates of the securities. The unrealized losses within each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. Available-for-sale securities with continuous unrealized losses existing for more than twelve months were primarily corporate notes.

See Note 7—Allowance for Credit Losses for further discussion regarding any credit losses associated with held-to-maturity securities at September 30, 2020.

The following table provides information as to the amount of gross gains and losses, adjustments and impairment on investment securities recognized in earnings and proceeds received through the sale or call of investment securities:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Realized gains on investment securities	\$ 78	\$ 801	\$ 725	\$ 1,348
Realized losses on investment securities	(28)	(5)	(525)	(96)
Net realized gains on investment securities	50	796	200	1,252
Unrealized gains on equity securities with readily determinable fair value	471	165	2,118	2,299
Unrealized losses on equity securities with readily determinable fair value	(110)	(251)	(3,766)	(460)
Net unrealized gains (losses) on equity securities with readily determinable fair value	361	(86)	(1,648)	1,839
Upward adjustments of equity securities without readily determinable fair values	—	—	393	110
Downward adjustments of equity securities without readily determinable fair values	—	—	—	—
Impairment of equity securities without readily determinable fair values	—	—	(2,085)	(263)
Adjustment and impairment, net, of equity securities without readily determinable fair values	—	—	(1,692)	(153)
Other than temporary impairment charges ⁽¹⁾	—	—	—	—
Gains (losses) on investment securities, net	\$ 411	\$ 710	\$ (3,140)	\$ 2,938
Proceeds from sales of available-for-sale securities ⁽²⁾	\$ —	\$ 238,008	\$ 502,676	\$ 905,926
Proceeds from sales of equity securities with readily determinable fair value	2,500	5,200	6,530	16,200
Proceeds from sales and capital distributions of equity securities without readily determinable fair value	1,247	852	1,691	1,461

(1) Applicable to periods prior to the adoption of ASU 2016-13.

(2) Includes proceeds from available-for-sale securities sold in accordance with written covered call options sold to a third party.

The amortized cost and fair value of available-for-sale and held-to-maturity investment securities as of September 30, 2020, December 31, 2019 and September 30, 2019, by contractual maturity, are shown in the following table. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Mortgage-backed securities are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties:

(Dollars in thousands)	September 30, 2020		December 31, 2019		September 30, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities						
Due in one year or less	\$ 338,702	\$ 338,954	\$ 183,996	\$ 185,035	\$ 201,572	\$ 201,866
Due in one to five years	76,843	78,843	62,679	64,064	141,319	143,804
Due in five to ten years	108,688	105,968	186,683	184,666	200,118	198,250
Due after ten years	186,718	193,339	292,308	292,924	139,007	143,317
Mortgage-backed	2,134,459	2,229,355	2,361,158	2,379,525	1,565,629	1,582,822
Total available-for-sale securities	\$ 2,845,410	\$ 2,946,459	\$ 3,086,824	\$ 3,106,214	\$ 2,247,645	\$ 2,270,059
Held-to-maturity securities						
Due in one year or less	\$ 6,911	\$ 6,942	\$ 6,061	\$ 6,074	\$ 7,748	\$ 7,749
Due in one to five years	21,392	21,999	28,697	28,986	28,138	28,335
Due in five to ten years	144,468	151,175	213,104	216,957	231,021	235,138
Due after ten years	387,559	395,831	886,538	886,379	828,895	833,681
Total held-to-maturity securities	\$ 560,330	\$ 575,947	\$ 1,134,400	\$ 1,138,396	\$ 1,095,802	\$ 1,104,903
Less: Allowance for credit losses ⁽¹⁾	(63)					
Held-to-maturity securities, net of allowance for credit losses	\$ 560,267					

(1) As of January 1, 2020, the Company adopted ASU 2016-13 related to credit losses on financial assets held at amortized cost. As a result of such adoption, the Company measured an allowance for credit losses as of September 30, 2020 related to lifetime expected credit losses on held-to-maturity investment securities.

Securities having a carrying value of \$3.0 billion at September 30, 2020 as well as securities having a carrying value of \$1.7 billion and \$1.9 billion at December 31, 2019 and September 30, 2019, respectively, were pledged as collateral for public deposits, trust deposits, Federal Home Loan Bank ("FHLB") advances and available lines of credit, securities sold under repurchase agreements and derivatives. At September 30, 2020, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders' equity.

(6) Loans

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

	September 30, 2020	December 31, 2019	September 30, 2019
(Dollars in thousands)			
Balance:			
Commercial	\$ 12,276,999	\$ 8,285,920	\$ 8,195,602
Commercial real estate	8,423,142	8,020,276	7,448,667
Home equity	446,274	513,066	512,303
Residential real estate	1,384,810	1,354,221	1,218,666
Premium finance receivables			
Commercial insurance	4,060,144	3,442,027	3,449,950
Life insurance	5,488,832	5,074,602	4,795,496
Consumer and other	55,354	110,178	89,487
Total loans, net of unearned income	\$ 32,135,555	\$ 26,800,290	\$ 25,710,171
Mix:			
Commercial	39%	31%	32%
Commercial real estate	26	30	29
Home equity	1	2	2
Residential real estate	4	5	5
Premium finance receivables			
Commercial insurance	13	13	13
Life insurance	17	19	19
Consumer and other	0	0	0
Total loans, net of unearned income	100%	100%	100%

The Company's loan portfolio is generally comprised of loans to consumers and small to medium-sized businesses located within the geographic market areas that the banks serve. Additionally, to provide short-term relief due to macroeconomic deterioration from the COVID-19 pandemic to small businesses within such market areas, the Company originated loans through the Paycheck Protection Program ("PPP"), an expansion of guaranteed lending under Section 7(a) of the Small Business Act within the CARES Act. As of September 30, 2020, the Company's commercial portfolio included approximately \$3.4 billion of such PPP loans. The premium finance receivables portfolios are made to customers throughout the United States and Canada. The Company strives to maintain a loan portfolio that is diverse in terms of loan type, industry, borrower and geographic concentrations. Such diversification reduces the exposure to economic downturns that may occur in different segments of the economy or in different industries.

Certain premium finance receivables are recorded net of unearned income. The unearned income portions of such premium finance receivables were \$108.5 million at September 30, 2020, \$118.4 million at December 31, 2019 and \$117.5 million at September 30, 2019.

Total loans, excluding PCD loans, include net deferred loan fees and costs and fair value purchase accounting adjustments totaling \$(42.3) million at September 30, 2020, \$9.1 million at December 31, 2019 and \$8.9 million at September 30, 2019. Prior to January 1, 2020, PCI loans were recorded net of credit discounts. See "PCI Loans" below. Net deferred fees as of September 30, 2020 includes \$49.3 million of net deferred fees paid by the Small Business Administration ("SBA") for loans originated under PPP. As PPP loans share similar characteristics (loan terms), and prepayments are considered probable and can reasonably be estimated due to terms of the program, the Company considers estimated future principal prepayments in recognizing such deferred fee for determining a constant effective yield on the portfolio of loans.

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

PCI Loans

Prior to January 1, 2020, PCI loans were aggregated into pools by common risk characteristics for accounting purposes, including recognition of interest income on a pool basis. Measurement of any allowance for loan losses on these loans were offset by the remaining credit discount related to the pool. Changes in expected cash flows would vary from period to period as the Company periodically updated its cash flow model assumptions for PCI loans. The factors that most significantly affect the estimates of gross cash flows expected to be collected, and accordingly the accretable yield, included changes in the benchmark interest rate indices for variable-rate products and changes in prepayment assumptions and loss estimates. As a result of the implementation of ASU No. 2016-13, beginning in the first quarter of 2020, PCI loans transitioned to a classification of PCD, which no longer maintains the prior pools and related accounting concepts. The following tables present the required disclosures for PCI loans before the adoption of ASU No. 2016-13.

Acquired Loan Information at Acquisition—PCI Loans

The following table presents the unpaid principal balance and carrying value for these acquired loans:

(In thousands)	December 31, 2019	
	Unpaid Principal Balance	Carrying Value
PCI loans	\$ 455,784	\$ 425,372

Accretable Yield Activity - PCI Loans

The following table provides activity for the accretable yield of PCI loans as of September 30, 2019:

(In thousands)	Three Months Ended	Nine Months Ended
	September 30, 2019	September 30, 2019
Accretable yield, beginning balance	\$ 34,289	\$ 34,876
Acquisitions	—	1,874
Accretable yield amortized to interest income	(4,266)	(12,179)
Reclassification from non-accretable difference ⁽¹⁾	184	2,190
Increases in interest cash flows due to payments and changes in interest rates	1,164	4,610
Accretable yield, ending balance	\$ 31,371	\$ 31,371

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

(7) Allowance for Credit Losses

In accordance with ASC 326, the Company is required to measure the allowance for credit losses of financial assets with similar risk characteristics on a collective or pooled basis. In considering the segmentation of financial assets measured at amortized cost into pools, the Company considered various risk characteristics in its analysis. Generally, the segmentation utilized represents the level at which the Company develops and documents its systematic methodology to determine the allowance for credit losses for the financial asset held at amortized cost, specifically the Company's loan portfolio and debt securities classified as held-to-maturity. Below is a summary of the Company's loan portfolio segments and major debt security types:

Commercial loans, including PPP loans: The Company makes commercial loans for many purposes, including working capital lines and leasing arrangements, that are generally renewable annually and supported by business assets, personal guarantees and additional collateral. Underlying collateral includes receivables, inventory, enterprise value and the assets of the business. Commercial business lending is generally considered to involve a slightly higher degree of risk than traditional consumer bank lending. This portfolio includes a range of industries, including manufacturing, restaurants, franchise, professional services, equipment finance and leasing, mortgage warehouse lending and industrial.

The Company also originates loans through PPP. Administered by the SBA, PPP provides short-term relief primarily related to the disruption from COVID-19 to companies and non-profits that meet the SBA's definition of an eligible small business. Under the program, the SBA will forgive all or a portion of the loan if, during a certain period, loans are used for qualifying expenses. If all or a portion of the loan is not forgiven, the borrower is responsible for repayment. PPP loans are fully guaranteed by the SBA, including any portion not forgiven. The SBA guarantee exists at the inception of the loan and throughout its life and is not

separated from the loan if the loan is subsequently sold or transferred. As it is not considered a freestanding contract, the Company considers the impact of the SBA guarantee when measuring the allowance for credit losses.

Commercial real estate loans, including construction and development, and non-construction: The Company's commercial real estate loans are generally secured by a first mortgage lien and assignment of rents on the underlying property. Since most of the Company's bank branches are located in the Chicago metropolitan area and southern Wisconsin, a significant portion of the Company's commercial real estate loan portfolio is located in this region. As the risks and circumstances of such loans in construction phase vary from that of non-construction commercial real estate loans, the Company assessed the allowance for credit losses separately for these two segments.

Home equity loans: The Company's home equity loans and lines of credit are primarily originated by each of the bank subsidiaries in their local markets where there is a strong understanding of the underlying real estate value. The Company's banks monitor and manage these loans, and conduct an automated review of all home equity loans and lines of credit at least twice per year. The banks subsidiaries use this information to manage loans that may be higher risk and to determine whether to obtain additional credit information or updated property valuations. In a limited number of cases, the Company may issue home equity credit together with first mortgage financing, and requests for such financing are evaluated on a combined basis.

Residential real estate loans: The Company's 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. The Company's adjustable rate mortgages relate to properties located principally in the Chicago metropolitan area and southern Wisconsin or vacation homes owned by local residents. The Company believes that since this loan portfolio consists primarily of locally originated loans, and since the majority of the borrowers are longer-term customers with lower LTV ratios, the Company faces a relatively low risk of borrower default and delinquency. It is not the Company's current practice to underwrite, and there are no plans to underwrite subprime, Alt A, no or little documentation loans, or option ARM loans.

Premium finance receivables: The Company makes loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. The loans are indirectly 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. The Company performs ongoing credit and other reviews of the agents and brokers to mitigate against the risk of fraud.

The Company also originates life insurance premium finance receivables. 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, the Company may make a loan that has a partially unsecured position.

Consumer and other loans: Included in the consumer and other loan category is a wide variety of personal and consumer loans to individuals. The Company originates 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.

U.S. government agency securities: This security type includes debt obligations of certain government-sponsored entities of the U.S. government such as the Federal Home Loan Bank, Federal Agricultural Mortgage Corporation, Federal Farm Credit Banks Funding Corporation and Fannie Mae. Such securities often contain an explicit or implicit guarantee of the U.S. government.

Municipal securities: The Company's municipal securities portfolio include bond issues for various municipal government entities located throughout the United States, including the Chicago metropolitan area and southern Wisconsin, some of which are privately placed and non-rated. Though the risk of loss is typically low, including within the Company, default history exists on municipal securities within the United States.

The tables below show the aging of the Company's loan portfolio by the segmentation noted above at September 30, 2020, December 31, 2019 and September 30, 2019. For periods prior to January 1, 2020, PCI loans are disclosed in segmentation consistent with that discussed above for comparative purposes. For accounting purposes, including recognition of interest income, PCI loans were aggregated into pools by common risk characteristics separate from non-acquired loans. As a result of the implementation of ASU 2016-13, beginning in the first quarter of 2020, PCI loans transitioned to a classification of purchased financial assets with credit deterioration ("PCD"), which no longer maintains the prior pools and related accounting concepts.

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Recognition of interest income on PCD loans is considered at the individual asset level following the Company's accrual policies, instead of based upon the entire pool of loans. As a result, such PCD loans are included within nonaccrual status, if applicable.

As of September 30, 2020

(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, excluding PPP loans	\$ 42,036	\$ —	\$ 2,168	\$ 48,271	\$ 8,805,511	\$ 8,897,986
Commercial PPP loans	—	—	—	—	3,379,013	3,379,013
Commercial real estate						
Construction and development	10,980	—	—	12,150	1,310,019	1,333,149
Non-construction	57,835	—	8,299	41,312	6,982,547	7,089,993
Home equity	6,329	—	70	1,148	438,727	446,274
Residential real estate	22,069	—	814	2,443	1,359,484	1,384,810
Premium finance receivables						
Commercial insurance loans	21,080	12,177	7,495	18,839	4,000,553	4,060,144
Life insurance loans	—	—	30,791	61,893	5,396,148	5,488,832
Consumer and other	422	175	273	493	53,991	55,354
Total loans, net of unearned income	\$ 160,751	\$ 12,352	\$ 49,910	\$ 186,549	\$ 31,725,993	\$ 32,135,555

As of December 31, 2019

(In thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances: ⁽¹⁾						
Commercial						
Commercial, industrial and other, excluding PPP loans	\$ 37,224	\$ 1,855	\$ 3,275	\$ 77,324	\$ 8,166,242	\$ 8,285,920
Commercial PPP loans	—	—	—	—	—	—
Commercial real estate						
Construction and development	2,112	3,514	5,292	48,964	1,223,567	1,283,449
Non-construction	24,001	11,432	26,254	48,603	6,626,537	6,736,827
Home equity	7,363	—	454	3,533	501,716	513,066
Residential real estate	13,797	5,771	3,089	18,041	1,313,523	1,354,221
Premium finance receivables						
Commercial insurance loans	20,590	11,517	12,119	18,783	3,379,018	3,442,027
Life insurance loans	590	—	—	32,559	5,041,453	5,074,602
Consumer and other	231	287	40	344	109,276	110,178
Total loans, net of unearned income	\$ 105,908	\$ 34,376	\$ 50,523	\$ 248,151	\$ 26,361,332	\$ 26,800,290

As of September 30, 2019

(In thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances: ⁽¹⁾						
Commercial						
Commercial, industrial and other, excluding PPP loans	\$ 43,931	\$ 382	\$ 12,860	\$ 51,487	\$ 8,086,942	\$ 8,195,602
Commercial PPP loans	—	—	—	—	—	—
Commercial real estate						
Construction and development	2,024	576	88	7,050	1,032,473	1,042,211
Non-construction	19,533	4,416	9,541	26,048	6,346,918	6,406,456
Home equity	7,920	—	95	3,100	501,188	512,303
Residential real estate	13,447	3,244	1,868	1,433	1,198,674	1,218,666
Premium finance receivables						
Commercial insurance loans	15,950	10,612	8,853	16,972	3,397,563	3,449,950
Life insurance loans	590	—	17,753	27,795	4,749,358	4,795,496
Consumer and other	224	117	55	272	88,819	89,487
Total loans, net of unearned income	\$ 103,619	\$ 19,347	\$ 51,113	\$ 134,157	\$ 25,401,935	\$ 25,710,171

(1) Includes PCD loans and, for periods prior to the adoption of ASU 2016-13, PCI loans. PCI loans represented loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings disclosed in comparative periods are based upon contractually required payments. As a result of the adoption of ASU 2016-13, the Company transitioned all previously classified PCI loans to PCD loans effective January 1, 2020.

Credit Quality Indicators

Credit quality indicators, specifically the Company's internal risk rating systems, reflect how the Company monitors credit losses and represents factors used by the Company when measuring the allowance for credit losses. The following discusses the Company's credit quality indicators by financial asset.

Loan portfolios

The Company's ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, the Company operates a credit risk rating system under which credit management personnel assign a credit risk rating (1 to 10 rating) to each loan at the time of origination and review loans on a regular basis. These credit risk ratings are also an important aspect of the Company's allowance for credit losses measurement methodology. The credit risk rating structure and classifications are shown below:

Pass (risk rating 1 to 5): Based on various factors (liquidity, leverage, etc.), the Company believes asset quality is acceptable and is deemed to not require additional monitoring by the Company.

Special mention (risk rating 6): Assets in this category are currently protected, potentially weak, but not to the point of substandard classification. Loss potential is moderate if corrective action is not taken.

Substandard accrual (risk rating 7): Assets in this category have well defined weaknesses that jeopardize the liquidation of the debt. Loss potential is distinct but with no discernible impairment.

Substandard nonaccrual/doubtful (risk rating 8 and 9): Assets have all the weaknesses in those classified "substandard accrual" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, improbable.

Loss/fully charged-off (risk rating 10): Assets in this category are considered fully uncollectible. As such, these assets have no carrying balance on the Company's Consolidated Statements of Condition.

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

The Company's Problem Loan Reporting system 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 and, as a result, no longer share similar risk characteristics as its related pool. If that is the case, the individual loan is considered collateral dependent and individually assessed for an allowance for credit loss. The Company's individual assessment utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company's Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.

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

The table below shows the Company's loan portfolio by credit quality indicator and year of origination at September 30, 2020:

As of September 30, 2020	Year of Origination							Revolving		Total
(In thousands)	2020	2019	2018	2017	2016	Prior	Revolving	to Term	Loans	
Loan Balances:										
Commercial, industrial and other										
Pass	\$ 1,380,874	\$ 1,246,209	\$ 978,844	\$ 688,865	\$ 349,659	\$ 554,865	\$ 2,755,857	\$ 17,970	\$ 7,973,143	
Special mention	38,670	115,731	75,859	69,144	53,537	21,993	128,730	138	503,802	
Substandard accrual	15,054	134,060	74,803	43,066	13,169	31,280	66,437	1,136	379,005	
Substandard nonaccrual/doubtful	1,254	1,027	4,483	6,143	7,517	12,285	9,045	282	42,036	
Total commercial, industrial and other	\$ 1,435,852	\$ 1,497,027	\$ 1,133,989	\$ 807,218	\$ 423,882	\$ 620,423	\$ 2,960,069	\$ 19,526	\$ 8,897,986	
Commercial PPP										
Pass	\$ 3,379,013	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,379,013	
Special mention	—	—	—	—	—	—	—	—	—	
Substandard accrual	—	—	—	—	—	—	—	—	—	
Substandard nonaccrual/doubtful	—	—	—	—	—	—	—	—	—	
Total commercial PPP	\$ 3,379,013	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,379,013	
Construction and development										
Pass	\$ 176,894	\$ 454,031	\$ 255,974	\$ 157,559	\$ 82,421	\$ 63,379	\$ 22,358	\$ —	\$ 1,212,616	
Special mention	—	20,058	48,593	13,842	2,741	6,862	—	—	92,096	
Substandard accrual	—	1,194	9,848	3,562	—	2,853	—	—	17,457	
Substandard nonaccrual/doubtful	—	—	3,312	2,917	1,072	3,679	—	—	10,980	
Total construction and development	\$ 176,894	\$ 475,283	\$ 317,727	\$ 177,880	\$ 86,234	\$ 76,773	\$ 22,358	\$ —	\$ 1,333,149	
Non-construction										
Pass	\$ 940,359	\$ 1,024,971	\$ 957,701	\$ 797,355	\$ 684,954	\$ 1,736,025	\$ 180,231	\$ 7,007	\$ 6,328,603	
Special mention	2,379	88,103	78,047	69,884	91,313	164,465	737	2,765	497,693	
Substandard accrual	1,135	19,448	26,611	24,928	20,523	112,350	867	—	205,862	
Substandard nonaccrual/doubtful	—	1,107	6,031	3,602	8,138	38,957	—	—	57,835	
Total non-construction	\$ 943,873	\$ 1,133,629	\$ 1,068,390	\$ 895,769	\$ 804,928	\$ 2,051,797	\$ 181,835	\$ 9,772	\$ 7,089,993	
Home equity										
Pass	\$ 47	\$ —	\$ 47	\$ 28	\$ 37	\$ 6,012	\$ 406,565	\$ 171	\$ 412,907	
Special mention	—	—	—	393	83	3,615	7,852	565	12,508	
Substandard accrual	—	—	134	—	248	12,037	1,118	993	14,530	
Substandard nonaccrual/doubtful	—	56	190	90	227	4,113	1,529	124	6,329	
Total home equity	\$ 47	\$ 56	\$ 371	\$ 511	\$ 595	\$ 25,777	\$ 417,064	\$ 1,853	\$ 446,274	
Residential real estate										
Pass	\$ 171,033	\$ 367,779	\$ 142,761	\$ 149,854	\$ 122,718	\$ 373,499	\$ —	\$ —	\$ 1,327,644	
Special mention	314	1,570	2,686	2,770	2,440	8,558	—	—	18,338	
Substandard accrual	1,425	516	1,359	2,537	5,422	5,500	—	—	16,759	
Substandard nonaccrual/doubtful	—	962	1,892	3,618	3,347	12,250	—	—	22,069	
Total residential real estate	\$ 172,772	\$ 370,827	\$ 148,698	\$ 158,779	\$ 133,927	\$ 399,807	\$ —	\$ —	\$ 1,384,810	
Premium finance receivables - commercial										
Pass	\$ 3,898,133	\$ 103,562	\$ 6,077	\$ 116	\$ —	\$ —	\$ —	\$ —	\$ 4,007,888	
Special mention	25,295	1,674	4	—	—	—	—	—	26,973	
Substandard accrual	2,291	1,803	109	—	—	—	—	—	4,203	
Substandard nonaccrual/doubtful	9,435	11,057	587	1	—	—	—	—	21,080	
Total premium finance receivables - commercial	\$ 3,935,154	\$ 118,096	\$ 6,777	\$ 117	\$ —	\$ —	\$ —	\$ —	\$ 4,060,144	
Premium finance receivables - life										
Pass	\$ 408,171	\$ 533,284	\$ 565,371	\$ 616,055	\$ 733,758	\$ 2,631,613	\$ —	\$ —	\$ 5,488,252	
Special mention	—	—	—	580	—	—	—	—	580	
Substandard accrual	—	—	—	—	—	—	—	—	—	
Substandard nonaccrual/doubtful	—	—	—	—	—	—	—	—	—	
Total premium finance receivables - life	\$ 408,171	\$ 533,284	\$ 565,371	\$ 616,635	\$ 733,758	\$ 2,631,613	\$ —	\$ —	\$ 5,488,832	

Consumer and other

Pass	\$	1,781	\$	2,618	\$	2,149	\$	663	\$	531	\$	26,768	\$	19,847	\$	—	\$	54,357
Special mention		24		26		—		127		—		147		2		—		326
Substandard accrual		10		6		—		—		—		230		3		—		249
Substandard nonaccrual/doubtful		1		12		3		17		—		389		—		—		422
Total consumer and other	\$	1,816	\$	2,662	\$	2,152	\$	807	\$	531	\$	27,534	\$	19,852	\$	—	\$	55,354

Total loans ⁽¹⁾

Pass	\$	10,356,305	\$	3,732,454	\$	2,908,924	\$	2,410,495	\$	1,974,078	\$	5,392,161	\$	3,384,858	\$	25,148	\$	30,184,423
Special mention		66,682		227,162		205,189		156,740		150,114		205,640		137,321		3,468		1,152,316
Substandard accrual		19,915		157,027		112,864		74,093		39,362		164,250		68,425		2,129		638,065
Substandard nonaccrual/doubtful		10,690		14,221		16,498		16,388		20,301		71,673		10,574		406		160,751
Total loans	\$	10,453,592	\$	4,130,864	\$	3,243,475	\$	2,657,716	\$	2,183,855	\$	5,833,724	\$	3,601,178	\$	31,151	\$	32,135,555

(1) Includes \$236.3 million of loans with COVID-19 related modifications that migrated from pass as of March 1, 2020 to special mention or substandard accrual as of September 30, 2020. These loans were qualitatively evaluated as a part of the measurement of the allowance for credit losses as of September 30, 2020.

Held-to-maturity debt securities

The Company conducts an assessment of its investment securities, including those classified as held-to-maturity, at the time of purchase and on at least an annual basis to ensure such investment securities remain within appropriate levels of risk and continue to perform satisfactorily in fulfilling its obligations. The Company considers, among other factors, the nature of the securities and credit ratings or financial condition of the issuer. If available, the Company obtains a credit rating for issuers from a Nationally Recognized Statistical Rating Organization (“NRSRO”) for consideration. If no such rating is available for an issuer, the Company performs an internal rating based on the scale utilized within the loan portfolio as discussed above. For purposes of the table below, the Company has converted any issuer rating from an NRSRO into the Company’s internal ratings based on Investment Policy and review by the Company’s management.

As of September 30, 2020	Year of Origination							Total
(In thousands)	2020	2019	2018	2017	2016	Prior	Balance	
Amortized Cost Balances:								
U.S. government agencies								
1-4 internal grade	\$ 124,575	\$ 119,995	\$ 101,450	\$ —	\$ —	\$ 3,395	\$ 349,415	
5-7 internal grade	—	—	—	—	—	—	—	
8-10 internal grade	—	—	—	—	—	—	—	
Total U.S. government agencies	\$ 124,575	\$ 119,995	\$ 101,450	\$ —	\$ —	\$ 3,395	\$ 349,415	
Municipal								
1-4 internal grade	\$ —	\$ 162	\$ 7,590	\$ 43,863	\$ 10,172	\$ 149,128	\$ 210,915	
5-7 internal grade	—	—	—	—	—	—	—	
8-10 internal grade	—	—	—	—	—	—	—	
Total municipal	\$ —	\$ 162	\$ 7,590	\$ 43,863	\$ 10,172	\$ 149,128	\$ 210,915	
Total held-to-maturity securities							\$ 560,330	
Less: Allowance for credit losses							(63)	
Held-to-maturity securities, net of allowance for credit losses							\$ 560,267	

Measurement of Allowance for Credit Losses

The Company’s allowance for credit losses consists of the allowance for loan losses, the allowance for unfunded commitment losses and the allowance for held-to-maturity debt security losses. In accordance with ASC 326, the Company measures the allowance for credit losses at the time of origination or purchase of a financial asset, representing an estimate of lifetime expected credit losses on the related asset. When developing its estimate, the Company considers available information relevant to assessing the collectability of cash flows, from both internal and external sources. Historical credit loss experience is one input in the estimation process as well as inputs relevant to current conditions and reasonable and supportable forecasts. In considering past events, the Company considers the relevance, or lack thereof, of historical information due to changes in such things as financial asset underwriting or collection practices, and changes in portfolio mix due to changing business plans and strategies. In considering current conditions and forecasts, the Company considers both the current economic environment and the forecasted direction of the economic environment with emphasis on those factors deemed relevant to or driving changes in expected credit losses. As significant judgment is required, the review of the appropriateness of the allowance for credit losses is performed quarterly by various committees with participation by the Company’s executive management.

(In thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Allowance for loan losses	\$ 325,959	\$ 156,828	\$ 161,763
Allowance for unfunded lending-related commitments losses	62,949	1,633	1,510
Allowance for loan losses and unfunded lending-related commitments losses	388,908	158,461	163,273
Allowance for held-to-maturity securities losses	63	—	—
Allowance for credit losses	\$ 388,971	\$ 158,461	\$ 163,273

The allowance for credit losses is measured on a collective or pooled basis when similar risk characteristics exist, based upon the segmentation discussed above. The Company utilizes modeling methodologies that estimate lifetime credit loss rates on each pool, including methodologies estimating the probability of default and loss given default on specific segments. Historical credit loss history is adjusted for reasonable and supportable forecasts developed by the Company on a quantitative or qualitative basis. Reasonable and supportable forecasts consider the macroeconomic factors that are most relevant to evaluating and predicting expected credit losses in the Company's financial assets. Currently, the Company utilizes an eight quarter forecast period using a single macroeconomic scenario provided by a third-party and reviewed within the Company's governance structure. For periods beyond the ability to develop reasonable and supportable forecasts, the Company reverts to historical loss rates at an input level, straight-line over a four quarter reversion period. Expected credit losses are measured over the contractual term of the financial asset with consideration of expected prepayments. Expected extensions, renewals or modifications of the financial asset are only considered when either 1) the expected extension, renewal or modification is contained within the existing agreement and is not unconditionally cancelable, or 2) the expected extension, renewal or modification is reasonably expected to result in a TDR. The methodologies discussed above are applied to both current asset balances on the Company's Consolidated Statements of Condition and off-balance sheet commitments (i.e. unfunded lending-related commitments).

Assets that do not share similar risk characteristics with a pool are assessed for the allowance for credit losses on an individual basis. These typically include assets experiencing financial difficulties, including substandard nonaccrual assets and assets currently classified or expected to be classified as TDRs. If foreclosure is probable or the asset is considered collateral-dependent, expected credit losses are measured based upon the fair value of the underlying collateral adjusted for selling costs, if appropriate. Underlying collateral across the Company's segments consist primarily of real estate, land and construction assets as well as general business assets of the borrower. As of September 30, 2020, substandard nonaccrual loans totaling \$82.2 million in carrying balance had no related allowance for credit losses. For certain accruing current and expected TDRs, expected credit losses are measured based upon the present value of future cash flows of the modified asset terms compared to the amortized cost of the asset. Considering accounting relief provided under Section 4013 of the CARES Act, loans identified as being reasonably expected to be modified into TDRs in the future totaled \$3.7 million as of September 30, 2020.

The Company does not measure an allowance for credit losses on accrued interest receivable balances because these balances are written off in a timely manner as a reduction to interest income when assets are placed on nonaccrual status.

Loan portfolios

A summary of activity in the allowance for credit losses, specifically for the loan portfolio (i.e. allowance for loan losses and allowance for unfunded commitment losses), for the three and nine months ended September 30, 2020 and 2019 is as follows. Periods prior to January 1, 2020 are presented in accordance with accounting rules effective at that time.

Three months ended September 30, 2020

(In thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivables	Consumer and Other	Total Loans
Allowance for credit losses at beginning of period	\$ 133,597	\$ 197,126	\$ 12,189	\$ 11,915	\$ 17,592	\$ 690	\$ 373,109
Other adjustments	—	—	—	—	55	—	55
Charge-offs	(5,270)	(1,529)	(138)	(83)	(4,640)	(103)	(11,763)
Recoveries	428	175	111	25	1,720	20	2,479
Provision for credit losses	(15,861)	38,238	(485)	(67)	3,129	74	25,028
Allowance for credit losses at period end	\$ 112,894	\$ 234,010	\$ 11,677	\$ 11,790	\$ 17,856	\$ 681	\$ 388,908
Individually measured	\$ 10,642	\$ 4,741	\$ 196	\$ 680	\$ —	\$ 108	\$ 16,367
Collectively measured	102,252	229,269	11,481	11,110	17,856	573	372,541
Loans at period end							
Individually measured	\$ 49,900	\$ 79,661	\$ 22,962	\$ 30,596	\$ —	\$ 548	\$ 183,667
Collectively measured	12,227,099	8,343,481	423,312	1,100,699	9,548,976	54,806	31,698,373
Loans held at fair value	—	—	—	253,515	—	—	253,515

Three months ended September 30, 2019

(In thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivables	Consumer and Other	Total Loans
Allowance for credit losses at beginning of period	\$ 74,893	\$ 64,750	\$ 3,631	\$ 8,146	\$ 8,940	\$ 1,541	\$ 161,901
Other adjustments	—	—	—	—	(13)	—	(13)
Charge-offs	(6,775)	(809)	(1,594)	(25)	(1,866)	(117)	(11,186)
Recoveries	367	385	183	203	563	36	1,737
Provision for credit losses	4,642	2,122	1,500	1,087	1,742	(259)	10,834
Allowance for credit losses at period end	\$ 73,127	\$ 66,448	\$ 3,720	\$ 9,411	\$ 9,366	\$ 1,201	\$ 163,273
Individually measured	\$ 10,606	\$ 3,600	\$ 313	\$ 315	\$ —	\$ 106	\$ 14,940
Collectively measured	62,160	62,795	3,407	9,037	9,366	1,095	147,860
Loans acquired with deteriorated credit quality ⁽¹⁾	361	53	—	59	—	—	473
Loans at period end							
Individually measured	\$ 58,030	\$ 32,155	\$ 18,702	\$ 21,889	\$ —	\$ 274	\$ 131,050
Collectively measured	8,122,040	7,299,229	493,601	1,070,795	8,104,538	86,887	25,177,090
Loans acquired with deteriorated credit quality ⁽¹⁾	15,532	117,283	—	9,960	140,908	2,326	286,009
Loans held at fair value	—	—	—	116,022	—	—	116,022

(1) Prior to January 1, 2020, measurement of any allowance for loan losses on PCI loans were offset by the remaining discount related to the acquired pool. As a result of the adoption of ASU 2016-13, PCI loans transitioned to a classification of PCD. Measurement of any allowance for loan losses on PCD loans is no longer offset by the remaining discount.

Nine months ended September 30, 2020

(In thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivables	Consumer and Other	Total Loans
Allowance for credit losses at beginning of period	\$ 64,920	\$ 68,511	\$ 3,878	\$ 9,800	\$ 9,647	\$ 1,705	\$ 158,461
Cumulative effect adjustment from the adoption of ASU 2016-13	9,039	32,064	9,061	3,002	(4,959)	(863)	47,344
Other adjustments	—	—	—	—	24	—	24
Charge-offs	(13,109)	(9,323)	(1,378)	(777)	(11,258)	(330)	(36,175)
Recoveries	924	931	451	115	3,663	119	6,203
Provision for credit losses	51,120	141,827	(335)	(350)	20,739	50	213,051
Allowance for credit losses at period end	\$ 112,894	\$ 234,010	\$ 11,677	\$ 11,790	\$ 17,856	\$ 681	\$ 388,908

Nine months ended September 30, 2019

<u>(In thousands)</u>	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivables	Consumer and Other	Total Loans
Allowance for credit losses at beginning of period	\$ 67,826	\$ 61,661	\$ 8,507	\$ 7,194	\$ 7,715	\$ 1,261	\$ 154,164
Other adjustments	—	(35)	(20)	(15)	19	—	(51)
Charge-offs	(24,658)	(4,869)	(2,372)	(315)	(9,085)	(355)	(41,654)
Recoveries	974	1,112	313	372	1,853	152	4,776
Provision for credit losses	28,985	8,579	(2,708)	2,175	8,864	143	46,038
Allowance for credit losses at period end	<u>\$ 73,127</u>	<u>\$ 66,448</u>	<u>\$ 3,720</u>	<u>\$ 9,411</u>	<u>\$ 9,366</u>	<u>\$ 1,201</u>	<u>\$ 163,273</u>

At January 1, 2020, the Company adopted ASU 2016-13, which replaced the previous incurred loss methodology for measuring the allowance for credit losses with a lifetime expected loss methodology. At adoption, the allowance for credit losses related to loans and lending agreements increased approximately \$47.3 million, including an increase of approximately \$33.2 million recorded to the allowance for unfunded commitment losses within accrued interest and other liabilities on the Company's Consolidated Statements of Condition, with an offsetting amount recorded directly to retained earnings, net of taxes. The remaining \$14.2 million cumulative effect adjustment was recorded to the allowance for loan losses, presented separately on the Company's Consolidated Statements of Condition. Of the amount recorded to the allowance for loan losses, \$11.0 million related to PCD loans with such offsetting amount added directly to the carrying balance of the loans and the remaining \$3.2 million not related to PCD loans recorded directly to retained earnings, net of taxes, on the Company's Consolidated Statements of Condition.

For the three and nine month periods ended September 30, 2020, the Company recognized approximately \$25.0 million and \$213.1 million of provision for credit losses, respectively, related to loans and lending agreements. The increased provision was primarily the result of the continued change to macroeconomic conditions created by the COVID-19 pandemic, and the impact on the Company's macroeconomic forecasts of key model inputs (Commercial Real Estate Price Index, Baa corporate credit spreads, gross domestic product and Dow Jones Total Stock Market Index) as well as changes in the Company's loan portfolios. As of September 30, 2020, the Company's macroeconomic forecasts of such model inputs assumed an improvement in the economic outlook compared to the macroeconomic forecasts used in the measurement of the allowance for credit losses as of June 30, 2020. While the uncertainties around the path of the recovery are still present, macroeconomic forecasts as of September 30, 2020 assume that the impact of those uncertainties on economic growth is relatively less severe compared to that assumed at June 30, 2020. The commercial loan portfolio realized a negative provision for credit losses for the three months ended September 30, 2020, which was primarily driven by improving Dow Jones Total Stock Market Index and Baa corporate credit spread macroeconomic scenario variables. A deterioration in the Commercial Real Estate Price Index for the initial portion of the Company's reasonable and supportable forecast period was a primary driver of the provision for credit losses within the commercial real estate portfolio during the same period. Other key drivers of provision for credit losses changes in these portfolios include, but are not limited to, net new loan growth and loan risk rating migration. Net charge-offs in the three and nine month periods ending September 30, 2020 totaled \$9.3 million and \$30.0 million, respectively.

Held-to-maturity debt securities

At January 1, 2020, the Company established an allowance for credit losses on its held-to-maturity debt securities totaling approximately \$74,000, which is presented as a reduction to the amortized cost basis of held-to-maturity securities on the Company's Consolidated Statements of Condition. Such adjustment was recorded directly to the Company's retained earnings, net of taxes. For the three and nine month periods ended September 30, 2020, the Company recognized an approximately \$2,000 and \$11,000 credit to provision for credit losses related to held-to-maturity securities, respectively.

TDRs

At September 30, 2020, the Company had \$78.5 million in loans modified in TDRs. The \$78.5 million in TDRs represents 291 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability to pay.

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

restructured to be reasonably assured of repayment and of performance according to the modified terms and is supported by a current, well-documented credit assessment of the borrower's financial condition and prospects for repayment under the revised terms.

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

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

TDRs are individually assessed at the time of the modification and on a quarterly basis to measure an allowance for credit loss. The carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral. Any shortfall is recorded as a reserve. Each TDR was individually assessed at September 30, 2020 and approximately \$2.8 million of reserve was present and appropriately reserved for through the Company's reserving methodology in the Company's allowance for credit losses.

TDRs may arise when, due to financial difficulties experienced by the borrower, the Company obtains through physical possession one or more collateral assets in satisfaction of all or part of an existing credit. Once possession is obtained, the Company reclassifies the appropriate portion of the remaining balance of the credit from loans to OREO, which is included within other assets in the Consolidated Statements of Condition. For any residential real estate property collateralizing a consumer mortgage loan, the Company is considered to possess the related collateral only if legal title is obtained upon completion of foreclosure, or the borrower conveys all interest in the residential real estate property to the Company through completion of a deed in lieu of foreclosure or similar legal agreement. At September 30, 2020, the Company had \$1.8 million of foreclosed residential real estate properties included within OREO. Furthermore, the recorded investment in residential mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process totaled \$17.7 million and \$12.6 million at September 30, 2020 and 2019, respectively.

The tables below present a summary of the post-modification balance of loans restructured during the three and nine months ended September 30, 2020 and 2019, respectively, which represent TDRs:

Three months ended September 30, 2020 (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	5	\$ 1,013	5	\$ 1,013	—	\$ —	—	\$ —	—	\$ —
Commercial real estate										
Non-construction	3	1,045	3	1,045	—	—	1	207	—	—
Residential real estate and other	28	5,538	21	5,281	13	1,829	1	190	—	—
Total loans	36	\$ 7,596	29	\$ 7,339	13	\$ 1,829	2	\$ 397	—	\$ —

Three months ended September 30, 2019 (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	5	\$ 3,526	2	\$ 2,721	—	\$ —	3	\$ 807	—	\$ —
Commercial real estate										
Non-construction	3	5,192	2	5,192	—	—	2	5,191	—	—
Residential real estate and other	60	4,879	59	4,568	9	1,048	1	311	—	—
Total loans	68	\$ 13,597	63	\$ 12,481	9	\$ 1,048	6	\$ 6,309	—	\$ —

(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, 2020, 36 loans totaling \$7.6 million were determined to be TDRs, compared to 68 loans totaling \$13.6 million during the three months ended September 30, 2019. Of these loans extended at below market terms, the weighted average extension had a term of approximately 26 months during the quarter ended September 30, 2020 compared to 13 months for the quarter ended September 30, 2019. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 116 basis points and 161 basis points during the three months ended September 30, 2020 and 2019, respectively. Interest-only payment terms were approximately five months and nine months during the three months ended September 30, 2020 and 2019, respectively. Additionally, no principal balances were forgiven in the third quarter of 2020 and 2019.

Nine months ended September 30, 2020 (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	17	\$ 10,046	13	\$ 5,772	—	\$ —	4	\$ 3,257	1	\$ 432
Commercial real estate										
Non-construction	17	19,180	14	14,556	3	921	7	5,752	—	—
Residential real estate and other	69	11,184	54	10,676	28	4,205	1	190	—	—
Total loans	103	\$ 40,410	81	\$ 31,004	31	\$ 5,126	12	\$ 9,199	1	\$ 432

Nine months ended September 30, 2019 (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	19	\$ 24,911	9	\$ 5,684	1	\$ 550	12	\$ 20,723	—	\$ —
Commercial real estate										
Non-construction	6	6,767	5	6,465	—	—	3	5,493	—	—
Residential real estate and other	102	15,126	101	14,815	24	4,537	1	311	—	—
Total loans	127	\$ 46,804	115	\$ 26,964	25	\$ 5,087	16	\$ 26,527	—	\$ —

(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, 2020, 103 loans totaling \$40.4 million were determined to be TDRs, compared to 127 loans totaling \$46.8 million during the nine months ended September 30, 2019. Of these loans extended at below market terms, the weighted average extension had a term of approximately 14 months during the nine months ended September 30, 2020 compared to 14 months for the nine months ended September 30, 2019. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 143 basis points and 205 basis points for the year-to-date periods September 30, 2020 and 2019, respectively. Interest-only payment terms were approximately 13 months and

five months during the nine months ended September 30, 2020 and 2019, respectively. Additionally, \$453,000 of principal balances were forgiven in the first nine months of 2020.

The following table presents a summary of all loans restructured in TDRs during the twelve months ended September 30, 2020 and 2019, and such loans that were in payment default under the restructured terms during the respective periods below:

(Dollars in thousands)	As of September 30, 2020		Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	Total ⁽¹⁾⁽³⁾		Payments in Default ⁽²⁾⁽³⁾		Payments in Default ⁽²⁾⁽³⁾	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial, industrial and other	22	\$ 11,476	7	\$ 4,607	7	\$ 4,607
Commercial real estate						
Non-construction	18	19,432	13	14,595	13	14,595
Residential real estate and other	112	16,265	11	2,131	14	2,582
Total loans	152	\$ 47,173	31	\$ 21,333	34	\$ 21,784
(Dollars in thousands)	As of September 30, 2019		Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	Total ⁽¹⁾⁽³⁾		Payments in Default ⁽²⁾⁽³⁾		Payments in Default ⁽²⁾⁽³⁾	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial, industrial and other	20	\$ 25,041	5	\$ 1,949	8	\$ 13,554
Commercial real estate						
Non-construction	7	7,137	2	682	3	984
Residential real estate and other	130	19,041	11	3,914	12	4,154
Total loans	157	\$ 51,219	18	\$ 6,545	23	\$ 18,692

(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 reporting unit is presented in the following table:

(Dollars in thousands)	December 31, 2019	Goodwill Acquired	Impairment Loss	Goodwill Adjustments	September 30, 2020
Community banking	\$ 536,396	\$ —	\$ —	\$ —	\$ 536,396
Specialty finance	39,451	—	—	(576)	38,875
Wealth management	69,373	—	—	—	69,373
Total	\$ 645,220	\$ —	\$ —	\$ (576)	\$ 644,644

The specialty finance unit's goodwill decreased \$576,000 in the first nine months of 2020 as a result of foreign currency translation adjustments related to the Canadian acquisitions.

At October 1, 2019, the Company utilized a quantitative approach for its annual goodwill impairment test of the specialty finance and wealth management reporting units and determined that no impairment existed at that time. The Company utilized a qualitative approach as of October 1, 2019 for its annual goodwill impairment test of the community banking reporting unit and determined that it was not more likely than not that an impairment existed at that time. The Company previously performed a quantitative approach for its annual goodwill impairment test of the community banking reporting unit as of June 30, 2017.

At each reporting date between annual goodwill impairment tests, the Company considers potential indicators of impairment. Given the current economic uncertainty and volatility surrounding COVID-19, the Company assessed whether such events and circumstances resulted in it being more likely than not that the fair value of any reporting unit was less than its carrying value. Impairment indicators considered comprised the condition of the economy and banking industry; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting units; performance of the Company's stock and other relevant events. The Company further considered the amount by which fair value exceeded book value for each reporting unit in its most recent quantitative analysis and sensitivities performed.

At the conclusion of this assessment of all reporting units, the Company determined that as of September 30, 2020, it was more likely than not that the fair value of all reporting units exceeded the respective carrying value of such reporting unit.

A summary of intangible assets as of the dates shown and the expected amortization of finite-lived intangible assets as of September 30, 2020 is as follows:

(Dollars in thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Community banking segment:			
Core deposit intangibles with finite lives:			
Gross carrying amount	\$ 55,206	\$ 55,206	\$ 48,791
Accumulated amortization	(31,209)	(26,326)	(24,628)
Net carrying amount	\$ 23,997	\$ 28,880	\$ 24,163
Trademark with indefinite lives:			
Carrying amount	5,800	5,800	5,800
Total net carrying amount	\$ 29,797	\$ 34,680	\$ 29,963
Specialty finance segment:			
Customer list intangibles with finite lives:			
Gross carrying amount	\$ 1,962	\$ 1,965	\$ 1,962
Accumulated amortization	(1,624)	(1,552)	(1,526)
Net carrying amount	\$ 338	\$ 413	\$ 436
Wealth management segment:			
Customer list and other intangibles with finite lives:			
Gross carrying amount	\$ 20,430	\$ 20,430	\$ 20,430
Accumulated amortization	(11,895)	(8,466)	(7,172)
Net carrying amount	\$ 8,535	\$ 11,964	\$ 13,258
Total intangible assets:			
Gross carrying amount	\$ 83,398	\$ 83,401	\$ 76,983
Accumulated amortization	(44,728)	(36,344)	(33,326)
Total intangible assets, net	\$ 38,670	\$ 47,057	\$ 43,657

Estimated amortization

Actual in nine months ended September 30, 2020	\$ 8,384
Estimated remaining in 2020	2,634
Estimated—2021	7,692
Estimated—2022	6,135
Estimated—2023	4,670
Estimated—2024	3,263

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. The customer list and other intangibles recognized in connection with prior acquisitions within the wealth management segment are being amortized over a period of up to ten years 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 \$8.4 million and \$8.8 million for the nine months ended September 30, 2020 and 2019, respectively.

(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:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Balance at beginning of the period	\$ 77,203	\$ 72,850	\$ 85,638	\$ 75,183
Additions from loans sold with servicing retained	20,936	14,029	50,734	30,411
Additions from acquisitions	—	—	—	407
Estimate of changes in fair value due to:				
Early buyout options ("EBO") exercised	(367)	—	(367)	—
Payoffs and paydowns	(7,863)	(7,236)	(23,557)	(13,309)
Changes in valuation inputs or assumptions	(3,002)	(4,058)	(25,541)	(17,107)
Fair value at end of the period	\$ 86,907	\$ 75,585	\$ 86,907	\$ 75,585
Unpaid principal balance of mortgage loans serviced for others	\$ 10,139,878	\$ 7,901,045		

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 estimation of fair value related to MSRs is partly impacted by the Company exercising its EBO on eligible loans previously sold to the Government National Mortgage Association ("GNMA"). Under such optional repurchase program, financial institutions acting as servicers are allowed to buy back from the securitized loan pool individual delinquent mortgage loans meeting certain criteria 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. At the time of such repurchase, any MSR value related to such loans is derecognized.

Starting in 2019, the Company periodically purchased options for the right to purchase securities not currently held within the banks' investment portfolios and entered into interest rate swaps in which the Company elected to not designate such derivatives as hedging instruments. These option and swap transactions are designed primarily to economically hedge a portion of the fair value adjustments related to MSRs. For more information regarding these hedges, see Note 15 - Derivative Financial Instruments in Item 1 of this report.

The MSR asset fair value is 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, 2020	December 31, 2019	September 30, 2019
Balance:			
Non-interest bearing	\$ 10,409,747	\$ 7,216,758	\$ 7,067,960
NOW and interest-bearing demand deposits	3,294,071	3,093,159	2,966,098
Wealth management deposits	4,235,583	3,123,063	2,795,838
Money market	9,423,653	7,854,189	7,326,899
Savings	3,415,073	3,196,698	2,934,348
Time certificates of deposit	5,066,295	5,623,271	5,619,236
Total deposits	<u>\$ 35,844,422</u>	<u>\$ 30,107,138</u>	<u>\$ 28,710,379</u>
Mix:			
Non-interest bearing	29%	24%	25%
NOW and interest-bearing demand deposits	9	10	10
Wealth management deposits	12	10	10
Money market	26	26	25
Savings	10	11	10
Time certificates of deposit	14	19	20
Total deposits	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

(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:

(In thousands)	September 30, 2020	December 31, 2019	September 30, 2019
FHLB advances	\$ 1,228,422	\$ 674,870	\$ 574,847
Other borrowings:			
Notes payable	107,056	123,090	128,433
Short-term borrowings	7,983	20,520	9,677
Other	65,548	46,447	46,774
Secured borrowings	326,808	228,117	225,604
Total other borrowings	<u>507,395</u>	<u>418,174</u>	<u>410,488</u>
Subordinated notes	<u>436,385</u>	<u>436,095</u>	<u>435,979</u>
Total FHLB advances, other borrowings and subordinated notes	<u>\$ 2,172,202</u>	<u>\$ 1,529,139</u>	<u>\$ 1,421,314</u>

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 and debt issuance costs.

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,

2020, the Company had a notes payable balance of \$107.1 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, 2020, the Company had no outstanding balance under the Revolving Credit Facility. Unamortized costs paid by the Company in relation to the issuance of the Revolving Credit Facility are classified in other assets on the Consolidated Statements of Condition.

An amendment to the Credit Agreement was executed on and effective as of September 15, 2020. The amendment provided for, among other things, extension of the maturity date under the Revolving Credit Facility to September 14, 2021, revision of certain financial covenants; and the addition of a mechanism to replace LIBOR with an alternate benchmark rate.

Borrowings under the amended Credit Agreement that are considered "Base Rate Loans" bear interest at a rate equal to the sum of (1) 60 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, or (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) 135 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 0.30% 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 amended 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. In September 2020, the required levels to maintain for certain restrictive covenants within the Credit Agreement were amended. At September 30, 2020, the Company was in compliance with all such covenants. The Revolving Credit Facility and the Term Facility are available to be utilized, as needed, to provide capital to fund continued growth at the Company's banks and to serve as an interim source of funds for acquisitions, common stock repurchases or other general corporate purposes.

Short-term Borrowings

Short-term borrowings include securities sold under repurchase agreements and federal funds purchased. These borrowings totaled \$8.0 million at September 30, 2020 compared to \$20.5 million at December 31, 2019 and \$9.7 million at September 30, 2019. At September 30, 2020, December 31, 2019 and September 30, 2019, securities sold under repurchase agreements represent \$8.0 million, \$20.5 million and \$9.7 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, 2020, the Company had pledged securities related to its customer balances in sweep accounts of \$18.6 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 mortgage-backed securities. These securities are included in the available-for-sale portfolio as reflected on the Company's Consolidated Statements of Condition.

The following is a summary of these securities pledged as of September 30, 2020 disaggregated by investment category and maturity of the related customer sweep account, and reconciled to the outstanding balance of securities sold under repurchase agreements:

<u>(In thousands)</u>	Overnight Sweep Collateral
Available-for-sale securities pledged	
Mortgage-backed securities	\$ 18,595
Total collateral pledged	18,595
Excess collateral	10,612
Securities sold under repurchase agreements	\$ 7,983

Other Borrowings

Other borrowings at September 30, 2020 represent a fixed-rate promissory note issued by the Company in June 2017 and amended in March 2020 ("Fixed-Rate Promissory Note") related to and secured by three office buildings owned by the Company. At

September 30, 2020, the Fixed-Rate Promissory Note had a balance of \$65.5 million compared to \$46.4 million at December 31, 2019 and \$46.8 million at September 30, 2019. Under the Fixed-Rate Promissory Note, during the three months ended March 31, 2020, the Company made monthly principal payments and paid interest at a fixed rate of 3.36%. 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, 2020, the Company was in compliance with all such covenants. An amendment to the Fixed-Rate Promissory Note was executed on and effective as of March 31, 2020. The amendment increased the principal amount to \$66.4 million, reduced the interest rate to 3.00% and extended the maturity date to March 31, 2025.

Secured Borrowings

Secured borrowings at September 30, 2020 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. The Receivables Purchase Agreement was again amended in February 2019, effectively extending the maturity date from December 16, 2019 to December 15, 2020. Additionally, in February 2019, the unrelated third party paid an additional C\$20 million, which increased the total payments to C\$210 million. In May 2019, the unrelated third party paid an additional C\$70 million, which increased the total payments to C\$280 million. In January 2020, the unrelated third party paid an additional C\$40 million, which increased the total payments to C\$320 million, and the Receivables Purchase Agreement was amended to effectively extend the maturity date from December 15, 2020 to December 15, 2021. In May 2020, the unrelated third party paid an additional C\$100 million, which increased the total payments to C\$420 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, 2020, the translated balance of the secured borrowing totaled \$315.1 million compared to \$215.5 million at December 31, 2019 and \$211.4 million at September 30, 2019. Additionally, the interest rate under the Receivables Purchase Agreement at September 30, 2020 was 1.2647%. The remaining \$11.7 million within secured borrowings at September 30, 2020 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, 2020, the Company had outstanding subordinated notes totaling \$436.4 million compared to \$436.1 million and \$436.0 million outstanding at December 31, 2019 and September 30, 2019, respectively. During the second quarter of 2019, the Company issued \$300.0 million of subordinated notes, receiving \$296.7 million in net proceeds. The notes have a stated interest rate of 4.85% and mature in June 2029. In 2014, the Company issued \$140.0 million of subordinated notes receiving \$139.1 million in net proceeds. These notes have a stated interest rate of 5.00% and mature in June 2024. Subordinated notes are stated at par adjusted for unamortized issuance costs paid related to such debt.

(12) Junior Subordinated Debentures

As of September 30, 2020, 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 Illinois Bancorp, Inc. and Community Financial Shares, Inc., respectively. The Trusts were formed for purposes of issuing trust preferred securities to third-party investors and investing the proceeds from the issuance of the trust preferred securities and common securities solely in junior subordinated debentures issued by the Company (or assumed by the Company in connection with an acquisition), with the same maturities and interest rates as the trust preferred securities. The junior subordinated debentures are the sole assets of the Trusts. In each Trust, the common securities represent approximately 3% of the junior subordinated debentures and the trust preferred securities represent approximately 97% of the junior subordinated debentures.

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

The following table provides a summary of the Company's junior subordinated debentures as of September 30, 2020. 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 9/30/2020	Issue Date	Maturity Date	Earliest Redemption Date
Wintrust Capital Trust III	\$ 774	\$ 25,000	\$ 25,774	L+3.25	3.53%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	619	20,000	20,619	L+2.80	3.02%	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	1,238	40,000	41,238	L+2.60	2.82%	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	1,550	50,000	51,550	L+1.95	2.20%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	1,238	25,000	26,238	L+1.45	1.67%	08/2005	09/2035	09/2010
Wintrust Capital Trust IX	1,547	50,000	51,547	L+1.63	1.88%	09/2006	09/2036	09/2011
Northview Capital Trust I	186	6,000	6,186	L+3.00	3.25%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	186	6,000	6,186	L+3.00	3.25%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	155	5,000	5,155	L+3.00	3.22%	05/2004	05/2034	05/2009
Suburban Illinois Capital Trust II	464	15,000	15,464	L+1.75	2.00%	12/2006	12/2036	12/2011
Community Financial Shares Statutory Trust II	109	3,500	3,609	L+1.62	1.87%	06/2007	09/2037	06/2012
Total			\$ 253,566		2.44%			

The junior subordinated debentures totaled \$253.6 million at September 30, 2020, December 31, 2019 and September 30, 2019.

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, 2020, the weighted average contractual interest rate on the junior subordinated debentures was 2.44%. The Company entered into interest rate swaps with an aggregate notional value of \$210.0 million to hedge the variable cash flows on certain junior subordinated debentures. The hedge-adjusted contractual interest rate on the junior subordinated debentures as of September 30, 2020, was 3.99%. Distributions on the common and preferred securities issued by the Trusts are payable quarterly at a rate per annum equal to the interest rates being earned by the Trusts on the junior subordinated debentures. Interest expense on the junior subordinated debentures is deductible for income tax purposes.

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

At September 30, 2020, 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

Disaggregation of Revenue

The following table presents revenue from contracts with customers, 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, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Brokerage and insurance product commissions	Wealth management	\$ 4,563	\$ 4,686	\$ 13,991	\$ 13,966
Trust	Wealth management	4,179	4,399	13,718	14,366
Asset management	Wealth management	16,215	14,914	45,825	43,783
Total wealth management		24,957	23,999	73,534	72,115
Mortgage broker fees	Mortgage banking	85	235	312	608
Service charges on deposit accounts	Service charges on deposit accounts	11,497	9,972	33,182	28,097
Administrative services	Other non-interest income	1,077	1,086	3,122	3,125
Card related fees	Other non-interest income	2,021	2,220	5,506	6,932
Other deposit related fees	Other non-interest income	3,160	3,322	9,252	9,404
Total revenue from contracts with customers		\$ 42,797	\$ 40,834	\$ 124,908	\$ 120,281

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 four wealth management subsidiaries: Wintrust Investments, Great Lakes Advisors, LLC ("GLA"), The Chicago Trust Company, N.A. ("CTC") and CDEC. 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 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 primarily from trust and custody services that are generally performed over time as well as fees earned on funds held during the facilitation of tax-deferred like-kind exchange transactions. 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. Upfront fees received related to the facilitation of tax-deferred like-kind exchange transactions are deferred until the transaction is completed. 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 Other 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 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, 2020	December 31, 2019	September 30, 2019
Contract assets	\$ —	\$ —	\$ —
Contract liabilities	\$ 1,543	\$ 1,356	\$ 1,429
Mortgage broker fees receivable	\$ 28	\$ 19	\$ 23
Administrative services receivable	191	194	222
Wealth management receivable	10,232	9,118	9,285
Card related fees receivable	201	266	114
Total receivables from contracts with customer	\$ 10,652	\$ 9,597	\$ 9,644

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 \$1.3 million and \$667,000 for the nine months ended September 30, 2020 and 2019, 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 2020	\$ 234
Estimated—2021	549
Estimated—2022	310
Estimated—2023	300
Estimated—2024	150
Total	\$ 1,543

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 service 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.

(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 profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the segments are substantially similar to those described in "Summary of Significant Accounting Policies" in Note 1 of the Company's 2019 Form 10-K. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment.

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

	Three months ended			
(Dollars in thousands)	September 30, 2020	September 30, 2019	\$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	\$ 196,803	\$ 209,912	\$ (13,109)	(6)%
Specialty Finance	46,454	42,138	4,316	10
Wealth Management	6,894	7,290	(396)	(5)
Total Operating Segments	250,151	259,340	(9,189)	(4)
Intersegment Eliminations	5,785	5,512	273	5
Consolidated net interest income	\$ 255,936	\$ 264,852	\$ (8,916)	(3)%
Non-interest income:				
Community Banking	\$ 136,996	\$ 82,870	\$ 54,126	65 %
Specialty Finance	21,409	20,003	1,406	7
Wealth Management	26,152	24,422	1,730	7
Total Operating Segments	184,557	127,295	57,262	45
Intersegment Eliminations	(13,964)	(12,158)	(1,806)	15
Consolidated non-interest income	\$ 170,593	\$ 115,137	\$ 55,456	48 %
Net revenue:				
Community Banking	\$ 333,799	\$ 292,782	\$ 41,017	14 %
Specialty Finance	67,863	62,141	5,722	9
Wealth Management	33,046	31,712	1,334	4
Total Operating Segments	434,708	386,635	48,073	12
Intersegment Eliminations	(8,179)	(6,646)	(1,533)	23
Consolidated net revenue	\$ 426,529	\$ 379,989	\$ 46,540	12 %
Segment profit:				
Community Banking	\$ 70,584	\$ 68,792	\$ 1,792	3 %
Specialty Finance	29,859	24,241	5,618	23
Wealth Management	6,872	6,088	784	13
Consolidated net income	\$ 107,315	\$ 99,121	\$ 8,194	8 %
Segment assets:				
Community Banking	\$ 35,729,021	\$ 28,092,785	\$ 7,636,236	27 %
Specialty Finance	6,732,765	5,739,798	992,967	17
Wealth Management	1,269,932	1,079,319	190,613	18
Consolidated total assets	\$ 43,731,718	\$ 34,911,902	\$ 8,819,816	25 %

	Nine months ended			
(Dollars in thousands)	September 30, 2020	September 30, 2019	\$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	\$ 609,316	\$ 635,645	\$ (26,329)	(4)%
Specialty Finance	129,581	119,241	10,340	9
Wealth Management	23,272	21,728	1,544	7
Total Operating Segments	762,169	776,614	(14,445)	(2)
Intersegment Eliminations	18,341	16,426	1,915	12
Consolidated net interest income	\$ 780,510	\$ 793,040	\$ (12,530)	(2)%
Non-interest income:				
Community Banking	\$ 347,697	\$ 196,507	\$ 151,190	77 %
Specialty Finance	64,548	59,188	5,360	9
Wealth Management	74,747	74,407	340	—
Total Operating Segments	486,992	330,102	156,890	48
Intersegment Eliminations	(41,164)	(35,150)	(6,014)	17
Consolidated non-interest income	\$ 445,828	\$ 294,952	\$ 150,876	51 %
Net revenue:				
Community Banking	\$ 957,013	\$ 832,152	\$ 124,861	15 %
Specialty Finance	194,129	178,429	15,700	9
Wealth Management	98,019	96,135	1,884	2
Total Operating Segments	1,249,161	1,106,716	142,445	13
Intersegment Eliminations	(22,823)	(18,724)	(4,099)	22
Consolidated net revenue	\$ 1,226,338	\$ 1,087,992	\$ 138,346	13 %
Segment profit:				
Community Banking	\$ 97,858	\$ 182,553	\$ (84,695)	(46)%
Specialty Finance	74,680	67,218	7,462	11
Wealth Management	19,248	19,962	(714)	(4)
Consolidated net income	\$ 191,786	\$ 269,733	\$ (77,947)	(29)%

(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 and collars 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; (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; and (5) options and swaps to economically hedge a portion of the fair value adjustments related to the Company's mortgage servicing rights portfolio. 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 accumulated other comprehensive income or loss 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.

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 accumulated other comprehensive income or loss, 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, 2020, December 31, 2019 and September 30, 2019:

(In thousands)	Derivative Assets			Derivative Liabilities		
	September 30, 2020	December 31, 2019	September 30, 2019	September 30, 2020	December 31, 2019	September 30, 2019
Derivatives designated as hedging instruments under ASC 815:						
Interest rate derivatives designated as Cash Flow Hedges	\$ —	\$ —	\$ —	\$ 49,110	\$ 19,385	\$ 25,895
Interest rate derivatives designated as Fair Value Hedges	—	310	256	16,213	6,523	8,839
Total derivatives designated as hedging instruments under ASC 815	\$ —	\$ 310	\$ 256	\$ 65,323	\$ 25,908	\$ 34,734
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate derivatives	\$ 253,238	\$ 100,259	\$ 134,130	\$ 253,530	\$ 100,897	\$ 134,163
Interest rate lock commitments	68,201	2,860	3,373	—	259	148
Forward commitments to sell mortgage loans	—	142	176	8,088	2,070	1,658
Foreign exchange contracts	49	73	351	49	70	306
Total derivatives not designated as hedging instruments under ASC 815	\$ 321,488	\$ 103,334	\$ 138,030	\$ 261,667	\$ 103,296	\$ 136,275
Total Derivatives	\$ 321,488	\$ 103,644	\$ 138,286	\$ 326,990	\$ 129,204	\$ 171,009

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, 2020, the Company had 27 interest rate swap derivatives designated as cash flow hedges of variable rate deposits and certain junior subordinated debentures, and one interest rate collar derivative designated as a cash flow hedge of the Company's variable rate Term Facility. 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 or loss 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.

The table below provides details on these cash flow hedges, summarized by derivative type and maturity, as of September 30, 2020:

(In thousands)	September 30, 2020	
	Notional Amount	Fair Value Asset (Liability)
Maturity Date		
<i>Interest Rate Swaps:</i>		
October 2021	\$ 25,000	\$ (555)
November 2021	20,000	(501)
December 2021	165,000	(4,383)
March 2022	500,000	(613)
May 2022	370,000	(11,681)
June 2022	160,000	(5,281)
July 2022	230,000	(7,704)
August 2022	235,000	(8,360)
March 2023	250,000	(1,068)
April 2024	250,000	(1,872)
July 2027	1,000,000	(882)
<i>Interest Rate Collars:</i>		
September 2023	107,143	(6,210)
Total Cash Flow Hedges	\$ 3,312,143	\$ (49,110)

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Unrealized (loss) gain at beginning of period	\$ (59,503)	\$ (16,422)	\$ (17,943)	\$ 10,742
Amount reclassified from accumulated other comprehensive income to interest expense on deposits, other borrowings and junior subordinated debentures	5,667	(2,428)	12,208	(10,071)
Amount of income (loss) recognized in other comprehensive income	4,726	(4,420)	(43,375)	(23,941)
Unrealized loss at end of period	<u>\$ (49,110)</u>	<u>\$ (23,270)</u>	<u>\$ (49,110)</u>	<u>\$ (23,270)</u>

As of September 30, 2020, the Company estimates that during the next twelve months \$20.2 million will be reclassified from accumulated other comprehensive income or loss as an increase to interest expense.

Fair Value Hedges of Interest Rate Risk

Interest rate swaps designated as fair value hedges involve the payment of fixed amounts to a counterparty in exchange for the Company receiving variable payments over the life of the agreements without the exchange of the underlying notional amount. As of September 30, 2020, the Company has 16 interest rate swaps with an aggregate notional amount of \$163.1 million that were designated as fair value hedges primarily associated with fixed rate commercial and industrial and commercial real estate loans as well as life insurance premium finance receivables.

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.

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, 2020:

September 30, 2020				
(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	\$ 177,727	\$ 15,844	\$ —
	Available-for-sale debt securities	1,351	138	—

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

(In thousands)		Three Months Ended	Nine Months Ended
Derivatives in Fair Value Hedging Relationships	Location of (Loss)/Gain Recognized in Income on Derivative	September 30, 2020	September 30, 2020
Interest rate swaps	Interest and fees on loans	\$ (24)	\$ (42)
	Interest income - investment securities	—	—

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—Periodically, the Company may purchase interest rate cap derivatives designed to act as an economic hedge of the risk of the negative impact on its fixed-rate loan portfolios from rising interest rates, most notably the LIBOR index. As of September 30, 2020, the Company held interest rate caps with an aggregate notional value of \$1.0 billion.

Additionally, 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, 2020, the Company had interest rate derivative transactions with an aggregate notional amount of approximately \$8.8 billion (all interest rate swaps and caps with customers and third parties) related to this program. These interest rate derivatives had maturity dates ranging from October 2020 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, 2020, the Company had forward commitments to sell mortgage loans with an aggregate notional amount of approximately \$2.8 billion and interest rate lock commitments with an aggregate notional amount of approximately \$1.8 billion. The fair values of these derivatives were estimated based on changes in mortgage rates from the dates of the commitments. Changes in the fair value of these mortgage banking derivatives are included in mortgage banking revenue.

Foreign Currency Derivatives—These derivatives include foreign currency contracts used to manage the foreign exchange risk associated with foreign currency denominated assets and transactions. Foreign currency contracts, which include spot and forward contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date. As a result of fluctuations in foreign currencies, the U.S. dollar-equivalent value of the foreign currency denominated assets or forecasted transactions increase or decrease. Gains or losses on the derivative instruments related to these foreign currency denominated assets or forecasted transactions are expected to substantially offset this variability. As of September 30, 2020, the Company held foreign currency derivatives with an aggregate notional amount of approximately \$3.1 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, 2020, December 31, 2019 or September 30, 2019.

Periodically, the Company will purchase options for the right to purchase securities not currently held within the banks' investment portfolios or enter into interest rate swaps in which the Company elects to not designate such derivatives as hedging instruments. These option and swap transactions are designed primarily to economically hedge a portion of the fair value adjustments related to the Company's mortgage servicing rights portfolio. The gain or loss associated with these derivative contracts are included in mortgage banking revenue. There were no such options or swaps outstanding as of September 30, 2020.

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

(In thousands)		Three Months Ended		Nine Months Ended	
Derivative	Location in income statement	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest rate swaps and caps	Trading gains (losses), net	\$ 135	\$ (75)	\$ (996)	\$ (392)
Mortgage banking derivatives	Mortgage banking revenue	11,202	1,026	71,761	1,089
Foreign exchange contracts	Trading gains (losses), net	5	54	(8)	72
Covered call options	Fees from covered call options	—	—	2,292	2,427
Derivative contract held as economic hedge on MSRs	Mortgage banking revenue	—	82	4,749	1,002

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, 2020, 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 \$323.5 million. If the Company had breached any of these provisions and the derivatives were terminated as a result, the Company would have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

The Company is also exposed to the credit risk of its commercial borrowers who are counterparties to interest rate derivatives with the banks. This counterparty risk related to the commercial borrowers is managed and monitored through the banks' standard underwriting process applicable to loans since these derivatives are secured through collateral provided by the loan agreement. The counterparty risk associated with the mirror-image swaps executed with third parties is monitored and managed in connection with the Company's overall asset liability management process.

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.

(In thousands)	Derivative Assets			Derivative Liabilities		
	Fair Value			Fair Value		
	September 30, 2020	December 31, 2019	September 30, 2019	September 30, 2020	December 31, 2019	September 30, 2019
Gross Amounts Recognized	\$ 253,238	\$ 100,569	\$ 134,386	\$ 318,853	\$ 126,805	\$ 168,897
Less: Amounts offset in the Statements of Financial Condition	—	—	—	—	—	—
Net amount presented in the Statements of Financial Condition	\$ 253,238	\$ 100,569	\$ 134,386	\$ 318,853	\$ 126,805	\$ 168,897
Gross amounts not offset in the Statements of Financial Condition						
Offsetting Derivative Positions	(353)	(2,561)	(1,572)	(353)	(2,561)	(1,572)
Collateral Posted	—	—	—	(318,071)	(124,244)	(167,325)
Net Credit Exposure	\$ 252,885	\$ 98,008	\$ 132,814	\$ 429	\$ —	\$ —

(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 debt securities, trading account securities and equity securities with readily determinable fair value—Fair values for available-for-sale debt 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 these securities. 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 fair value of U.S. Treasury

securities and certain equity securities with readily determinable fair value are based on unadjusted quoted prices in active markets for identical securities. As such, these securities are classified as Level 1 in the fair value hierarchy.

The Company's Investment Operations Department is responsible for the valuation of Level 3 available-for-sale debt securities. The methodology and variables used as inputs in pricing Level 3 securities are derived from a combination of observable and unobservable inputs. The unobservable inputs are determined through internal assumptions that may vary from period to period due to external factors, such as market movement and credit rating adjustments.

At September 30, 2020, the Company classified \$119.5 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 \$2.1 million of U.S. Government agency securities as Level 3 at September 30, 2020. 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 investment debt security, 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 2020, all of the ratings derived by the Investment Operations Department using the above process were "BBB" or better. The fair value measurement noted above 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, 2020 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. As such, these loans are classified as Level 2 in the fair value hierarchy.

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, 2020, the Company classified \$12.6 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, 2020 was 2.50% with discount rates applied ranging from 2%-3%. 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 17.63% at September 30, 2020. 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 1.14% with credit loss discount ranging from 0%-6% at September 30, 2020.

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, 2020, the Company classified \$86.9 million of MSRs as Level 3. The weighted average discount rate used as an input to value the pool of MSRs at September 30, 2020 was 10.08% with discount rates applied ranging from 3%-20%. 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 ranged from 6%-95% or a weighted average prepayment speed of 17.63%. Further, for current and delinquent loans, the Company assumed a weighted average cost of servicing of \$76 and \$417, 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 classified as Level 2 in the fair value hierarchy. 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, 2020, the Company classified \$66.9 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, 2020 was 79% with pull-through rates applied ranging from 0% to 100%. Pull-through rates are directly related to the fair value of interest rate locks as an increase in the pull-through rate results in an increased valuation.

Nonqualified deferred compensation assets—The underlying assets relating to the nonqualified deferred compensation plan are included in a trust and primarily consist of non-exchange traded institutional funds which are priced based by an independent third party service. These assets are classified as Level 2 in the fair value hierarchy.

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

(Dollars in thousands)	September 30, 2020			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	\$ 280,108	\$ 280,108	\$ —	\$ —
U.S. Government agencies	178,666	—	176,537	2,129
Municipal	154,195	—	34,724	119,471
Corporate notes	104,135	—	104,135	—
Mortgage-backed	2,229,355	—	2,229,355	—
Trading account securities	1,720	—	1,720	—
Equity securities with readily determinable fair value	54,398	46,332	8,066	—
Mortgage loans held-for-sale	959,671	—	959,671	—
Loans held-for-investment	253,515	—	240,902	12,613
MSRs	86,907	—	—	86,907
Nonqualified deferred compensation assets	14,197	—	14,197	—
Derivative assets	321,488	—	254,601	66,887
Total	\$ 4,638,355	\$ 326,440	\$ 4,023,908	\$ 288,007
Derivative liabilities	\$ 326,990	\$ —	\$ 326,990	\$ —

(Dollars in thousands)	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	\$ 121,088	\$ 121,088	\$ —	\$ —
U.S. Government agencies	365,442	—	362,796	2,646
Municipal	145,318	—	33,368	111,950
Corporate notes	94,841	—	94,841	—
Mortgage-backed	2,379,525	—	2,379,525	—
Trading account securities	1,068	—	1,068	—
Equity securities with readily determinable fair value	50,840	42,774	8,066	—
Mortgage loans held-for-sale	377,313	—	377,313	—
Loans held-for-investment	132,718	—	123,098	9,620
MSRs	85,638	—	—	85,638
Nonqualified deferred compensation assets	14,213	—	14,213	—
Derivative assets	103,644	—	101,013	2,631
Total	\$ 3,871,648	\$ 163,862	\$ 3,495,301	\$ 212,485
Derivative liabilities	\$ 129,204	\$ —	\$ 129,204	\$ —

September 30, 2019

(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	\$ 221,670	\$ 221,670	\$ —	\$ —
U.S. Government agencies	225,459	—	222,648	2,811
Municipal	146,104	—	33,046	113,058
Corporate notes	94,004	—	94,004	—
Mortgage-backed	1,582,822	—	1,582,822	—
Trading account securities	3,204	—	3,204	—
Equity securities with readily determinable fair value	46,086	38,020	8,066	—
Mortgage loans held-for-sale	464,727	—	464,727	—
Loans held-for-investment	116,022	—	106,023	9,999
MSRs	75,585	—	—	75,585
Nonqualified deferred compensation assets	13,750	—	13,750	—
Derivative assets	138,286	—	135,307	2,979
Total	\$ 3,127,719	\$ 259,690	\$ 2,663,597	\$ 204,432
Derivative liabilities	\$ 171,009	\$ —	\$ 171,009	\$ —

The aggregate remaining contractual principal balance outstanding as of September 30, 2020, December 31, 2019 and September 30, 2019 for mortgage loans held-for-sale measured at fair value under ASC 825 was \$927.1 million, \$368.0 million and \$460.4 million, respectively, while the aggregate fair value of mortgage loans held-for-sale was \$959.7 million, \$377.3 million and \$464.7 million, for the same respective periods, as shown in the above tables. There were \$27.3 million of loans past due greater than 90 days and still accruing in the mortgage loans held-for-sale portfolio as of September 30, 2020 compared to \$1.8 million as of December 31, 2019 and \$1.3 million as of September 30, 2019. Of the loans past due greater than 90 days and still accruing as of September 30, 2020, \$18.9 million were individual delinquent mortgage loans bought back from the GNMA at the unconditional option of the Company as servicer for those loans.

The changes in Level 3 assets measured at fair value on a recurring basis during the three and nine months ended September 30, 2020 and 2019 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, 2020	\$ 117,255	\$ 2,293	\$ 13,953	\$ 77,203	\$ 58,433
Total net gains (losses) included in:					
Net income ⁽¹⁾	—	—	47	9,704	8,454
Other comprehensive income (loss)	64	(7)	—	—	—
Purchases	3,221	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(1,069)	(157)	(7,877)	—	—
Net transfers into/(out of) Level 3	—	—	6,490	—	—
Balance at September 30, 2020	\$ 119,471	\$ 2,129	\$ 12,613	\$ 86,907	\$ 66,887

(Dollars in thousands)	Municipal	U.S. Government agencies	Loans held-for-investment	Mortgage servicing rights	Derivative assets
Balance at January 1, 2020	\$ 111,950	\$ 2,646	\$ 9,620	\$ 85,638	\$ 2,631
Total net gains (losses) included in:					
Net income ⁽¹⁾	—	—	169	1,269	64,256
Other comprehensive income (loss)	(1,731)	(46)	—	—	—
Purchases	16,093	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(6,841)	(471)	(9,337)	—	—
Net transfers into/(out of) Level 3	—	—	12,161	—	—
Balance at September 30, 2020	\$ 119,471	\$ 2,129	\$ 12,613	\$ 86,907	\$ 66,887

(Dollars in thousands)	Municipal	U.S. Government agencies	Loans held-for-investment	Mortgage servicing rights	Derivative assets
Balance at July 1, 2019	\$ 110,296	\$ 2,977	\$ 10,481	\$ 72,850	\$ 3,596
Total net gains (losses) included in:					
Net income ⁽¹⁾	—	—	86	2,735	(617)
Other comprehensive income (loss)	(1,722)	(9)	—	—	—
Purchases	5,668	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(1,184)	(157)	(1,203)	—	—
Net transfers into/(out of) Level 3	—	—	635	—	—
Balance at September 30, 2019	\$ 113,058	\$ 2,811	\$ 9,999	\$ 75,585	\$ 2,979

(Dollars in thousands)	Municipal	U.S. Government agencies	Loans held-for-investment	Mortgage servicing rights	Derivative assets
Balance at January 1, 2019	\$ 108,926	\$ 3,150	\$ 11,347	\$ 75,183	\$ 2,457
Total net gains (losses) included in:					
Net income ⁽¹⁾	—	—	371	(5)	522
Other comprehensive income (loss)	6,334	134	—	—	—
Purchases	7,192	—	—	407	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(9,394)	(473)	(2,554)	—	—
Net transfers into/(out of) Level 3	—	—	835	—	—
Balance at September 30, 2019	\$ 113,058	\$ 2,811	\$ 9,999	\$ 75,585	\$ 2,979

(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.

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, 2020:

(Dollars in thousands)	September 30, 2020				Three Months Ended September 30, 2020 Fair Value Losses Recognized, net	Nine Months Ended September 30, 2020 Fair Value Losses Recognized, net
	Total	Level 1	Level 2	Level 3		
Individually assessed loans - foreclosure probable and collateral-dependent	\$ 144,151	\$ —	\$ —	\$ 144,151	\$ 6,964	\$ 24,438
Other real estate owned ⁽¹⁾	9,217	—	—	9,217	225	748
Total	\$ 153,368	\$ —	\$ —	\$ 153,368	\$ 7,189	\$ 25,186

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

Individually assessed loans—In accordance with ASC 326, the allowance for credit losses for loans and other financial assets held at amortized cost should be measured on a collective or pooled basis when such assets exhibit similar risk characteristics. In instances in which a financial asset does not exhibit similar risk characteristics to a pool, the Company is required to measure such allowance for credit losses on an individual asset basis. For the Company's loan portfolio, nonaccrual loans and TDRs are considered to not exhibit similar risk characteristics as pools and thus are individually assessed. Credit losses are 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. Individually assessed loans are considered a fair value measurement where an allowance for credit loss 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 foreclosure probable and collateral-dependent loans.

The Company's Managed Assets Division is primarily responsible for the valuation of Level 3 inputs of individually assessed loans. For more information on individually assessed loans refer to Note 7 – Allowance for Credit Losses. At September 30, 2020,

the Company had \$183.7 million of individually assessed loans classified as Level 3. Of the \$183.7 million of individually assessed loans, \$144.2 million were measured at fair value based on the underlying collateral of the loan as shown in the table above. The remaining \$39.5 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, 2020, the Company had \$9.2 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.

The valuation techniques and significant unobservable inputs used to measure both recurring and non-recurring Level 3 fair value measurements at September 30, 2020 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
<i>Measured at fair value on a recurring basis:</i>						
Municipal Securities	\$ 119,471	Bond pricing	Equivalent rating	BBB-AA+	N/A	Increase
U.S. Government agencies	2,129	Bond pricing	Equivalent rating	AAA	AAA	Increase
Loans held-for-investment	12,613	Discounted cash flows	Discount rate	2%-3%	2.50%	Decrease
			Credit discount	0%-6%	1.14%	Decrease
			Constant prepayment rate (CPR)	17.63%	17.63%	Decrease
MSRs	86,907	Discounted cash flows	Discount rate	3%-20%	10.08%	Decrease
			Constant prepayment rate (CPR)	6%-95%	17.63%	Decrease
			Cost of servicing	\$70-\$200	\$76	Decrease
			Cost of servicing - delinquent	\$200-\$1,000	\$417	Decrease
Derivatives	66,887	Discounted cash flows	Pull-through rate	0%-100%	79%	Increase
<i>Measured at fair value on a non-recurring basis:</i>						
Individually assessed loans - foreclosure probable and collateral-dependent	\$ 144,151	Appraisal value	Appraisal adjustment - cost of sale	10%	10.00%	Decrease
Other real estate owned	9,217	Appraisal value	Appraisal adjustment - cost of sale	10%	10.00%	Decrease

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:

(In thousands)	At September 30, 2020		At December 31, 2019		At September 30, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:						
Cash and cash equivalents	\$ 308,695	\$ 308,695	\$ 286,476	\$ 286,476	\$ 448,814	\$ 448,814
Interest-bearing deposits with banks	3,825,823	3,825,823	2,164,560	2,164,560	2,260,806	2,260,806
Available-for-sale securities	2,946,459	2,946,459	3,106,214	3,106,214	2,270,059	2,270,059
Held-to-maturity securities	560,267	575,947	1,134,400	1,138,396	1,095,802	1,104,903
Trading account securities	1,720	1,720	1,068	1,068	3,204	3,204
Equity securities with readily determinable fair value	54,398	54,398	50,840	50,840	46,086	46,086
FHLB and FRB stock, at cost	135,568	135,568	100,739	100,739	92,714	92,714
Brokerage customer receivables	16,818	16,818	16,573	16,573	14,943	14,943
Mortgage loans held-for-sale, at fair value	959,671	959,671	377,313	377,313	464,727	464,727
Loans held-for-investment, at fair value	253,515	253,515	132,718	132,718	116,022	116,022
Loans held-for-investment, at amortized cost	31,882,040	31,723,559	26,667,572	26,659,903	25,594,149	25,472,310
Nonqualified deferred compensation assets	14,197	14,197	14,213	14,213	13,750	13,750
Derivative assets	321,488	321,488	103,644	103,644	138,286	138,286
Accrued interest receivable and other	272,940	272,940	303,090	303,090	272,072	272,072
Total financial assets	<u>\$ 41,553,599</u>	<u>\$ 41,410,798</u>	<u>\$ 34,459,420</u>	<u>\$ 34,455,747</u>	<u>\$ 32,831,434</u>	<u>\$ 32,718,696</u>
Financial Liabilities						
Non-maturity deposits	\$ 30,778,127	\$ 30,778,127	\$ 24,483,867	\$ 24,483,867	\$ 23,091,143	\$ 23,091,143
Deposits with stated maturities	5,066,295	5,063,732	5,623,271	5,635,475	5,619,236	5,635,597
FHLB advances	1,228,422	1,207,203	674,870	715,129	574,847	620,136
Other borrowings	507,395	507,395	418,174	418,174	410,488	410,488
Subordinated notes	436,385	473,825	436,095	458,796	435,979	451,947
Junior subordinated debentures	253,566	208,333	253,566	243,158	253,566	254,426
Derivative liabilities	326,990	326,990	129,204	129,204	171,009	171,009
Accrued interest payable	21,310	21,310	19,940	19,940	22,899	22,899
Total financial liabilities	<u>\$ 38,618,490</u>	<u>\$ 38,586,915</u>	<u>\$ 32,038,987</u>	<u>\$ 32,103,743</u>	<u>\$ 30,579,167</u>	<u>\$ 30,657,645</u>

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, 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 generally 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.

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. 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, 2020, approximately 2.1 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. LTIP grants in 2020 consisted of a combination of performance-based stock awards, performance-based cash awards and time vested restricted shares. LTIP grants from 2017 through 2019 consisted of a combination of performance-based stock awards and performance-based cash awards, and prior to 2017, nonqualified stock options were in the mix of award types. Stock options granted under the LTIP have a term of seven years and generally vested equally over three years based on continued service. 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% of the target award. The awards typically 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.

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 shares are 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 value of restricted share and performance-based stock awards is 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. Management periodically reviews and adjusts the assumptions used to calculate the fair value of an option in periods when options are granted. No options were granted since 2016.

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 re-evaluated quarterly 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 \$1.3 million in the third quarter of 2020 and \$2.0 million in the third quarter of 2019, and \$(1.0) million and \$8.3 million in the 2020 and 2019 year-to-date periods, respectively.

A summary of the Company's stock option activity for the nine months ended September 30, 2020 and September 30, 2019 is presented below:

<i>Stock Options</i>	Common Shares	Weighted Average Strike Price	Remaining Contractual Term ⁽¹⁾	Intrinsic Value ⁽²⁾ (\$000)
Outstanding at January 1, 2020	755,332	\$ 42.43		
Granted	—	—		
Exercised	(104,703)	38.71		
Forfeited or canceled	(5,608)	44.34		
Outstanding at September 30, 2020	645,021	\$ 43.02	1.9	\$ 52
Exercisable at September 30, 2020	637,120	\$ 43.01	1.8	\$ 52
<i>Stock Options</i>	Common Shares	Weighted Average Strike Price	Remaining Contractual Term ⁽¹⁾	Intrinsic Value ⁽²⁾ (\$000)
Outstanding at January 1, 2019	795,014	\$ 42.26		
Granted	—	—		
Exercised	(112,230)	38.64		
Forfeited or canceled	—	—		
Outstanding at September 30, 2019	682,784	\$ 42.85	2.4	\$ 14,873
Exercisable at September 30, 2019	667,664	\$ 42.81	2.4	\$ 14,565

(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.

The aggregate intrinsic value of options exercised during the nine months ended September 30, 2020 and September 30, 2019, was \$2.7 million and \$3.8 million, respectively. Cash received from option exercises under the Plans for the nine months ended September 30, 2020 and September 30, 2019 was \$4.1 million and \$4.3 million, respectively.

A summary of the Plans' restricted share activity for the nine months ended September 30, 2020 and September 30, 2019 is presented below:

	Nine months ended September 30, 2020		Nine months ended September 30, 2019	
	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
Restricted Shares				
Outstanding at January 1	144,328	\$ 60.37	143,263	\$ 60.80
Granted	113,156	61.32	13,099	71.66
Vested and issued	(13,917)	77.77	(15,257)	76.69
Forfeited or canceled	(6,547)	73.71	(1,691)	79.50
Outstanding at September 30	237,020	\$ 59.43	139,414	\$ 59.85
Vested, but not issuable at September 30	93,514	\$ 52.08	91,505	\$ 52.13

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, 2020 and September 30, 2019 is presented below:

	Nine months ended September 30, 2020		Nine months ended September 30, 2019	
	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
Performance-based Stock				
Outstanding at January 1	465,515	\$ 74.37	396,855	\$ 67.71
Granted	169,864	63.62	175,696	71.57
Added by performance factor at vesting	48,831	72.59	33,950	40.99
Vested and issued	(180,789)	72.59	(128,238)	41.00
Expired, canceled or forfeited	(18,727)	72.66	(10,430)	74.70
Outstanding at September 30	484,694	\$ 71.15	467,833	\$ 74.38
Vested, but deferred at September 30	34,441	\$ 43.07	33,701	\$ 42.92

(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 E Preferred Stock

In May 2020, the Company issued 11,500 shares of fixed-rate reset non-cumulative perpetual preferred stock, Series E, liquidation preference \$25,000 per share (the "Series E Preferred Stock") as part of a \$287.5 million public offering of 11,500,000 depositary shares, each representing a 1/1,000th interest in a share of Series E Preferred Stock. When, as and if declared, dividends on the Series E Preferred Stock are payable quarterly in arrears at a fixed rate of 6.875% per annum starting on October 15, 2020.

Other

At the January 2020 Board of Directors meeting, a quarterly cash dividend of \$0.28 per share (\$1.12 on an annualized basis) was declared. It was paid on February 20, 2020 to shareholders of record as of February 6, 2020. At the April 2020 Board of Directors meeting, a quarterly cash dividend of \$0.28 per share (\$1.12 on an annualized basis) was declared. It was paid on May 21, 2020 to shareholders of record as of May 7, 2020. At the July 2020 Board of Directors meeting, a quarterly cash dividend of \$0.28 per share (\$1.12 on an annualized basis) was declared. It was paid on August 20, 2020 to shareholders of record as of August 6, 2020.

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 Gains (Losses) on Securities	Accumulated Unrealized (Losses) Gains on Derivative Instruments	Accumulated Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
Balance at July 1, 2020	\$ 85,506	\$ (43,606)	\$ (42,497)	\$ (597)
Other comprehensive (loss) income during the period, net of tax, before reclassifications	(10,682)	3,466	2,891	(4,325)
Amount reclassified from accumulated other comprehensive income (loss) into net income, net of tax	(36)	4,157	—	4,121
Amount reclassified from accumulated other comprehensive income (loss) related to amortization of unrealized gains on investment securities transferred to held-to-maturity from available-for-sale, net of tax	(40)	—	—	(40)
Net other comprehensive (loss) income during the period, net of tax	\$ (10,758)	\$ 7,623	\$ 2,891	\$ (244)
Balance at September 30, 2020	\$ 74,748	\$ (35,983)	\$ (39,606)	\$ (841)
Balance at January 1, 2020	\$ 14,982	\$ (13,141)	\$ (36,519)	\$ (34,678)
Other comprehensive income (loss) during the period, net of tax, before reclassifications	60,043	(31,796)	(3,087)	25,160
Amount reclassified from accumulated other comprehensive income (loss) into net income, net of tax	(146)	8,954	—	8,808
Amount reclassified from accumulated other comprehensive income (loss) related to amortization of unrealized gains on investment securities transferred to held-to-maturity from available-for-sale, net of tax	(131)	—	—	(131)
Net other comprehensive income (loss) during the period, net of tax	\$ 59,766	\$ (22,842)	\$ (3,087)	\$ 33,837
Balance at September 30, 2020	\$ 74,748	\$ (35,983)	\$ (39,606)	\$ (841)
Balance at July 1, 2019	\$ 4,209	\$ (12,044)	\$ (37,594)	\$ (45,429)
Other comprehensive income (loss) during the period, net of tax, before reclassifications	13,371	(3,233)	(1,471)	8,667
Amount reclassified from accumulated other comprehensive income (loss) into net income, net of tax	(292)	(1,781)	—	(2,073)
Amount reclassified from accumulated other comprehensive income (loss) related to amortization of unrealized gains on investment securities transferred to held-to-maturity from available-for-sale, net of tax	(42)	—	—	(42)
Net other comprehensive income (loss) during the period, net of tax	\$ 13,037	\$ (5,014)	\$ (1,471)	\$ 6,552
Balance at September 30, 2019	\$ 17,246	\$ (17,058)	\$ (39,065)	\$ (38,877)
Balance at January 1, 2019	\$ (42,353)	\$ 7,857	\$ (42,376)	\$ (76,872)
Other comprehensive income (loss) during the period, net of tax, before reclassifications	60,527	(17,529)	3,311	46,309
Amount reclassified from accumulated other comprehensive income (loss) into net income, net of tax	(626)	(7,386)	—	(8,012)
Amount reclassified from accumulated other comprehensive income (loss) related to amortization of unrealized gains on investment securities transferred to held-to-maturity from available-for-sale, net of tax	(302)	—	—	(302)
Net other comprehensive income (loss) during the period, net of tax	\$ 59,599	\$ (24,915)	\$ 3,311	\$ 37,995
Balance at September 30, 2019	\$ 17,246	\$ (17,058)	\$ (39,065)	\$ (38,877)

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) for the				
	Three Months Ended		Nine Months Ended		
Details Regarding the Component of Accumulated Other Comprehensive Income (Loss)	September 30,		September 30,		Impacted Line on the Consolidated Statements of Income
	2020	2019	2020	2019	
Accumulated unrealized gains on securities					
Gains included in net income	\$ 50	\$ 400	\$ 200	\$ 856	Gains (losses) on investment securities, net
	50	400	200	856	Income before taxes
Tax effect	(14)	(108)	(54)	(230)	Income tax expense
Net of tax	\$ 36	\$ 292	\$ 146	\$ 626	Net income
Accumulated unrealized gains (losses) on derivative instruments					
Amount reclassified to interest expense on deposits	\$ 3,884	\$ (2,635)	\$ 8,806	\$ (10,403)	Interest on deposits
Amount reclassified to interest expense on other borrowings	740	196	1,458	321	Interest on other borrowings
Amount reclassified to interest expense on junior subordinated debentures	1,043	11	1,944	11	Interest on junior subordinated debentures
	(5,667)	2,428	(12,208)	10,071	Income before taxes
Tax effect	1,510	(647)	3,254	(2,685)	Income tax expense
Net of tax	\$ (4,157)	\$ 1,781	\$ (8,954)	\$ 7,386	Net income

Earnings per Share

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

		Three Months Ended		Nine Months Ended	
		September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
(In thousands, except per share data)					
Net income		\$ 107,315	\$ 99,121	\$ 191,786	\$ 269,733
Less: Preferred stock dividends		10,286	2,050	14,386	6,150
Net income applicable to common shares	(A)	\$ 97,029	\$ 97,071	\$ 177,400	\$ 263,583
Weighted average common shares outstanding	(B)	57,597	56,690	57,595	56,627
Effect of dilutive potential common shares					
Common stock equivalents		449	773	469	724
Weighted average common shares and effect of dilutive potential common shares	(C)	58,046	57,463	58,064	57,351
Net income per common share:					
Basic	(A/B)	\$ 1.68	\$ 1.71	\$ 3.08	\$ 4.65
Diluted	(A/C)	\$ 1.67	\$ 1.69	\$ 3.06	\$ 4.60

Potentially dilutive common shares can result from stock options, restricted stock unit awards, stock warrants 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.

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

The following discussion and analysis of the financial condition of Wintrust Financial Corporation and its subsidiaries (collectively, "Wintrust" or the "Company") as of September 30, 2020 compared with December 31, 2019 and September 30, 2019, and the results of operations for the three and nine month periods ended September 30, 2020 and September 30, 2019, should be read in conjunction with the unaudited consolidated financial statements and notes contained in this report and the risk factors discussed under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 ("2019 Form 10-K") and in Part II, Item 1A, of this Form 10-Q. 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

Impact of COVID-19

In March 2020, the outbreak of COVID-19 was recognized as a global pandemic by the World Health Organization, resulting in unprecedented uncertainty and volatility in world-wide financial markets. Governments' actions calling for shelter in place and social distancing have led to rapid changes in business revenues, increased unemployment, and have impacted consumer activity, all of which have impacted and may continue to impact the Company's current and future results.

The Company activated its pandemic response plan in early March, as well as applicable elements of its business continuity plan. In order to protect the health of our customers and employees, and in accordance with applicable government directives, we modified certain of our business protocols to direct employees to work from home unless their role required them to be on site, in which case we have implemented enhanced safety measures including social distancing, enhanced cleaning and sanitization, and certain personal protective equipment. With the phased reopening of certain state and municipal areas, the Company has developed a comprehensive plan that permits certain remote employees to return to their respective workplaces, where enhanced safety measures also have been implemented. At present, however, the majority of the Company's workforce continues to work remotely on a nearly daily basis.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted. The CARES Act includes appropriations and other measures designed to address the impact of the COVID-19 pandemic, including the Paycheck Protection Program ("PPP"), which is designed to aid eligible small and medium-sized businesses through federally-guaranteed loans distributed through certain banks, under the administration of the Small Business Administration ("SBA"). As of September 30, 2020, the Company secured authorization from the SBA and funded over 12,000 PPP loans with a carrying balance of approximately \$3.4 billion. PPP loans are forgivable under certain circumstances, including the borrower's use of certain loan proceeds to fund employee payroll during a specific period (e.g., eight weeks, 24 weeks) following disbursement of the borrower's PPP loan. The Company generated net fees of \$91.9 million to be recognized over the life of the PPP loan adjusted for estimated prepayments.

All of our three primary business segments (community banking, specialty finance and wealth management), have been uniquely impacted and will likely continue to be impacted by the COVID-19 pandemic, requiring the implementation of certain responses as circumstances evolve. As non-exclusive examples of such impacts, our community banking business, including our mortgage business, has received borrower requests for temporary payment relief including payment deferrals. As of September 30, 2020, loans totaling approximately \$413.4 million were modified as a result of COVID-19 disruption to our borrowers. Our insurance premium finance business is impacted by certain state legislation prohibiting canceling of insurance policies for designated periods. Our wealth management business is impacted by increased stock market volatility.

Given the continued uncertainty regarding future economic conditions, the Company has taken a number of actions to help ensure that it has adequate liquidity and capital to manage through the COVID-19 pandemic, including issuing fixed-rate reset non-cumulative perpetual preferred stock, Series E, liquidation preference \$25,000 per share (the "Series E Preferred Stock") as part of a public offering of depositary shares, each representing a 1/1,000th interest in a share of Series E Preferred Stock (the "Depositary

Shares”). We believe the Company currently has adequate liquidity and capital to effectively manage through the COVID-19 pandemic. However, we will continue to prudently evaluate and expand liquidity sources, including the possible utilization of the PPP liquidity facility, if necessary.

We continue to monitor the impact of COVID-19 closely; however, the extent to which the COVID-19 pandemic will impact our operations and financial conditions remains highly uncertain. Please refer to Part II, Item 1A, “Risk Factors” of this Form 10-Q for additional information.

Third Quarter Highlights

The Company recorded net income of \$107.3 million for the third quarter of 2020 compared to \$99.1 million in the third quarter of 2019. The results for the third quarter of 2020 demonstrate continued momentum on our operating strengths, including strong loan and deposit growth driven by the Company's participation in PPP and increased revenue from mortgage banking services, offset by increased provision for credit losses primarily related to the implementation of the Current Expected Credit Losses (“CECL”) standard and the economic conditions created by the COVID-19 pandemic. Net interest income decreased in the current period as a result of a decrease in net interest margin partially mitigated by continued loan growth in the third quarter of 2020 compared to the same period of 2019.

The Company increased its loan portfolio from \$25.7 billion at September 30, 2019 and \$26.8 billion at December 31, 2019 to \$32.1 billion at September 30, 2020. The increase in the current period compared to the prior periods was primarily a result of the Company’s participation in PPP lending as well as growth in several portfolios, including the commercial, industrial and other, commercial real estate, commercial premium finance receivables and life insurance premium finance receivables portfolios. 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 \$255.9 million in the third quarter of 2020 compared to \$264.9 million in the third quarter of 2019. The decrease in net interest income recorded in the third quarter of 2020 compared to the third quarter of 2019 resulted primarily from a lower net interest margin of 2.56% (2.57% on a fully taxable-equivalent basis, non-GAAP) in the third quarter of 2020 compared to 3.37% (3.39% on a fully taxable-equivalent basis, non-GAAP) in the third quarter of 2019. The reduction in net interest margin was partially offset by a \$6.3 billion increase in average loans (see “Net Interest Income” for further detail).

Non-interest income totaled \$170.6 million in the third quarter of 2020 compared to \$115.1 million in the third quarter of 2019. This increase was primarily the result of higher mortgage banking revenue (see “Non-Interest Income” for further detail).

Non-interest expense totaled \$264.2 million in the third quarter of 2020, increasing \$29.7 million, or 13%, compared to the third quarter of 2019. The increase compared to the third quarter of 2019 was primarily attributable to the addition of employees from acquisitions, increased staffing as the Company grows and higher commissions and incentive compensation due to increased origination volume associated with the Company's mortgage business (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 2020, the Company continued its practice of maintaining appropriate funding capacity to provide the Company with adequate liquidity for its ongoing operations. In this regard, the Company benefited from its strong deposit base, a liquid short-term investment portfolio and its access to funding from a variety of external funding sources. At September 30, 2020, the Company had approximately \$4.1 billion in overnight liquid funds and interest-bearing deposits with banks. Total cash inflows by the Company during the first nine months of 2020 were offset by \$206.0 million in cash collateral posted to unaffiliated derivative counterparties in which the Company held a net liability position in such derivative transactions as well as the origination of mortgage loans pending the ultimate sale of such loans into the secondary market following September 30, 2020.

RESULTS OF OPERATIONS

Earnings Summary

The Company's key operating measures and growth rates for the three and nine months ended September 30, 2020, as compared to the same period last year, are shown below:

(Dollars in thousands, except per share data)	Three months ended		Percentage (%) or Basis Point (bp) Change
	September 30, 2020	September 30, 2019	
Net income	\$ 107,315	\$ 99,121	8 %
Pre-tax income, excluding provision for credit losses (non-GAAP) ⁽²⁾	162,310	145,435	12
Net income per common share—Diluted	1.67	1.69	(1)
Net revenue ⁽¹⁾	426,529	379,989	12
Net interest income	255,936	264,852	(3)
Net interest margin	2.56%	3.37%	(81)bps
Net interest margin - fully taxable-equivalent (non-GAAP) ⁽²⁾	2.57	3.39	(82)
Net overhead ratio ⁽³⁾	0.87	1.40	(53)
Return on average assets	0.99	1.16	(17)
Return on average common equity	10.66	11.42	(76)
Return on average tangible common equity (non-GAAP) ⁽²⁾	13.43	14.36	(93)

(Dollars in thousands, except per share data)	Nine months ended		Percentage (%) or Basis Point (bp) Change
	September 30, 2020	September 30, 2019	
Net income	\$ 191,786	\$ 269,733	(29) %
Pre-tax income, excluding provision for credit losses (non-GAAP) ⁽²⁾	468,110	409,457	14
Net income per common share—Diluted	3.06	4.60	(33)
Net revenue ⁽¹⁾	1,226,338	1,087,992	13
Net interest income	780,510	793,040	(2)
Net interest margin	2.79%	3.56%	(77)bps
Net interest margin - fully taxable equivalent (non-GAAP) ⁽²⁾	2.80%	3.58%	(78)
Net overhead ratio ⁽³⁾	1.03%	1.58%	(55)
Return on average assets	0.63%	1.11%	(48)
Return on average common equity	6.56%	10.74%	(418)
Return on average tangible common equity (non-GAAP) ⁽²⁾	8.38%	13.60%	(522)

At end of period

Total assets	\$ 43,731,718	\$ 34,911,902	25 %
Total loans, excluding loans held-for-sale	32,135,555	25,710,171	25
Total loans, including loans held-for-sale	33,095,226	26,174,898	26
Total deposits	35,844,422	28,710,379	25
Total shareholders' equity	4,074,089	3,540,325	15
Book value per common share ⁽²⁾	\$ 63.57	\$ 60.24	6
Tangible common book value per share ⁽²⁾	51.70	49.16	5
Market price per common share	40.05	64.63	(38)
Allowance for loan and unfunded lending-related commitment losses to total loans	1.21%	0.64%	57 bps

(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.

Certain returns, yields, performance ratios, and quarterly growth rates are "annualized" 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%.

SUPPLEMENTAL FINANCIAL MEASURES/RATIOS

The accounting and reporting policies of the Company 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 book value per common share, return on average tangible common equity and pre-tax income, excluding provision for credit losses. 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 basis. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis using tax rates effective as of the end of the period. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources. Net interest income on a fully taxable-equivalent 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. Management considers pre-tax income excluding provision for credit losses as useful measurements of the Company’s core net income.

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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,
	2020	2019	2020	2019
(Dollars and shares in thousands)				
Reconciliation of Non-GAAP Net Interest Margin and Efficiency Ratio				
(A) Interest Income (GAAP)	\$ 311,156	\$ 354,627	\$ 985,039	\$ 1,035,411
Taxable-equivalent adjustment:				
- Loans	481	978	1,917	3,043
- Liquidity management assets	546	574	1,635	1,707
- Other earning assets	1	5	6	8
(B) Interest Income (non-GAAP)	\$ 312,184	\$ 356,184	\$ 988,597	\$ 1,040,169
(C) Interest Expense (GAAP)	55,220	89,775	204,529	242,371
(D) Net Interest Income (GAAP) (A minus C)	255,936	264,852	780,510	793,040
(E) Net Interest Income, fully taxable-equivalent (non-GAAP) (B minus C)	256,964	266,409	784,068	797,798
Net interest margin (GAAP)	2.56%	3.37%	2.79%	3.56%
Net interest margin, fully taxable-equivalent (non-GAAP)	2.57	3.39	2.80	3.58
(F) Non-interest income	\$ 170,593	\$ 115,137	\$ 445,828	\$ 294,952
(G) Gains (losses) on investment securities, net	411	710	(3,140)	2,938
(H) Non-interest expense	264,219	234,554	758,228	678,535
Efficiency ratio (H/(D+F-G))	62.01%	61.84%	61.67%	62.53%
Efficiency ratio (non-GAAP) (H/(E+F-G))	61.86%	61.59%	61.49%	62.26%
Reconciliation of Non-GAAP Tangible Common Equity ratio				
Total shareholders' equity	\$ 4,074,089	\$ 3,540,325		
Less: Non-convertible preferred stock	(412,500)	(125,000)		
Less: Intangible assets	(683,314)	(627,972)		
(I) Total tangible common shareholders' equity	\$ 2,978,275	\$ 2,787,353		
(J) Total assets	\$ 43,731,718	\$ 34,911,902		
Less: Intangible assets	(683,314)	(627,972)		
(K) Total tangible assets	\$ 43,048,404	\$ 34,283,930		
Common equity to assets ratio (GAAP) (L/J)	8.4%	9.8%		
Tangible common equity ratio (non-GAAP) (I/K)	6.9%	8.1%		
Reconciliation of tangible book value per common share				
Total shareholders' equity	\$ 4,074,089	\$ 3,540,325		
Less: Preferred stock	(412,500)	(125,000)		
(L) Total common equity	\$ 3,661,589	\$ 3,415,325		
(M) Actual common shares outstanding	57,602	56,698		
Book value per common share (L/M)	\$ 63.57	\$ 60.24		
Tangible book value per common share (non-GAAP) (I/M)	\$ 51.70	\$ 49.16		
Reconciliation of non-GAAP return on average tangible common equity				
(N) Net income applicable to common shares	\$ 97,029	\$ 97,071	\$ 177,400	\$ 263,583
Add: Intangible asset amortization	2,701	2,928	8,384	8,827
Less: Tax effect of intangible asset amortization	(589)	(773)	(2,079)	(2,277)
After-tax intangible asset amortization	2,112	2,155	6,305	6,550
(O) Tangible net income applicable to common shares (non-GAAP)	99,141	99,226	183,705	270,133
Total average shareholders' equity	4,034,902	3,496,714	3,885,187	3,407,398
Less: Average preferred stock	(412,500)	(125,000)	(270,849)	(125,000)
(P) Total average common shareholders' equity	3,622,402	3,371,714	3,614,338	3,282,398
Less: Average intangible assets	(684,717)	(630,279)	(687,331)	(625,800)
(Q) Total average tangible common shareholders' equity (non-GAAP)	2,937,685	2,741,435	2,927,007	2,656,598
Return on average common equity, annualized (N/P)	10.66%	11.42%	6.56%	10.74%

Return on average tangible common equity, annualized (non-GAAP) (O/Q)	13.43%	14.36%	8.38%	13.60%
Reconciliation of Non-GAAP Pre-Tax, Pre-Provision Income:				
Income before taxes	\$ 137,284	\$ 134,601	\$ 255,070	\$ 363,419
Add: Provision for credit losses	25,026	10,834	213,040	46,038
Pre-tax income, excluding provision for credit losses (non-GAAP)	<u>\$ 162,310</u>	<u>\$ 145,435</u>	<u>\$ 468,110</u>	<u>\$ 409,457</u>

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 credit losses, including 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 53 of the Company's 2019 Form 10-K.

The COVID-19 pandemic, specifically the uncertainty related to the ultimate magnitude of impact on the economy and banking industry, is expected to impact many of the estimates, assumptions and judgments noted above that are used by management. This could result in volatility in the related accounting estimates, which will directly impact the Company's financial results. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation - Overview section of this report for additional discussion of the impact of the COVID-19 pandemic.

Net Income

Net income for the quarter ended September 30, 2020 totaled \$107.3 million, an increase of \$8.2 million, or 8%, compared to the quarter ended September 30, 2019. On a per share basis, net income for the third quarter of 2020 totaled \$1.67 per diluted common share compared to \$1.69 for the third quarter of 2019.

The increase in net income for the third quarter of 2020 as compared to the same period in the prior year is primarily attributable to increased mortgage banking revenue, partially offset by an increase in the provision for credit losses as a result of the adoption of CECL and economic conditions created by the COVID-19 pandemic and lower net interest income primarily due to lower net interest margin as well as increased salaries and employee benefits expense. See "Net Interest Income", "Non-interest Income", "Non-interest Expense" and "Loan Portfolio and Asset Quality" for further detail.

Net Interest Income

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

Quarter Ended September 30, 2020 compared to the Quarters Ended June 30, 2020 and September 30, 2019

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 2020 as compared to the second quarter of 2020 (sequential quarters) and third quarter of 2019 (linked quarters):

	Average Balance for three months ended,			Interest for three months ended,			Yield/Rate for three months ended,		
	Sep 30, 2020	Jun 30, 2020	Sep 30, 2019	Sep 30, 2020	Jun 30, 2020	Sep 30, 2019	Sep 30, 2020	Jun 30, 2020	Sep 30, 2019
(Dollars in thousands)									
Interest-bearing deposits with banks and cash equivalents ⁽¹⁾	\$ 3,411,164	\$ 3,240,167	\$ 1,960,898	\$ 1,181	\$ 1,326	\$ 10,636	0.14 %	0.16 %	2.15 %
Investment securities ⁽²⁾	3,789,422	4,309,471	3,410,090	22,365	27,643	25,332	2.35	2.58	2.95
FHLB and FRB stock	135,567	135,360	92,583	1,774	1,765	1,294	5.21	5.24	5.55
Liquidity management assets ⁽³⁾⁽⁸⁾	\$ 7,336,153	\$ 7,684,998	\$ 5,463,571	\$ 25,320	\$ 30,734	\$ 37,262	1.37 %	1.61 %	2.71 %
Other earning assets ⁽³⁾⁽⁴⁾⁽⁸⁾	16,656	16,917	17,809	113	113	189	2.71	2.71	4.20
Mortgage loans held-for-sale	822,908	705,702	379,870	5,791	4,764	3,478	2.80	2.72	3.63
Loans, net of unearned income ⁽³⁾⁽⁵⁾⁽⁸⁾	31,634,608	30,336,626	25,346,290	280,960	295,322	315,255	3.53	3.92	4.93
Total earning assets ⁽⁸⁾	\$ 39,810,325	\$ 38,744,243	\$ 31,207,540	\$ 312,184	\$ 330,933	\$ 356,184	3.12 %	3.44 %	4.53 %
Allowance for loan and investment security losses ⁽⁹⁾	(321,732)	(222,485)	(168,423)						
Cash and due from banks	345,438	352,423	297,475						
Other assets	3,128,813	3,168,548	2,618,000						
Total assets	\$ 42,962,844	\$ 42,042,729	\$ 33,954,592						
NOW and interest bearing demand deposits	\$ 3,435,089	\$ 3,323,124	\$ 2,912,961	\$ 1,342	\$ 1,561	\$ 5,291	0.16 %	0.19 %	0.72 %
Wealth management deposits	4,239,300	4,380,996	2,888,817	7,662	7,244	9,163	0.72	0.67	1.26
Money market accounts	9,332,668	8,727,966	6,956,755	7,245	13,140	25,426	0.31	0.61	1.45
Savings accounts	3,419,586	3,394,480	2,837,039	2,104	3,840	5,622	0.24	0.45	0.79
Time deposits	4,900,839	5,104,701	5,590,228	20,731	24,272	30,666	1.68	1.91	2.18
Interest-bearing deposits	\$ 25,327,482	\$ 24,931,267	\$ 21,185,800	\$ 39,084	\$ 50,057	\$ 76,168	0.61 %	0.81 %	1.43 %
Federal Home Loan Bank advances	1,228,421	1,214,375	574,833	4,947	4,934	1,774	1.60	1.63	1.22
Other borrowings	512,787	493,350	416,300	3,012	3,436	3,466	2.34	2.80	3.30
Subordinated notes	436,323	436,226	436,041	5,474	5,506	5,470	5.02	5.05	5.02
Junior subordinated debentures	253,566	253,566	253,566	2,703	2,752	2,897	4.17	4.29	4.47
Total interest-bearing liabilities	\$ 27,758,579	\$ 27,328,784	\$ 22,866,540	\$ 55,220	\$ 66,685	\$ 89,775	0.79 %	0.98 %	1.56 %
Non-interest bearing deposits	9,988,769	9,607,528	6,776,786						
Other liabilities	1,180,594	1,197,571	814,552						
Equity	4,034,902	3,908,846	3,496,714						
Total liabilities and shareholders' equity	\$ 42,962,844	\$ 42,042,729	\$ 33,954,592						
Interest rate spread ⁽⁶⁾⁽⁸⁾							2.33 %	2.46 %	2.97 %
Less: Fully tax-equivalent adjustment				(1,028)	(1,117)	(1,557)	(0.01)	(0.01)	(0.02)
Net free funds/contribution ⁽⁷⁾	\$ 12,051,746	\$ 11,415,459	\$ 8,341,000				0.24	0.28	0.42
Net interest income/ margin (GAAP) ⁽⁸⁾				\$ 255,936	\$ 263,131	\$ 264,852	2.56 %	2.73 %	3.37 %
Fully taxable-equivalent adjustment				1,028	1,117	1,557	0.01	0.01	0.02
Net interest income/margin, fully taxable-equivalent (non-GAAP) ⁽⁸⁾				\$ 256,964	\$ 264,248	\$ 266,409	2.57 %	2.74 %	3.39 %

(1) Includes interest-bearing deposits with 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 the marginal federal corporate tax rate in effect as of the applicable period. The total adjustments for the three months ended September 30, 2020, June 30, 2020 and September 30, 2019 were \$1.0 million, \$1.1 million and \$1.6 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.

(9) Effective January 1, 2020 this includes the allowance for investment security losses as a result of the adoption of ASU 2016-13, Financial Instruments - Credit Losses.

For the third quarter of 2020, net interest income totaled \$255.9 million, a decrease of \$7.2 million as compared to the second quarter of 2020, and a decrease of \$8.9 million as compared to the third quarter of 2019. Net interest margin was 2.56% (2.57% on a fully taxable-equivalent basis, non-GAAP) during the third quarter of 2020 compared to 2.73% (2.74% on a fully taxable-equivalent basis, non-GAAP) during the second quarter of 2020, and 3.37% (3.39% on a fully taxable-equivalent basis, non-GAAP) during the third quarter of 2019.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

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, 2020 compared to the nine months ended September 30, 2019:

	Average Balance for nine months ended,		Interest for nine months ended,		Yield/Rate for nine months ended,	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<i>(Dollars in thousands)</i>						
Interest-bearing deposits with banks and cash equivalents ⁽¹⁾	\$ 2,692,678	\$ 1,254,534	\$ 7,361	\$ 21,142	0.37 %	2.26 %
Investment securities ⁽²⁾	4,291,362	3,563,941	83,026	82,142	2.58	3.08
FHLB and FRB stock	128,611	97,624	5,116	4,088	5.31	5.60
Liquidity management assets ⁽³⁾⁽⁸⁾	\$ 7,112,651	\$ 4,916,099	\$ 95,503	\$ 107,372	1.79 %	2.92 %
Other earning assets ⁽³⁾⁽⁴⁾⁽⁸⁾	17,576	15,722	393	538	2.99	4.56
Mortgage loans held-for-sale	644,611	283,966	13,720	8,791	2.84	4.14
Loans, net of unearned income ⁽³⁾⁽⁵⁾⁽⁸⁾	29,643,281	24,598,857	878,981	923,468	3.96	5.02
Total earning assets ⁽⁸⁾	\$ 37,418,119	\$ 29,814,644	\$ 988,597	\$ 1,040,169	3.53 %	4.66 %
Allowance for loan and investment security losses ⁽⁹⁾	(240,467)	(163,518)				
Cash and due from banks	339,968	284,779				
Other assets	3,034,897	2,482,970				
Total assets	\$ 40,552,517	\$ 32,418,875				
NOW and interest bearing demand deposits	\$ 3,291,176	\$ 2,865,175	\$ 6,569	\$ 15,457	0.27 %	0.72 %
Wealth management deposits	3,821,203	2,703,853	21,840	23,254	0.76	1.15
Money market accounts	8,686,171	6,326,336	42,748	66,337	0.66	1.40
Savings accounts	3,334,944	2,768,875	11,736	14,830	0.47	0.72
Time deposits	5,176,307	5,394,651	73,683	84,290	1.90	2.09
Interest-bearing deposits	\$ 24,309,801	\$ 20,058,890	\$ 156,576	\$ 204,168	0.86 %	1.36 %
FHLB advances	1,131,823	679,589	13,241	8,417	1.56	1.66
Other borrowings	491,981	433,465	9,994	10,624	2.71	3.28
Subordinated notes	436,223	266,430	16,452	10,051	5.03	5.03
Junior subordinated debentures	253,566	253,566	8,266	9,111	4.28	4.74
Total interest-bearing liabilities	\$ 26,623,394	\$ 21,691,940	\$ 204,529	\$ 242,371	1.03 %	1.49 %
Non-interest bearing deposits	8,947,639	6,570,815				
Other liabilities	1,096,297	748,722				
Equity	3,885,187	3,407,398				
Total liabilities and shareholders' equity	\$ 40,552,517	\$ 32,418,875				
Interest rate spread ⁽⁶⁾⁽⁸⁾					2.50 %	3.17 %
Less: Fully tax-equivalent adjustment			(3,558)	(4,758)	(0.01)	(0.02)
Net free funds/contribution ⁽⁷⁾	\$ 10,794,725	\$ 8,122,704			0.30	0.41
Net interest income/ margin (GAAP) ⁽⁸⁾			\$ 780,510	\$ 793,040	2.79 %	3.56 %
Fully taxable-equivalent adjustment			3,558	4,758	0.01	0.02
Net interest income/ margin, fully taxable-equivalent (non-GAAP) ⁽⁸⁾			\$ 784,068	\$ 797,798	2.80 %	3.58 %

(1) Includes interest-bearing deposits with 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 the marginal federal corporate tax rate in effect as of the applicable period. The total adjustments for the nine months ended September 30, 2020 and September 30, 2019 were \$3.6 million and \$4.8 million, respectively.

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

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

(9) Effective January 1, 2020 this includes the allowance for investment security losses as a result of the adoption of ASU 2016-13, Financial Instruments-Credit Losses.

For the nine months ended September 30, 2020, net interest income totaled \$780.5 million, a decrease of \$12.5 million as compared to the first nine months of 2019. Net interest margin was 2.79% (2.80% on a fully taxable-equivalent basis, non-GAAP) for the nine months ended September 30, 2020 compared to 3.56% (3.58% on a fully taxable-equivalent basis, non-GAAP) for the same period of 2019. The decrease in net interest margin compared to the first nine months of 2019 is primarily the result of a decrease in the yield earned on loans between periods.

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, 2020 to June 30, 2020 and September 30, 2019, and nine month periods ended September 30, 2020 and 2019. 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:

<u>(In thousands)</u>	Third Quarter of 2020 Compared to Second Quarter of 2020	Third Quarter of 2020 Compared to Third Quarter of 2019	First Nine Months of 2020 Compared to First Nine Months of 2019
Net interest income (GAAP) for comparative period	\$ 263,131	\$ 264,852	\$ 793,040
Change due to mix and growth of earning assets and interest-bearing liabilities (volume)	10,980	63,293	164,719
Change due to interest rate fluctuations (rate)	(21,035)	(72,209)	(180,143)
Change due to number of days in each period	2,860	—	2,894
Net interest income (GAAP) for the period ended September 30, 2020	\$ 255,936	\$ 255,936	\$ 780,510
Fully taxable-equivalent adjustment	1,028	1,028	3,558
Net interest income, fully taxable-equivalent (non-GAAP)	\$ 256,964	\$ 256,964	\$ 784,068

Non-interest Income

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

<u>(Dollars in thousands)</u>	Three Months Ended		\$ Change	% Change
	September 30, 2020	September 30, 2019		
Brokerage	\$ 4,563	\$ 4,686	\$ (123)	(3)%
Trust and asset management	20,394	19,313	1,081	6
Total wealth management	24,957	23,999	958	4
Mortgage banking	108,544	50,864	57,680	113
Service charges on deposit accounts	11,497	9,972	1,525	15
Gains on investment securities, net	411	710	(299)	(42)
Fees from covered call options	—	—	—	NM
Trading gains, net	183	11	172	NM
Operating lease income, net	11,717	12,025	(308)	(3)
Other:				
Interest rate swap fees	4,029	4,811	(782)	(16)
BOLI	1,218	830	388	47
Administrative services	1,077	1,086	(9)	(1)
Foreign currency remeasurement losses	(54)	(55)	1	2
Early pay-offs of capital leases	165	6	159	NM
Miscellaneous	6,849	10,878	(4,029)	(37)
Total Other	13,284	17,556	(4,272)	(24)
Total Non-interest Income	\$ 170,593	\$ 115,137	\$ 55,456	48 %

NM - Not meaningful.

(Dollars in thousands)	Nine Months Ended		\$ Change	% Change
	September 30, 2020	September 30, 2019		
Brokerage	\$ 13,991	\$ 13,966	\$ 25	— %
Trust and asset management	59,543	58,149	1,394	2
Total wealth management	73,534	72,115	1,419	2
Mortgage banking	259,194	106,433	152,761	144
Service charges on deposit accounts	33,182	28,097	5,085	18
(Losses) gains on investment securities, net	(3,140)	2,938	(6,078)	NM
Fees from covered call options	2,292	2,427	(135)	(6)
Trading losses, net	(902)	(204)	(698)	NM
Operating lease income, net	35,486	34,554	932	3
Other:				
Interest rate swap fees	15,788	10,866	4,922	45
BOLI	1,884	3,570	(1,686)	(47)
Administrative services	3,122	3,125	(3)	—
Foreign currency remeasurement (losses) gains	(413)	522	(935)	NM
Early pay-offs of capital leases	514	11	503	NM
Miscellaneous	25,287	30,498	(5,211)	(17)
Total Other	46,182	48,592	(2,410)	(5)
Total Non-interest Income	\$ 445,828	\$ 294,952	\$ 150,876	51 %

NM - Not meaningful.

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

Wealth management revenue increased in the third quarter of 2020 as compared to the third quarter of 2019 due to an increase in asset management fees. Wealth management revenue is comprised of the trust and asset management revenue of The Chicago Trust Company and Great Lakes Advisors, the brokerage commissions, managed money fees and insurance product commissions of Wintrust Investments and fees from tax-deferred like-kind exchange services provided by the Chicago Deferred Exchange Company.

Mortgage banking revenue increased in the third quarter of 2020 as compared to the third quarter of 2019 as a result of an increase in loans originated for sale and higher production revenue. Mortgage loans originated for sale totaled \$2.2 billion in the third quarter of 2020 as compared to \$1.4 billion in the third quarter of 2019. 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. The Company records MSRs at fair value on a recurring basis.

During the third quarter of 2020, the fair value of the mortgage servicing rights portfolio increased due to increased capitalization of \$20.9 million during the third quarter. This increase was partially offset by a negative fair value adjustment of \$3.0 million as well as a reduction in value of \$7.9 million due to payoffs and paydowns of the existing portfolio. Starting in 2019, the Company purchased options and entered into interest rate swaps to economically hedge a portion of the fair value changes recorded in earnings related to its MSRs portfolio. During the second quarter of 2020, the Company terminated these interest rate swaps. There were no such options or interest rate swaps outstanding as of September 30, 2020.

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Originations and Commitments:				
Retail originations	\$ 1,590,699	\$ 913,631	\$ 3,952,775	\$ 1,948,743
Correspondent originations	—	50,639	—	381,705
Veterans First originations	635,876	456,005	1,700,711	922,091
Total originations for sale (A)	\$ 2,226,575	\$ 1,420,275	\$ 5,653,486	\$ 3,252,539
Originations for investment	73,711	154,897	204,392	354,823
Total originations	\$ 2,300,286	\$ 1,575,172	\$ 5,857,878	\$ 3,607,362
Purchases as a percentage of originations for sale	41%	48%	36%	57%
Refinances as a percentage of originations for sale	59	52	64	43
Total	100%	100%	100%	100%
Production Margin:				
Production revenue (B) ⁽¹⁾	\$ 94,148	\$ 40,924	\$ 236,908	\$ 87,425
Production margin (B/A)	4.23%	2.88%	4.19%	2.69%
Mortgage Servicing:				
Loans serviced for others (C)	\$ 10,139,878	\$ 7,901,045		
MSRs, at fair value (D)	86,907	75,585		
Percentage of MSRs to loans serviced for others (D/C)	0.86%	0.96%		
Servicing income	\$ 8,118	\$ 5,989	\$ 22,057	\$ 16,909
Components of MSR:				
MSR - current period capitalization	\$ 20,936	\$ 14,029	\$ 50,734	\$ 30,411
MSR - collection of expected cash flow - paydowns	(590)	(456)	(1,556)	(1,418)
MSR - collection of expected cash flow - payoffs	(7,272)	(6,781)	(22,000)	(11,892)
Valuation:				
MSR - changes in fair value model assumptions	(3,002)	(4,058)	(25,541)	(17,107)
Gain on derivative contract held as an economic hedge, net	—	82	4,749	1,002
MSR valuation adjustment, net of gain on derivative contract held as an economic hedge	\$ (3,002)	\$ (3,976)	\$ (20,792)	\$ (16,105)
Summary of Mortgage Banking Revenue:				
Production revenue ⁽¹⁾	\$ 94,148	\$ 40,924	\$ 236,908	\$ 87,425
Servicing income	8,118	5,989	22,057	16,909
MSR activity	10,072	2,816	6,386	996
Other	(3,794)	1,135	(6,157)	1,103
Total mortgage banking revenue	\$ 108,544	\$ 50,864	\$ 259,194	\$ 106,433

(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 the fair value of servicing rights and changes to the mortgage recourse obligation and other non-production revenue.

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 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, 2020 and September 30, 2019.

Miscellaneous revenue decreased in the third quarter of 2020 as compared to the third quarter of 2019 due to a decrease in partnership income, syndication fees and other miscellaneous income.

Non-interest Expense

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

(Dollars in thousands)	Three months ended		\$ Change	% Change
	September 30, 2020	September 30, 2019		
Salaries and employee benefits:				
Salaries	\$ 89,849	\$ 78,067	\$ 11,782	15 %
Commissions and incentive compensation	48,475	40,289	8,186	20
Benefits	25,718	22,668	3,050	13
Total salaries and employee benefits	164,042	141,024	23,018	16
Equipment	17,251	13,314	3,937	30
Operating lease equipment depreciation	9,425	8,907	518	6
Occupancy, net	15,830	14,991	839	6
Data processing	5,689	6,522	(833)	(13)
Advertising and marketing	7,880	13,375	(5,495)	(41)
Professional fees	6,488	8,037	(1,549)	(19)
Amortization of other intangible assets	2,701	2,928	(227)	(8)
FDIC insurance	6,772	148	6,624	NM
OREO expense, net	(168)	1,170	(1,338)	NM
Other:				
Commissions—3rd party brokers	778	734	44	6
Postage	1,529	2,321	(792)	(34)
Miscellaneous	26,002	21,083	4,919	23
Total other	28,309	24,138	4,171	17
Total Non-interest Expense	\$ 264,219	\$ 234,554	\$ 29,665	13 %

NM - Not meaningful.

(Dollars in thousands)	Nine Months Ended		\$ Change	% Change
	September 30, 2020	September 30, 2019		
Salaries and employee benefits:				
Salaries	\$ 258,240	\$ 227,464	\$ 30,776	14 %
Commissions and incentive compensation	126,201	108,374	17,827	16
Benefits	70,519	64,641	5,878	9
Total salaries and employee benefits	454,960	400,479	54,481	14
Equipment	47,931	37,843	10,088	27
Operating lease equipment depreciation	27,977	25,994	1,983	8
Occupancy, net	50,270	47,157	3,113	7
Data processing	24,468	20,251	4,217	21
Advertising and marketing	26,446	36,078	(9,632)	(27)
Professional fees	20,896	19,821	1,075	5
Amortization of other intangible assets	8,384	8,827	(443)	(5)
FDIC insurance	17,988	7,851	10,137	NM
OREO expense, net	(807)	3,092	(3,899)	NM
Other:				
Commissions—3rd party brokers	2,350	2,201	149	7
Postage	5,069	7,377	(2,308)	(31)
Miscellaneous	72,296	61,564	10,732	17
Total other	79,715	71,142	8,573	12
Total Non-interest Expense	\$ 758,228	\$ 678,535	\$ 79,693	12 %

NM - Not meaningful.

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

Salaries and employee benefits expense increased in the third quarter of 2020 compared to the third quarter of 2019 primarily due to the addition of employees from acquisitions, increased staffing as the Company grows and higher commissions and incentive compensation due to increased origination volume associated with the Company's mortgage business.

Equipment expense increased in the third quarter of 2020 compared to the third quarter of 2019 as a result of higher software license fees, software and computer depreciation expense.

Advertising and marketing expenses decreased in the third quarter of 2020 compared to the third quarter of 2019 as a result of decreased sponsorship costs due to the cancellation of events, including sports sponsorships, as a result of the COVID-19 pandemic. Marketing costs are incurred to promote the Company's brand, commercial banking capabilities and various products, and to attract loans and deposits and 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 utilized, which are determined based on the market area, targeted audience, competition and various other factors.

FDIC insurance expense increased in the third quarter of 2020 compared to the third quarter of 2019 as a result of higher assessment rates impacted by declines in the Tier 1 Leverage Ratio at the Company's bank affiliates as a result of asset growth, including PPP loans.

Other miscellaneous expense increased in the third quarter of 2020 compared to the third quarter of 2019 primarily as a result of increased contingent consideration expense accrued in 2020 related to the previous acquisitions of mortgage operations. The increase in the contingent consideration accrual is a result of higher anticipated payments resulting from increases in both current and forecasted revenues related to the acquired businesses due to the favorable mortgage banking environment. The contractual period covering contingent consideration ends in January 2023. Miscellaneous expense includes ATM expenses, correspondent bank charges, directors' fees, telephone, travel and entertainment, corporate insurance, dues and subscriptions, problem loan expenses, operating losses and lending origination costs that are not deferred.

Income Taxes

The Company recorded income tax expense of \$30.0 million in the third quarter of 2020 compared to \$35.5 million in the third quarter of 2019. The effective tax rates were 21.83% in the third quarter of 2020 compared to 26.36% in the third quarter of 2019. During the first nine months of 2020, the Company recorded income tax expense of \$63.3 million compared to \$93.7 million for the first nine months of 2019. The effective tax rates were 24.81% for the first nine months of 2020 and 25.78% for the first nine months of 2019.

The lower effective tax rates in the 2020 quarterly and year-to-date periods compared to 2019 were a result of a \$9.0 million state income tax benefit related to the settlement of an uncertain tax position. Net of the federal tax impact, the reduction to income tax expense was \$7.1 million. The year-to-date effective tax rates were also impacted by the tax effects related to share-based compensation. The tax effects of share-based compensation fluctuate based on the Company's stock price and timing of employee stock option exercises and vesting of other share-based awards. The Company recorded additional tax expense related to share-based compensation of \$597,000 in the first nine months of 2020, and tax benefits of \$1.7 million in the first nine months of 2019, the majority of which were recognized in the first quarter of each year.

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, 2020 totaled \$196.8 million as compared to \$209.9 million for the same period in 2019, a decrease of \$13.1 million, or 6%. On a year-to-date basis, net interest income for the segment decreased by \$26.3 million from \$635.6 million for the nine months ended September 30, 2019 to \$609.3 million for the nine months ended September 30, 2020. The decrease in the three and nine month periods is primarily attributable to compression of the net interest margin attributable to the decrease in interest rates in the environment. The community banking segment's non-interest income totaled \$137.0 million in the third quarter of 2020, an increase of \$54.1 million, or 65%, when compared to the third quarter of 2019 total of \$82.9 million. On a year-to-date basis, non-interest income totaled \$347.7 million for the nine months ended September 30, 2020, an increase of \$151.2 million, or 77%, compared to \$196.5 million in the nine months ended September 30, 2019. The increase in the three and nine month periods is primarily the result of increased mortgage banking revenue from significantly increased mortgage originations during 2020. The community banking segment's net income for the quarter ended September 30, 2020 totaled \$70.6 million, an increase of \$1.8 million as compared to net income in the third quarter of 2019 of \$68.8 million. On a year-to-date basis, the community banking segment's net income was \$97.9 million for the first nine months of 2020 as compared to \$182.6 million for the first nine months of 2019. The decrease in net income in the nine month periods is primarily attributable to higher provision for credit losses in 2020 due to the implementation of CECL and the macroeconomic conditions created by the COVID-19 pandemic. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation - Overview section of this report for additional discussion of the impact of the COVID-19 pandemic.

The specialty finance segment's net interest income totaled \$46.5 million for the quarter ended September 30, 2020, compared to \$42.1 million for the same period in 2019, an increase of \$4.3 million, or 10%. On a year-to-date basis, net interest income increased by \$10.3 million in the first nine months of 2020 as compared to the first nine months of 2019. The increase in the three and nine month periods is primarily attributable to growth in earning assets on the premium finance receivables portfolios. The specialty finance segment's non-interest income totaled \$21.4 million and \$20.0 million for the three month periods ended September 30, 2020 and 2019, respectively. On a year-to-date basis, non-interest income increased by \$5.4 million in the first nine months of 2020 as compared to the first nine months of 2019. The increase in non-interest income in the three and nine month 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 42%, 31%, 23% and 4%, respectively, of the total revenues of our specialty finance business for the nine month period ended September 30, 2020. The net income of the specialty finance segment for the quarter ended September 30, 2020 totaled \$29.9 million as compared to \$24.2 million for the quarter ended September 30, 2019. On a year-to-date basis, the net income of the specialty finance segment for the nine months ended September 30, 2020 totaled \$74.7 million as compared to \$67.2 million for the nine months ended September 30, 2019.

The wealth management segment reported net interest income of \$6.9 million for the third quarter of 2020 compared to \$7.3 million in the same quarter of 2019, a decrease of \$396,000, or 5%. On a year-to-date basis, net interest income totaled \$23.3 million for the first nine months of 2020 as compared to \$21.7 million for the first nine months of 2019. 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 \$2.0 billion and \$1.6 billion in the first nine months of 2020 and 2019, respectively. This segment recorded non-interest income of \$26.2 million for the third quarter of 2020 compared to \$24.4 million for the third quarter of 2019. On a year-to-date basis, the wealth management segment's non-interest income totaled \$74.7 million during the first nine months of 2020 as compared to \$74.4 million in the first nine months of 2019. Distribution of wealth management services through each bank continues to be a focus of the Company. 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 \$6.9 million for the third quarter of 2020 compared to \$6.1 million for the third quarter of 2019. On a year-to-date basis, the wealth management segment's net income totaled \$19.2 million and \$20.0 million for the nine month periods ended September 30, 2020 and 2019, respectively.

Financial Condition

Total assets were \$43.7 billion at September 30, 2020, representing an increase of \$8.8 billion, or 25%, when compared to September 30, 2019 and an increase of approximately \$191.7 million, or 2% on an annualized basis, when compared to June 30, 2020. Total funding, which includes deposits, all notes and advances, including secured borrowings and the junior subordinated debentures, was \$38.3 billion at September 30, 2020, \$38.1 billion at June 30, 2020, and \$30.4 billion at September 30, 2019. 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:

(Dollars in thousands)	Three Months Ended					
	September 30, 2020		June 30, 2020		September 30, 2019	
	Balance	Percent	Balance	Percent	Balance	Percent
Mortgage loans held-for-sale	\$ 822,908	2%	\$ 705,702	2%	\$ 379,870	1%
Loans, net of unearned income						
Commercial, excluding PPP	\$ 8,647,069	22%	\$ 8,685,218	22%	\$ 8,131,196	26%
Commercial - PPP	3,364,890	8	2,679,662	7	—	—
Commercial real estate	8,329,285	21	8,177,259	21	7,388,908	24
Home equity	455,589	1	478,302	1	518,930	2
Residential real estate	1,173,639	3	1,223,635	3	1,046,934	3
Premium finance receivables	9,596,817	24	9,014,719	23	8,143,187	26
Other loans	67,319	1	77,831	1	117,135	—
Total average loans ⁽¹⁾	\$ 31,634,608	80%	\$ 30,336,626	78%	\$ 25,346,290	81%
Liquidity management assets ⁽²⁾	7,336,153	18	7,684,998	20	5,463,571	18
Other earning assets ⁽³⁾	16,656	—	16,917	—	17,809	—
Total average earning assets	\$ 39,810,325	100%	\$ 38,744,243	100%	\$ 31,207,540	100%
Total average assets	\$ 42,962,844		\$ 42,042,729		\$ 33,954,592	
Total average earning assets to total average assets		93%		92%		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.

Mortgage loans held-for-sale. Average mortgage loans held-for-sale totaled \$822.9 million in the third quarter of 2020, compared to \$705.7 million in the second quarter of 2020 and \$379.9 million in the third quarter of 2019. 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. The increase in average balances compared to the prior year period was primarily the result of increased mortgage demand associated with historically low long-term interest rates.

Loans, net of unearned income. Average total loans, net of unearned income, totaled \$31.6 billion in the third quarter of 2020, increasing \$6.3 billion, or 25%, from the third quarter of 2019 and \$1.3 billion, or 17% on an annualized basis, from the second quarter of 2020. Combined, the commercial and commercial real estate loan categories comprised 64% of the average loan portfolio in the third quarter of 2020 as compared to 64% in the second quarter of 2020 and 61% in the third quarter of 2019. Growth realized in these aggregated categories for the third quarter of 2020 as compared to the sequential and prior year periods is primarily attributable to PPP lending, primarily during the second quarter of 2020, and increased business development efforts. Additionally, growth realized in the third quarter 2020 as compared to the third quarter 2019 was partially attributable to the acquisition of ROC, SBC and STC in 2019 and originations of PPP loans in 2020.

Home equity loan portfolio averaged \$455.6 million in the third quarter of 2020, and decreased \$63.3 million, or 12% from the average balance of \$518.9 million in same period of 2019. The decrease in the home equity loan portfolio is primarily the result

of borrowers preferring to finance through longer term, low rate mortgage loans. The Company has been actively managing its home equity portfolio to ensure that diligent pricing, appraisal and other underwriting activities continue to exist.

Residential real estate loans averaged \$1.2 billion in the third quarter of 2020, and increased \$126.7 million, or 12% from the average balance of \$1.0 billion in same period of 2019. Additionally, compared to the quarter ended June 30, 2020, the average balance decreased \$50.0 million, or 16% 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 ranging from one to three years, construction loans to individuals and bridge financing loans for qualifying customers.

Average premium finance receivables totaled \$9.6 billion in the third quarter of 2020, and accounted for 30% of the Company's average total loans. The increase during the third quarter of 2020 compared to the third quarter of 2019 was the result of continued originations within the portfolio in part due to hardening insurance market conditions increasing the average size of new commercial insurance premium finance receivables to approximately \$36,000 in the third quarter of 2020. Approximately \$2.8 billion of premium finance receivables were originated in the third quarter of 2020 compared to \$2.4 billion during the same period of 2019. Premium finance receivables consist of a commercial portfolio and a life portfolio comprising approximately 43% and 57%, respectively, of the average total balance of premium finance receivables for the third quarter of 2020, and 43% and 57%, respectively, for the third quarter of 2019.

Other loans represent a wide variety of personal and consumer loans to individuals. 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.

Total average loans for the first nine months of 2020 increased \$5.0 billion or 21% over the previous year period. Similar to the quarterly discussion above, approximately \$2.6 billion of this increase relates to the commercial portfolio (including PPP loans), \$1.1 billion of this increase relates to the commercial real estate portfolio and \$1.3 billion of this increase relates to the premium finance receivables portfolio.

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. In response to the COVID-19 pandemic, the Company will continue to prudently evaluate and utilize liquidity sources as needed, including the management of availability with the FHLB and FRB and utilization of the revolving credit facility with unaffiliated banks. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation - Overview and - Liquidity sections of this report for additional discussion of the impact of the COVID-19 pandemic.

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 customers' 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 customers' 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.

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:

(Dollars in thousands)	Nine Months Ended			
	September 30, 2020		September 30, 2019	
	Balance	Percent	Balance	Percent
Mortgage loans held-for-sale	\$ 644,611	2%	\$ 283,966	1%
Loans:				
Commercial	\$ 8,582,438	23%	\$ 8,033,126	27%
Commercial - PPP	2,019,778	5	—	—
Commercial real estate	8,211,222	22	7,159,456	24
Home equity	477,672	1	528,867	2
Residential real estate	1,213,289	3	993,970	3
Premium finance receivables	9,069,770	24	7,772,016	26
Other loans	69,112	1	111,422	1
Total average loans ⁽¹⁾	\$ 29,643,281	79%	\$ 24,598,857	83%
Liquidity management assets ⁽²⁾	7,112,651	19	4,916,099	16
Other earning assets ⁽³⁾	17,576	—	15,722	—
Total average earning assets	\$ 37,418,119	100%	\$ 29,814,644	100%
Total average assets	\$ 40,552,517		\$ 32,418,875	
Total average earning assets to total average assets		92%		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.

LOAN PORTFOLIO AND ASSET QUALITY

Loan Portfolio

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

(In thousands)	September 30, 2020		December 31, 2019		September 30, 2019	
	% of		% of		% of	
	Amount	Total	Amount	Total	Amount	Total
Commercial	\$ 12,276,999	39%	\$ 8,285,920	31%	\$ 8,195,602	32%
Commercial real estate	8,423,142	26	8,020,276	30	7,448,667	29
Home equity	446,274	1	513,066	2	512,303	2
Residential real estate	1,384,810	4	1,354,221	5	1,218,666	5
Premium finance receivables—commercial	4,060,144	13	3,442,027	13	3,449,950	13
Premium finance receivables—life insurance	5,488,832	17	5,074,602	19	4,795,496	19
Consumer and other	55,354	0	110,178	0	89,487	0
Total loans, net of unearned income	\$ 32,135,555	100%	\$ 26,800,290	100%	\$ 25,710,171	100%

Commercial and commercial real estate loans. Our commercial and commercial real estate loan portfolios are comprised primarily of commercial real estate loans and lines of credit for working capital purposes. The table below sets forth information regarding the types and amounts of our loans within these portfolios as of September 30, 2020 and 2019:

	As of September 30, 2020			As of September 30, 2019		
	Balance	% of Total Balance	Allowance For Credit Losses Allocation	Balance	% of Total Balance	Allowance For Credit Losses Allocation
(Dollars in thousands)						
Commercial:						
Commercial, industrial, and other, excluding commercial PPP	\$ 8,897,986	43.0%	\$ 112,891	\$ 8,195,602	52.4%	\$ 73,127
Commercial PPP	3,379,013	16.3	3	—	—	—
Total commercial	\$ 12,276,999	59.3%	\$ 112,894	\$ 8,195,602	52.4%	\$ 73,127
Commercial Real Estate:						
Construction and development	\$ 1,333,149	6.4%	\$ 77,126	\$ 1,042,211	6.5%	\$ 14,153
Non-construction	7,089,993	34.3	156,884	6,406,456	41.1	52,295
Total commercial real estate	\$ 8,423,142	40.7%	\$ 234,010	\$ 7,448,667	47.6%	\$ 66,448
Total commercial and commercial real estate	\$ 20,700,141	100.0%	\$ 346,904	\$ 15,644,269	100.0%	\$ 139,575
Commercial real estate - collateral location by state:						
Illinois	\$ 6,270,584	74.4%		\$ 5,654,827	75.9%	
Wisconsin	783,241	9.3		744,577	10.0	
Total primary markets	\$ 7,053,825	83.7%		\$ 6,399,404	85.9%	
Indiana	265,905	3.2		193,350	2.6	
Florida	133,602	1.6		80,120	1.1	
Arizona	79,086	0.9		62,657	0.8	
California	82,852	1.0		67,999	0.9	
Other	807,872	9.6		645,137	8.7	
Total commercial real estate	\$ 8,423,142	100.0%		\$ 7,448,667	100.0%	

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. In addition, the Company has participated in PPP starting in the second quarter of 2020 as a result of COVID-19 disruption to the economy. Commercial business lending is generally considered to involve a slightly higher degree of risk than traditional consumer bank lending. Primarily as a result of the adoption of CECL and deterioration in macroeconomic conditions related to COVID-19, our allowance for credit losses in our commercial loan portfolio increased to \$112.9 million as of September 30, 2020 compared to \$73.1 million as of September 30, 2019.

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, 83.7% of our commercial real estate loan portfolio is located in this region as of September 30, 2020. We have been able to effectively manage our total non-performing commercial real estate loans. As of September 30, 2020, our allowance for credit losses related to this portfolio is \$234.0 million compared to \$66.4 million as of September 30, 2019. Similar to the commercial loan portfolio, the increase in the allowance for credit losses is primarily due to the adoption of CECL and deterioration in macroeconomic conditions related to COVID-19, specifically as seen in the Commercial Real Estate Price Index.

The Company also participates in mortgage warehouse lending, which is included above within commercial, industrial and other, 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.

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, construction loans to individuals and bridge financing loans for qualifying customers. As of September 30, 2020, our residential loan portfolio totaled \$1.4 billion, 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, 2020, \$22.1 million of our residential real estate mortgages, or 1.6% of our residential real estate loan portfolio were classified as nonaccrual, no loans were 90 or more days past due and still accruing, \$3.3 million were 30 to 89 days past due, or 0.2%, and \$1.4 billion were current, or 98.2%. 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, 2020 and 2019 was \$10.1 billion and \$7.9 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 buyout 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 ASC Topic 860, "Transfers and Servicing," this early buyout 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 repurchase option and the expected benefit of the potential repurchase 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 early buyout 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 \$240.9 million at September 30, 2020, compared to \$106.0 million balance at September 30, 2019.

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, 2020, approximately \$973,000 of our mortgage loans consist of interest-only loans.

Premium finance receivables – commercial. FIRST Insurance Funding and FIFC Canada originated approximately \$2.5 billion in commercial insurance premium finance receivables in the third quarter of 2020 as compared to \$2.2 billion of originations in the third quarter of 2019. During the nine months ended September 30, 2020 and 2019, FIRST Insurance Funding and FIFC Canada originated approximately \$7.4 billion and \$6.2 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 \$315.4 million in life insurance premium finance receivables in the third quarter of 2020 as compared to \$266.9 million of originations in the third quarter of 2019. During the nine months ended September 30, 2020 and 2019, Wintrust Life Finance originated approximately \$960.6 million and \$741.8 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. 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.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table classifies the loan portfolio at September 30, 2020 by date at which the loans reprice or mature, and the type of rate exposure:

As of September 30, 2020

(In thousands)	One year or less	From one to five years	Over five years	Total
Commercial				
Fixed rate	\$ 329,230	\$ 1,831,547	\$ 794,089	\$ 2,954,866
Fixed rate - PPP	—	3,379,013	—	3,379,013
Variable rate	5,923,248	19,747	125	5,943,120
Total commercial	\$ 6,252,478	\$ 5,230,307	\$ 794,214	\$ 12,276,999
Commercial real estate				
Fixed rate	601,275	2,093,741	399,264	3,094,280
Variable rate	5,291,887	36,975	—	5,328,862
Total commercial real estate	\$ 5,893,162	\$ 2,130,716	\$ 399,264	\$ 8,423,142
Home equity				
Fixed rate	18,022	7,551	25	25,598
Variable rate	420,676	—	—	420,676
Total home equity	\$ 438,698	\$ 7,551	\$ 25	\$ 446,274
Residential real estate				
Fixed rate	29,068	12,611	463,604	505,283
Variable rate	66,816	328,865	483,846	879,527
Total residential real estate	\$ 95,884	\$ 341,476	\$ 947,450	\$ 1,384,810
Premium finance receivables - commercial				
Fixed rate	3,965,026	95,118	—	4,060,144
Variable rate	—	—	—	—
Total premium finance receivables - commercial	\$ 3,965,026	\$ 95,118	\$ —	\$ 4,060,144
Premium finance receivables - life insurance				
Fixed rate	15,284	240,467	19,591	275,342
Variable rate	5,213,490	—	—	5,213,490
Total premium finance receivables - life insurance	\$ 5,228,774	\$ 240,467	\$ 19,591	\$ 5,488,832
Consumer and other				
Fixed rate	28,297	5,831	1,501	35,629
Variable rate	19,725	—	—	19,725
Total consumer and other	\$ 48,022	\$ 5,831	\$ 1,501	\$ 55,354
Total per category				
Fixed rate	4,986,202	4,286,866	1,678,074	10,951,142
Fixed rate - PPP	—	3,379,013	—	3,379,013
Variable rate	16,935,842	385,587	483,971	17,805,400
Total loans, net of unearned income	\$ 21,922,044	\$ 8,051,466	\$ 2,162,045	\$ 32,135,555
Variable Rate Loan Pricing by Index:				
Prime				\$ 2,254,870
One- month LIBOR				8,977,288
Three- month LIBOR				412,969
Twelve- month LIBOR				5,870,663
Other				289,610
Total variable rate				\$ 17,805,400

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 assigns 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. The Company maintains an internal loan review function as well as utilizes a third-party loan review provider to independently review a significant portion of the loan portfolio to evaluate the appropriateness of 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 and the Office of the Comptroller of the Currency ("OCC"), and are also reviewed by our internal audit staff.

The Company's Problem Loan Reporting system 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 and, as a result, no longer share similar risk characteristics as its related pool. If that is the case, the individual loan is considered collateral dependent and individually assessed for an allowance for credit loss. The Company's individual assessment utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company's Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.

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

determines that a loan amount or portion thereof is uncollectible, the loan's credit risk rating is immediately downgraded to an 8 or 9 and the uncollectible amount is charged-off. Any loan that has a partial charge-off continues to be assigned a credit risk rating of an 8 or 9 for the duration of time that a balance remains outstanding. The Company undertakes a thorough and ongoing analysis to determine if additional impairment and/or charge-offs are appropriate and to begin a workout plan for the credit to minimize actual losses. In determining the appropriate charge-off for collateral-dependent loans, the Company considers the results of appraisals for the associated collateral.

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 are individually assessed at the time of the modification and on a quarterly basis to measure an allowance for credit loss. The carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral. Any shortfall is recorded as a 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 individually assessed for measuring the allowance for credit losses and if necessary, a 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

The following table sets forth the Company's non-performing assets and TDRs performing under the contractual terms of the loan agreement as of the dates shown. Prior to January 1, 2020, PCI loans were aggregated into pools by common risk characteristics for accounting purposes, including recognition of interest income on a pool basis. As a result of the implementation of CECL, beginning in the first quarter of 2020, PCI loans transitioned to a classification of PCD loans, which no longer maintains the prior pools and related accounting concepts. Recognition of interest income on PCD loans is considered at the individual asset level following the Company's accrual policies, instead of based upon the entire pool of loans. Due to the first quarter of 2020 adoption of CECL, the Company included \$28.1 million and \$30.3 million in PCD loans in total non-performing loans as of September 30, 2020 and June 30, 2020, respectively.

(Dollars in thousands)	September 30, 2020	June 30, 2020	December 31, 2019	September 30, 2019
Loans past due greater than 90 days and still accruing ⁽¹⁾:				
Commercial	\$ —	\$ 1,374	\$ —	\$ —
Commercial real estate	—	—	—	—
Home equity	—	—	—	—
Residential real estate	—	—	—	—
Premium finance receivables—commercial	12,177	35,638	11,517	10,612
Premium finance receivables—life insurance	—	—	—	—
Consumer and other	175	156	163	53
Total loans past due greater than 90 days and still accruing	12,352	37,168	11,680	10,665
Non-accrual loans ⁽²⁾:				
Commercial	42,036	42,882	37,224	43,931
Commercial real estate	68,815	64,557	26,113	21,557
Home equity	6,329	7,261	7,363	7,920
Residential real estate	22,069	19,529	13,797	13,447
Premium finance receivables—commercial	21,080	16,445	20,590	15,950
Premium finance receivables—life insurance	—	15	590	590
Consumer and other	422	427	231	224
Total non-accrual loans	160,751	151,116	105,908	103,619
Total non-performing loans ⁽³⁾:				
Commercial	42,036	44,256	37,224	43,931
Commercial real estate	68,815	64,557	26,113	21,557
Home equity	6,329	7,261	7,363	7,920
Residential real estate	22,069	19,529	13,797	13,447
Premium finance receivables—commercial	33,257	52,083	32,107	26,562
Premium finance receivables—life insurance	—	15	590	590
Consumer and other	597	583	394	277
Total non-performing loans	\$ 173,103	\$ 188,284	\$ 117,588	\$ 114,284
Other real estate owned	2,891	2,409	5,208	8,584
Other real estate owned—from acquisitions	6,326	7,788	9,963	8,898
Other repossessed assets	—	—	4	257
Total non-performing assets	\$ 182,320	\$ 198,481	\$ 132,763	\$ 132,023
Accruing TDRs not included within non-performing assets	\$ 46,410	\$ 48,609	\$ 36,725	\$ 45,178
Total non-performing loans by category as a percent of its own respective category's period-end balance:				
Commercial	0.34%	0.37%	0.45%	0.54%
Commercial real estate	0.82	0.79	0.33	0.29
Home equity	1.42	1.56	1.44	1.55
Residential real estate	1.59	1.37	1.02	1.10
Premium finance receivables—commercial	0.82	1.30	0.93	0.77
Premium finance receivables—life insurance	—	0.00	0.01	0.01
Consumer and other	1.08	1.21	0.36	0.31
Total non-performing loans	0.54%	0.60%	0.44%	0.44%
Total non-performing assets, as a percentage of total assets				
	0.42%	0.46%	0.36%	0.38%
Allowance for loan losses as a percentage of total non-performing loans				
	188.30%	166.51%	133.37%	141.54%

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

(2) Non-accrual loans included TDRs totaling \$ 32.1 million, \$34.9 million, \$27.1 million and \$21.1 million as of September 30, 2020, June 30, 2020, December 31, 2019 and September 30, 2019, respectively.

(3) Includes PCD loans. As a result of the adoption of ASU 2016-13, the Company transitioned all previously classified PCI loans to PCD loans effective January 1, 2020.

State emergency orders and pandemic delays on processing of return premiums, which serve as our collateral, contributed to the increase in 90 day past due premium finance receivables as of June 30, 2020. As many state emergency orders expired in the third quarter of 2020, many of the non-performing premium finance receivables were modified and returned to current as of September 30, 2020. Management is pursuing the resolution of all credits in this category. At this time, management believes reserves are appropriate to absorb losses that are expected upon the ultimate resolution of these credits. While the ultimate effect of the COVID-19 pandemic on non-performing assets remains unknown, significant increases may occur in subsequent periods. Management will continue to actively review and monitor its loan portfolios, in an effort to identify problem credits in a timely manner. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation -Overview section of this report for additional discussion of the impact of the COVID-19 pandemic.

Loan Portfolio Aging

The tables below show the aging of the Company's loan portfolio at September 30, 2020 and June 30, 2020:

As of September 30, 2020 (Dollars in thousands)		Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances: ⁽¹⁾							
Commercial							
Commercial, industrial and other, excluding PPP loans	\$	42,036	\$ —	\$ 2,168	\$ 48,271	\$ 8,805,511	\$ 8,897,986
Commercial PPP loans		—	—	—	—	3,379,013	3,379,013
Commercial real estate							
Construction and development		10,980	—	—	12,150	1,310,019	1,333,149
Non-construction		57,835	—	8,299	41,312	6,982,547	7,089,993
Home equity		6,329	—	70	1,148	438,727	446,274
Residential real estate		22,069	—	814	2,443	1,359,484	1,384,810
Premium finance receivables							
Commercial insurance loans		21,080	12,177	7,495	18,839	4,000,553	4,060,144
Life insurance loans		—	—	30,791	61,893	5,396,148	5,488,832
Consumer and other		422	175	273	493	53,991	55,354
Total loans, net of unearned income	\$	160,751	\$ 12,352	\$ 49,910	\$ 186,549	\$ 31,725,993	\$ 32,135,555
As of June 30, 2020 (Dollars in thousands)		Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances: ⁽¹⁾							
Commercial							
Commercial, industrial and other, excluding PPP loans	\$	42,882	\$ 1,374	\$ 8,952	\$ 23,720	\$ 8,446,936	\$ 8,523,864
Commercial PPP loans		—	—	—	—	3,335,368	3,335,368
Commercial real estate							
Construction and development		9,829	—	1,944	17,313	1,310,962	1,340,048
Non-construction		54,728	—	24,536	58,215	6,723,218	6,860,697
Home equity		7,261	—	—	1,296	458,039	466,596
Residential real estate		19,529	—	1,506	4,400	1,401,994	1,427,429
Premium finance receivables							
Commercial insurance loans		16,445	35,638	35,967	46,556	3,865,168	3,999,774
Life insurance loans		15	—	6,386	14,604	5,379,797	5,400,802
Consumer and other		427	156	4	281	47,457	48,325
Total loans, net of unearned income	\$	151,116	\$ 37,168	\$ 79,295	\$ 166,385	\$ 30,968,939	\$ 31,402,903

(1) Includes PCD loans and, for periods prior to the adoption of ASU 2016-13, purchased credit impaired ("PCI") loans. PCI loans represented loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings disclosed in comparative periods are based upon contractually required payments. As a result of the adoption of ASU 2016-13, the Company transitioned all previously classified PCI loans to PCD loans effective January 1, 2020.

As of September 30, 2020, \$49.9 million of all loans, or 0.2%, were 60 to 89 days (or two payments) past due and \$186.5 million of all loans or 0.6%, were 30 to 59 days (or one payment) past due. As of June 30, 2020, \$79.3 million of all loans or 0.3%, were 60 to 89 days (or two payments) past due and \$166.4 million, or 0.5%, 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, 2020 that were current with regard to the contractual terms of the loan agreement represent 98.3% of the total home

equity portfolio. Residential real estate loans at September 30, 2020 that were current with regards to the contractual terms of the loan agreements comprise 98.2% of total residential real estate loans outstanding.

Non-performing Loans Rollforward

The table below presents a summary of non-performing loans for the periods presented:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
Balance at beginning of period	\$ 188,284	\$ 113,447	\$ 117,588	\$ 113,234
Additions from becoming non-performing in the respective period	19,771	20,781	72,769	65,378
Additions from the adoption of ASU 2016-13	—	—	37,285	—
Return to performing status	(6,202)	(407)	(9,254)	(14,531)
Payments received	(3,733)	(16,326)	(22,883)	(25,788)
Transfer to OREO and other repossessed assets	(598)	(1,493)	(1,895)	(3,061)
Charge-offs	(6,583)	(6,984)	(22,018)	(27,793)
Net change for niche loans ⁽¹⁾	(17,836)	5,266	1,511	6,845
Balance at end of period	\$ 173,103	\$ 114,284	\$ 173,103	\$ 114,284

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

Prior to January 1, 2020, PCI loans were excluded from non-performing loans as they continued to earn interest income from the related accretable yield, independent of performance with contractual terms of the loan. As a result of the adoption of ASU 2016-13 effective January 1, 2020, the Company transitioned all previously classified PCI loans to PCD loans, which no longer maintain the prior pools and related accounting concepts. Specifically, recognition of interest income on PCD loans is considered at the individual asset level following the Company's accrual policies, instead of based upon the entire pool of loans. As such, after adoption, the Company includes PCD loans in total non-performing loans.

Allowance for Credit Losses

The allowance for credit losses, specifically the allowance for loans losses and the allowance for unfunded commitment losses, represents management's estimate of lifetime expected credit losses in the loan portfolio. The allowance for credit 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, and the OCC.

Management determined that the allowance for credit losses was appropriate at September 30, 2020, 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, when considered applicable. 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 and overall levels of net charge-off. Historical trending of both the Company's results and the industry peers is also reviewed to analyze comparative significance.

Allowance for Credit Losses

The following table summarizes the activity in our allowance for credit losses, specifically related to loans and unfunded lending-related commitments, during the periods indicated.

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
(Dollars in thousands)				
Allowance for credit losses at beginning of period	\$ 373,109	\$ 161,901	\$ 158,461	\$ 154,164
Cumulative effect adjustment from the adoption of ASU 2016-13	—	—	47,344	—
Provision for credit losses	25,028	10,834	213,051	46,038
Other adjustments	55	(13)	24	(51)
Charge-offs:				
Commercial	5,270	6,775	13,109	24,658
Commercial real estate	1,529	809	9,323	4,869
Home equity	138	1,594	1,378	2,372
Residential real estate	83	25	777	315
Premium finance receivables	4,640	1,866	11,258	9,085
Consumer and other	103	117	330	355
Total charge-offs	11,763	11,186	36,175	41,654
Recoveries:				
Commercial	428	367	924	974
Commercial real estate	175	385	931	1,112
Home equity	111	183	451	313
Residential real estate	25	203	115	372
Premium finance receivables	1,720	563	3,663	1,853
Consumer and other	20	36	119	152
Total recoveries	2,479	1,737	6,203	4,776
Net charge-offs	(9,284)	(9,449)	(29,972)	(36,878)
Allowance for credit losses at period end	\$ 388,908	\$ 163,273	\$ 388,908	\$ 163,273
Annualized net charge-offs by category as a percentage of its own respective category's average:				
Commercial	0.16%	0.31 %	0.15%	0.39 %
Commercial real estate	0.06	0.02	0.14	0.07
Home equity	0.02	1.08	0.26	0.52
Residential real estate	0.02	(0.07)	0.07	(0.01)
Premium finance receivables	0.12	0.15	0.11	0.12
Consumer and other	0.49	0.27	0.41	0.24
Total loans, net of unearned income	0.12%	0.15 %	0.14%	0.20 %
Net charge-offs as a percentage of the provision for credit losses	37.10%	87.22 %	14.07%	80.10 %
Loans at period-end	\$ 32,135,555	\$ 25,710,171		
Allowance for loan losses as a percentage of loans at period end	1.01%	0.63 %		
Allowance for loan and unfunded loan-related commitment losses as a percentage of loans at period end	1.21	0.64		
Allowance for loan and unfunded loan-related commitment losses as a percentage of loans at period end, excluding PPP loans	1.35	0.64		

The allowance for credit losses, as related to loans and lending-related commitments, is comprised of an allowance for loan losses, which is determined with respect to loans that we have originated, and an allowance for unfunded commitment losses. A separate allowance for held-to-maturity securities losses is measured related to such debt securities portfolio. Our allowance for unfunded commitment losses 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 \$62.9 million and \$1.5 million as of September 30, 2020 and September 30, 2019, respectively.

Additions to the allowance for credit 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 credit losses, and recoveries represent the amount of collections received from loans that had previously been charged off, and are credited to the allowance for credit 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 credit losses during the period and the relationship with respective loan balances for each loan category and the total loan portfolio.

How We Determine the Allowance for Credit Losses

The allowance for credit losses is measured on a collective or pooled basis by loans that share similar risk characteristics. If the loan no longer exhibits risk characteristics similar to that of a pool, typically due to credit deterioration of the related borrower, the Company analyzes the loan for purposes of individually assessing a specific allowance for credit loss as part of the Problem Loan Reporting system review. A separate reserve is collectively measured for loans continuing to share risk characteristics and, as a result, remaining in the pools. See Note 7 of the Consolidated Financial Statements presented under Item 1 of this report for further discussion of the allowance for credit losses measurement process.

Collective Measurement

The allowance for credit losses is measured on a collective or pooled basis when similar risk characteristics exist, based upon the segmentation discussed above. The Company utilizes modeling methodologies that estimate lifetime credit loss rates on each pool, including methodologies estimating the probability of default and loss given default on specific segments. Historical credit loss history is adjusted for reasonable and supportable forecasts developed by the Company on a quantitative or qualitative basis. Reasonable and supportable forecasts consider the macroeconomic factors that are most relevant to evaluating and predicting expected credit losses in the Company's financial assets. Currently, the Company utilizes an eight quarter forecast period using a single macroeconomic scenario provided by a third-party and reviewed within the Company's governance structure. For periods beyond the ability to develop reasonable and supportable forecasts, the Company reverts to historical loss rates at an input level, straight-line over a four quarter reversion period. Expected credit losses are measured over the contractual term of the financial asset with consideration of expected prepayments. Expected extensions, renewals or modifications of the financial asset are only considered when either 1) the expected extension, renewal or modification is contained within the existing agreement and is not unconditionally cancelable, or 2) the expected extension, renewal or modification is reasonably expected to result in a TDR. The methodologies discussed above are applied to both current asset balances on the Company's Consolidated Statements of Condition and off-balance sheet commitments (i.e. unfunded lending-related commitments).

Individual Assessment

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. In cases in which collectability is not probable, the loan is considered to no longer exhibit shared risk characteristics of a pool and as a result, is individually assessed for allowance for credit losses measurement purposes. If a loan is individually assessed, the carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for foreclosure-probable and collateral dependent loans, to the fair value of the collateral less the estimated cost to sell, when appropriate under accounting rules. Any shortfall is recorded as a specific reserve within the allowance for credit losses.

Home Equity, Residential Real Estate and Consumer Loans

The determination of the appropriate allowance for credit losses for home equity, residential real estate and consumer loans differs from the process used for commercial and commercial real estate loans. These portfolios utilize the weighted-average remaining maturity ("WARM") methodology. The WARM methodology is an assumption-based approach that utilizes historical loss and prepayment information as the basis to estimate prepayment and credit adjusted contractual cash flows. The Company considers a qualitative factor to adjust historical information for current conditions and reasonable and supportable forecasts. The same credit risk rating system and Problem Loan Reporting systems 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 credit losses for premium finance receivables is an assumption-based approach focusing on historical loss rates in the portfolio, adjusted qualitatively for current macroeconomic conditions and reasonable and supportable forecasts.

Methodology in Assessing Impairment and Charge-off Amounts

In determining the amount of reserves 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, if appropriate, 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 or other credit enhancements, and the ability of the borrower to provide value related to those guarantees in determining the ultimate charge-off or reserve associated with any individually assessed 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 or other credit enhancements 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 credit 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, when appropriate under current accounting rules, 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 alternative 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, 2020, the Company had \$78.5 million in loans modified in TDRs. The \$78.5 million in TDRs represents 291 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability to pay. The balance decreased from \$83.5 million representing 278 credits at June 30, 2020 and increased from \$66.3 million representing 230 credits at September 30, 2019.

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.

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 individually assessed when measuring the allowance for credit losses at September 30, 2020 and approximately \$2.8 million was appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for credit losses. Additionally, at September 30, 2020, the Company was committed to lend an additional \$1.1 million of funds to borrowers under the contractual terms of TDRs.

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

(In thousands)	September 30, 2020	June 30, 2020	September 30, 2019
Accruing TDRs:			
Commercial	\$ 7,863	\$ 5,338	\$ 14,099
Commercial real estate	10,846	19,106	10,370
Residential real estate and other	27,701	24,165	20,709
Total accruing TDRs	<u>\$ 46,410</u>	<u>\$ 48,609</u>	<u>\$ 45,178</u>
Non-accrual TDRs: ⁽¹⁾			
Commercial	\$ 13,132	\$ 20,788	\$ 7,451
Commercial real estate	13,601	8,545	7,673
Residential real estate and other	5,392	5,606	6,006
Total non-accrual TDRs	<u>\$ 32,125</u>	<u>\$ 34,939</u>	<u>\$ 21,130</u>
Total TDRs:			
Commercial	\$ 20,995	\$ 26,126	\$ 21,550
Commercial real estate	24,447	27,651	18,043
Residential real estate and other	33,093	29,771	26,715
Total TDRs	<u>\$ 78,535</u>	<u>\$ 83,548</u>	<u>\$ 66,308</u>

(1) Included in total non-performing loans.

TDR Rollforward

The tables below present a summary of TDRs as of September 30, 2020 and September 30, 2019, and show the change in the balance during those periods:

Three Months Ended September 30, 2020 (In thousands)

	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	\$ 26,126	\$ 27,651	\$ 29,771	\$ 83,548
Additions during the period	1,013	1,045	5,538	7,596
Reductions:				
Charge-offs	(4,808)	(1,439)	(33)	(6,280)
Transferred to OREO and other repossessed assets	—	—	—	—
Removal of TDR loan status ⁽¹⁾	—	—	(866)	(866)
Payments received	(1,336)	(2,810)	(1,317)	(5,463)
Balance at period end	\$ 20,995	\$ 24,447	\$ 33,093	\$ 78,535

Three Months Ended September 30, 2019 (In thousands)

	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	\$ 37,773	\$ 15,500	\$ 22,728	\$ 76,001
Additions during the period	3,526	5,192	4,878	13,596
Reductions:				
Charge-offs	(3,983)	(215)	(35)	(4,233)
Transferred to OREO and other repossessed assets	—	—	—	—
Removal of TDR loan status ⁽¹⁾	—	(856)	—	(856)
Payments received	(15,766)	(1,578)	(856)	(18,200)
Balance at period end	\$ 21,550	\$ 18,043	\$ 26,715	\$ 66,308

Nine Months Ended September 30, 2020 (In thousands)

	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	\$ 18,739	\$ 16,873	\$ 28,224	\$ 63,836
Additions during the period	10,046	19,180	11,184	40,410
Reductions:				
Charge-offs	(4,808)	(7,508)	(419)	(12,735)
Transferred to OREO and other repossessed assets	—	—	(945)	(945)
Removal of TDR loan status ⁽¹⁾	—	—	(866)	(866)
Payments received	(2,982)	(4,098)	(4,085)	(11,165)
Balance at period end	\$ 20,995	\$ 24,447	\$ 33,093	\$ 78,535

Nine Months Ended September 30, 2019 (In thousands)

	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	\$ 36,319	\$ 15,447	\$ 14,336	\$ 66,102
Additions during the period	24,910	6,768	15,126	46,804
Reductions:				
Charge-offs	(19,590)	(342)	93	(19,839)
Transferred to OREO and other repossessed assets	—	—	—	—
Removal of TDR loan status ⁽¹⁾	—	(856)	—	(856)
Payments received	(20,089)	(2,974)	(2,840)	(25,903)
Balance at period end	\$ 21,550	\$ 18,043	\$ 26,715	\$ 66,308

(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.

On March 22, 2020, interagency guidance was issued titled "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" that encourages financial institutions to work

prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effect of COVID-19. Additionally, Section 4013 of the CARES Act further provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act (50 U.S.C 1601 et seq.) terminates. Accordingly, we are offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These include short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are generally insignificant. Modifications qualifying for the exemption from TDR classification totaled approximately \$406.1 million as of September 30, 2020 compared to \$1.7 billion as of June 30, 2020.

The table below presents a summary of all COVID-19 related modified loans, including those not qualifying for the exemption under Section 4013, as of September 30, 2020, presented by loan category and type of modification:

<u>(in thousands)</u>	<u>Interest-only</u>	<u>Full Payment Deferral</u>	<u>Line Increases</u>	<u>Other</u>	<u>Total</u>
Commercial	\$ 133,005	\$ 36,884	\$ 29,136	\$ 25,113	\$ 224,138
Commercial real estate	89,215	50,516	—	18,690	158,421
Home equity	906	654	—	36	1,596
Residential real estate	—	7,618	—	—	7,618
Premium finance receivables	—	21,507	—	—	21,507
Consumer and other	—	17	136	11	164
Total loans, net of unearned income	<u>\$ 223,126</u>	<u>\$ 117,196</u>	<u>\$ 29,272</u>	<u>\$ 43,850</u>	<u>\$ 413,444</u>

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 and shows the activity for the respective periods and the balance for each property type:

<u>(In thousands)</u>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2020</u>	<u>September 30, 2019</u>	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Balance at beginning of period	\$ 10,197	\$ 19,837	\$ 15,171	\$ 24,820
Disposal/resolved	(1,532)	(4,501)	(6,937)	(9,656)
Transfers in at fair value, less costs to sell	777	3,008	1,731	4,786
Fair value adjustments	(225)	(862)	(748)	(2,468)
Balance at end of period	<u>\$ 9,217</u>	<u>\$ 17,482</u>	<u>\$ 9,217</u>	<u>\$ 17,482</u>

<u>(In thousands)</u>	<u>Period End</u>		
	<u>September 30, 2020</u>	<u>June 30, 2020</u>	<u>September 30, 2019</u>
Residential real estate	\$ 1,839	\$ 1,382	\$ 1,250
Residential real estate development	—	—	1,282
Commercial real estate	7,378	8,815	14,950
Total	<u>\$ 9,217</u>	<u>\$ 10,197</u>	<u>\$ 17,482</u>

Deposits

Total deposits at September 30, 2020 were \$35.8 billion, an increase of \$7.1 billion, or 25%, compared to total deposits at September 30, 2019. 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, 2020:

Time Certificates of Deposit Maturity/Re-pricing Analysis As of September 30, 2020		Total Time Certificates of Deposits	Weighted-Average Rate of Maturing Time Certificates of Deposit ⁽¹⁾
(Dollars in thousands)			
1-3 months	\$	671,229	1.37%
4-6 months		859,769	1.82
7-9 months		1,282,241	1.88
10-12 months		908,894	1.62
13-18 months		888,169	1.30
19-24 months		224,400	1.06
24+ months		231,593	1.24
Total	\$	5,066,295	1.59%

(1) 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:

(Dollars in thousands)	Three Months Ended					
	September 30, 2020		June 30, 2020		September 30, 2019	
	Balance	Percent	Balance	Percent	Balance	Percent
Non-interest bearing	\$ 9,988,769	28%	\$ 9,607,528	27%	\$ 6,776,786	24%
NOW and interest-bearing demand deposits	3,435,089	10	3,323,124	10	2,912,961	11
Wealth management deposits	4,329,300	12	4,380,996	13	2,888,817	10
Money market	9,332,668	26	8,727,966	25	6,956,755	25
Savings	3,419,586	10	3,394,480	10	2,837,039	10
Time certificates of deposit	4,900,839	14	5,104,701	15	5,590,228	20
Total average deposits	\$ 35,406,251	100%	\$ 34,538,795	100%	\$ 27,962,586	100%

Total average deposits for the third quarter of 2020 were \$35.4 billion, an increase of \$7.4 billion, or 27%, from the third quarter of 2019. The increase in average deposits is primarily attributable to the various acquisitions and branch openings along with additional deposits related to PPP lending and organic growth of retail deposits.

Wealth management deposits are funds from the brokerage customers of Wintrust Investments, CDEC, 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.

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:

(Dollars in thousands)	September 30,		December 31,		
	2020	2019	2019	2018	2017
Total deposits	\$ 35,844,422	\$ 28,710,379	\$ 30,107,138	\$ 26,094,678	\$ 23,183,347
Brokered deposits	2,293,328	1,212,335	1,011,404	1,071,562	1,445,306
Brokered deposits as a percentage of total deposits	6.4%	4.2%	3.4%	4.1%	6.2%

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:

(In thousands)	Three Months Ended		
	September 30, 2020	June 30, 2020	September 30, 2019
FHLB advances	\$ 1,228,421	\$ 1,214,375	\$ 574,833
Other borrowings:			
Notes payable	112,345	141,316	133,720
Short-term borrowings	7,784	9,881	9,969
Secured borrowings	326,964	276,030	225,730
Other	65,694	66,123	46,881
Total other borrowings	\$ 512,787	\$ 493,350	\$ 416,300
Subordinated notes	436,323	436,226	436,041
Junior subordinated debentures	253,566	253,566	253,566
Total other funding sources	\$ 2,431,097	\$ 2,397,517	\$ 1,680,740

FHLB advances provide the banks with access to fixed rate funds that 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 \$1.2 billion at September 30, 2020, compared to \$1.2 billion at June 30, 2020 and \$574.8 million at September 30, 2019.

Notes payable balances as of September 30, 2020 and December 31, 2019 represent the balances on our \$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, 2020 and December 31, 2019, the Company had a balance under the term facility of \$107.1 million and \$123.1 million, respectively. 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, 2020, the Company had no outstanding balance under the Revolving Credit Facility.

Short-term borrowings include securities sold under repurchase agreements and federal funds purchased. These borrowings totaled \$8.0 million at September 30, 2020 compared to \$8.5 million at June 30, 2020 and \$9.7 million at September 30, 2019. 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. The Receivables Purchase Agreement was again amended in February 2019, effectively extending the maturity date from December 16, 2019 to December 15, 2020. Additionally, in February 2019, the unrelated third party paid an additional C\$20 million, which increased the total payments to C\$210 million. In May 2019, the unrelated third party paid an additional C\$70 million, which increased the total payments to C\$280 million. In January 2020, the unrelated third party paid an additional C\$40 million, which increased the total payments to C\$320 million, and the Receivables Purchase Agreement was amended to effectively extend the maturity date from December 15, 2020 to December 15, 2021. In May 2020, the unrelated third party paid an additional C\$100 million, which increased the total payments to C\$420 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 \$315.1 million at September 30, 2020 compared to \$309.1 million at June 30, 2020 and \$211.4 million at September 30, 2019. At September 30, 2020, the interest rate of the Canadian Secured Borrowing was 1.2647%. The remaining balance within secured borrowings at September 30, 2020 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, 2020 include a fixed-rate promissory note issued by the Company in June 2017 ("Fixed-Rate Promissory Note") related to and secured by three office buildings owned by the Company. At September 30, 2020, the Fixed-Rate Promissory Note had a balance of \$65.5 million compared to \$66.0 million at June 30, 2020 and \$46.8 million at September 30, 2019. Under the Fixed-Rate Promissory Note, the Company makes monthly principal payments and pays interest at a fixed rate until maturity. An amendment to the Fixed-Rate Promissory Note was executed on and effective as of March 31, 2020. The amendment increased the principal amount to \$66.4 million, reduced the interest rate to 3.00% and extended the maturity date to March 31, 2025.

At September 30, 2020, the Company had outstanding subordinated notes totaling \$436.4 million compared to \$436.3 million and \$436.0 million outstanding at June 30, 2020 and September 30, 2019, respectively. During the second quarter of 2019, the Company issued \$300.0 million of subordinated notes, receiving \$296.7 million in net proceeds. The notes have a stated interest rate of 4.85% and mature in June 2029. In 2014, the Company issued \$140.0 million of subordinated notes receiving \$139.1 million in net proceeds. These notes have a stated interest rate of 5.00% and mature in June 2024. Subordinated notes are stated at par adjusted for unamortized costs paid related to the different issuances of such debt.

The Company had \$253.6 million of junior subordinated debentures outstanding as of September 30, 2020, June 30, 2020 and September 30, 2019. The amounts reflected on the balance sheet represent the junior subordinated debentures issued to 11 trusts by the Company and equal the amount of the preferred and common securities issued by the trusts. At September 30, 2020, the Company included \$245.5 million of the junior subordinated debentures, net of common securities, in Tier 2 regulatory capital.

In response to the COVID-19 pandemic, the Company will continue to manage funding sources discussed above, including the utilization of availability with the FHLB and FRB and the Revolving Credit Facility with unaffiliated banks, to access needed liquidity in a timely manner. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation - Overview and - Liquidity sections of this report for additional discussion of the impact of the COVID-19 pandemic.

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.

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, 2020	June 30, 2020	September 30, 2019
Tier 1 leverage ratio	8.2%	8.1%	8.8%
<u>Risk-based capital ratios:</u>			
Tier 1 capital ratio	10.2	10.1	9.7
Common equity tier 1 capital ratio	9.0	8.8	9.3
Total capital ratio	12.9	12.8	12.4
<u>Other ratio:</u>			
Total average equity-to-total average assets ⁽¹⁾	9.4	9.3	10.3

(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

In February 2019, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC issued a final rule to address the changes to the measurement of the allowance for credit losses, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the adverse effects on regulatory capital that may result from the adoption of the new accounting standard as of its date of adoption, or January 1, 2020. In March 2020, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC published an interim final rule to delay the estimated impact on regulatory capital stemming from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Company is adopting the capital transition relief over the permissible five-year period.

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 and Series E 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 2020, the Company declared a quarterly cash dividend of \$0.28 per common share. In January, April, July and October of 2019, the Company declared a quarterly cash dividend of \$0.25 per common share.

In response to the COVID-19 pandemic, the Company continues to leverage its capital management framework to assess and monitor risk when making capital decisions. The Company will continuously evaluate the adequacy of capital as a result of the uncertainty from the COVID-19 pandemic. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation - Overview section of this report for additional discussion of the impact of the COVID-19 pandemic.

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 Preferred Stock in June 2015 and Series E Preferred Stock and associated Depositary Shares in May 2020. The Company hereby incorporates by reference Note 18 of the Consolidated Financial Statements presented under Item 1 of this report in its entirety.

LIQUIDITY

The Company 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 management process includes the utilization of stress testing processes and other aspects of the Company's liquidity management framework to assess and monitor risk, and inform decision making. The liquidity to meet the demands of customers 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 and equity securities with readily determinable fair values which are not pledged to secure public funds. In addition, trade date receivables represent certain sales or calls of available-for-sale securities that await cash settlement, typically in the month following the trade date.

In accordance with the liquidity management noted above, deposit growth and increases in borrowings from various sources have resulted in accumulating liquidity assets in recent periods. In the first quarter of 2020, we increased our liquid assets to ensure that we have the balance sheet strength to serve our clients through the COVID-19 pandemic. As a result, the Company believes that it has sufficient funds and access to funds to effectively manage through the COVID-19 pandemic as well as meet its working capital and other needs. The Company will continue to prudently evaluate and expand liquidity sources, including the management of availability with the FHLB and FRB and utilization of the revolving credit facility with unaffiliated banks. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation -Interest-Earning Assets, -Deposits, -Other Funding Sources and -Shareholders' Equity sections of this report for additional information regarding the Company's liquidity position. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation -Overview section of this report for additional discussion of the impact of the COVID-19 pandemic.

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.

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 information are not historical facts, are premised on many factors and assumptions, and represent only management's expectations, estimates and projections regarding future events. Similarly, these statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, such as the impacts of the COVID-19 pandemic, and which may include, but are not limited to, those listed below and the Risk Factors discussed under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and in Part II, Item 1A, of this Form 10-Q, 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:

- the severity, magnitude and duration of the COVID-19 pandemic and the direct and indirect impact of such pandemic, as well as responses to the pandemic by the government, businesses and consumers, on our operations and personnel, commercial activity and demand across our business and our customers' businesses;
- the disruption of global, national, state and local economies associated with the COVID-19 pandemic, which could affect the Company's liquidity and capital positions, impair the ability of our borrowers to repay outstanding loans, impair collateral values and further increase our allowance for credit losses;

- the impact of the COVID-19 pandemic on our financial results, including possible lost revenue and increased expenses (including the cost of capital), as well as possible goodwill impairment charges;
- 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;
- negative effects suffered by us or our customers resulting from changes in U.S. trade policies;
- 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 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 (including developments and volatility arising from or related to the COVID-19 pandemic) that may affect, among other things, the Company's liquidity and the value of its assets and liabilities;
- a prolonged period of near zero interest rates and potentially negative interest rates, either broadly or for some types of instruments, which may affect the Company's net interest income and net interest margin, and which could materially adversely affect the Company's profitability;
- 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;
- 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 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 related changes to address the impact of COVID-19, and the impact on the Company's financial statements;
- the ability of the Company to receive dividends from its subsidiaries;
- uncertainty about the discontinued use of LIBOR and transition to an alternative rate;
- 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, including those changes that are in response to the COVID-19 pandemic, including without limitation the CARES Act and the rules and regulations that may be promulgated thereunder;
- a lowering of our credit rating;

- changes in U.S. monetary policy and changes to the Federal Reserve's balance sheet, including changes in response to the COVID-19 pandemic or otherwise;
- regulatory restrictions upon our ability to market our products to consumers and limitations on our ability to profitably operate our mortgage business;
- 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 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.

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 maximizing 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, 2020, June 30, 2020 and September 30, 2019 is as follows:

	+200 Basis Points	+100 Basis Points	-100 Basis Points
<u>Static Shock Scenarios</u>			
September 30, 2020	23.4%	10.9%	(8.1)%
June 30, 2020	25.9	12.6	(8.3)
September 30, 2019	20.7	10.5	(11.9)
	+200 Basis Points	+100 Basis Points	-100 Basis Points
<u>Ramp Scenarios</u>			
September 30, 2020	10.7%	5.2%	(3.5)%
June 30, 2020	13.0	6.7	(3.2)
September 30, 2019	10.1	5.2	(5.6)

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.

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 2020 and 2019, 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 further 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, 2020 and 2019.

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.

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.

Lehman Holdings Matter

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 an adverse ruling by the federal Court of Appeals for the Tenth Circuit concerning the applicable statute of limitations on certain Lehman Holdings 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. On March 16, 2016, Wintrust Mortgage participated in the court-ordered mediation, but the mediation did not result in a consensual resolution of the dispute. 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 appealed the denial of its motion to dismiss based on improper venue and the denial of 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 granted this request and allowed Lehman Holdings to assert the additional claims against existing defendants as a supplemental complaint. Lehman Holdings filed its supplemental complaint against Wintrust Mortgage on December 4, 2018. Wintrust Mortgage filed its response to the supplemental complaint on May 13, 2019. On October 5, 2020, Wintrust Mortgage and Lehman Holdings executed a settlement agreement to resolve the dispute for an amount that is immaterial to the company’s results of operations or financial condition. On October 15, 2020, the court entered an order dismissing the entire suit against Wintrust Mortgage with prejudice.

Wintrust Mortgage Matter

On October 17, 2018, a former Wintrust Mortgage employee filed a lawsuit in the Superior Court of Los Angeles County, California against Wintrust Mortgage alleging violation of California wage payment statutes on behalf of herself and all other hourly, non-exempt employees of Wintrust Mortgage in California. Wintrust Mortgage received service of the complaint on November 4, 2018. Wintrust Mortgage filed its response to the complaint on February 25, 2019. On November 1, 2019, the plaintiff’s counsel filed a letter with the California Department of Labor advising that it was initiating an action under California’s Private Attorney General Act statute based on the same alleged violations. In November 2019, the parties reached a settlement agreement. The parties executed a settlement agreement and on February 26, 2020, plaintiff moved the court for approval. A hearing on the motion to approve settlement was originally set for June 16, 2020, but the court continued the motion to September 8, 2020. On September 8, 2020, the court requested the parties make certain changes to the settlement agreement that were immaterial the parties’ settlement terms. The parties have revised the settlement agreement consistent with the court’s recommendations and have submitted the revised settlement agreement to the court for its approval. The court has set a hearing date for approval of the settlement to January 27, 2021. The Company has reserved an amount for this proposed settlement that is immaterial to its results of operations or financial condition.

Northbrook Bank Matter

On October 17, 2018, two individual plaintiffs filed suit in the Circuit Court of Cook County, Illinois against Northbrook Bank and Tamer Moumen on behalf of themselves and a class of approximately 42 investors in a hedge fund run by defendant Moumen. Plaintiffs allege that defendant Moumen ran a fraudulent Ponzi scheme and ran those funds through deposit accounts at Northbrook Bank. They allege the bank was negligent in failing to close the deposit accounts and that it intentionally aided and abetted defendant Moumen in the alleged fraud. They contend that Northbrook Bank is liable for losses in excess of \$6 million. Northbrook Bank filed its motion to dismiss the complaint on January 15, 2019, which the court granted on March 5, 2019. On April 3, 2019, Plaintiffs filed an amended complaint based on similar allegations. Northbrook Bank did not believe the amended complaint cured the pleading defects recognized by the court and filed a motion to dismiss the Amended Complaint on May 17, 2019. The court heard this motion on July 17, 2019 and once again dismissed the complaint without prejudice. Plaintiffs filed a second amended complaint on August 12, 2019. Northbrook again moved to dismiss the complaint. On November 6, 2019, the court dismissed the complaint with prejudice. Plaintiffs filed an appeal on December 2, 2019. This appeal was fully briefed. On September 4, 2020, the Appellate Court for the First District of Illinois remanded the case back to the trial court for lack of appellate jurisdiction because the trial court did not dismiss the suit against defendant Moumen and plaintiffs did not obtain the trial court's consent for immediate appeal of the dismissal order against Northbrook Bank. The claims against Northbrook Bank remain dismissed with prejudice. Northbrook Bank believes plaintiffs' allegations are legally and factually meritless and otherwise lacks sufficient information to estimate the amount of any potential liability.

Wintrust Bank Matter

On April 30, 2020, A.D. Sims LLC on behalf of itself and other similarly situated plaintiffs filed suit in the federal district court for the Northern District of Illinois against Wintrust Financial Corporation, Wintrust Bank, N.A., Bank of America, N.A., Cross River Bank, and an additional 4,971 named and unnamed defendants alleging the defendant financial institutions' failure to pay agent fees on loans issued by them under the federal CARES Act's Payroll Protection Program ("PPP"). Plaintiffs allege the collective damages could exceed \$3.8 billion and have asked the court to require the defendants to establish, on a pro rata basis, a fund which could be used to pay agent fees due. Plaintiffs voluntarily dismissed Wintrust Financial Corporation as a defendant in this suit on June 29, 2020. Plaintiffs' attorneys filed similar actions across the country and moved the federal panel for Multi-District Litigation ("MDL") to consolidate these PPP Agent Fee class actions before a single MDL judge. This motion was heard on July 30, 2020 and on August 5, 2020, the MDL panel denied the plaintiffs' motion. On September 28, 2020, the class defendants filed an omnibus motion to dismiss the lawsuit. Wintrust Bank believes plaintiffs' allegations are legally and factually meritless and otherwise lacks sufficient information to estimate the amount of any potential liability.

Other Matters

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.

Item 1A: Risk Factors

The following constitute 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, 2019.

The COVID-19 pandemic is adversely affecting us and our customers, employees and third-party service providers, and the adverse impact on our business, financial condition, results of operations and cash flows could be material.

The COVID-19 pandemic has negatively impacted us and many of our customers, and could continue to affect significantly more households and businesses in our geographic area as well as the overall domestic and global economy. U.S. federal, state and foreign governments have taken actions to address the pandemic, including travel bans, school and business closures and “shelter in place” orders. Even as restrictions have been lifted, it remains possible that such restrictions may be reinstated. These actions, together with responses to the pandemic by businesses and individuals, have resulted in rapid decreases in commercial and consumer activity, temporary closures of many businesses that have led to loss of revenues and a rapid increase in unemployment, material decreases in business valuations, disruption of global supply chains, market downturns and volatility, changes in consumer behavior and an expectation that Federal Reserve policy will maintain a low interest rate environment for the foreseeable future. These changes may have a significant adverse effect on the markets in which we conduct our business, the demand for our products and services, and our ability to operate in the normal course. All of our three primary business segments: community banking, specialty finance and wealth management, have been uniquely impacted and will likely continue to be impacted by the COVID-19 pandemic, requiring the implementation of certain responses as circumstances evolve.

We have increased our allowance for loan losses in response to the COVID-19 pandemic. The effects of the pandemic could cause us to recognize heightened credit losses in our loan portfolio and additional increases in our allowance for loan losses. Certain portions of our lending portfolio are particularly vulnerable to the COVID-19 pandemic, including commercial and industrial and commercial real estate loans. Until the effects of the pandemic subside, we could experience additional draws on lines of credit, downward pressure on deposits, and increased loan delinquencies. The effects of COVID-19 may impair the value of collateral securing our loans, especially commercial and residential real estate loans. Further, a significantly larger amount of delinquent mortgage loans may result in us having to repurchase or substitute loans that we have sold in the secondary market.

Market interest rates have declined significantly during the pandemic. The lower interest rate environment has negatively affected our interest rate margin and, especially if prolonged, could adversely affect our net interest income and profitability. The sharp deterioration in the U.S. economy has negatively affected the value of our market sensitive investment securities portfolio. Further, the pandemic could cause us to recognize impairment of our goodwill and other financial assets, may increase our cost of capital, may prevent us from satisfying our minimum regulatory capital ratios and other supervisory requirements, and could result in a downgrade in our credit ratings. The economic recession caused by the COVID-19 pandemic, especially if prolonged, may have a material adverse effect on our business, financial condition and results of operations.

To protect the health and safety of our employees and communities, many of our employees are working remotely. We may experience increased costs of operations or other operational difficulties, including increased cybersecurity risk, due to the remote working environments of our employees. We may also experience additional operational risk due to difficulties experienced by our vendors. The effects of the pandemic and measures taken in response may subject us to increased risk of litigation and governmental and regulatory scrutiny.

Given the ongoing and dynamic nature of the circumstances, it is not possible to accurately predict the extent, severity or duration of the pandemic or when normal economic and operating conditions will resume. Even after the pandemic has subsided, we may continue to experience adverse impacts to our business as a result of the virus’s impact on the domestic and global economy. Accordingly, the extent to which the COVID-19 pandemic may affect our business, financial condition, results of operations and cash flows (including without limitation our liquidity, regulatory capital ratios and credit ratings) is highly uncertain, unpredictable and depends on factors including, among other things, new information that may emerge regarding the COVID-19 pandemic, the duration and severity of the pandemic and responses to the pandemic by the government, businesses and consumers.

Material risks relating to our business that are heightened due to the COVID-19 pandemic are listed in Part I, Item 1A, “Risk Factors,” in the Company’s Form 10-K for the fiscal year ended December 31, 2019 under the headings:

- ***Deterioration in economic conditions may materially adversely affect the financial services industry and our business, financial condition, results of operations and cash flows.***
- ***Since our business is concentrated in the Chicago metropolitan and southern Wisconsin market areas, economic declines in the economy of this region could adversely affect our business.***

- *If our allowance for loan losses is not sufficient to absorb losses that may occur in our loan portfolio, our financial condition and liquidity could suffer.*
- *A significant portion of our loan portfolio is comprised of commercial loans, the repayment of which is largely dependent upon the financial success and economic viability of the borrower.*
- *A substantial portion of our loan portfolio is secured by real estate, in particular commercial real estate. Deterioration in the real estate markets could lead to additional losses, which could have a material adverse effect on our financial condition and results of operations.*
- *Events impacting collateral consisting of real property could lead to additional losses which could have a material adverse effect on our financial condition and results of operations.*
- *Any inaccurate assumptions in our analytical and forecasting models could cause us to miscalculate our projected revenue, capital, liquidity or losses, which could adversely affect our financial condition.*
- *Changes in prevailing interest rates could adversely affect our net interest income, which is our largest source of income.*
- *Our liquidity position may be negatively impacted if economic conditions do not continue to improve or if they decline.*
- *Damage to our reputation may harm our business.*
- *An actual or perceived reduction in our financial strength may cause others to reduce or cease doing business with us, which could result in a decrease in our net interest income and fee revenues.*
- *If our credit rating is lowered, our financing costs could increase.*
- *If our growth requires us to raise additional capital, that capital may not be available when it is needed or the cost of that capital may be very high.*
- *Disruption in the financial markets could result in lower fair values for our investment securities portfolio.*
- *Our controls and procedures may fail or be circumvented.*
- *Our operational or security systems or infrastructure, or those of third parties, could fail or be breached, which could disrupt our business and adversely impact our results of operations, liquidity and financial condition, as well as cause legal or reputational harm.*
- *We face security risks, including denial of service attacks, hacking, social engineering attacks targeting our colleagues and customers, malware intrusion and data corruption attempts, in addition to the resulting identity theft that could result in the disclosure of confidential information, all of which could adversely affect our business or reputation, and create significant legal and financial exposure.*
- *Our vendors may be responsible for failures that adversely affect our operations.*
- *We are subject to claims and legal actions that could negatively affect our results of operations or financial condition.*
- *Losses incurred in connection with actual or projected repurchases and indemnification payments related to mortgages that we have sold into the secondary market may exceed our financial statement reserves and we may be required to increase such reserves in the future. Increases to our reserves and losses incurred in connection with actual loan repurchases and indemnification payments could have a material adverse effect on our business, financial condition, results of operations or cash flows.*
- *We may be adversely impacted by the soundness of other financial institutions.*
- *Changes in accounting policies or accounting standards could materially adversely affect how we report our financial results and financial condition.*
- *We are a bank holding company, and our sources of funds, including to pay dividends, are limited.*
- *Our business could be adversely affected by the occurrence of extraordinary events, such as acts of war, terrorist attacks, natural disasters and public health threats.*
- *If we fail to meet our regulatory capital ratios, we may be forced to raise capital or sell assets.*
- *Changes in the United States' monetary policy may restrict our ability to conduct our business in a profitable manner.*
- *Legislative and regulatory actions taken now or in the future regarding the financial services industry may significantly increase our costs or limit our ability to conduct our business in a profitable manner.*
- *Our premium finance business may involve a higher risk of delinquency or collection than our other lending operations, and could expose us to losses.*
- *Widespread financial difficulties or credit downgrades among commercial and life insurance providers could lessen the value of the collateral securing our premium finance loans and impair the financial condition and liquidity of FIRST Insurance Funding, Wintrust Life Finance and FIFC Canada.*

To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening the other risks described in Part I, Item 1A, "Risk Factors," in the Company's Form 10-K for the fiscal year ended December 31, 2019 as well as any subsequent filing with the SEC. If the pandemic is prolonged, the adverse impacts and heightened risks noted above could worsen.

As a participating lender in the SBA Paycheck Protection Program (“PPP”), the Company and its banks are subject to additional risks of litigation from the banks’ customers or other parties regarding the banks’ processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guaranties.

On March 27, 2020, President Trump signed the CARES Act into law, which included a \$349 billion loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. The Company’s banks are participating in the PPP as lenders. As of September 30, 2020, we have originated approximately 12,000 PPP loans with a carrying balance totaling approximately \$3.4 billion.

The PPP opened to borrower applications on April 3, 2020; due to the short timeframe between the passing of the CARES Act and the launch of the PPP, there is some ambiguity in the laws, rules and guidance regarding the operation of the PPP. Subsequent rounds of legislation and associated agency guidance have not provided necessary clarity and have created potential additional inconsistencies and ambiguities. Accordingly, the Company is exposed to risks relating to compliance with the PPP requirements.

Additionally, since the launch of the PPP, several other larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP, as well as litigation regarding the alleged nonpayment of fees that may be due to certain agents who facilitated PPP loan applications. The Company and the banks may be exposed to the risk of litigation, from both customers and non-customers that approached the banks regarding PPP loans, regarding its process and procedures used in processing applications for the PPP. If any such litigation is filed against the Company or its banks and is not resolved in a manner favorable to the Company or the banks, it may result in significant financial liability or adversely affect the Company’s reputation. The Company and one of its banks were named as defendants in a putative class action regarding the alleged nonpayment of agency fees. See Part II, Item 1 “Legal Proceedings.” Regardless of outcome, litigation can be costly and distracting. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations.

PPP loans are fixed, low interest rate loans that are guaranteed by the SBA and subject to numerous other regulatory requirements, and a borrower may apply to have all or a portion of the loan forgiven. If PPP borrowers fail to qualify for loan forgiveness, the banks face a heightened risk of holding these loans at unfavorable interest rates for an extended period of time. While the PPP loans are guaranteed by the SBA, various regulatory requirements will apply to the banks’ ability to seek recourse under the guarantees, and related procedures are currently subject to uncertainty.

The banks also have credit risk with respect to PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the banks, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by the Company, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Company.

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

Our previously authorized share repurchase program permitted the repurchase of up to \$125 million of our common stock. Prior to the temporary suspension of our repurchase activity in the second quarter of 2020, we had repurchased \$37.1 million in common stock, leaving \$87.9 million in authorized repurchases remaining. Our Board has authorized resumption of repurchases of our common stock under the share repurchase program. Future repurchases will be subject to market conditions, liquidity and regulatory requirements.

Item 6: Exhibits:

(a) Exhibits

- [10.1*](#) [Second Amendment, dated as of September 15, 2020, to the Credit Agreement dated as of September 18, 2018, as amended, among Wintrust Financial Corporation, the lenders named therein, and Wells Fargo Bank, National Association, as administrative agent \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 17, 2020\).](#)
- [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 The XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
- (1) Includes the following financial information included in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (Inline 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

* Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Wintrust agrees to furnish supplementally a copy of any omitted schedules or exhibits to the Securities and Exchange Commission upon request.

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.

Date: November 6, 2020

WINTRUST FINANCIAL CORPORATION

(Registrant)

/s/ DAVID L. STOEHR

David L. Stoehr

Executive Vice President and

Chief Financial Officer

(Principal Financial and Accounting Officer)

CERTIFICATION

I, Edward J. Wehmer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Wintrust Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2020

/s/ EDWARD J. WEHMER

Name: Edward J. Wehmer

Title: Founder and Chief Executive Officer

CERTIFICATION

I, David L. Stoehr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Wintrust Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2020

/s/ DAVID L. STOEHR

Name: David L. Stoehr

Title: Executive Vice President and
Chief Financial Officer

CERTIFICATIONS

SARBANES-OXLEY ACT SECTION 906

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned Chief Executive Officer and Chief Financial Officer of Wintrust Financial Corporation (“the Company”) certify, on the basis of such officers’ knowledge and belief that:

- (1) The Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on November 6, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ EDWARD J. WEHMER

Name: Edward J. Wehmer

Title: Founder and Chief Executive Officer

Date: November 6, 2020

/s/ DAVID L. STOEHR

Name: David L. Stoehr

Title: Executive Vice President and
Chief Financial Officer

Date: November 6, 2020

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission upon request. This certification accompanies the Report and shall not be treated as having been filed as part of this Report.