

WINTRUST FINANCIAL CORP

Form 10-K

February 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2013

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period from to

Commission File Number 001-35077

Wintrust Financial Corporation

(Exact name of registrant as specified in its charter)

Illinois

36-3873352

(State of incorporation or organization)

(I.R.S. Employer Identification No.)

9700 W. Higgins Road, Suite 800

Rosemont, Illinois 60018

(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, no par value

The NASDAQ Global Select Market

Warrants (expiring December 19, 2018)

The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-Accelerated filer

Smaller reporting company

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2013 (the last business day of the registrant's most recently completed second quarter), determined using the closing price of the

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common stock on that day of \$38.28, as reported by the NASDAQ Global Select Market, was \$1,419,767,800. As of February 21, 2014, the registrant had 46,208,380 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's Annual Meeting of Shareholders to be held on May 22, 2014 are incorporated by reference into Part III.

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PART I

ITEM I. BUSINESS

Overview

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

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

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

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

Our Business

Community Banking

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

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

home equity, consumer, and real estate loans, safe deposit facilities, ATMs, internet banking and other innovative and traditional services specially tailored to meet the needs of customers in their market areas.

We developed our banking franchise through a combination of de novo organization and the purchase of existing bank franchises. The organizational efforts began in 1991, when a group of experienced bankers and local business people identified an unfilled niche in the Chicago metropolitan area retail banking market. As large banks acquired smaller ones and personal service was subjected to consolidation strategies, the opportunity increased for locally owned and operated, highly personal service-oriented banks. As a result, Lake Forest Bank and Trust Company ("Lake Forest Bank") was founded in December 1991 to service the Lake Forest and Lake Bluff communities.

We now own fifteen banks, including nine Illinois-chartered banks, Lake Forest Bank, Hinsdale Bank and Trust Company ("Hinsdale Bank"), North Shore Community Bank and Trust Company ("North Shore Community Bank"), Libertyville Bank and Trust Company ("Libertyville Bank"), Northbrook Bank & Trust Company ("Northbrook Bank"), Village Bank & Trust ("Village Bank"), Wheaton Bank & Trust Company ("Wheaton Bank"), State Bank of the Lakes and St. Charles Bank & Trust Company ("St. Charles Bank"). In addition, we have one Wisconsin-chartered bank, Town Bank, and five nationally chartered banks, Barrington Bank, Crystal Lake Bank & Trust Company, N.A. ("Crystal Lake Bank"), Schaumburg Bank & Trust Company, N.A. ("Schaumburg Bank"), Beverly Bank & Trust Company, N.A. ("Beverly Bank") and Old Plank Trail Community Bank, N.A. ("Old Plank Trail Bank"). As of December 31, 2013, we had 124 banking locations.

Each bank is subject to regulation, supervision and regular examination by: (1) the Secretary of the Illinois Department of Financial and Professional Regulation ("Illinois Secretary") and the Board of Governors of the Federal Reserve System ("Federal Reserve") for Illinois-chartered banks; (2) the Office of the Comptroller of the Currency ("OCC") for nationally-chartered banks or (3) the Wisconsin Department of Financial Institutions ("Wisconsin Department") and the Federal Reserve for Town Bank.

We also engage in the origination and purchase of residential mortgages for sale into the secondary market through Wintrust Mortgage, and provide other loan closing services to a network of mortgage brokers. Wintrust Mortgage provides mortgage banking operations using its enhanced loan origination and documentation system, allowing our customers access to improved product offerings. Wintrust Mortgage sells many of its loans with servicing released, however, Wintrust Mortgage does engage in servicing of loans sold into the secondary market. Wintrust Mortgage maintains principal origination offices in a number of states, including Illinois, and originates loans in states through correspondent channels.

We also offer several niche lending products through the banks. These include Barrington Bank's Community Advantage program which provides lending, deposit and cash management services to condominium, homeowner and community associations, Hinsdale Bank's mortgage warehouse lending program which provides loan and deposit services to mortgage brokerage companies located predominantly in the Chicago metropolitan area and Lake Forest Bank's franchise lending program which provides lending to restaurant franchisees.

Specialty Finance

We conduct our specialty finance businesses through non-bank subsidiaries. Our wholly owned subsidiary, FIFC, engages in the premium finance receivables business, our most significant specialized lending niche, including commercial insurance premium finance and life insurance premium finance. We also engage in commercial insurance premium finance in Canada through our wholly owned subsidiary FIFC Canada.

In their commercial insurance premium finance operations, FIFC and FIFC Canada make loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. Approved medium and large insurance agents and brokers located throughout the United States and Canada assist FIFC and FIFC Canada respectively in arranging each commercial premium finance loan between the borrower and FIFC or FIFC Canada. FIFC or FIFC Canada evaluates each loan request according to its own underwriting criteria including the amount of the down payment on the insurance policy, the term of the loan, the credit quality of the insurance company providing the financed insurance policy, the interest rate, the borrower's previous payment history, if any, and other factors deemed appropriate. Upon approval of the loan by FIFC or FIFC Canada, as the case may be, the borrower makes a down payment on the financed insurance policy, which is generally done by providing payment to the agent or broker,

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

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

FIFC also finances life insurance policy premiums generally used for estate planning purposes of high net-worth borrowers. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and legal counsel. The cash surrender value of the life insurance policy is the primary form of collateral. In addition, these loans often are secured with a letter of credit, marketable securities or certificates of deposit. In some cases, FIFC may make a loan that has a partially unsecured position. The life insurance premium finance business is governed under banking regulations but is not subject to additional systemic regulation. FIFC's compliance department regularly monitors the regulatory environment and the company's compliance with existing regulations. FIFC maintains a policy prohibiting the knowing financing of stranger-originated life insurance and has established procedures to identify and prevent the company from financing such policies. While a carrier could potentially put at risk the cash surrender value of a policy, which serves as FIFC's primary collateral, by challenging the validity of the insurance contract for lack of an insurable interest, FIFC believes it has strong counterclaims against any such claims by carriers, in addition to recourse to borrowers and guarantors as well as to additional collateral in certain cases.

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

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

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

Wealth Management Activities

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

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

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

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

Strategy and Competition

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

- Increasing our lending as other financial institutions pulled back;

- Hiring quality lenders and other staff away from larger and smaller institutions that may have substantially deviated from a customer-focused approach or who may have substantially limited the ability of their staff to provide credit or other services to their customers;

- Investing in dislocated assets such as the purchased life insurance premium finance portfolio, the Canadian commercial premium finance portfolio, trust and investment management companies and certain collateralized mortgage obligations;

- Purchasing banks and banking assets either directly or through the FDIC-assisted process in areas key to our geographic expansion.

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

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

- Leveraged its internal loan pipeline and external growth opportunities to grow earnings assets to increase net interest income;

- Continued efforts to reduce interest costs by improving our funding mix;

- Written call option contracts on certain securities as an economic hedge to enhance the securities' overall return;

- Entered into mirror-image swap transactions to both satisfy customer preferences and maintain variable rate exposure;

- Purchased interest rate cap derivatives to offset margin compression caused by the repricing of variable rate liabilities and lack of repricing of fixed rate loans and securities in a potential rising rate environment;

- Completed strategic acquisitions to expand presence in existing and complimentary markets;

- Focused on cost control and leveraging our current infrastructure to grow without a commensurate increase in operating expenses.

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

Community Banking

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

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

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

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

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

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

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

Specialty Finance

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

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

Wealth Management Activities

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

Supervision and Regulation

General

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

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

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

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

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

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

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

Bank Holding Company Regulation

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

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

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

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

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

Acquisitions of Ownership

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

Regulatory Reform

The Dodd-Frank Act strengthened the ability of the federal bank regulatory agencies to supervise and examine bank holding companies and their subsidiaries. The Dodd-Frank Act represents a sweeping reform of the U.S. supervisory and regulatory framework applicable to financial institutions and capital markets in the wake of the global financial crisis, certain aspects of which are described below in more detail. In particular, and among other things, the Dodd-Frank Act: created a Financial Stability Oversight Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; created the Consumer Financial Protection Bureau (“CFPB”), which is authorized to regulate providers of consumer credit, savings, payment and other consumer financial products and services; narrowed the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expanded the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; imposed more stringent capital requirements on bank holding companies and subjected certain activities, including interstate mergers and acquisitions, to heightened capital conditions; with respect to mortgage lending, (i) significantly expanded requirements applicable to loans secured by 1-4 family residential real property, (ii) imposed strict rules on mortgage servicing, and (iii) required the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5% of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards; repealed the prohibition on the payment of interest on business checking accounts; restricted the interchange fees payable on debit card transactions for issuers with \$10 billion in assets or greater; in the so-called “Volcker Rule,” subject to numerous exceptions, prohibited depository institutions and affiliates from certain investments in, and sponsorship of, hedge funds and private equity funds and from engaging in proprietary trading; provided for enhanced regulation of advisers to private funds and of the derivatives markets; enhanced oversight of credit rating agencies; and prohibited banking agency requirements tied to credit ratings. These statutory changes shifted the regulatory framework for financial institutions, impacted the way in which they do business and have the potential to constrain revenues. Numerous provisions of the Dodd-Frank Act are required to be implemented through rulemaking by the appropriate federal regulatory agencies. Many of the required regulations have been issued and others have been released for public comment, but there remain a number that have yet to be released in any form. Furthermore, while the reforms primarily target systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time. We will continue to evaluate the effect of the Dodd-Frank Act changes; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of the Company and its subsidiaries. For further discussion of the most recent developments under the Dodd-Frank Act, see “Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview and Strategy - Financial Regulatory Reform.”

Volcker Rule

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

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

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

Capital Requirements

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

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

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

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

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

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

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

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

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

Liquidity Requirements

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

Capital Planning and Stress Testing Requirements

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

Payment of Dividends and Share Repurchases

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

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

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

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

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The Federal Deposit Insurance Corporation Improvem