

WINTRUST FINANCIAL CORP

Form 10-Q

May 09, 2016

Table of Contents

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 March 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 001-35077

WINTRUST FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Illinois 36-3873352

(State of incorporation or organization) (I.R.S. Employer Identification No.)

9700 W. Higgins Road, Suite 800

Rosemont, Illinois 60018

(Address of principal executive offices)

(847) 939-9000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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, 48,560,301 shares, as of April 30, 2016

Table of Contents

TABLE OF CONTENTS

	Page
PART I. — FINANCIAL INFORMATION	
ITEM 1. <u>Financial Statements</u>	<u>1</u>
ITEM 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>50</u>
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>85</u>
ITEM 4. <u>Controls and Procedures</u>	<u>87</u>
PART II. — OTHER INFORMATION	
ITEM 1. <u>Legal Proceedings</u>	<u>88</u>
ITEM 1A. <u>Risk Factors</u>	<u>88</u>
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>89</u>
ITEM 3. Defaults Upon Senior Securities	NA
ITEM 4. Mine Safety Disclosures	NA
ITEM 5. Other Information	NA
ITEM 6. <u>Exhibits</u>	<u>89</u>
<u>Signatures</u>	<u>90</u>

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share data)	(Unaudited) March 31, 2016	(Unaudited) December 31, 2015	(Unaudited) March 31, 2015
Assets			
Cash and due from banks	\$208,480	\$271,454	\$286,743
Federal funds sold and securities purchased under resale agreements	3,820	4,341	4,129
Interest bearing deposits with banks	817,013	607,782	697,799
Available-for-sale securities, at fair value	770,983	1,716,388	1,721,030
Held-to-maturity securities, at amortized cost (\$924.3 million and \$878.1 million fair value at March 31, 2016 and December 31, 2015, respectively)	911,715	884,826	—
Trading account securities	2,116	448	7,811
Federal Home Loan Bank and Federal Reserve Bank stock	113,222	101,581	92,948
Brokerage customer receivables	28,266	27,631	25,287
Mortgage loans held-for-sale	314,554	388,038	446,355
Loans, net of unearned income, excluding covered loans	17,446,413	17,118,117	14,953,059
Covered loans	138,848	148,673	209,694
Total loans	17,585,261	17,266,790	15,162,753
Less: Allowance for loan losses	110,171	105,400	94,446
Less: Allowance for covered loan losses	2,507	3,026	1,878
Net loans	17,472,583	17,158,364	15,066,429
Premises and equipment, net	591,608	592,256	559,281
Lease investments, net	89,337	63,170	383
FDIC indemnification asset	—	—	10,224
Accrued interest receivable and other assets	647,853	597,099	526,029
Trade date securities receivable	1,008,613	—	488,063
Goodwill	484,280	471,761	420,197
Other intangible assets	23,725	24,209	18,858
Total assets	\$23,488,168	\$22,909,348	\$20,371,566
Liabilities and Shareholders' Equity			
Deposits:			
Non-interest bearing	\$5,205,410	\$4,836,420	\$3,779,609
Interest bearing	14,011,661	13,803,214	13,159,160
Total deposits	19,217,071	18,639,634	16,938,769
Federal Home Loan Bank advances	799,482	853,431	406,839
Other borrowings	253,126	265,785	186,716
Subordinated notes	138,888	138,861	138,782
Junior subordinated debentures	253,566	268,566	249,493
Trade date securities payable	—	538	2,929
Accrued interest payable and other liabilities	407,593	390,259	316,964
Total liabilities	21,069,726	20,557,074	18,240,492
Shareholders' Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series C - \$1,000 liquidation value; 126,257 shares issued and outstanding at March 31, 2016, 126,287 shares issued and outstanding at December	126,257	126,287	126,427

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

31, 2015, and 126,427 shares issued and outstanding at March 31, 2015			
Series D - \$25 liquidation value; 5,000,000 shares issued and outstanding at March 31, 2016 and December 31, 2015 and no shares issued and outstanding at March 31, 2015	125,000	125,000	—
Common stock, no par value; \$1.00 stated value; 100,000,000 shares authorized at March 31, 2016, December 31, 2015 and March 31, 2015; 48,608,559 shares issued at March 31, 2016, 48,468,894 shares issued at December 31, 2015 and 47,474,721 shares issued at March 31, 2015	48,608	48,469	47,475
Surplus	1,194,750	1,190,988	1,156,542
Treasury stock, at cost, 89,561 shares at March 31, 2016, 85,615 shares at December 31, 2015, and 85,113 shares at March 31, 2015	(4,145) (3,973) (3,948
Retained earnings	967,882	928,211	835,669
Accumulated other comprehensive loss	(39,910) (62,708) (31,091
Total shareholders' equity	2,418,442	2,352,274	2,131,074
Total liabilities and shareholders' equity	\$23,488,168	\$22,909,348	\$20,371,566
See accompanying notes to unaudited consolidated financial statements.			

Table of ContentsWINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share data)	Three Months Ended	
	March 31, 2016	March 31, 2015
Interest income		
Interest and fees on loans	\$173,127	\$154,676
Interest bearing deposits with banks	746	316
Federal funds sold and securities purchased under resale agreements	1	2
Investment securities	17,190	14,400
Trading account securities	11	13
Federal Home Loan Bank and Federal Reserve Bank stock	937	769
Brokerage customer receivables	219	181
Total interest income	192,231	170,357
Interest expense		
Interest on deposits	12,781	11,814
Interest on Federal Home Loan Bank advances	2,886	2,156
Interest on other borrowings	1,058	788
Interest on subordinated notes	1,777	1,775
Interest on junior subordinated debentures	2,220	1,933
Total interest expense	20,722	18,466
Net interest income	171,509	151,891
Provision for credit losses	8,034	6,079
Net interest income after provision for credit losses	163,475	145,812
Non-interest income		
Wealth management	18,320	18,100
Mortgage banking	21,735	27,800
Service charges on deposit accounts	7,406	6,297
Gains on available-for-sale securities, net	1,325	524
Fees from covered call options	1,712	4,360
Trading losses, net	(168)	(477)
Operating lease income, net	2,806	65
Other	15,616	7,872
Total non-interest income	68,752	64,541
Non-interest expense		
Salaries and employee benefits	95,811	90,130
Equipment	8,767	7,779
Operating lease equipment depreciation	2,050	57
Occupancy, net	11,948	12,351
Data processing	6,519	5,448
Advertising and marketing	3,779	3,907
Professional fees	4,059	4,664
Amortization of other intangible assets	1,298	1,013
FDIC insurance	3,613	2,987
OREO expense, net	560	1,411
Other	15,326	17,571
Total non-interest expense	153,730	147,318
Income before taxes	78,497	63,035
Income tax expense	29,386	23,983

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Net income	\$49,111	\$39,052
Preferred stock dividends and discount accretion	3,628	1,581
Net income applicable to common shares	\$45,483	\$37,471
Net income per common share—Basic	\$0.94	\$0.79
Net income per common share—Diluted	\$0.90	\$0.76
Cash dividends declared per common share	\$0.12	\$0.11
Weighted average common shares outstanding	48,448	47,239
Dilutive potential common shares	3,820	4,233
Average common shares and dilutive common shares	52,268	51,472

See accompanying notes to unaudited consolidated financial statements.

Table of ContentsWINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)	Three Months Ended	
	March 31, 2016	March 31, 2015
Net income	\$49,111	\$ 39,052
Unrealized gains on securities		
Before tax	25,176	26,276
Tax effect	(9,988)	(10,331)
Net of tax	15,188	15,945
Reclassification of net gains included in net income		
Before tax	1,325	524
Tax effect	(521)	(206)
Net of tax	804	318
Reclassification of amortization of unrealized losses on investment securities transferred to held-to-maturity from available-for-sale		
Before tax	(3,425)	—
Tax effect	1,339	—
Net of tax	(2,086)	—
Net unrealized gains on securities	16,470	15,627
Unrealized gains (losses) on derivative instruments		
Before tax	478	(561)
Tax effect	(188)	220
Net unrealized gains (losses) on derivative instruments	290	(341)
Foreign currency adjustment		
Before tax	8,347	(12,290)
Tax effect	(2,309)	3,245
Net foreign currency adjustment	6,038	(9,045)
Total other comprehensive income	22,798	6,241
Comprehensive income	\$71,909	\$45,293
See accompanying notes to unaudited consolidated financial statements.		

Table of ContentsWINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(In thousands)	Preferred stock	Common stock	Surplus	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at January 1, 2015	\$ 126,467	\$ 46,881	\$ 1,133,955	\$(3,549)	\$ 803,400	\$ (37,332)	\$ 2,069,822
Net income	—	—	—	—	39,052	—	39,052
Other comprehensive income, net of tax	—	—	—	—	—	6,241	6,241
Cash dividends declared on common stock	—	—	—	—	(5,202)	—	(5,202)
Dividends on preferred stock	—	—	—	—	(1,581)	—	(1,581)
Stock-based compensation	—	—	2,271	—	—	—	2,271
Conversion of Series C preferred stock to common stock	(40)	1	39	—	—	—	—
Common stock issued for:							
Acquisitions	—	422	18,582	—	—	—	19,004
Exercise of stock options and warrants	—	52	535	(130)	—	—	457
Restricted stock awards	—	84	329	(269)	—	—	144
Employee stock purchase plan	—	15	666	—	—	—	681
Director compensation plan	—	20	165	—	—	—	185
Balance at March 31, 2015	\$ 126,427	\$ 47,475	\$ 1,156,542	\$(3,948)	\$ 835,669	\$ (31,091)	\$ 2,131,074
Balance at January 1, 2016	\$ 251,287	\$ 48,469	\$ 1,190,988	\$(3,973)	\$ 928,211	\$ (62,708)	\$ 2,352,274
Net income	—	—	—	—	49,111	—	49,111
Other comprehensive income, net of tax	—	—	—	—	—	22,798	22,798
Cash dividends declared on common stock	—	—	—	—	(5,812)	—	(5,812)
Dividends on preferred stock	—	—	—	—	(3,628)	—	(3,628)
Stock-based compensation	—	—	2,484	—	—	—	2,484
Conversion of Series C preferred stock to common stock	(30)	1	29	—	—	—	—
Common stock issued for:							
Exercise of stock options and warrants	—	17	124	—	—	—	141
Restricted stock awards	—	82	106	(172)	—	—	16
Employee stock purchase plan	—	14	634	—	—	—	648
Director compensation plan	—	25	385	—	—	—	410
Balance at March 31, 2016	\$ 251,257	\$ 48,608	\$ 1,194,750	\$(4,145)	\$ 967,882	\$ (39,910)	\$ 2,418,442

See accompanying notes to unaudited consolidated financial statements.

Table of ContentsWINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months	
	Ended	
(In thousands)	March	March
	31,	31,
	2016	2015
Operating Activities:		
Net income	\$49,111	\$39,052
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Provision for credit losses	8,034	6,079
Depreciation, amortization and accretion, net	13,610	9,077
Stock-based compensation expense	2,484	2,271
Excess tax benefits from stock-based compensation arrangements	(193) (471
Net amortization of premium on securities)