

WINTRUST FINANCIAL CORP

Form 10-Q

May 09, 2018

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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, 2018

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, 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

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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, 56,282,928 shares, as of April 30, 2018

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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) March 31, 2018	(Unaudited) December 31, 2017	(Unaudited) March 31, 2017
Assets			
Cash and due from banks	\$231,407	\$277,534	\$214,102
Federal funds sold and securities purchased under resale agreements	57	57	3,046
Interest bearing deposits with banks	980,380	1,063,242	1,007,468
Available-for-sale securities, at fair value	1,895,688	1,803,666	1,803,733
Held-to-maturity securities, at amortized cost (\$862.5 million, \$812.5 million and \$647.9 million fair value at March 31, 2018, December 31, 2017 and March 31, 2017 respectively)	892,937	826,449	667,764
Trading account securities	1,682	995	714
Equity securities with readily determinable fair value	37,832	—	—
Federal Home Loan Bank and Federal Reserve Bank stock	104,956	89,989	78,904
Brokerage customer receivables	24,531	26,431	23,171
Mortgage loans held-for-sale, at fair value	411,505	313,592	288,964
Loans, net of unearned income, excluding covered loans	22,062,134	21,640,797	19,931,058
Covered loans	—	—	52,359
Total loans	22,062,134	21,640,797	19,983,417
Allowance for loan losses	(139,503)	(137,905)	(125,819)
Allowance for covered loan losses	—	—	(1,319)
Net loans	21,922,631	21,502,892	19,856,279
Premises and equipment, net	626,687	621,895	598,746
Lease investments, net	190,775	212,335	155,233
Accrued interest receivable and other assets	601,794	567,374	560,741
Trade date securities receivable	—	90,014	—
Goodwill	511,497	501,884	499,341
Other intangible assets	22,413	17,621	20,687
Total assets	\$28,456,772	\$27,915,970	\$25,778,893
Liabilities and Shareholders' Equity			
Deposits:			
Non-interest bearing	\$6,612,319	\$6,792,497	\$5,790,579
Interest bearing	16,667,008	16,390,850	15,939,862
Total deposits	23,279,327	23,183,347	21,730,441
Federal Home Loan Bank advances	915,000	559,663	227,585
Other borrowings	247,092	266,123	238,787
Subordinated notes	139,111	139,088	138,993
Junior subordinated debentures	253,566	253,566	253,566
Accrued interest payable and other liabilities	591,426	537,244	424,538
Total liabilities	25,425,522	24,939,031	23,013,910
Shareholders' Equity:			
Preferred stock, no par value; 20,000,000 shares authorized:			
Series C - \$1,000 liquidation value; no shares issued and outstanding at March 31, 2018 and December 31, 2017 and 126,257 shares issued and outstanding at March 31, 2017	—	—	126,257

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Series D - \$25 liquidation value; 5,000,000 shares issued and outstanding at March 31, 2018, December 31, 2017 and March 31, 2017	125,000	125,000	125,000
Common stock, no par value; \$1.00 stated value; 100,000,000 shares authorized at March 31, 2018, December 31, 2017 and March 31, 2017; 56,363,786 shares issued at March 31, 2018, 56,068,220 shares issued at December 31, 2017 and 52,605,401 shares issued at March 31, 2017	56,364	56,068	52,605
Surplus	1,540,673	1,529,035	1,381,886
Treasury stock, at cost, 107,288 shares at March 31, 2018, 103,013 shares at December 31, 2017, and 101,738 shares at March 31, 2017	(5,355) (4,986) (4,884
Retained earnings	1,387,663	1,313,657	1,143,943
Accumulated other comprehensive loss	(73,095) (41,835) (59,824
Total shareholders' equity	3,031,250	2,976,939	2,764,983
Total liabilities and shareholders' equity	\$28,456,772	\$27,915,970	\$25,778,893
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, 2018	March 31, 2017
Interest income		
Interest and fees on loans	\$234,994	\$196,916
Mortgage loans held-for-sale	2,818	2,398
Interest bearing deposits with banks	2,796	1,623
Federal funds sold and securities purchased under resale agreements	—	1
Investment securities	19,128	13,573
Trading account securities	14	11
Federal Home Loan Bank and Federal Reserve Bank stock	1,298	1,070
Brokerage customer receivables	157	167
Total interest income	261,205	215,759
Interest expense		
Interest on deposits	26,549	16,270
Interest on Federal Home Loan Bank advances	3,639	1,590
Interest on other borrowings	1,699	1,139
Interest on subordinated notes	1,773	1,772
Interest on junior subordinated debentures	2,463	2,408
Total interest expense	36,123	23,179
Net interest income	225,082	192,580
Provision for credit losses	8,346	5,209
Net interest income after provision for credit losses	216,736	187,371
Non-interest income		
Wealth management	22,986	20,148
Mortgage banking	30,960	21,938
Service charges on deposit accounts	8,857	8,265
Losses on investment securities, net	(351)	(55)
Fees from covered call options	1,597	759
Trading gains (losses), net	103	(320)
Operating lease income, net	9,691	5,782
Other	11,836	12,248
Total non-interest income	85,679	68,765
Non-interest expense		
Salaries and employee benefits	112,436	99,316
Equipment	10,072	9,002
Operating lease equipment depreciation	6,533	4,636
Occupancy, net	13,767	13,101
Data processing	8,493	7,925
Advertising and marketing	8,824	5,150
Professional fees	6,649	4,660
Amortization of other intangible assets	1,004	1,164
FDIC insurance	4,362	4,156
OREO expense, net	2,926	1,665
Other	19,283	17,343
Total non-interest expense	194,349	168,118
Income before taxes	108,066	88,018

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Income tax expense	26,085	29,640
Net income	\$81,981	\$58,378
Preferred stock dividends	2,050	3,628
Net income applicable to common shares	\$79,931	\$54,750
Net income per common share—Basic	\$1.42	\$1.05
Net income per common share—Diluted	\$1.40	\$1.00
Cash dividends declared per common share	\$0.19	\$0.14
Weighted average common shares outstanding	56,137	52,267
Dilutive potential common shares	888	4,160
Average common shares and dilutive common shares	57,025	56,427
See accompanying notes to unaudited consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended	
(In thousands)	March 31, 2018	March 31, 2017
Net income	\$81,981	\$58,378
Unrealized (losses) gains on available-for-sale securities		
Before tax	(36,184)	7,379
Tax effect	9,710	(2,900)
Net of tax	(26,474)	4,479
Reclassification of net losses on available-for-sale securities included in net income		
Before tax	(975)	(55)
Tax effect	262	21
Net of tax	(713)	(34)
Reclassification of amortization of unrealized gains and losses on investment securities transferred to held-to-maturity from available-for-sale		
Before tax	(4)	1,428
Tax effect	1	(561)
Net of tax	(3)	867
Net unrealized (losses) gains on available-for-sale securities	(25,758)	3,646
Unrealized gains on derivative instruments		
Before tax	3,075	1,615
Tax effect	(826)	(634)
Net unrealized gains on derivative instruments	2,249	981
Foreign currency adjustment		
Before tax	(3,853)	1,215
Tax effect	956	(338)
Net foreign currency adjustment	(2,897)	877
Total other comprehensive (loss) income	(26,406)	5,504
Comprehensive income	\$55,575	\$63,882
See accompanying notes to unaudited consolidated financial statements.		

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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, 2017	\$251,257	\$51,978	\$1,365,781	\$(4,589)	\$1,096,518	\$ (65,328)	\$2,695,617
Net income	—	—	—	—	58,378	—	58,378
Other comprehensive income, net of tax	—	—	—	—	—	5,504	5,504
Cash dividends declared on common stock	—	—	—	—	(7,325)	—	(7,325)
Dividends on preferred stock	—	—	—	—	(3,628)	—	(3,628)
Stock-based compensation	—	—	2,918	—	—	—	2,918
Common stock issued for:							
Exercise of stock options and warrants	—	512	12,272	—	—	—	12,784
Restricted stock awards	—	74	(74)	(295)	—	—	(295)
Employee stock purchase plan	—	9	615	—	—	—	624
Director compensation plan	—	32	374	—	—	—	406
Balance at March 31, 2017	\$251,257	\$52,605	\$1,381,886	\$(4,884)	\$1,143,943	\$ (59,824)	\$2,764,983
Balance at January 1, 2018	\$125,000	\$56,068	\$1,529,035	\$(4,986)	\$1,313,657	\$ (41,835)	\$2,976,939
Cumulative effect adjustment from the adoption of:							
Accounting Standards Update ("ASU") 2016-01	—	—	—	—	1,880	(1,880)	—
ASU 2017-12	—	—	—	—	(116)	—	(116)
ASU 2018-02	—	—	—	—	2,974	(2,974)	—
Net income	—	—	—	—	81,981	—	81,981
Other comprehensive loss, net of tax	—	—	—	—	—	(26,406)	(26,406)
Cash dividends declared on common stock	—	—	—	—	(10,663)	—	(10,663)
Dividends on preferred stock	—	—	—	—	(2,050)	—	(2,050)
Stock-based compensation	—	—	3,683	—	—	—	3,683
Common stock issued for:							
Exercise of stock options and warrants	—	179	7,017	—	—	—	7,196
Restricted stock awards	—	90	(90)	(369)	—	—	(369)
Employee stock purchase plan	—	8	622	—	—	—	630
Director compensation plan	—	19	406	—	—	—	425
Balance at March 31, 2018	\$125,000	\$56,364	\$1,540,673	\$(5,355)	\$1,387,663	\$ (73,095)	\$3,031,250

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended	
(In thousands)	March 31, 2018	March 31, 2017
Operating Activities:		
Net income	\$ 81,981	\$ 58,378
Adjustments to reconcile net income to net cash provided by operating activities		