

# Wintrust Financial Corporation

2015 Annual Stress Test Disclosures

Dodd-Frank Act Stress Test Results

Supervisory Severely Adverse Scenario

June 19, 2015

# Contents

<a href="#">Overview</a>	<a href="#">4</a>
<a href="#">Supervisory Severely Adverse Scenario</a>	<a href="#">5</a>
<a href="#">Description of Key Risks</a>	<a href="#">5</a>
<a href="#">Summary Results for the Severely Adverse Scenario</a>	<a href="#">6</a>
<a href="#">Stress Testing Methodologies</a>	<a href="#">9</a>

*In this report, when we refer to "Wintrust," "the Company," "we," "our," or "us," we mean Wintrust Financial Corporation and Subsidiaries (consolidated).*

*This report contains estimates using the macroeconomic conditions and assumptions provided in the Dodd-Frank Act Stress Test severely adverse scenario. The severely adverse scenario is a hypothetical scenario, used solely for stress testing purposes. The projections summarized within this report should not be interpreted as an actual forecast by Wintrust of its capital ratios, loan losses, or any other figure. If a scenario similar or comparable to the hypothetical severely adverse were to occur, Wintrust's results will be influenced by actual economic and financial conditions and various other factors as described in our reports filed with the Securities and Exchange Commission and available at [www.sec.gov](http://www.sec.gov).*

## Overview

Wintrust Financial Corporation is a financial holding company, based in Rosemont, Illinois with assets of approximately \$20.4 billion as of March 31, 2015. The Company's common stock is traded on the NASDAQ Global Select Market (symbol: WTFC). Wintrust conducts its business 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 southern Wisconsin through our fifteen wholly owned banking subsidiaries 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. We provide specialty finance services, including financing for the payment of commercial insurance premiums and life insurance premiums. We also provide a full range of wealth management services primarily to customers in our market area.

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DFA"), banks or bank holding companies with total assets greater than \$10 billion are required to meet the stress testing requirements described in the DFA on an annual basis. Banks or bank holding companies subject to the DFA stress test ("DFAST") requirements must assess the potential impact of a minimum of three macroeconomic scenarios provided by the Federal Reserve and the Office of Comptroller of the Currency ("OCC") - baseline, adverse, and severely adverse - on their consolidated earnings, pre-provision net revenue ("PPNR"), loan loss provision, net income, balance sheet (including risk-weighted assets), and capital over a nine quarter projection period.

The three macroeconomic scenarios provided by the Federal Reserve and the OCC are not a forecast of expected macroeconomic and financial conditions, but are hypothetical scenarios designed to assess the strength of banking organizations and their resilience to adverse economic and financial conditions. Results of the three scenarios are sent to the Company's primary federal regulator.

Stress testing is meant to determine the ability of an institution to remain solvent under challenging environments (economic, industry-related, etc.). Wintrust has developed a forward-looking, Wintrust-specific, risk-tailored stress testing planning process. This process provides reasonable assurance that capital will be available through severely adverse economic conditions. Stressed scenarios that were applied were severe enough that they may have never been experienced by Wintrust.

Wintrust's 2015 DFAST results suggest that the capital ratios will decline in the severely adverse scenario due to both negative earnings and growth in risk-weighted assets over the nine quarter projection period. Even with the stress from the combination of the economic factors, the projected capital ratios in the severely adverse scenario remain above the Company's internal capital targets and the regulatory minimum and well-capitalized ratios.

## Supervisory Severely Adverse Scenario

The 2015 company-run stress test for the severely adverse economic scenario used the guidance provided in the “2015 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule” issued by the Board of Governors for the Federal Reserve System on October 23, 2014. We conducted our testing in accordance with Section 165(i)(2) of the Dodd-Frank Wall Street Reform Act.

The severely adverse scenario is characterized by a deep and prolonged recession with high unemployment and significant declines in real estate prices. The U.S. corporate sector experiences increases in financial distress that may be larger than would be expected in a severe recession, as well as a widening in corporate bond spreads and a decline in equity prices.

Some select macrovariables from the severely adverse scenario are presented in the table below:

**Table 1: Supervisory Severely Adverse Scenario - Path of Selected Macroeconomic Variables (1)**

Quarter Ending	Real GDP growth	Unemployment rate	3-month Treasury rate	10-year Treasury yield	BBB corporate yield	Mortgage rate	House Price Index ("HPI")	Commercial Real Estate Price Index ("CREPI")
Q3 2014	3.1 %	6.1%	0.03%	2.50%	4.2%	4.1%	172.1	236.0
Q4 2014	(3.9)%	6.9%	0.10%	0.90%	4.7%	4.2%	169.5	238.9
Q1 2015	(6.1)%	8.0%	0.10%	1.00%	5.6%	4.6%	164.0	230.2
Q2 2015	(3.9)%	8.8%	0.10%	1.20%	6.0%	4.8%	157.6	213.6
Q3 2015	(3.2)%	9.5%	0.10%	1.30%	6.3%	5.0%	150.7	195.1
Q4 2015	(1.5)%	9.9%	0.10%	1.50%	6.2%	5.0%	144.3	177.6
Q1 2016	1.2 %	10.0%	0.10%	1.50%	6.0%	4.9%	138.4	164.4
Q2 2016	1.2 %	10.1%	0.10%	1.60%	5.8%	4.8%	133.4	157.4
Q3 2016	3.0 %	10.0%	0.10%	1.80%	5.6%	4.8%	130.4	154.4
Q4 2016	3.0 %	9.9%	0.10%	1.90%	5.5%	4.7%	128.4	154.6

(1) For the full set of economic variables and scenario descriptions, see Board of Governors of the Federal Reserve "2015 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule", October 23, 2014, available at: <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20141023a1.pdf>.

## Description of Key Risks

Wintrust's Enterprise Risk Management process identifies material key risks to the Company's financial results and capital resources and incorporates them in the stress test process. These risks include, among others, credit, market, operational and compliance.

### *Credit Risk*

Loans represent the largest component of assets on our balance sheet and their related credit risk is the Company's single largest financial risk. Credit risk is the risk of loss due to a borrower's inability to meet its obligations as they become due. Credit risk includes default risk, counterparty credit risk, concentration risk, recovery risk and FDIC covered loan loss share risk.

*Market Risk*

Market risk is comprised of interest rate risk and price risk.

Interest rate risk is the risk to earnings or capital arising from the impact of movements in interest rates and the timing of cash flows (repricing risk), changing rate relationships among different yield curves affecting Company activities (basis risk), changing rate relationships across the spectrum of maturities (yield curve risk), and interest-related options embedded in Company products (options risk).

Price risk is the risk to earnings or capital arising from changes in the value of either trading portfolios or other obligations. These portfolios are typically subject to daily price movements and primarily impact our mark-to-market portfolio such as, securities, residential mortgage lending pipelines and mortgage servicing rights.

*Operational Risk*

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people, and systems, or from external events. These losses may be caused by events such as fraud, breaches of customer privacy and inappropriate employee behavior. To better capture the diversity of Operational Risk, Wintrust has developed separate Risk and Control Self Assessments.

*Compliance Risk*

Compliance risk arises from violations of, or nonconformance with, laws, rules, regulations, internal practices, and tax and financial reporting requirements. This includes non-compliance with prescribed practices, internal policies and procedures or ethical standards as well as established standards for communications with external stakeholders.

*Other*

In addition to the risks enumerated above, other risks that are material to the Company's results include:

- Liquidity Risk
- Regulatory Risk
- Strategic Risk
- Reputational Risk
- Legal Risk
- Information Security Risk

## **Summary Results for the Severely Adverse Scenario**

### **Changes to Projected Capital Ratios and Risk-weighted Assets**

Under the severely adverse scenario, as shown in Table 2, all capital ratios remain above the regulatory minimum and well-capitalized ratios throughout the nine quarter test horizon. Wintrust's Tier 1 Risk-Based Capital ratio is projected to decrease from 11.7% at September 2014 to 9.1% at December 2016.

**Table 2: Project Stressed Capital Ratios through Q4 2016**

	Actual	Stressed Capital Ratios		Basel III Regulatory Requirements	
	Q3 2014	Ending Q4 2016	Minimum (2)	Well-capitalized	Minimum (1)
Common Equity Tier 1 (%)	N/A (3)	7.1%	7.1%	6.5%	4.5%
Tier 1 Risk-based Capital (%)	11.7%	9.1%	9.1%	8.0%	6.0%
Total Risk-based Capital (%)	13.1%	11.1%	11.1%	10.0%	8.0%
Tier 1 Leverage (%)	10.0%	7.3%	7.3%	5.0%	4.0%

**Memo items - risk-weighted assets (\$ in millions)**

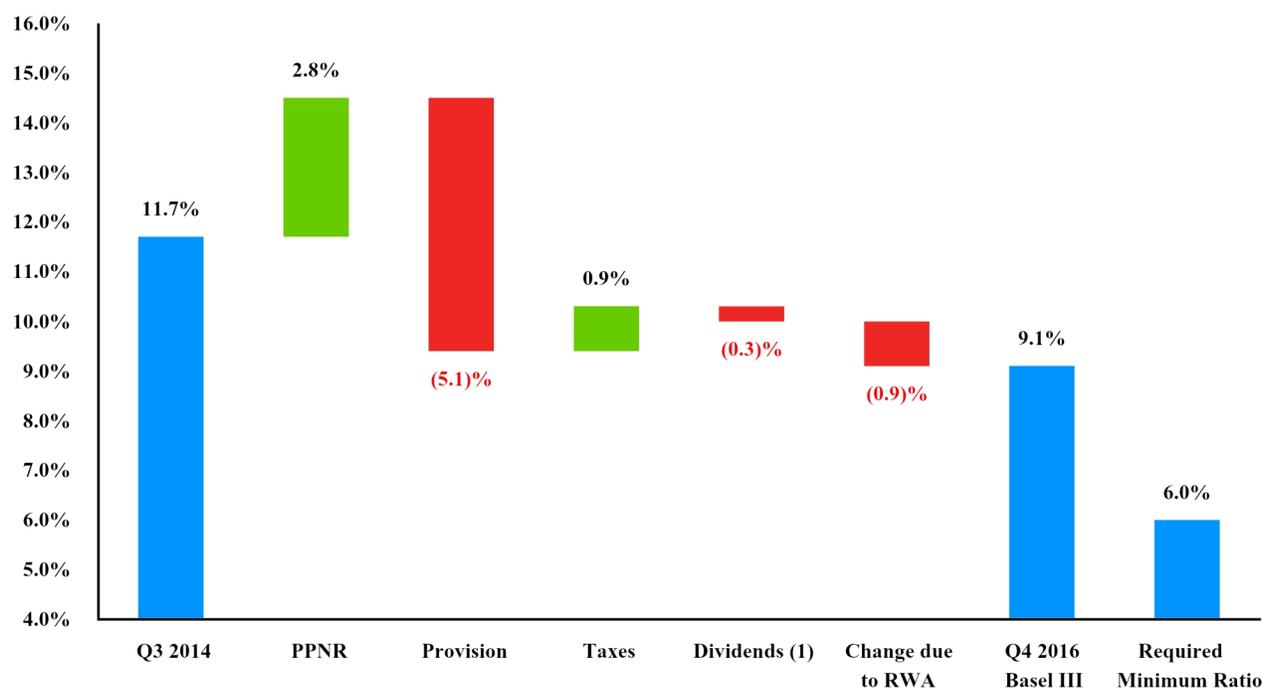
Basel I Current general approach	\$16,109	\$17,512
Basel III Standardized approach	N/A	\$17,770

(1) As prescribed by the regulations issued by the Federal Reserve, OCC and FDIC.

(2) Minimum ratio over the 9 quarter forecast window.

(3) Common Equity Tier 1 capital ratio is new for Basel III and is effective starting January 2015.

As shown in Table 3, the material drivers of the 2.6% decrease in the projected Tier 1 Risk-Based Capital ratio include projected increased PPNR, projected lower income taxes, offset by increased provision for loan losses, higher risk-weighted assets and dividends. Risk-weighted assets increase over the nine quarter test horizon due to loan growth and higher levels of non-accrual loans.

**Table 3: Projected Tier 1 Risk-Based Capital Ratio Attribution Analysis**

(1) Common stock dividends equal the average of 2014 quarterly payments, and were kept constant throughout the forecast. Preferred stock dividends were also kept constant.

## Projected losses, revenue, and net income before taxes

For the nine quarter forecast horizon, we estimated a cumulative net loss of approximately \$218 million, or 1.0% of average assets, as shown in Table 4.

**Table 4: Projected Nine-quarter Cumulative P&L Metrics (Q4 2014 - Q4 2016)**

(\$ in millions)	Nine quarter cumulative, ending Q4 2016	Percent of average assets (1)
Pre-provision net revenue	\$ 457.0	2.2 %
Provision for loan and lease losses	(814.6)	(3.9)
Realized losses/(gains) on securities	—	—
Other losses	—	—
Net income (losses) before income taxes	\$ (357.6)	(1.7%)
Income tax benefit	139.5	0.7
<b>Net income (losses)</b>	<b>\$ (218.1)</b>	<b>(1.0%)</b>

(1) Calculated on cumulative basis over the nine quarter forecast horizon.

### Pre-Provision Net Revenue

The estimated pre-provision net revenue of \$457 million reflects projected declining levels of net interest income over the nine quarter test horizon. A weak economy is projected to slow loan growth relative to less stressed conditions, while low interest rates reduce the amount of income earned on our loan portfolios.

Net interest income is impacted by the lesser rate of growth in the loan portfolio as well as the flat interest rate environment, which reduces net interest margin over the projection period. The lower levels of non-interest income are primarily due to further declines in the equity markets that lower assets under management and brokerage asset balances, which are the basis for generating wealth management fees. Mortgage banking revenue also falls as the housing market experiences declines, although this effect is partially offset by a low interest rate environment that encourages refinancing.

Non-interest expense is projected to be lower under the severely adverse scenario, due to actions taken by management to manage expenses including reductions in discretionary incentive compensation. However, this is partially offset by increased expenses and valuation charges related to foreclosed properties.

### Provision for Loan and lease Losses

The nine-quarter cumulative provision for loan and lease losses is estimated at \$815 and consists of projected loan charge-offs of \$691 million and an increase in the allowance for loan and lease losses (ALLL) of \$124 million. Loan loss provision increases to cover the net charge-offs and higher levels of impaired non-accrual loans. As a result of the increase in the loan loss provision expense, Wintrust's projected earnings are negative over the projection period.

**Table 5: Projected Loan Losses by Type of Loans (Q4 2014 - Q4 2016)**

(\$ in millions)	Nine quarter cumulative, ending Q4 2016	Cumulative portfolio loss rate (1)
First-lien mortgages	\$ 14.6	2.1 %
Junior liens and HELOCS, domestic	28.5	3.5
Commercial and Industrial	181.8	2.2
Commercial real estate, domestic	462.5	9.3
Other Consumer	3.7	0.7
<b>Net income (losses) before taxes (2)</b>	<b>\$ 691.1</b>	<b>4.5%</b>

(1) Calculated on cumulative basis by dividing the nine quarter cumulative net losses by the average loan balances over the same period.

(2) Wintrust's premium finance portfolios are included in Other Consumer and Commercial Industrial loans.

The projected ALLL-to-loans ratios remain above September 30, 2014 levels due to the weaker economic performance indicators and greater level of uncertainty in the economy, as well as the high level of non-accrual loans at the end of the projection period.

The commercial real estate ("CRE") portfolio is projected to experience increased losses, given the conditions present in the commercial real estate market. The cumulative losses projected for the CRE portfolio make up more than 60% of the total projected losses, with the second largest loss segment, commercial and industrial ("C&I"), making up approximately 26% of the total.

In the severely adverse scenario, the balance sheet is still projected to grow, although a larger portion of the growth is attributable to the available-for-sale ("AFS") securities portfolio. Growth in loan balances is reduced in the severely adverse scenario. The reduction in growth is attributable to the decline in economic conditions as well as the decline in real estate pricing. Some of the remaining loan growth is attributable to C&I borrowers drawing on existing commitments to maintain liquidity as relatively flat interest rates result in a cheaper source of funds for the borrowers. Also, the premium finance portfolio is projected to contribute to overall loan growth given the ability of Wintrust to influence demand via its pricing strategy.

The capital ratios in the severely adverse scenario decline due to both negative earnings and projected growth in risk-weighted assets over the projection period. Even with the stress from the combination of the aforementioned economic factors, the ending capital ratios in the severely adverse scenario remain above Wintrust's internal capital targets and the regulatory minimum and well-capitalized ratios.

## Stress Testing Methodologies

Wintrust has allocated significant time and resources to develop the capital stress testing program and has established a process which is both repeatable and sustainable. Our DFAST governance framework consists of multiple levels of risk management strategies, including data sourcing and reconciliation, model risk management, model validation, input and results review, internal audit, and effective challenge processes provided through senior management and board oversight.

The methodologies described in this section were used to develop detailed analyses of Wintrust's capital adequacy under the severely adverse scenario described in previous sections. The approach is forward-

looking, based on the composition of the Company as of September 30, 2014, and incorporates the material risks facing the Company. The results taken from the output of the methodologies described below form the estimates of the nine quarter DFAST income statements and balance sheets which are used to derive Wintrust's capital ratios under the severely adverse scenario.

In general, most of these methodologies rely on historical data and relationships to make projections into the future. Quantitative historical relationships between line items and macroeconomic variables were used whenever appropriate. In some cases, relationships between given line items and major asset/liability classes were also used to project and/or assess reasonableness of the results. The overall results were assessed for reasonableness and in accordance with business judgment, which factored heavily into the final results. While no forecasting methodology is perfect, and limitations and uncertainties exist around all model results, Wintrust has taken significant measures to reduce and/or mitigate modeling uncertainties wherever they may arise.

All results related to the 2015 DFAST were presented to and reviewed by Wintrust executive management and board of directors in order to ensure that results best accorded with actual business practices and would best represent Wintrust's performance under the severely adverse scenario.

## **Pre-provision net revenue**

### Net interest income

Net interest income is composed of interest income from earning assets and interest expense on rate-bearing liabilities. Estimates for net interest income are based on the projections of rate-sensitive financial assets, liabilities on the Company's balance sheet and all applicable interest rate curves. Our existing asset liability management model employs these projections to estimate net interest income under the severely adverse scenario.

#### *Interest rate projections*

Given the diverse products offered by Wintrust, additional interest rate assumptions and projections were developed using the supervisory macroeconomic scenarios variables provided by the Federal Reserve as context. These interest rate curves were interpolated based on the correlation of our existing internal interest rate curves to the interest rate curves provided.

#### *Balance sheet projections*

Loans, investment securities and interest-bearing deposits represent the majority of our balance sheet and are primary drivers to net interest income. Most of the loan and all of the deposit projections were developed using regression models. Remaining loan and deposit projections involved constant forecasts or contractual run-offs. Projections for other interest-earning assets and non-depository funding sources were based on historical analyses, constant forecasts or contractual run-offs. As part of the stress testing process, management also provided qualitative input on the assumptions based on the results under the severely adverse scenario.

## Non-interest income

Non-interest income for Wintrust consists primarily of fees derived from its mortgage banking and wealth management activities. Wealth management revenue is comprised of the trust and asset management revenue of The Chicago Trust Company and Great Lakes Advisors and the brokerage commissions, managed money fees and insurance product commissions at Wayne Hummer Investments. Mortgage banking revenue includes revenue from activities related to originating, selling and servicing residential real estate loans for the secondary market. Other sources of non-interest income for Wintrust include revenue from our subsidiary, Tricom, which specializes in financing temporary staffing companies, and service charges on deposits.

The estimation processes takes into account historical performance, macroeconomic environment, and business judgement. The modeling methodology for non-interest income line items varied considerably, depending on their materiality, their relationship/sensitivity to macroeconomic drivers, and data availability. In some cases, more advanced statistical techniques and analysis were developed to tie the income line item to macroeconomic drivers; in others, techniques such as correlation to key variables was used. For some line items that were not materially impacted by macroeconomic drivers, historical ratios to key business segments were used. In all cases, results were evaluated using management input to ensure that model outputs were consistent with the proposed scenario.

## Non-interest expenses

The most significant of Wintrust's non-interest expenses are salaries and benefits. Other line items in noninterest expense include occupancy and equipment expense (both non-depreciation and depreciation), Federal Deposit Insurance Corporation ("FDIC") insurance premiums, data processing fees, professional fees, and other assorted expenses.

Methodologies used for projecting non-interest expense items varied considerably. In the case of salaries and benefits, items such as bonuses and long term incentive plans for executives were reduced or eliminated based on expected poor financial results. For FDIC insurance, the FDIC's current assessment rate calculator was used along with various assumptions about bank ratings under the severely adverse scenario. In other cases, historical ratios to related business segments, ties to macroeconomic variables, and management judgment were all utilized.

## **Provision for loan and lease losses**

### Loan loss forecasting

Loan losses for the residential real estate, home equity lines of credit, and premium finance portfolios were estimated using a roll rate methodology. A series of regression equations was used to project the percentage of each portfolio in differing degrees of past due status. Total net charge-offs were then projected by multiplying the predicted percentage against the loan balance output for the quarter.

For the larger commercial and commercial real estate portfolios, outside vendor models, which used an expected loss approach, were utilized to estimate net charge-offs under the severely adverse scenario. Each vendor model was validated to reflect Wintrust's specific portfolio characteristics.

Loan losses of other remaining immaterial loans were estimated based on historical ratios and principal runoffs as of September 30, 2014.

### Allowance for loan losses

Following generally accepted accounting principles, ALLL represents management's estimate of incurred credit losses at a specific point in time in order to ensure adequate coverage for losses in the Company's loan portfolio. The ALLL estimate relies on input from other loan and credit models, historical analyses of key credit indicators, current portfolio composition and management judgment. Provision for loan and lease losses reflects the realization of net charge-offs and the resulting changes in ALLL to maintain overall ALLL reserves.

### **Other losses**

As part of the DFAST process, we evaluated the AFS investment portfolio for securities that would be susceptible to other-than-temporary-impairment ("OTTI"). The scope of the OTTI analysis is restricted to only the credit risk faced by the securities. We used a qualitative assessment to estimate OTTI for the aforementioned securities segments over the projection period in the severely adverse scenario. Given approximately 95% of our securities are agency-backed, based on the analysis performed, the impact of OTTI on the DFAST results was negligible.

### **Taxes**

The tax department was provided with the projected financial statements for the severely adverse scenario. The quarterly income tax expense was calculated using currently enacted federal and state tax code and regulations. A blended effective income tax rate of 39% was used to determine the income tax expense for each quarter. The effective income tax rate was supported by Wintrust's stable effective income tax rate in recent years as well as additional calculations supporting the continued use of this effective income tax rate.

At the end of each quarterly period, the tax department analyzed net deferred tax assets ("DTA") and potential valuation allowances, and the effect of potential disallowances of goodwill, other intangibles, and DTAs on regulatory capital under both Basel I and Basel III.

### **Forward-Looking Statements**

This stress test disclosure contains forward-looking statements within the meaning of the federal securities laws. Investors are cautioned that such statements are based upon the hypothetical impact of assumed future economic conditions on the Company's capital, financial condition, and earnings. This disclosure is not intended to reflect the Company's expectations about actual future conditions. Our actual results could differ materially from the results reflected herein and will be influenced by actual economic and financial conditions as well as the risks we have outlined in our public filings. For a discussion of such risks and uncertainties, see "Risk Factors" and the forward-looking statement disclosure contained in Wintrust's most recent Annual Report on Form 10-K and our subsequent SEC filings. Forward-looking statements speak only as of the date made and Wintrust undertakes no duty to update any forward-looking statements contained herein or therein.