

Wintrust Financial Corporation

Key Rating Drivers

Ratings Affirmed, Outlook Revised to Negative: Fitch Ratings has affirmed Wintrust Financial Corp.'s (WTFC) Long-Term and Short-Term Issuer Default Ratings (IDRs) at 'BBB+' and 'F2', respectively. The Rating Outlook has been revised to Negative as Fitch expects significant earnings and credit pressure due to the disruption to economic activity and financial markets from the coronavirus pandemic.

Franchise, Risk Profile Support Ratings: In affirming ratings, Fitch is signalling its view that the bank enters this pandemic and ensuing sharp financial downturn in a position of reasonable strength, underpinned by its diversified lending franchise, solid funding and liquidity profile, and strong risk-management practices. Fitch also views WTFC's ratings as having ample headroom, such that an Outlook revision back to Stable from Negative without a downgrade is possible.

Earnings Pressured: Fitch anticipates downward pressure on WTFC's earnings profile as higher expected credit losses drive elevated provisioning levels, while lower interest rates will compress net interest margin (NIM). The provision for credit losses increased five-fold in 1Q20 to \$53 million versus \$10.6 million a year prior, while rate cuts that began in 2H19 led to a 58bps decline in NIM versus 1Q19.

Capital to be Tested: WTFC's capital levels remain below its mid-tier peers as the Common Equity Tier 1 (CET1) ratio of 8.9% in 1Q20 declined from 9.3% during the prior-year quarter. Fitch expects that capital levels will erode further due to balance sheet expansion in 1Q20, along with a decreased ability to accrete capital through earnings due to higher provisioning.

Credit Stress Expected: Fitch expects negative pressure on WTFC's asset quality factor score of 'bbb+' and that a downgrade to this factor score would likely affect the overall ratings. We expect the pandemic will affect nearly all economic sectors, and expect asset quality metrics to deteriorate from the benign levels observed in recent years.

Funding and Liquidity Remain Sound: Fitch views WTFC's funding and liquidity profile as good, supported by its stable deposit franchise. The loan-to-deposit ratio stood at 90% in 1Q20, within the company's targeted range, brought down through deposit market share gains driven by bank acquisitions and organic branch openings in recent periods.

Rating Sensitivities

Ratings Sensitive to Capital Decline: WTFC's ratings would be at risk if the CET1 ratio were to approach or ultimately dip below Fitch's lower boundary for an implied capital score of 'bbb' (8.0%) and remain there for multiple quarters absent a plan to build levels back above this threshold.

Added Pressure May Result from Weaker Earnings, Asset Quality: Negative pressure could be placed on WTFC's ratings should there be evidence of outsized deterioration in the level and volatility of earnings relative to peers. Material weakening of asset quality could also drive downward rating action. Pressure could emerge if impaired loans to gross loans were to meaningfully exceed 3% and be expected to remain above that threshold for an extended period of time.

Upward Rating Movement Unlikely: Fitch views upward ratings momentum as limited over the Outlook horizon given the current economic backdrop. However, the Outlook could be revised back to Stable should conditions improve. This includes earnings returning to pre-pandemic levels and asset quality stabilizing with peers or back to pre-crisis levels. This is also based upon WTFC maintaining a conservative risk appetite and capital levels near peers.

Ratings

Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F2

Local Currency

Viability Rating	bbb+
Support Rating	5
Support Rating Floor	NF

Outlooks/Watches

Foreign-Currency Long-Term IDR	Negative
--------------------------------	----------

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Fitch Affirms Wintrust at 'BBB+'/'F2'; Outlook Revised to Negative on Expected Coronavirus Impact \(May 2020\)](#)

[Coronavirus Relief Will Mask U.S. Bank Asset Quality \(Significant Asset Quality Deterioration Expected\) \(May 2020\)](#)

[Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases \(April 2020\)](#)

[U.S. Banking Quarterly: 1Q20 \(Coronavirus to Impact Results for Quarters to Come\) \(May 2020\)](#)

[Small Business Loan Program Risks May Impede US Bank Participation \(April 2020\)](#)

[Sector and Rating Outlook for U.S. Banks Revised to Negative \(March 2020\)](#)

[U.S. Banks Confront Coronavirus Challenges \(Economic Downturn to Impact U.S. Banks to Varying Degrees\) \(March 2020\)](#)

Analysts

Brian Thies
+312 606-2316
brian.thies@fitchratings.com

Bain K. Rumohr, CFA
+312 368-3153
bain.rumohr@fitchratings.com

Wintrust Financial Corporation

Rating Level	Rating
Long Term IDR	BBB+
Short Term IDR	F2
Viability Rating (VR)	bbb+
Subordinated Debt	BBB
Preferred Stock	BB
Support Rating	5
Support Rating Floor	NF
Outlook/Watch	Negative

Source: Fitch Ratings.

Subsidiary Banks

Rating Level	Rating
Long Term IDR	BBB+
Short Term IDR	F2
Viability Rating (VR)	bbb+
Long Term Deposits	A-
Short Term Deposits	F2
Support	5
Support Rating	NF
Outlook/Watch	Negative

Source: Fitch Ratings.

Ratings Navigator

(Rating Action on May 6, 2020)

Wintrust Financial Corporation



Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+ Negative
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
cc+										cc+	CCC+	CCC+
cc										cc	CCC	CCC
cc-										cc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Significant Changes

Government Lending Programs May Offset Earnings Pressure

Although WTFC's earnings profile is likely to be negatively impacted from the current pandemic and containment measures, Fitch anticipates modest fee revenue from participation in government lending programs may offset these headwinds in the short-term. The company disclosed in 1Q20 that it processed over 8,900 applications of the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP), with approximately \$3.3 billion in loans approved during the first round of lending.

As these loans are forgiven by the SBA and fee revenue is recognized, approximately \$100 million of which WTFC expects to collect, it could provide a temporary backstop to pressured earnings. However, Fitch notes that if these loans remain on balance sheet for longer terms, and the recognition of fee revenue is likewise stretched, they could have a dilutive effect on NIM.

Vulnerable Sector Exposure Manageable

WTFC could experience an outsized effect due to concentration in sectors that Fitch views as vulnerable to the impacts of the coronavirus pandemic, including franchise lending and retail-oriented loans in both C&I and commercial real estate (CRE). Through 1Q20, the company's exposure to loans in highly affected industries totalled \$2.4 billion in loans, or 8.7% of total loans. However, the majority of this exposure was to quick service restaurants, which derive most of their revenues from drive-thru and take-out orders, and are expected to be less impacted than full service restaurants. Through April 17, WTFC had extended loan modifications of nearly \$300 million, \$219 million of which were related to vulnerable industries.

While Fitch anticipates that credit losses will begin to materialize in the second half of 2020, having been somewhat delayed by forbearance programs, such as loan deferrals, mortgage payment deferrals, and government programs to replace or protect household incomes. Fitch sees more severe downside risks to household debt than experienced during the prior recession, notwithstanding long-term improvement in borrower credit profiles.

Bar Chart Legend	
Vertical Bars – VR range of Rating Factor	
Bar Colors – Influence on final VR	
■	Higher influence
■	Moderate influence
■	Lower influence
Bar Arrows – Rating Factor Outlook	
↑	Positive
↓	Negative
↕	Evolving
□	Stable

Environmental, Social and Governance Considerations

FitchRatings Wintrust Financial Corporation

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

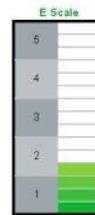
Wintrust Financial Corporation has 5 ESG potential rating drivers

- Wintrust Financial Corporation has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating
- Governance is minimally relevant to the rating and is not currently a driver.

				Overall ESG Scale	
key driver	0	issues	5		
driver	0	issues	4		
potential driver	5	issues	3		
not a rating driver	4	issues	2		
	5	issues	1		

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management, Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management, catastrophe risk, credit concentrations	Company Profile, Management & Strategy, Risk Appetite, Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

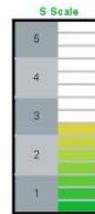
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector/Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile, Management & Strategy, Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment, Company Profile, Management & Strategy, Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile, Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile, Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness, ownership concentration, protection of creditor/stakeholder rights, legal/compliance risks, business continuity, key person risk, related party transactions	Management & Strategy, Earnings & Profitability, Capitalisation & Leverage
Group Structure	3	Organizational structure, appropriateness relative to business model, opacity, intra-group dynamics, ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.