

WINTRUST FINANCIAL CORP
Form 10-K
February 29, 2016

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, 2015

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
Series D Preferred 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 the definition 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 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

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The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2015 (the last business day of the registrant's most recently completed second quarter), determined using the closing price of the common stock on that day of \$53.38, as reported by the NASDAQ Global Select Market, was \$2,514,968,967. As of February 24, 2016, the registrant had 48,429,151 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 26, 2016 are incorporated by reference into Part III.

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PART I

ITEM 1. 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 \$22.9 billion as of December 31, 2015. We conduct our businesses through three segments: community banking, specialty finance and wealth management. All segment measurements discussed below are based on the reportable segments and do not reflect intersegment eliminations.

We provide community-oriented, personal and commercial banking services to customers located in the Chicago metropolitan area and in southern 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, 2015, 2014 and 2013, the community banking segment had net revenues of \$714 million, \$621 million and \$599 million, respectively, and net income of \$102 million, \$99 million and \$88 million, respectively. The community banking segment had total assets of \$19.3 billion, \$16.7 billion and \$15.1 billion as of December 31, 2015, 2014 and 2013, respectively. The community banking segment accounted for approximately 77% of our consolidated net revenues for the year ended December 31, 2015.

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 in Canada through our premium finance company, First Insurance Funding of Canada (“FIFC Canada”), and short-term accounts receivable financing and outsourced administrative services through our wholly owned subsidiary, Tricom, Inc. of Milwaukee (“Tricom”). For the years ended December 31, 2015, 2014 and 2013, the specialty finance segment had net revenues of \$119 million, \$115 million and \$105 million, respectively, and net income of \$42 million, \$41 million and \$38 million, respectively. The specialty finance segment had total assets of \$3.1 billion, \$2.8 billion and \$2.5 billion as of December 31, 2015, 2014 and 2013, respectively. The specialty finance segment accounted for 13% of our consolidated net revenues for the year ended December 31, 2015.

We provide a full range of wealth management services primarily to customers in our market area through three separate subsidiaries, 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, 2015, 2014 and 2013, the wealth management segment had net revenues of \$93 million, \$89 million and \$80 million, respectively, and net income of \$13 million, \$12 million and \$11 million, respectively. The wealth management segment had total assets of \$549 million, \$520 million and \$494 million as of December 31, 2015, 2014 and 2013, respectively. The wealth management segment accounted for 10% of our consolidated net revenues for the year ended December 31, 2015.

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 strategy to provide comprehensive community-focused banking services. 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”), Wintrust 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, 2015, we had 152 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 retail origination and correspondent purchase of residential mortgages through Wintrust Mortgage. Most originated and purchased loans sold into the secondary market are sold with servicing released. Certain originated loans are sold to the Company's banks with servicing remaining within Wintrust Mortgage operations. Wintrust Mortgage maintains retail mortgage offices in a number of states, with the largest concentration located in the Chicago, Minneapolis and Los Angeles metropolitan areas.

We also offer several niche lending products through several of 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. Other niches offered throughout our banking franchise include Wintrust Commercial Finance, which offers direct leasing opportunities; Wintrust Business Credit, which specializes in asset-based lending for middle-market companies; Wintrust SBA Lending, which is dedicated to offering expertise in Small Business Administration loans; Wintrust Commercial Real Estate, which concentrates on real estate lending solutions including commercial mortgages and construction loans; and Wintrust Government, Non-Profit & Hospital, which focuses on financial solutions for mission-based organizations such as hospitals, non-profits, educational institutions and local government operations.

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, as the case may be. 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. This lending involves relatively rapid turnover of the loan portfolio and high volume of loan originations. 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 various controls and procedures including ongoing credit and other reviews of the agents and brokers as well as 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, the District of Columbia and Puerto Rico, 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 United States and Canada. Our premium finance receivables balances finance insurance policies that are spread among a large number of insurers, however one of the insurers represents approximately 14% of such balances and two additional insurers each represent approximately 5% 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. The majority of premium finance receivables are purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments.

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 2015, Tricom processed payrolls with associated client billings of approximately \$660 million and contributed approximately \$10.6 million to our revenue, net of interest expense. Net revenue is based on our reportable segments and does not reflect intersegment eliminations.

In 2015, our commercial premium finance operations, life insurance premium finance operations and accounts receivable finance operations accounted for 58%, 33% and 9%, 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, trust and investment services, asset management and securities brokerage services. These subsidiaries are subject to regulation by the Securities and Exchange Commission (the "SEC") and the Financial Industry Regulatory Authority ("FINRA"). Great Lakes Advisors, our registered investment adviser with locations in downtown Chicago and Safety Harbor, Florida as well as in various banking offices of our fifteen banks, provides money management services and advisory services to individuals, institutions, and municipal and tax-exempt organizations. Great Lakes Advisors also provides

portfolio management and financial supervision for a wide range of pension and profit-sharing plans as well as money management and advisory services to CTC. At December 31, 2015, the Company's wealth management subsidiaries had approximately \$21.2 billion of assets under administration, which includes \$2.6 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.

WHI, our registered broker/dealer subsidiary which has been operating since 1931, provides 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. After we made a decision to slow our growth from 2006 until 2008 due to unfavorable credit spreads, loosened underwriting standards by many of our competitors, and intense price competition, we raised capital and began to increase our lending and deposits in late 2008. From 2009 through 2012, this capital as well as additional capital raised during that period allowed us to be in a position to take advantage of opportunities in a disrupted marketplace 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; and

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

The Company has employed certain strategies since 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 by using fees generated from these options and mitigate overall interest rate risk;

- 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;

- Expanded the Wintrust Commercial Finance direct leasing niche in 2015; and

- Further strengthened our capital position in 2015 and raised net proceeds of \$120.8 million through the issuance and sale of non-cumulative perpetual preferred stock;

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, stockbrokers, government-sponsored entities, mutual fund companies, insurance companies, factoring companies and other non-bank financial companies. 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 make 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. Additionally, in 2015, we have increased the amount of loans sold with servicing retained, including those loans sold to the Company's banks with servicing remaining within Wintrust Mortgage operations. While earnings will fluctuate with the rise and fall of long-term interest rates, we expect that 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 2015, we furthered our growth strategy by purchasing, through certain of our banking subsidiaries, additional banking locations. We acquired four new banking locations in southern Wisconsin and sixteen new banking locations in the Chicago metropolitan area. In addition, the Company opened six new branch locations in the Chicago metropolitan area. However, the Company closed fourteen banking locations in 2015 as part of the integration of operations and the identification of under-performing locations. We believe that strategic acquisitions and branch expansion will allow us to grow into contiguous markets that we currently do not 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. In 2014, FIFC Canada expanded its operations through the acquisition of two affiliated Canadian insurance premium funding and payment services companies.

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: (1) the OCC for Barrington Bank, Crystal Lake Bank, Schaumburg Bank, Beverly Bank and Old Plank Trail Bank; (2) the Illinois Secretary for Lake Forest Bank, Hinsdale Bank, Wintrust Bank, Libertyville Bank, Northbrook Bank, Village Bank, Wheaton Bank, State Bank of the Lakes and St. Charles Bank; and (3) the Wisconsin Department for Town 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 SEC, FINRA, the Chicago Stock Exchange, the OCC, as well as by the Federal Reserve. 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. 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 prior to November 11, 1999, 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.

As a financial holding company, we may engage in an expanded range of activities, including securities and insurance activities conducted as agent or principal that are considered to be financial in nature. Moreover, financial holding companies may engage in activities 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. 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% of the voting shares of, or substantially all the assets of, a new 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, as opposed to merely adequately capitalized and adequately managed as was previously required, in order to acquire a bank located outside of our home state. Additionally, 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 other obligations.

Acquisitions of Ownership

Acquisitions of the Company's 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 United States 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, (1) significantly expanded requirements applicable to loans secured by 1-4 family residential real property, (2) imposed strict rules on mortgage servicing, and (3) 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; 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. A majority of the required regulations have been issued and others have been released for public comment or released in final 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 Item 7 "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, known as the "Volcker Rule." On December 10, 2013, five United States 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 were effective April 1, 2014, but the conformance period was extended from its statutory end date of July 21, 2014 until July 21, 2015 for proprietary trading and until July 2016 to divest private equity and hedge funds. We expect this date to be extended again until July 2017, which will be the final extension allowable under the Dodd-Frank Act.

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. 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 implement Basel III requirements, which are discussed below.

The Basel Committee on Banking Supervision has drafted frameworks for the regulation of capital and liquidity of internationally active banking organizations, the most recent of which is 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 by the Company was required by January 1, 2015, 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 believe that we will continue to exceed all estimated well-capitalized regulatory requirements on a fully phased-in basis.

Under capital rules in effect for the year ended December 31, 2015, as a bank holding company, we were required to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%, of which at least 6.0% 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. Our bank regulatory agencies uniformly encourage banks and bank holding companies to be “well-capitalized,” which, for the year ended December 31, 2015, required: a leverage ratio of Tier 1 capital to total assets of 5% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 8% or greater, a ratio of common equity Tier 1 capital to total risk-weighted assets of 6.5%, and a ratio of total capital to total risk-weighted assets of 10% or greater. As of December 31, 2015, the Company's total capital to risk-weighted assets ratio was 12.2%,

its Tier 1 capital to risk-weighted asset ratio was 10.0%, its common equity Tier 1 capital to risk-weighted assets ratio was 8.4%, and its Tier 1 leverage ratio was 9.1%.

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.

For more information, see Item 7 “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 are similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes. One such test, referred to as the Liquidity Coverage Ratio (“LCR”), is designed to ensure that the banking entity has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. Another test, known as the Net Stable Funding Ratio (“NSFR”), is designed to promote more medium- and long-term funding of the assets and activities of financial institutions over a one-year horizon. These measures provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

The U.S. bank regulatory agencies implemented the LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil. While the LCR only applies to the largest banking organizations in the country, certain elements are expected to filter down to all insured depository institutions, and we are reviewing our liquidity risk management policies in light of the LCR and NSFR regulations.

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. In 2014 and 2013, under the rule applicable to the Company, which became effective November 15, 2012, we were required to conduct annual company-run stress tests using data as of September 30th of each year and different scenarios provided by the Federal Reserve. Submissions were due to the Federal Reserve no later than March 31st of each following year. Each subsequent year, we have been required to use data as of December 31st with submissions due to the Federal Reserve no later than July 31st of each following year. For further discussion of capital planning and stress testing requirements, see Item 7 “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 (1) the bank holding company's net income over the last four quarters (net of dividends paid) is sufficient to fully fund the dividends,

(2) 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 (3) 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.

In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% of risk-weighted assets in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. For more information on the capital conservation buffer, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview and Strategy - Financial Regulatory Reform."

FDICIA and Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, requires the federal bank regulatory agencies to take "prompt corrective action" regarding FDIC-insured depository institutions that do not meet minimum capital requirements. Depository institutions are placed into one of five capital tiers:

"well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." An institution that fails to remain well-capitalized will be subject to a series of restrictions that increase as its capital condition worsens. For example, institutions that are less than well-capitalized are barred from soliciting, taking or rolling over brokered deposits. FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) if the depository institution would be undercapitalized thereafter. Undercapitalized depository institutions are subject to growth limitations and must submit a capital restoration plan, which must be guaranteed by the institution's holding company. In addition, an undercapitalized institution is subject to increased monitoring and asset growth restrictions and is subject to greater regulatory approval requirements. The FDICIA also provides for enhanced supervisory authority over undercapitalized institutions, including authority for the appointment of a conservator or receiver for the institution. Guidance from the federal banking agencies also indicates that a holding company may be required to provide assurances that a subsidiary bank will comply with any requirements imposed on it under prompt corrective action.

As a result of the Dodd-Frank Act, bank holding companies will be subject to an "early remediation" regime that is substantially similar to the prompt corrective action regime applicable to banks. The remedial actions also increase as the condition of the holding company deteriorates, although the proposed holding company regime would use several forward-looking triggers to identify when a holding company is in troubled condition, beyond just the capital ratios used under the prompt corrective action regime.

As of December 31, 2015 and 2014, each of the Company's banks was categorized as "well-capitalized." In order to maintain the Company's designation as a financial holding company, the Company and each of the banks is required to maintain capital ratios at or above the "well-capitalized" levels. Management is committed to maintaining the Company's capital levels above the "well-capitalized" levels established by the Federal Reserve for bank holding companies.

Enforcement Authority

The federal bank regulatory agencies have broad authority to issue orders to depository institutions and their holding companies prohibiting activities that constitute violations of law, rule, regulation, or administrative order, or that represent unsafe or unsound banking practices, as determined by the federal banking agencies. The federal banking agencies also are empowered to require affirmative actions to correct any violation or practice; issue administrative orders that can be judicially enforced; direct increases in capital; limit dividends and distributions; restrict growth; assess civil money penalties against institutions or individuals who violate any laws, regulations, orders, or written agreements with the agencies; order termination of certain activities of holding companies or their non-bank subsidiaries; remove officers and directors; order divestiture of ownership or control of a non-banking subsidiary by a

holding company; or terminate deposit insurance and appoint a conservator or receiver.

FDIA and Safety and Soundness

The FDIA imposes various requirements on insured depository institutions, including our subsidiary banks. Among other things, the FDIA includes requirements applicable to the closure of branches; merger or consolidation by or with another insured bank; additional disclosures to depositors with respect to terms and interest rates applicable to deposit accounts; uniform regulations for extensions of credit secured by real estate; restrictions on activities of and investments by state-chartered banks; and increased reporting requirements on agricultural loans and loans to small businesses. Under the “cross-guarantee” provision of the FDIA, insured depository institutions such as the subsidiary banks may be liable to the FDIC for any losses incurred, or reasonably

expected to be incurred, by the FDIC resulting from the default of, or FDIC assistance to, any other commonly controlled insured depository institution. All of our subsidiary banks are commonly controlled within the meaning of the cross-guarantee provision.

The FDIA also requires the federal bank regulatory agencies to prescribe standards of safety and soundness, by regulations or guidelines, relating generally to operations and management, asset growth, asset quality, earnings, stock valuation and compensation. The federal bank regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards pursuant to the FDIA. The guidelines establish general standards relating to internal controls and information systems, informational security, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. The guidelines prohibit excessive compensation as an unsafe and unsound practice, and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder.

During the past decade, properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing banking institutions including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that financial institutions are expected to address in the current environment. The subsidiary banks are expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive and effective internal controls.

Risk Committee Requirement

On March 27, 2014, the Federal Reserve published final rules to implement certain "enhanced prudential standards" mandated by the Dodd-Frank Act. Many of these enhanced prudential standards apply only to bank holding companies and foreign banking organizations with total consolidated assets of \$50 billion or more, and do not apply to the Company. However, the Federal Reserve's enhanced prudential standards require that, beginning in 2015, publicly traded bank holding companies with total consolidated assets of greater than \$10 billion and less than \$50 billion must establish and maintain risk committees for their boards of directors to oversee the bank holding companies' risk management frameworks. Our Board has had a separate risk committee since 1998; we believe that our risk committee and corresponding risk management framework is in compliance with all applicable requirements.

Insurance of Deposit Accounts

The deposits of each of our subsidiary banks are insured by the DIF up to the standard maximum deposit insurance amount of \$250,000 per depositor. Each of our subsidiary banks is subject to deposit insurance assessments based on the risk it poses to the DIF, as determined by the capital category and supervisory category to which it is assigned. The FDIC has authority to raise or lower assessment rates on insured deposits in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments. In light of the significant increase in depository institution failures in 2008-2010 and the increase of deposit insurance limits, the DIF incurred substantial losses during recent years. To bolster reserves in the DIF, the Dodd-Frank Act increased the minimum reserve ratio of the DIF to 1.35% of insured deposits and deleted the statutory cap for the reserve ratio. In December 2010, the FDIC set the designated reserve ratio at 2%, 65 basis points above the statutory minimum. In April 2011, the FDIC implemented changes required by the Dodd-Frank Act to revise the definition of the assessment base for calculating deposit insurance premiums from the amount of insured deposits held by an institution to the institution's average total consolidated assets less average tangible equity. The FDIC also changed the assessment rates, providing that they will initially range from 2.5 basis points to 45 basis points. The FDIC has indicated that these changes generally will not require an increase in the level of assessments for depository institutions with less than \$10 billion in assets, such as

each of our bank subsidiaries, and may result in decreased assessments for such institutions. However, there is a risk that the banks' deposit insurance premiums will again increase if failures of insured depository institutions continue to deplete the DIF.

In addition, the Deposit Insurance Fund Act of 1996 authorizes the Financing Corporation ("FICO") to impose assessments on DIF assessable deposits in order to service the interest on FICO's bond obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2015 was approximately 0.600 basis points (60 cents per \$10,000 of assessable deposits).

Limits on Loans to One Borrower and Loans to Insiders

Federal and state banking laws impose limits on the amount of credit a bank can extend to any one person (or group of related persons). The Dodd-Frank Act expanded the scope of these restrictions for national banks under federal law to include credit

exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions. Provisions of the Dodd-Frank Act also amended the FDIA to prohibit state-chartered banks (including certain of our banking subsidiaries) from engaging in derivative transactions unless the state lending limit laws take into account credit exposure to such transactions.

Applicable banking laws and regulations also place restrictions on loans by FDIC-insured banks and their affiliates to their directors, executive officers and principal shareholders.

Additional Provisions Regarding Deposit Accounts

The Dodd-Frank Act eliminated prohibitions under federal law against the payment of interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts. Depending upon the market response, this change could have an adverse impact on our interest expense.

Federal Reserve regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2016, the first \$15.2 million of otherwise reservable balances are exempt from the reserve requirements; for transaction accounts aggregating more than \$15.2 million to \$110.2 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of \$110.2 million, the reserve requirement is 10% of the aggregate amount of total transaction accounts in excess of \$110.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve. Our banks are in compliance with the foregoing requirements.

De Novo Branching

The Dodd-Frank Act amended the FDIA and the National Bank Act to allow national banks and state banks, with the approval of their regulators, to establish de novo branches in states other than the bank's home state as if such state was the bank's home state.

In 2009, the FDIC adopted enhanced supervisory procedures for de novo banks, which extended the special supervisory period for such banks from three to seven years. Throughout the de novo period, newly chartered banks will be subject to higher capital requirements, more frequent examinations and other requirements.

Anti-Tying Provisions

Under the anti-tying provisions of the BHC Act, among other things, each of our subsidiary banks is prohibited from conditioning the availability of any product or service, or varying the price for any product or service, on the requirement that the customer obtain some additional product or service from the bank or any of its affiliates, other than loans, deposits and trust services.

Transactions with Affiliates

Certain "covered" transactions between a bank and its holding company or other non-bank affiliates are subject to various restrictions imposed by state and federal law and regulation. Such "covered transactions" include loans and other extensions of credit by the bank to the affiliate, investments in securities issued by the affiliate, purchases of assets from the affiliate, payments of fees or other distributions to the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of the affiliate. In general, these affiliate transaction rules limit the amount of covered transactions between an institution and a single affiliate, as well as the aggregate amount of covered transactions between an institution and all of its affiliates. In addition, covered transactions that are credit transactions must be secured by acceptable collateral, and all covered transactions must be on terms that are at least as favorable to the institution as then-prevailing in the market for comparable transactions with unaffiliated entities. Transactions between affiliated banks may be subject to certain exemptions under applicable federal law.

Community Reinvestment Act

Under the CRA, a financial institution has a continuing and affirmative obligation, consistent with the safe and sound operation of such institution, to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. However, institutions are rated on their performance in meeting the needs of their communities. The CRA requires each federal banking agency to take an institution's CRA record into account when evaluating certain applications by the institution, including applications for charters,

branches and other deposit facilities, relocations, mergers, consolidations, acquisitions of assets or assumptions of liabilities, and bank and savings association acquisitions. An unsatisfactory record of performance may be the basis for denying or conditioning approval of an application by a financial institution or its holding company. The CRA also requires that all institutions publicly disclose their CRA ratings. Each of our subsidiary banks received a “satisfactory” or better rating from the Federal Reserve or the OCC on their most recent CRA performance evaluations.

Compliance with Consumer Protection Laws

Our banks and some other operating subsidiaries are also subject to many federal consumer protection statutes and regulations, including the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Electronic Fund Transfer Act, the Consumer Financial Protection Act, the Federal Trade Commission Act and analogous state statutes, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Servicemembers Civil Relief Act and the Home Mortgage Disclosure Act. Wintrust Mortgage must also comply with many of these consumer protection statutes and regulations. Violation of these statutes can lead to significant potential liability for damages and penalties, in litigation by consumers as well as enforcement actions by regulators. Some of the key requirements of these laws:

- require specific disclosures of the terms of credit, and regulate underwriting and other practices for mortgage loans and other types of credit;
- require specific disclosures about deposit account terms, and the electronic transfers that can be made to or from accounts at the banks;
- provide limited consumer liability for unauthorized transactions;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- require notifications about the approval or decline of credit applications, the reasons for a decline, and the credit scores used to make credit decisions;
- prohibit unfair, deceptive or abusive acts or practices;
- require mortgage lenders to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;
- forbid the payment of referral fees for any settlement service as part of a real estate transaction;
- prohibit certain lending practices and limit escrow amounts with respect to real estate transactions;
- provide interest rate reductions and other protections for servicemembers called to active duty; and
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

During the past several years, Congress has amended these laws and federal regulators have proposed and finalized a number of significant amendments to the regulations implementing these laws. Among other things, the Federal Reserve, the FDIC and the OCC have adopted new rules applicable to the banks (and in some cases, Wintrust Mortgage) that govern consumer credit practices and disclosures, as well as rules that govern overdraft practices and disclosures. These rules may affect the profitability of our consumer banking activities.

As described above, the Dodd-Frank Act established the CFPB. The law transferred to the CFPB existing regulatory authority with respect to many of these consumer related regulations, and gave the CFPB new authority under the Consumer Financial Protection Act. In July 2011, many of the consumer financial protection functions previously assigned to other federal agencies shifted to the CFPB. The CFPB now has broad rulemaking authority over a wide range of consumer protection laws that apply to banks and other providers of financial products and services, including the authority to prohibit “unfair, deceptive or abusive practices,” to ensure that all consumers have access to markets for consumer financial products and services, and to ensure that such markets are fair, transparent and competitive. The Dodd-Frank Act also required the CFPB to adopt a number of new specific regulatory requirements. These new rules may increase the costs of engaging in these activities for all market participants, including our subsidiaries. In addition to the CFPB, other federal and state regulators have issued, and may in the future issue, regulations and guidance affecting aspects of our business. The developments may impose additional burdens on us and our subsidiaries. The CFPB has broad supervisory, examination and enforcement authority. Although we and our subsidiary banks are not subject to CFPB examination, the actions taken by the CFPB, including from its rulemaking authority, may influence enforcement actions and positions taken by other federal and state regulators, including those with jurisdiction over us and our subsidiaries. Finally, the Dodd-Frank Act authorizes state attorneys general and other state officials to enforce consumer protection rules issued by the CFPB.

Mortgage Related Rule Changes Generally

The Dodd-Frank Act amended the Truth in Lending Act and the Real Estate Settlement Procedures Act to impose a number of new requirements regarding the origination and servicing of residential mortgage loans. These amendments created a variety of new consumer protections. First, it significantly expands underwriting requirements applicable to loans secured by 1-4 family residential real property and augments federal law combating predatory lending practices. In addition to numerous new disclosure requirements, the Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset-backed securities

that the securitizer issues, if the loans have not complied with the ability-to-repay standards. The risk retention requirement generally will be 5%, but could be increased or decreased by regulation.

Ability to Repay Rule

On January 10, 2013, the CFPB issued a final rule implementing the Dodd-Frank Act's ability-to-repay requirements. Under the final rule, lenders, in assessing a borrower's ability to repay a mortgage-related obligation, must consider eight underwriting factors: (1) current or reasonably expected income or assets; (2) current employment status; (3) monthly payment on the subject transaction; (4) monthly payment on any simultaneous loan; (5) monthly payment for all mortgage-related obligations; (6) current debt obligations, alimony, and child support; (7) monthly debt-to-income ratio or residual income; and (8) credit history. The final rule also includes guidance regarding the application of, and methodology for evaluating, these factors.

Further, the final rule clarified that qualified mortgages do not include "no-doc" loans and loans with negative amortization, interest-only payments, balloon payments, terms in excess of 30 years, or points and fees paid by the borrower that exceed 3% of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the rule mandated that the monthly payment be calculated on the highest payment that will occur in the first five years of the loan, and required that the borrower's total debt-to-income ratio generally may not be more than 43%. The final rule also provided that certain mortgages that satisfy the general product feature requirements for qualified mortgages and that also satisfy the underwriting requirements of Fannie Mae and Freddie Mac (while they operate under federal conservatorship or receivership), or the U.S. Department of Housing and Urban Development, Department of Veterans Affairs, or Department of Agriculture or Rural Housing Service, are also considered to be qualified mortgages. This second category of qualified mortgages will phase out as the aforementioned federal agencies issue their own rules regarding qualified mortgages, the conservatorship of Fannie Mae and Freddie Mac ends, and, in any event, after seven years.

As set forth in the Dodd-Frank Act, subprime (or higher-priced) mortgage loans are subject to the ability-to-repay requirement, and the final rule provided for a rebuttable presumption of lender compliance for those loans. The final rule also applied the ability-to-repay requirement to prime loans, while also providing a conclusive presumption of compliance (i.e., a safe harbor) for prime loans that are also qualified mortgages. Additionally, the final rule generally prohibited prepayment penalties (subject to certain exceptions) and set forth a 3-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

Changes to Mortgage Loan Originator Compensation

Previously existing regulations concerning the compensation of mortgage loan originators have been amended. As a result of these amendments, mortgage loan originators may not receive compensation based on a mortgage transaction's terms or conditions other than the amount of credit extended under the mortgage loan. Further, the new standards limit the total points and fees that a bank and/or a broker may charge on conforming and jumbo loans to 3% of the total loan amount. Mortgage loan originators may receive compensation from a consumer or from a lender, but not both. These rules contain requirements designed to prohibit mortgage loan originators from "steering" consumers to loans that provide mortgage loan originators with greater compensation. In addition, the rules contain other requirements concerning recordkeeping.

Mortgage Loan Servicing

On January 17, 2013, the CFPB announced rules to implement certain provisions of the Dodd-Frank Act relating to mortgage servicing. The new servicing rules require servicers to meet certain benchmarks for loan servicing and customer service in general. Servicers must provide periodic billing statements and certain required notices and acknowledgments, promptly credit borrowers' accounts for payments received and promptly investigate complaints by borrowers and are required to take additional steps before purchasing insurance to protect the lender's interest in the property. The new servicing rules also call for additional notice, review and timing requirements with respect to delinquent borrowers. The new servicing rules took effect on January 10, 2014.

In order to ensure compliance with the Dodd-Frank Act mortgage-related rules the Company consolidated its consumer mortgage loan origination and loan servicing operations within Wintrust Mortgage. All consumer mortgage applications are taken through Wintrust Mortgage which has extensively trained loan originators located at each of our branches. While in certain limited cases our banks may offer specialized consumer mortgages to our customers, we

expect that on a going forward basis, consumer mortgages for all of our banks will be originated and closed by Wintrust Mortgage. Wintrust Mortgage then sells loans to third parties or to our banks. To the extent that we retain consumer mortgage loans in our bank portfolios, our banks have engaged Wintrust Mortgage to provide loan servicing. We believe that by centralizing loan origination and servicing operations we will not only meet the new compliance requirements, but reduce costs associated with such compliance.

TILA-RESPA Integrated Disclosure

On December 31, 2013, the CFPB published final rules and forms that combine certain disclosures that consumers receive in connection with applying for and closing on a mortgage loan under the Truth in Lending Act and the Real Estate Settlement Procedures Act. The two new forms developed by the CFPB are the Loan Estimate and the Closing Disclosure. The Loan Estimate replaces the Good Faith Estimate ("GFE") and the Early Truth in Lending Disclosure ("TIL") and adds additional disclosure language as required by the Dodd-Frank Act. The creditor must give the form to the consumer no later than three business days after the consumer applies for a mortgage loan. Consistent with current law, the creditor generally cannot charge the consumer any fees until after the consumer has been given the Loan Estimate form and the consumer has communicated intent to proceed with the transaction. Creditors may provide consumers with written estimates prior to application so long as there is a disclaimer to prevent confusion with the Loan Estimate form. The second disclosure, the Closing Disclosure form, replaces the HUD-1 and the Final TIL and adds additional disclosure language as required by Dodd Frank. The creditor must give the form to the consumer at least three business days before the consumer closes the loan. The rule became effective October 3, 2015. Wintrust Mortgage and the charter banks are both impacted by the rule, and have implemented procedures to comply with this regulation.

Expansion of the Home Mortgage Disclosure Act

The CFPB has published a lengthy amendment related to the reporting requirements under the Home Mortgage Disclosure Act. The CFPB claims the proposed rule aims to: 1) improve market information, data access, and the electronic reporting process; 2) monitor access to credit; 3) standardize the reporting threshold; 4) ease reporting requirements for some small banks; and 5) align reporting requirements with industry data standards. The proposed rule requires several new items of data be collected and reported to the FFIEC during annual reporting. A majority of the provisions of the rule become effective January 1, 2018. We expect to be fully compliant at that time.

Federal Preemption

The Dodd-Frank Act also amended the laws governing federal preemption of state laws as applied to national banks, and eliminated federal preemption for subsidiaries of national banks. These changes may subject the Company's national banks and their divisions, including Wintrust Mortgage, to additional state regulation and enforcement.

Debit Interchange

The Dodd-Frank Act added a new statutory requirement that interchange fees for electronic debit transactions that are paid to or charged by payment card issuers (including our bank subsidiaries) be reasonable and proportional to the cost incurred by the issuer. The Dodd-Frank Act also gave the Federal Reserve the authority to establish rules regarding these interchange fees. The Federal Reserve issued final regulations that were effective in October 2011, and that limit interchange fees for electronic debit transactions to 21 cents plus .05% of the transaction, plus an additional one cent per transaction fraud adjustment. The rule also imposes requirements regarding routing and exclusivity of electronic debit transactions, and generally requires that debit cards be usable in at least two unaffiliated networks.

Anti-Money Laundering Programs

The Bank Secrecy Act ("BSA") and USA PATRIOT Act of 2001 contain anti-money laundering ("AML") and financial transparency provisions intended to detect, and prevent the use of the U.S. financial system for, money laundering and terrorist financing activities. The BSA, as amended by the USA PATRIOT Act, requires depository institutions and their holding companies to undertake activities including maintaining an AML program, verifying the identity of clients, monitoring for and reporting suspicious transactions, reporting on cash transactions exceeding specified thresholds, and responding to requests for information by regulatory authorities and law enforcement agencies. Each of our subsidiary banks is subject to the BSA and, therefore, is required to provide its employees with AML training, designate an AML compliance officer and undergo an annual, independent audit to assess the effectiveness of its AML program. We have implemented policies, procedures and internal controls that are designed to comply with these AML requirements. In 2014, the Financial Crimes Enforcement Network ("FinCEN"), which is a unit of the

Treasury Department that drafts regulations implementing the USA PATRIOT Act and other AML and BSA legislation, proposed a rule that would contain explicit customer due diligence requirements and impose a new regulatory requirement on financial institutions to obtain beneficial ownership information with respect to all legal entity customers with which such institutions conduct business. The scope and compliance requirements of such a rule have yet to be finalized. Bank regulators are focusing their examinations on anti-money laundering compliance, and we will continue to monitor and augment, where necessary, our AML compliance programs.

Office of Foreign Assets Control Regulation

The U.S. Department of the Treasury's Office of Foreign Assets Control, or "OFAC," is responsible for administering economic sanctions that affect transactions with designated foreign countries, nationals and others, as defined by various Executive Orders and Acts of Congress. OFAC-administered sanctions take many different forms. For example, sanctions may include: (1) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to, making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (2) a blocking of assets in which the government or "specially designated nationals" of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). OFAC also publishes lists of persons, organizations, and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Protection of Client Information

Legal requirements concerning the use and protection of client information affect many aspects of the Company's business, and are continuing to evolve. Current legal requirements include the privacy and information safeguarding provisions of the GLB Act, the Fair Credit Reporting Act ("FCRA") and the amendments adopted by the Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act"), as well as state law requirements. The GLB Act requires a financial institution to disclose its privacy policy to certain customers, and requires the financial institution to allow those customers to opt-out of some sharing of the customers' nonpublic personal information with nonaffiliated third persons. In accordance with these requirements, we and each of our banks and operating subsidiaries provide a written privacy to each affected customer when the customer relationship begins and an annual basis. As described in the privacy notice, we protect the security of information about our customers, educate our employees about the importance of protecting customer privacy, and allow affected customers to opt out of certain types of information sharing. We and our subsidiaries also require business partners with which we share information to have adequate security safeguards and to follow the requirements of the GLB Act. The GLB Act, as interpreted by the federal banking regulators, and state laws require us to take certain actions, including possible notice to affected customers, in the event that sensitive customer information is comprised. We and/or each of the banks and operating subsidiaries may need to amend our privacy policies and adapt our internal procedures in the event that these legal requirements, or the regulators' interpretation of them, change, or if new requirements are added.

Like other lenders, the banks and several of our operating subsidiaries utilize credit bureau data in their underwriting activities. Use of such data is regulated under the FCRA, and the FCRA also regulates reporting information to credit bureaus, prescreening individuals for credit offers, sharing of information between affiliates, and using affiliate data for marketing purposes. Similar state laws may impose additional requirements on us, the banks and our operating subsidiaries.

Violation of these legal requirements may expose us to regulatory action and private litigation, including claims for damages and penalties. In addition, a security incident can cause substantial reputational harm.

Broker-Dealer and Investment Adviser Regulation

WHI and Great Lakes Advisors are subject to extensive regulation under federal and state securities laws. WHI is registered as a broker-dealer with the SEC and in all 50 states, the District of Columbia and the U.S. Virgin Islands. Both WHI and Great Lakes Advisors are registered as investment advisers with the SEC. In addition, WHI is a member of several self-regulatory organizations ("SROs"), including FINRA and the Chicago Stock Exchange. Although WHI is required to be registered with the SEC, much of its regulation has been delegated to SROs that the SEC oversees, including FINRA and the national securities exchanges. In addition to SEC rules and regulations, the SROs adopt rules, subject to approval of the SEC, that govern all aspects of business in the securities industry and conduct periodic examinations of member firms. WHI is also subject to regulation by state securities commissions in

states in which it conducts business. WHI and Great Lakes Advisors are registered only with the SEC as investment advisers, but certain of their advisory personnel are subject to regulation by state securities regulatory agencies. As a result of federal and state registrations and SRO memberships, WHI is subject to overlapping schemes of regulation that cover all aspects of its securities businesses. Such regulations cover, among other things, uses and safekeeping of clients' funds; record-keeping and reporting requirements; supervisory and organizational procedures intended to assure compliance with securities laws and to prevent improper trading on material nonpublic information; personnel-related matters, including qualification and licensing of supervisory and sales personnel; limitations on extensions of credit in securities transactions; clearance and settlement procedures; "suitability" determinations as to certain customer transactions; limitations on the amounts and types of fees and commissions that may be charged to customers; and regulation of proprietary trading activities and affiliate transactions.

Violations of the laws and regulations governing a broker-dealer's actions can result in censures, fines, the issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of a broker-dealer or its officers or employees, or other similar actions by both federal and state securities administrators, as well as the SROs.

As a registered broker-dealer, WHI is subject to the SEC's net capital rule as well as the net capital requirements of the SROs of which it is a member. Net capital rules, which specify minimum capital requirements, are generally designed to measure general financial integrity and liquidity and require that at least a minimum amount of net assets be kept in relatively liquid form. Rules of FINRA and other SROs also impose limitations and requirements on the transfer of member organizations' assets. Compliance with net capital requirements may limit the Company's operations requiring the intensive use of capital. These requirements restrict the Company's ability to withdraw capital from WHI, which in turn may limit the Company's ability to pay dividends, repay debt or redeem or purchase shares of the Company's own outstanding stock. WHI is a member of the Securities Investor Protection Corporation ("SIPC"), which subject to certain limitations, serves to oversee the liquidation of a member brokerage firm, and to return missing cash, stock and other securities owed to the firm's brokerage customers, in the event a member broker-dealer fails. The general SIPC protection for customers' securities accounts held by a member broker-dealer is up to \$500,000 for each eligible customer, including a maximum of \$250,000 for cash claims. SIPC does not protect brokerage customers against investment losses.

WHI in its capacity as an investment adviser is subject to regulations covering matters such as transactions between clients, transactions between the adviser and clients, custody of client assets and management of mutual funds and other client accounts. The principal purpose of regulation and discipline of investment firms is the protection of customers, clients and the securities markets rather than the protection of creditors and shareholders of investment firms. Sanctions that may be imposed for failure to comply with laws or regulations governing investment advisers include the suspension of individual employees, limitations on an adviser's engaging in various asset management activities for specified periods of time, the revocation of registrations, other censures and fines.

Employees

At December 31, 2015, the Company and its subsidiaries employed a total of 3,770 full-time-equivalent employees. The Company provides its employees with comprehensive medical and dental benefit plans, life insurance plans, 401(k) plans and an employee stock purchase plan. The Company considers its relationship with its employees to be good.

Available Information

The Company's Internet address is www.wintrust.com. The Company makes available at this address, under the "Investor Relations" tab, free of charge, its Annual Report on Form 10-K, its annual reports to shareholders, Quarterly Reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

Supplemental Statistical Data

The following statistical information is provided in accordance with the requirements of The Securities Act Industry Guide 3, Statistical Disclosure by Bank Holding Companies, which is part of Regulation S-K as promulgated by the SEC. This data should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto, and Management's Discussion and Analysis which are contained in Item 7 of this Annual Report on Form 10-K.

Investment Securities Portfolio

The following table presents the amortized cost and fair value of the Company's investment securities portfolios, by investment category, as of December 31, 2015, 2014 and 2013:

(Dollars in thousands)	2015		2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities						
U.S. Treasury	\$312,282	\$306,729	\$388,713	\$381,805	\$354,262	\$336,095
U.S. Government agencies	70,313	70,236	686,106	668,316	950,086	895,688
Municipal	105,702	108,595	234,951	238,529	154,463	152,716
Corporate notes:						
Financial issuers	80,014	80,043	129,309	129,758	129,362	128,944
Other	1,500	1,502	3,766	3,821	5,994	6,094
Mortgage-backed: ⁽¹⁾						
Mortgage-backed securities	1,069,680	1,052,510	271,129	271,649	562,708	548,198
Collateralized mortgage obligations	40,421	40,087	47,347	47,061	57,711	57,027
Equity securities	51,380	56,686	46,592	51,139	50,532	51,528
Total available-for-sale securities	\$1,731,292	\$1,716,388	\$1,807,913	\$1,792,078	\$2,265,118	\$2,176,290
Held-to-maturity securities						
U.S. Government agencies	\$687,302	\$680,162	\$—	\$—	\$—	\$—
Municipal	197,524	197,949	—	—	—	—
Total held-to-maturity securities	\$884,826	\$878,111	\$—	\$—	\$—	\$—

(1) Consisting entirely of residential mortgage-backed securities, none of which are subprime.

Tables presenting the carrying amounts and gross unrealized gains and losses for securities available-for-sale at December 31, 2015 and 2014 are included by reference to Note 3 to the Consolidated Financial Statements presented under Item 8 of this Annual Report on Form 10-K. The following table presents the carrying value of the investment securities portfolios as of December 31, 2015, by maturity distribution.

(Dollars in thousands)	Within 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Mortgage-backed	Equity Securities	Total
Available-for-sale securities							
U.S. Treasury	\$96,974	\$14,950	\$194,805	\$—	\$—	\$—	\$306,729
U.S. Government agencies	11,031	53,715	5,490	—	—	—	70,236
Municipal	39,272	42,058	22,276	4,989	—	—	108,595
Corporate notes:							
Financial issuers	11,977	55,745	3,128	9,193	—	—	80,043
Other	1,502	—	—	—	—	—	1,502
Mortgage-backed: ⁽¹⁾							
Mortgage-backed securities	—	—	—	—	1,052,510	—	1,052,510
Collateralized mortgage obligations	—	—	—	—	40,087	—	40,087

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Equity securities	—	—	—	—	—	56,686	56,686
Total available-for-sale securities	\$160,756	\$166,468	\$225,699	\$14,182	\$1,092,597	\$56,686	\$1,716,388
Held-to-maturity securities							
U.S. Government agencies	\$—	\$6,569	\$44,740	\$635,993	\$—	\$—	\$687,302
Municipal	—	12,639	51,714	133,171	—	—	197,524
Total held-to-maturity securities	\$—	\$19,208	\$96,454	\$769,164	\$—	\$—	\$884,826

(1) Consisting entirely of residential mortgage-backed securities, none of which are subprime.

The weighted average yield for each range of maturities of securities, on a tax-equivalent basis, is shown below as of December 31, 2015:

	Within 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Mortgage- backed	Equity Securities	Total	
Available-for-sale securities								
U.S. Treasury	0.41	% 0.60	% 1.62	% —	% —	% —	% 1.19	%
U.S. Government agencies	0.66	0.77	5.30	—	—	—	1.11	
Municipal	1.86	2.51	4.70	4.77	—	—	2.83	
Corporate notes:								
Financial issuers	1.17	1.87	2.73	4.80	—	—	2.14	
Other	1.78	—	—	—	—	—	1.78	
Mortgage-backed: ⁽¹⁾								
Mortgage-backed securities	—	—	—	—	2.79	—	2.79	
Collateralized mortgage obligations	—	—	—	—	1.96	—	1.96	
Equity securities	—	—	—	—	—	4.45	4.45	
Total available-for-sale securities	0.85	% 1.56	% 2.03	% 4.79	% 2.76	% 4.45	% 2.44	%
Held-to-maturity securities								
U.S. Government agencies	—	% 1.66	% 3.97	% 3.48	% —	% —	% 3.49	%
Municipal	—	3.03	4.42	4.93	—	—	4.67	
Total held-to-maturity securities	—	% 2.56	% 4.21	% 3.73	% —	% —	% 3.76	%

(1) Consisting entirely of residential mortgage-backed securities, none of which are subprime.

ITEM 1A.

RISK FACTORS

An investment in our securities is subject to risks inherent to our business. Certain material risks and uncertainties that management believes affect Wintrust are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this Annual Report on Form 10-K and in our other filings with the SEC. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also impair Wintrust's business operations. This Annual Report on Form 10-K is qualified in its entirety by these risk factors. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment.

Risks Related to Our Business and Operating Environment

Difficult economic conditions have adversely affected our company and the financial services industry in general and further deterioration in economic conditions may materially adversely affect our business, financial condition, results of operations and cash flows.

The U.S. economy was in a recession from the third quarter of 2008 to the second quarter of 2009, and economic activity continues to be restrained. The housing and real estate markets have also been experiencing extraordinary volatility since 2007. Additionally, unemployment rates remained historically high during these periods. These factors have had a significant negative effect on us and other companies in the financial services industry. As a lending institution, our business is directly affected by the ability of our borrowers to repay their loans, as well as by the value of collateral, such as real estate, that secures many of our loans. Market turmoil led to an increase in charge-offs and has negatively impacted consumer confidence and the level of business activity. However, net charge-offs, excluding covered loans, decreased to \$19.2 million in 2015 from \$27.2 million in 2014. Our balance of non-performing loans, excluding covered loans, and other real estate owned ("OREO"), excluding covered other real estate owned, was \$84.1 million and \$43.9 million, respectively, at December 31, 2015 compared to \$78.7 million and \$45.6 million, respectively, at December 31, 2014. Continued weakness or resumed deterioration in the economy, real estate markets or unemployment rates, particularly in the markets in which we operate, will likely diminish the ability of our borrowers to repay loans that we have given them, the value of any collateral securing such loans and may cause increases in delinquencies, problem assets, charge-offs and provision for credit losses, all of which could materially adversely affect our financial condition and results of operations. Further, the underwriting and credit monitoring policies and procedures that we have adopted may not prevent losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Since our business is concentrated in the Chicago metropolitan and southern Wisconsin market areas, further declines in the economy of this region could adversely affect our business.

Except for our premium finance business and certain other niche businesses, our success depends primarily on the general economic conditions of the specific local markets in which we operate. Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services to customers primarily in the Chicago metropolitan and southern Wisconsin market areas. The local economic conditions in these areas significantly impact the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources. Specifically, many of the loans in our portfolio are secured by real estate located in the Chicago metropolitan area. Like many areas, our local market area has experienced significant volatility in real estate values in recent years. Further declines in economic conditions, including inflation, recession, unemployment, changes in securities markets or other factors impacting these local markets could, in turn, have a material adverse effect on our financial condition and results of operations. Deterioration in the real estate markets where collateral for our mortgage loans is located could adversely affect the borrower's ability to repay the loan and the value of the collateral securing the loan, and in turn the value of our assets. In addition, the State of Illinois has experienced significant financial difficulty and is facing pension funding shortfalls. To the extent that these issues impact the economic vitality of the state and the businesses operating in Illinois, it encourages businesses to leave the state or discourages new employers to start or move businesses to Illinois, it

could have a material adverse effect on our financial condition and results of operations.

If our allowance for loan losses is not sufficient to absorb losses that may occur in our loan portfolio, our financial condition and liquidity could suffer.

We maintain an allowance for loan losses that is intended to absorb credit losses that we expect to incur in our loan portfolio. At each balance sheet date, our management determines the amount of the allowance for loan losses based on our estimate of probable and reasonably estimable losses in our loan portfolio, taking into account probable losses that have been identified relating to

specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified.

Because our allowance for loan losses represents an estimate of probable losses, there is no certainty that it will be adequate over time to cover credit losses in the portfolio, particularly if there is deterioration in general economic or market conditions or events that adversely affect specific customers. In 2015, we charged off \$19.2 million in loans, excluding covered loans, (net of recoveries) and increased our allowance for loan losses, excluding the allowance for covered loans, from \$91.7 million at December 31, 2014 to \$105.4 million at December 31, 2015. The increase in allowance in 2015 was primarily the result of significant loan growth during the period. Our allowance for loan losses, excluding the allowance for covered loans, represents 0.62% of total loans, excluding covered loans outstanding at December 31, 2015, compared to 0.64% at December 31, 2014.

Although we believe our loan loss allowance is adequate to absorb probable and reasonably estimable losses in our loan portfolio, if our estimates are inaccurate and our actual loan losses exceed the amount that is anticipated, or if the loss assumptions we used in calculating our reserves are significantly different from those we actually experience, our financial condition and liquidity could be materially adversely affected.

For more information regarding our allowance for loan losses, see “Loan Portfolio and Asset Quality” under Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

A significant portion of our loan portfolio is comprised of commercial loans, the repayment of which is largely dependent upon the financial success and economic viability of the borrower.

The repayment of our commercial loans is dependent upon the financial success and viability of the borrower. If the economy remains weak for a prolonged period or experiences further deterioration or if the industry or market in which the borrower operates weakens, our borrowers may experience depressed or dramatic and sudden decreases in revenues that could hinder their ability to repay their loans. Our commercial loan portfolio totaled \$4.7 billion or 27% of our total loan portfolio, at December 31, 2015, compared to \$3.9 billion, or 26% of our total loan portfolio, at December 31, 2014.

Commercial loans are secured by different types of collateral related to the underlying business, such as accounts receivable, inventory and equipment. Should a commercial loan require us to foreclose on the underlying collateral, the unique nature of the collateral may make it more difficult and costly to liquidate, thereby increasing the risk to us of not recovering the principal amount of the loan. Accordingly, our business, results of operations and financial condition may be materially adversely affected by defaults in this portfolio.

A substantial portion of our loan portfolio is secured by real estate, in particular commercial real estate. Deterioration in the real estate markets could lead to additional losses, which could have a material adverse effect on our financial condition and results of operations.

As of both December 31, 2015 and 2014, approximately 43% of our total loan portfolio was secured by real estate, the majority of which is commercial real estate. The commercial and residential real estate market continues to experience a variety of difficulties, including the Chicago metropolitan area and southern Wisconsin, in which a majority of our real estate loans are concentrated. Increases in commercial and consumer delinquency levels or declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations.

Any inaccurate assumptions in our analytical and forecasting models could cause us to miscalculate our projected revenue or losses, which could adversely affect our financial condition.

We use analytical and forecasting models to estimate the effects of economic conditions on our loan portfolio and probable loan performance. Those models reflect certain assumptions about market forces, including interest rates and consumer behavior that may be incorrect. If our analytical and forecasting models’ underlying assumptions are incorrect, improperly applied, or otherwise inadequate, we may suffer deleterious effects such as higher than expected loan losses, lower than expected net interest income, or unanticipated charge-offs, any of which could have a material adverse effect on our business, financial condition and results of operations.

Unanticipated changes in prevailing interest rates and the effects of changing regulation could adversely affect our net interest income, which is our largest source of income.

Wintrust is exposed to interest rate risk in its core banking activities of lending and deposit taking, since changes in prevailing interest rates affect the value of our assets and liabilities. Such changes may adversely affect our net interest income, which is the difference between interest income and interest expense. Our net interest income is affected by the fact that assets and liabilities reprice at different times and by different amounts as interest rates change. Net interest income represents our largest component of net income, and was \$641.5 million and \$598.6 million for the years ended December 31, 2015 and 2014, respectively.

Each of our businesses may be affected differently by a given change in interest rates. For example, we expect that the results of our mortgage banking business in selling loans into the secondary market would be negatively impacted during periods of rising interest rates, whereas falling interest rates could have a negative impact on the net interest spread earned on deposits as we would be unable to lower the rates on many interest bearing deposit accounts of our customers to the same extent as many of our higher yielding asset classes.

Additionally, increases in interest rates may adversely influence the growth rate of loans and deposits, the quality of our loan portfolio, loan and deposit pricing, the volume of loan originations in our mortgage banking business and the value that we can recognize on the sale of mortgage loans in the secondary market.

We seek to mitigate our interest rate risk through several strategies, which may not be successful. With the relatively low interest rates that prevailed in recent years, we were able to augment the total return of our investment securities portfolio by selling call options on fixed-income securities that we own. We recorded fee income of approximately \$15.4 million, \$7.9 million and \$4.8 million for the years ended December 31, 2015, 2014 and 2013, respectively. We also mitigate our interest rate risk by entering into interest rate swaps and other interest rate derivative contracts from time to time with counterparties. To the extent that the market value of any derivative contract moves to a negative market value, we are subject to loss if the counterparty defaults. In the future, there can be no assurance that such mitigation strategies will be available or successful.

Our liquidity position may be negatively impacted if economic conditions continue to suffer.

Liquidity is a measure of whether our cash flows and liquid assets are sufficient to satisfy current and future financial obligations, such as demand for loans, deposit withdrawals and operating costs. Our liquidity position is affected by a number of factors, including the amount of cash and other liquid assets on hand, payment of interest and dividends on debt and equity instruments that we have issued, capital we inject into our bank subsidiaries, proceeds we raise through the issuance of securities, our ability to draw upon our revolving credit facility and dividends received from our banking subsidiaries. Our future liquidity position may be adversely affected by multiple factors, including:

- if our banking subsidiaries report net losses or their earnings are weak relative to our cash flow needs;
- if it is necessary for us to make capital injections to our banking subsidiaries;
- if changes in regulations require us to maintain a greater level of capital, as more fully described below;
- if we are unable to access our revolving credit facility due to a failure to satisfy financial and other covenants; or
- if we are unable to raise additional capital on terms that are satisfactory to us.

Weakness or worsening of the economy, real estate markets or unemployment levels may increase the likelihood that one or more of these events will occur. If our liquidity is adversely affected, it may have a material adverse effect on our business, results of operations and financial condition.

The financial services industry is very competitive, and if we are not able to compete effectively, we may lose market share and our business could suffer.

We face competition in attracting and retaining deposits, making loans, and providing other financial services (including wealth management services) throughout our market area. Our competitors include national, regional and other community banks, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies, factoring companies and other non-bank financial companies. Many of these competitors have substantially greater resources and market presence than Wintrust and, as a result of their size, may be able to offer a broader range of products and services, better pricing for those products and services, or newer technologies to deliver those products and services than we can. Several of our local competitors have experienced improvements in their financial condition over the few years and are better positioned to compete for loans, acquisitions and personnel. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and payment systems, and for banks that do not have a physical presence in our markets to compete for deposits.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service and high ethical standards;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the ability to expand our market position;

the ability to uphold our reputation in the marketplace;