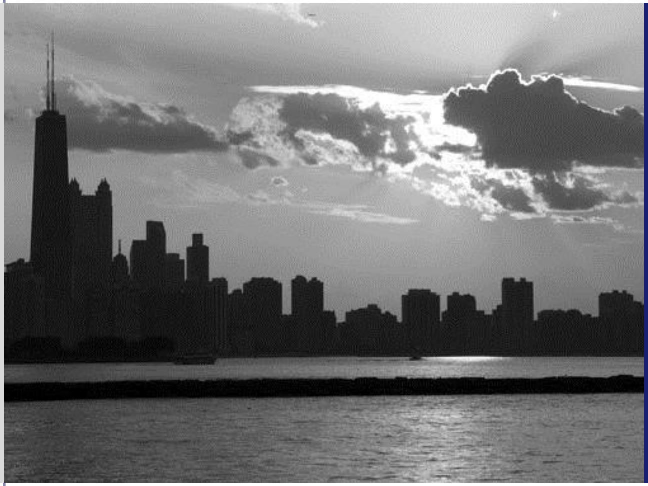
WINTRUST



MANAGING RISK IN THE RECOVERY

April 8, 2014

Federal Reserve Bank of Chicago

DePaul Driehaus College of Business

7th Annual Risk Conference

FORWARD-LOOKING INFORMATION

WINTRUST

- During the course of our remarks today, we will make certain predictive statements regarding our plans and strategies, and anticipated financial effects, to assist you in better understanding our company.
- These forward-looking statements about future results are subject to risks and uncertainties.
- Refer to our periodic reports on file with the SEC and the slides at the end of this presentation regarding forward-looking statements for further detail in this regard.

TODAY'S DISCUSSION

WINTRUST

- Introduction
- Who is Wintrust?
- Today's banking climate
- The risks of banking…have they really changed?
- How Wintrust is managing risk in today's brave new world
- Questions and discussion

WHO IS WINTRUST?

4


win
a week
in Italy
Heineken
Jammin'
Festival
Heineken
HEINEKEN LAGER BEER

WHO WE ARE

WINTRUST

- Twenty-two-year-old, community-focused banking organization with approximately $18 billion in assets
- Fifteen charter community banks with strong ties to local residents and business leaders in the Chicago and Milwaukee metropolitan markets
- 9 de novo charters established since 1991
- 20 bank acquisitions since the 4th quarter 2003, including 9 FDIC-assisted acquisitions in 2010-2013 (some were merged into existing charters)
- Two small branch acquisitions completed in October 2010 and April 2012 with approximately $75 million in total deposits acquired
- Over 120 existing banking locations
- Community bank trust department operation acquired in March 2012 with approximately $160 million of assets under administration
- Canadian premium finance business acquisition completed in June 2012
- In our early years, and by design, the vast majority of customers didn't even know Wintrust existed -- as you will see later, this is changing

Company Overview

WINTRUST

Community Banking

- **Fifteen Community Banks**
  - Chicago and Milwaukee metropolitan markets
  - 120+ locations
- **Full product suite – home equity, home mortgage, consumer, real estate and commercial loans, safe deposit facilities, ATMs, and internet banking**
- **Wintrust Mortgage**
  - National mortgage production capabilities with focus on Chicago metropolitan area

Commercial Banking

- **HAVE IT ALL – Big Bank Resources, Community Bank Service**
  - Chicago and Milwaukee downtown lending offices
  - All community banks
- **Full product suite – commercial loans, treasury management, lock box services, international**
- **Focus on middle-market C&I**

Specialty Finance

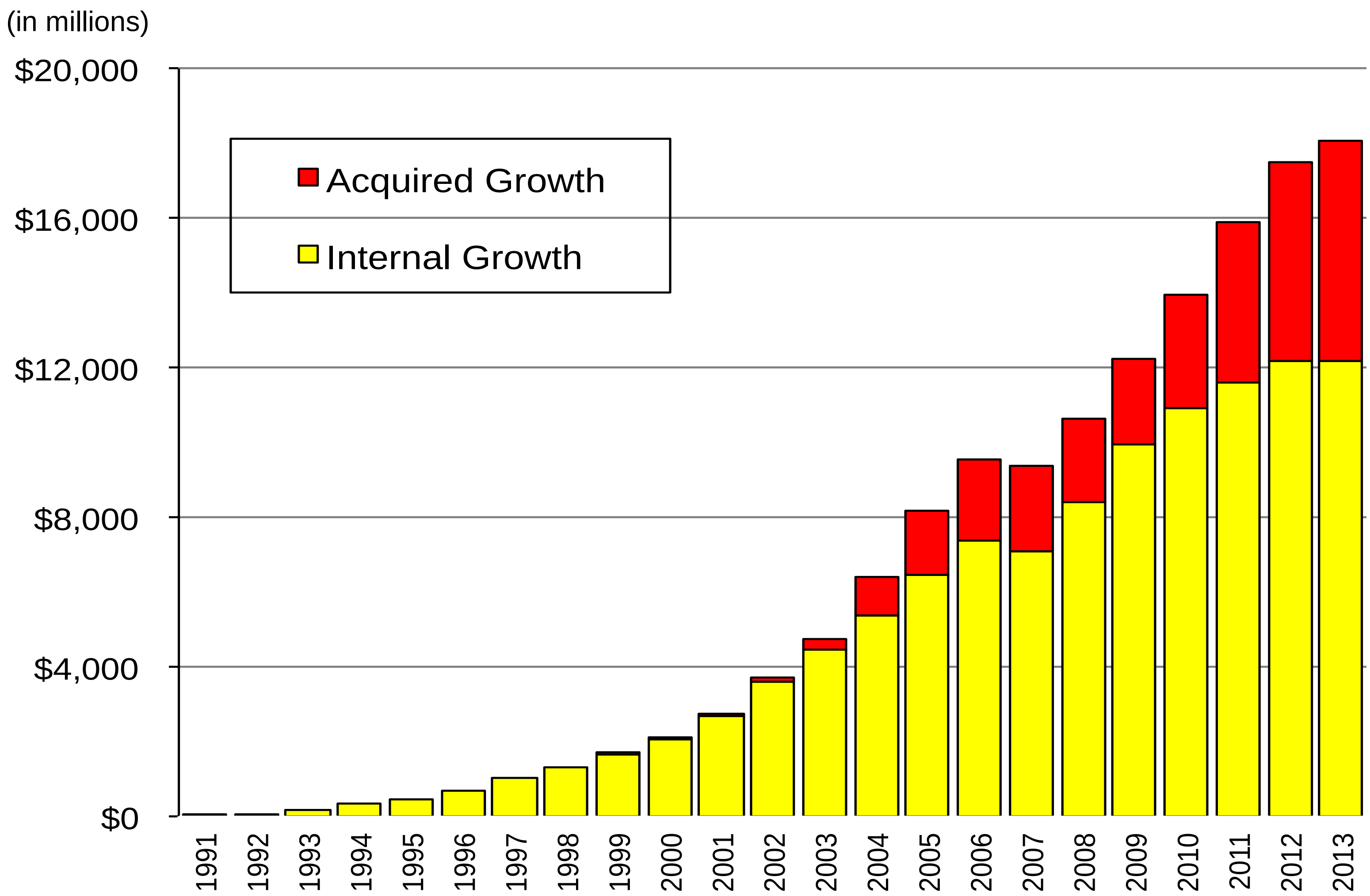
- **Two finance company business types – premium finance and account receivables**
  - Loan production to optimize banks' balance sheets
  - **First Insurance Funding**
    - P&C
    - Life Insurance
  - **Tricom-** Temporary help industry processing and financing
- **Other niches (including housing associations, franchise lending, mortgage warehouse lending – to name a few)**

Wealth Management

- **Wayne Hummer acquired in 2002, and 4 subsequent acquisitions**
- **~$18+ bn in Assets under adminsitration**
  - Brokerage, asset management and trust capabilities

ASSET GROWTH – INTERNAL / ACQUIRED

WINTRUST



CONSISTENT STRATEGY – CHANGING TACTICS

CREDIT CYCLE

Healthy (1991-2005)	Storm Clouds Gather (2006-07)	The Perfect Storm (2008)	Stabilization (2009)	Restrained Recovery (2010-current)

WINTRUST TACTICS

Organic & Acquisition Growth

- 7 traditional bank acquisitions since 2003
- 9 de novo charters since 1991

Warning signs 1Q'06

- Disadvantageous yield curve
- Loosened credit standards by competition
- Credit spreads moved to unacceptable levels

"Rope - A – Dope"

- Slowed growth
- Maintained extremely conservative underwriting
- Reduced relative cost of funds
- Controlled expenses

Capital & TARP-CPP

- Focused on minimizing dilution to shareholders
- Q3'08 – raised $50 mm of convertible preferred
- Dec. '08 - $250 mm TARP-CPP

"Off the Ropes"

- Life insurance premium finance acq.
- PMP acquisition (in late Dec '08)
- Over 50 new lenders hired since Jan '09
- Loans ↑ $800 mm in 2009
- Deposits ↑ $1.5 bn in 2009

Organic & Acquisition Growth

- Take advantage of "dislocation"
- Consistent loan growth
- 9 FDIC-assisted transactions
- Acquired 2 branch locations
- Acquired asset management firm with approx. $2.4 bn in AUM
- Acquired four banks - unassisted
- Acquired a Canadian premium finance company
- Raised capital-RETIRED TARP

Compound Annual Growth Rates:

	1991-2005	2006-2007	2007-2008	2008-2009	2009-2010	2010-2013
Asset Growth	43.4%	-2.1%	13.8%	14.6%	14.4%	9.0%

SO HOW DID WINTRUST FARE?

WINTRUST

- Remained profitable throughout the cycle
- We have taken advantage of the many opportunities which are always present in adverse credit cycles
  - Dislocated people
  - Dislocated assets
  - Dislocated banks
- Key Financial Goals
  - Increase pre-tax pre-provision adjusted earnings
  - Move bad assets out

TAKING ADVANTAGE OF DISLOCATIONS

WINTRUST

Dislocated People

- **Set up downtown Chicago office to capture core commercial and industrial (C&I) business**
- **Added 50+ lenders since the beginning of 2009 added throughout the organization**
- **Adding talented staff in other areas to support our growth and to stay out in front on product delivery systems and regulatory changes**

Dislocated Assets

- **FIFC purchased a portfolio of domestic life insurance premium finance loans and certain related assets from indirect wholly-owned subsidiaries of AIG**
  - Aggregate balance of approximately $1.03 billion
  - Purchase price of $746 million
  - Resulting discount of $287 million
  - Pre-tax bargain purchase price gain of $167 million
  - First purchase: July 28, 2009
  - Smaller, second purchase: Oct. 2009
- **Purchased a Canadian commercial premium finance company in 2012**

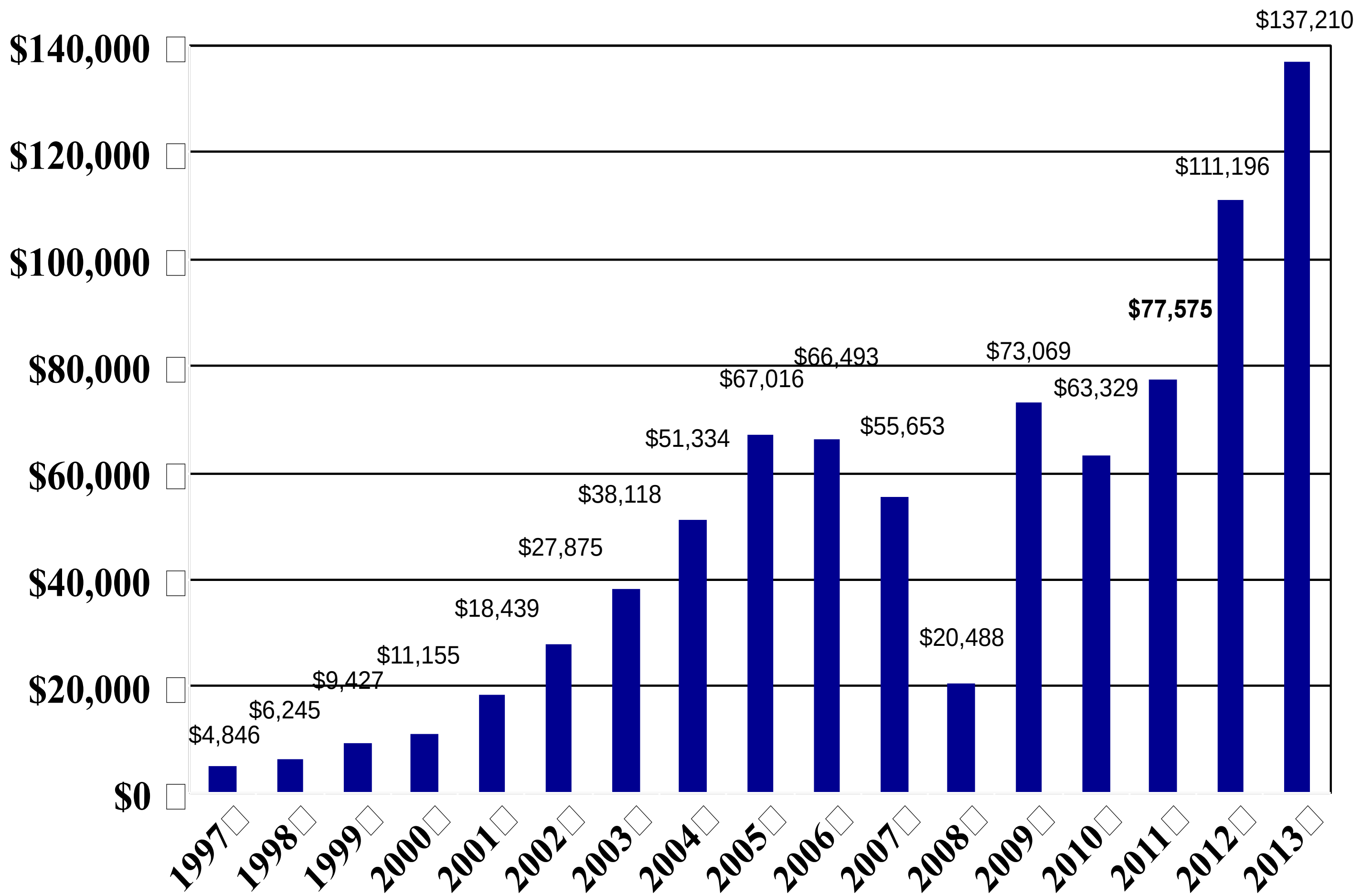
Dislocated Banks

- **Since April 2010, acquired nine failed banks from the FDIC - they cover the majority of losses**
  - Very disciplined bids- $79 million in Bargain Purchase Gains (BPG) recorded through 4Q13
  - Accretive to earnings
  - Strategic as we moved into contiguous markets not served by us
  - We intend to assimilate and then aggressively grow these acquisitions to be market leaders
- **Acquired two branches in two separate transactions with $75 million in aggregate deposits**
- **Acquired four non-assisted banks since 3Q11**
- **Acquired 3 bank facilities from the FDIC**

CONSOLIDATED NET INCOME

(before Preferred Dividends, in 000s)

WINTRUST



WINTRUST IN SUMMARY

WINTRUST

- Wintrust operates as a consortium of community banks
- Everything that doesn't touch a customer is consolidated, centralized or standardized thereby allowing efficiency in operations
- Very diversified loan portfolio and revenue stream
- Best of all worlds for our customers...big bank resources with traditional community bank, personalized service
- Worst of all worlds from a regulatory standpoint--treated as a big bank and a small bank
- We believe that ours is a prototype model for community banks in metropolitan areas in the future as those institutions, for reasons that we will be discussing, are going to find it hard to thrive in the future

THE CURRENT BANKING CLIMATE

EVERYBODY HATES BANKERS!!

WINTRUST

SUBSCRIPTIONS: 800-221-1809

WEDNESDAY

FEBRUARY 4, 2009

YESTERDAY'S MARKETS

KBW Bank Index	▼	5.2%
ABA/Nasdaq Index	▼	1.7%
Dow Jones Industrial Average	▲	1.8%
Standard & Poor's 500	▲	1.6%

10-year Treasury yield 2.875%, up 0.151

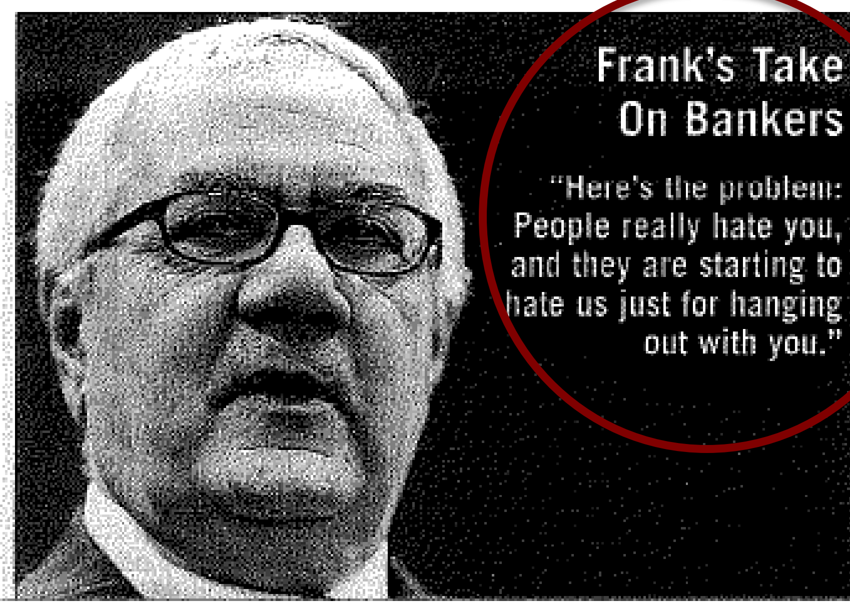
AMERICAN BA

THE FINANCIAL SERVICES

Volume CLXXIV No. 23

Generating

Capital



EVERYBODY HATES BANKERS!!

EVERYBODY HATES BANKERS!!

WINTRUST

AND THE HITS JUST KEEP ON COMING!

WINTRUST

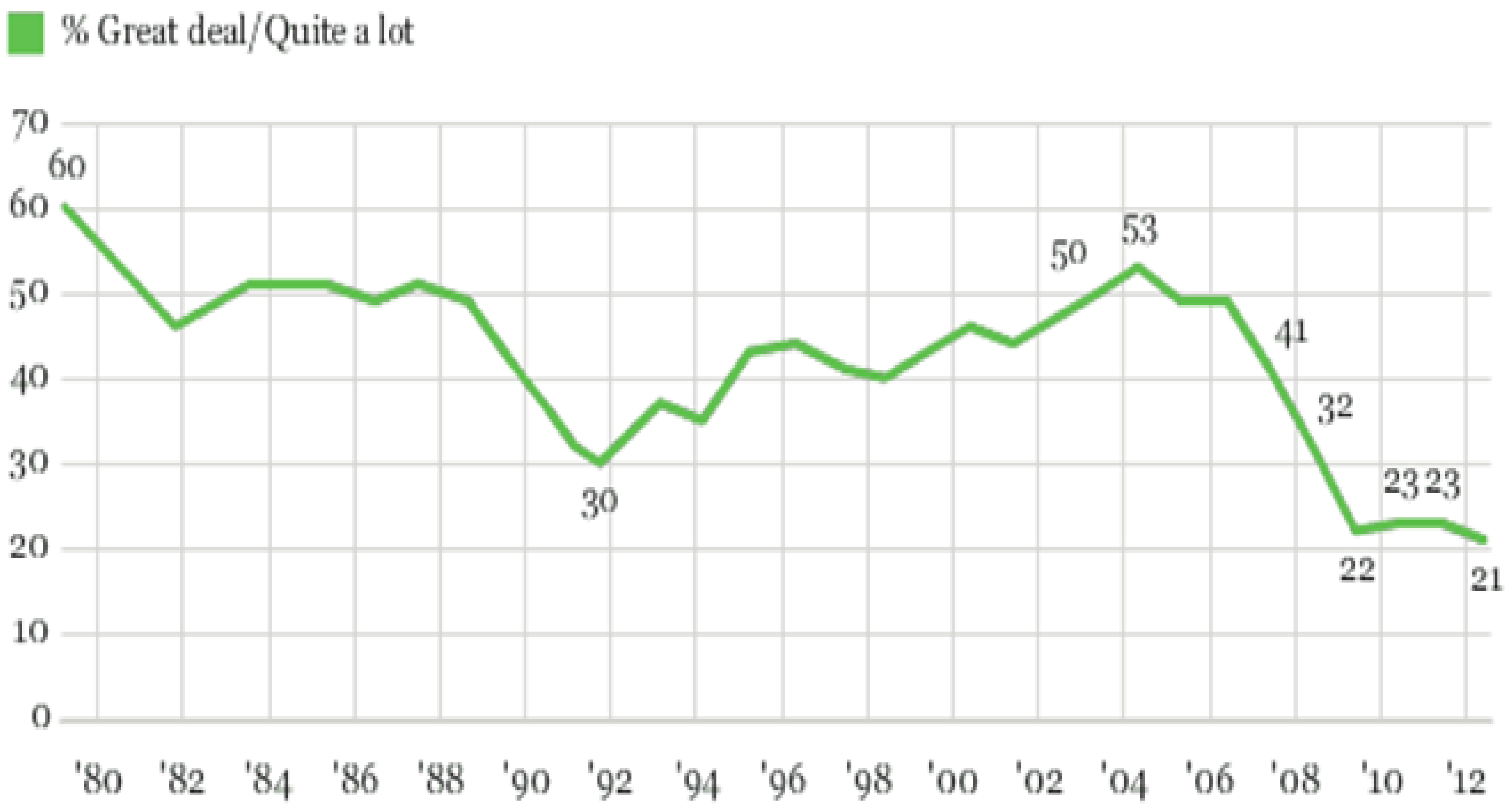
- London Whale
- LIBOR Scandal
- Punitive Mortgage Settlements
- Allegations of High Speed Trading Rigging
- Stress Test Failures
- Security breaches at retailers and resultant frauds are erroneously being put on the banking industry by the public
- CFPB Enforcement Actions Announced Regularly
- Bank Secrecy Act Violations and Fines Announced Regularly
- And on and on and on

ARE WE ALL BAD APPLES??

WINTRUST

- So I ask you, in the paraphrased words of Otter in the movie Animal House, “Should the whole industry be condemned for the actions of a few bad apples?”
- Evidently we are!

CONFIDENCE IN BANKS, 1979-2012 TREND



THE RISKS IN BANKING: HAVE THEY REALLY CHANGED?

ANYONE KNOW WHO THIS IS?

GIOVANNI DI BICCI DE' MEDICI

WINTRUST

- Founder of what is considered the first modern bank in 1397 in Florence, Italy
- First bank holding company, pioneered double entry accounting and branch banking among other things
- Chronicled in one of my favorite books, "The Rise and Decline of the Medici Bank-1397 to 1494"
- Shows that the risks of banking really haven't changed in over 600 years
  - Credit (asset quality and concentrations)
  - Interest Rate
  - Liquidity and funding
  - Reputational
  - Capital
  - Competitive
  - Political (geopolitical and local) and Regulatory
- Its all just packaged differently these days

HOW WINTRUST IS MANAGING RISK IN TODAY'S BRAVE NEW WORLD

RECENT SURVEY OF COMMUNITY BANKERS RANKS RISKS*

1. Regulatory
2. Interest Rates
3. Loan Growth
4. Economy
5. Earnings/Capital
6. Asset Quality
7. Competition
8. Non-Interest Income
9. Deposit Growth
10. Technology

* - Community Banking Journal

REGULATORY RISK

WINTRUST

- There can be no doubt that the regulatory pendulum has swung as far as it has ever been
- Some of these changes were definitely needed…others are overkill
- And the fact is, this environment is not going to change until the rule writers figure out the unintended consequences on many of these new regulations
- Our fear is that when this occurs, they will attempt to fix with even more regulations and it will complicate matters even more
- Unintended consequences include restricting credit to worthy borrowers, moving mortgage servicing outside of regulatory purview and pushing subprime lenders offshore and outside the regulatory scrutiny
- Water will seek its own level

THE WINTRUST RESPONSE

WINTRUST

- Complaining, gnashing your teeth and wailing at the moon isn’t going to change things
- When the biggest risk to your business plan are the regulators, you spend the money and commit the resources necessary to, not just comply, but rather to over comply
- Our consolidated goal and the goal of each of our senior executives is to achieve the highest grade available in all aspects of regulation—an expensive undertaking but worth it
  - Small community banks cannot afford this investment
- Biggest challenge is to not let all these new rules change how we treat customers as personalized service is our differentiator
- We cannot let these new rules make us just like another big bank

EXAMPLES

WINTRUST

- Mortgage loan servicing-250 new rules
  - Required us to consolidate all consumer servicing in Rosemont as we are considered a large servicer
- Mortgage Loan origination
  - Generalist bankers (of which we have many) are not allowed to discuss the products any more with customers
  - For those generalist bankers now designated as mortgage lenders, had to have their compensation structures changed
  - Application process has become excruciating—closing process even adds to the writers cramp of the customer
- Ability of designing products to fit the customer is greatly reduced
- Many more issues, but as I tell our people…

ENTERPRISE RISK MANAGEMENT AND STRESS TESTING

WINTRUST

- Enterprise Risk Management
  - An important element in evaluating and monitoring overall, integrated risk—a fresh look
  - Risk management has to continually evolve
- Stress Testing
  - An extremely expensive and complicated exercise that is more intellectual in its approach than it is practical (Augmented,Modified Dickey Fuller Spurious Regression Analysis?? Huh??)
  - Assumes the world is linear and predictable
  - Ignores the past experience of the specific bank and relies on overall industry data
  - Ignores the management element
  - It does however provide a reasonable framework for capital planning
- Wintrust has devoted significant time and money to both of these activities
- As in all things regulatory, we want to be the best of the best

"THIS IS THE BUSINESS WE'VE CHOSEN"

WINTRUST

- Hymen Roth talking with Michael Corleone

INTEREST RATES

WINTRUST

- This is the risk that keeps me up at night; numerous inter-related elements are involved
- The extended zero interest rate environment is:
  - Prolonging the recovery time of previously ill banks (not all bad if you are an acquisition-minded entity like us)
  - Causing banks (most bankers have amnesia) to relax credit terms and pricing to win earning assets
  - Helping the creation of an apparent stock market bubble
  - Causing some banks to extend in their loan and securities portfolios at exactly the wrong time
- We all know interest rates will go up
- If history repeats itself, and we are big believers that it does, we will be into an extended period of higher rates

INTEREST RATES, CONTINUED

WINTRUST

- History shows that the higher the percentage of national debt to GDP, the higher the probability of a period of higher inflation
- This is true not just in US history, but the history of any industrial, capitalist society
- Current US debt is almost 100% and appears to be headed higher
- Only thing holding it back is wage inflation which appears to be coming...as it should
- So one way or another, rates are headed higher
- So what is Wintrust doing to prepare?

INTEREST RATES-WINTRUST'S RESPONSE

WINTRUST

- Wintrust, by design, always maintains a positive GAP position
- We are increasing that position
- Swapping out fixed rate loans whenever possible and maintaining a short duration securities portfolio
- Giving up some current earnings to do so but believe it is the right thing to do; really don't want to lock in current spreads
- Due to our 95% core funded position (i.e, the majority of our deposits are traditional deposits), we will greatly benefit from "rate decompression" when rates finally do move
- We underwrite all of our loans stressing interest rates
- Rising interest rates will be like a beach ball under water when it comes to both our earnings and the earnings of the industry in total

CREDIT AND ASSET QUALITY

- As mentioned previously, as a result of the slow recovery and the zero interest rate environment, we are starting to see a relaxing of pricing and terms in the market
- Not as bad as the go-go days of 2006 to 2008, but it is happening
- Our conservative pricing models and loan policy are our circuit breakers. We do not change them to meet the times or the competition. When the market moves away, we do not chase it (i.e, Rope A Dope in 2006)
- Fortunately, to date, we have been able to grow doing business our way
- Our portfolio is highly diversified; if the industry didn't know it before, they should now, that concentrations kill
- To paraphrase James Carville, "It's assets stupid, but not stupid assets"

LIQUIDITY AND FUNDING

WINTRUST

- Everyone forgets how important liquidity is
- Continental Bank, the biggest bank failure of its time, didn’t go down from over exposure to the oil patch, but rather a lack of liquidity
- I think the days of reliance on excess brokered and institutional money funding exorbitant loan growth are long gone
- Wintrust funding is predominantly core, relying on brokered funds only for asset/liability purposes. We maintain multiple liquidity sources on top of it to combat the old adage that liquidity is always there…until you need it!
- There seems to be a fear that banks are currently holding excess deposits that will flee when the economy improves and rates rise—that may be true with demand deposits but on the retail side, its just the opposite
- Smaller banks are awash with liquidity as they are unable to generate loans and don’t want to go long in their security portfolios

THE ECONOMY

WINTRUST

- Keynes on steroids and unprecedented monetary intervention have produced an anemic recovery
- With the amount of stimulus provided, GDP growth of 2.5% and a slowly recovering job market cannot have been the desired result
  - National Debt approaching 100% of GDP
  - Fed quadruples its balance sheet
- Most of our clients are doing very well. However they remain wary of the uncertainty related to health care, taxes and the economy in general. In Illinois, they are very wary of the financial condition of the state
- A pro business agenda and a resolution in Illinois will bring money off the sidelines
- Remember the 80s?

THE ECONOMY

WINTRUST

- Housing is definitely getting better (finally)
- Consumers have shed credit card debt but continue to spend
- Middle class needs a break
- At Wintrust, our loan growth has been very good but we are just taking market share from other institutions—utilization on lines of credit has been stuck for some time at approximately 52%
- We continue to underwrite conservatively and monitor our circuit breakers
- And hope for a breakout!

CAPITAL AND EARNINGS

WINTRUST

- Industry capital is at the highest level seen in my lifetime…and so are regulatory requirements
- “Just in Time” capital doesn’t fly any more—more is better…always
- Affordable capital instruments are no longer allowed (trust preferreds)
- Normal ROEs have gone from 15% to 10%
- An ROA of 1% is pretty good—margins are stuck
- Earnings increases are mostly due to reserve releases; smaller banks cannot compete in the earning asset arena
- Access to capital is very good...for medium to large banks
- Banks under a billion dollars in assets in metropolitan areas are going to find it hard to thrive
- Expect a consolidation to occur over the next four years
- Capital requirements will keep multiples low.

SUMMARY

- It is a brave new world out there!
- But then again, the risks remain the same
- Therefore need to be consistent, disciplined and diligent in managing risk
- The day you think that you are smarter than the market, or have an angle, you will have your lunch handed to you
- Accept the regulatory environment as the new reality and deal with it. The rules are the rules. The regulators are the refs. Yelling at the refs will only get you tossed from the game. Play and win the game!
- Take what the market gives you
- Thank you for listening!

QUESTIONS?