SONY CORP
Form 20-F
June 27, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**
or

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2013

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from/to

or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report:

Commission file number 1-6439

Sony Kabushiki Kaisha

(Exact Name of Registrant as specified in its charter)

SONY CORPORATION

(Translation of Registrant s name into English)

Japan

(Jurisdiction of incorporation or organization)

7-1, KONAN 1-CHOME, MINATO-KU,

TOKYO 108-0075 JAPAN

(Address of principal executive offices)

J. Justin Hill, Vice President, Investor Relations

Sony Corporation of America

550 Madison Avenue

New York, NY 10022

Telephone: 212-833-6722, Facsimile: 212-833-6938

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares*	New York Stock Exchange
Common Stock**	New York Stock Exchange

* American Depositary Shares evidenced by American Depositary Receipts.
Each American Depositary Share represents one share of Common Stock.

** No par value per share.
Not for trading, but only in connection with the listing of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the Annual Report:

	Outstanding as of	
Title of Class	**March 31, 2013 (Tokyo Time)**	**March 31, 2013 (New York Time)**
Common Stock	1,010,901,336	
American Depositary Shares		57,063,910

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

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 þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

þ Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP þ International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

Table of Contents

Cautionary Statement

Statements made in this release with respect to Sony s current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as believe, expect, plans, strategy, prospects, forecast, estimate, project, anticipate, aim, intend could or should, and words of similar meaning in connection with a discussion of future operations, financial performance, events or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management s assumptions, judgments and beliefs in light of the information currently available to it. Sony cautions investors that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore investors should not place undue reliance on them. Investors also should not rely on any obligation of Sony to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Sony disclaims any such obligation. Risks and uncertainties that might affect Sony include, but are not limited to:

(i) the global economic environment in which Sony operates and the economic conditions in Sony s markets, particularly levels of consumer spending;

(ii) foreign exchange rates, particularly between the yen and the U.S. dollar, the euro and other currencies in which Sony makes significant sales and incurs production costs, or in which Sony s assets and liabilities are denominated;

(iii) Sony s ability to continue to design and develop and win acceptance of, as well as achieve sufficient cost reductions for, its products and services, including televisions, game platforms and smart phones, which are offered in highly competitive markets characterized by severe price competition and continual new product and service introductions, rapid development in technology and subjective and changing consumer preferences;

(iv) Sony s ability and timing to recoup large-scale investments required for technology development and production capacity;

(v) Sony s ability to implement successful business restructuring and transformation efforts under changing market conditions;

(vi) Sony s ability to implement successful hardware, software, and content integration strategies for all segments excluding the Financial Services segment, and to develop and implement successful sales and distribution strategies in light of the Internet and other technological developments;

(vii) Sony s continued ability to devote sufficient resources to research and development and, with respect to capital expenditures, to prioritize investments correctly (particularly in the electronics businesses);

(viii) Sony s ability to maintain product quality;

(ix) the effectiveness of Sony s strategies and their execution, including but not limited to the success of Sony s acquisitions, joint ventures and other strategic investments;

(x) Sony s ability to forecast demands, manage timely procurement and control inventories;

(xi) the outcome of pending and/or future legal and/or regulatory proceedings;

(xii) shifts in customer demand for financial services such as life insurance and Sony s ability to conduct successful asset liability management in the Financial Services segment;

(xiii) the impact of unfavorable conditions or developments (including market fluctuations or volatility) in the Japanese equity markets on the revenue and operating income of the Financial Services segment; and

2

Table of Contents

(xiv) risks related to catastrophic disasters or similar events. Risks and uncertainties also include the impact of any future events with material adverse impact.

Important information regarding risks and uncertainties is also set forth elsewhere in this annual report, including in Risk Factors included in Item 3. *Key Information*, Item 4. *Information on the Company*, Item 5. *Operating and Financial Review and Prospects*, Legal Proceedings included in Item 8. *Financial Information*, Sony s consolidated financial statements referenced in Item 8. *Financial Information* and Item 11. *Quantitative and Qualitative Disclosures about Market Risk.*

In this document, Sony Corporation and its consolidated subsidiaries are together referred to as Sony. In addition, sales and operating revenue are referred to as sales in the narrative description except in the consolidated financial statements.

As of March 31, 2013, Sony Corporation had 1,312 consolidated subsidiaries (including variable interest entities). It has applied the equity accounting method with respect to its 101 affiliated companies.

Table of Contents

TABLE OF CONTENTS

Item 1. *Identity of Directors, Senior Management and Advisers*	6
Item 2. *Offer Statistics and Expected Timetable*	6
Item 3. *Key Information*	6
A. Selected Financial Data	6
B. Capitalization and Indebtedness	7
C. Reasons for the Offer and Use of Proceeds	7
D. Risk Factors	7
Item 4. *Information on the Company*	24
A. History and Development of the Company	24
Principal Capital Investments	26
B. Business Overview	26
Products and Services	27
Sales and Distribution	30
Sources of Supply	33
After-Sales Service	33
Patents and Licenses	33
Competition	33
Government Regulations	35
C. Organizational Structure	38
D. Property, Plant and Equipment	38
Item 4A. *Unresolved Staff Comments*	41
Item 5. *Operating and Financial Review and Prospects*	41
A. Operating Results	41
Operating Results for the Fiscal Year Ended March 31, 2013 compared with the Fiscal Year Ended March 31, 2012	41
Operating Results for the Fiscal Year Ended March 31, 2012 compared with the Fiscal Year Ended March 31, 2011	54
B. Liquidity and Capital Resources	81
C. Research and Development	83
D. Trend Information	84
Issues Facing Sony and Management s Response to those Issues	84
E. Off-balance Sheet Arrangements	87
F. Contractual Obligations, Commitments, and Contingent Liabilities	90
Critical Accounting Policies	91
Recently Adopted Accounting Standards	99
Recent Accounting Pronouncements	100
Item 6. *Directors, Senior Management and Employees*	100
A. Directors and Senior Management	100
B. Compensation	105
C. Board Practices	108
D. Employees	111
E. Share Ownership	113
Item 7. *Major Shareholders and Related Party Transactions*	114
A. Major Shareholders	114
B. Related Party Transactions	114
C. Interests of Experts and Counsel	115
Item 8. *Financial Information*	115
A. Consolidated Statements and Other Financial Information	115
Legal Proceedings	115
Dividend Policy	116
B. Significant Changes	116

Table of Contents

Item 9. *The Offer and Listing*	116
A. Offer and Listing Details	116
Trading Markets	116
Trading on the TSE and the NYSE	117
B. Plan of Distribution	117
C. Markets	117
D. Selling Shareholders	117
E. Dilution	118
F. Expenses of the Issue	118
Item 10. *Additional Information*	118
A. Share Capital	118
B. Memorandum and Articles of Association	118
C. Material Contracts	127
D. Exchange Controls	127
E. Taxation	128
F. Dividends and Paying Agent	131
G. Statement by Experts	131
H. Documents on Display	131
I. Subsidiary Information	131
Item 11. *Quantitative and Qualitative Disclosures about Market Risk*	131
Item 12. *Description of Securities Other Than Equity Securities*	132
A. Debt Securities	132
B. Warrants and Rights	132
C. Other Securities	133
D. American Depositary Shares	133
Item 13. *Defaults, Dividend Arrearages and Delinquencies*	133
Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds*	133
Item 15. *Controls and Procedures*	134
Item 16. *[Reserved]*	135
Item 16A. *Audit Committee Financial Expert*	135
Item 16B. *Code of Ethics*	135
Item 16C. *Principal Accountant Fees and Services*	135
Audit and Non-Audit Fees	135
Audit Committee s Pre-Approval Policies and Procedures	135
Item 16D. *Exemptions from the Listing Standards for Audit Committees*	136
Item 16E. *Purchases of Equity Securities by the Issuer and Affiliated Purchasers*	136
Item 16F. *Change in Registrant s Certifying Accountant*	136
Item 16G. *Disclosure About Differences in Corporate Governance*	137
Item 16H. *Mine Safety Disclosure*	142
Item 17. *Financial Statements*	142
Item 18. *Financial Statements*	142
Item 19. *Exhibits*	142
Signatures	143

Table of Contents

Item 1. ***Identity of Directors, Senior Management and Advisers***
Not Applicable

Item 2. ***Offer Statistics and Expected Timetable***
Not Applicable

Item 3. ***Key Information***

A. Selected Financial Data

	Fiscal year ended March 31				
	2009	2010	2011	2012	**2013**
	(Yen in millions, yen per share amounts)				
Income statement data:					
Sales and operating revenue	7,729,993	7,213,998	7,181,273	6,493,212	**6,800,851**
Equity in net income (loss) of affiliated companies	(25,109)	(30,235)	14,062	(121,697)	**(6,948)**
Operating income (loss)	(227,783)	31,772	199,821	(67,275)	**230,100**
Income (loss) before income taxes	(174,955)	26,912	205,013	(83,186)	**245,681**
Income taxes	(72,741)	13,958	425,339	315,239	**141,505**
Net income (loss) attributable to Sony Corporation s stockholders	(98,938)	(40,802)	(259,585)	(456,660)	**43,034**
Data per share of Common Stock:					
Net income (loss) attributable to Sony Corporation s stockholders*					
Basic	(98.59)	(40.66)	(258.66)	(455.03)	**42.80**
Diluted	(98.59)	(40.66)	(258.66)	(455.03)	**40.19**
Cash dividends declared Interim	30.00	12.50	12.50	12.50	**12.50**
	(31.89 cents)	(14.38 cents)	(14.84 cents)	(16.08 cents)	**(15.18 cents)**
Cash dividends declared Fiscal year-end	12.50	12.50	12.50	12.50	**12.50**
	(13.01 cents)	(13.55 cents)	(15.66 cents)	(15.70 cents)	**(12.46 cents)**
Depreciation and amortization**	405,443	371,004	325,366	319,594	**330,554**
Capital expenditures (additions to fixed assets)	332,068	192,724	204,862	295,139	**188,627**
Research and development costs	497,297	432,001	426,814	433,477	**473,610**
Balance sheet data:					
Net working capital (deficit)	(190,265)	64,627	(291,253)	(775,019)	**(668,556)**
Long-term debt	660,147	924,207	812,235	762,226	**938,428**
Sony Corporation s stockholders equity	2,964,653	2,965,905	2,547,987	2,028,891	**2,197,766**
Common stock	630,765	630,822	630,921	630,923	**630,923**
Total assets	11,983,480	12,862,624	12,911,122	13,295,667	**14,206,292**
Number of shares issued at fiscal year-end (thousands of shares of common stock)	1,004,535	1,004,571	1,004,637	1,004,638	**1,011,950**
Sony Corporation s stockholders equity per share of common stock	2,954.25	2,955.47	2,538.89	2,021.66	**2,174.07**

* Refer to Note 22 of the consolidated financial statements.

** Depreciation and amortization includes amortization expenses for intangible assets and deferred insurance acquisition costs.

Table of Contents

	Average*	High	Low	Period-end
		(Yen)		
Yen exchange rates per U.S. dollar:				
Fiscal year ended March 31				
2009	100.62	110.48	87.80	99.15
2010	92.93	100.71	86.12	93.40
2011	85.71	94.68	78.74	82.76
2012	79.00	85.26	75.72	82.41
2013	**82.96**	**96.16**	**77.41**	**94.16**
2013				
January		91.28	86.92	91.28
February		93.64	91.38	92.36
March		96.16	93.32	94.16
April		99.61	92.96	97.52
May		103.52	97.28	100.83
June (through June 21)		**100.15**	**94.29**	**97.48**

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on June 21, 2013 was 97.48 yen = 1 U.S. dollar.

* The average yen exchange rates represent average noon buying rates of all the business days during the respective year.

B. Capitalization and Indebtedness

Not Applicable

C. Reasons for the Offer and Use of Proceeds

Not Applicable

D. Risk Factors

Sony realigned its business segments from the first quarter of the fiscal year ended March 31, 2013 to reflect modifications to its organizational structure as of April 1, 2012, primarily repositioning the operations of the previously reported Consumer, Products & Services (CPS), Professional, Device & Solutions (PDS) and Sony Mobile Communications segments. In connection with this realignment, the operations of the former CPS, PDS and Sony Mobile Communications segments are reclassified into five newly established segments, namely the Imaging Products & Solutions (IP&S), Game, Mobile Products & Communications (MP&C), Home Entertainment & Sound (HE&S) and Devices segments, as well as All Other. The previously reported Sony Mobile Communications segment is now included in the MP&C segment as the Mobile Communications category. The network business previously included in the CPS segment and the medical business previously included in the PDS segment are now included in All Other.

This section contains forward-looking statements that are subject to the Cautionary Statement appearing on page 2 of this annual report. Risks to Sony are also discussed elsewhere in this annual report, including, without limitation in the other sections of this annual report referred to in the Cautionary Statement.

Sony must overcome increasingly intense competition, especially in its consumer electronics businesses.

Sony produces consumer products that compete against products sold by competitors, including new entrants, on the basis of several factors such as price and function. In order to produce products that appeal to changing and increasingly diverse consumer preferences, and to overcome the fact that a relatively high percentage of consumers already possess products similar to those that Sony offers, Sony must develop superior technology, anticipate consumer tastes and rapidly develop attractive products with competitive selling prices.

7

Sony faces increasingly intense pricing pressure from competitors, retailer consolidation, and shorter product cycles in a variety of consumer product categories. Sony s operating results depend on Sony s ability to continue to efficiently develop and offer products at competitive prices, through multiple sales channels, that meet changing and increasingly diverse consumer preferences. If Sony is unable to effectively anticipate and counter the ongoing price erosion that frequently affects its consumer products, if there is a change in existing business models, or if the average selling prices of its consumer products decrease faster than Sony is able to reduce its manufacturing costs, Sony s operating results and financial condition may be adversely impacted.

To remain competitive and stimulate customer demand, Sony must successfully manage frequent introductions and transitions of new products, semiconductors, components, and services.

Due to the highly volatile and competitive nature of the consumer electronics, network services and mobile communication industries, Sony must continually introduce, enhance and stimulate customer demand for products, semiconductors (including image sensors), components, services and technologies in both mature and developing markets. The successful introductions and transitions of new products, semiconductors, components, and services depend on a number of factors, such as the timely and successful completion of development efforts, market acceptance, Sony s ability to plan and execute an effective marketing strategy, Sony s ability to manage the risks associated with new products and production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products, semiconductors, components, and services may have quality or other issues in the early stages of introduction. To remain competitive, it is also important for Sony to respond to technological innovation and changing consumer demand for its products and services that integrate and enhance functions of existing products and services. Accordingly, if Sony cannot properly manage frequent introductions and transitions of new products, semiconductors, components and services, Sony s operating results and financial condition may be adversely impacted.

Shifting consumer demand to new products and services may have an adverse impact on the sales of Sony s existing products and services.

Markets for products and services where Sony has a competitive strength might contract as a result of a shift in consumer demand toward a new generation of technologically innovative products and services. For example, improvements in component technologies, such as image sensors, processors and memory, and mobile operating systems, the development and expansion of broadband communication infrastructure and network services, and the evolution of downloadable applications and social media have led to a shift in demand to smartphones from products that consumers had previously purchased separately, such as portable music players, home-use video cameras, compact digital cameras and portable game hardware, and to tablets from PCs and portable game hardware. Sony must respond to changing consumer demands with appealing products and services, including smartphones, tablets and other next generation products and services, as well as continue to improve the value of its existing products and services. If Sony is unable to offer such products and services, Sony s operating results and financial condition may be adversely impacted.

Sony is subject to competition from firms that may be more specialized or have greater resources.

Sony has several business segments in different industries with many product and service categories, which cause it to face a broad range of existing and new competitors ranging from large multinational companies to highly specialized entities that focus on only a few businesses. In addition, outsourced manufacturing services partners may enter and compete with Sony in markets in which they currently supply products to Sony. Furthermore, current and future competitors may have greater financial, technical, labor and marketing resources available to them than those available to the businesses of Sony, and Sony may not be able to fund or invest in certain areas of its businesses to the same degree as its competitors or match competitor pricing. In addition, the businesses within Sony s Financial Services segment may not be able to compete effectively, especially against established competitors with superior financial, marketing and other relevant resources. A failure to efficiently anticipate and respond to these established and new competitors may adversely impact Sony s operating results.

Sony s investments in research and development may not yield the expected results.

Sony s businesses operate in intensely competitive markets characterized by changing consumer preferences and rapid technological innovation. Due to advanced technological innovation and the relative ease of technology imitation, new products and services tend to become standardized more rapidly, leading to more intense competition and ongoing price erosion. In order to strengthen the competitiveness of its products in this environment, Sony continues to invest heavily in research and development. However, these investments may not yield the innovation or the results expected quickly enough, or competitors may lead Sony in technological innovation, hindering Sony s ability to commercialize, in a timely manner, new and competitive products and services that meet the needs of the market, which consequently may adversely impact Sony s operating results as well as its reputation.

Sony s business restructuring and transformation efforts are costly and may not attain their objectives.

Sony continues to implement restructuring initiatives that focus on a review of the Sony group s investment plan, the realignment of its manufacturing sites, the reallocation of its workforce, and headcount reductions. As a result of these restructuring initiatives, a total of 77.5 billion yen in restructuring charges was recorded in the fiscal year ended March 31, 2013. While Sony anticipates recording approximately 50 billion yen of restructuring charges for the fiscal year ending March 31, 2014, significant additional or future restructuring charges may be recorded due to reasons such as the impact of economic downturns or exiting from unprofitable businesses. Restructuring charges are recorded primarily in cost of sales, selling, general and administrative (SGA) expenses and other operating (income) expense, net and thus adversely affect Sony s operating income (loss) and net income (loss) attributable to Sony s stockholders (Refer to Note 19 of the consolidated financial statements). Sony plans to continue rationalizing its manufacturing operations, shifting and consolidating manufacturing to lower-cost countries, utilizing outsourced manufacturing, reducing SGA expenses at sales companies, and outsourcing its support functions and information processing operations to external partners. In addition, Sony continues to implement business process optimization through horizontal platforms such as global sales and marketing, manufacturing, logistics, procurement, quality, and R&D.

Due to internal or external factors, efficiencies and cost savings from the above-mentioned and other restructuring and transformation initiatives may not be realized as scheduled and, even if those benefits are realized, Sony may not be able to achieve the level of profitability expected due to market conditions worsening beyond expectations. Such possible internal factors may include, for example, changes in restructuring and transformation plans, an inability to implement the initiatives effectively with available resources, an inability to coordinate effectively across different business groups, delays in implementing the new business processes or strategies, or an inability to effectively manage and monitor the post-transformation performance of the operation. Possible external factors may include, for example, increased burdens from regional labor regulations, labor union agreements and Japanese customary labor practices that may prevent Sony from executing its restructuring initiatives as planned. The inability to fully and successfully implement restructuring and transformation programs may adversely affect Sony s operating results and financial condition. Additionally, operating cash flows may be reduced as a result of the payments for restructuring charges.

Sony s acquisitions, joint ventures and investments within strategic business areas may not be successful.

Sony actively engages in acquisitions, joint ventures and other strategic investments in order to acquire new technologies, efficiently develop new businesses, and enhance its business competitiveness. Sony may sell its equity interest in a joint venture or buy out the joint venture partner s equity due to the achievement of its original objectives or other reasons. For example, in February 2012, Sony acquired Telefonaktiebolaget LM Ericsson s 50 percent equity interest in Sony Ericsson Mobile Communications AB, a joint venture that manufactures and sells mobile handsets, and made the company a wholly-owned subsidiary of Sony.

Sony may incur significant expenses to acquire and integrate businesses. Additionally, Sony may not achieve strategic objectives, planned revenue improvements and cost savings, and may not retain key personnel of the acquired businesses. Sony s operating results may also be adversely affected by the assumption of liabilities related to any acquired businesses.

Sony currently has investments in several joint ventures and strategic partnerships, and may engage in new investments in the future. If Sony and its partners are unable to reach their common financial objectives successfully due to changes in the competitive environment, strategic or cultural differences, failure to achieve synergies or other reasons, Sony s operating results may be adversely affected. Sony s operating results may also be adversely affected in the short- and medium-term during a partnership, even if Sony and its partners remain on course to achieve their common financial objectives. In addition, by participating in joint ventures or other strategic investments, Sony may encounter conflicts of interest, may not maintain sufficient control over these relationships, including over cash flow, and may be faced with an increased risk of the loss of proprietary technology or know-how. Sony s reputation may be harmed by the actions or activities of a joint venture that uses the Sony brand. Sony may also be required to provide additional funding or debt guarantees to a joint venture, or dissolve a joint venture, whether as a result of significant or persistent underperformance, or otherwise.

Sony may not be able to recoup the capital expenditures or investments it makes to increase production capacity.

Sony continues to invest in production equipment in Sony s electronics businesses. One example is an additional investment by Sony in image sensor fabrication facilities to meet the increasing demand for image sensors. If unforeseen market changes and corresponding declines in demand result in a mismatch between sales volume and anticipated production volumes, or if unit sales prices decline due to market oversupply, Sony may not be able to recover its capital expenditures or investments, in part or in full, or the recovery of these capital expenditures or investments may take longer than expected. As a result, the carrying value of the related assets may be subject to an impairment charge, which may adversely affect Sony s profitability.

Sony s sales and profitability may be affected by the operating performance of wholesalers, retailers and other resellers.

Sony is dependent on wholesalers, retailers and other resellers to distribute its products, many of whom also distribute competitors products. For example, Sony Mobile Communications AB (Sony Mobile) is dependent on cellular network carriers distribution channels for distribution of its smartphone products in many countries. The operating results and financial condition of many wholesalers, retailers and other resellers have been adversely impacted by competition from online retailers and weak economic conditions.

Sony invests in programs to incentivize wholesalers, retailers, and other resellers to position and promote Sony s products, but there is no assurance that these programs will provide a significant return or incremental revenue by persuading consumers to buy Sony products instead of competitors products. Additionally, Sony has less ability to position, promote and differentiate Sony s products distributed through online retailers than it does through in-store retailers. In some cases, Sony s smartphones sold through cellular network carriers are subsidized by the carriers. There is no assurance that such subsidies will be continued at all or in the same amounts upon renewal of Sony s agreements with these carriers or in agreements Sony enters into with new carriers.

Sony also sells many of its products directly to consumers through its online and retail stores. Some wholesalers and retailers may perceive Sony s direct sales as conflicting with their business interests as distributors and resellers of Sony s products. Such a perception could discourage resellers from investing resources in the distribution and sale of Sony s products or lead them to limit or cease distribution of those products.

Sony s operating results and financial condition may be materially adversely affected if the financial condition of these wholesalers, retailers, and other resellers weakens, if they stop distributing Sony s products, or if uncertainty regarding demand for Sony s products or other factors cause them to reduce their ordering, marketing and distribution of Sony s products.

Increased reliance on external business partners may increase financial, brand image, reputational and other risks to Sony.

With the increasing necessity of pursuing quick business development and high operating efficiency with limited managerial resources, Sony increasingly relies on third-party suppliers and business partners for parts and components, software and network services. Sony also relies on other business partners to provide software technologies, such as the Android OS for mobile products, and services. As a result of this reliance on third-party suppliers and business partners, Sony s products or services may be affected by quality issues caused by the failure of third-party parts and components, software, or network services. Moreover, third-party parts and components, software and network services used in Sony products or services may be subject to copyright or patent infringement claims. Third-party business partners may also give priority to competitors products and services over Sony s and discontinue support, or otherwise change business terms for Sony s products and services. Such issues resulting from reliance on third-party suppliers and business partners for parts and components, software, and network services may adversely affect Sony s operating results, brand image or reputation. Sony has also become more reliant upon outsourced manufacturing services for product and component supply in its consumer electronics businesses. If Sony cannot adequately manage these outsourcing relationships, or if natural disasters or other events affect Sony s business partners, Sony s production operations may be adversely affected. Sony may not be able to achieve target volume or quality levels, and may face a risk of the loss of proprietary technology or know-how. Sony also consigns activities including certain procurement, logistics, sales, data processing, human resources, accounting, and other services, to external business partners. Sony s operations may be affected if the external business partners do not comply with applicable laws or regulations, or if they infringe third-party intellectual property rights, or if they are subject to business or service interruption caused by accidents, natural disasters or bankruptcies.

Sony must efficiently manage its procurement of parts and components, the market conditions for which are volatile, and control its inventory of products, parts, and components, the demand for which is volatile.

In Sony s electronics businesses, Sony uses a large volume of parts and components, such as semiconductors including chipsets for mobile products, and LCD panels, for its products. Fluctuations in the availability and pricing of parts and components can adversely affect Sony s operating results. For instance, shortages of parts or components or fluctuations in the prices of raw materials may result in sharply higher prices and an increase in the cost of goods sold. Also, shortages or delayed shipments of critical parts or components, particularly where Sony is substantially reliant on one supplier, where there is limited production capacity for custom components, or where there are initial manufacturing capacity constraints, may result in a reduction or suspension of production at Sony product manufacturing sites.

Sony places orders for parts and components in line with production and inventory plans determined in advance based on its forecast of consumer demand, which is highly volatile and difficult to predict. Inaccurate forecasts of consumer demand or inadequate management can lead to a shortage or excess of inventory, which can disrupt production plans and result in lost sales opportunities or inventory adjustments. Sony writes down the value of its inventory when the underlying parts, components or products have become obsolete, when inventory levels exceed the amount expected to be used, or when the value of the inventory is otherwise recorded at a value higher than net realizable value. In the past, for example, Sony has experienced a shortage of certain chipsets, semiconductors and LCD panels, which resulted in Sony s inability to meet consumer demand for its products, as well as a surplus in certain semiconductors and LCD panels that resulted in inventory write-downs when the prices of these parts and components fell. Additionally, Sony faced shortages of certain parts and components as a result of the damage to its suppliers caused by the massive earthquake and tsunami that occurred in Japan in March 2011 (the Great East Japan Earthquake) and the floods in Thailand that began in the second half of 2011 (the Floods). Such lost sales opportunities, inventory adjustments, or shortages of parts and components have had and may in the future have an adverse impact on Sony s operating results and financial condition.

Table of Contents

Sony s sales and profitability are sensitive to economic, employment and other trends in Sony s major markets.

Sony s sales and profitability are sensitive to economic, employment and other trends in each of the major markets in which Sony operates. These markets may be subject to significant economic downturns, having an adverse impact on Sony s operating results and financial condition. In the fiscal year ended March 31, 2013, 32.4 percent, 20.0 percent and 15.7 percent of Sony s sales were attributable to Japan, Europe and the U.S., respectively. Additionally, Sony s operating results are increasingly impacted by Sony s ability to realize its growth goals in emerging markets such as Brazil, Russia, India and China.

Sony s operating results depend on the demand from consumers and commercial customers and the performance of retailers, wholesalers and distributors. An actual or expected deterioration of economic conditions in any of Sony s major markets, such as the recent debt crises in Europe, may depress consumer confidence and spending, resulting in an actual decline in consumption. Commercial customers and other business partners may experience deterioration in their own businesses mainly due to cash flow shortages, difficulty in obtaining financing and reduced end-user demand, resulting in reduced demand for Sony s products and services. Commercial customers difficulty in fulfilling their obligations to Sony may also have an adverse impact on Sony s operating results and cash flows. Sony s suppliers are also susceptible to similar conditions that may impact their ability to fulfill their contractual obligations and may adversely impact Sony s operating results if products and services cannot be obtained at competitive prices.

Global economic conditions may also affect Sony in other ways. For example, further restructuring charges, higher pension and other post-retirement benefit costs or funding requirements, and additional asset impairment charges, among other factors, have had and may in the future have an adverse impact on Sony s operating results, financial condition and cash flows.

Foreign exchange rate fluctuations can affect Sony s operating results and financial condition.

Sony s operating results and financial condition are sensitive to foreign exchange rate fluctuations because many of Sony s products are sold in countries other than the ones in which they were developed and/or manufactured. For example, within Sony s electronics businesses, research and development and headquarters overhead costs are incurred mainly in yen, and manufacturing costs, including material costs, costs of procurement of parts and components, and costs of outsourced manufacturing services, are incurred mainly in the U.S. dollar and yen. Sales are dispersed and recorded in Japanese yen, the U.S. dollar, euro, Chinese renminbi, and local currencies of other areas, including emerging markets. Consequently, foreign exchange rate fluctuations may have an adverse impact on Sony s operating results, especially when the yen weakens significantly against the U.S. dollar (as under current circumstances), or when the yen strengthens significantly against the euro. Sony s operating results may also be adversely impacted by foreign exchange rate fluctuations since Sony s consolidated statements of income are prepared by translating the local currency denominated operating results of its subsidiaries around the world into yen. Furthermore, as Sony s businesses have expanded in China and other areas, including emerging markets, the impact of fluctuations of foreign currency exchange rates in these areas against the yen has increased. Mid- to long-term changes in exchange rate levels may interfere with Sony s global allocation of resources and hinder Sony s ability to engage in research and development, procurement, production, logistics, and sales activities in a manner that is profitable after the effect of such exchange rate changes.

Although Sony hedges most of the net short-term foreign currency exposure resulting from import and export transactions shortly before they are projected to occur, such hedging activity cannot entirely eliminate the risk of adverse exchange rate fluctuations.

Moreover, since Sony s consolidated balance sheet is prepared by translating the local currency denominated assets and liabilities of its subsidiaries around the world into yen, Sony s equity capital may be adversely impacted when the yen strengthens significantly against the U.S. dollar, the euro and/or other foreign currencies.

Table of Contents

Significant volatility and disruption in the global financial markets or a ratings downgrade may adversely affect the availability and cost of Sony s funding.

The global financial markets may experience significant levels of volatility and disruption, generally putting downward pressure on financial and other asset prices and impacting credit availability. Historically, Sony s primary sources of funds are cash flows from operations, the issuance of commercial paper and other debt securities such as term debt as well as borrowings from banks and other institutional lenders. There can be no assurance that such sources will continue to be available at acceptable terms. If market disruption and volatility occur, and if Sony cannot raise sufficient funds through the issuance of commercial paper or term debt, Sony may draw down funds from contractually committed lines of credit from financial institutions or seek other sources of funding, including the sale of assets, in order to repay commercial paper and term debt as they become due, and to meet other liquidity needs. There can be no assurance that under such market conditions such funding sources will be available at acceptable terms or sufficient to meet Sony s requirements. In turn, any such funding disruptions could have a material adverse impact on Sony s operating results, financial condition and liquidity.

Additionally, Sony s credit ratings may be adversely impacted by unfavorable operating results and a decline in its financial condition. A downgrade in Sony s credit ratings may result in an increase in Sony s cost of funding and may have an adverse impact on Sony s ability to access commercial paper or mid- to long-term debt markets on acceptable terms. As a result, Sony may seek other sources of financing to fund operations, such as the draw-down of funds from contractually committed lines of credit from financial institutions or the sale of assets, with a corresponding adverse effect on Sony s future funding capability.

Sony is subject to the risks of operations in different countries.

Sony s operations are conducted in many countries around the world, and these international operations can create challenges. For example, in Sony s electronics businesses, production and procurement of products, parts and components in China and other Asian countries increase the time necessary to supply products to other markets worldwide, which can make it more difficult to meet changing customer demand. Further, in certain countries, Sony may encounter difficulty in planning and managing operations due to unfavorable political or economic factors, such as armed conflicts, a deterioration in foreign relations, domestic cultural and religious conflicts, non-compliance with expected business conduct, local regulations, trade policies and taxation laws, and a lack of adequate infrastructure. Moreover, changes in local regulations, trade policies, taxation laws, local content regulations, business or investment permit approval requirements, foreign exchange controls, import or export controls, or the nationalization of assets or restrictions on the repatriation of returns from foreign investments in major markets and regions may affect Sony s operating results. For example, a labor dispute or a change of labor regulations or policies may significantly change local labor environments. Such a condition in China or another country in which Sony or a partner manufactures could cause interruption in production and shipping of Sony s products and parts, a sharp rise in local labor costs, or a shortage of well-trained employees, which may adversely affect Sony s operating results. If international or domestic political and military instability disrupts Sony s business operations or those of its business partners, or depresses consumer confidence, Sony s operating results and financial condition may be adversely affected. In addition, the time required to recover from disruptions, whether caused by these factors or other causes, such as natural disasters or pandemics, may be greater in certain countries. Moreover, as emerging markets are becoming increasingly important to its operations, Sony becomes more susceptible to the above-mentioned risks, which may have an adverse impact on its operating results and financial condition.

Sony s success depends on the ability to recruit and retain skilled technical employees and management professionals.

In order to continuously develop, design, manufacture, market, and sell successful electronics products, including networked products as well as software, game, video and music content, in increasingly competitive markets, Sony must attract and retain key personnel, including its executive team, other management professionals, creative talent and skilled employees such as hardware and software engineers. However, there is

high demand for such skilled employees, and Sony may be unable to attract or retain qualified employees to meet future business needs. If this should happen, it may adversely affect Sony s operating results and financial condition.

Sony may not be successful in integrating its business strategies and operations across different business units to increase the competitiveness of hardware, software, entertainment content and network services.

Sony believes that integrating its hardware, software, entertainment content and network services is essential for differentiating itself in the marketplace and will lead to revenue growth and profitability. However, this strategy depends on the continuing development (both inside and outside of Sony) of network services technologies, strategic and operational coordination and prioritization among Sony s various business units and sales channels, and the standardization of technological and interface specifications industry-wide and across Sony s networked products and business groups. Furthermore, in such a competitive business environment, which continuously changes with new entrants, it is critical for Sony to continuously introduce enhanced and competitively priced hardware that is seamlessly connected to network platforms, with user interfaces that are innovative and attractive to consumers. Sony also believes that it is essential to be able to provide competitive and differentiated content-based service offerings that include Sony and third-party licensed audio, video and game content from major motion picture and television studios, music labels, game publishers and book publishers. If Sony is not successful in implementing this strategy, it may adversely affect Sony s reputation, competitiveness and profitability.

Sony s online activities are subject to laws and regulations that can increase the costs of operations or limit its activities.

Sony engages in a wide array of online activities, including sales and marketing of electronics and entertainment products, entertainment network services, financial services, and acting as an Internet Services Provider (ISP) and is thus subject to a broad range of related laws and regulations including, for example, those relating to privacy, consumer protection, critical infrastructure protection, breach disclosure, data retention and data protection, trans-border data flows, content and broadcast regulation, defamation, age verification and other online child protections, accessibility, installation of cookies or other software on the end-user s computers or other devices, pricing, advertising to both children and adults, taxation, copyright and trademark, promotions, and billing. The application of such laws and regulations created to address online activities, and those passed prior to the popular use of the Internet that may be applied to online activities, varies among jurisdictions, may be unclear or unsettled in many instances, and is subject to change. Sony may incur substantial costs to comply with these laws and regulations and may incur substantial penalties, other liabilities, or damage to its reputation if it fails to comply with them. Compliance with these laws and regulations also may cause Sony to change or limit its online activities in a manner that may adversely affect operating results. In addition, Sony s failure to anticipate changes to relevant laws and regulations, changes in laws that provide protections that Sony relies on in conducting its online activities, or judicial interpretations narrowing such protections, may subject Sony to greater risk of liability, increase the costs of compliance, or limit Sony s ability to engage in certain online activities.

Sales of Sony s consumer products including game hardware are particularly sensitive to the seasonality of consumer demand.

Sony s Game segment offers a relatively small range of hardware, including PSP® (PlayStation®Portable), PlayStation®3 and PlayStation®Vita and a significant portion of overall demand for these and new products is weighted towards the year-end holiday season. Sony s other consumer products are also dependent upon demand during the year-end holiday season. As a result, changes in the competitive environment, changes in market conditions, delays in the release of consumer products, including highly anticipated game software titles and insufficient supply of hardware during the year-end holiday season can adversely impact Sony s operating results.

Table of Contents

The sales and profitability of Sony s Game segment, including network services, depend on the penetration of its gaming platforms which is sensitive to software line-ups, including software produced by Sony or third-party developers and publishers.

In Sony s Game segment, the penetration of gaming platforms is a significant factor driving sales and profitability, which is affected by the ability to provide customers with sufficient software line-ups, including software produced by Sony or third-party game software developers and publishers, and with online services, including network and cloud-based gaming and digital content delivery. There is no assurance that third-party game software developers and publishers will continue to develop and release software regularly or at all. Discontinuance or delay of software development or delays in the delivery of new online services may adversely affect Sony s operating results.

Sony s content businesses, including the Pictures, Music and Game segments, and other businesses, are subject to digital theft and illegal downloading, which have become increasingly prevalent with the development of new technologies and the availability of high-speed Internet connections.

The development and declining prices of digital technology along with the increased penetration and speed of Internet connections and the availability of content in digital formats have created risks with respect to Sony s ability to protect the copyrighted content of the Pictures, Music and Game segments and other businesses from digital theft and counterfeiting. In particular, advances in software and technology that enable the duplication, transfer or downloading of digital media files from the Internet and other sources without authorization from the owners of the rights to such content have adversely impacted and continue to threaten the conventional copyright-based business model by making it easier to create, transmit, and redistribute high quality, unauthorized digital media files. The availability of unauthorized content significantly contributes to a decrease in legitimate product sales and puts pressure on the price of legitimate products, which may adversely affect Sony s operating results. Sony has incurred and will continue to incur expenses to help protect its intellectual property, to develop new services for the authorized digital distribution of motion pictures, television programs, music, and games, and to combat unauthorized digital distribution of its copyrighted content. These initiatives will increase Sony s near-term expenses and may not achieve their intended result.

Operating results for Sony s Pictures and Music segments vary according to worldwide consumer acceptance and the availability of competing products and entertainment alternatives.

Operating results for the Pictures and Music segments can fluctuate depending primarily upon worldwide consumer acceptance of their products, which is difficult to predict. Moreover, the Pictures segment must invest substantial amounts in motion picture and television productions and broadcast programming before learning the extent to which these products will earn consumer acceptance. Similarly, the Music segment must make significant upfront investments in artists before being able to determine how those artists and their recordings will be received by consumers. Further, the commercial success of Sony s Pictures and Music segments products may be impacted by other competing products released at or near the same time, and alternative forms of entertainment and leisure activities available to consumers. Underperformance of a motion picture or television production, especially an event or tent-pole film, may have an adverse effect on the Pictures segment s operating results in the year of release or exhibition, and in future years given the high correlation between a product s initial release or exhibition and subsequent revenue from other distribution markets, such as home entertainment and television. Similarly, to a lesser degree, the underperformance of a recorded music release may have an adverse effect on the Music segment s operating results in the fiscal year of release.

Increases in the costs of producing, acquiring, or marketing entertainment content may adversely affect operating results in Sony s Music and Pictures segments.

The success of Sony s Music segment is highly dependent on finding and establishing artists, songwriters and music publishing catalogs that appeal to customers over the long term. If the Music segment is unable to find and establish new talented artists and songwriters, its operating results may be adversely affected. Competition with other entertainment companies to identify, sign and retain such talent is intense as is the competition to sell

15

their music. In the Pictures segment, high demand for top talent continues to contribute to increases in the cost of producing motion picture and television product. Competition with other entertainment companies to acquire motion picture and television product is intense and could result in increased acquisition-related spending. Overall increases in production and acquisition costs of the Pictures segment s products, as well as increases in the costs to market these products, may adversely impact the segment s operating results.

The continuing decline in physical media sales of audio and video content and the adoption of new technologies by consumers may adversely affect operating results in Sony s Music and Pictures segments.

Industry-wide trends such as the general maturation of physical media formats, including CD, DVD and Blu-ray Disc formats, the shift to digital distribution of audio and video content, and increased competition for retailer shelf space have contributed to and may continue to contribute to an industry-wide decline in the worldwide sales of physical media formats. In addition, rapid changes in technology and the adoption of new technology by consumers have impacted the timing and manner in which consumers acquire and view entertainment products. While alternative models for selling entertainment content have emerged, such as kiosk and mail order rentals, subscription streaming services, and other legal digital distribution to mobile and other Internet connected devices, these revenue streams may not be sufficient to offset the decline in physical media sales that has affected and may continue to affect the operating results of Sony s Music and Pictures segments and disc manufacturing business.

Operating results of Sony s Pictures segment may be adversely affected by changes in advertising markets or by the failure to renew, or renewal on less favorable terms of, television carriage contracts (broadcasting agreements).

The strength of the advertising market can fluctuate in response to the economic prospects of specific advertisers or industries, advertisers current spending priorities and the economy in general, and this may adversely affect the Pictures segment s television revenues. The Pictures segment s television operations, including its worldwide television networks, derive substantial revenues from the sale of advertising on a variety of platforms. A decline in overall spending within the advertising market may have a direct adverse effect on the Pictures segment s television networks revenues. The Pictures segment also recognizes sales from the licensing of its image-based software, including its motion picture and television content, to U.S. and international television network customers. A decline in the advertising market may also adversely affect third-party television networks ability to generate advertising and subscription revenues, which may result in lower license fees paid by these networks for Sony s image-based software content.

The Pictures segment also depends on third-party cable, satellite and other distribution systems to distribute its worldwide television networks. The failure to renew or renewal on less favorable terms of television carriage contracts (broadcasting agreements) with these third-party distributors may adversely affect the Pictures segment s ability to generate advertising and subscription sales through its worldwide television networks.

Sony s Pictures segment is subject to labor interruption.

The Pictures segment and certain of its suppliers are dependent upon highly specialized union members, including writers, directors, actors and other talent, and trade and technical employees, who are covered by union contracts and are essential to the development and production of motion pictures and television programs. A strike by one or more of these unions, or the possibility of a strike, work slowdown or work stoppage caused by uncertainties about, or the inability to reach agreement on, a new contract could delay or halt production activities. Such a delay or halt, depending on the length of time involved, could cause a delay or interruption in the release of new motion pictures and television programs and thereby may adversely affect operating results and cash flows in the Pictures segment. An inability to reach agreement on one or more of these union contracts or renewal on less favorable terms may also increase costs within Sony s Pictures segment and have an adverse effect on operating results.

Table of Contents

Sony s Financial Services segment operates in highly regulated industries, and new rules, regulations and regulatory initiatives by government authorities may adversely affect the flexibility and the operating results of the Financial Services segment.

Sony s Financial Services segment operates in industries subject to comprehensive regulation and supervision, including the Japanese insurance and banking industries. Future developments or changes in laws, regulations, or policies and their effects are unpredictable and may lead to increased compliance costs or limitations on operations in the Financial Services segment. Due to Sony s common branding strategy, compliance failures in any of its businesses within the Financial Services segment may have an adverse impact on the overall business reputation of the Financial Services segment. Furthermore, additional compliance costs may adversely affect the operating results of the Financial Services segment. In addition, Sony Corporation s ability to receive funds from its affiliate Sony Financial Holdings in the form of financial support or loans is restricted by guidelines issued by regulatory agencies in Japan. If these regulations change in the future, it may further reduce Sony Corporation s ability to receive funds for its use.

Declines in the value of equity securities may have an adverse impact on Sony s operating results and financial condition, particularly in Sony s Financial Services segment.

In the Financial Services segment, Sony Life Insurance Co., Ltd. (Sony Life) holds equity securities and hybrid bond securities that are affected by changes in the value of the equity market index. Declines in equity prices may result in impairment losses and losses on the sales of the equity securities held by Sony Life. In addition, reductions in gains or increases in losses on the sales of equity securities, as well as reductions in unrealized gains or increases in unrealized losses in respect of such hybrid bond securities may adversely affect the operating results and financial condition of Sony s Financial Services segment. Declines in the yield of Sony Life s separate account assets may result in additional policy reserves being recorded and the accelerated amortization of deferred acquisition costs, since U.S. GAAP requires the review of actuarial assumptions used for the valuation of policy reserves concerning minimum death guarantees for variable life insurance and the amortization of deferred acquisition costs. Additional policy reserves and accelerated amortization of deferred acquisition costs may have an adverse impact on Sony s operating results.

For equity securities held by Sony outside of the Financial Services segment, a decrease in fair value could result in a non-cash impairment charge. Any such charge may adversely affect Sony s operating results and financial condition.

Changes in interest rates may significantly affect the operating results and financial condition of Sony s Financial Services segment.

Sony s Financial Services segment engages in asset liability management (ALM) in an effort to manage its investment assets in a manner appropriate to its liabilities, which arise from the insurance policies that Sony s Financial Services segment underwrites in both its life insurance and non-life insurance businesses and the deposits, borrowings and other liabilities in its banking business. ALM considers the long-term balance between assets and liabilities in an effort to ensure stable returns. Any failure to appropriately conduct its ALM activities, or any significant changes in market conditions beyond what its ALM may reasonably address, may have an adverse effect on the financial condition and operating results of the Financial Services segment. In particular, because Sony Life s liabilities to policyholders generally have longer durations than its investment assets, which are concentrated in long-term Japanese national government bonds, lower interest rates tend to reduce yields on Sony Life s investment portfolio while guaranteed yields (assumptions used for calculation of policy reserve provisions) remain generally unchanged on outstanding policies. As a result, Sony Life s profitability and long-term ability to meet policy commitments may be adversely affected.

The investment portfolio within Sony s Financial Services segment exposes Sony to a number of additional risks other than the risks related to declines in the value of equity securities and changes in interest rates.

In the Financial Services segment, generating stable investment income is important to its operations, and the Financial Services segment s investments are concentrated in long-term Japanese national government bonds,

although it also has investments in a variety of asset classes, including shorter-term Japanese national government bonds, Japanese local government and corporate bonds, foreign government and corporate bonds, Japanese stocks, loans and real estate. In addition to risks related to changes in interest rates and the value of equity securities, the Financial Services segment s investment portfolio exposes itself to a variety of other risks, including foreign exchange risk, credit risk and real estate investment risk, any or all of which may have an adverse effect on the operating results and financial condition of the Financial Services segment. For example, mortgage loans account for 88.7 percent of the total loan balance or 42.7 percent of the total assets of Sony Bank Inc. (Sony Bank) as of March 31, 2013. An increase in non-performing loans or a decline in the prices of real estate, the collateral for these mortgage loans provided by Sony Bank, may have an adverse effect on the creditworthiness of Sony Bank s loan portfolio and increase credit-related costs for Sony Bank.

Differences between actual and assumed policy benefits and claims may require Sony s Financial Services segment to increase policy reserves in the future.

The life insurance and non-life insurance businesses of the Financial Services segment establish policy reserves for future benefits and claims based on the Insurance Business Act of Japan and related regulations. These reserves are calculated based on many assumptions and estimates, including the frequency and timing of the event covered by the policy, the amount of benefits or claims to be paid and the investment returns on the assets these businesses purchase with the premiums received. These assumptions and estimates are inherently uncertain, and the Financial Services segment cannot determine with precision the ultimate amounts that it will be required to pay for, or the timing of payment of, actual benefits and claims, or whether the assets supporting the policy liabilities will grow at the level assumed prior to the payment of benefits or claims. The frequency and timing of an event covered by a policy and the amount of benefits or claims to be paid are subject to a number of risks and uncertainties, many of which are outside of its control, including:

- changes in trends underlying its assumptions and estimates, such as mortality and morbidity rates;
- the availability of sufficient reliable data and its ability to correctly analyze the data;
- the selection and application of appropriate pricing and rating techniques; and
- changes in legal standards, claim settlement practices and medical care expenses.

If the actual experience of the insurance businesses becomes significantly less favorable than their assumptions or estimates, their policy reserves may be inadequate. Any changes in regulatory guidelines or standards with respect to the required level of policy reserves may also require that the insurance businesses establish policy reserves based on more stringent assumptions, estimates or actuarial calculations. Such events may result in a need to increase provisions for policy reserves, which may have an adverse effect on the operating results and financial condition of the Financial Services segment. Furthermore, actual insurance claims that are higher than the estimated provision for policy reserves due to the occurrence of catastrophic events such as earthquakes or pandemic diseases in Japan may have an adverse effect on the operating results and financial condition of the Financial Services segment.

Sony s physical facilities and information systems are subject to damage as a result of catastrophic disasters, outages, malfeasance or similar events. Such an unexpected catastrophic event may also lead to supply chain and production disruptions as well as lower demand from commercial customers, resulting in an adverse impact on Sony s operating results.

Sony s headquarters and many of Sony s most advanced device manufacturing facilities, including those for semiconductors, are located in Japan, where the risk of earthquakes is relatively high compared to other parts of the world. In addition, offices and facilities used by Sony, its service providers and business partners, including those used for network, telecommunications and information systems infrastructure, research and development, material procurement, manufacturing, motion picture and television program production, logistics, sales and services are located throughout the world and are subject to possible destruction, temporary stoppage or disruption as a result of unexpected catastrophic events such as natural disasters, pandemic diseases, terrorist

attacks, large-scale power outages and large-scale fires. If any of these facilities or offices were to experience a significant loss as a result of any of the above events, it may disrupt Sony s operations, delay production, interrupt shipments and postpone the recording of sales, and result in large expenses to repair or replace these facilities or offices. In addition, if Sony s suppliers are damaged by such catastrophic events, Sony may be exposed to supply shortages of raw materials, parts or components, which may result in a reduction or suspension of production, interruption of shipment and delays in product launches. Sony may also be exposed to price increases for raw materials, parts and components, and lower demand from commercial customers.

For example, the Floods and the Great East Japan Earthquake caused damage to certain fixed assets including buildings, machinery and equipment as well as inventories at manufacturing sites and warehouses. In addition, production at several manufacturing facilities was forced to cease temporarily or was reallocated to other facilities. Sony was also adversely impacted by the postponement of certain product launches as well as by significantly lower demand from commercial customers resulting from industry-wide supply chain disruptions.

Another major earthquake in Japan, especially in Tokyo where Sony headquarters are located, the Tokai area where many of Sony s product manufacturing sites are located, or the Kyushu area, where Sony s semiconductor manufacturing sites are located, could cause greater damage to Sony s business operations than the Great East Japan Earthquake, which may adversely affect Sony s operating results and financial condition.

Moreover, as network and information systems have become increasingly important to Sony s operating activities, the impact that network and information system shutdowns may have on Sony s operating activities has increased. Shutdowns may be caused by events similar to those described above or other unforeseen events, such as software or hardware defects, computer viruses and computer hacking. For example, Sony s network services, online game business and websites of certain subsidiaries experienced a series of cyber-attacks that resulted in a temporary interruption in services during the fiscal year ended March 31, 2012.

Similar events in the future may result in the disruption of Sony s major business operations, delays in production, shipments and recognition of sales, and large expenditures necessary to enhance, repair or replace such facilities and network and information systems. Furthermore, Sony may not be able to obtain sufficient insurance in the future to cover the resulting expenditures and losses, and insurance premiums may increase. These situations may have an adverse impact on Sony s operating results and financial condition.

Sony s brand image, reputation and business may be harmed and Sony may be subject to legal claims if there is loss, disclosure, misappropriation or alteration of or unauthorized access to its customers or its business partners or its own information, or other breaches of its information security.

Sony makes extensive use of information technology, online services and centralized data processing, including through third-party service providers. The secure maintenance and transmission of customer information is a critical element of Sony s operations. Sony s information technology and other systems that maintain and transmit such information, or those of service providers or business partners, and the security of such information possessed by Sony or its business partners may be compromised by a malicious third-party or a man-made or natural event, or impacted by advertent or inadvertent actions or inactions by Sony employees, or those of a third-party service provider or business partner. As a result, customer information may be lost, disclosed, misappropriated, altered or accessed without consent. For example, Sony s network services, online game business and websites of certain subsidiaries have been subject to cyber-attacks by groups and individuals with a wide range of motives and expertise, resulting, in some instances, in unauthorized access to and the potential or actual theft of customer information.

In addition, Sony, third-party service providers and other business partners process and maintain proprietary Sony business information and data related to Sony s business, commercial customers, suppliers and other business partners. Sony s information technology and other systems that maintain and transmit this information, or those of service providers or business partners, and the security of such information possessed by Sony, third-party service providers or other business partners may also be compromised by a malicious third-party or a man-made or natural event, or impacted by advertent or inadvertent actions or inactions by Sony employees or those of a third-party service provider or business partner. As a result, Sony s business information and customer, supplier, and other business partner data may be lost, disclosed, misappropriated, altered, or accessed without consent.

Further, the confidentiality, integrity and availability of products and services provided by Sony or its service providers or business partners may be compromised by malicious third parties or man-made or natural events, or impacted by advertent or inadvertent actions or inactions by Sony employees or those of a third-party service provider or business partner. For example, Sony s websites have been subjected to denial-of-service and other attacks.

Any such loss, disclosure, misappropriation or alteration of or access to customers , business partners or other information, or other breach of Sony s information security including that of its products and services can result in legal claims or legal proceedings, including regulatory investigations and actions, and may have a serious impact on Sony s brand image and reputation and adversely affect Sony s businesses, operating results and financial condition. Furthermore, the loss, disclosure, misappropriation or alteration of or access to Sony s business information, or adverse effects on the confidentiality, integrity, or availability of its products or services, may adversely affect Sony s businesses, operating results and financial condition.

Sony s business may suffer as a result of adverse outcomes of current or future litigation and regulatory actions.

Sony faces the risk of litigation and regulatory proceedings in different countries in connection with its operations. Legal proceedings, including regulatory actions, may seek to recover very large indeterminate amounts or to limit Sony s operations, and the possibility that they may arise and their magnitude may remain unknown for substantial periods of time. For example, legal proceedings, including regulatory actions, may result from antitrust scrutiny of market practices for anti-competitive conduct. A substantial legal liability or adverse regulatory outcome and the substantial cost to defend the litigation or regulatory proceedings may have an adverse effect on Sony s business, operating results, financial condition, cash flows and reputation.

Sony is subject to financial and reputational risks due to product quality and liability issues.

Sony products, such as consumer products, non-consumer products, parts and components, semiconductors, and software as well as network services are becoming increasingly sophisticated and complicated as rapid advancements in technologies occur and as demand increases for mobile products and online services. This trend may increase product quality and liability exposure. Sony s efforts to manage the rapid advancements in technologies and increased demand for mobile products and online services as well as to control product quality may not be successful. As a result, Sony may incur expenses in connection with, for example, product recalls, and after-sales services. In addition, allegations of safety issues related to Sony products, or lawsuits, regardless of merit, may adversely impact Sony s brand image and reputation as a producer of high-quality products and services, and, therefore, its operating results and financial condition may suffer. These issues are relevant to Sony products sold directly to customers and also to products of other companies that are equipped with Sony s components, such as semiconductors.

Sony s operating results and financial condition may be adversely affected by its employee benefit obligations.

Sony recognizes an unfunded pension obligation for its defined benefit pension plans based on (i) the Projected Benefit Obligation (PBO) under each pension plan less (ii) the fair value of the pension plan s assets, in accordance with the accounting guidance for defined benefit plans. Actuarial gains and losses are amortized and included in pension expenses in a systematic manner over employees average remaining service periods. Any decrease of the pension plan asset value due to low returns from investments or increases in the PBO due to a lower discount rate, increases in rates of compensation and changes in certain other actuarial assumptions may increase the unfunded pension obligations and may result in an increase in pension expenses recorded as cost of sales or as a selling, general and administrative expense.

Sony s operating results and financial condition may be adversely affected by the status of its Japanese and foreign pension plans. Specifically, adverse equity market conditions and volatility in the credit markets may have an unfavorable impact on the value of Sony s pension plan assets and its future estimated pension liabilities, the majority of which relate to the Japanese plans, which have approximately 30 percent of pension plan assets invested in equity securities. As a result, Sony s operating results or financial condition could be adversely affected.

Further, Sony s operating results and financial condition could be adversely affected by future pension funding requirements pursuant to the Japanese Defined Benefit Corporate Pension Plan Act (Act). Under the Act, Sony is required to meet certain financial criteria including periodic actuarial revaluation and annual settlement of gains or losses of the plan. In the event that the actuarial reserve required by law exceeds the fair value of pension plan assets and that the fair value of pension assets may not be recovered within a certain moratorium period permitted by laws and/or special legislative decree, Sony may be required to make an additional contribution to the plan, which may reduce cash flows. Similarly, if Sony is required to make an additional contribution to a foreign plan to meet any funding requirements in accordance with local laws and regulations in each country, Sony s cash flows might be adversely affected. If Sony is required to increase cash contributions to its pension plans when actuarial assumptions, such as an expected long-term rate of return of the pension plan assets, are updated for purposes of determining statutory contributions, it may have an adverse impact on Sony s cash flows.

Further losses in jurisdictions where Sony has established valuation allowances against deferred tax assets, the inability of Sony to fully utilize its deferred tax assets, exposure to additional tax liabilities or changes in Sony s tax rates could adversely affect net income (loss) attributable to Sony Corporation s stockholders and Sony s financial condition.

Sony is subject to income taxes in Japan and numerous other jurisdictions, and in the ordinary course of Sony s business there are many situations where the ultimate tax determination can be uncertain, sometimes for an extended period. The calculation of Sony s tax provision and the carrying value of tax assets and liabilities requires significant judgment and the use of estimates, including estimates of future taxable income.

Deferred tax assets are evaluated on a jurisdiction by jurisdiction basis. In certain jurisdictions, Sony has established valuation allowances against deferred tax assets, including net operating loss carryforwards, where it has concluded that the deferred tax assets are not more likely than not to be realized. A large net loss attributable to Sony Corporation s shareholders was recorded in the fiscal years ended March 31, 2011 and 2012 due to the recording of a non-cash tax expense related to the establishment of valuation allowances against deferred tax assets, predominantly in Japan and the U.S. As of March 31, 2013, Sony had valuation allowances principally in the following jurisdictions: (1) Sony Corporation and its national filing group in Japan, as well as for local taxes in a number of Japanese subsidiaries; (2) Sony Americas Holding Inc. and its consolidated tax filing group in the U.S.; (3) Sony Mobile in Sweden; and (4) Sony Europe Limited in the U.K. In jurisdictions where valuation allowances have been established, no tax benefit will be recorded against any continuing losses and as a result, net income (loss) attributable to Sony Corporation s stockholders and Sony s financial condition could be adversely affected.

Additionally, deferred tax assets could expire unused or otherwise not be realizable, if Sony is unable to implement tax planning strategies or generate sufficient taxable income in the appropriate jurisdiction in the future (from operations and/or tax planning strategies) to utilize them, or if Sony enters into transactions that limit its legal ability to use them. As a result, Sony may lose any associated cash tax reduction available in future periods. If it becomes more likely than not that any of Sony s remaining deferred tax assets without valuation allowances will expire unused and are not available to offset future taxable income, or otherwise will not be realizable, Sony will have to recognize an additional valuation allowance, increasing income tax expense. Net income (loss) attributable to Sony Corporation s stockholders and Sony s financial condition could be adversely affected when the deferred tax assets expire unused or in periods in which an additional valuation allowance is recorded.

A key factor in the evaluation of the deferred tax assets and the valuation allowance is the determination of the uncertain tax positions related to the adjustments for Sony s intercompany transfer pricing. Sony is subject to income taxes in Japan and numerous other jurisdictions, and in the ordinary course of Sony s business there are many transactions, including intercompany charges, where the ultimate tax determination is uncertain. Sony is subject to continuous examination of its income tax returns by tax authorities and, as a result, Sony regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. Significant judgment is required in making these assessments and, as additional

evidence becomes available in subsequent periods, the ultimate outcomes for Sony s uncertain tax positions and, accordingly, its valuation allowance assessments may potentially have an adverse impact on net income (loss) attributable to Sony Corporation s stockholders and Sony s financial condition.

In addition to the above, Sony s future effective tax rates may be unfavorably affected by changes in both the statutory rates and the mix of earnings in countries with differing statutory rates or by other factors such as changes in tax laws and regulations or their interpretation, including limitations or restrictions on the use of net operating loss and income tax credit carryforwards.

Sony could incur asset impairment charges for goodwill, intangible assets or other long-lived assets.

Sony has a significant amount of goodwill, intangible assets and other long-lived assets. A decline in financial performance, market capitalization or changes in estimates and assumptions used in the impairment analysis, which in many cases requires significant judgment, could result in impairment charges. Sony tests goodwill and intangible assets that are determined to have an indefinite life for impairment during the fourth quarter of each fiscal year and assesses whether factors or indicators, such as unfavorable variances from established business plans, significant changes in forecasted results or volatility inherent to external markets and industries, have become apparent that would require an interim test. The recoverability of the carrying value of long-lived assets held and used and long-lived assets to be disposed of is reviewed whenever events or changes in circumstances indicate that the carrying value of the assets or asset groups may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the asset or asset group with their estimated undiscounted future cash flows. If the carrying value of the asset or asset group is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the asset or asset group exceeds its fair value.

When determining whether an impairment has occurred or calculating such impairment for goodwill, an intangible asset or other long-lived asset, fair value is determined using the present value of estimated cash flows or comparable market values. This approach uses significant estimates and assumptions including projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate comparable entities and the determination of whether a premium or discount should be applied to comparables. Changes in estimates and/or revised assumptions impacting the present value of estimated future cash flows may result in a decrease in the fair value of a reporting unit, where goodwill is tested for impairment, or a decrease in fair value of intangible assets, long-lived assets or asset groups. The decrease in fair value could result in a non-cash impairment charge. Any such charge may adversely affect Sony s operating results and financial condition.

Sony may be accused of infringing others intellectual property rights and be liable for significant damages.

Sony s products incorporate a wide variety of technologies. Claims have been and may be asserted against Sony that such technology infringes the intellectual property owned by others. Such claims may be asserted by competitors to protect their products and services and/or as a business strategy to seek a competitive advantage, or by other patent holders, particularly as markets become more competitive, and products evolve to include new technologies and enhanced functionality that incorporate an increasing amount of intellectual property. Such claims might require Sony to enter into settlement or license agreements, to pay significant damage awards, and/or to face a temporary or permanent injunction prohibiting Sony from marketing or selling certain of its products, which may have an adverse effect on Sony s business, operating results, financial condition and reputation.

Sony may not be able to continue to obtain necessary licenses for certain intellectual property rights of others or protect and enforce the intellectual property rights on which its business depends.

Many of Sony s products are designed under the license of patents and other intellectual property rights owned by third parties. Based upon past experience and industry practice, Sony believes that it will be able to obtain or renew licenses relating to various intellectual properties useful in its business that it needs in the future; however, such licenses may not be available at all or on acceptable terms, and Sony may need to redesign or

discontinue marketing or selling such products as a result. Additionally, Sony s intellectual property rights may be challenged or invalidated, or such intellectual property rights may not be sufficient to provide Sony with competitive advantages. Such events may adversely impact Sony s operating results and financial condition.

Sony is subject to a wide range of regulations related to social responsibility, such as environmental, occupational health and safety, and certain human rights regulations that can increase the costs of operations, limit its activities, or affect its reputation.

Sony is subject to a broad range of social responsibility laws and regulations covering issues related, inter-alia, to the environment, occupational health and safety, labor practices and human rights. These include laws and regulations relating to air pollution; water pollution; the management, elimination or reduction of the use of hazardous substances; energy efficiency of certain products; waste management; recycling of products, batteries and packaging materials; site remediation; worker and consumer health and safety; and human rights issues such as those related to the procurement and production processes. For example, Sony is currently required to comply with:

- Environmental regulations enacted by the EU, such as the Restriction of Hazardous Substances (RoHS) Directive, the Waste Electrical and Electronic Equipment (WEEE) Directive, the ecodesign requirements for Energy-related Products (ErP) Directive and the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation;

- Regulations or governmental policies related to climate change issues such as carbon disclosure, greenhouse gas emission reduction, carbon taxes and energy efficiency for electronics products;

- Cap and trade and other systems for reducing emissions (such as the Tokyo Metropolitan Government s Obligation to Reduce Absolute Green House Gas Emissions and Emissions Trading System); and

- Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act which requires annual disclosures related to Conflict Minerals and their derivatives that are necessary to the functionality or production of products manufactured by Sony. Conflict Minerals are defined as cassiterite, columbite-tantalite, gold, wolframite, and other minerals determined by the U.S. government to be financing conflict in the Democratic Republic of Congo or adjoining countries.

Additionally, there is a growing global consumer focus on companies social responsibilities. In particular, there is growing interest regarding labor practices, including work environments at consumer electronics components manufacturers and ODM/OEM product manufacturers operating in the Asian region.

These social responsibility laws and regulations may become more significant, and additional social responsibility laws and regulations may be adopted in the future. Such new laws and regulations may result in an increase in Sony s cost of compliance. Additionally, if Sony is not perceived as having responded to existing and new laws and regulations in these varied areas, it may result in fines, penalties, legal judgments or other costs or remediation obligations, and may adversely affect Sony s operating results and financial condition. In addition, such a finding of non-compliance, or the perception that Sony has not responded appropriately to growing consumer concern for such issues, whether or not legally required to do so, may adversely affect Sony s reputation. Sony s operating results and financial condition may also be adversely affected if consumers therefore choose to purchase products of other companies.

Holders of American Depositary Shares have fewer rights than shareholders and may not be able to enforce judgments based on U.S. securities laws.

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining Sony s accounting books and records, and exercising appraisal rights, are available only to shareholders of record. Because the depositary, through its custodian agents, is the record holder of the shares underlying the American Depositary Shares (ADSs), only

the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying ADSs in accordance with the instructions of ADS holders and will pay the dividends and distributions collected from Sony. However, ADS holders will not be able to bring a derivative action, examine Sony s accounting books and records, or exercise appraisal rights through the depositary.

Sony Corporation is incorporated in Japan with limited liability. A majority of Sony s directors and corporate executive officers are non-U.S. residents, and a substantial portion of the assets of Sony Corporation and the assets of Sony s directors and corporate executive officers are located outside the U.S. As a result, it may be more difficult for investors to enforce against Sony Corporation or such persons, judgments obtained in U.S. courts predicated upon civil liability provisions of the federal and state securities laws of the U.S. or similar judgments obtained in other courts outside Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal and state securities laws of the U.S.

Item 4. *Information on the Company*

A. History and Development of the Company

Sony Corporation was established in Japan in May 1946 as Tokyo Tsushin Kogyo Kabushiki Kaisha, a joint stock company (*Kabushiki Kaisha*) under Japanese law. In January 1958, it changed its name to Sony Kabushiki Kaisha (Sony Corporation in English).

In December 1958, Sony Corporation was listed on the Tokyo Stock Exchange (the TSE). In June 1961, Sony Corporation issued American Depositary Receipts (ADRs) in the U.S.

In March 1968, Sony Corporation established CBS/Sony Records Inc. in Japan, as a 50-50 joint venture company between Sony Corporation and CBS Inc. in the U.S. In January 1988, the joint venture became a wholly-owned subsidiary of Sony Corporation, and in April 1991, changed its name to Sony Music Entertainment (Japan) Inc. (SMEJ). In November 1991, SMEJ was listed on the Second Section of the TSE.

In September 1970, Sony Corporation was listed on the New York Stock Exchange.

In August 1979, Sony Corporation established Sony Prudential Life Insurance Co., Ltd. in Japan, as a 50-50 joint venture company between Sony Corporation and The Prudential Insurance Company of America. In April 1991, the joint venture changed its name to Sony Life Insurance Co., Ltd. (Sony Life). In March 1996, Sony Life became a wholly-owned subsidiary of Sony Corporation, and in April 2004, with the establishment of Sony Financial Holdings Inc. (SFH), a financial holding company, Sony Life became a wholly-owned subsidiary of SFH.

In July 1984, Sony Magnescale Inc., a subsidiary of Sony Corporation, was listed on the Second Section of the TSE. The subsidiary changed its name to Sony Precision Technology Inc. in October 1996 and then to Sony Manufacturing Systems Corporation in April 2004. In April 2012, Sony Manufacturing Systems was merged into Sony EMCS Corporation.

In July 1987, Sony Chemicals Corporation, a subsidiary of Sony Corporation, was listed on the Second Section of the TSE. The subsidiary changed its name to Sony Chemical & Information Device Corporation in July 2006. In January 1988, Sony Corporation acquired CBS Records Inc., a music business division of CBS Inc. in the U.S. The acquired company changed its name to Sony Music Entertainment Inc. in January 1991 and then to Sony Music Holdings Inc. in December 2008.

In November 1989, Sony Corporation acquired Columbia Pictures Entertainment, Inc. in the U.S. In August 1991, Columbia Pictures Entertainment, Inc. changed its name to Sony Pictures Entertainment Inc. (SPE).

In November 1993, Sony established Sony Computer Entertainment Inc. (SCEI) in Japan.

In January 2000, acquisition transactions by way of a share exchange were completed such that three subsidiaries which had been listed on the TSE SMEJ, Sony Chemicals Corporation (currently Sony Chemical & Information Device Corporation), and Sony Precision Technology Inc. (which was merged into

24

Sony EMCS Corporation) became wholly-owned subsidiaries of Sony Corporation. In September 2012, Sony Corporation completed the sale of certain of its chemical products businesses, including Sony Chemical & Information Device Corporation to Development Bank of Japan Inc.

In June 2001, Sony Corporation issued shares of subsidiary tracking stock in Japan, the economic value of which was intended to be linked to the economic value of Sony Communication Network Corporation. All shares of the subsidiary tracking stock were terminated and converted to shares of common stock of Sony Corporation in December 2005. The subsidiary was listed on the Mother s market of the TSE in December 2005 (and has been traded on the First Section of the TSE since January 2008) and was renamed So-net Entertainment Corporation (So-net) in October 2006. In January 2013, Sony Corporation acquired all of the common shares of So-net through a tender offer and subsequent share exchange and, as a result of the acquisition, So-net became a wholly-owned subsidiary of Sony Corporation. In October 2001, Sony Ericsson Mobile Communications AB (Sony Ericsson), a 50-50 joint venture company between Sony Corporation and Telefonaktiebolaget LM Ericsson (Ericsson) of Sweden, was established. In February 2012, Sony acquired Ericsson s 50 percent equity interest in Sony Ericsson. As a result of the acquisition, Sony Ericsson became a wholly-owned subsidiary of Sony and changed its name to Sony Mobile Communications AB (Sony Mobile).

In October 2002, Aiwa Co., Ltd. (Aiwa), then a TSE-listed subsidiary, became a wholly-owned subsidiary of Sony Corporation. In December 2002, Aiwa was merged into Sony Corporation.

In June 2003, Sony Corporation adopted the Company with Committees corporate governance system in line with the revised Japanese Commercial Code then effective. (Refer to Board Practices in Item 6. *Directors, Senior Management and Employees.*)

In April 2004, Sony Corporation established SFH, a financial holding company, in Japan. Sony Life, Sony Assurance Inc. (Sony Assurance), and Sony Bank Inc. (Sony Bank) became subsidiaries of SFH. In October 2007, SFH was listed on the First Section of the TSE in conjunction with the global initial public offering of shares of SFH by Sony Corporation and SFH.

In April 2004, S-LCD Corporation (S-LCD), a joint venture between Sony Corporation and Samsung Electronics Co., Ltd. of Korea for the manufacture of amorphous thin film transistor (TFT) liquid crystal display (LCD) panels, was established in Korea. Sony s stake in S-LCD is 50 percent minus 1 share. In January 2012, Sony sold all of its shares of S-LCD to Samsung Electronics Co., Ltd.

In August 2004, Sony combined its worldwide recorded music business, excluding its recorded music business in Japan, with the worldwide recorded music business of Bertelsmann AG (Bertelsmann), forming a 50-50 joint venture, SONY BMG MUSIC ENTERTAINMENT (SONY BMG). In October 2008, Sony acquired Bertelsmann s 50 percent equity interest in SONY BMG. As a result of the acquisition, SONY BMG became a wholly-owned subsidiary of Sony. In January 2009, SONY BMG changed its name to Sony Music Entertainment (SME).

In December 2009, Sharp Display Products Corporation (SDP), a joint venture between Sony Corporation and Sharp Corporation for the production and sale of large-sized LCD panels and modules, was established. Sony s ownership in SDP was 7 percent. In June 2012, Sony sold all of its shares in SDP to SDP.

In April 2013, Sony Olympus Medical Solutions Inc. (SOMED), a medical business venture between Sony Corporation and Olympus Corporation was established in Japan. Sony s stake in SOMED is 51 percent.

Sony Corporation s registered office is located at 7-1, Konan 1-chome, Minato-ku, Tokyo 108-0075, Japan, telephone +81-3-6748-2111.

The agent in the U.S. for purposes of this Item 4 is Sony Corporation of America (SCA), 550 Madison Avenue, New York, NY 10022 (Attn: Office of the General Counsel).

Table of Contents

Principal Capital Investments

In the fiscal years ended March 31, 2011, 2012 and 2013, Sony s capital expenditures (additions to Property, plant and equipment on the balance sheets) were 204.9 billion yen, 295.1 billion yen and 188.6 billion yen, respectively. Sony s capital expenditures are expected to be approximately 180 billion yen during the fiscal year ending March 31, 2014. For a breakdown of principal capital expenditures and divestitures (including interests in other companies), refer to Item 5. *Operating and Financial Review and Prospects.* The funding requirements of such various capital expenditures are expected to be financed by cash provided principally by operating and financing activities or the existing balance of cash and cash equivalents.

Sony invested approximately 72 billion yen in the semiconductor business during the fiscal year ended March 31, 2013. In June 2012, Sony announced its investment plan of approximately 80 billion yen in Sony Semiconductor Corporation s Nagasaki Technology Center to increase production capacity for complementary metal-oxide semiconductor (CMOS) image sensors. This investment started in the first half of the fiscal year ended March 31, 2013 and is expected to be completed during the first half of the fiscal year ending March 31, 2014. As a result of this investment plan, Sony plans to increase total production capacity for charged coupled devices and CMOS image sensors to approximately 60,000 wafers per month by September 30, 2013.

B. Business Overview

Sony is engaged in the development, design, manufacture, and sale of various kinds of electronic equipment, instruments, and devices for consumer, professional and industrial markets as well as game hardware and software. Sony s primary manufacturing facilities are located in Asia including Japan. Sony also utilizes third-party contract manufacturers for certain products. Sony s products are marketed throughout the world by sales subsidiaries and unaffiliated distributors as well as direct sales via the Internet. Sony is engaged in the development, production and acquisition, manufacture, marketing, distribution and broadcasting of image-based software, including motion picture, home entertainment and television product. Sony is also engaged in the development, production, manufacture, and distribution of recorded music. Further, Sony is also engaged in various financial services businesses, including life and non-life insurance operations through its Japanese insurance subsidiaries and banking operations through a Japanese Internet-based banking subsidiary. In addition to the above, Sony is engaged in a network services business and an advertising agency business in Japan.

Sony realigned its reportable segments from the first quarter of the fiscal year ended March 31, 2013 to reflect modifications to its organizational structure as of April 1, 2012, primarily repositioning the operations of the previously reported Consumer, Products & Services (CPS), Professional, Device & Solutions (PDS) and Sony Mobile Communications segments. In connection with this realignment, the operations of the former CPS, PDS and Sony Mobile Communications segments are reclassified into five newly established segments, namely the Imaging Products & Solutions (IP&S), Game, Mobile Products & Communications (MP&C), Home Entertainment & Sound (HE&S) and Devices segments, as well as All Other. The previously reported Sony Mobile Communications segment is now included in the MP&C segment as the Mobile Communications category. The network business previously included in the CPS segment and the medical business previously included in the PDS segment are now included in All Other. For further details, please refer to Item 5. *Operating and Financial Review and Prospects*.

Table of Contents

Products and Services

Imaging Products & Solutions

The following table sets forth Sony s IP&S segment sales to outside customers by product categories. Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31					
	2011		2012		**2013**	
	(Yen in millions)					
Digital Imaging Products	628,358	(69.3)	489,526	(64.7)	**449,724**	**(61.9)**
Professional Solutions	268,687	(29.6)	256,871	(33.9)	**259,899**	**(35.8)**
Other	9,394	(1.1)	10,228	(1.4)	**17,151**	**(2.3)**
IP&S Total	906,439	(100.0)	756,625	(100.0)	**726,774**	**(100.0)**

Digital Imaging Products:

Digital Imaging Products includes compact digital cameras, video cameras and interchangeable single-lens cameras.

Professional Solutions:

Professional Solutions includes broadcast- and professional-use products.

Game

SCEI develops, produces, markets and distributes PlayStation®3 (PS3), PlayStation® Vita (PS Vita), PSP® (PlayStation® Portable) (PSP) and PlayStation®2 (PS2) hardware, and related package software. Sony Computer Entertainment America LLC (SCEA) and Sony Computer Entertainment Europe Ltd. (SCEE) market and distribute PS3, PS Vita, PSP and PS2 hardware, and develop, produce, market and distribute related package software locally in the U.S. and Europe. SCEI, SCEA and SCEE enter into licenses with third-party software developers and publishers.

Mobile Products & Communications

The following table sets forth Sony s MP&C segment sales to outside customers by product categories. Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31					
	2011		2012		**2013**	
	(Yen in millions)					
Mobile Communications		( )	77,732	(12.5)	**733,622**	**(60.1)**
Personal and Mobile Products	625,200	(99.0)	538,816	(86.6)	**480,132**	**(39.4)**
Other	6,314	(1.0)	5,867	(0.9)	**6,259**	**(0.5)**
MP&C Total	631,514	(100.0)	622,415	(100.0)	**1,220,013**	**(100.0)**

Mobile Communications:

Mobile Communications includes mobile phones.

Personal and Mobile Products:

Personal and Mobile Products includes personal computers.

Table of Contents

On February 15, 2012, Sony acquired Ericsson s 50 percent equity interest in Sony Ericsson and Sony Ericsson became a wholly-owned subsidiary of Sony and changed its corporate name to Sony Mobile Communications AB (Sony Mobile). The financial results above include the sales to outside customers of Sony Mobile from February 16, 2012 through March 31, 2013. Sony Mobile undertakes product research, development, design, marketing, sales, production, distribution and customer services for mobile phones, accessories and applications.

Home Entertainment & Sound

The following table sets forth Sony s HE&S segment sales to outside customers by product categories. Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31					
	2011		2012		**2013**	
			(Yen in millions)			
Televisions	1,200,487	(70.1)	840,359	(65.5)	**581,475**	**(58.5)**
Audio and Video	502,684	(29.4)	433,800	(33.8)	**405,024**	**(40.8)**
Other	9,153	(0.5)	8,569	(0.7)	**7,323**	**(0.7)**
HE&S Total	1,712,324	(100.0)	1,282,728	(100.0)	**993,822**	**(100.0)**

Televisions:

Televisions includes LCD televisions.

Audio and Video:

Audio and Video includes home audio, Blu-ray Disc players/recorders, and memory-based portable audio devices.

Devices

The following table sets forth Sony s Devices segment sales to outside customers by product categories. Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31					
	2011		2012		**2013**	
			(Yen in millions)			
Semiconductors	359,321	(46.6)	377,177	(55.7)	**301,915**	**(51.7)**
Components	409,165	(53.0)	295,822	(43.7)	**271,654**	**(46.5)**
Other	2,864	(0.4)	4,209	(0.6)	**10,399**	**(1.8)**
Devices Total	771,350	(100.0)	677,208	(100.0)	**583,968**	**(100.0)**

Semiconductors:

Semiconductors includes CMOS image sensors, CCDs, system LSIs, small- and medium-sized LCD panels and other semiconductors. Sony transferred small- and medium-sized LCD display businesses to Japan Display Inc. on March 30, 2012.

Components:

Components includes batteries, audio/video/data recording media, storage media, optical pickups, chemical products* and optical disk drives. Sony transferred certain of its chemical products businesses, including Sony Chemical & Information Device Corporation to Development Bank of Japan Inc. on September 28, 2012.

* Chemical products include materials and components for electronic devices such as anisotropic conductive films.

Table of Contents

Pictures

Global operations in the Pictures segment encompass motion picture production, acquisition and distribution; television production, acquisition and distribution; television networks; digital content creation and distribution; operation of studio facilities; and development of new entertainment products, services and technologies. SPE distributes entertainment in more than 159 countries.

SPE s motion picture production organizations include Columbia Pictures, TriStar Pictures, Screen Gems and Sony Pictures Classics. Sony Pictures Digital Production operates Sony Pictures Imageworks, a visual effects and animation unit, and Sony Pictures Animation, a developer and producer of animated films. SPE also manages a studio facility, Sony Pictures Studios, which includes post production facilities, at SPE s world headquarters in Culver City, California.

Sony Pictures Television (SPT) develops, produces, and acquires television programming for broadcast, cable and first-run syndication, including scripted series, unscripted reality or light entertainment, daytime serials, game shows, animated series, made for television movies and miniseries and other programming. SPT also produces content for the Internet and mobile devices and operates Crackle, a multi-platform video entertainment network focusing on premium video content. Outside the U.S., SPT produces local language programming in markets around the world, some of which are co-produced with local partners, and sells SPE-owned formats in approximately 88 countries. SPT also owns or has investments in television networks with 124 channel feeds, which are available in more than 159 countries worldwide.

Music

Music includes SME, SMEJ, and a 50 percent owned U.S. based joint venture in the music publishing business, Sony/ATV Music Publishing LLC (Sony/ATV). SME, a global entertainment company, excluding Japan, is engaged primarily in the development, production, marketing and distribution of recorded music in all commercial formats and genres; SMEJ is a Japanese domestic recorded music business that produces recorded music and music videos through contacts with many artists in all music genres; Sony/ATV is a U.S.-based music publishing business that owns and acquires rights to musical compositions, exploiting and marketing these compositions and receiving royalties or fees for their use.

Financial Services

In the Financial Services segment, on April 1, 2004 Sony established a wholly-owned subsidiary, SFH, a holding company for Sony Life, Sony Assurance and Sony Bank, with the aim of integrating various financial services including insurance and savings and loans, and offering individual customers high value-added products and high-quality services. On October 11, 2007, in conjunction with the global initial public offering of shares of SFH, the shares of SFH were listed for trading on the First Section of the TSE. Following this global offering, SFH remains a consolidated subsidiary of Sony Corporation, which is the majority shareholder of SFH.

SFH conducts insurance and banking operations primarily through Sony Life, a Japanese life insurance company, Sony Assurance, a Japanese non-life insurance company, and Sony Bank, a Japanese Internet-based bank, which are all wholly-owned by SFH. In November 2010, Sony divested and transferred its leasing business to a newly established joint venture, the majority of which is held by a third-party leasing company, and has been accounted for under the equity method. Most of the credit card business was divested during the fiscal year ended March 31, 2011 except for the Sony Card business in Japan, which was taken over by Sony Bank in May 2011.

All Other

All Other consists of various operating activities, including a Blu-ray Disc, DVD and CD manufacturing business, Sony Entertainment Network (SEN) service, and So-net (a subsidiary operating an Internet service provider business mainly in Japan). Sony s products and services are generally unique to a single operating segment.

Table of Contents

Sales and Distribution

Electronics*

* The term Electronics refers to the sum of the IP&S, Game, MP&C, HE&S and Devices segments.

Sony s electronics products and services, excluding those in the game business, are marketed throughout the world under the trademark Sony, which has been registered in approximately 200 countries and territories.

In most cases, sales of Sony s electronics products are made to sales subsidiaries of Sony Corporation located in or responsible for sales in the countries and territories where Sony s products and services are marketed. These subsidiaries then sell those products to unaffiliated local distributors and dealers or through direct sales via the Internet. In some regions, sales of certain products and services are made directly to local distributors by Sony Corporation.

Sales of electronics products and services are particularly seasonal and also vary significantly with the timing of new product introductions and economic conditions of each country. Sales for the third quarter ending December 31 of each fiscal year are generally higher than other quarters of the same fiscal year due to demand in the year-end holiday season.

Japan:

Sony Marketing (Japan) Inc. markets consumer electronics products mainly through retailers. Sony Business Solutions Corporation markets professional electronics products and services. For electronic components, Sony sells products directly to wholesalers and manufacturers.

United States:

Sony markets its electronics products and services through Sony Electronics Inc. and other wholly-owned subsidiaries in the U.S.

Europe:

In Europe, Sony s electronics products and services are marketed through sales subsidiaries including Sony Europe Limited, which is headquartered in the United Kingdom and has branches in European countries, and CJSC Sony Electronics in Russia.

China:

Sony markets its electronics products and services through Sony (China) Limited, Sony Corporation of Hong Kong Limited and other wholly-owned subsidiaries in China.

Asia-Pacific:

In Asia-Pacific, Sony s electronics products and services are marketed through sales subsidiaries including Sony India Private Limited, Sony Electronics of Korea Corporation, and Sony Taiwan Limited.

Other Areas:

In overseas areas other than the U.S., Europe, China and Asia-Pacific, Sony s electronics products and services are marketed through sales subsidiaries including Sony Middle East & Africa FZE in the United Arab Emirates, Sony Brasil Ltda., Sony de Mexico S.A.de C.V. and Sony of Canada Limited.

PS3, PS Vita, PSP and PS2 hardware and related software are marketed and distributed by SCEI, SCEA, SCEE and subsidiaries in Asia.

Along with certain of its global corporate functions in London, Sony Mobile has sales and marketing operations in many major regions of the world, as well as manufacturing in China and product development sites in China, Japan, Sweden and the United States. Sony Mobile brings its products to market through direct and indirect distribution channels, such as third-party cellular network carriers and retailers, as well as through its website.

Pictures

SPE generally retains all rights relating to the worldwide distribution of its internally produced motion picture and television product, including rights for theatrical exhibition, home entertainment distribution, pay and free television exhibition and other markets. SPE also acquires distribution rights to motion picture and television product produced by other companies, and jointly produces and distributes motion picture and television product with other studios, television networks or production companies. These rights may be limited to particular geographic regions, specific forms of media or periods of time.

Within the U.S., SPE uses its own distribution service businesses, Sony Pictures Releasing and Sony Pictures Classics, for the U.S. theatrical release of its motion pictures and for the theatrical release of motion pictures acquired from and produced by others.

Outside the U.S., SPE generally distributes and markets motion pictures through one of its Sony Pictures Releasing International subsidiaries. In certain countries, however, SPE has joint distribution or sub-distribution arrangements with other studios, or arrangements with independent local distributors or other entities.

The worldwide home entertainment distribution of SPE s motion picture and television product (and product acquired or licensed from others) is handled through Sony Pictures Home Entertainment, except in certain countries where SPE has joint distribution or sub-distribution arrangements with other studios, or arrangements with independent local distributors. Product is distributed in various home media formats including DVD, Blu-ray™ Disc, electronic sell-through and video-on-demand.

The worldwide television distribution of SPE s motion picture and television product (and product acquired or licensed from others) is handled through SPT. SPE s library of motion picture and television product is licensed to broadcast television networks, pay and basic cable networks, as well as to subscription and advertising supported Internet television providers.

SPE s television networks are distributed to multiple distribution platforms such as cable, satellite platforms, Internet Protocol Television (IPTV) systems, and mobile operators for delivery to viewers around the world. These networks generate advertising and subscription revenues.

Music

SME and SMEJ develop, produce, market, and distribute recorded music in various commercial formats. SME and its affiliates conduct business globally under Columbia Records, Epic Records, RCA Records, Jive Records, and other labels. SMEJ conducts business in Japan under Sony Music Records, Epic Records Japan, SME Records, Ki/oon Music, Sony Music Associated Records, and other labels.

Sony owns and acquires rights to musical compositions, exploits and markets these compositions, receives royalties or fees for their use and conducts its music publishing business through a joint venture with a third-party investor in countries other than Japan primarily under the Sony/ATV name.

Financial Services

Sony Life conducts its life insurance business primarily in Japan. Sony Life s core business is providing death protection and other insurance products to individuals, primarily through a consulting-based sales approach utilizing its experienced team of Lifeplanner® sales employees and Partner independent sales agents. Sony Life provides tailor-made life insurance products that are optimized for each customer. As of March 31, 2013, Sony Life employed 4,028 Lifeplanner® sales employees. As of the same date, Sony Life maintained an extensive

service network including 91 Lifeplanner® retail offices and 27 regional sales offices in Japan. Sony Life also has representative offices in Beijing and Taipei, which opened in October 2008 and July 2009 respectively, for the purpose of researching the financial and life insurance market in China and Taiwan, respectively. In December 2012, Sony Life sold the business of Sony Life Insurance (Philippines) Corporation, a wholly owned subsidiary of Sony Life, to Paramount Life & General Insurance Corporation which operates insurance businesses in the Republic of the Philippines. As part of its plan to expand its sales of individual annuity products, Sony Life established a Japanese joint venture company with AEGON N.V. The 50-50 joint venture, known as AEGON Sony Life Insurance Co., Ltd. was established in August 2009 and began operations in Japan in December 2009.

Sony Assurance has conducted a non-life insurance business in Japan since October 1999. Sony Assurance s core business is providing automobile insurance products and medical and cancer insurance products to individual customers, primarily through direct marketing via the Internet and the telephone. The direct marketing business model employed by Sony Assurance enables it to improve operating efficiency and lower the costs of marketing and maintaining its insurance policies, creating savings which it passes on to policyholders in the form of competitively priced premiums.

Sony Bank has conducted banking operations in Japan since June 2001. As an Internet bank focusing on the asset management and borrowing needs of individual customers, Sony Bank offers an array of products and services including yen and foreign currency deposits, investment trusts, mortgages and other individual loans. By using Sony Bank s transaction channel, the MONEYKit service website, account holders can invest and manage assets over the Internet according to their life plans. As part of its plan to respond to its customers diverse asset management needs, Sony Bank launched online securities brokerage services through its wholly-owned subsidiary, Sony Bank Securities Inc. (SBS), in October 2007. In May 2011, Sony Bank launched a credit card business by taking over Sony s Sony Card business in Japan. On June 1, 2011, Sony Bank acquired Sony s 57 percent equity interest in SmartLink Network, Inc. (SLN), resulting in SLN becoming a consolidated subsidiary of Sony Bank. SLN is an industry-leading provider of credit card settlement services to members of its Internet network. Sony Bank also has a representative office in Sydney, which opened in August 2011, for the purpose of researching the Australian financial market. In August 2012, Sony Bank reached an agreement with Monex Group, Inc. (Monex Group) to strengthen its business alliance with Monex, Inc., a wholly owned subsidiary of Monex Group, and to enhance its financial products intermediary services. As part of this transaction, Sony Bank sold all of its shares of SBS to Monex Group.

All Other

Sony DADC Corporation (Sony DADC) offers Blu-ray Disc, DVD and CD media replication services as well as digital and physical supply chain solutions to business customers in the entertainment, education, and information industries. Sony Network Entertainment Inc. (SNEI) primarily operates the SEN service. So-net provides Internet broadband network services to subscribers as well as creates and distributes content through its portal services to various electronics product platforms (e.g., PCs, mobile phones).

Sales to Outside Customers by Geographic Area

The following table shows Sony s consolidated sales to outside customers in each of its major markets for the periods indicated. Figures in parentheses indicate the percentage contribution of each region to total worldwide sales and operating revenue.

	Fiscal year ended March 31					
	2011		2012		**2013**	
	(Yen in millions)					
Japan	2,152,552	(30.0)	2,104,669	(32.4)	**2,203,228**	**(32.4)**
United States	1,443,693	(20.1)	1,211,849	(18.7)	**1,064,765**	**(15.7)**
Europe	1,539,432	(21.4)	1,268,258	(19.5)	**1,362,488**	**(20.0)**
China	562,048	(7.8)	495,101	(7.6)	**464,784**	**(6.8)**
Asia-Pacific	726,364	(10.1)	636,489	(9.8)	**806,205**	**(11.9)**
Other Areas	757,184	(10.6)	776,846	(12.0)	**899,381**	**(13.2)**
Total	7,181,273	(100.0)	6,493,212	(100.0)	**6,800,851**	**(100.0)**

Sources of Supply

Sony pursues procurement of raw materials, parts and components to be used in the production of its products on a global basis on the most favorable terms that it can achieve. These items are purchased from various suppliers around the world. Sony still maintains its general policy of multiple suppliers for important parts and components and, in the fiscal year ended March 31, 2013, Sony continued activities to optimize the number of its suppliers by category to achieve efficiencies and to minimize procurement risk when possible.

When raw materials, parts and components become scarce, the cost of production rises. For example, LCD panels and memory devices, which are used in multiple applications, can influence Sony s performance when the cost of such parts and components fluctuates substantially. With regard to raw materials, the market price of copper has the potential to proportionately affect the cost of parts that utilize copper, such as printed circuit boards and power cables. The price of gold, which is used in applications involving a range of semiconductor products, may also fluctuate and impact the cost of those items. In addition, the price of rare earth elements, such as neodymium, may impact the cost of magnetic parts to be used for products such as camera modules and disc drives, and the price of tantalum may have a similar impact on the cost of capacitors used in a wide range of consumer electronics products.

After-Sales Service

Sony provides repair and servicing functions in the areas where its electronics products are sold. Sony provides these services through its own call centers, service centers, factories, authorized independent service centers, authorized servicing dealers and subsidiaries.

In line with industry practices of the electronics businesses, almost all of Sony s consumer-use products that are sold in Japan carry a warranty, generally for a period of one year from the date of purchase, covering repairs, free of charge, in the case of a malfunction in the course of ordinary use of the product. Warranties outside of Japan generally provide coverage for various periods of time depending on the product and the area in which it is marketed. In the case of broadcast- and professional-use products, Sony maintains support contracts with customers in addition to warranties.

To further help ensure customer satisfaction, Sony maintains customer information centers in its principal markets.

Patents and Licenses

Sony has a number of Japanese and foreign patents relating to its products. Sony is licensed to use a number of patents owned by others, covering a wide range of products. Certain licenses are important to Sony s business, such as those for optical disc-related and smartphone products. With respect to optical disc-related products, Sony products that employ DVD player functions, including PS3 and PS2 hardware, are substantially dependent upon certain patents that relate to technologies specified in the DVD specification and are licensed by MPEG LA LLC, Dolby Laboratories Licensing Corporation and Nissim Corp. Sony products that employ Blu-ray Disc player functions, including PS3 hardware, and that also employ DVD player functions, are substantially dependent upon certain patents that relate to technologies specified in the Blu-ray Disc specification and are licensed by MPEG LA LLC, AT&T Inc. and One-Blue, LLC, in addition to the patents that relate to technologies specified in the DVD specification, as described above. Sony s smartphone products are substantially dependent upon certain patents that relate to CDMA technologies specified by the standard setting bodies within the telecommunications industry and are licensed by Qualcomm Incorporated. Sony considers its overall license position beneficial to its operations.

Competition

In each of its principal product lines, Sony encounters intense competition throughout the world. Sony believes, however, that in the aggregate it competes successfully and has a major position in all of the principal product lines in which it is engaged, although the strength of its position varies with products and markets. Refer to Risk Factors in Item 3. *Key Information.*

Table of Contents

Electronics

Sony believes that its product planning and product design expertise, the high quality of its products, its record of innovative product introductions and product improvements, its price competitiveness derived from reductions in manufacturing and indirect costs and its extensive marketing and servicing efforts are important factors in maintaining its competitive position. Sony believes that the success of the game business is determined by the availability of attractive software titles and related content, downloadable content and peripherals. Sony Mobile manufactures and sells mobile handsets, primarily focusing on the smartphone market, specifically products using the Android operating system as a platform. The smartphone market is growing quickly, with smartphones using the Android operating system outperforming the market in overall volume growth. The smartphone market features a fiercely competitive selling environment from established and multinational vendors and from new suppliers of lower-cost products. Many of the retailers and carriers who distribute Sony Mobile s products also distribute the products of competing mobile handset companies. Sony Mobile believes that its product design capabilities, technological innovation, price competitiveness, user experience and the ecosystem that supports such an experience are key factors in establishing and maintaining a competitive position.

Pictures

SPE faces intense competition from all forms of entertainment and other leisure activities to attract the attention of audiences worldwide. SPE competes with other motion picture studios and, to a lesser extent, with production companies to obtain story rights and talent, including writers, actors, directors and producers, which are essential to the success of SPE s products. In motion picture production and distribution, SPE faces competition to obtain exhibition and distribution outlets and optimal release dates for its products. In addition, SPE faces intense competition from other entertainment companies to acquire motion picture and television product from third parties. Competition in television production and distribution is also intense because available broadcast time is limited and the audience is increasingly fragmented among broadcast and cable networks and other outlets both within and outside of the U.S. Furthermore, broadcast networks in the U.S. continue to produce their own shows internally. This competitive environment may result in fewer opportunities to produce shows for U.S. networks and a shorter lifespan for ordered shows that do not immediately achieve favorable ratings. SPE s worldwide television networks compete for viewers with broadcast and cable networks, Internet and other forms of entertainment. The growth in the number of networks around the world has increased the competition for advertising and subscription revenues, acquisition of programming, and distribution of SPE s television networks by cable, satellite and other distribution systems.

Music

Success in the music industry is dependent to a large extent upon the artistic and creative abilities of artists, producers and employees and is subject to the vagaries of public taste. The Music segment s future competitive position depends on its continuing ability to attract and develop artists who can achieve a high degree of public acceptance.

Financial Services

In the Financial Services segment, Sony faces strong competition in the financial services markets in Japan. In recent years, the regulatory barriers between the life insurance and non-life insurance industries as well as among the insurance, banking and securities industries have been relaxed, resulting in new competitive pressures.

Sony Life competes not only with traditional insurance companies in Japan but also with other companies including online insurance companies, foreign-owned life insurance companies and a number of Japanese cooperative associations.

Sony Assurance competes against insurers that sell their policies through sales agents as well as insurers that, like Sony Assurance, primarily sell their policies through direct marketing via the telephone and the Internet. Competition in Japan s non-life insurance industry has intensified in recent years, in part due to a number of new market entrants, including foreign-owned insurers.

Some of the competitors in the life insurance and non-life insurance businesses have advantages over Sony including:

- greater financial resources and financial strength ratings;
- greater brand awareness;
- more extensive marketing and sales networks, including through tie-ups with other types of financial institutions;
- more competitive pricing;
- larger customer bases; and
- a wider range of products and services.

Sony Bank has focused on providing retail asset management and lending services for individuals, and faces significant competition in Japan s retail financial services market. Sony Bank competes with Japan s traditional banking institutions, regional banks, trust banks, non-bank companies, and Japan s full-service and online brokerage firms.

Sony Life, Sony Assurance and Sony Bank may also compete with Japan Post Group, which provides banking and insurance services to individuals. While Japan Post Group has numerous post office locations throughout Japan and has enhanced its banking and insurance services in recent years, the major business domains where it has a competitive advantage have not yet overlapped with Sony s.

In the Financial Services segment, it is important to maintain a strong and healthy financial foundation for the business as well as to meet diversifying customer needs. Sony Life has maintained a high solvency margin ratio, relative to the Japanese domestic minimum solvency margin ratio requirements. Sony Assurance also has maintained a high solvency margin ratio relative to the Japanese domestic minimum solvency margin ratio requirements. Sony Bank has maintained a sufficient capital adequacy ratio relative to the Japanese domestic criteria.

All Other

Sony DADC is facing intense price competition as well as contraction of the worldwide physical media markets, as storage of digital content shifts from physical media to online servers. In such an environment, Sony DADC is facing the challenges of expanding its digital media services to meet customers preferences by taking advantage of digital media innovations as well as the development of digital telecommunication networks and the expansion of Internet services. In network services, Sony believes that the success of the business is determined by the computational power and reliability of secured systems, and the ability to create new experiences via network services, such as the availability of attractive game software titles and a variety of video and music content. So-net faces competition in the Internet service provider business from other service providers in Japan, including telecommunications companies that possess their own telecommunication lines. Rapid technological advancement has created many new opportunities but it has also increased the rate at which new and more efficient services must be brought to market to earn customer approval. Customer price elasticity is high, and users are able to change Internet service providers with increasing ease.

Government Regulations

Sony s business activities are subject to various governmental regulations in the different countries in which it operates, including regulations relating to various business/investment approvals, trade affairs including customs, import and export control, competition and antitrust, anti-bribery, advertising and promotion, intellectual property, broadcasting, consumer and business taxation, foreign exchange controls, personal information protection, product safety, labor, human rights, conflict, occupational health and safety, environmental and recycling requirements.

35

In Japan, Sony s insurance businesses are subject to the Insurance Business Act and approvals and oversight from the Financial Services Agency (FSA). The Insurance Business Act specifies the types of businesses insurance companies may engage in, imposes limits on the types and amounts of investments that can be made and requires insurance companies to maintain specified reserves and a minimum solvency margin ratio. In particular, life insurance companies must maintain a premium reserve (for the portion of other than unearned premiums), an unearned premium reserve, a reserve for refunds with respect to certain insurance contracts of life insurance companies specified in such regulations, and a contingency reserve in amounts no lower than the amounts of the standard policy reserve as set forth by the regulatory guidelines. The FSA maintains a solvency standard, which is used by Japanese regulators to monitor the financial strength of insurance companies. The methods for calculating total solvency margin and total risk were revised to increase the strictness of margin inclusion, and make risk measurement stricter and more sensitive and were mandatory from the end of the fiscal year ended March 31, 2012. Non-life insurance companies are also required to provide a policy reserve. The primary purpose of the Insurance Business Act and related regulations is to protect policyholders, not shareholders. Sony Bank is also subject to regulation by the FSA under the Banking Act of Japan, including the requirement that it maintain a minimum capital adequacy ratio in accordance with capital adequacy guidelines adopted by the FSA based on the Basel II agreement, and new guidelines based on the Basel III agreement will be applied from March 31, 2014. The FSA has broad regulatory powers over insurance and banking businesses in Japan, including the authority to grant or revoke operating licenses and to request information and conduct onsite inspections of books and records. Sony s subsidiaries in the Financial Services segment are subject to the Japanese Insurance Business Act and Banking Act that require insurance and business companies to maintain their financial credibility and to secure protection for policy holders and depositors in view of the public nature of insurance and banking services. As such, lending and borrowing between subsidiaries in the Financial Service segment and the other companies within Sony Group is limited. In addition, Sony s telecommunication businesses in Japan are subject to approvals and oversight from the Ministry of Internal Affairs and Communications, under the Telecommunication Business Act and other regulations related to the Internet businesses and communication methods in Japan.

Social Responsibility Regulations Such as Environmental and Human Rights Regulations

Sony monitors, evaluates, and complies with new environmental requirements that may affect its operations. For example, in Europe, Sony is required to comply with a number of environmental regulations enacted by the EU such as the Restriction of Hazardous Substances (RoHS) Directive, the Waste Electrical and Electronic Equipment (WEEE) Directive and the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation. Similar regulations are being formulated in other areas of the world, including China and South American countries.

Sony has taken steps to address new regulations or governmental policies related to climate change including carbon disclosure, greenhouse gas emission reduction, carbon taxes and energy efficiency for electronics products. For example, Sony has established an internal management system in response to the EU directive on energy-related products and their energy efficiency (ErP). Moreover, Japan introduced a regulation for companies with large annual cargo freight transport, such as Sony, to exert efforts to control energy consumption and CO_2 emissions from their logistics operations. Additionally, Sony recognizes that emissions reduction programs and trading systems are already established or being considered for legislation in various countries and regions. For example, EU-ETS (European Union), Carbon Price Mechanism (Australia) and the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) (UK) are already established, and although Sony is not subject to the scope of application of EU-ETS and the Carbon Price Mechanism, Sony group companies in the UK are subject to the requirements of CRC. In Japan, the Tokyo Metropolitan Government s cap and trade system, Obligation to Reduce Absolute Green House Gas Emissions and Emissions Trading System, went into force in April 2010. This regulation requires large-sized sites in the Tokyo metropolitan area to reduce their average emissions over a five-year period to below a certain threshold and establishes an emission trading scheme to allow regulated entities to meet emission quantity targets set by law. Sony Corporation and Sony Life are subject to this regulation.

Table of Contents

Sony also monitors and evaluates newly adopted laws and regulations that may affect its operations applicable to purchasing activities including the procurement of raw materials, with respect to environmental, occupational health and safety, human rights, labor and armed conflict issues, and complies as appropriate.

For example, Sony is taking steps to comply with Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act), which requires the disclosure of information regarding certain conflict minerals, as defined by the Act, beginning in 2014 for calendar year 2013.

Also refer to Risk Factors in Item 3. *Key Information.*

Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Securities Exchange Act of 1934 (the Exchange Act), as amended. Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities sanctioned under programs relating to terrorism or the proliferation of weapons of mass destruction. Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.

Sony is aware that certain transactions during the fiscal year ended March 31, 2013, as described below, may be disclosable pursuant to Section 13(r) of the Exchange Act.

Sony does not customarily allocate net profit on a country-by-country or activity-by-activity basis, other than as set forth in Sony s consolidated financial statements prepared in accordance with U.S. GAAP; thus, the net profit and loss described below are non-U.S. GAAP figures and are estimated solely for the purpose of preparing this disclosure pursuant to Section 13(r) of the Exchange Act. The information below is to the best of Sony s knowledge, and Sony in particular may not be aware of all potentially reportable sales by third-party-owned dealers and distributors.

During the fiscal year ended March 31, 2013, Sony sold professional broadcast equipment, including cameras, switchers, VTRs, monitors and other associated broadcast equipment and media products for use in television broadcasting, to a third-party-owned dealer in Dubai, which, to the best of Sony s knowledge, resold that equipment to the Islamic Republic of Iran Broadcasting, which we believe is a parent company of such dealer. Sony s gross revenue from these sales was approximately 5.2 million U.S. dollars, and Sony has estimated that its net profit from such sales was less than 0.3 million U.S. dollars.

During the fiscal year ended March 31, 2013, Sony sold medical instruments, including medical printers, paper and monitors to a third-party-owned dealer in Dubai, which, to the best of Sony s knowledge, planned to resell those products to the Iranian Ministry of Health. Sony s gross revenue from these sales was approximately 4.9 million U.S. dollars, and Sony has estimated that its net profit from such sales was less than 0.1 million U.S. dollars.

During the fiscal year ended March 31, 2013, Sony sold video security cameras and hard disk products to a third-party-owned dealer in Dubai, which, to the best of Sony s knowledge, planned to resell those products to the judiciary, Ferdowsi University, Iran Railway, Bank Sepah and Bank Melli in Iran. Such equipment is generally used by purchasers for the purposes of standard building/premises security in fixed locations. During the fiscal year ended March 31, 2013, Sony s gross revenue from these sales was approximately 2.2 million U.S. dollars, and Sony has estimated that its net profit from such sales was less than 0.1 million U.S. dollars.

During the fiscal year ended March 31, 2013, Sony sold video conference equipment to third-party-owned dealers in Dubai, which, to the best of Sony s knowledge, planned to resell that equipment to the Information Technology Department of the Iranian Police. Sony s gross revenue from these sales was approximately 0.5 million U.S. dollars, and Sony estimates that it recorded a net loss from such sales.

Table of Contents

Sony s small representative office in Tehran, Iran, may engage in certain incidental transactions (for example, permits, utilities, and other similar matters incidental to operating an office in Iran) with Iranian government-owned entities. No material revenues or profits are associated with these transactions with the Iranian government.

Sony is not aware of any other activity, transaction or dealing by Sony Corporation or any of its affiliates during the fiscal year ended March 31, 2013 that is disclosable in this report under Section 13(r) of the Exchange Act. As of the date of this report, Sony does not anticipate that transactions that may be disclosable, as discussed above, will continue during the fiscal year ending March 31, 2014, except for the operation of its representative office and certain transactions through third-party-owned dealers that Sony believes to be intended for the Islamic Republic of Iran Broadcasting and the Iranian Ministry of Health. Nevertheless, in the future, Sony may conduct additional sales activities in Iran through third-party-owned dealers/distributors, which may require disclosure pursuant to Section 13(r) of the Exchange Act. Sony intends to conduct any such sales in accordance with applicable law.

Sony believes that, and maintains policies and procedures designed to ensure that, its transactions with Iran and elsewhere have been conducted in accordance with applicable economic sanctions laws and regulations and do not involve transactions likely to result in the imposition of sanctions or other penalties on Sony. However, there can be no assurance that Sony s policies and procedures will be effective, and if the relevant authorities were to impose penalties or sanctions against Sony, the impact of such sanctions could be material.

C. Organizational Structure

The following table sets forth the significant subsidiaries owned, directly or indirectly, by Sony Corporation.

Name of company	Country of incorporation	(As of March 31, 2013) Percentage owned
Sony EMCS Corporation	Japan	100.0
Sony Semiconductor Corporation	Japan	100.0
Sony Marketing (Japan) Inc.	Japan	100.0
Sony Computer Entertainment Inc.	Japan	100.0
Sony Music Entertainment (Japan) Inc.	Japan	100.0
Sony Financial Holdings Inc.	Japan	60.0
Sony Life Insurance Co., Ltd.	Japan	100.0
Sony Americas Holding Inc.	U.S.A.	100.0
Sony Corporation of America	U.S.A.	100.0
Sony Electronics Inc.	U.S.A.	100.0
Sony Computer Entertainment America LLC	U.S.A.	100.0
Sony Pictures Entertainment Inc.	U.S.A.	100.0
Sony Music Entertainment	U.S.A.	100.0
Sony Europe Limited	U.K.	100.0
Sony Computer Entertainment Europe Ltd.	U.K.	100.0
Sony Global Treasury Services Plc	U.K.	100.0
Sony Overseas Holding B.V.	Netherland	100.0
Sony Mobile Communications AB	Sweden	100.0
Sony Electronics Asia Pacific Pte. Ltd.	Singapore	100.0

D. Property, Plant and Equipment

Sony has a number of offices, plants and warehouses throughout the world. Most of the buildings and land in/on which such offices, plants and warehouses are located are owned by Sony.

Table of Contents

The following table sets forth information as of March 31, 2013 with respect to plants used for the production of products mainly for electronics products and services with floor space of more than 500,000 square feet:

Location	Approximate floor space (square feet)	Principal products produced
In Japan:		
Nagasaki (Sony Semiconductor Corporation Nagasaki TEC)	2,306,000	CMOS image sensors and other semiconductors
Kumamoto (Sony Semiconductor Corporation Kumamoto TEC)	2,122,000	CCDs, CMOS image sensors, LCDs and other semiconductors
Kagoshima (Sony Semiconductor Corporation Kagoshima TEC)	1,767,000	CCDs and other semiconductors
Motomiya, Fukushima (Sony Energy Devices corporation Motomiya Plant)	961,000	Batteries
Kohda, Aichi (Sony EMCS Corporation Tokai TEC Kohda Site)	877,000	Home-use video cameras, compact digital cameras and interchangeable single-lens cameras
Inazawa, Aichi (Sony EMCS Corporation Tokai TEC Inazawa Site)	842,000	LCD televisions
Shimotsuke, Tochigi (Sony Energy Devices Corporation Tochigi Plant)	803,000	Batteries
Koriyama, Fukushima (Sony Energy Devices Corporation Koriyama Plant)	592,000	Batteries

Kosai, Shizuoka (Sony EMCS Corporation Tokai TEC Kosai Site)	548,000	Broadcast-and professional-use video equipment
Kisarazu, Chiba (Sony EMCS Corporation Kisarazu TEC)	541,000	Blu-ray Disc players/recorders, audio equipment and video conference systems

Table of Contents

Location	Approximate floor space (square feet)	Principal products produced
Outside of Japan:		
Terre Haute, Indiana, U.S.A. (Sony DADC US Inc.)	2,428,000	Blu-ray Disc-ROMs, CDs, DVDs and UMDs (Universal Media Disc)
Huizhou, China (Sony Precision Devices (Huizhou) Co., Ltd.)	1,665,000	Optical pickups and LCDs
Wuxi, China (Sony Electronics (Wuxi) Co., Ltd., Sony Digital Products (Wuxi) Co., Ltd. and Sony (China) Ltd.)	1,882,000	Batteries and compact digital cameras
Penang, Malaysia (Sony EMCS (Malaysia) Sdn. Bhd. PG TEC)	1,163,000	Audio equipment
Tuas, Singapore (Sony Electronics (Singapore) Pte. Ltd.)	810,000	Batteries
Bangi, Malaysia (Sony EMCS (Malaysia) Sdn. Bhd. KL TEC)	871,000	LCD televisions, TV components, Blu-ray Disc players/recorders and DVD-players/recorders
Guangzhou, China (Sony Electronics Huanan Co., Ltd.)	707,000	Optical pickups
Beijing, China (Sony Mobile Communications Co., Ltd.)	688,000	Mobile phones

In addition to the above facilities, Sony has a number of other plants for electronic products throughout the world. Sony owns research and development facilities, and employee housing and recreation facilities, as well as Sony Corporation s headquarters main building, with a total floor space of approximately 1,753,000 square feet, in Tokyo, Japan, where administrative functions and product development activities are carried out. In February 2013, Sony sold its Sony City Osaki office building and premises (Sony City Osaki) in Tokyo. In connection with the sale, Sony entered into an agreement to lease the building for a period of five years after the sale. SCEI has its corporate headquarters in Sony Corporation s headquarters main building and leases its corporate buildings located in Tokyo, where administrative functions, product development, and software development are carried out. SCEA and SCEE lease their offices in the U.S. and Europe, respectively.

SPE s corporate offices and motion picture and television production facilities are headquartered in Culver City, California, where it owns and operates a studio facility, Sony Pictures Studios, with aggregate floor space of approximately 1,608,000 square feet. SPE also leases office space and motion picture and television support facilities from third parties and affiliates of Sony Corporation in various worldwide locations. SPE s film and videotape storage operations are located in various leased locations in the U.S. and Europe.

SME s corporate offices are headquartered in New York, NY where it leases office space from SCA. SME also leases office space from third parties in various locations worldwide.

In March 2013, SCA exercised its option to purchase its U.S. headquarters building at 550 Madison Avenue in New York City (Sony s U.S. headquarters building), which was leased from a variable interest entity (VIE) that was consolidated by Sony. Concurrent with the exercise of the purchase option, SCA completed the sale of the building to a third party. In connection with the sale, SCA entered into an agreement to lease

the building for a period of three years after the sale. Most of SMEJ s offices, including leased premises, are located in Tokyo, Japan.

During the fiscal year ended March 31, 2013, Sony ceased manufacturing at two manufacturing sites in Japan. Sony Chemical & Information Device Corporation-Kanuma Plant was sold to Dexerials Corporation. Sony EMCS Corporation-Minokamo Plant was closed. Operations at the Sony Device Technology (Thailand) Co., Ltd.-Bangkadi Technology Center and Sony Technology (Thailand) Co., Ltd.-Ayuthaya Technology Center have been stopped due to the 2011 floods in Thailand (the Floods).

Item 4A. ***Unresolved Staff Comments***
Not applicable

Item 5. ***Operating and Financial Review and Prospects***

A. Operating Results
Operating Results for the Fiscal Year Ended March 31, 2013 compared with the Fiscal Year Ended March 31, 2012

For the fiscal year ended March 31, 2013, consolidated sales increased year-on-year primarily due to the impact of consolidating Sony Mobile Communications AB (Sony Mobile , formerly known as Sony Ericsson Mobile Communication AB (Sony Ericsson)) as a wholly-owned subsidiary, the favorable impact of foreign exchange rates and an increase in financial services revenue in the Financial Services segment. Consolidated operating income was recorded, compared to a loss in the previous fiscal year primarily due to the recording of sale and remeasurement gains associated with the sale of assets. Net income attributable to Sony Corporation s stockholders was recorded, compared to a net loss in the previous fiscal year.

Sony realigned its reportable segments from the first quarter of the fiscal year ended March 31, 2013 to reflect modifications to its organizational structure as of April 1, 2012, primarily repositioning the operations of the previously reported Consumer Products & Services (CPS), Professional, Device & Solutions (PDS) and Sony Mobile Communications segments. In connection with this realignment, the operations of the former CPS, PDS and Sony Mobile Communications segments are reclassified into five newly established segments, namely the Imaging Products & Solutions (IP&S), Game, Mobile Products & Communications (MP&C), Home Entertainment & Sound (HE&S) and Devices segments, as well as All Other. The previously reported Sony Mobile Communications segment is now included in the MP&C segment as the Mobile Communications category. The network business previously included in the CPS segment and the medical business previously included in the PDS segment are now included in All Other. In this section, the term Electronics refers to the sum of the IP&S, Game, MP&C, HE&S and Devices segments.

In connection with this realignment, both sales and operating revenue (Sales) and operating income (loss) of each segment in the fiscal year ended March 31, 2012 and in the fiscal year ended March 31, 2011 have been revised to conform to the presentation for the fiscal year ended March 31, 2013.

Operating Performance

	Fiscal year ended March 31		
	2012	**2013**	**Percent change**
	(Yen in billions)		
Sales and operating revenue	6,493.2	**6,800.9**	+4.7%
Equity in net loss of affiliated companies	(121.7)	**(6.9)**	
Operating income (loss)	(67.3)	**230.1**	
Income (loss) before income taxes	(83.2)	**245.7**	
Net income (loss) attributable to Sony Corporation s stockholders	(456.7)	**43.0**	

Table of Contents

Sales

Sales were 6,800.9 billion yen, an increase of 4.7 percent compared to the previous fiscal year (year-on-year). This increase was primarily due to the impact of consolidating Sony Mobile as a wholly-owned subsidiary, the favorable impact of foreign exchange rates and an increase in financial services revenue in the Financial Services segment. Partially offsetting the increase in sales was a decrease in unit sales of key electronics products and the negative impact resulting from the sales of the small- and medium-sized display business and the chemical products related business. A further breakdown of sales figures is presented under *Operating Performance by Business Segment* below.

During the fiscal year ended March 31, 2013, the average rates of the yen were 83.1 yen against the U.S. dollar and 107.2 yen against the euro, which were 6.1 percent lower and 0.3 percent higher, respectively, than the previous fiscal year.

Sales in the analysis of the ratio of cost of sales to sales, the ratio of research and development costs to sales, and the ratio of selling, general and administrative expenses (SGA expenses) to sales refers only to the net sales and other operating revenue portions of consolidated sales (which excludes financial services revenue). This is because financial services expenses are recorded separately from cost of sales and SGA expenses in the consolidated financial statements. The calculations of all ratios below that pertain to reportable segments include intersegment transactions.

Cost of Sales, Selling, General and Administrative Expenses and Other Operating (Income) Expense, net

Cost of sales for the fiscal year ended March 31, 2013 increased by 99.0 billion yen, or 2.3 percent year-on-year, to 4,485.4 billion yen, and the ratio of cost of sales to sales improved year-on-year from 78.0 percent to 77.4 percent.

Research and development costs (all research and development costs are included within cost of sales) increased by 40.1 billion yen, or 9.3 percent year-on-year, to 473.6 billion yen, mainly due to the consolidation of Sony Mobile from February 16, 2012. The ratio of research and development costs to sales was 8.2 percent compared to 7.7 percent in the fiscal year ended March 31, 2012.

SGA expenses increased by 81.7 billion yen, or 5.9 percent year-on-year, to 1,457.6 billion yen, mainly due to the impact of the depreciation of the yen and an increase in restructuring charges related mainly to employee termination benefits. The ratio of SGA expenses to sales deteriorated year-on-year from 24.5 percent to 25.1 percent.

Other operating (income) expense, net resulted in income of 235.2 billion yen, compared with income of 59.6 billion yen in the previous fiscal year. This increase was mainly due to a 122.2 billion yen gain from the sale of certain shares of M3, Inc. (M3) and the subsequent remeasurement of Sony s remaining interest in M3, formerly a consolidated subsidiary, a 691 million U.S. dollar (65.5 billion yen) gain on the sale of Sony s U.S. headquarters building, a 42.3 billion yen gain on the sale of Sony City Osaki in Tokyo and a 9.1 billion yen gain on the sale of the chemical products related business. Refer to Note 5, 8 and 20 of the consolidated financial statements.

Equity in Net Income (Loss) of Affiliated Companies

For the fiscal year ended March 31, 2013, equity in net loss of affiliated companies, decreased 114.7 billion yen year-on-year to 6.9 billion yen. This improvement was primarily due to the absence of equity in net loss for S-LCD Corporation (S-LCD) of 64.1 billion yen and equity in net loss for Sony Ericsson of 57.7 billion yen, which were both accounted for under the equity method in the previous fiscal year.

Operating Income (Loss)

For the fiscal year ended March 31, 2013, operating income of 230.1 billion yen was recorded, compared to an operating loss of 67.3 billion yen in the previous fiscal year. This significant improvement was primarily due

to the recording of sale and remeasurement gains associated with the sale of assets undertaken as a part of Sony s efforts to transform its business portfolio and strengthen its financial structure, a decrease in losses from Televisions in accordance with the Television Profitability Improvement Plan, and an improvement in the operating results of the Devices segment, the Financial Services segment and the Pictures segment. Operating results of the MP&C segment, the Game segment and the IP&S segment deteriorated. A 102.3 billion yen remeasurement gain associated with obtaining control of Sony Mobile was recorded in the MP&C segment in the previous fiscal year. For further details, see the *Operating Performance by Business Segment* .

Operating results for the current fiscal year included a net benefit of 40.0 billion yen from insurance recoveries related to damages and losses incurred from the floods in Thailand (the Floods), which took place in the previous fiscal year.

Other Income and Expenses

For the fiscal year ended March 31, 2013, other income increased by 45.2 billion yen, or 192.4 percent year-on-year, to 68.7 billion yen, while other expenses increased by 13.7 billion yen, or 34.7 percent year-on-year, to 53.1 billion yen. The net amount of other income and other expenses was income of 15.6 billion yen, compared to an expense of 15.9 billion yen in the fiscal year ended March 31, 2012. The change from other expense, net to other income, net was primarily due to an increase in gain on sale of securities investments partially offset by an increase in net foreign exchange loss. The sale of securities investments in the current fiscal year included a 40.9 billion yen gain on the sale of Sony s shares in DeNA Co., Ltd. (DeNA), which were sold in March 2013.

A net foreign exchange loss of 10.4 billion yen was recorded, compared to a loss of 5.1 billion yen for the previous fiscal year. This loss was mainly due to losses related to routine derivative contracts entered into to reduce risk caused by foreign exchange rate fluctuations.

Interest and dividends in other income of 22.0 billion yen was recorded in the fiscal year ended March 31, 2013, an increase of 6.9 billion yen, or 45.6 percent year-on-year. Interest recorded in other expenses totaled 26.7 billion yen, an increase of 3.2 billion yen, or 13.8 percent year-on-year.

Income (Loss) before Income Taxes

For the fiscal year ended March 31, 2013, income before income taxes was 245.7 billion yen, compared to a loss of 83.2 billion yen in the previous fiscal year.

Income Taxes

During the current fiscal year, Sony recorded 141.5 billion yen of income tax expense. As of March 31, 2012, Sony had established a valuation allowance against certain deferred tax assets for Sony Corporation and its national tax filing group in Japan, the consolidated tax filing group in the U.S., and certain other subsidiaries. During the current fiscal year, certain of these tax filing groups and subsidiaries incurred losses, and as such Sony continued to not recognize the associated tax benefits. As a result, Sony s effective tax rate for the current fiscal year exceeded the Japanese statutory tax rate. Income tax expense decreased 173.7 billion yen as compared to the previous fiscal year, which was primarily due to a non-cash charge recorded in the previous fiscal year to establish a valuation allowance of 260.3 billion yen against certain deferred tax assets held by subsidiaries in the U.S., Japan and the U.K. Refer to Note 21 of the consolidated financial statements.

Net Income (loss) attributable to Sony Corporation s stockholders

For the fiscal year ended March 31, 2013, the net loss attributable to Sony Corporation s stockholders, which excludes net income attributable to noncontrolling interests, was 43.0 billion yen, compared to a net loss of 456.7 billion yen in the previous fiscal year.

Net income attributable to noncontrolling interests of 61.1 billion yen was recorded, an increase of 2.9 billion yen year-on-year. This increase was mainly due to the increased income at Sony Financial Holdings, Inc. (SFH), for which there is a noncontrolling interest of 40 percent. For details of operating results in the Financial Services segment, refer to *Operating Performance by Business Segment* below.

Table of Contents

Basic net income per share attributable to Sony s stockholders was 42.80 yen and diluted net income per share attributable to Sony Corporation s stockholders was 40.19 yen compared with basic and diluted net losses per share of 455.03 yen, respectively, in the previous fiscal year. Refer to Note 22 of the consolidated financial statements.

Operating Performance by Business Segment

The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. Refer to Note 28 of the consolidated financial statements.

Business Segment Information

	Fiscal year ended March 31		
	2012	**2013**	**Percent change**
	(Yen in billions)		
Sales and operating revenue			
Imaging Products & Solutions	761.3	**730.4**	4.1%
Game	805.0	**707.1**	12.2
Mobile Products & Communications*	622.7	**1,257.6**	+102.0
Home Entertainment & Sound	1,283.2	**994.8**	22.5
Devices	1,026.6	**848.6**	17.3
Pictures	657.7	**732.7**	+11.4
Music	442.8	**441.7**	0.2
Financial Services	871.9	**1,007.7**	+15.6
All Other	530.3	**588.8**	+11.0
Corporate and Elimination	(508.2)	**(508.6)**	
Consolidated	6,493.2	**6,800.9**	+4.7

	Fiscal year ended March 31		
	2012	**2013**	**Percent change**
	(Yen in billions)		
Operating income (loss)			
Imaging Products & Solutions	18.6	**1.4**	92.3%
Game	29.3	**1.7**	94.1
Mobile Products & Communications**	7.2	**(97.2)**	
Home Entertainment & Sound	(203.2)	**(84.3)**	
Devices	(22.1)	**43.9**	
Pictures	34.1	**47.8**	+40.1
Music	36.9	**37.2**	+0.9
Financial Services	131.4	**145.8**	+10.9
All Other	(54.1)	**91.0**	
Sub-Total	(21.8)	**187.4**	
Corporate and Elimination***	(45.4)	**42.7**	
Consolidated	(67.3)	**230.1**	

** The Mobile Products & Communications segment sales do not include sales of Sony Ericsson from April 1, 2011 through February 15, 2012.*

*** The Mobile Products & Communications segment s operating income for the fiscal year ended March 31, 2012 includes Sony s equity results for Sony Ericsson through February 15, 2012 and the operating income (loss) from February 16, 2012 through March 31, 2012 for Sony Mobile, as well as the remeasurement gain associated with obtaining control of Sony Mobile.*

**** Corporate and Elimination includes headquarters restructuring costs and certain other corporate expenses, including the amortization of certain intellectual property assets such as the cross-licensing of intangible assets acquired from Ericsson at the time of the Sony Mobile acquisition, which are not allocated to segments.*

Table of Contents

Imaging Products & Solutions

For the fiscal year ended March 31, 2013, sales decreased 4.1 percent year-on-year to 730.4 billion yen. This decrease was primarily due to a significant decrease in unit sales of compact digital cameras, reflecting a contraction of the low-end of the market, as well as a significant decrease in unit sales of video cameras reflecting a contraction of the market, partially offset by significantly higher sales of interchangeable single-lens cameras and the favorable impact of foreign exchange rates.

Operating income decreased 17.2 billion yen year-on-year to 1.4 billion yen. This significant decrease was mainly due to the impact of the above-mentioned decrease in sales and an increase in restructuring charges. Restructuring charges, net, increased 11.5 billion yen year-on-year to 12.8 billion yen.

Below are the sales to outside customers by product category and unit sales of major products:

Sales to outside customers by product category

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31				
	2012		**2013**		**Percent change**
	(Yen in millions)				
Digital Imaging Products	489,526	(64.7)	**449,724**	**(61.9)**	8.1%
Professional Solutions	256,871	(33.9)	**259,899**	**(35.8)**	+1.2
Other	10,228	(1.4)	**17,151**	**(2.3)**	+67.7
IP&S Total	756,625	(100.0)	**726,774**	**(100.0)**	3.9

Unit sales of major products

	Fiscal year ended March 31			
	2012	**2013**	**Unit change**	**Percent change**
	(Units in millions)			
Home-use video cameras within *Digital Imaging Products*	4.4	**3.7**	0.7	15.9%
Compact digital cameras within *Digital Imaging Products*	21.0	**15.0**	6.0	28.6

Game

For the fiscal year ended March 31, 2013, sales decreased 12.2 percent year-on-year to 707.1 billion yen. Sales to external customers decreased 22.5 percent year-on-year. This significant decrease was primarily due to a decrease in unit sales of PlayStation®3 (PS3) hardware and PSP® (PlayStation Portable) (PSP) hardware and software, as well as PlayStation® Vita (PS Vita) hardware, partially offset by the favorable impact of foreign exchange rates.

Table of Contents

Operating income decreased 27.6 billion yen year-on-year to 1.7 billion yen. This significant decrease was primarily due to the above-mentioned decrease in sales of PSP hardware and software as well as the impact of a strategic price reduction for the PS Vita, enacted in Japan in February 2013. Below are the unit sales of each platform within the segment:

Unit sales of each platform within the segment

	Fiscal year ended March 31			
	2012	**2013**	**Unit change**	**Percent change**
	(Units in millions)			
Hardware				
Computer Entertainment System (PS3 /PS2)	18.0	**16.5**	1.5	8.3%
Portable Entertainment System (PS Vita / PSP)	6.8	**7.0**	+0.2	+2.9
Software*				
Computer Entertainment System (PS3 /PS2)	164.5	**153.9**	10.6	6.4
Portable Entertainment System (PS Vita / PSP)	32.2	**28.8**	3.4	10.6

* Network downloaded software is not included within unit software sales in the table above. PS Vita hardware and software are not included in the sales for the fiscal year ended March, 31, 2012 in the table above.

Mobile Products & Communications

For the fiscal year ended March 31, 2013, sales increased 102.0 percent year-on-year to 1,257.6 billion yen. This significant increase was primarily due to the impact of consolidating Sony Mobile as a wholly-owned subsidiary, partially offset by lower sales of PCs resulting from a decline in unit sales.

On a pro forma basis, had Sony Mobile been fully consolidated for the entire previous fiscal year, segment sales would have increased approximately 18 percent. This significant increase was due to an increase in sales of mobile phones primarily resulting from higher average selling prices, reflecting a product portfolio shift to smartphones from feature phones, and higher unit sales of smartphones, partially offset by lower sales of PCs.

Operating loss of 97.2 billion yen was recorded, compared to operating income of 7.2 billion yen in the previous fiscal year. This significant deterioration was primarily due to the inclusion of a 102.3 billion yen remeasurement gain associated with obtaining control of Sony Mobile in the previous fiscal year, the above-mentioned decrease in sales of PCs and the unfavorable impact of foreign exchange rates. The depreciation of the yen unfavorably impacted operating results, primarily because the proportion of U.S. dollar-based costs to total costs was higher than the proportion of U.S. dollar-based revenue to total revenue in the MP&C segment. Restructuring charges, net, increased 3.9 billion yen year-on-year to 5.9 billion yen.

On a pro forma basis, had Sony Mobile been fully consolidated for the entire previous fiscal year, operating loss would have been approximately 102.0 billion yen. This loss does not include the above-mentioned 102.3 billion yen remeasurement gain. The decrease in operating loss compared to the previous fiscal year on a pro forma basis was primarily due to the impact of the above-mentioned increase in sales of mobile phones, partially offset by the impact of the lower sales of PCs.

Table of Contents

Below are the sales to outside customers by product category and the unit sales of major products:

Sales to outside customers by product category

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31				
	2012		**2013**		**Percent change**
	(Yen in millions)				
*Mobile Communications**	77,732	(12.5)	**733,622**	**(60.1)**	+843.8%
Personal and Mobile Products	538,816	(86.6)	**480,132**	**(39.4)**	10.9
Other	5,867	(0.9)	**6,259**	**(0.5)**	+6.7
MP&C Total	622,415	(100.0)	**1,220,013**	**(100.0)**	+96.0

** Sales for Mobile Communications during the fiscal year ended March 31, 2012 were sales after the consolidation of Sony Mobile from February 16, 2012 through March 31, 2012.*

Unit sales of major products

	Fiscal year ended March 31			
	2012	**2013**	**Unit change**	**Percent change**
	(Units in millions)			
Smartphones within *Mobile Communications*	22.5*	**33.0**	+10.5	+46.7
PCs within *Personal and Mobile Products*	8.4	**7.6**	0.8	9.5%

** Unit sales of smartphones during the fiscal year ended March 31, 2012 includes the sales of Sony Ericsson for the full year.*

Home Entertainment & Sound

For the fiscal year ended March 31, 2013, sales decreased 22.5 percent year-on-year to 994.8 billion yen. This significant decrease was primarily due to a significant decrease in LCD television unit sales.

Operating loss decreased 118.9 billion yen year-on-year to 84.3 billion yen. This significant improvement in operating results was primarily due to the absence of 64.1 billion yen of equity in net loss for S-LCD recorded in the previous fiscal year and reductions in LCD panel related expenses and operating expenses. Included in the reduction of LCD panel related expenses was the impact of not having incurred any expenses for the low capacity utilization of S-LCD in the fiscal year ended March 31, 2013. The above initiatives were conducted in accordance with the Television Profitability Improvement Plan announced in November 2011. Restructuring charges, net, increased 7.0 billion yen year-on-year to 12.4 billion yen.

In Televisions, sales decreased 30.8 percent year-on-year to 581.5 billion yen and operating loss* decreased 137.9 billion yen year-on-year to 69.6 billion yen.

* The operating loss in Televisions excludes restructuring charges, which are included in the overall segment results and are not allocated to product categories.

Below are the sales to outside customers by product category and unit sales of major products:

Sales to outside customers by product category

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31				
	2012		**2013**		**Percent change**
	(Yen in millions)				
Televisions	840,359	(65.5)	**581,475**	**(58.5)**	30.8%
Audio and Video	433,800	(33.8)	**405,024**	**(40.8)**	6.6
Other	8,569	(0.7)	**7,323**	**(0.7)**	14.5
HE&S Total	1,282,728	(100.0)	**993,822**	**(100.0)**	22.5

Unit sales of major products

	Fiscal year ended March 31			
	2012	**2013**	**Unit change**	**Percent change**
	(Units in millions)			
LCD televisions within *Televisions*	19.6	**13.5**	6.1	31.1%
Blu-ray Disc players / recorders within *Audio and Video*	7.0	**6.3**	0.7	10.0

Devices

For the fiscal year ended March 31, 2013, sales decreased 17.3 percent year-on-year to 848.6 billion yen. This significant decrease was primarily due to the sales of the small- and medium-sized display business and the chemical products related business, partially offset by the favorable impact of foreign exchange rates and a significant increase in sales of image sensors reflecting higher demand for mobile products.

Excluding the impact of the sales of the small- and medium-sized display business and the chemical products related business, overall segment sales were essentially flat year-on-year.

Operating income of 43.9 billion yen was recorded, compared to an operating loss of 22.1 billion yen in the previous fiscal year. This significant improvement was primarily due to the recording of a 19.2 billion yen expense associated with the sale of the small- and medium-sized display business in the previous fiscal year, the above-mentioned increase in sales of image sensors, and the recording of a 9.1 billion yen gain on the sale of the chemical products related business. The net benefit from insurance recoveries related to damages and losses incurred from the Floods increased year-on-year. Restructuring charges, net, decreased 8.2 billion yen year-on-year to 19.1 billion yen.

Below are the sales to outside customers by product category:

Sales to outside customers by product category

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31				
	2012		**2013**		**Percent change**
	(Yen in millions)				
Semiconductors	377,177	(55.7)	**301,915**	**(51.7)**	20.0%
Components	295,822	(43.7)	**271,654**	**(46.5)**	8.2
Other	4,209	(0.6)	**10,399**	**(1.8)**	+147.1

Devices Total	677,208	(100.0)	**583,968**	**(100.0)**	13.8

48

Table of Contents

Electronics*

* The term Electronics refers to the sum of the IP&S, Game, MP&C, HE&S and Devices segments.

Inventory

Total inventory of the Electronics segments above as of March 31, 2013 was 622.9 billion yen, a decrease of 4.3 billion yen, or 0.7 percent compared with the level as of March 31, 2012.

Sales to Outside Customers by Geographic Area

Combined sales to outside customers by geographic area for the Electronics segments for the fiscal year ended March 31, 2013 decreased year-on-year by 26 percent in the U.S., and by 6 percent in China. Sales increased year-on-year by 22 percent in Asia-Pacific areas other than Japan and China (the Asia-Pacific Area) and by 14 percent in other geographic area (Other Areas). Sales in Europe and in Japan were essentially flat year-on-year. Total combined sales in all areas were essentially flat year-on-year.

In the U.S., sales of products such as LCD televisions and sales in the game business decreased. In Europe, sales of products such as LCD televisions decreased while sales of products such as mobile phones increased. In Japan, sales of products such as mobile phones increased while sales of products such as LCD televisions and sales in the game business decreased. In China, sales of products such as small- and medium-sized LCD panels, PCs and LCD televisions decreased while sales of products such as mobile phones increased. In the Asia-Pacific Area, sales of products such as image sensors and mobile phones increased. In Other Areas, sales of products such as mobile phones increased while sales of products such as LCD televisions decreased. The increase in sales of mobile phones in all areas was mainly due to the impact of consolidating Sony Mobile as a wholly-owned subsidiary.

Manufacturing by Geographic Area

Approximately 60 percent of the Electronics segments total annual production during the fiscal year ended March 31, 2013 was in-house production, and approximately 40 percent was outsourced production.

Approximately 40 percent of the annual in-house production took place in Japan, including the production of compact digital cameras, home-use video cameras, LCD televisions, PCs, semiconductors and components such as batteries and storage media. Approximately 65 percent of the annual in-house production in Japan was destined for other countries. Production in Asia, excluding Japan and China, accounted for approximately 20 percent of the annual in-house production, with approximately 50 percent destined for the Americas, Japan, Europe and China. Production in China accounted for approximately 35 percent of the annual in-house production, approximately 75 percent of which was destined for other countries. Production in the Americas and Europe together accounted for approximately 5 percent of the annual in-house production, most of which was destined for local distribution and sale.

Pictures

Pictures segment results presented below are a yen-translation of the results of Sony Pictures Entertainment (SPE), a U.S.-based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis. Management analyzes the results of SPE in U.S. dollars, so discussion of certain portions of its results is specified as being on a U.S. dollar basis.

For the fiscal year ended March 31, 2013, sales increased 11.4 percent year-on-year to 732.7 billion yen primarily due to the favorable impact of the depreciation of the yen against the U.S. dollar. On a U.S. dollar basis, sales for the fiscal year ended March 31, 2013 increased approximately 4 percent year-on-year. Motion picture revenues, on a U.S. dollar basis, increased approximately 5 percent year-on-year. This increase in sales was primarily due to significantly higher theatrical revenues from the current fiscal year s film slate, partially offset by the sale of a participation interest in *Spider-Man* merchandising rights in the previous fiscal year. Films that significantly contributed to the higher theatrical revenues included *Skyfall* and *The Amazing Spider-Man*. Television revenues, on a U.S. dollar basis, increased approximately 2 percent year-on-year primarily due to higher subscription revenues from SPE s television networks and higher home entertainment revenues from U.S. made-for-cable television programming.

Operating income increased by 13.7 billion yen year-on-year to 47.8 billion yen. On a U.S. dollar basis, operating income increased by approximately 27 percent. This significant increase was primarily due to the stronger performance of the current fiscal year s film slate and lower theatrical marketing expenses, partially offset by 21.4 billion yen of operating income generated from the above-noted sale of a participation interest in *Spider-Man* merchandising rights during the fiscal year ended March 31, 2012. The performance of the current fiscal year s film slate reflects the strong theatrical performance of the two films mentioned above, partially offset by the underperformance of *Total Recall*. The segment results also benefitted from higher home entertainment revenues from U.S. made-for-cable programming.

As of March 31, 2013, unrecognized license fee revenue at SPE was approximately 1.5 billion U.S. dollars. SPE expects to record this amount over the next ten years, having entered into contracts with television broadcasters to provide those broadcasters with completed motion picture and television product. The license fee revenue will be recognized in the fiscal year in which the product is made available for broadcast.

Music

Music segment results presented below include the yen-translated results of Sony Music Entertainment (SME), a U.S.-based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis, the results of Sony Music Entertainment (Japan) Inc. (SMEJ), a Japan-based music company that aggregates its results in yen, and the yen-translated consolidated results of Sony/ATV Music Publishing LLC (Sony/ATV), a 50 percent owned U.S.-based consolidated joint venture in the music publishing business that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis.

For the fiscal year ended March 31, 2013, sales were essentially flat at 441.7 billion yen. This result was due to the continued worldwide contraction of the physical music market and the impact of a larger number of successful releases in Japan in the previous fiscal year, offset by the favorable impact of the depreciation of the yen against the U.S. dollar, and growth in digital revenue. Best-selling titles included One Direction s *Take Me Home* and *Up All Night*, P!nk s *The Truth about Love*, and Justin Timberlake s *The 20/20 Experience*.

Operating income increased 0.3 billion yen year-on-year to 37.2 billion yen. Operating income was essentially flat primarily due to the growth in digital revenue, lower restructuring costs and the favorable impact of the depreciation of the yen against the U.S. dollar, offset by the above-mentioned lower sales in Japan, and the recognition in the previous fiscal year of a benefit related to digital license revenues and a favorable U.S. legal settlement concerning copyright infringement.

Financial Services

In Sony s Financial Services segment, the results include Sony Financial Holdings Inc. (SFH) and SFH s consolidated subsidiaries such as Sony Life Insurance Co., Ltd. (Sony Life), Sony Assurance Inc. and Sony Bank Inc. (Sony Bank). The results of Sony Life discussed below on the basis of U.S. GAAP differ from the results that SFH and Sony Life disclose separately on a Japanese statutory basis.

Financial services revenue for the fiscal year ended March 31, 2013 increased 15.6 percent year-on-year to 1,007.7 billion yen primarily due to a significant increase in revenue at Sony Life. Revenue at Sony Life increased 18.5 percent year-on-year to 921.8 billion yen. This increase was primarily due to a significant increase in insurance premium revenue reflecting a steady increase in policy amount in force and significantly improved investment performance in the separate account resulting primarily from a significant rise in the Japanese stock market compared to the previous fiscal year.

Operating income increased 14.4 billion yen year-on-year to 145.8 billion yen. This increase was mainly due to an increase in operating income at Sony Life, partially offset by an increase in foreign exchange losses on foreign-currency-denominated customer deposits at Sony Bank. Operating income at Sony Life increased 26.1 billion yen year-on-year to 160.9 billion yen. This increase was primarily due to a decrease in the provision of policy reserves pertaining to minimum guarantees for variable insurance and an improvement in investment performance in the general account, driven primarily by the above-mentioned improvement in the Japanese stock market.

Table of Contents

Information on Operations Separating Out the Financial Services Segment

The following charts show Sony s information on operations for the Financial Services segment alone and for all segments excluding the Financial Services segment. These separate condensed presentations are not required or prepared under U.S. GAAP, which is used in Sony s consolidated financial statements. However, because the Financial Services segment is different in nature from Sony s other segments, Sony utilizes this information to analyze its results without the Financial Services segment and believes that these presentations may be useful in understanding and analyzing Sony s consolidated financial statements. Transactions between the Financial Services segment and Sony without the Financial Services segment, including noncontrolling interests, are included in those respective presentations, then eliminated in the consolidated figures shown below.

Financial Services segment	Fiscal year ended March 31	
	2012	**2013**
	(Yen in millions)	
Financial services revenue	871,895	**1,007,736**
Financial services expenses	739,222	**859,626**
Equity in net loss of affiliated companies	(1,252)	**(2,303)**
Operating income	131,421	**145,807**
Other income (expenses), net	1,069	**100**
Income before income taxes	132,490	**145,907**
Income taxes and other	18,380	**44,436**
Net income of Financial Services	114,110	**101,471**

Sony without the Financial Services segment	Fiscal year ended March 31	
	2012	**2013**
	(Yen in millions)	
Net sales and operating revenue	5,627,893	**5,799,582**
Costs and expenses	5,708,607	**5,713,090**
Equity in net loss of affiliated companies	(120,445)	**(4,645)**
Operating income (loss)	(201,159)	**81,847**
Other income (expenses), net	(9,181)	**23,147**
Income (loss) before income taxes	(210,340)	**104,994**
Income taxes and other	309,486	**117,013**
Net loss of Sony without Financial Services	(519,826)	**(12,019)**

Consolidated	Fiscal year ended March 31	
	2012	**2013**
	(Yen in millions)	
Financial services revenue	868,971	**1,004,623**
Net sales and operating revenue	5,624,241	**5,796,228**
	6,493,212	**6,800,851**
Costs and expenses	6,438,790	**6,563,803**
Equity in net loss of affiliated companies	(121,697)	**(6,948)**
Operating income (loss)	(67,275)	**230,100**
Other income (expenses), net	(15,911)	**15,581**

Income (loss) before income taxes	(83,186)	**245,681**
Income taxes and other	373,474	**202,647**
Net income (loss) attributable to Sony Corporation s Stockholders	(456,660)	**43,034**

51

Table of Contents

All Other

Sales for the fiscal year ended March 31, 2013 increased 11.0 percent year-on-year, to 588.8 billion yen. The increase in sales is mainly due to significantly higher sales in the network business and favorable foreign exchange rates.

Operating income of 91.0 billion yen was recorded for the fiscal year ended March 31, 2013, compared to an operating loss of 54.1 billion yen in the previous fiscal year. This improvement was mainly due to a 122.2 billion yen gain from the sale of certain shares of M3 and the subsequent remeasurement of Sony s remaining interest in M3, which was formerly a consolidated subsidiary of Sony, higher sales and a decrease in impairment losses in the network business.

Restructuring

In a highly competitive business environment, Sony has been undertaking a series of measures to revitalize and grow its electronics business. In October 2012, Sony announced additional steps to accelerate structural reforms of its headquarters and electronics business operations in Japan, including consolidating certain manufacturing operations and expediting measures to reduce headcount.

In the fiscal year ended March 31, 2013, Sony recorded restructuring charges of 77.5 billion yen, which includes 3.1 billion yen of non-cash charges related to depreciation associated with restructured assets, compared to 54.8 billion yen of restructuring charges recorded in the previous fiscal year. There were 2.1 billion yen of non-cash charges related to depreciation associated with restructured assets in the previous fiscal year. Restructuring charges increased by 22.7 billion yen or 41.5 percent year-on-year. Of the total 77.5 billion yen incurred in the fiscal year ended March 31, 2013, 62.8 billion yen were personnel related costs, primarily included in SGA expenses in the consolidated statements of income. These personnel-related costs increased 146.5 percent compared to the previous fiscal year. This increase was primarily due to the implementation of early retirement programs, including headcount reductions at Sony Corporation and major consolidated electronics subsidiaries in Japan and the closure of a production facility in Japan to streamline organization of the electronics business and increase operational efficiency in accordance with the restructuring of the electronics business announced in October 2012.

Restructuring charges for the fiscal year ended March 31, 2013 were related to restructuring initiatives related to both the electronics businesses and Sony s headquarters mentioned above.

Restructuring charges discussed in Item 5, which include non-cash charges related to depreciation associated with restructured assets, are described in Note 19 of the consolidated financial statements.

Foreign Exchange Fluctuations and Risk Hedging

During the fiscal year ended March 31, 2013, the average rates of the yen were 83.1 yen against the U.S. dollar and 107.2 yen against the euro, which was 6.1 percent lower and 0.3 percent higher, respectively, than the previous fiscal year. For the latest yen exchange rates per U.S. dollar, refer to Selected Financial Data in Item 3. Key Information.

During the fiscal year ended March 31, 2013 and through June 27, 2013, monetary easing policies have been adopted in several industrialized nations around the world. In particular, in September 2012, the U.S. Federal Reserve Board introduced QE3 (Quantitative Easing program 3) and in April 2013 the Bank of Japan introduced Quantitative and Qualitative Monetary Easing .

For the fiscal year ended March 31, 2013, consolidated sales were 6,800.9 billion yen, an increase of 4.7 percent year-on-year, while on a constant currency basis, sales increased approximately 2 percent year-on-year. For references to information on a constant currency basis, see Note at the bottom of this section.

Consolidated operating income of 230.1 billion yen was recorded in the fiscal year ended March 31, 2013, compared to operating loss of 67.3 billion yen in the previous fiscal year. Operating results improved by 297.4 billion

Table of Contents

year-on-year, while it would have improved by approximately 316.6 billion yen compared to the previous fiscal year on a constant currency basis. The foreign exchange fluctuations had an adverse impact on the consolidated operating results mainly in Electronics.

The table below indicates the foreign exchange impact on sales and operating results in each of the segments. For a detailed analysis of segment performance, please refer to the Operating Performance Highlights by Business Segment in the Results of Operations section above, which discusses the impact of foreign exchange rates within each segment.

		Fiscal year ended March 31			Change on constant	Impact of changes in
		2012	2013	Change in yen	currency basis*	foreign exchange rates
				(Yen in billions)		
IP&S	Sales	761.3	**730.4**	4.1%	7%	+24.3
	Operating income	18.6	**1.4**	17.2	15.9	1.3
Game	Sales	805.0	**707.1**	12.2%	15%	+21.1
	Operating income	29.3	**1.7**	27.6	32.3	+4.7
MP&C	Sales	622.7	**1,257.6**	+102.0%	+102%	+1.8
	Operating income (loss)	7.2	**(97.2)**	104.4	87.3	17.1
HE&S	Sales	1,283.2	**994.8**	22.5%	25%	+29.8
	Operating loss	(203.2)	**(84.3)**	+118.9	+124.7	5.8
Devices	Sales	1,026.6	**848.6**	17.3%	20%	+23.4
	Operating income (loss)	(22.1)	**43.9**	+66.0	+65.1	+0.9

During the fiscal year ended March 31, 2013, Sony estimated that a one yen appreciation against the U.S. dollar would have decreased consolidated sales by approximately 50 billion yen, with approximately no impact on operating income. Sony s exposure to the U.S. dollar is limited due to Sony s ability to manage its U.S. dollar-based sales with U.S. dollar-based costs, creating a natural currency hedge. Sony s results are more sensitive to movements between the yen and the euro. A one yen appreciation against the euro was estimated to decrease consolidated sales by approximately 10 billion yen, with a corresponding decrease in operating income of approximately 6 billion yen.

In addition, sales for the Pictures segment increased 11.4 percent year-on-year to 732.7 billion yen, while sales increased approximately 4 percent on a constant currency (U.S. dollar) basis. In the Music segment, sales decreased 0.2 percent year-on-year to 441.7 billion yen, while sales decreased approximately 4 percent on a constant currency basis. For a detailed analysis of segment performance, please refer to the Pictures and Music segments under *Operating Performance by Business Segment*. Sony s Financial Services segment consolidates the yen-based results of SFH. As most of the operations in this segment are based in Japan, Sony management analyzes the performance of the Financial Services segment on a yen basis only.

Sony s consolidated results are subject to foreign currency rate fluctuations largely because the currency used in the countries where manufacturing and material and parts procurement takes place may be different from those where Sony s products are sold. In order to reduce the risk caused by foreign exchange rate fluctuations, Sony employs derivatives, including foreign exchange forward contracts and foreign currency option contracts, in accordance with a consistent risk management strategy. Such derivatives are used primarily to mitigate the effect of foreign currency exchange rate fluctuations on cash flows generated or anticipated by Sony Corporation and by its subsidiaries transactions and accounts receivable and payable denominated in foreign currencies.

Sony Global Treasury Services Plc (SGTS) in London provides integrated treasury services for Sony Corporation, its subsidiaries, and affiliated companies. Sony s policy is that Sony Corporation and all subsidiaries with foreign exchange exposures should enter into commitments with SGTS to hedge their exposures. Sony Corporation and most of its subsidiaries utilize SGTS for this purpose. Sony s policy of concentrating its foreign exchange exposures means that SGTS and Sony Corporation hedge most of the net foreign exchange exposure within the Sony group. Sony has a policy on the use of derivatives that, in principle, SGTS should centrally deal and manage derivatives with financial institutions for risk management purposes. SGTS enters into foreign exchange transactions with creditworthy third-party financial institutions. Most of these

transactions are entered into against projected exposures before the actual export and import transactions take place. In general, SGTS hedges the projected exposures three months on average before the actual transactions take place. However, in certain cases SGTS partially hedges the projected exposures one month before the actual transactions take place when business requirements, such as shorter production-sales cycles for certain products, arise. Sony enters into foreign exchange transactions with financial institutions primarily for hedging purposes. Sony does not use these derivative financial instruments for trading or speculative purposes except for certain derivatives in the Financial Services segment. In the Financial Services segment, Sony uses derivatives primarily for ALM.

To minimize the effects of foreign exchange fluctuations on its financial results, particularly in the Electronics segments, Sony seeks, when appropriate, to localize material and parts procurement, design and manufacturing operations in areas outside of Japan.

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Foreign exchange forward contracts, foreign currency option contracts and other derivatives that do not qualify as hedges are marked-to-market with changes in value recognized in other income and expenses. The notional amount and the net fair value of all the foreign exchange derivative contracts as of March 31, 2013 were 1,647.4 billion yen and an asset of 2.7 billion yen, respectively. Refer to Note 14 of the consolidated financial statements.

* Note: In this section, the descriptions of sales on a constant currency basis reflects sales obtained by applying the yen s monthly average exchange rates from the previous fiscal year to local currency-denominated monthly sales in the current fiscal year. The impact of foreign exchange rate fluctuations on operating income (loss) described herein is estimated by deducting costs of sales, and SGA expenses on a constant currency basis from sales on a constant currency basis. Cost of sales and SGA expenses on a constant currency basis are obtained by applying the yen s monthly average exchange rates in the previous fiscal year to the corresponding local currency-denominated monthly cost of sales and SGA expenses in the current fiscal year. In certain cases, most significantly in the Pictures segment and SME and Sony/ATV in the Music segment, the constant currency amounts are after aggregation on a U.S. dollar basis. Sales and operating income (loss) on a constant currency basis are not reflected in Sony s consolidated financial statements and are not measured in accordance with U.S. GAAP. Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that disclosing sales and operating income (loss) information on a constant currency basis provides additional useful analytical information to investors regarding the operating performance of Sony.

Operating Results for the Fiscal Year Ended March 31, 2012 compared with the Fiscal Year Ended March 31, 2011

Sony realigned its segments from the first quarter of the fiscal year ended March 31, 2013 to reflect the company s reorganization as of April 1, 2012. In connection with this realignment, both the sales and operating income (loss) of each segment in the fiscal year ended March 31, 2012 and in the fiscal year ended March 31, 2011 have been revised to conform to the presentation for the fiscal year ended March 31, 2013.

Operating Performance

	Fiscal year ended March 31		
	2011	**2012**	**Percent change**
	(Yen in billions)		
Sales and operating revenue	7,181.3	**6,493.2**	9.6%
Equity in net income (loss) of affiliated companies	14.1	**(121.7)**	
Operating income (loss)	199.8	**(67.3)**	
Income (loss) before income taxes	205.0	**(83.2)**	
Net loss attributable to Sony Corporation s stockholders	(259.6)	**(456.7)**	

Table of Contents

Sales

Sales for the fiscal year ended March 31, 2012 were 6,493.2 billion yen, a decrease of 9.6 percent compared to the previous fiscal year (year-on-year). Sales decreased mainly in the Electronics segments, primarily due to unfavorable foreign exchange rates, the impact of the Great East Japan Earthquake and the Floods, and the deterioration in market conditions in developed countries. A further breakdown of sales figures is presented under *Operating Performance by Business Segment* below.

During the fiscal year ended March 31, 2012, the average rates of the yen were 78.1 yen against the U.S. dollar and 107.5 yen against the euro, which were 8.5 percent and 3.9 percent higher, respectively, than the previous fiscal year.

Sales in the analysis of the ratio of cost of sales to sales, the ratio of research and development costs to sales, and the ratio of selling, general and administrative expenses (SGA expenses) to sales refers only to the net sales and other operating revenue portions of consolidated sales (which excludes financial services revenue). This is because financial services expenses are recorded separately from cost of sales and SGA expenses in the consolidated financial statements. The calculations of all ratios below that pertain to reportable segments include intersegment transactions.

Cost of Sales and Selling, General and Administrative Expenses and Other Operating (Income) Expense, net

Cost of sales for the fiscal year ended March 31, 2012 decreased by 444.9 billion yen, or 9.2 percent year-on-year, to 4,386.4 billion yen, and the ratio of cost of sales to sales deteriorated year-on-year from 75.7 percent to 78.0 percent.

Research and development costs (all research and development costs are included within cost of sales) increased by 6.7 billion yen, or 1.6 percent year-on-year, to 433.5 billion yen, mainly due to the consolidation of Sony Mobile from February 16, 2012. The ratio of research and development costs to sales was 7.7 percent compared to 6.7 percent in the fiscal year ended March 31, 2011.

SGA expenses decreased by 125.9 billion yen, or 8.4 percent year-on-year, to 1,375.9 billion yen, mainly due to the impact of the appreciation of the yen and a decrease in expenses associated with decreased sales in the Electronics segments and advertising costs. The ratio of SGA expenses to sales deteriorated year-on-year from 23.5 percent to 24.5 percent.

Other operating (income) expense, net resulted in income of 59.6 billion yen, compared with income of 13.5 billion yen in the previous fiscal year. This increase was mainly due to the remeasurement gain of 102.3 billion yen associated with obtaining control of Sony Mobile in the fiscal year ended March 31, 2012, compared with a remeasurement gain of 27.0 billion yen associated with obtaining control of Game Show Network, LLC (GSN) in the previous fiscal year. In addition, the loss on sale, disposal or impairment of assets and other (net) was 45.6 billion yen, compared to a net loss of 18.0 billion yen in the fiscal year ended March 31, 2011. This increase in net loss was mainly due to a 19.2 billion yen charge associated with the sale of the small- and medium-sized display business, and 29.3 billion yen of impairment charges* for long-lived assets in the LCD television and network business asset groups that were recorded in the fiscal year ended March 31, 2012. Refer to Note 19 of the consolidated financial statements.

* The 29.3 billion yen in non-cash impairment charges of long-lived assets recorded within operating results is related to the fair value of long-lived assets in the LCD television and network business asset groups being lower than net book value, with charges of 16.7 billion yen and 12.6 billion yen, respectively. For the LCD television asset group, the corresponding estimated future cash flows leading to the impairment charge reflect the continued deterioration of LCD television market conditions in Japan, Europe and North America, and unfavorable foreign exchange rates. For the network business asset group, which has made investments in network improvements and security enhancements, the corresponding estimated future cash flows leading to the impairment charge, primarily related to certain intangible and other long-lived assets, reflect management s revised forecast over the limited period applicable to the impairment determination. Sony has not included these losses on impairment in restructuring charges. Refer to Note 19 of the consolidated financial statements.

Equity in Net Income (Loss) of Affiliated Companies

For the fiscal year ended March 31, 2012, equity in net loss of affiliated companies, recorded within operating income (loss), was 121.7 billion yen, compared to equity in net income of 14.1 billion yen in the previous fiscal year. Sony recorded equity in net loss for S-LCD of 64.1 billion yen, compared to equity in net income of 7.2 billion yen in the previous fiscal year. This was primarily due to the recording of a total loss of 60.0 billion yen, including an impairment loss on Sony s shares of S-LCD, which were sold in January 2012, and subsequent foreign currency adjustments. Equity in net loss for Sony Ericsson of 57.7 billion yen was recorded through February 15, 2012, prior to the consolidation of Sony Ericsson by Sony, while equity in net income of 4.2 billion yen was recorded in the previous fiscal year. This decrease was primarily due to Sony Ericsson recording a valuation allowance under U.S. GAAP of 654 million euro against certain of its deferred tax assets. Sony reflected its 50 percent share, or 33.0 billion yen, of this valuation allowance in equity in net loss of affiliated companies in Sony s consolidated financial results. The decrease was also due to a decrease in units shipped, intense smartphone price competition, and higher restructuring charges.

Operating Income (Loss)

For the fiscal year ended March 31, 2012, an operating loss of 67.3 billion yen was recorded, compared to operating income of 199.8 billion yen in the previous fiscal year. This was primarily due to lower sales resulting from the above-mentioned factors and a significant deterioration in equity in net income (loss) of affiliated companies, partially offset by a remeasurement gain associated with obtaining control of Sony Mobile of 102.3 billion yen. For further details, see the *Operating Performance by Business Segment* .

Operating results during the fiscal year ended March 31, 2012, included a benefit of 16.5 billion yen due to the reversal of a Blu-ray Disc™ patent royalty accrual, reflecting a retroactive change in the estimated royalty rate based on the latest license status.

For the fiscal year ended March 31, 2012, Sony incurred expenses of 5.9 billion yen, including charges for the disposal of fixed assets and inventories and restoration costs (e.g., repair, removal and cleaning costs) directly related to the damage caused by the Great East Japan Earthquake. In addition, Sony incurred other losses and expenses of 6.3 billion yen, which included idle facility costs at manufacturing sites. These expenses related to direct damages and other charges mentioned above were partially offset by insurance recoveries that Sony received during the fiscal year ended March 31, 2012. Refer to Note 18 of the consolidated financial statements.

As a result of direct damage from the inundation of Sony s manufacturing facilities starting in October 2011 due to the Floods, Sony incurred expenses of 13.2 billion yen during the fiscal year ended March 31, 2012, including charges for the disposal or impairment of fixed assets and inventories and restoration costs (e.g., repair, removal and cleaning costs) directly related to damages caused by the Floods. In addition to these direct damages, production at several manufacturing facilities temporarily ceased due to the inundation of Sony s manufacturing facilities and the difficulty in procuring parts and components. As a result, Sony incurred charges of 13.9 billion yen during the fiscal year ended March 31, 2012, consisting of idle facility costs at manufacturing sites and other additional expenses. Sony also saw a negative impact from the postponement of certain product launches caused by the temporary cessation of production at several manufacturing facilities, as well as significantly lower demand from commercial customers resulting from the Floods. Sony has insurance policies that cover certain damage directly caused by the Floods for Sony Corporation and certain of its subsidiaries including manufacturing sites. The insurance policies cover the damage and costs associated with fixed assets, inventories and additional expenses including removal and cleaning costs and provide business interruption coverage, including lost profits.

Insurance claims in the amount of 50.4 billion yen were agreed to by the insurance carriers and were paid during the fiscal year ended March 31, 2012. Of this amount, Sony received 26.3 billion yen for fixed assets, inventories and additional expenses, of which 17.5 billion yen represents the portion of insurance recoveries in excess of the carrying value before the damage caused by the Floods of the insured fixed assets and inventories, and were recorded in cost of sales and other operating (income) expense, net in the consolidated statements of

income. The remaining amount of the insurance claims paid of 24.1 billion yen was for business interruption insurance recoveries, which applies to the lost profit that occurred after the Floods to December 31, 2011, and was recorded in other operating revenue in the consolidated statements of income.

In addition, as of March 31, 2012, Sony still had pending insurance claims for damage to fixed assets, inventories, additional expenses and business interruption. Sony recorded insurance receivables of 5.8 billion yen, which represents the portion of the insurance claims that were deemed probable of collection up to the extent of the amount of corresponding losses recognized in the same period, and substantially all relate to damaged assets and inventories. Refer to Note 18 of the consolidated financial statements.

Other Income and Expenses

For the fiscal year ended March 31, 2012, other income decreased by 21.5 billion yen, or 47.8 percent year-on-year, to 23.5 billion yen, while other expenses decreased by 0.4 billion yen, or 1.0 percent year-on-year, to 39.4 billion yen. The net amount of other income and other expenses was an expense of 15.9 billion yen, compared to income of 5.2 billion yen in the fiscal year ended March 31, 2011. The change from other income, net to other expense, net was primarily due to a net foreign exchange loss of 5.1 billion yen for the fiscal year ended March 31, 2012, as compared to a net foreign exchange gain of 9.3 billion yen for the previous fiscal year, as well as a year-on-year decrease in gain on sale of securities investments. A net foreign exchange loss was recorded mainly in relation to Sony s investments, including losses from foreign exchange transactions that partially offset the gain from foreign currency adjustments in equity in net income (loss), while a gain was recorded from routine derivative contracts entered into to reduce the risk caused by foreign exchange rate fluctuations.

Interest and dividends in other income of 15.1 billion yen was recorded in the fiscal year ended March 31, 2012, an increase of 3.3 billion yen, or 28.2 percent year-on-year. Interest recorded in other expenses totaled 23.4 billion yen, a decrease of 0.5 billion yen, or 2.0 percent year-on-year.

Income (Loss) before Income Taxes

For the fiscal year ended March 31, 2012, the loss before income taxes was 83.2 billion yen, compared to income of 205.0 billion yen in the previous fiscal year.

Income Taxes

For the fiscal year ended March 31, 2012, Sony recorded 315.2 billion yen of income taxes, primarily resulting from the recording of a non-cash charge to establish a valuation allowance of 260.3 billion yen against certain deferred tax assets held by subsidiaries in the U.S., Japan and the U.K.

Sony evaluates its deferred tax assets on a tax jurisdiction by jurisdiction basis to determine if a valuation allowance is required. In the U.S., Sony s U.S. holding company and its U.S. subsidiaries file a consolidated federal tax return. This consolidated tax filing group incurred cumulative losses in recent fiscal years including the fiscal year ended March 31, 2012. Under U.S. GAAP, a cumulative loss in recent fiscal years is considered significant negative evidence regarding the realizability of deferred tax assets. After comparing this significant negative evidence to objectively verifiable positive factors, Sony recorded a charge of 203.0 billion yen to establish a valuation allowance against the deferred tax assets held by the consolidated tax filing group in the U.S. In addition, Sony established valuation allowances against certain deferred tax assets held by certain subsidiaries in Japan and the U.K. amounting to 57.3 billion yen as a result of evaluating those deferred tax assets. Refer to Note 21 of the consolidated financial statements.

Net Income (loss) attributable to Sony Corporation s stockholders

For the fiscal year ended March 31, 2012, the net loss attributable to Sony Corporation s stockholders, which excludes net income attributable to noncontrolling interests, was 456.7 billion yen, a deterioration of 197.1 billion yen year-on-year.

Table of Contents

Net income attributable to noncontrolling interest of 58.2 billion yen was recorded, an increase of 19.0 billion yen year-on-year. This increase was mainly due to the increased income at Sony Financial Holdings, Inc. (SFH), for which there is a noncontrolling interest of 40 percent. For details of operating results in the Financial Services segment, refer to *Operating Performance by Business Segment* below.

Basic and diluted net losses per share attributable to Sony Corporation s stockholders were both 455.03 yen compared with basic and diluted net losses per share of 258.66 yen in the previous fiscal year. Refer to Note 22 of the consolidated financial statements.

Operating Performance by Business Segment

The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. Refer to Note 28 of the consolidated financial statements.

Business Segment Information

	Fiscal year ended March 31		
	2011	**2012**	**Percent change**
	(Yen in billions)		
Sales and operating revenue			
Imaging Products & Solutions	915.6	**761.3**	16.9%
Game	865.0	**805.0**	6.9
Mobile Products & Communications*	631.6	**622.7**	1.4
Home Entertainment & Sound	1,713.0	**1,283.2**	25.1
Devices	1,151.9	**1,026.6**	10.9
Pictures	600.0	**657.7**	+9.6
Music	470.7	**442.8**	5.9
Financial Services	806.5	**871.9**	+8.1
All Other	519.8	**530.3**	+2.0
Corporate and Elimination	(492.8)	**(508.2)**	
Consolidated	7,181.3	**6,493.2**	9.6

	Fiscal year ended March 31		
	2011	**2012**	**Percent change**
	(Yen in billions)		
Operating income (loss)			
Imaging Products & Solutions	52.4	**18.6**	64.5%
Game	48.5	**29.3**	39.6
Mobile Products & Communications**	5.3	**7.2**	+36.2
Home Entertainment & Sound	(73.2)	**(203.2)**	
Devices	34.9	**(22.1)**	
Pictures	38.7	**34.1**	11.7
Music	38.9	**36.9**	5.2
Financial Services	118.8	**131.4**	+10.6
All Other	(13.8)	**(54.1)**	
Sub-Total	250.5	**(21.8)**	
Corporate and Elimination***	(50.7)	**(45.4)**	
Consolidated	199.8	**(67.3)**	

** The Mobile Products & Communications segment sales do not include sales of Sony Ericsson in the fiscal year ended March 31, 2011 and from April 1, 2011 through February 15, 2012.*

*** The Mobile Products & Communications segment s operating income (loss) for the fiscal year ended March 31, 2011 includes Sony s equity results for Sony Ericsson. The Mobile Products & Communications*

Table of Contents

segment s operating income (loss) for the fiscal year ended March 31, 2012 includes Sony s equity results for Sony Ericsson through February 15, 2012 and the operating income (loss) from February 16, 2012 through March 31, 2012 for Sony Mobile, as well as the remeasurement gain associated with obtaining control of Sony Mobile.

**** Corporate and Elimination includes headquarters restructuring costs and certain other corporate expenses, including the amortization of certain intellectual property assets such as the cross-licensing of intangible assets acquired from Ericsson at the time of the Sony Mobile acquisition, which are not allocated to segments.*

Imaging Products & Solutions

For the fiscal year ended March 31, 2012, sales decreased 16.9 percent year-on-year to 761.3 billion yen. Sales to outside customers decreased 16.5 percent year-on-year. This was primarily due to a decrease in sales of digital imaging products including digital cameras and video cameras due to the negative impact from the Floods, a decrease in unit sales resulting from deterioration in market conditions in Europe and the U.S., and unfavorable foreign exchange rates. Digital imaging products were also impacted by the Great East Japan Earthquake.

Operating income decreased by 33.8 billion yen year-on-year to 18.6 billion yen. The decrease was primarily due to a decrease in sales noted above and the unfavorable impact of foreign exchange rates. Restructuring charges of 1.4 billion yen were recorded in the fiscal year ended March 31, 2012, compared to 11.6 billion yen in the previous fiscal year. Restructuring charges in the fiscal year ended March 31, 2011 included expenses related to headcount reduction programs and the realignment of manufacturing operations in Japan. Product categories that unfavorably impacted the change in segment operating results include digital cameras and video cameras, reflecting lower sales mentioned above.

Below are the sales to outside customers by product category and unit sales of major products:

Sales to outside customers by product category

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31				
	2011		**2012**		**Percent change**
	(Yen in millions)				
Digital Imaging	628,358	(69.3)	**489,526**	**(64.7)**	22.1%
Professional Solutions	268,687	(29.6)	**256,871**	**(33.9)**	4.4
Other	9,394	(1.1)	**10,228**	**(1.4)**	+8.9
IP&S Total	906,439	(100.0)	**756,625**	**(100.0)**	16.5

Unit sales of major products

	Fiscal year ended March 31			
	2011	**2012**	**Unit change**	**Percent change**
	(Units in millions)			
Home-use video cameras within *Digital Imaging Products*	5.2	**4.4**	0.8	15.4%
Compact digital cameras within *Digital Imaging Products*	24.0	**21.0**	3.0	12.5

Game

For the fiscal year ended March 31, 2012, sales decreased 6.9 percent year-on-year to 805.0 billion yen. Sales to outside customers decreased 8.7 percent year-on-year. The decrease reflects lower sales of PlayStation®3 (PS3) hardware due to a strategic price reduction and lower sales of PlayStation®2 due to platform migration.

Table of Contents

Operating income decreased by 19.2 billion yen year-on-year to 29.3 billion yen. The decrease in operating income was primarily due to the lower sales noted above. Below are the unit sales of each platform within the segment:

Unit sales of each platform within the category

	Fiscal year ended March 31			
	2011	**2012**	**Unit change**	**Percent change**
	(Units in millions)			
Hardware				
PlayStation®3	14.3	**13.9**	0.4	2.8%
PSP®(PlayStation ®Portable)	8.0	**6.8**	1.2	15.0
PlayStation®2	6.4	**4.1**	2.3	35.9
Software*				
PlayStation®3	147.9	**156.6**	+8.7	+5.9
PSP®(PlayStation ®Portable)	46.6	**32.2**	14.4	30.9
PlayStation®2	16.4	**7.9**	8.5	51.8

* Network downloaded software is not included within unit software sales in the table above.

Mobile Products & Communications

For the fiscal year ended March 31, 2012, sales decreased 1.4 percent year-on-year to 622.7 billion yen. Sales to outside customers decreased 1.4 percent year-on-year. This decrease was primarily due to a decrease in sales of PCs mainly due to the negative impact from the Floods and unfavorable foreign exchange rates, partially offset by the favorable impact of the consolidation of Sony Mobile. Sales of the MP&C segment included the sales of Sony Mobile from February 16, 2012 through March 31, 2012, which was 77.7 billion yen.

Operating income increased by 36.2 percent to 7.2 billion yen. Operating income included 57.7 billion yen for Sony s equity in net loss of Sony Ericsson through February 15, 2012, a remeasurement gain of 102.3 billion yen associated with obtaining control of Sony Mobile, and an operating loss of 13.2 billion yen for Sony Mobile from February 16, 2012 through March 31, 2012. The increase in operating income in the segment was primarily due to the remeasurement gain described above.

Below are the sales to outside customers by product category and the unit sales of major products:

Sales to outside customers by product category

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31				
	2011		**2012**		**Percent change**
	(Yen in millions)				
Mobile Communications			**77,732**	**(12.5)**	%
Personal and Mobile Products	625,200	(99.0)	**538,816**	**(86.6)**	13.8
Other	6,314	(1.0)	**5,867**	**(0.9)**	7.1
MP&C Total	631,514	(100.0)	**622,415**	**(100.0)**	1.4

Unit sales of major products

	Fiscal year ended March 31			
	2011	**2012**	**Unit change**	**Percent change**

		(Units in millions)		
PCs within *Personal and Mobile Products*	8.7	**8.4**	0.3	3.4%

Table of Contents

Home Entertainment & Sound

For the fiscal year ended March 31, 2012, sales decreased 25.1 percent year-on-year to 1,283.2 billion yen. Sales to outside customers decreased 25.1 percent year-on-year. This decrease was primarily due to a decrease in sales of LCD televisions reflecting lower unit sales and price declines, mainly resulting from market contractions in Japan and the deterioration of market conditions in Europe and North America. LCD television sales in Japan during the previous fiscal year significantly benefited mainly from a program which provided consumers with a subsidy from the Japanese government. The subsidy program ended on March 31, 2011.

Operating loss increased 130.0 billion yen year-on-year to 203.2 billion yen. This increase was primarily due to the lower sales mentioned above and a total loss of 60.0 billion yen related to an impairment loss on Sony s shares of S-LCD, which were sold in January 2012, and subsequent foreign currency adjustments. Further, the segment s operating results include additional LCD panel-related expenses of 22.8 billion yen resulting from low capacity utilization of S-LCD and the impairment of LCD television assets of 16.7 billion yen. Restructuring charges of 5.4 billion yen were recorded in the fiscal year ended March 31, 2012, compared to 19.0 billion yen in the previous fiscal year. This decrease in restructuring charges was primarily due to a recording of expenses of 11.6 billion yen related to the transfer to third parties of the Barcelona factory in Europe and its related asset impairment during the fiscal year ended March 31, 2011.

Below are the sales to outside customers by product category and unit sales of major products:

Sales to outside customers by product category

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31				
	2011		**2012**		**Percent change**
	(Yen in millions)				
Televisions	1,200,487	(70.1)	**840,359**	**(65.5)**	30.0%
Audio and Video	502,684	(29.4)	**433,800**	**(33.8)**	13.7
Other	9,153	(0.5)	**8,569**	**(0.7)**	6.4
HE&S Total	1,712,324	(100.0)	**1,282,728**	**(100.0)**	25.1

Unit sales of major products

	Fiscal year ended March 31			
	2011	**2012**	**Unit change**	**Percent change**
	(Units in millions)			
LCD televisions within *Televisions*	22.4	**19.6**	2.8	12.5%
Blu-ray Disc players / recorders within *Audio and Video*	5.6	**7.0**	+1.4	+25.0
Flash memory digital audio players within *Audio and Video*	8.4	**8.2**	0.2	2.4

Devices

For the fiscal year ended March 31, 2012, sales decreased 10.9 percent year-on-year to 1,026.6 billion yen, mainly due to a decrease in Components sales. Sales to outside customers decreased 12.2 percent year-on-year. The lower sales of Components were primarily due to the impact of the Great East Japan Earthquake on batteries and storage media, and unfavorable foreign exchange rates.

An operating loss of 22.1 billion yen was recorded, compared to operating income of 34.9 billion yen recorded in the fiscal year ended March 31, 2011. This was primarily due to deterioration in the cost of sales ratio, unfavorable foreign exchange rates and a decrease in gross profit due to lower sales (excluding the foreign exchange impact), partially offset by a decrease in selling, general and administrative expenses. Restructuring charges of 27.3 billion yen were recorded in the fiscal year ended March 31, 2012, compared to 11.3 billion yen

61

in the previous fiscal year. Restructuring charges in the fiscal year ended March 31, 2012 included expenses of 19.2 billion yen associated with the sale of the small- and medium-sized display business to Japan Display Inc. Categories that unfavorably impacted the change in segment operating results (excluding restructuring charges) included Components, reflecting the above-mentioned decrease in sales.

Below are the sales to outside customers by product category:

Sales to outside customers by product category

Figures in parentheses indicate the percentage contribution of each product category to the segment total.

	Fiscal year ended March 31				
	2011		**2012**		**Percent change**
	(Yen in millions)				
Semiconductors	359,321	(46.6)	**377,177**	**(55.7)**	+5.0%
Components	409,165	(53.0)	**295,822**	**(43.7)**	27.7
Other	2,864	(0.4)	**4,209**	**(0.6)**	+47.0
Devices Total	771,350	(100.0)	**677,208**	**(100.0)**	12.2

Electronics

Inventory

Total inventory for the Electronics segments above, as of March 31, 2012, was 627.2 billion yen, which represents a 19.0 billion yen, or 3.1 percent increase compared with the level as of March 31, 2011.

Sales to Outside Customers by Geographic Area

Combined sales to outside customers by geographic area for the Electronics segments for the fiscal year ended March 31, 2012 decreased year-on-year by 27 percent in the U.S., by 24 percent in Europe, by 9 percent in Japan and by 22 percent in Asia-Pacific areas other than Japan and China (the Asia-Pacific Area). Sales in China and in other geographic areas (Other Areas) were almost flat year-on-year. Total combined sales in all areas decreased year-on-year by 16 percent.

In the U.S., sales of products such as LCD televisions and PCs and sales in the game business decreased. In Europe, sales of products such as LCD televisions decreased. In Japan, sales of products such as LCD televisions and home video products including Blu-ray Disc recorders decreased. In China, sales of products such as small- and medium-sized LCD panels and sales in the game business increased while sales of products such as optical disc drive products, LCD televisions and compact digital cameras decreased. In the Asia-Pacific Area, sales of products such as batteries, optical disc drive products, photonic device modules, image sensors, LSIs, and compact digital cameras decreased. In Other Areas, sales of products such as compact digital cameras, home-use video cameras and PCs and sales in the game business decreased.

Manufacturing by Geographic Area

Approximately 55 percent of the Electronics segments total annual production, excluding Sony Mobile, during the fiscal year ended March 31, 2012 was in-house production and approximately 45 percent was outsourced production.

Approximately 50 percent of the annual in-house production took place in Japan, including the production of compact digital cameras, home-use video cameras, LCD televisions, PCs, semiconductors and components such as batteries and storage media. Approximately 60 percent of the annual in-house production in Japan was destined for other countries. Production in Asia, excluding Japan and China, accounted for approximately 25 percent of the annual in-house production, with approximately 60 percent destined for the Americas, Japan,

Europe and China. Production in China accounted for approximately 20 percent of the annual in-house production, approximately 55 percent of which was destined for other countries. Production in the Americas and Europe together accounted for approximately 5 percent of the annual in-house production, most of which was destined for local distribution and sale.

Pictures

Pictures segment results presented below are a yen-translation of the results of Sony Pictures Entertainment (SPE), a U.S.-based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis. Management analyzes the results of SPE in U.S. dollars, so discussion of certain portions of its results is specified as being on a U.S. dollar basis.

For the fiscal year ended March 31, 2012, sales increased 9.6 percent year-on-year to 657.7 billion yen, despite the appreciation of the yen. On a U.S. dollar basis, sales for the fiscal year ended March 31, 2012 increased approximately 18 percent year-on-year. Motion picture revenues, also on a U.S. dollar basis, increased approximately 10 percent year-on-year. The fiscal year ended March 31, 2012 benefited from the sale of a participation interest in Spider-Man merchandising rights and higher pay television and video-on-demand sales of motion picture product. Television revenues, on a U.S. dollar basis, increased approximately 39 percent year-on-year primarily due to higher revenues from the licensing of U.S. network and made-for-cable television product, revenues recognized from the consolidation of GSN, which was accounted for under the equity method in the previous fiscal year, and higher advertising revenues from SPE s television networks in India, primarily due to the timing of the Indian Premier League cricket tournament, the improved rating performance of its programming, and the improved advertising market.

Operating income decreased by 4.5 billion yen year-on-year to 34.1 billion yen. Operating income decreased by approximately 7 percent on a U.S. dollar basis. The decrease is primarily due to a combined 30.3 billion yen gain recognized in the fiscal year ended March 31, 2011, consisting of a remeasurement gain associated with obtaining control of GSN (27.0 billion yen) and a gain on the sale of SPE s remaining equity interest in a Latin American premium pay television business (HBO Latin America), partially offset by 21.4 billion yen of operating income generated from the above-noted sale of a participation interest in Spider-Man merchandising rights during the fiscal year ended March 31, 2012. The appreciation of the yen and higher marketing costs in support of a greater number of upcoming major theatrical releases also had a negative impact on the operating income for the fiscal year ended March 31, 2012. These negative factors were partially offset by the higher revenues from the licensing of U.S. network and made-for-cable television product and higher advertising revenues from SPE s television networks particularly in India. The fiscal year ended March 31, 2012 reflects the strong theatrical performance of *The Smurfs* and *Bad Teacher* offset by the theatrical underperformance of *Arthur Christmas*.

As of March 31, 2012, unrecognized license fee revenue at SPE was approximately 1.5 billion U.S. dollars. SPE expects to record this amount over the next ten years, having entered into contracts with television broadcasters to provide those broadcasters with completed motion picture and television product. The license fee revenue will be recognized in the fiscal year in which the product is made available for broadcast.

Music

Music segment results presented below include the yen-translated results of Sony Music Entertainment (SME), a U.S.-based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis, the results of Sony Music Entertainment (Japan) Inc. (SMEJ), a Japan-based music company that aggregates its results in yen, and the yen-translated consolidated results of Sony/ATV Music Publishing LLC (Sony/ATV), a 50 percent owned U.S.-based consolidated joint venture in the music publishing business that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis.

For the fiscal year ended March 31, 2012, sales decreased 5.9 percent year-on-year to 442.8 billion yen. The decrease in sales is primarily due to the negative impact of the appreciation of the yen against the U.S. dollar and the continued contraction of the physical music market, offset by the strong performance of a number of key

releases during the year. Best selling titles during the year included Adele s *21*, Beyoncè s *4*, Pitbull s *Planet Pit*, Foo Fighters *Wasting Light*, One Direction s *Up All Night*, and music from the hit U.S. television show *Glee*.

Operating income decreased 2.0 billion yen year-on-year to 36.9 billion yen. The decrease reflects the impact of the lower sales mentioned above and higher restructuring costs, partially offset by lower overhead costs, a benefit from the recognition of digital license revenues and a favorable legal settlement concerning copyright infringement.

Financial Services

In Sony s Financial Services segment, the results include Sony Financial Holdings Inc. (SFH) and SFH s consolidated subsidiaries such as Sony Life Insurance Co., Ltd. (Sony Life), Sony Assurance Inc. and Sony Bank Inc. (Sony Bank), as well as the results for the leasing business and a portion of a credit card business in Japan that was divested during the fiscal year ended March 31, 2011. The results of Sony Life discussed below on the basis of U.S. GAAP differ from the results that SFH and Sony Life disclose separately on a Japanese statutory basis.

Financial services revenue for the fiscal year ended March 31, 2012 increased 8.1 percent year-on-year to 871.9 billion yen mainly due to a significant increase in revenue at Sony Life. Revenue at Sony Life increased 11.6 percent year-on-year to 777.7 billion yen primarily due to an increase in insurance premium revenue, reflecting a higher policy amount in force.

Operating income increased 12.6 billion yen year-on-year to 131.4 billion yen, mainly due to an increase in operating income at Sony Life, partially offset by a deterioration in operating results at Sony Bank, reflecting a foreign exchange loss on foreign-currency denominated customer deposits compared to a gain in the previous fiscal year. Operating income at Sony Life increased 17.2 billion yen year-on-year to 134.8 billion yen. This increase was primarily due to higher insurance premium revenue and a partial reversal of an incremental provision for insurance policy reserves in the fiscal year ended March 31, 2012, which was recorded in the fiscal year ended March 31, 2011 due to the Great East Japan Earthquake.

While Sony Life had realized net gains on sales of securities in the first six months of the fiscal year ended March 31, 2011 reflecting changes in its investment portfolio to further increase the duration of the assets (according to the asset liability management (ALM) viewpoint), such an operation to increase the duration was not carried out in the first six months of the fiscal year ended March 31, 2012. This resulted in a year-on-year decrease in the segment profits as such net gains on sales of securities were absent in the six months ended September 30, 2011. However, during the six months ended March 31, 2012, net gains on sales of securities from ordinary fund management operations were greater than the same period of the previous fiscal year. As a result, the segment profits for the full fiscal year increased year-on-year. There were no material changes made to the investment portfolio during the fiscal year ended March 31, 2012.

In the *Information on Operations Separating Out the Financial Services Segment* below, the effective tax rate for the Financial Services segment decreased significantly from the fiscal year ended March 31, 2011 to the fiscal year ended March 31, 2012. Substantially all of the decrease was due to the enactment of tax law changes by the Japanese legislature in November 2011, including a decrease in the statutory tax rate, which resulted in a net deferred tax benefit in the fiscal year ended March 31, 2012 of 28,549 million yen, attributable primarily to a reduction of deferred tax liabilities for deferred insurance acquisition costs. Refer to Note 21 of the consolidated financial statements.

Information on Operations Separating Out the Financial Services Segment

The following charts show Sony s information on operations for the Financial Services segment alone and for all segments excluding the Financial Services segment. These separate condensed presentations are not required or prepared under U.S. GAAP, which is used in Sony s consolidated financial statements. However, because the Financial Services segment is different in nature from Sony s other segments, Sony utilizes this information to analyze its results without the Financial Services segment and believes that these presentations may be useful in understanding and analyzing Sony s consolidated financial statements. Transactions between

Table of Contents

the Financial Services segment and Sony without the Financial Services segment, including noncontrolling interests, are included in those respective presentations, then eliminated in the consolidated figures shown below.

Financial Services segment	**Fiscal year ended March 31**	
	2011	**2012**
	(Yen in millions)	
Financial services revenue	806,526	**871,895**
Financial services expenses	685,747	**739,222**
Equity in net loss of affiliated companies	(1,961)	**(1,252)**
Operating income	118,818	**131,421**
Other income, (expenses), net	868	**1,069**
Income before income taxes	119,686	**132,490**
Income taxes and other	48,570	**18,380**
Net income of Financial Services	71,116	**114,110**

Sony without the Financial Services segment	**Fiscal year ended March 31**	
	2011	**2012**
	(Yen in millions)	
Net sales and operating revenue	6,388,759	**5,627,893**
Costs and expenses	6,326,233	**5,708,607**
Equity in net income (loss) of affiliated companies	16,023	**(120,445)**
Operating income (loss)	78,549	**(201,159)**
Other income (expenses), net	10,790	**(9,181)**
Income (loss) before income taxes	89,339	**(210,340)**
Income taxes and other	387,375	**309,486**
Net loss of Sony without Financial Services	(298,036)	**(519,826)**

Consolidated	**Fiscal year ended March 31**	
	2011	**2012**
	(Yen in millions)	
Financial services revenue	798,495	**868,971**
Net sales and operating revenue	6,382,778	**5,624,241**
	7,181,273	**6,493,212**
Costs and expenses	6,995,514	**6,438,790**
Equity in net income (loss) of affiliated companies	14,062	**(121,697)**
Operating income (loss)	199,821	**(67,275)**
Other income (expenses), net	5,192	**(15,911)**
Income (loss) before income taxes	205,013	**(83,186)**
Income taxes and other	464,598	**373,474**
Net loss attributable to Sony Corporation s Stockholders	(259,585)	**(456,660)**

All Other

Sales for the fiscal year ended March 31, 2012 increased 2.0 percent year-on-year, to 530.3 billion yen. The increase in sales is mainly due to significantly higher sales in the network business, partially offset by lower sales in the mobile phone original equipment manufacturing (OEM) business in Japan and unfavorable foreign exchange rates.

An operating loss of 54.1 billion yen was recorded for the fiscal year ended March 31, 2012, compared to an operating loss of 13.8 billion yen in the previous fiscal year. This deterioration was mainly due to the manufacturing system business in Sony Manufacturing Systems and the network business in Sony Network

Table of Contents

Entertainment. The deterioration of operating results in the manufacturing system business resulted from significantly lower sales, inventory devaluation and asset impairments, partially offset by an increase in profit in the disc manufacturing business, primarily due to the reversal of a patent royalty accrual. Sony Manufacturing Systems was merged into Sony EMCS Corporation in April 2012. The operating results in the network business in the fiscal year ended March 31, 2012 were negatively affected by the recording of 12.6 billion yen in non-cash impairment charges of long-lived assets in the network business asset group.

Restructuring

As the global economy experienced a sharp downturn in the autumn of 2008, Sony announced major restructuring initiatives in January 2009. Sony continued to implement its restructuring initiatives during the fiscal year ended March 31, 2012. These initiatives included a review of Sony s investment plan, the realignment of its manufacturing sites, the reallocation of its workforce, and headcount reductions, in order to reform Sony s operational structure and achieve improvements in competitiveness and profitability.

In the fiscal year ended March 31, 2012, Sony recorded restructuring charges of 54.8 billion yen, which includes 2.1 billion yen of non-cash charges related to depreciation associated with restructured assets, compared to 67.1 billion yen of restructuring charges recorded in the previous fiscal year. There were 4.8 billion yen of non-cash charges related to depreciation associated with restructured assets in the previous fiscal year. Restructuring charges decreased by 12.3 billion yen or 18.4 percent year-on-year. Of the total 54.8 billion yen incurred in the fiscal year ended March 31, 2012, 25.5 billion yen were personnel related costs, primarily included in SGA expenses in the consolidated statements of income. These personnel-related costs decreased 33.5 percent, compared to the previous fiscal year. Sony s total manufacturing sites were reduced from 57 sites as of December 31, 2008 to 41 sites as of March 31, 2011, and then to 38 sites as of March 31, 2012. As a result, Sony has been consolidating its manufacturing operations and increasingly utilizing the services of third-party OEMs and third-party original design manufacturing (ODMs).

Restructuring charges for the fiscal year ended March 31, 2012 were recorded mainly in the Devices segment. In the Devices segment, restructuring charges amounted to 27.3 billion yen, which include 0.9 billion yen of non-cash charges related to depreciation associated with restructured assets for the fiscal year ended March 31, 2012, compared to 11.3 billion yen of restructuring charges recorded in the previous fiscal year. Charges in the previous fiscal year included 3.5 billion yen of non-cash charges related to depreciation associated with restructured assets. The Devices segment s restructuring charges included an impairment of 19.2 billion yen related to the sale of the small- and medium-sized display business to Japan Display Inc. in March 2012.

In all segments, excluding the Devices segment, restructuring charges were recorded mainly due to headcount reductions through early retirement programs, which are expected to reduce operating costs in the future.

Restructuring charges discussed in Item 5, which include non-cash charges related to depreciation associated with restructured assets, are described in Note 19 of the consolidated financial statements.

Foreign Exchange Fluctuations and Risk Hedging

During the fiscal year ended March 31, 2012, the average rates of the yen were 78.1 yen against the U.S. dollar and 107.5 yen against the euro, which was 8.5 percent and 3.9 percent higher, respectively, than the previous fiscal year.

For the fiscal year ended March 31, 2012, consolidated sales were 6,493.2 billion yen, a decrease of 9.6 percent year-on-year, while on a constant currency basis, sales decreased approximately 5 percent year-on-year. For references to information on a constant currency basis, see Note at the bottom of this section.

Consolidated operating loss of 67.3 billion yen was recorded in the fiscal year ended March 31, 2012, compared to operating income of 199.8 billion yen in the previous fiscal year. Operating results deteriorated by 267.1 billion yen year-on-year, while it would have deteriorated by approximately 235 billion yen compared to the previous fiscal year on a constant currency basis.

Table of Contents

The table below indicates the impact on sales and operating results of each of these five segments. For a detailed analysis of segment performance, please refer to the Operating Performance Highlights by Business Segment in the Results of Operations section above, which discusses the impact of foreign exchange rates within each segment.

		Fiscal year ended March 31			Change on constant currency basis*	Impact of changes in foreign exchange rates
		2011	**2012**	Change in yen		
				(Yen in billions)		
IP&S	Sales	915.6	**761.3**	16.9%	12%	46.5
	Operating income	52.4	**18.6**	33.8	24.6	9.3
Game	Sales	865.0	**805.0**	6.9%	2%	41.3
	Operating income	48.5	**29.3**	19.2	15.9	3.3
MP&C	Sales	631.6	**622.7**	1.4%	+4%	33.3
	Operating income	5.3	**7.2**	+1.9	+6.4	4.5
HE&S	Sales	1,713.0	**1,283.2**	25.1%	21%	78.3
	Operating loss	(73.2)	**(203.2)**	130.0	122.6	7.4
Devices	Sales	1,151.9	**1,026.6**	10.9%	5%	62.7
	Operating income (loss)	34.9	**(22.1)**	57.0	48.4	8.6

During the fiscal year ended March 31, 2012, Sony estimated that a one yen appreciation against the U.S. dollar decreased consolidated sales by approximately 47 billion yen, with approximately no impact on operating income. Sony s exposure to the U.S. dollar is limited due to Sony s ability to manage its U.S. dollar-based sales with U.S. dollar-based costs creating a natural currency hedge. Sony results are more sensitive to movements between the yen and the euro. A one yen appreciation against the euro was estimated to decrease consolidated sales by approximately 10 billion yen, with a corresponding decrease in operating income of approximately 6 billion yen.

In addition, sales for the Pictures segment increased 9.6 percent year-on-year to 657.7 billion yen, while sales increased approximately 18 percent on a constant currency (U.S. dollar) basis. In the Music segment, sales decreased 5.9 percent year-on-year to 442.8 billion yen, while sales decreased approximately 1 percent on a constant currency basis. For a detailed analysis of segment performance, please refer to the Pictures and Music segments under *Operating Performance by Business Segment*. Sony s Financial Services segment consolidates the yen-based results of SFH and the yen-based results for a leasing business and a portion of a credit card business in Japan that was divested during the fiscal year ended March 31, 2011. As most of the operations in this segment are based in Japan, Sony management analyzes the performance of the Financial Services segment on a yen basis only.

Sony s consolidated results are subject to foreign currency rate fluctuations largely because the currency used in the countries where manufacturing and material and parts procurement takes place may be different from those where Sony s products are sold. In order to reduce the risk caused by foreign exchange rate fluctuations, Sony employs derivatives, including foreign exchange forward contracts and foreign currency option contracts, in accordance with a consistent risk management strategy. Such derivatives are used primarily to mitigate the effect of foreign currency exchange rate fluctuations on cash flows generated or anticipated by Sony Corporation and by its subsidiaries transactions and accounts receivable and payable denominated in foreign currencies.

Sony Global Treasury Services Plc (SGTS) in London provides integrated treasury services for Sony Corporation, its subsidiaries, and affiliated companies. Sony s policy is that Sony Corporation and all subsidiaries with foreign exchange exposures should enter into commitments with SGTS to hedge their exposures. Sony Corporation and most of its subsidiaries utilize SGTS for this purpose. Sony s policy of concentrating its foreign exchange exposures means that SGTS and Sony Corporation hedge most of the net foreign exchange exposure within the Sony group. Sony has a policy on the use of derivatives that, in principle, SGTS should centrally deal and manage derivatives with financial institutions for risk management purposes. SGTS enters into foreign exchange transactions with creditworthy third-party financial institutions. Most of these

transactions are entered into against projected exposures before the actual export and import transactions take place. In general, SGTS hedges the projected exposures on average three months before the actual transactions take place. However, in certain cases SGTS partially hedges the projected exposures one month before the actual transactions take place when business requirements such as shorter production-sales cycles for certain products arise. Sony enters into foreign exchange transactions with financial institutions primarily for hedging purposes. Sony does not use these derivative financial instruments for trading or speculative purposes except for certain derivatives in the Financial Services segment. In the Financial Services segment, Sony uses derivatives primarily for ALM.

To minimize the effects of foreign exchange fluctuations on its financial results, particularly in the Electronics segments, Sony seeks, when appropriate, to localize material and parts procurement, design and manufacturing operations in areas outside of Japan.

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Foreign exchange forward contracts, foreign currency option contracts and other derivatives that do not qualify as hedges are marked-to-market with changes in value recognized in other income and expenses. The notional amount and the net fair value of all the foreign exchange derivative contracts as of March 31, 2012 were 1,805.3 billion yen and a liability of 3.3 billion yen, respectively. Refer to Note 14 of the consolidated financial statements.

* Note: In this section, the descriptions of sales on a constant currency basis reflects sales obtained by applying the yen s monthly average exchange rates from the previous fiscal year to local currency-denominated monthly sales in the current fiscal year. The impact of foreign exchange rate fluctuations on operating income (loss) described herein is estimated by deducting costs of sales, and SGA expenses on a constant currency basis from sales on a constant currency basis. Cost of sales and SGA expenses on a constant currency basis are obtained by applying the yen s monthly average exchange rates in the previous fiscal year to the corresponding local currency-denominated monthly cost of sales and SGA expenses in the current fiscal year. In certain cases, most significantly in the Pictures segment and SME and Sony/ATV in the Music segment, the constant currency amounts are after aggregation on a U.S. dollar basis. Sales and operating income (loss) on a constant currency basis are not reflected in Sony s consolidated financial statements and are not measures in accordance with U.S. GAAP. Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that disclosing sales and operating income (loss) information on a constant currency basis provides additional useful analytical information to investors regarding the operating performance of Sony.

Assets, Liabilities and Stockholders Equity

Assets

Total assets as of March 31, 2013 increased by 910.6 billion yen, or 6.8 percent year-on-year, to 14,206.3 billion yen. Total assets as of March 31, 2013 in all segments, excluding the Financial Services segment, were essentially flat year-on-year, at 5,791.6 billion yen. Total assets as of March 31, 2013 in the Financial Services segment increased by 886.0 billion yen, or 11.5 percent year-on-year, to 8,565.3 billion yen mainly as a result of the expansion of business at Sony Life.

Current Assets

Current assets as of March 31, 2013 decreased by 108.4 billion yen, or 2.9 percent year-on-year, to 3,646.5 billion yen. Current assets as of March 31, 2013 in all segments, excluding the Financial Services segment, decreased by 167.1 billion yen, or 6.0 percent, year-on-year to 2,599.2 billion yen.

Cash and cash equivalents as of March 31, 2013 in all segments, excluding the Financial Services segment, decreased 94.6 billion yen, or 13.2 percent year-on-year, to 624.8 billion yen. This decrease was primarily due to the net cash outflow recorded in financing activities, mainly due to the net redemptions of unsecured corporate bonds in the fiscal year ended March 31, 2013. Refer to Cash Flows below.

Notes and accounts receivable, trade (net of allowances for doubtful accounts and sales returns) as of March 31, 2013, excluding the Financial Services segment, were essentially flat year-on-year, at 773.8 billion yen.

Other current assets as of March 31, 2013 in all segments, excluding the Financial Services segment, decreased 77.7 billion yen, or 6.1 percent year-on-year, to 1,197.1 billion yen, mainly due to a decrease in other receivables from certain component manufacturers.

Inventories as of March 31, 2013 were essentially flat year-on-year, at 710.1 billion yen. This result was primarily due to the increase in production of smartphones, partially offset by adjustments in production in LCD televisions.

The inventory to cost of sales turnover ratio (based on the average of inventories at the end of each fiscal year and the previous fiscal year) at March 31, 2013 was 1.90 months compared to 1.93 months at the end of the previous fiscal year.

Current assets as of March 31, 2013 in the Financial Services segment increased by 49.7 billion yen, or 5.0 percent year-on-year, to 1,052.0 billion yen primarily due to the increase of marketable securities as a result of the expansion of business in Sony Life.

Investments and Advances

Investments and advances as of March 31, 2013 increased by 997.6 billion yen, or 15.8 percent year-on-year, to 7,317.1 billion yen.

Investments and advances as of March 31, 2013 in all segments, excluding the Financial Services segment, increased by 185.9 billion yen, or 105.5 percent year-on-year, to 362.2 billion yen primarily due to Olympus s issuance of its common shares to Sony in the aggregate amount of 50.0 billion yen from October 2012 to February 2013, and the recording of the remaining M3 shares under the equity method as a result of deconsolidating M3, formerly a consolidated subsidiary, upon the sale of certain shares of M3. This increase was partially offset by the sales of Sony s shares of DeNA.

Investments and advances as of March 31, 2013 in the Financial Services segment increased by 811.1 billion yen, or 13.1 percent year-on-year, to 6,985.9 billion yen. This increase was primarily due to business growth at both Sony Life and Sony Bank, resulting in increases in investments made by Sony Life mainly in Japanese fixed income securities, and increases in mortgage loans provided by Sony Bank. Refer to *Investments* below.

Property, Plant and Equipment (after deduction of accumulated depreciation)

Property, plant and equipment as of March 31, 2013 decreased by 69.4 billion yen, or 7.5 percent year-on-year, to 861.6 billion yen.

Property, plant and equipment as of March 31, 2013 in all segments, excluding the Financial Services segment, decreased by 71.8 billion yen, or 7.8 percent year-on-year, to 846.7 billion yen. The decrease in property, plant and equipment was mainly due to the sale of Sony City Osaki and Sony s U.S. headquarters building.

Capital expenditures (additions to property, plant and equipment) for the fiscal year ended March 31, 2013 decreased by 106.5 billion yen, or 36.1 percent year-on-year, to 188.6 billion yen mainly due to lower investments in the semiconductor business in the current fiscal year.

Property, plant and equipment as of March 31, 2013 in the Financial Services segment increased by 2.3 billion yen, or 18.4 percent year-on-year, to 14.9 billion yen.

Other Assets

Other assets as of March 31, 2013 increased by 90.8 billion yen, or 4.5 percent year-on-year, to 2,111.0 billion yen primarily due to a significant increase in intangible assets and goodwill as a result of the depreciation of the yen. Refer to Note 9 of the consolidated financial statements.

Liabilities

Total current and long-term liabilities as of March 31, 2013 increased by 736.6 billion yen, or 6.8 percent year-on-year, to 11,522.1 billion yen. Total current and long-term liabilities as of March 31, 2013 in all segments, excluding the Financial Services segment, were essentially flat year-on-year, at 3,978.0 billion yen. Total current and long-term liabilities in the Financial Services segment as of March 31, 2013 increased by 731.4 billion yen, or 10.7 percent year-on-year, to 7,583.4 billion yen.

Current Liabilities

Current liabilities as of March 31, 2013 decreased by 214.9 billion yen, or 4.7 percent year-on-year, to 4,315.1 billion yen.

Current liabilities as of March 31, 2013 in all segments, excluding the Financial Services segment, decreased by 301.5 billion yen, or 11.7 percent year-on-year, to 2,279.0 billion yen.

Short-term borrowings and the current portion of long-term debt as of March 31, 2013 in all segments, excluding the Financial Services segment, decreased by 166.0 billion yen, or 41.5 percent year-on-year, to 233.9 billion yen, primarily due to redemptions of unsecured corporate bonds, including the twenty-fourth series of unsecured bonds (60.0 billion yen).

Notes and accounts payable, trade as of March 31, 2013 in all segments, excluding the Financial Services segment, decreased by 186.6 billion yen, or 24.6 percent year-on-year, to 572.1 billion yen primarily due to a decrease in the procurement of raw materials resulting from the decrease in sales in Electronics.

Current liabilities as of March 31, 2013 in the Financial Services segment increased by 77.7 billion yen, or 4.0 percent year-on-year, to 2,040.7 billion yen, mainly due to an increase in deposits from customers at Sony Bank.

Long-term Liabilities

Long-term liabilities as of March 31, 2013 increased by 951.5 billion yen, or 15.2 percent year-on-year, to 7,207.0 billion yen.

Long-term liabilities as of March 31, 2013 in all segments, excluding the Financial Services segment, increased by 295.1 billion yen, or 21.0 percent year-on-year, to 1,699.0 billion yen. Long-term debt as of March 31, 2013 in all segments, excluding the Financial Services segment, increased by 166.3 billion yen, or 22.2 percent year-on-year, to 915.0 billion yen. This increase was primarily due to the issuance of Zero Coupon Convertible Bonds in the aggregate principal amount of 150.0 billion yen in November 2012.

Long-term liabilities as of March 31, 2013 in the Financial Services segment increased by 653.8 billion yen, or 13.4 percent year-on-year, to 5,542.6 billion yen. This increase was primarily due to an increase in the policy amount in force at Sony Life.

Total Interest-bearing Debt

Total interest-bearing debt inclusive of long-term debt and short-term borrowings as of March 31, 2013 was essentially flat year-on-year, at 1,182.6 billion yen. Total interest-bearing debt as of March 31, 2013 in all segments, excluding the Financial Services segment, was essentially flat year-on-year, at 1,148.9 billion yen.

Table of Contents

Redeemable Noncontrolling Interest

Redeemable noncontrolling interest as of March 31, 2013 decreased by 17.0 billion yen, or 85.0 percent year-on-year, to 3.0 billion yen. This decrease was primarily due to the other investor in GSN exercising its put right in September 2012 to sell to Sony an additional 18 percent interest in GSN. Refer to Note 24 of the consolidated financial statements.

Sony Corporation s Stockholders Equity

Sony Corporation s stockholders equity as of March 31, 2013 increased by 168.9 billion yen, or 8.3 percent year-on-year, to 2,197.8 billion yen. Retained earnings increased by 17.8 billion yen, or 1.6 percent year-on-year, to 1,102.3 billion yen as a result of the recording of 43.0 billion yen in net income attributable to Sony Corporation s stockholders. Accumulated other comprehensive loss improved by 200.6 billion yen, or 23.8 percent year-on-year, to a loss of 641.5 billion yen primarily due to the recording of 163.1 billion yen of unrealized gains in foreign currency translation adjustments. The ratio of Sony Corporation s stockholders equity to total assets increased 0.2 percentage points year-on-year, from 15.3 percent to 15.5 percent.

Information on Financial Position Separating Out the Financial Services Segment

The following charts show Sony s unaudited information on financial position for the Financial Services segment alone, and for all segments excluding the Financial Services segment. These separate condensed presentations are not required or prepared under U.S. GAAP, which is used in Sony s consolidated financial statements. However, because the Financial Services segment is different in nature from Sony s other segments, Sony utilizes this information to analyze its results without the Financial Services segment and believes that these presentations may be useful in understanding and analyzing Sony s consolidated financial statements. Transactions between the Financial Services segment and Sony without the Financial Services segment, including noncontrolling interests, are included in those respective presentations, and then eliminated in the consolidated figures shown below.

Financial Services segment

	March 31	
	2012	**2013**
	(Yen in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	175,151	**201,550**
Marketable securities	677,543	**694,130**
Notes and accounts receivable, trade	5,678	**6,604**
Other	143,903	**149,706**
	1,002,275	**1,051,990**
Investments and advances	6,174,810	**6,985,918**
Property, plant and equipment	12,569	**14,886**
Other assets:		
Deferred insurance acquisition costs	441,236	**460,758**
Other	48,472	**51,788**
	489,708	**512,546**
	7,679,362	**8,565,340**

Table of Contents

	March 31	
	2012	**2013**
	(Yen in millions)	
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term borrowings	18,781	**10,322**
Notes and accounts payable, trade		
Deposits from customers in the banking business	1,761,137	**1,857,448**
Other	183,172	**172,979**
	1,963,090	**2,040,749**
Long-term liabilities:		
Long-term debt	17,145	**27,008**
Accrued pension and severance costs	15,340	**21,195**
Future insurance policy benefits and other	4,658,487	**5,233,147**
Other	197,894	**261,287**
	4,888,866	**5,542,637**
Stockholders equity of Financial Services	825,499	**980,051**
Noncontrolling interests	1,907	**1,903**
	7,679,362	**8,565,340**

Sony without the Financial Services segment

	March 31	
	2012	**2013**
	(Yen in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	719,425	**624,811**
Marketable securities	3,370	**3,467**
Notes and accounts receivable, trade	768,697	**773,784**
Other	1,274,826	**1,197,108**
	2,766,318	**2,599,170**
Film costs	270,048	**270,089**
Investments and advances	176,270	**362,188**
Investments in Financial Services, at cost	115,773	**111,476**
Property, plant and equipment	918,429	**846,664**
Other assets	1,535,075	**1,602,061**
	5,781,913	**5,791,648**

Table of Contents

	March 31	
	2012	**2013**
	(Yen in millions)	
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term borrowings	399,882	**233,859**
Notes and accounts payable, trade	758,680	**572,102**
Other	1,421,947	**1,473,007**
	2,580,509	**2,278,968**
Long-term liabilities:		
Long-term debt	748,689	**915,032**
Accrued pension and severance costs	294,035	**290,274**
Other	361,161	**493,677**
	1,403,885	**1,698,983**
Redeemable noncontrolling interest	20,014	**2,997**
Stockholders equity of Sony without Financial Services	1,651,856	**1,722,296**
Noncontrolling interests	125,649	**88,404**
	5,781,913	**5,791,648**

Consolidated

	March 31	
	2012	**2013**
	(Yen in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	894,576	**826,361**
Marketable securities	680,913	**697,597**
Notes and accounts receivable, trade	769,915	**776,492**
Other	1,409,558	**1,346,083**
	3,754,962	**3,646,533**
Film costs	270,048	**270,089**
Investments and advances	6,319,476	**7,317,125**
Property, plant and equipment	930,998	**861,550**
Other assets:		
Deferred insurance acquisition costs	441,236	**460,758**
Other	1,578,947	**1,650,237**
	2,020,183	**2,110,995**
	13,295,667	**14,206,292**

	March 31	
	2012	**2013**
	(Yen in millions)	
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term borrowings	410,361	**244,182**
Notes and accounts payable, trade	758,680	**572,102**
Deposits from customers in the banking business	1,761,137	**1,857,448**
Other	1,599,803	**1,641,357**
	4,529,981	**4,315,089**
Long-term liabilities:		
Long-term debt	762,226	**938,428**
Accrued pension and severance costs	309,375	**311,469**
Future insurance policy benefits and other	4,658,487	**5,233,147**
Other	525,477	**723,984**
	6,255,565	**7,207,028**
Redeemable noncontrolling interest	20,014	**2,997**
Sony Corporation s stockholders equity	2,028,891	**2,197,766**
Noncontrolling interests	461,216	**483,412**
	13,295,667	**14,206,292**

Investments

The following table contains available-for-sale and held-to-maturity securities, including the breakdown of unrealized gains and losses by investment category.

	March 31, 2013			
	Cost	Unrealized gain	Unrealized loss	Fair market value
	(Yen in millions)			
Financial Services Business:				
Available-for-sale				
Debt securities				
Sony Life	939,874	115,764		1,055,638
Sony Bank	869,541	22,952	(1,145)	891,348
Other	13,634	100	(5)	13,729
Equity securities				
Sony Life	16,022	7,644	(8)	23,658
Sony Bank				
Other	730	522		1,252
Held-to-maturity				
Debt securities				
Sony Life	3,883,564	542,407		4,425,971
Sony Bank	8,371	596		8,967
Other	73,516	6,208		79,724
Total Financial Services	5,805,252	696,193	(1,158)	6,500,287
Non-Financial Services:				
Available-for-sale securities	79,114	36,558	(995)	114,677
Held-to-maturity securities				
Total Non-Financial Services	79,114	36,558	(995)	114,677

Consolidated	5,884,366	732,751	(2,153)	6,614,964

Table of Contents

At March 31, 2013, Sony Life had equity securities with gross unrealized losses of 8 million yen. Sony Life principally invests in debt securities in various industries. Almost all of the debt securities in which Sony Life invested were rated higher than or equal to BBB or its equivalent by Standard & Poor s Ratings Services (S&P), Moody s Investors Service (Moody s) or other rating agencies.

At March 31, 2013, Sony Bank had debt securities with gross unrealized losses of 1.1 billion yen. Of the unrealized loss, 92.3 percent related to securities in an unrealized loss position for periods greater than 12 months at March 31, 2013. Sony Bank principally invests in Japanese government bonds, Japanese corporate bonds and foreign bonds. Almost all of these securities were rated higher than or equal to BBB or its equivalent by S&P, Moody s or other rating agencies.

These unrealized losses related to numerous investments, with no single investment being in a material unrealized loss position for greater than 12 months. In addition, there was no individual security with unrealized losses that met the test for impairment as the decline in values were small both in amount and percentage, and the decline in values for those investments were still determined to be temporary in nature.

For fixed maturity securities with unrecognized losses held by Sony Bank as of March 31, 2013 (1.1 billion yen), maturity dates vary as follows:

Within 1 year:	25.2 percent
1 to 5 years:	32.0 percent
5 to 10 years:	42.8 percent
above 10 years:	

In the ordinary course of business, Sony maintains long-term investment securities, included in securities investments and other issued by a number of non-public companies. The aggregate carrying amount of the investments in non-public companies at March 31, 2013 was 68.3 billion yen. A non-public equity investment is primarily valued at cost if fair value is not readily determinable. If the value is estimated to have declined and such decline is judged to be other-than-temporary, the impairment of the investment is recognized immediately and the carrying value is reduced to its fair value.

For the fiscal years ended March 31, 2011, 2012 and 2013, total realized impairment losses were 9.8 billion yen, 5.5 billion yen and 8.6 billion yen, respectively, of which 2.1 billion yen, 1.9 billion yen and 0.8 billion yen, respectively, were recorded in financial services revenue by the subsidiaries in the Financial Services segment. Realized impairment losses recorded other than by subsidiaries in the Financial Services segment in each of the three fiscal years were reflected in non-operating expenses and primarily relate to certain strategic investments in non-financial services businesses. These investments primarily relate to certain strategic investments in Japan and the U.S. with which Sony has strategic relationships for the purposes of developing and marketing new technologies. Impairment losses were recorded for each of the three fiscal years as certain companies failed to successfully develop and market such technology, resulting in the operating performance of these companies being more unfavorable than previously expected. As a result the decline in the fair value of these companies was judged as other-than-temporary. None of these impairment losses were individually material to Sony.

Upon determination that the value of an investment is impaired, the value of the investment is written down to its fair value. For an investment where the quoted price is available in an active market, fair value is determined based on unadjusted quoted prices as of the date on which the impairment determination is made. For investments where the quoted price is not available in an active market, fair value is usually determined based on quoted prices of securities with similar characteristics or measured through the use of various methodologies such as pricing models, discounted cash flow techniques, or similar techniques that require significant management judgment or estimation of assumptions that market participants would use in pricing the investments. The impairment losses that were recorded in each of the three fiscal years related to the unique facts and circumstances of each individual investment and did not significantly impact other investments.

Sony Life and Sony Bank s investments constitute the majority of the investments in the Financial Services segment. Sony Life and Sony Bank account for approximately 85 percent and 14 percent of the investments in the Financial Services segment, respectively.

Table of Contents

Cash Flows

(The fiscal year ended March 31, 2013 compared with the fiscal year ended March 31, 2012)

Operating Activities: During the fiscal year ended March 31, 2013, there was a net cash inflow of 481.5 billion yen from operating activities, a decrease of 38.0 billion yen, or 7.3 percent year-on-year.

For all segments excluding the Financial Services segment, there was a net cash inflow of 38.5 billion yen for the fiscal year ended March 31, 2013, a decrease of 137.6 billion yen, or 78.2 percent year-on-year. This decrease was primarily due to the negative impact of a larger decrease in notes and accounts payable, trade, and the receipt of an advance payment from a commercial customer during the previous fiscal year. This was partially offset by the positive impact of a decrease in other receivables from third-party original equipment and design manufacturers, included in other current assets, compared to an increase in the previous fiscal year, and a larger decrease in notes and accounts receivable, trade and inventories.

The Financial Services segment had a net cash inflow of 448.6 billion yen, an increase of 97.8 billion yen, or 27.9 percent year-on-year. This increase was primarily due to the contribution from insurance premium revenue reflecting the steady increase in policy amount in force at Sony Life.

Investing Activities: During the fiscal year ended March 31, 2013, Sony used 705.3 billion yen of net cash in investing activities, a decrease of 177.6 billion yen, or 20.1 percent year-on-year.

For all segments excluding the Financial Services segment, 49.8 billion yen was used, a decrease of 271.7 billion yen, or 84.5 percent year-on-year. This decrease was primarily due to an increase in cash inflow from the sale of fixed assets year-on-year, the absence of cash outflow related to the acquisition of Sony Ericsson in the previous fiscal year, a year-on-year decrease in the amount of purchases of fixed assets, and cash inflow from the sale of the chemical products related business in the current fiscal year. The sale of Sony City Osaki and Sony s U.S. headquarters building were included in the sale of fixed assets in the current fiscal year. Partially offsetting these factors were factors increasing cash outflow such as a year-on-year increase in payments for investments and advances during the current fiscal year, the acquisition of U.S.-based Gaikai Inc. recorded in other investing activities in the current fiscal year and a year-on-year decrease in proceeds from the sale of securities investments. An investment in Olympus Corporation in the current fiscal year is included in investments and advances. The sale of Sony s shares of S-LCD in the previous fiscal year and the sale of Sony s shares of DeNA in the current fiscal year are included in sales or return of investments.

The Financial Services segment used 655.9 billion yen of net cash, an increase of 100.6 billion yen, or 18.1 percent year-on-year. This increase was mainly due to a decrease in proceeds from sales or return of investments and collections of advances at Sony Life.

In all segments excluding the Financial Services segment, net cash used in operating and investing activities combined* for the fiscal year ended March 31, 2013 was 11.3 billion yen, a decrease of 134.1 billion yen, or 92.2 percent year-on-year.

Financing Activities: During the fiscal year ended March 31, 2013, 83.2 billion yen of net cash and cash equivalents was generated by financing activities, a decrease of 174.2 billion yen, or 67.7 percent year-on-year.

For all segments excluding the Financial Services segment, there was a 155.7 billion yen net cash outflow, compared to a 31.3 billion yen net cash inflow in the previous fiscal year. The cash outflow in the current fiscal year was primarily due to increased net redemptions of corporate bonds and repayments of borrowings from financial institutions compared with the previous fiscal year, and the execution of a tender offer for shares of So-net Entertainment Corporation, exceeding cash inflow factors such as the issuance of convertible bonds.

In the Financial Services segment, financing activities generated 233.6 billion yen of net cash, an increase of 21.1 billion yen, or 9.9 percent year-on-year. This increase was primarily due to a larger increase in customer deposits at Sony Bank.

Table of Contents

Total Cash and Cash Equivalents: Accounting for the above factors and the effect of fluctuations in foreign exchange rates, the total outstanding balance of cash and cash equivalents at March 31, 2013 was 826.4 billion yen. Cash and cash equivalents of all segments excluding the Financial Services segment was 624.8 billion yen at March 31, 2013, a decrease of 94.6 billion yen, or 13.2 percent, compared with the balance as of March 31, 2012. Sony believes that it continues to maintain sufficient liquidity through access to a total, translated into yen, of 806.1 billion yen of unused committed lines of credit with financial institutions in addition to the cash and cash equivalents balance at March 31, 2013. Within the Financial Services segment, the outstanding balance of cash and cash equivalents was 201.6 billion yen at March 31, 2013, an increase of 26.4 billion yen, or 15.1 percent when compared with the balance as of March 31, 2012.

* Sony has included the information for cash flow from operating and investing activities combined, excluding the Financial Services segment s activities, as Sony s management frequently monitors this financial measure and believes this non-U.S. GAAP measurement is important for use in evaluating Sony s ability to generate cash to maintain liquidity and fund debt principal and dividend payments from business activities other than its Financial Services segment. This information is derived from the reconciliations prepared in the section Information on Cash Flows Separating Out the Financial Services Segment . This information and the separate condensed presentations shown below are not required or prepared in accordance with U.S. GAAP. The Financial Services segment s cash flow is excluded from the measure because SFH, which constitutes a majority of the Financial Services segment, is a separate publicly traded entity in Japan with a significant minority interest and it, as well as its subsidiaries, secures liquidity on its own. This measure may not be comparable to those of other companies. This measure has limitations because it does not represent residual cash flows available for discretionary expenditures, principally due to the fact that the measure does not deduct the principal payments required for debt service. Therefore, Sony believes it is important to view this measure as supplemental to its entire statement of cash flows and together with Sony s disclosures regarding investments, available credit facilities, and overall liquidity.

A reconciliation of the differences between the Consolidated Statement of Cash Flows reported and cash flows from operating and investing activities combined excluding the Financial Services segment s activities is as follows:

	Fiscal year ended March 31	
	2012	**2013**
	(Yen in billions)	
Net cash provided by operating activities reported in the consolidated statements of cash flows	519.5	**481.5**
Net cash used in investing activities reported in the consolidated statements of cash flows	(882.9)	**(705.3)**
	(363.3)	**(223.8)**
Less: Net cash provided by operating activities within the Financial Services segment	350.9	**448.6**
Less: Net cash used in investing activities within the Financial Services segment	(555.3)	**(655.9)**
Eliminations**	13.6	**5.2**
Cash flow from operating and investing activities combined excluding the Financial Services segment s activities	(145.4)	**(11.3)**

** Eliminations primarily consist of intersegment dividend payments

Table of Contents

Information on Cash Flows Separating Out the Financial Services Segment

The following charts show Sony s cash flow information for the Financial Services segment alone, and for all segments, excluding the Financial Services segment. These separate condensed presentations are not required or prepared under U.S. GAAP, which is used in Sony s consolidated financial statements. However, because the Financial Services segment is different in nature from Sony s other segments, Sony utilizes this information to analyze its results without the Financial Services segment and believes that these presentations may be useful in understanding and analyzing Sony s consolidated financial statements. Transactions between the Financial Services segment and Sony without the Financial Services segment, including noncontrolling interests, are included in those respective presentations, and then eliminated in the consolidated figures shown below.

Financial Services segment	**Fiscal year ended March 31** 2012	**2013**
	(Yen in millions)	
Net cash provided by operating activities	350,863	**448,631**
Net cash used in investing activities	(555,283)	**(655,859)**
Net cash provided by financing activities	212,562	**233,627**
Net increase in cash and cash equivalents	8,142	**26,399**
Cash and cash equivalents at beginning of the fiscal year	167,009	**175,151**
Cash and cash equivalents at end of the fiscal year	175,151	**201,550**

	Fiscal year ended March 31		
	2012	**2013**	
align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;">	2,395	86,779	91,830
	—	2,621	1,374
	—	—	3,758
	—	116	3,301
	—	249	1,921
	—	2,603	9,023
	10,976	6,393	4,016
	10,976	12,232	27,887
	—	983	3,513
	—	267	6,315
	549	—	—

	7,665	5,995	17,328
	—	13,084	339
	—	—	—
	119	293	838
70,420	$20,148	$37,977	$67,77
	17,839	1,304	4,835
77,710	$37,987	$39,281	$72,61

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

16

Table of Contents

As of June 30, 2014 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$6,216	$—	$4,165	$21,610	$1,980,489	$2,012,480
Franchise	—	—	—	549	222,907	223,456
Mortgage warehouse lines of credit	—	—	—	1,680	146,531	148,211
Community Advantage—homeowners association	—	—	—	—	94,009	94,009
Aircraft	—	—	—	—	7,847	7,847
Asset-based lending	295	—	—	6,047	772,002	778,344
Tax exempt	—	—	—	—	208,913	208,913
Leases	—	—	—	36	144,399	144,435
Other	—	—	—	—	9,792	9,792
PCI - commercial (1)	—	1,452	—	224	11,267	12,943
Total commercial	6,511	1,452	4,165	30,146	3,598,156	3,640,430
Commercial real estate:						
Residential construction	—	—	—	18	29,941	29,959
Commercial construction	839	—	—	—	154,220	155,059
Land	2,367	—	614	4,502	98,444	105,927
Office	10,950	—	999	3,911	652,057	667,917
Industrial	5,097	—	899	690	610,954	617,640
Retail	6,909	—	1,334	2,560	686,292	697,095
Multi-family	689	—	244	4,717	630,519	636,169
Mixed use and other	9,470	309	5,384	12,300	1,350,976	1,378,439
PCI - commercial real estate (1)	—	15,682	155	1,595	47,835	65,267
Total commercial real estate	36,321	15,991	9,629	30,293	4,261,238	4,353,472
Home equity	5,804	—	1,392	3,324	703,122	713,642
Residential real estate	15,294	—	1,487	1,978	430,364	449,123
PCI - residential real estate (1)	—	988	111	—	1,683	2,782
Premium finance receivables	—	—	—	—	—	—
Commercial insurance loans	12,298	10,275	12,335	14,672	2,328,949	2,378,529
Life insurance loans	—	649	896	4,783	1,635,557	1,641,885
PCI - life insurance loans (1)	—	—	—	—	409,760	409,760
Consumer and other	1,116	73	562	600	158,022	160,373
Total loans, net of unearned income, excluding covered loans	$77,344	$29,428	$30,577	$85,796	$13,526,851	$13,749,996
Covered loans	6,690	34,486	4,003	1,482	228,493	275,154
Total loans, net of unearned income	$84,034	$63,914	$34,580	$87,278	$13,755,344	$14,025,150

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

17

Table of Contents

Our ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, the Company operates a credit risk rating system under which our credit management personnel assign a credit risk rating (1 to 10 rating) to each loan at the time of origination and review loans on a regular basis.
Each loan officer is responsible for monitoring his or her loan portfolio, recommending a credit risk rating for each loan in his or her portfolio and ensuring the credit risk ratings are appropriate. These credit risk ratings are then ratified by the bank's chief credit officer and/or concurrence credit officer. Credit risk ratings are determined by evaluating a number of factors including: a borrower's financial strength, cash flow coverage, collateral protection and guarantees.
The Company's Problem Loan Reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the Company's Managed Asset Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company's Managed Asset Division, the credit risk rating is reviewed and a portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company's impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company's Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions.
Through the credit risk rating process, loans are reviewed to determine if they are performing in accordance with the original contractual terms. If the borrower has failed to comply with the original contractual terms, further action may be required by the Company, including a downgrade in the credit risk rating, movement to non-accrual status, a charge-off or the establishment of a specific impairment reserve. If we determine that a loan amount, or portion thereof, is uncollectible, the loan's credit risk rating is immediately downgraded to an 8 or 9 and the uncollectible amount is charged-off. Any loan that has a partial charge-off continues to be assigned a credit risk rating of an 8 or 9 for the duration of time that a balance remains outstanding. The Company undertakes a thorough and ongoing analysis to determine if additional impairment and/or charge-offs are appropriate and to begin a workout plan for the credit to minimize actual losses.
If, based on current information and events, it is probable that the Company will be unable to collect all amounts due to it according to the contractual terms of the loan agreement, a specific impairment reserve is established. In determining the appropriate charge-off for collateral-dependent loans, the Company considers the results of appraisals for the associated collateral.

Table of Contents

Non-performing loans include all non-accrual loans (8 and 9 risk ratings) as well as loans 90 days past due and still accruing interest, excluding PCI loans. The remainder of the portfolio is considered performing under the contractual terms of the loan agreement. The following table presents the recorded investment based on performance of loans by class, excluding covered loans, per the most recent analysis at June 30, 2015, December 31, 2014 and June 30, 2014:

	Performing			Non-performing			Total		
(Dollars in thousands)	June 30, 2015	December 31, 2014	June 30, 2014	June 30, 2015	December 31, 2014	June 30, 2014	June 30, 2015	December 31, 2014	June 2014
Loan Balances:									
Commercial									
Commercial and industrial	$2,530,035	$2,223,758	$2,006,264	$4,424	$9,606	$6,216	$2,534,459	$2,233,364	$2,01
Franchise	227,694	233,316	223,456	905	—	—	228,599	233,316	223,4
Mortgage warehouse lines of credit	213,797	139,003	148,211	—	—	—	213,797	139,003	148,2
Community Advantage—homeowners association	114,883	106,364	94,009	—	—	—	114,883	106,364	94,00
Aircraft	6,831	8,065	7,847	—	—	—	6,831	8,065	7,847
Asset-based lending	832,455	806,377	778,049	—	25	295	832,455	806,402	778,3
Tax exempt	199,185	217,487	208,913	—	—	—	199,185	217,487	208,9
Leases	187,565	160,136	144,435	65	—	—	187,630	160,136	144,4
Other	2,772	11,034	9,792	—	—	—	2,772	11,034	9,792
PCI - commercial [(1)]	9,733	9,223	12,943	—	—	—	9,733	9,223	12,94
Total commercial	4,324,950	3,914,763	3,633,919	5,394	9,631	6,511	4,330,344	3,924,394	3,640
Commercial real estate									
Residential construction	57,602	38,696	29,959	—	—	—	57,602	38,696	29,95
Commercial construction	249,524	187,536	154,220	19	230	839	249,543	187,766	155,0
Land	85,802	89,174	103,560	2,035	2,656	2,367	87,837	91,830	105,9
Office	747,756	698,144	656,967	7,061	7,288	10,950	754,817	705,432	667,9
Industrial	624,839	621,578	612,543	2,568	2,392	5,097	627,407	623,970	617,6
Retail	747,639	727,336	690,186	2,352	4,152	6,909	749,991	731,488	697,0
Multi-family	666,718	605,493	635,480	1,730	249	689	668,448	605,742	636,1
Mixed use and other	1,584,003	1,455,479	1,368,660	8,119	9,638	9,779	1,592,122	1,465,117	1,378
PCI - commercial real estate[(1)]	62,823	55,712	65,267	—	—	—	62,823	55,712	65,26
Total commercial real estate	4,826,706	4,479,148	4,316,842	23,884	26,605	36,630	4,850,590	4,505,753	4,353
Home equity	706,655	710,119	707,838	5,695	6,174	5,804	712,350	716,293	713,6
Residential real estate	484,042	465,806	433,829	16,631	15,502	15,294	500,673	481,308	449,1
PCI - residential real estate [(1)]	2,342	2,234	2,782	—	—	—	2,342	2,234	2,782
Premium finance receivables									
Commercial insurance loans	2,436,199	2,330,463	2,355,956	24,209	20,370	22,573	2,460,408	2,350,833	2,378
Life insurance loans	2,152,804	1,884,092	1,641,236	351	—	649	2,153,155	1,884,092	1,641

PCI - life insurance loans [1]	384,320	393,479	409,760	—	—	—	384,320	393,479	409,7
Consumer and other	119,078	150,617	159,184	390	395	1,189	119,468	151,012	160,3
Total loans, net of unearned income, excluding covered loans	$15,437,096	$14,330,721	$13,661,346	$76,554	$78,677	$88,650	$15,513,650	$14,409,398	$13,7

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. See Note 6 - Loans for further discussion of these purchased loans.

19

Table of Contents

A summary of activity in the allowance for credit losses by loan portfolio (excluding covered loans) for the three months ended June 30, 2015 and 2014 is as follows:

Three months ended June 30, 2015 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 33,726	$ 37,002	$ 12,664	$ 4,096	$ 5,992	$ 966	$ 94,446
Other adjustments	(13)	(81)	—	(5)	6	—	(93)
Reclassification from allowance for unfunded lending-related commitments	—	4	—	—	—	—	4
Charge-offs	(1,243)	(856)	(1,847)	(923)	(1,526)	(115)	(6,510)
Recoveries	285	1,824	39	16	458	34	2,656
Provision for credit losses	145	4,305	1,432	1,835	1,991	(7)	9,701
Allowance for loan losses at period end	$ 32,900	$ 42,198	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 100,204
Allowance for unfunded lending-related commitments at period end	$ —	$ 884	$ —	$ —	$ —	$ —	$ 884
Allowance for credit losses at period end	$ 32,900	$ 43,082	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 101,088
Individually evaluated for impairment	$ 2,282	$ 5,602	$ 808	$ 1,387	$ —	$ 44	$ 10,123
Collectively evaluated for impairment	30,600	37,145	11,480	3,589	6,921	834	90,569
Loans acquired with deteriorated credit quality	18	335	—	43	—	—	396
Loans at period end							
Individually evaluated for impairment	$ 11,921	$ 65,870	$ 5,909	$ 20,459	$ —	$ 418	$ 104,577
Collectively evaluated for impairment	4,308,690	4,721,897	706,441	480,214	4,613,563	119,050	14,949,855
Loans acquired with deteriorated credit quality	9,733	62,823	—	2,342	384,320	—	459,218

Three months ended June 30, 2014 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 24,689	$ 44,605	$ 10,966	$ 4,691	$ 5,582	$ 1,742	$ 92,275
Other adjustments	(22)	(96)	(1)	(2)	16	—	(105)
Reclassification from allowance for unfunded lending-related commitments	—	(146)	—	—	—	—	(146)
Charge-offs	(2,384)	(2,351)	(730)	(689)	(1,492)	(213)	(7,859)

Recoveries	270	342	122	74	314	153	1,275
Provision for credit losses	3,485	(1,652)	3,561	(341)	1,889	(129)	6,813
Allowance for loan losses at period end	$ 26,038	$ 40,702	$ 13,918	$ 3,733	$ 6,309	$ 1,553	$ 92,253
Allowance for unfunded lending-related commitments at period end	$ —	$ 884	$—	$—	$ —	$—	$ 884
Allowance for credit losses at period end	$ 26,038	$ 41,586	$ 13,918	$ 3,733	$ 6,309	$ 1,553	$ 93,137
Individually evaluated for impairment	$ 1,927	$ 7,237	$ 636	$ 484	$ —	$ 102	$ 10,386
Collectively evaluated for impairment	24,100	34,349	13,282	3,196	6,309	1,451	82,687
Loans acquired with deteriorated credit quality	11	—	—	53	—	—	64
Loans at period end							
Individually evaluated for impairment	$ 12,397	$ 100,068	$ 6,030	$ 18,680	$ —	$ 1,560	$ 138,735
Collectively evaluated for impairment	3,615,090	4,188,137	707,612	430,443	4,020,414	158,615	13,120,311
Loans acquired with deteriorated credit quality	12,943	65,267	—	2,782	409,760	198	490,950

20

Table of Contents

Six months ended June 30, 2015 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 31,699	$ 35,533	$ 12,500	$ 4,218	$ 6,513	$ 1,242	$ 91,705
Other adjustments	(30)	(261)	—	(8)	(42)	—	(341)
Reclassification from allowance for unfunded lending-related commitments	—	(109)	—	—	—	—	(109)
Charge-offs	(1,920)	(1,861)	(2,431)	(1,554)	(2,789)	(226)	(10,781)
Recoveries	655	2,136	87	92	787	87	3,844
Provision for credit losses	2,496	6,760	2,132	2,271	2,452	(225)	15,886
Allowance for loan losses at period end	$ 32,900	$ 42,198	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 100,204
Allowance for unfunded lending-related commitments at period end	$ —	$ 884	$—	$—	$ —	$—	$ 884
Allowance for credit losses at period end	$ 32,900	$ 43,082	$ 12,288	$ 5,019	$ 6,921	$ 878	$ 101,088

Six months ended June 30, 2014 (Dollars in thousands)	Commercial	Commercial Real Estate	Home Equity	Residential Real Estate	Premium Finance Receivable	Consumer and Other	Total, Excluding Covered Loans
Allowance for credit losses							
Allowance for loan losses at beginning of period	$ 23,092	$ 48,658	$ 12,611	$ 5,108	$ 5,583	$ 1,870	$ 96,922
Other adjustments	(37)	(217)	(2)	(4)	7	—	(253)
Reclassification from allowance for unfunded lending-related commitments	—	(164)	—	—	—	—	(164)
Charge-offs	(3,032)	(6,844)	(2,997)	(915)	(2,702)	(386)	(16,876)
Recoveries	587	487	379	205	635	214	2,507
Provision for credit losses	5,428	(1,218)	3,927	(661)	2,786	(145)	10,117
Allowance for loan losses at period end	$ 26,038	$ 40,702	$ 13,918	$ 3,733	$ 6,309	$ 1,553	$ 92,253
Allowance for unfunded lending-related commitments at period end	$ —	$ 884	$—	$—	$ —	$—	$ 884
Allowance for credit losses at period end	$ 26,038	$ 41,586	$ 13,918	$ 3,733	$ 6,309	$ 1,553	$ 93,137

Table of Contents

A summary of activity in the allowance for covered loan losses for the three months ended June 30, 2015 and 2014 is as follows:

(Dollars in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Balance at beginning of period	$1,878	$3,447	$2,131	$10,092
Provision for covered loan losses before benefit attributable to FDIC loss share agreements	(1,094)	(764)	(1,623)	(7,885)
Benefit attributable to FDIC loss share agreements	875	611	1,298	6,308
Net provision for covered loan losses	(219)	(153)	(325)	(1,577)
Decrease in FDIC indemnification asset	(875)	(611)	(1,298)	(6,308)
Loans charged-off	(140)	(2,189)	(377)	(5,053)
Recoveries of loans charged-off	1,571	1,173	2,084	4,513
Net recoveries (charge-offs)	1,431	(1,016)	1,707	(540)
Balance at end of period	$2,215	$1,667	$2,215	$1,667

In conjunction with FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. Additional expected losses, to the extent such expected losses result in the recognition of an allowance for loan losses, will increase the FDIC indemnification asset. The allowance for loan losses for loans acquired in FDIC-assisted transactions is determined without giving consideration to the amounts recoverable through loss share agreements (since the loss share agreements are separately accounted for and thus presented "gross" on the balance sheet). On the Consolidated Statements of Income, the provision for credit losses is reported net of changes in the amount recoverable under the loss share agreements. Reductions to expected losses, to the extent such reductions to expected losses are the result of an improvement to the actual or expected cash flows from the covered assets, will reduce the FDIC indemnification asset. Additions to expected losses will require an increase to the allowance for loan losses, and a corresponding increase to the FDIC indemnification asset. See "FDIC-Assisted Transactions" within Note 3 – Business Combinations for more detail.

Impaired Loans

A summary of impaired loans, including troubled debt restructurings ("TDRs"), is as follows:

(Dollars in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Impaired loans (included in non-performing and TDRs):			
Impaired loans with an allowance for loan loss required [1]	$50,748	$69,487	$91,511
Impaired loans with no allowance for loan loss required	52,609	57,925	45,734
Total impaired loans [2]	$103,357	$127,412	$137,245
Allowance for loan losses related to impaired loans	$10,075	$6,270	$10,298
TDRs	$62,776	$82,275	$88,107

(1) These impaired loans require an allowance for loan losses because the estimated fair value of the loans or related collateral is less than the recorded investment in the loans.

(2) Impaired loans are considered by the Company to be non-accrual loans, TDRs or loans with principal and/or interest at risk, even if the loan is current with all payments of principal and interest.

22

Table of Contents

The following tables present impaired loans evaluated for impairment by loan class for the periods ended as follows:

	As of June 30, 2015			For the Six Months Ended June 30, 2015	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$6,702	$ 7,141	$2,000	$6,876	$166
Franchise	905	905	200	912	15
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	—	—	—	—	—
Tax exempt	—	—	—	—	—
Leases	65	65	65	66	2
Other	—	—	—	—	—
Commercial real estate					
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land	6,924	10,539	50	6,931	294
Office	7,005	7,010	2,414	7,060	154
Industrial	1,218	1,218	558	1,218	34
Retail	8,336	9,222	404	8,482	194
Multi-family	2,149	2,258	322	2,168	51
Mixed use and other	10,507	12,694	1,847	10,557	290
Home equity	1,673	1,728	808	1,680	34
Residential real estate	6,945	7,138	1,363	6,963	137
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
PCI - life insurance	—	—	—	—	—
Consumer and other	180	245	44	190	6
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$3,760	$ 6,731	$—	$4,052	$219
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	—	—	—	—	—
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real estate					

Residential construction	2,023	2,023	—	2,023	48
Commercial construction	642	642	—	627	13
Land	1,906	2,643	—	1,924	50
Office	6,289	8,780	—	6,834	221
Industrial	2,022	2,200	—	2,059	88
Retail	4,099	5,248	—	4,113	112
Multi-family	592	1,015	—	598	22
Mixed use and other	11,683	12,008	—	12,427	266
Home equity	4,236	5,697	—	4,320	118
Residential real estate	13,258	14,961	—	13,553	294
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
PCI - life insurance	—	—	—	—	—
Consumer and other	238	267	—	241	7
Total loans, net of unearned income, excluding covered loans	$103,357	$ 122,378	$10,075	$105,874	$2,835

23

(Dollars in thousands)	As of December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Twelve Months Ended December 31, 2014 Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$9,989	$ 10,785	$1,915	$10,784	$ 539
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	—	—	—	—	—
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real estate					
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land	5,011	8,626	43	5,933	544
Office	11,038	12,863	305	11,567	576
Industrial	195	277	15	214	13
Retail	11,045	14,566	487	12,116	606
Multi-family	2,808	3,321	158	2,839	145
Mixed use and other	21,777	24,076	2,240	21,483	1,017
Home equity	1,946	2,055	475	1,995	80
Residential real estate	5,467	5,600	606	5,399	241
Premium finance receivables		—			
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Consumer and other	211	213	26	214	10
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$5,797	$ 8,862	$—	$6,664	$ 595
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	25	1,952	—	87	100
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real estate					

Residential construction	—	—	—	—	—
Commercial construction	2,875	3,085	—	3,183	151
Land	10,210	10,941	—	10,268	430
Office	4,132	5,020	—	4,445	216
Industrial	4,160	4,498	—	3,807	286
Retail	5,487	7,470	—	6,915	330
Multi-family	—	—	—	—	—
Mixed use and other	7,985	8,804	—	9,533	449
Home equity	4,453	6,172	—	4,666	256
Residential real estate	12,640	14,334	—	12,682	595
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Consumer and other	161	222	—	173	11
Total loans, net of unearned income, excluding covered loans	$127,412	$ 153,742	$6,270	$134,967	$ 7,190

24

Table of Contents

(Dollars in thousands)	As of June 30, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Six Months Ended June 30, 2014 Average Recorded Investment	Interest Income Recognized
Impaired loans with a related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$7,220	$ 10,152	$1,631	$8,332	$ 339
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	270	290	270	275	7
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real estate					
Residential construction	—	—	—	—	—
Commercial construction	2,146	2,156	128	2,150	44
Land	11,687	15,538	363	11,876	378
Office	14,403	15,159	2,664	14,517	335
Industrial	3,349	3,455	227	3,372	76
Retail	14,320	14,733	1,590	14,343	304
Multi-family	2,835	3,349	119	2,857	73
Mixed use and other	27,418	27,565	2,111	28,474	551
Home equity	1,562	1,616	636	1,567	30
Residential real estate	5,997	6,372	457	5,914	140
Premium finance receivables		—			
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Consumer and other	304	364	102	308	8
Impaired loans with no related ASC 310 allowance recorded					
Commercial					
Commercial and industrial	$4,222	$ 8,666	$—	$4,591	$ 219
Franchise	—	—	—	—	—
Mortgage warehouse lines of credit	—	—	—	—	—
Community Advantage—homeowners association	—	—	—	—	—
Aircraft	—	—	—	—	—
Asset-based lending	25	1,952	—	150	50
Tax exempt	—	—	—	—	—
Leases	—	—	—	—	—
Other	—	—	—	—	—
Commercial real estate					
Residential construction	—	—	—	—	—

Commercial construction	1,031	1,031	—	1,051	23
Land	3,917	4,958	—	5,657	131
Office	2,598	2,599	—	2,605	73
Industrial	3,603	3,839	—	3,155	95
Retail	6,422	7,813	—	6,456	188
Multi-family	440	966	—	497	22
Mixed use and other	5,330	7,842	—	5,875	218
Home equity	4,468	6,553	—	4,842	138
Residential real estate	12,422	15,538	—	12,836	295
Premium finance receivables					
Commercial insurance	—	—	—	—	—
Life insurance	—	—	—	—	—
Purchased life insurance	—	—	—	—	—
Consumer and other	1,256	1,775	—	1,260	53
Total loans, net of unearned income, excluding covered loans	$137,245	$ 164,281	$10,298	$142,960	$ 3,790

25

TDRs

At June 30, 2015, the Company had $62.8 million in loans modified in TDRs. The $62.8 million in TDRs represents 122 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability to pay.

The Company's approach to restructuring loans, excluding PCI loans, is built on its credit risk rating system which requires credit management personnel to assign a credit risk rating to each loan. In each case, the loan officer is responsible for recommending a credit risk rating for each loan and ensuring the credit risk ratings are appropriate. These credit risk ratings are then reviewed and approved by the bank's chief credit officer and/or concurrence credit officer. Credit risk ratings are determined by evaluating a number of factors including a borrower's financial strength, cash flow coverage, collateral protection and guarantees. The Company's credit risk rating scale is one through ten with higher scores indicating higher risk. In the case of loans rated six or worse following modification, the Company's Managed Assets Division evaluates the loan and the credit risk rating and determines that the loan has been restructured to be reasonably assured of repayment and of performance according to the modified terms and is supported by a current, well-documented credit assessment of the borrower's financial condition and prospects for repayment under the revised terms.

A modification of a loan, excluding PCI loans, with an existing credit risk rating of six or worse or a modification of any other credit which will result in a restructured credit risk rating of six or worse, must be reviewed for possible TDR classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of these loans is considered to be a TDR if both (1) the borrower is experiencing financial difficulty and (2) for economic or legal reasons, the bank grants a concession to a borrower that it would not otherwise consider. The modification of a loan, excluding PCI loans, where the credit risk rating is five or better both before and after such modification is not considered to be a TDR. Based on the Company's credit risk rating system, it considers that borrowers whose credit risk rating is five or better are not experiencing financial difficulties and therefore, are not considered TDRs.

All credits determined to be a TDR will continue to be classified as a TDR in all subsequent periods, unless at any subsequent re-modification the borrower has been in compliance with the loan's modified terms for a period of six months (including over a calendar year-end) and the current interest rate represents a market rate at the time of restructuring. The Managed Assets Division, in consultation with the respective loan officer, determines whether the modified interest rate represented a current market rate at the time of restructuring. Using knowledge of current market conditions and rates, competitive pricing on recent loan originations, and an assessment of various characteristics of the modified loan (including collateral position and payment history), an appropriate market rate for a new borrower with similar risk is determined. If the modified interest rate meets or exceeds this market rate for a new borrower with similar risk, the modified interest rate represents a market rate at the time of restructuring. Additionally, before removing a loan from TDR classification, a review of the current or previously measured impairment on the loan and any concerns related to future performance by the borrower is conducted. If concerns exist about the future ability of the borrower to meet its obligations under the loans based on a credit review by the Managed Assets Division, the TDR classification is not removed from the loan.

TDRs are reviewed at the time of the modification and on a quarterly basis to determine if a specific reserve is necessary. The carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral. Any shortfall is recorded as a specific reserve. The Company, in accordance with ASC 310-10, continues to individually measure impairment of these loans after the TDR classification is removed.

Each TDR was reviewed for impairment at June 30, 2015 and approximately $3.7 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. For TDRs in which impairment is calculated by the present value of future cash flows, the Company records interest income representing the decrease in impairment resulting from the passage of time during the respective period, which differs from interest income from contractually required interest on these specific loans. During the three months ended June 30, 2015 and 2014, the Company recorded $94,000 and $103,000, respectively, in interest income representing this decrease in impairment. For the six months ended June 30, 2015 and 2014, the

Company recorded $287,000 and $235,000, respectively, to interest income representing the reduction in impairment. TDRs may arise in which, due to financial difficulties experienced by the borrower, the Company obtains through physical possession one or more collateral assets in satisfaction of all or part of an existing credit. Once possession is obtained, the Company reclassifies the appropriate portion of the remaining balance of the credit from loans to OREO, which is included within other assets in the Consolidated Statements of Condition. For any residential real estate property collateralizing a consumer mortgage loan, the Company is considered to possess the related collateral only if legal title is obtained upon completion of foreclosure, or the borrower conveys all interest in the residential real estate property to the Company through completion of a deed in lieu of foreclosure or similar legal agreement. Excluding covered OREO, at June 30, 2015, the Company had $9.4 million of foreclosed residential real estate properties included within OREO.

Table of Contents

The tables below present a summary of the post-modification balance of loans restructured during the three and six months ended June 30, 2015 and 2014, respectively, which represent TDRs:

Three months ended June 30, 2015	Total [1][2]		Extension at Below Market Terms [2]		Reduction of Interest Rate [2]		Modification to Interest-only Payments [2]		Forgiveness of Debt[2]	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	—	$—	—	$—	—	$ —	—	$—	—	$ —
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Industrial	1	169	1	169	—	—	1	169	—	—
Retail	—	—	—	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—	—	—	—
Mixed use and other	—	—	—	—	—	—	—	—	—	—
Residential real estate and other	5	1,148	5	1,148	2	372	—	—	—	—
Total loans	6	$1,317	6	$1,317	2	$ 372	1	$169	—	$ —

Three months ended June 30, 2014	Total [1][2]		Extension at Below Market Terms [2]		Reduction of Interest Rate [2]		Modification to Interest-only Payments [2]		Forgiveness of Debt[2]	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	—	$—	—	$—	—	$ —	—	$—	—	$ —
Commercial real estate										
Office	1	790	1	790	—	—	—	—	—	—
Industrial	—	—	—	—	—	—	—	—	—	—
Retail	—	—	—	—	—	—	—	—	—	—
Multi-family	1	181	—	—	1	181	—	—	—	—
Mixed use and other	4	1,049	1	233	4	1,049	—	—	—	—
Residential real estate and other	1	220	1	220	—	—	1	220	—	—
Total loans	7	$2,240	3	$1,243	5	$ 1,230	1	$220	—	$ —

(1) TDRs may have more than one modification representing a concession. As such, TDRs during the period may be represented in more than one of the categories noted above.
(2) Balances represent the recorded investment in the loan at the time of the restructuring.

During the three months ended June 30, 2015, six loans totaling $1.3 million were determined to be TDRs, compared to seven loans totaling $2.2 million in the same period of 2014. Of these loans extended at below market terms, the weighted average extension had a term of approximately 29 months during the three months ended June 30, 2015 compared to 16 months for the same period of 2014. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 408 basis points and 137 basis points during the three months ending June 30, 2015 and 2014, respectively. Interest-only payment terms were approximately 29 months during the three months ending June 30, 2015 compared to approximately six months during the three months ending June 30, 2014. Additionally, no principal balances were forgiven in the second quarter of 2015 or 2014.

27

Table of Contents

Six months ended June 30, 2015	Total (1)(2)		Extension at Below Market Terms (2)		Reduction of Interest Rate (2)		Modification to Interest-only Payments (2)		Forgiveness of Debt(2)	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	—	$—	—	$—	—	$ —	—	$—	—	$ —
Commercial real estate										
Office	—	—	—	—	—	—	—	—	—	—
Industrial	1	169	1	169	—	—	1	169	—	—
Retail	—	—	—	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—	—	—	—
Mixed use and other	—	—	—	—	—	—	—	—	—	—
Residential real estate and other	8	1,442	8	1,442	4	452	1	50	—	—
Total loans	9	$1,611	9	$1,611	4	$ 452	2	$219	—	$ —

Six months ended June 30, 2014	Total (1)(2)		Extension at Below Market Terms (2)		Reduction of Interest Rate (2)		Modification to Interest-only Payments (2)		Forgiveness of Debt(2)	
(Dollars in thousands)	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance
Commercial										
Commercial and industrial	1	$88	1	$88	—	$ —	1	$88	—	$ —
Commercial real estate										
Office	1	790	1	790	—	—	—	—	—	—
Industrial	1	1,078	1	1,078	—	—	1	1,078	—	—
Retail	1	202	1	202	—	—	—	—	—	—
Multi-family	1	181	—	—	1	181	—	—	—	—
Mixed use and other	7	4,926	3	2,837	7	4,926	1	1,273	—	—
Residential real estate and other	1	220	1	220	—	—	1	220	—	—
Total loans	13	$7,485	8	$5,215	8	$ 5,107	4	$2,659	—	$ —

(1) TDRs may have more than one modification representing a concession. As such, TDRs during the period may be represented in more than one of the categories noted above.
(2) Balances represent the recorded investment in the loan at the time of the restructuring.

During the six months ended June 30, 2015, nine loans totaling $1.6 million were determined to be TDRs, compared to 13 loans totaling $7.5 million in the same period of 2014. Of these loans extended at below market terms, the weighted average extension had a term of approximately 27 months during the six months ended June 30, 2015 compared to 14 months for the same period of 2014. Further, the weighted average decrease in the stated interest rate for loans with a reduction of interest rate during the period was approximately 367 basis points and 167 basis points during the six months ending June 30, 2015 and 2014, respectively. Interest-only payment terms were approximately 28 months and nine months during the six months ending June 30, 2015 and 2014, respectively. Additionally, no balances were forgiven in the first six months of 2015 or 2014.

Table of Contents

The following table presents a summary of all loans restructured in TDRs during the twelve months ended June 30, 2015 and 2014, and such loans which were in payment default under the restructured terms during the respective periods below:

(Dollars in thousands)	As of June 30, 2015 Total (1)(3)		Three Months Ended June 30, 2015 Payments in Default (2)(3)		Six Months Ended June 30, 2015 Payments in Default (2)(3)	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial and industrial	1	$1,461	—	$—	—	$—
Commercial real estate						
Land	—	—	—	—	—	—
Office	1	720	—	—	—	—
Industrial	2	854	—	—	—	—
Retail	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—
Mixed use and other	—	—	—	—	—	—
Residential real estate and other	13	3,058	4	833	4	833
Total loans	17	$6,093	4	$833	4	$833

(1) Total TDRs represent all loans restructured in TDRs during the previous twelve months from the date indicated.
(2) TDRs considered to be in payment default are over 30 days past-due subsequent to the restructuring.
(3) Balances represent the recorded investment in the loan at the time of the restructuring.

(Dollars in thousands)	As of June 30, 2014 Total (1)(3)		Three Months Ended June 30, 2014 Payments in Default (2)(3)		Six Months Ended June 30, 2014 Payments in Default (2)(3)	
	Count	Balance	Count	Balance	Count	Balance
Commercial						
Commercial and industrial	1	$88	—	$—	—	$—
Commercial real estate						
Land	1	2,352	1	2,352	1	2,352
Office	2	1,345	—	—	—	—
Industrial	1	1,078	1	1,078	1	1,078
Retail	1	202	—	—	—	—
Multi-family	1	181	—	—	—	—
Mixed use and other	11	6,436	3	577	3	577
Residential real estate and other	4	1,738	1	169	1	169
Total loans	22	$13,420	6	$4,176	6	$4,176

(1) Total TDRs represent all loans restructured in TDRs during the previous twelve months from the date indicated.
(2) TDRs considered to be in payment default are over 30 days past-due subsequent to the restructuring.
(3) Balances represent the recorded investment in the loan at the time of the restructuring.

Table of Contents

(8) Goodwill and Other Intangible Assets

A summary of the Company’s goodwill assets by business segment is presented in the following table:

(Dollars in thousands)	January 1, 2015	Goodwill Acquired	Impairment Loss	Goodwill Adjustments	June 30, 2015
Community banking	$331,752	$17,383	$—	$—	$349,135
Specialty finance	41,768	—	—	(1,371)	40,397
Wealth management	32,114	—	—	—	32,114
Total	$405,634	$17,383	$—	$(1,371)	$421,646

The community banking segment's goodwill increased $17.4 million in the first six months of 2015 as a result of the acquisition of Delavan. The specialty finance segment's goodwill decreased $1.4 million in the first six months of 2015 as a result of foreign currency translation adjustments related to the Canadian acquisitions.

At June 30, 2015, the Company utilized a qualitative approach for its annual goodwill impairment test of the community banking segment and determined that it is not more likely than not that an impairment existed at that time. The annual goodwill impairment tests of the specialty finance and wealth management segments will be conducted at December 31, 2015.

A summary of finite-lived intangible assets as of the dates shown and the expected amortization as of June 30, 2015 is as follows:

(Dollars in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Community banking segment:			
Core deposit intangibles:			
Gross carrying amount	$25,881	$29,379	$40,770
Accumulated amortization	(14,983)	(17,879)	(31,223)
Net carrying amount	$10,898	$11,500	$9,547
Specialty finance segment:			
Customer list intangibles:			
Gross carrying amount	$1,800	$1,800	$1,800
Accumulated amortization	(1,001)	(941)	(878)
Net carrying amount	$799	$859	$922
Wealth management segment:			
Customer list and other intangibles:			
Gross carrying amount	$7,940	$7,940	$7,690
Accumulated amortization	(1,713)	(1,488)	(1,265)
Net carrying amount	$6,227	$6,452	$6,425
Total other intangible assets, net	$17,924	$18,811	$16,894
Estimated amortization			
Actual in six months ended June 30, 2015			$1,947
Estimated remaining in 2015			1,766
Estimated—2016			3,007
Estimated—2017			2,499
Estimated—2018			2,186
Estimated—2019			1,837

The core deposit intangibles recognized in connection with prior bank acquisitions are amortized over a ten-year period on an accelerated basis. The customer list intangibles recognized in connection with the purchase of life insurance premium finance assets in 2009 are being amortized over an 18-year period on an accelerated basis while the customer list intangibles recognized in connection with prior acquisitions within the wealth management segment are being amortized over a ten-year period on a straight-line basis.

Total amortization expense associated with finite-lived intangibles totaled approximately $1.9 million and $2.3 million for the six months ended June 30, 2015 and 2014, respectively.

30

(9) Deposits

The following table is a summary of deposits as of the dates shown:

(Dollars in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Balance:			
Non-interest bearing	$3,910,310	$3,518,685	$3,072,430
NOW and interest bearing demand deposits	2,240,832	2,236,089	2,002,868
Wealth management deposits	1,591,251	1,226,916	1,220,102
Money market	3,898,495	3,651,467	3,591,540
Savings	1,504,654	1,508,877	1,427,222
Time certificates of deposit	3,936,876	4,139,810	4,242,214
Total deposits	$17,082,418	$16,281,844	$15,556,376
Mix:			
Non-interest bearing	23 %	22 %	20 %
NOW and interest bearing demand deposits	13	14	13
Wealth management deposits	9	8	8
Money market	23	22	23
Savings	9	9	9
Time certificates of deposit	23	25	27
Total deposits	100 %	100 %	100 %

Wealth management deposits represent deposit balances (primarily money market accounts) at the Company’s subsidiary banks from brokerage customers of Wayne Hummer Investments, trust and asset management customers of CTC and brokerage customers from unaffiliated companies.

(10) Federal Home Loan Bank Advances, Other Borrowings and Subordinated Notes

The following table is a summary of notes payable, Federal Home Loan Bank advances, other borrowings and subordinated notes as of the dates shown:

(Dollars in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Federal Home Loan Bank advances	$444,017	$733,050	$580,582
Other borrowings:			
Notes payable	75,000	—	—
Securities sold under repurchase agreements	48,295	48,566	24,633
Other	18,556	18,822	19,083
Secured borrowings	120,057	129,077	—
Total other borrowings	261,908	196,465	43,716
Subordinated notes	140,000	140,000	140,000
Total Federal Home Loan Bank advances, other borrowings and subordinated notes	$845,925	$1,069,515	$764,298

Federal Home Loan Bank Advances

Federal Home Loan Bank advances consist of obligations of the banks and are collateralized by qualifying residential real estate and home equity loans and certain securities. FHLB advances are stated at par value of the debt adjusted for unamortized fair value adjustments recorded in connection with advances acquired through acquisitions.

Notes Payable

At June 30, 2015, notes payable represented a $75.0 million term facility ("Term Facility"), which is part of a $150.0 million loan agreement with unaffiliated banks dated December 15, 2014. The agreement consists of the Term Facility and a $75.0 million revolving credit facility ("Revolving Credit Facility"). At June 30, 2015, the Company had an outstanding balance of $75.0 million compared to no outstanding balance at December 31, 2014 under the Term Facility. The Company was required to borrow the

31

Table of Contents

entire amount of the Term Facility on June 15, 2015 and all such borrowings must be repaid by June 15, 2020. Beginning September 30, 2015, the Company will be required to make straight-line quarterly amortizing payments on the Term Facility. At June 30, 2015 and December 31, 2014, the Company had no outstanding balance under the Revolving Credit Facility. All borrowings under the Revolving Credit Facility must be repaid by December 14, 2015. Borrowings under the agreement that are considered “Base Rate Loans” bear interest at a rate equal to the sum of (1) 50 basis points (in the case of a borrowing under the Revolving Credit Facility) or 75 basis points (in the case of a borrowing under the Term Facility) plus (2) the highest of (a) the federal funds rate plus 50 basis points, (b) the lender's prime rate, and (c) the Eurodollar Rate (as defined below) that would be applicable for an interest period of one month plus 100 basis points. Borrowings under the agreement that are considered “Eurodollar Rate Loans” bear interest at a rate equal to the sum of (1) 150 basis points (in the case of a borrowing under the Revolving Credit Facility) or 175 basis points (in the case of a borrowing under the Term Facility) plus (2) the LIBOR rate for the applicable period, as adjusted for statutory reserve requirements for eurocurrency liabilities (the “Eurodollar Rate”). A commitment fee is payable quarterly equal to 0.20% of the actual daily amount by which the lenders' commitment under the Revolving Credit Facility exceeded the amount outstanding under such facility.

In prior periods, the Company has had a $101.0 million loan agreement with unaffiliated banks dated as of October 30, 2009, which had been amended at least annually between 2009 and 2014. The agreement consisted of a $100.0 million revolving credit facility, maturing on October 25, 2013, and a $1.0 million term loan maturing on June 1, 2015. In 2013, the Company repaid and terminated the $1.0 million term loan, and amended the agreement, effectively extending the maturity date on the revolving credit facility from October 25, 2013 to November 6, 2014. The agreement was also amended in 2014 effectively extending the term to December 15, 2014 at which time the agreement matured. At June 30, 2014, no amount was outstanding on the $100.0 million revolving credit facility.

Borrowings under the agreements are secured by pledges of and first priority perfected security interests in the Company's equity interest in its bank subsidiaries and contain several restrictive covenants, including the maintenance of various capital adequacy levels, asset quality and profitability ratios, and certain restrictions on dividends and other indebtedness. At June 30, 2015, the Company was in compliance with all such covenants. The Revolving Credit Facility and the Term Facility are available to be utilized, as needed, to provide capital to fund continued growth at the Company’s banks and to serve as an interim source of funds for acquisitions, common stock repurchases or other general corporate purposes.

Securities Sold Under Repurchase Agreements

At June 30, 2015, December 31, 2014 and June 30, 2014, securities sold under repurchase agreements represent $48.3 million, $48.6 million and $24.6 million, respectively, of customer sweep accounts in connection with master repurchase agreements at the banks. The Company records securities sold under repurchase agreements at their gross value and does not offset positions on the Consolidated Statements of Condition. As of June 30, 2015, the Company had pledged securities related to its customer balances in sweep accounts of $76.6 million. Securities pledged for customer balances in sweep accounts and short-term borrowings from brokers are maintained under the Company’s control and consist of U.S. Government agency, mortgage-backed and corporate securities. These securities are included in the available-for-sale securities portfolio as reflected on the Company’s Consolidated Statements of Condition. The following is a summary of these securities pledged disaggregated by investment category and maturity, and reconciled to the outstanding balance of securities sold under repurchase agreements:

As of June 30, 2015

(Dollars in thousands)	Overnight Sweep Collateral
U.S. Treasury	$12,625
U.S. Government agencies	23,084
Municipal	7,518
Corporate notes:	

Financial issuers	17,932
Mortgage-backed: [1]	
Mortgage-backed securities	15,487
Equity securities	—
Total collateral pledged	$76,646
Excess collateral	28,351
Repurchase Agreements	$48,295

32

Table of Contents

Other Borrowings

Other borrowings at June 30, 2015 represent a fixed-rate promissory note issued by the Company in August 2012 ("Fixed-Rate Promissory Note") related to and secured by an office building owned by the Company. At June 30, 2015, the Fixed-Rate Promissory Note had an outstanding balance of $18.6 million compared to an outstanding balance of $18.8 million and $19.1 million at December 31, 2014 and June 30, 2014, respectively. Under the Fixed-Rate Promissory Note, the Company will make monthly principal payments and pay interest at a fixed rate of 3.75% until maturity on September 1, 2017.

Secured Borrowings

In December 2014, the Company, through its subsidiary, FIFC Canada, sold an undivided co-ownership interest in all receivables owed to FIFC Canada to an unrelated third party in exchange for a cash payment of approximately C$150 million pursuant to a receivables purchase agreement (“Receivables Purchase Agreement”). The proceeds received from the transaction are reflected on the Company’s Consolidated Statements of Condition as a secured borrowing owed to the unrelated third party and translated to the Company’s reporting currency as of the respective date. At June 30, 2015 the translated balance of the secured borrowing under the Receivable Purchase Agreement totaled $120.1 million compared to $129.1 million at December 31, 2014. Additionally, the interest rate under the Receivables Purchase Agreement at June 30, 2015 was 1.4928%.

Subordinated Notes

At June 30, 2015, December 31, 2014 and June 30, 2014, the Company had outstanding subordinated notes totaling $140.0 million. In the second quarter of 2014, the Company issued $140.0 million of subordinated notes receiving $139.1 million in net proceeds. The notes have a stated interest rate of 5.00% and mature in June 2024.

(11) Junior Subordinated Debentures

As of June 30, 2015, the Company owned 100% of the common securities of nine trusts, Wintrust Capital Trust III, Wintrust Statutory Trust IV, Wintrust Statutory Trust V, Wintrust Capital Trust VII, Wintrust Capital Trust VIII, Wintrust Capital Trust IX, Northview Capital Trust I, Town Bankshares Capital Trust I, and First Northwest Capital Trust I (the “Trusts”) set up to provide long-term financing. The Northview, Town and First Northwest capital trusts were acquired as part of the acquisitions of Northview Financial Corporation, Town Bankshares, Ltd., and First Northwest Bancorp, Inc., respectively. The Trusts were formed for purposes of issuing trust preferred securities to third-party investors and investing the proceeds from the issuance of the trust preferred securities and common securities solely in junior subordinated debentures issued by the Company (or assumed by the Company in connection with an acquisition), with the same maturities and interest rates as the trust preferred securities. The junior subordinated debentures are the sole assets of the Trusts. In each Trust, the common securities represent approximately 3% of the junior subordinated debentures and the trust preferred securities represent approximately 97% of the junior subordinated debentures.

The Trusts are reported in the Company’s consolidated financial statements as unconsolidated subsidiaries. Accordingly, in the Consolidated Statements of Condition, the junior subordinated debentures issued by the Company to the Trusts are reported as liabilities and the common securities of the Trusts, all of which are owned by the Company, are included in available-for-sale securities.

The following table provides a summary of the Company’s junior subordinated debentures as of June 30, 2015. The junior subordinated debentures represent the par value of the obligations owed to the Trusts.

(Dollars in thousands)	Common Securities	Trust Preferred Securities	Junior Subordinated Debentures	Rate Structure	Contractual rate at 6/30/2015		Issue Date	Maturity Date	Earliest Redemption Date
Wintrust Capital Trust III	$ 774	$ 25,000	$ 25,774	L+3.25	3.53	%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	619	20,000	20,619	L+2.80	3.08	%	12/2003	12/2033	12/2008
	1,238	40,000	41,238	L+2.60	2.88	%	05/2004	05/2034	06/2009

Wintrust Statutory Trust V									
Wintrust Capital Trust VII	1,550	50,000	51,550	L+1.95	2.24	%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	1,238	40,000	41,238	L+1.45	1.73	%	08/2005	09/2035	09/2010
Wintrust Capital Trust IX	1,547	50,000	51,547	L+1.63	1.92	%	09/2006	09/2036	09/2011
Northview Capital Trust I	186	6,000	6,186	L+3.00	3.28	%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	186	6,000	6,186	L+3.00	3.28	%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	155	5,000	5,155	L+3.00	3.28	%	05/2004	05/2034	05/2009
Total			$ 249,493		2.47	%			

33

The junior subordinated debentures totaled $249.5 million at June 30, 2015, December 31, 2014 and June 30, 2014. The interest rates on the variable rate junior subordinated debentures are based on the three-month LIBOR rate and reset on a quarterly basis. At June 30, 2015, the weighted average contractual interest rate on the junior subordinated debentures was 2.47%. The Company entered into interest rate swaps and caps with an aggregate notional value of $225 million to hedge the variable cash flows on certain junior subordinated debentures. The hedge-adjusted rate on the junior subordinated debentures as of June 30, 2015, was 3.28%. Distributions on the common and preferred securities issued by the Trusts are payable quarterly at a rate per annum equal to the interest rates being earned by the Trusts on the junior subordinated debentures. Interest expense on the junior subordinated debentures is deductible for income tax purposes.

The Company has guaranteed the payment of distributions and payments upon liquidation or redemption of the trust preferred securities, in each case to the extent of funds held by the Trusts. The Company and the Trusts believe that, taken together, the obligations of the Company under the guarantees, the junior subordinated debentures, and other related agreements provide, in the aggregate, a full, irrevocable and unconditional guarantee, on a subordinated basis, of all of the obligations of the Trusts under the trust preferred securities. Subject to certain limitations, the Company has the right to defer the payment of interest on the junior subordinated debentures at any time, or from time to time, for a period not to exceed 20 consecutive quarters. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at maturity or their earlier redemption. The junior subordinated debentures are redeemable in whole or in part prior to maturity at any time after the earliest redemption dates shown in the table, and earlier at the discretion of the Company if certain conditions are met, and, in any event, only after the Company has obtained Federal Reserve approval, if then required under applicable guidelines or regulations.

Prior to January 1, 2015, the junior subordinated debentures, subject to certain limitations, qualified as Tier 1 regulatory capital of the Company and the amount in excess of those certain limitations could, subject to other restrictions, be included in Tier 2 capital. At December 31, 2014 and June 30, 2014, all of the junior subordinated debentures, net of the common securities, were included in the Company's Tier 1 regulatory capital. Starting in 2015, a portion of these junior subordinated debentures still qualified as Tier 1 regulatory capital of the Company and the amount in excess of those certain limitations, subject to certain restrictions, was included in Tier 2 capital. At June 30, 2015, $60.5 million and $181.5 million of the junior subordinated debentures, net of common securities, were included in the Company's Tier 1 and Tier 2 regulatory capital, respectively.

(12) Segment Information

The Company’s operations consist of three primary segments: community banking, specialty finance and wealth management.

The three reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. In addition, each segment’s customer base has varying characteristics and each segment has a different regulatory environment. While the Company’s management monitors each of the fifteen bank subsidiaries’ operations and profitability separately, these subsidiaries have been aggregated into one reportable operating segment due to the similarities in products and services, customer base, operations, profitability measures, and economic characteristics.

For purposes of internal segment profitability, management allocates certain intersegment and parent company balances. Management allocates a portion of revenues to the specialty finance segment related to loans originated by the specialty finance segment and sold to the community banking segment. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates a portion of the net interest income earned by the community banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. See Note 9 — Deposits, for more information on these deposits. Finally, expenses incurred at the Wintrust parent company are allocated to each segment based on each segment's risk-weighted assets.

The segment financial information provided in the following tables has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the segments are substantially similar to as those described in “Summary of Significant

Accounting Policies" in Note 1 of the Company's 2014 Form 10-K. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment.

34

Table of Contents

The following is a summary of certain operating information for reportable segments:

(Dollars in thousands)	Three months ended June 30, 2015	June 30, 2014	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	$126,964	$121,228	$5,736	5 %
Specialty Finance	21,338	19,792	1,546	8
Wealth Management	4,280	4,006	274	7
Total Operating Segments	152,582	145,026	7,556	5
Intersegment Eliminations	4,310	4,154	156	4
Consolidated net interest income	$156,892	$149,180	$7,712	5 %
Non-interest income:				
Community Banking	$56,253	$33,337	$22,916	69 %
Specialty Finance	9,135	8,455	680	8
Wealth Management	19,013	19,235	(222)	(1)
Total Operating Segments	84,401	61,027	23,374	38
Intersegment Eliminations	(7,388)	(6,925)	(463)	(7)
Consolidated non-interest income	$77,013	$54,102	$22,911	42 %
Net revenue:				
Community Banking	$183,217	$154,565	$28,652	19 %
Specialty Finance	30,473	28,247	2,226	8
Wealth Management	23,293	23,241	52	—
Total Operating Segments	236,983	206,053	30,930	15
Intersegment Eliminations	(3,078)	(2,771)	(307)	(11)
Consolidated net revenue	$233,905	$203,282	$30,623	15 %
Segment profit:				
Community Banking	$29,133	$24,628	$4,505	18 %
Specialty Finance	11,378	10,302	1,076	10
Wealth Management	3,320	3,611	(291)	(8)
Consolidated net income	$43,831	$38,541	$5,290	14 %
Segment assets:				
Community Banking	$17,321,956	$15,669,443	$1,652,513	11 %
Specialty Finance	2,931,975	2,703,761	228,214	8
Wealth Management	545,993	522,477	23,516	5
Consolidated total assets	$20,799,924	$18,895,681	$1,904,243	10 %

Table of Contents

(Dollars in thousands)	Six months ended June 30, 2015	June 30, 2014	$ Change in Contribution	% Change in Contribution
Net interest income:				
Community Banking	$249,645	$237,983	$11,662	5 %
Specialty Finance	42,384	39,004	3,380	9
Wealth Management	8,469	8,105	364	4
Total Operating Segments	300,498	285,092	15,406	5
Intersegment Eliminations	8,285	8,094	191	2
Consolidated net interest income	$308,783	$293,186	$15,597	5 %
Non-interest income:				
Community Banking	$101,165	$60,656	$40,509	67 %
Specialty Finance	17,006	16,336	670	4
Wealth Management	37,741	36,176	1,565	4
Total Operating Segments	155,912	113,168	42,744	38
Intersegment Eliminations	(14,358)	(13,537)	(821)	(6)
Consolidated non-interest income	$141,554	$99,631	$41,923	42 %
Net revenue:				
Community Banking	$350,810	$298,639	$52,171	17 %
Specialty Finance	59,390	55,340	4,050	7
Wealth Management	46,210	44,281	1,929	4
Total Operating Segments	456,410	398,260	58,150	15
Intersegment Eliminations	(6,073)	(5,443)	(630)	(12)
Consolidated net revenue	$450,337	$392,817	$57,520	15 %
Segment profit:				
Community Banking	$54,098	$47,209	$6,889	15 %
Specialty Finance	22,330	19,284	3,046	16
Wealth Management	6,455	6,548	(93)	(1)
Consolidated net income	$82,883	$73,041	$9,842	13 %

36

Table of Contents

(13) Derivative Financial Instruments

The Company primarily enters into derivative financial instruments as part of its strategy to manage its exposure to changes in interest rates. Derivative instruments represent contracts between parties that result in one party delivering cash to the other party based on a notional amount and an underlying term (such as a rate, security price or price index) specified in the contract. The amount of cash delivered from one party to the other is determined based on the interaction of the notional amount of the contract with the underlying term. Derivatives are also implicit in certain contracts and commitments.

The derivative financial instruments currently used by the Company to manage its exposure to interest rate risk include: (1) interest rate swaps and caps to manage the interest rate risk of certain fixed and variable rate assets and variable rate liabilities; (2) interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market; (3) forward commitments for the future delivery of such mortgage loans to protect the Company from adverse changes in interest rates and corresponding changes in the value of mortgage loans held-for-sale; and (4) covered call options to economically hedge specific investment securities and receive fee income effectively enhancing the overall yield on such securities to compensate for net interest margin compression. The Company also enters into derivatives (typically interest rate swaps) with certain qualified borrowers to facilitate the borrowers' risk management strategies and concurrently enters into mirror-image derivatives with a third party counterparty, effectively making a market in the derivatives for such borrowers. Additionally, the Company enters into foreign currency contracts to manage foreign exchange risk associated with certain foreign currency denominated assets.

The Company has purchased interest rate cap derivatives to hedge or manage its own risk exposures. Certain interest rate cap derivatives have been designated as cash flow hedge derivatives of the variable cash outflows associated with interest expense on the Company's junior subordinated debentures and certain deposits. Other cap derivatives are not designated for hedge accounting but are economic hedges of the Company's overall portfolio, therefore any mark to market changes in the value of these caps are recognized in earnings.

Below is a summary of the interest rate cap derivatives held by the Company as of June 30, 2015:

(Dollars in thousands)

Effective Date	Maturity Date	Notional Amount	Accounting Treatment	Fair Value as of June 30, 2015
May 3, 2012	May 3, 2016	215,000	Non-Hedge Designated	2
August 29, 2012	August 29, 2016	216,500	Cash Flow Hedging	34
February 22, 2013	August 22, 2016	43,500	Cash Flow Hedging	11
February 22, 2013	August 22, 2016	56,500	Non-Hedge Designated	14
March 21, 2013	March 21, 2017	100,000	Non-Hedge Designated	199
May 16, 2013	November 16, 2016	75,000	Non-Hedge Designated	53
September 15, 2013	September 15, 2017	50,000	Cash Flow Hedging	253
September 30, 2013	September 30, 2017	40,000	Cash Flow Hedging	216
		$796,500		$782

The Company recognizes derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. The Company records derivative assets and derivative liabilities on the Consolidated Statements of Condition within accrued interest receivable and other assets and accrued interest payable and other liabilities, respectively. Changes in the fair value of derivative financial instruments are either recognized in income or in shareholders' equity as a component of other comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting and, if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income in the same period and in the same income statement line as changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivative financial instruments accounted for as cash flow hedges, to the extent they are effective hedges, are recorded as a component of other comprehensive income, net of deferred taxes, and reclassified to earnings when the hedged transaction affects earnings. Changes in fair values of derivative financial instruments not designated in a hedging relationship pursuant to ASC 815, including

changes in fair value related to the ineffective portion of cash flow hedges, are reported in non-interest income during the period of the change. Derivative financial instruments are valued by a third party and are corroborated through comparison with valuations provided by the respective counterparties. Fair values of certain mortgage banking derivatives (interest rate lock commitments and forward commitments to sell mortgage loans) are estimated based on changes in mortgage interest rates from the date of the loan commitment. The fair value of foreign currency derivatives is computed based on changes in foreign currency rates stated in the contract compared to those prevailing at the measurement date.

37

Table of Contents

The table below presents the fair value of the Company's derivative financial instruments as of June 30, 2015, December 31, 2014 and June 30, 2014:

(Dollars in thousands)	Derivative Assets Fair Value			Derivative Liabilities Fair Value		
	June 30, 2015	December 31, 2014	June 30, 2014	June 30, 2015	December 31, 2014	June 30, 2014
Derivatives designated as hedging instruments under ASC 815:						
Interest rate derivatives designated as Cash Flow Hedges	$514	$1,390	$1,663	$1,573	$1,994	$2,727
Interest rate derivatives designated as Fair Value Hedges	39	52	65	—	—	3
Total derivatives designated as hedging instruments under ASC 815	$553	$1,442	$1,728	$1,573	$1,994	$2,730
Derivatives not designated as hedging instruments under ASC 815:						
Interest rate derivatives	$36,194	$36,399	$35,733	$35,032	$34,927	$34,003
Interest rate lock commitments	11,990	10,028	13,479	—	20	9
Forward commitments to sell mortgage loans	—	23	27	3,805	4,239	6,901
Foreign exchange contracts	181	72	—	89	—	7
Total derivatives not designated as hedging instruments under ASC 815	$48,365	$46,522	$49,239	$38,926	$39,186	$40,920
Total Derivatives	$48,918	$47,964	$50,967	$40,499	$41,180	$43,650

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to net interest income and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps and interest rate caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of payments at the end of each period in which the interest rate specified in the contract exceeds the agreed upon strike price.

During the first quarter of 2014, the Company designated two existing interest rate cap derivatives as cash flow hedges of variable rate deposits. The cap derivatives had notional amounts of $216.5 million and $43.5 million, respectively, both maturing in August 2016. Additionally, as of June 30, 2015, the Company had two interest rate swaps and two interest rate caps designated as hedges of the variable cash outflows associated with interest expense on the Company's junior subordinated debentures. The effective portion of changes in the fair value of these cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified to interest expense as interest payments are made on the Company's variable rate junior subordinated debentures. The changes in fair value (net of tax) are separately disclosed in the Consolidated Statements of Comprehensive Income. The ineffective portion of the change in fair value of these derivatives is recognized directly in earnings; however, no hedge ineffectiveness was recognized during the six months ended June 30, 2015 or June 30, 2014. The Company uses the hypothetical derivative method to assess and measure hedge effectiveness.

Table of Contents

The table below provides details on each of these cash flow hedges as of June 30, 2015:

(Dollars in thousands) Maturity Date	June 30, 2015 Notional Amount	Fair Value Asset (Liability)
Interest Rate Swaps:		
September 2016	50,000	(1,027)
October 2016	25,000	(546)
Total Interest Rate Swaps	75,000	(1,573)
Interest Rate Caps:		
August 2016	43,500	11
August 2016	216,500	34
September 2017	50,000	253
September 2017	40,000	216
Total Interest Rate Caps	350,000	514
Total Cash Flow Hedges	$425,000	$(1,059)

A rollforward of the amounts in accumulated other comprehensive loss related to interest rate derivatives designated as cash flow hedges follows:

(Dollars in thousands)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Unrealized loss at beginning of period	$(4,623)	$(4,069)	$(4,062)	$(3,971)
Amount reclassified from accumulated other comprehensive loss to interest expense on junior subordinated debentures	475	521	889	1,014
Amount of loss recognized in other comprehensive income	(260)	(1,147)	(1,235)	(1,738)
Unrealized loss at end of period	$(4,408)	$(4,695)	$(4,408)	$(4,695)

As of June 30, 2015, the Company estimates that during the next twelve months, $2.8 million will be reclassified from accumulated other comprehensive loss as an increase to interest expense.

Fair Value Hedges of Interest Rate Risk

Interest rate swaps designated as fair value hedges involve the payment of fixed amounts to a counterparty in exchange for the Company receiving variable payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2015, the Company has three interest rate swaps with an aggregate notional amount of $4.5 million that were designated as fair value hedges associated with fixed rate commercial franchise loans.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged item in the same line item as the offsetting loss or gain on the related derivatives. The Company recognized a net gain of $2,000 and a net loss of $1,000 in other income related to hedge ineffectiveness for the three months ended June 30, 2015 and 2014, respectively and a net loss of $2,000 and $3,000 for the respective year-to-date periods.

On June 1, 2013, the Company de-designated a $96.5 million cap which was previously designated as a fair value hedge of interest rate risk associated with an embedded cap in one of the Company's floating rate loans. The hedged loan was restructured which resulted in the interest rate cap no longer qualifying as an effective fair value hedge. As such, the interest rate cap derivative is no longer accounted for under hedge accounting and all changes in value subsequent to June 1, 2013 are recorded in earnings. Additionally, the Company has recorded amortization of the basis in the previously hedged item as a reduction to interest income of $43,000 and $86,000 in the three month and six month periods ended June 30, 2015 and 2014, respectively.

39

Table of Contents

The following table presents the gain/(loss) and hedge ineffectiveness recognized on derivative instruments and the related hedged items that are designated as a fair value hedge accounting relationship as of June 30, 2015 and 2014:

(Dollars in thousands)		Amount of Gain/(Loss) Recognized in Income on Derivative Three Months Ended		Amount of (Loss)/Gain Recognized in Income on Hedged Item Three Months Ended		Income Statement Gain/(Loss) due to Hedge Ineffectiveness Three Months Ended	
Derivatives in Fair Value Hedging Relationships	Location of Gain/(Loss) Recognized in Income on Derivative	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest rate swaps	Trading gains (losses), net	$ 17	$ (26)	$ (15)	$ 25	$2	$(1)

(Dollars in thousands)		Amount of Losses Recognized in Income on Derivative Six Months Ended		Amount of Gains Recognized in Income on Hedged Item Six Months Ended		Income Statement Losses due to Hedge Ineffectiveness Six Months Ended	
Derivatives in Fair Value Hedging Relationships	Location of Gain/(Loss) Recognized in Income on Derivative	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest rate swaps	Trading (losses) gains, net	$(15)	$(43)	$ 13	$ 40	$(2)	$(3)

Non-Designated Hedges

The Company does not use derivatives for speculative purposes. Derivatives not designated as hedges are used to manage the Company’s exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of ASC 815. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

Interest Rate Derivatives—The Company has interest rate derivatives, including swaps and option products, resulting from a service the Company provides to certain qualified borrowers. The Company’s banking subsidiaries execute certain derivative products (typically interest rate swaps) directly with qualified commercial borrowers to facilitate their respective risk management strategies. For example, these arrangements allow the Company’s commercial borrowers to effectively convert a variable rate loan to a fixed rate. In order to minimize the Company’s exposure on these transactions, the Company simultaneously executes offsetting derivatives with third parties. In most cases, the offsetting derivatives have mirror-image terms, which result in the positions’ changes in fair value substantially offsetting through earnings each period. However, to the extent that the derivatives are not a mirror-image and because of differences in counterparty credit risk, changes in fair value will not completely offset resulting in some earnings impact each period. Changes in the fair value of these derivatives are included in non-interest income. At June 30, 2015, the Company had interest rate derivative transactions with an aggregate notional amount of approximately $3.2 billion (all interest rate swaps and caps with customers and third parties) related to this program. These interest rate derivatives had maturity dates ranging from July 2015 to February 2045.

Mortgage Banking Derivatives—These derivatives include interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. It is the Company’s practice to enter into forward commitments for the future delivery of a portion of our residential mortgage loan production when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on its commitments to fund the loans as well as on its portfolio of

mortgage loans held-for-sale. The Company's mortgage banking derivatives have not been designated as being in hedge relationships. At June 30, 2015, the Company had forward commitments to sell mortgage loans with an aggregate notional amount of approximately $902.9 million and interest rate lock commitments with an aggregate notional amount of approximately $531.5 million. Additionally, the Company's total mortgage loans held-for-sale at June 30, 2015 was $497.3 million. The fair values of these derivatives were estimated based on changes in mortgage rates from the dates of the commitments. Changes in the fair value of these mortgage banking derivatives are included in mortgage banking revenue.

Foreign Currency Derivatives—These derivatives include foreign currency contracts used to manage the foreign exchange risk associated with foreign currency denominated assets and transactions. Foreign currency contracts, which include spot and forward contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date. As a result of fluctuations in foreign currencies, the U.S. dollar-equivalent value of the foreign currency denominated assets or forecasted transactions increase or decrease. Gains or losses on the derivative instruments related to these foreign currency denominated assets or forecasted transactions are expected to substantially offset this variability. As of June 30, 2015 the Company held foreign currency derivatives with an aggregate notional amount of approximately $14.0 million.

Table of Contents

Other Derivatives—Periodically, the Company will sell options to a bank or dealer for the right to purchase certain securities held within the banks' investment portfolios (covered call options). These option transactions are designed primarily to mitigate overall interest rate risk and to increase the total return associated with the investment securities portfolio. These options do not qualify as hedges pursuant to ASC 815, and, accordingly, changes in fair value of these contracts are recognized in non-interest income. There were no covered call options outstanding as of June 30, 2015, December 31, 2014 or June 30, 2014.
As discussed above, the Company has entered into interest rate cap derivatives to protect the Company in a rising rate environment against increased margin compression due to the repricing of variable rate liabilities and lack of repricing of fixed rate loans and/or securities. As of June 30, 2015, the Company held four interest rate cap derivative contracts, which are not designated in hedge relationships, with an aggregate notional value of $446.5 million.
Amounts included in the Consolidated Statements of Income related to derivative instruments not designated in hedge relationships were as follows:

(Dollars in thousands)		Three Months Ended		Six Months Ended	
Derivative	Location in income statement	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest rate swaps and caps	Trading gains (losses), net	$133	$(737)	$(317)	$(1,414)
Mortgage banking derivatives	Mortgage banking revenue	299	(4,885)	2,393	(1,208)
Covered call options	Fees from covered call options	4,565	1,244	8,925	2,786
Foreign exchange contracts	Trading gains (losses), net	71	(10)	20	(11)

Credit Risk
Derivative instruments have inherent risks, primarily market risk and credit risk. Market risk is associated with changes in interest rates and credit risk relates to the risk that the counterparty will fail to perform according to the terms of the agreement. The amounts potentially subject to market and credit risks are the streams of interest payments under the contracts and the market value of the derivative instrument and not the notional principal amounts used to express the volume of the transactions. Market and credit risks are managed and monitored as part of the Company's overall asset-liability management process, except that the credit risk related to derivatives entered into with certain qualified borrowers is managed through the Company's standard loan underwriting process since these derivatives are secured through collateral provided by the loan agreements. Actual exposures are monitored against various types of credit limits established to contain risk within parameters. When deemed necessary, appropriate types and amounts of collateral are obtained to minimize credit exposure.

The Company has agreements with certain of its interest rate derivative counterparties that contain cross-default provisions, which provide that if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. The Company also has agreements with certain of its derivative counterparties that contain a provision allowing the counterparty to terminate the derivative positions if the Company fails to maintain its status as a well or adequately capitalized institution, which would require the Company to settle its obligations under the agreements. As of June 30, 2015 the fair value of interest rate derivatives in a net liability position that were subject to such agreements, which includes accrued interest related to these agreements, was $35.4 million. If the Company had breached any of these provisions at June 30, 2015 it would have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

The Company's is also exposed to the credit risk of its commercial borrowers who are counterparties to interest rate derivatives with the banks. This counterparty risk related to the commercial borrowers is managed and monitored through the banks' standard underwriting process applicable to loans since these derivatives are secured through collateral provided by the loan agreement. The counterparty risk associated with the mirror-image swaps executed with third parties is monitored and managed in connection with the Company's overall asset liability management process.

The Company records interest rate derivatives subject to master netting agreements at their gross value and does not offset derivative assets and liabilities on the Consolidated Statements of Condition. The tables below summarize the Company's interest rate derivatives and offsetting positions as of the dates shown.

	Derivative Assets Fair Value			Derivative Liabilities Fair Value		
(Dollars in thousands)	June 30, 2015	December 31, 2014	June 30, 2014	June 30, 2015	December 31, 2014	June 30, 2014
Gross Amounts Recognized	$36,747	$37,841	$37,461	$36,605	$36,921	$36,733
Less: Amounts offset in the Statements of Financial Condition	—	—	—	—	—	—
Net amount presented in the Statements of Financial Condition	$36,747	$37,841	$37,461	$36,605	$36,921	$36,733
Gross amounts not offset in the Statements of Financial Condition						
Offsetting Derivative Positions	(1,896)	(2,771)	(3,738)	(1,896)	(2,771)	(3,738)
Collateral Posted [1]	—	—	—	(34,709)	(34,150)	(26,354)
Net Credit Exposure	$34,851	$35,070	$33,723	$—	$—	$6,641

(1) As of June 30, 2015 and December 31, 2014, the Company posted collateral of $36.0 million and $43.8 million, respectively, which resulted in excess collateral with its counterparties. For purposes of this disclosure, the amount of posted collateral is limited to the amount offsetting the derivative liability.

(14) Fair Values of Assets and Liabilities

The Company measures, monitors and discloses certain of its assets and liabilities on a fair value basis. These financial assets and financial liabilities are measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the assumptions used to determine fair value. These levels are:

- Level 1—unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2—inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3—significant unobservable inputs that reflect the Company's own assumptions that market participants would use in pricing the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the above valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities.

Following is a description of the valuation methodologies used for the Company's assets and liabilities measured at fair value on a recurring basis.

Available-for-sale and trading account securities—Fair values for available-for-sale and trading securities are typically based on prices obtained from independent pricing vendors. Securities measured with these valuation techniques are generally classified as Level 2 of the fair value hierarchy. Typically, standard inputs such as benchmark yields, reported trades for similar securities, issuer spreads, benchmark securities, bids, offers and reference data including market research publications are used to fair value a security. When these inputs are not available, broker/dealer quotes may be obtained by the vendor to determine the fair value of the security. We review the vendor's pricing

methodologies to determine if observable market information is being used, versus unobservable inputs. Fair value measurements using significant inputs that are unobservable in the market due to limited activity or a less liquid market are classified as Level 3 in the fair value hierarchy.

The Company's Investment Operations Department is responsible for the valuation of Level 3 available-for-sale securities. The methodology and variables used as inputs in pricing Level 3 securities are derived from a combination of observable and unobservable inputs. The unobservable inputs are determined through internal assumptions that may vary from period to period due to external factors, such as market movement and credit rating adjustments.

At June 30, 2015, the Company classified $58.6 million of municipal securities as Level 3. These municipal securities are bond issues for various municipal government entities primarily located in the Chicago metropolitan area and southern Wisconsin and are privately placed, non-rated bonds without CUSIP numbers. The Company's methodology for pricing the non-rated bonds focuses on three distinct inputs: equivalent rating, yield and other pricing terms. To determine the rating for a given non-rated municipal bond, the Investment Operations Department references a publicly issued bond by the same issuer if available. A reduction is then applied to the rating obtained from the comparable bond, as the Company believes if liquidated, a non-rated bond would be valued less than a similar bond with a verifiable rating. The reduction applied by the Company is one complete rating grade (i.e. a "AA" rating for a comparable bond would be reduced to "A" for the Company's valuation). In the second quarter of 2015, all of the ratings derived in the above process by Investment Operations were BBB or better, for both bonds with and without comparable bond proxies. The fair value measurement of municipal bonds is sensitive to the rating input, as a higher rating typically results in an increased valuation. The remaining pricing inputs used in the bond valuation are observable. Based on the rating determined in the above process, Investment Operations obtains a corresponding current market yield curve available to market participants. Other terms including coupon, maturity date, redemption price, number of coupon payments per year, and accrual method are obtained from the individual bond term sheets. Certain municipal bonds held by the Company at June 30, 2015 have a call date that has passed, and are now continuously callable. When valuing these bonds, the fair value is capped at par value as the Company assumes a market participant would not pay more than par for a continuously callable bond.

At June 30, 2015, the Company held $25.0 million of equity securities classified as Level 3. The securities in Level 3 are primarily comprised of auction rate preferred securities. The Company utilizes an independent pricing vendor to provide a fair market valuation of these securities. The vendor's valuation methodology includes modeling the contractual cash flows of the underlying preferred securities and applying a discount to these cash flows by a credit spread derived from the market price of the securities underlying debt. At June 30, 2015, the vendor considered five different securities whose implied credit spreads were believed to provide a proxy for the Company's auction rate preferred securities. The credit spreads ranged from 1.77%-2.02% with an average of 1.86% which was added to three-month LIBOR to be used as the discount rate input to the vendor's model. Fair value of the securities is sensitive to the discount rate utilized as a higher discount rate results in a decreased fair value measurement.

Mortgage loans held-for-sale—The fair value of mortgage loans held-for-sale is determined by reference to investor price sheets for loan products with similar characteristics.

Mortgage servicing rights—Fair value for mortgage servicing rights is determined utilizing a third party valuation model which stratifies the servicing rights into pools based on product type and interest rate. The fair value of each servicing rights pool is calculated based on the present value of estimated future cash flows using a discount rate commensurate with the risk associated with that pool, given current market conditions. At June 30, 2015, the Company classified $8.0 million of mortgage servicing rights as Level 3. The weighted average discount rate used as an input to value the pool of mortgage servicing rights at June 30, 2015 was 9.15% with discount rates applied ranging from 9%-13%. The higher the rate utilized to discount estimated future cash flows, the lower the fair value measurement. Additionally, fair value estimates include assumptions about prepayment speeds which ranged from 10%-25% or a weighted average prepayment speed of 11.83% used as an input to value the pool of mortgage servicing rights at June 30, 2015. Prepayment speeds are inversely related to the fair value of mortgage servicing rights as an increase in prepayment speeds results in a decreased valuation.

Derivative instruments—The Company's derivative instruments include interest rate swaps and caps, commitments to fund mortgages for sale into the secondary market (interest rate locks), forward commitments to end investors for the sale of mortgage loans and foreign currency contracts. Interest rate swaps and caps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are corroborated by comparison with valuations provided by the respective counterparties. The credit risk associated with derivative financial instruments that are subject to master netting agreements is measured on a net basis by counterparty portfolio. The fair value for mortgage-related derivatives is based on changes in mortgage rates from the date of the commitments. The fair value of foreign currency derivatives is computed based on change in foreign currency rates stated in the contract compared to those prevailing at the measurement date.

Nonqualified deferred compensation assets—The underlying assets relating to the nonqualified deferred compensation plan are included in a trust and primarily consist of non-exchange traded institutional funds which are priced based by an independent third party service.

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis for the periods presented:

	June 30, 2015			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$281,161	$—	$281,161	$—
U.S. Government agencies	628,660	—	628,660	—
Municipal	269,790	—	211,218	58,572
Corporate notes	128,141	—	128,141	—
Mortgage-backed	800,101	—	800,101	—
Equity securities	54,208	—	29,212	24,996
Trading account securities	1,597	—	1,597	—
Mortgage loans held-for-sale	497,283	—	497,283	—
Mortgage servicing rights	8,034	—	—	8,034
Nonqualified deferred compensation assets	8,778	—	8,778	—
Derivative assets	48,918	—	48,918	—
Total	$2,726,671	$—	$2,635,069	$91,602
Derivative liabilities	$40,500	$—	$40,500	$—

	December 31, 2014			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$381,805	$—	$381,805	$—
U.S. Government agencies	668,316	—	668,316	—
Municipal	238,529	—	179,576	58,953
Corporate notes	133,579	—	133,579	—
Mortgage-backed	318,710	—	318,710	—
Equity securities	51,139	—	27,428	23,711
Trading account securities	1,206	—	1,206	—
Mortgage loans held-for-sale	351,290	—	351,290	—
Mortgage servicing rights	8,435	—	—	8,435
Nonqualified deferred compensation assets	7,951	—	7,951	—
Derivative assets	47,964	—	47,964	—
Total	$2,208,924	$—	$2,117,825	$91,099
Derivative liabilities	$41,180	$—	$41,180	$—

	June 30, 2014			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities				
U.S. Treasury	$388,415	$—	$388,415	$—
U.S. Government agencies	766,000	—	766,000	—
Municipal	176,107	—	138,054	38,053
Corporate notes	135,303	—	135,303	—
Mortgage-backed	303,563	—	303,563	—
Equity securities	54,852	—	30,700	24,152
Trading account securities	2,234	—	2,234	—
Mortgage loans held-for-sale	363,627	—	363,627	—
Mortgage servicing rights	8,227	—	—	8,227
Nonqualified deferred compensation assets	7,850	—	7,850	—

Derivative assets	50,967	—	50,967	—
Total	$2,257,145	$—	$2,186,713	$70,432
Derivative liabilities	$43,650	$—	$43,650	$—

44

The aggregate remaining contractual principal balance outstanding as of June 30, 2015, December 31, 2014 and June 30, 2014 for mortgage loans held-for-sale measured at fair value under ASC 825 was $475.9 million, $327.1 million and $340.5 million, respectively, while the aggregate fair value of mortgage loans held-for-sale was $497.3 million, $351.3 million and $363.6 million, for the same respective periods, as shown in the above tables. There were no nonaccrual loans or loans past due greater than 90 days and still accruing in the mortgage loans held-for-sale portfolio measured at fair value as of June 30, 2015, December 31, 2014 and June 30, 2014.

The changes in Level 3 assets measured at fair value on a recurring basis during the three and six months ended June 30, 2015 and 2014 are summarized as follows:

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at March 31, 2015	$56,049	$24,656	$7,852
Total net gains (losses) included in:			
Net income [1]	—	—	182
Other comprehensive income	(713)	340	—
Purchases	4,175	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(939)	—	—
Net transfers into/(out of) Level 3	—	—	—
Balance at June 30, 2015	$58,572	$24,996	$8,034

(1) Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income.

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at January 1, 2015	$58,953	$23,711	$8,435
Total net gains (losses) included in:			
Net income [1]	—	—	(401)
Other comprehensive income	(510)	1,285	—
Purchases	10,849	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(10,720)	—	—
Net transfers into/(out of) Level 3	—	—	—
Balance at June 30, 2015	$58,572	$24,996	$8,034

(1) Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income.

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at March 31, 2014	$39,772	$23,438	$8,719
Total net gains (losses) included in:			
Net income [1]	—	—	(492)
Other comprehensive income	73	714	—
Purchases	1,606	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(3,398)	—	—

Net transfers into/(out of) Level 3	—	—	—
Balance at June 30, 2014	$38,053	$24,152	$8,227

(1) Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income.

45

Table of Contents

(Dollars in thousands)	Municipal	Equity securities	Mortgage servicing rights
Balance at January 1, 2014	$36,386	$22,163	$8,946
Total net gains (losses) included in:			
Net income [(1)]	—	—	(719)
Other comprehensive income	220	1,989	—
Purchases	4,966	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	(3,519)	—	—
Net transfers into/(out of) Level 3	—	—	—
Balance at June 30, 2014	$38,053	$24,152	$8,227

(1) Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income.

Also, the Company may be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from impairment charges on individual assets. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at the end of the period, the following table provides the carrying value of the related individual assets or portfolios at June 30, 2015.

	June 30, 2015				Three Months Ended June 30, 2015	Six Months Ended June 30, 2014
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Fair Value Losses Recognized, net	Fair Value Losses Recognized, net
Impaired loans—collateral based	$61,713	$—	$—	$61,713	$3,524	$6,255
Other real estate owned, including covered other real estate owned [(1)]	77,499	—	—	77,499	1,483	3,845
Total	$139,212	$—	$—	$139,212	$5,007	$10,100

(1) Fair value losses recognized, net on other real estate owned include valuation adjustments and charge-offs during the respective period.

Impaired loans—A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. A loan restructured in a troubled debt restructuring is an impaired loan according to applicable accounting guidance. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the fair value of the underlying collateral. Impaired loans are considered a fair value measurement where an allowance is established based on the fair value of collateral. Appraised values, which may require adjustments to market-based valuation inputs, are generally used on real estate collateral-dependent impaired loans.

The Company's Managed Assets Division is primarily responsible for the valuation of Level 3 measurements of impaired loans. For more information on the Managed Assets Division review of impaired loans refer to Note 7 – Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans. At June 30, 2015, the Company had $103.4 million of impaired loans classified as Level 3. Of the $103.4 million of impaired loans, $61.7 million were measured at fair value based on the underlying collateral of the loan as shown in the table above. The remaining $41.7 million were valued based on discounted cash flows in accordance with ASC 310.

Other real estate owned (including covered other real estate owned)—Other real estate owned is comprised of real estate acquired in partial or full satisfaction of loans and is included in other assets. Other real estate owned is recorded at its estimated fair value less estimated selling costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the allowance for loan losses. Subsequent changes in value are reported as adjustments to the carrying amount and are recorded in other non-interest expense. Gains and losses upon sale, if any, are also charged to other non-interest expense. Fair value is generally based on third party appraisals and internal estimates and is therefore considered a Level 3 valuation.

The Company's Managed Assets Division is primarily responsible for the valuation of Level 3 measurements for non-covered other real estate owned and covered other real estate owned. At June 30, 2015, the Company had $77.5 million of other real estate owned classified as Level 3. The unobservable input applied to other real estate owned relates to the valuation adjustment determined

46

Table of Contents

by the Company's appraisals. The valuation adjustments applied to other real estate owned range from an 87% write-up to a 85% write-down of the carrying value at June 30, 2015, with a weighted average write-down adjustment of 3.58%. A higher appraisal valuation results in an increased carrying value.
The valuation techniques and significant unobservable inputs used to measure both recurring and non-recurring Level 3 fair value measurements at June 30, 2015 were as follows:

(Dollars in thousands)	Fair Value	Valuation Methodology	Significant Unobservable Input	Range of Inputs	Weighted Average of Inputs	Impact to valuation from an increased or higher input value
Measured at fair value on a recurring basis:						
Municipal Securities	$58,572	Bond pricing	Equivalent rating	BBB-AA+	N/A	Increase
Equity Securities	24,996	Discounted cash flows	Discount rate	1.77%-2.02%	1.86%	Decrease
Mortgage Servicing Rights	8,034	Discounted cash flows	Discount rate	9%-13%	9.15%	Decrease
			Constant prepayment rate (CPR)	10%-25%	11.83%	Decrease
Measured at fair value on a non-recurring basis:						
Impaired loans—collateral based	$161,713	Appraisal value	N/A	N/A	N/A	N/A
Other real estate owned, including covered other real estate owned	77,499	Appraisal value	Property specific valuation adjustment	(85)%-87%	(3.58)%	Increase

47

Table of Contents

The Company is required under applicable accounting guidance to report the fair value of all financial instruments on the consolidated statements of condition, including those financial instruments carried at cost. The table below presents the carrying amounts and estimated fair values of the Company's financial instruments as of the dates shown:

	At June 30, 2015		At December 31, 2014		At June 30, 2014	
(Dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:						
Cash and cash equivalents	$252,209	$252,209	$230,707	$230,707	$356,978	$356,978
Interest bearing deposits with banks	591,721	591,721	998,437	998,437	506,871	506,871
Available-for-sale securities	2,162,061	2,162,061	1,792,078	1,792,078	1,824,240	1,824,240
Trading account securities	1,597	1,597	1,206	1,206	2,234	2,234
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	89,818	89,818	91,582	91,582	84,531	84,531
Brokerage customer receivables	29,753	29,753	24,221	24,221	28,199	28,199
Mortgage loans held-for-sale, at fair value	497,283	497,283	351,290	351,290	363,627	363,627
Total loans	15,707,060	16,469,518	14,636,107	15,346,266	14,025,150	14,741,579
Mortgage servicing rights	8,034	8,034	8,435	8,435	8,227	8,227
Nonqualified deferred compensation assets	8,778	8,778	7,951	7,951	7,850	7,850
Derivative assets	48,918	48,918	47,964	47,964	50,967	50,967
FDIC indemnification asset	3,429	3,429	11,846	11,846	46,115	46,115
Accrued interest receivable and other	178,349	178,349	169,156	169,156	165,511	165,511
Total financial assets	$19,579,010	$20,341,468	$18,370,980	$19,081,139	$17,470,500	$18,186,929
Financial Liabilities						
Non-maturity deposits	$13,145,542	$13,145,542	$12,142,034	$12,142,034	$11,314,162	$11,314,162
Deposits with stated maturities	3,936,876	3,937,146	4,139,810	4,143,161	4,242,214	4,255,896
Federal Home Loan Bank advances	444,017	448,870	733,050	738,113	580,582	585,792
Other borrowings	261,908	261,908	196,465	197,883	43,716	43,716
Subordinated notes	140,000	142,810	140,000	143,639	140,000	144,899
Junior subordinated debentures	249,493	250,265	249,493	250,305	249,493	250,492
Derivative liabilities	40,500	40,500	41,180	41,180	43,650	43,650
Accrued interest payable	6,827	6,827	8,001	8,001	8,399	8,399
Total financial liabilities	$18,225,163	$18,233,868	$17,650,033	$17,664,316	$16,622,216	$16,647,006

Not all the financial instruments listed in the table above are subject to the disclosure provisions of ASC Topic 820, as certain assets and liabilities result in their carrying value approximating fair value. These include cash and cash equivalents, interest bearing deposits with banks, brokerage customer receivables, FHLB and FRB stock, FDIC indemnification asset, accrued interest receivable and accrued interest payable and non-maturity deposits.
The following methods and assumptions were used by the Company in estimating fair values of financial instruments that were not previously disclosed.
Loans. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are analyzed by type such as commercial, residential real estate, etc. Each category is further segmented by interest rate type (fixed and variable) and term. For variable-rate loans that reprice frequently, estimated fair values are based on carrying

values. The fair value of residential loans is based on secondary market sources for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value for other fixed rate loans is estimated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect credit and interest rate risks inherent in the loan. The primary impact of credit risk on the present value of the loan portfolio, however, was assessed through the use of the allowance for loan losses, which is believed to represent the current fair value of probable incurred losses for purposes of the fair value calculation. In accordance with ASC 820, the Company has categorized loans as a Level 3 fair value measurement.

Deposits with stated maturities. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently in effect for deposits of similar remaining maturities. In accordance with ASC 820, the Company has categorized deposits with stated maturities as a Level 3 fair value measurement.

Federal Home Loan Bank advances. The fair value of Federal Home Loan Bank advances is obtained from the Federal Home Loan Bank which uses a discounted cash flow analysis based on current market rates of similar maturity debt securities to discount cash flows. In accordance with ASC 820, the Company has categorized Federal Home Loan Bank advances as a Level 3 fair value measurement.
Subordinated notes. The fair value of the subordinated notes is based on a market price obtained from an independent pricing vendor. In accordance with ASC 820, the Company has categorized subordinated notes as a Level 2 fair value measurement.
Junior subordinated debentures. The fair value of the junior subordinated debentures is based on the discounted value of contractual cash flows. In accordance with ASC 820, the Company has categorized junior subordinated debentures as a Level 3 fair value measurement.
(15) Stock-Based Compensation Plans

In January 2007, the Company's shareholders approved the 2007 Stock Incentive Plan (“the 2007 Plan”) which initially provided for the issuance of up to 500,000 shares of common stock. In May 2009 and May 2011, the Company's shareholders approved an additional 325,000 shares and 2,860,000 shares, respectively, of common stock that may be offered under the 2007 Plan. The 2007 Plan replaced the Wintrust Financial Corporation 1997 Stock Incentive Plan (“the 1997 Plan”) which had substantially similar terms. In May 2015, the Company’s shareholders approved the 2015 Stock Incentive Plan (“the 2015 Plan”), which replaced the 2007 Plan. The 2015 Plan, the 2007 Plan and the 1997 Plan are collectively referred to as “the Plans.” Under the 2015 Plan 5,485,000 shares of common stock are available for awards. Outstanding awards under the Plans for which common shares are not issued by reason of cancellation, forfeiture, lapse of such award or settlement of such award in cash, are again available under the 2015 Plan. All grants made after the approval of the 2015 Plan will be made pursuant to the 2015 Plan. The Plans cover substantially all employees of Wintrust. The Compensation Committee of the Board of Directors administers all stock-based compensation programs and authorizes all awards granted pursuant to the Plans.

The Plans permit the grant of incentive stock options, nonqualified stock options, stock appreciation rights, stock awards, restricted share or unit awards, performance awards settled in shares of common stock and other incentive awards based in whole or in part by reference to the Company’s common stock. The Company historically awarded stock-based compensation in the form of time-vested nonqualified stock options and time-vested restricted share unit awards (“restricted shares”). The grants of options provide for the purchase shares of Wintrust's common stock at the fair market value of the stock on the date the options are granted. Stock options under the 2015 Plan and the 2007 Plan generally vest ratably over periods of three to five years and have a maximum term of seven years from the date of grant. Stock options granted under the 1997 Plan provided for a maximum term of 10 years. Restricted shares entitle the holders to receive, at no cost, shares of the Company’s common stock. Restricted shares generally vest over periods of one to five years from the date of grant.

Beginning in 2011, the Company has awarded annual grants under the Long-Term Incentive Program (“LTIP”), which is administered under the Plans. The LTIP is designed in part to align the interests of management with the interests of shareholders, foster retention, create a long-term focus based on sustainable results and provide participants a target long-term incentive opportunity. It is anticipated that LTIP awards will continue to be granted annually. LTIP grants to date have consisted of time-vested nonqualified stock options and performance-based stock and cash awards. Performance-based stock and cash awards granted under the LTIP are contingent upon the achievement of pre-established long-term performance goals set in advance by the Compensation Committee over a three-year period starting at the beginning of each calendar year. These performance awards are granted at a target level, and based on the Company’s achievement of the pre-established long-term goals, the actual payouts can range from 0% to a maximum of 150% (for 2015 awards) or 200% (for prior awards) of the target award. The awards vest in the quarter after the end of the performance period upon certification of the payout by the Compensation Committee of the Board of Directors.

Holders of restricted share awards and performance-based stock awards received under the Plans are not entitled to vote or receive cash dividends (or cash payments equal to the cash dividends) on the underlying common shares until the awards are vested. Except in limited circumstances, these awards are canceled upon termination of employment without any payment of consideration by the Company.

Stock-based compensation is measured as the fair value of an award on the date of grant, and the measured cost is recognized over the period which the recipient is required to provide service in exchange for the award. The fair values of restricted share and performance-based stock awards are determined based on the average of the high and low trading prices on the grant date, and the fair value of stock options is estimated using a Black-Scholes option-pricing model that utilizes the assumptions outlined in the following table. Option-pricing models require the input of highly subjective assumptions and are sensitive to changes in the option's expected life and the price volatility of the underlying stock, which can materially affect the fair value estimate. Expected life of options granted since the inception of the LTIP awards has been based on the safe harbor rule of the SEC Staff Accounting

49

Table of Contents

Bulletin No. 107 “Share-Based Payment” as the Company believes historical exercise data may not provide a reasonable basis to estimate the expected term of these options. Expected stock price volatility is based on historical volatility of the Company's common stock, which correlates with the expected life of the options, and the risk-free interest rate is based on comparable U.S. Treasury rates. Management reviews and adjusts the assumptions used to calculate the fair value of an option on a periodic basis to better reflect expected trends.
The following table presents the weighted average assumptions used to determine the fair value of options granted in the six month periods ending June 30, 2015 and 2014.

	Six Months Ended			
	June 30, 2015		June 30, 2014	
Expected dividend yield	0.9	%	0.4	%
Expected volatility	26.5	%	30.8	%
Risk-free rate	1.3	%	0.7	%
Expected option life (in years)	4.5		4.5	

Stock based compensation is recognized based upon the number of awards that are ultimately expected to vest, taking into account expected forfeitures. In addition, for performance-based awards, an estimate is made of the number of shares expected to vest as a result of projected performance against the performance criteria in the award to determine the amount of compensation expense to recognize. The estimate is reevaluated periodically and total compensation expense is adjusted for any change in estimate in the current period. Stock-based compensation expense recognized in the Consolidated Statements of Income was $3.0 million in the second quarter of 2015 and $2.1 million in the second quarter of 2014, and $5.3 million and $5.9 million for the year-to-date periods, respectively. The first quarter of 2014 includes a $2.1 million charge for a modification to the performance measurement criteria related to the 2011 LTIP performance-based stock grants that were vested and paid out in the first quarter of 2014. The cost of the modification was determined based on the stock price on the date of re-measurement and paid to the holders of the performance-based stock awards in cash.
A summary of the Company's stock option activity for the six months ended June 30, 2015 and June 30, 2014 is presented below:

Stock Options	Common Shares		Weighted Average Strike Price	Remaining Contractual Term [1]	Intrinsic Value [2] ($000)
Outstanding at January 1, 2015	1,618,426		$43.00		
Conversion of options of acquired company	16,364		21.18		
Granted	493,690		44.17		
Exercised	(108,042	)	33.70		
Forfeited or canceled	(219,356	)	53.47		
Outstanding at June 30, 2015	1,801,082		$42.40	4.4	$20,012
Exercisable at June 30, 2015	916,168		$40.62	2.9	$11,928

Stock Options	Common Shares		Weighted Average Strike Price	Remaining Contractual Term [1]	Intrinsic Value [2] ($000)
Outstanding at January 1, 2014	1,524,672		$42.00		
Granted	364,767		46.85		
Exercised	(88,141	)	34.66		
Forfeited or canceled	(43,617	)	45.56		
Outstanding at June 30, 2014	1,757,681		$43.29	3.5	$9,833
Exercisable at June 30, 2014	1,143,629		$43.98	2.2	$7,066

(1) Represents the remaining weighted average contractual life in years.
(2)

Aggregate intrinsic value represents the total pre-tax intrinsic value (i.e., the difference between the Company's stock price on the last trading day of the quarter and the option exercise price, multiplied by the number of shares) that would have been received by the option holders if they had exercised their options on the last day of the quarter. Options with exercise prices above the stock price on the last trading day of the quarter are excluded from the calculation of intrinsic value. The intrinsic value will change based on the fair market value of the Company's stock.

The weighted average grant date fair value per share of options granted during the six months ended June 30, 2015 and June 30, 2014 was $9.69 and $11.96, respectively. The aggregate intrinsic value of options exercised during the six months ended June 30, 2015 and 2014, was $1.6 million and $1.0 million, respectively.

Table of Contents

A summary of the Plans' restricted share activity for the six months ended June 30, 2015 and June 30, 2014 is presented below:

Restricted Shares	Six months ended June 30, 2015 Common Shares	Six months ended June 30, 2015 Weighted Average Grant-Date Fair Value	Six months ended June 30, 2014 Common Shares	Six months ended June 30, 2014 Weighted Average Grant-Date Fair Value
Outstanding at January 1	146,112	$47.45	181,522	$43.39
Granted	14,907	45.35	11,430	46.10
Vested and issued	(14,015)	38.78	(32,328)	34.57
Forfeited	—	—	(5,387)	36.89
Outstanding at June 30	147,004	$48.07	155,237	$45.65
Vested, but not issuable at June 30	85,000	$51.88	85,000	$51.88

A summary of the Plans' performance-based stock award activity, based on the target level of the awards, for the six months ended June 30, 2015 and June 30, 2014 is presented below:

Performance-based Stock	Six months ended June 30, 2015 Common Shares	Six months ended June 30, 2015 Weighted Average Grant-Date Fair Value	Six months ended June 30, 2014 Common Shares	Six months ended June 30, 2014 Weighted Average Grant-Date Fair Value
Outstanding at January 1	295,679	$38.18	307,512	$34.01
Granted	104,191	44.17	93,123	46.85
Vested and issued	(78,590)	31.10	(15,944)	33.28
Forfeited	(33,522)	32.62	(87,046)	33.64
Outstanding at June 30	287,758	$42.93	297,645	$38.18

The Company issues new shares to satisfy its obligation to issue shares granted pursuant to the Plans.

Table of Contents

(16) Shareholders' Equity and Earnings Per Share

Series D Preferred Stock

In June 2015, the Company issued and sold 5,000,000 shares of fixed-to-floating non-cumulative perpetual preferred stock, Series D, liquidation preference $25 per share (the "Series D Preferred Stock") for $125.0 million in an equity offering. If declared, dividends on the Series D Preferred Stock are payable quarterly in arrears at a fixed rate of 6.50% per annum from the original issuance date to, but excluding, July 15, 2025, and from (and including) that date at a floating rate equal to three-month LIBOR plus a spread of 4.06% per annum.

Series C Preferred Stock

In March 2012, the Company issued and sold 126,500 shares of non-cumulative perpetual convertible preferred stock, Series C, liquidation preference $1,000 per share (the "Series C Preferred Stock") for $126.5 million in an equity offering. If declared, dividends on the Series C Preferred Stock are payable quarterly in arrears at a rate of 5.00% per annum. The Series C Preferred Stock is convertible into common stock at the option of the holder at a conversion rate of 24.3132 shares of common stock per share of Series C Preferred Stock subject to customary anti-dilution adjustments. In the first six months of 2015, pursuant to such terms, 155 shares of the Series C Preferred Stock were converted at the option of the respective holders into 3,767 shares of the Company's common stock. In 2014, 10 shares of the Series C Preferred Stock were converted at the option of the respective holders into 244 shares of the Company's common stock. On and after April 15, 2017, the Company will have the right under certain circumstances to cause the Series C Preferred Stock to be converted into common stock if the closing price of the Company's common stock exceeds a certain amount.

Common Stock Warrant

Pursuant to the U.S. Department of the Treasury's (the "U.S. Treasury") Capital Purchase Program, on December 19, 2008, the Company issued to the U.S. Treasury a warrant to exercise 1,643,295 warrant shares of Wintrust common stock at a per share exercise price of $22.82, subject to customary anti-dilution adjustments, and with a term of 10 years. In February 2011, the U.S. Treasury sold all of its interest in the warrant issued to it in a secondary underwritten public offering. During the first six months of 2015, certain holders of the interest in the warrant exercised 380,349 warrant shares at the exercise price, which resulted in 203,887 shares of common stock issued. At June 30, 2015, all remaining holders of the interest in the warrant are able to exercise 557,068 warrant shares.

Other

In January 2015, the Company issued 422,121 shares of its common stock in the acquisition of Delavan.

At the January 2015 Board of Directors meeting, a quarterly cash dividend of $0.11 per share ($0.44 on an annualized basis) was
declared. It was paid on February 19, 2015 to shareholders of record as of February 5, 2015. At the April 2015 Board of Directors meeting, a quarterly cash dividend of $0.11 per share ($0.44 on an annualized basis) was declared. It was paid on May 21, 2015 to shareholders of record as of May 7, 2015.

Table of Contents

Accumulated Other Comprehensive Income (Loss)

The following tables summarize the components of other comprehensive income (loss), including the related income tax effects, and the related amount reclassified to net income for the periods presented (in thousands).

	Accumulated Unrealized Gains (Losses) on Securities	Accumulated Unrealized Losses on Derivative Instruments	Accumulated Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
Balance at April 1, 2015	$6,094	$(2,858)	$(34,327)	$(31,091)
Other comprehensive (loss) income during the period, net of tax, before reclassifications	(32,441)	(147)	1,516	(31,072)
Amount reclassified from accumulated other comprehensive income (loss), net of tax	14	278	—	292
Net other comprehensive (loss) income during the period, net of tax	$(32,427)	$131	$1,516	$(30,780)
Balance at June 30, 2015	$(26,333)	$(2,727)	$(32,811)	$(61,871)
Balance at January 1, 2015	$(9,533)	$(2,517)	$(25,282)	$(37,332)
Other comprehensive loss during the period, net of tax, before reclassifications	(16,496)	(740)	(7,529)	(24,765)
Amount reclassified from accumulated other comprehensive income (loss), net of tax	(304)	530	—	226
Net other comprehensive loss during the period, net of tax	$(16,800)	$(210)	$(7,529)	$(24,539)
Balance at June 30, 2015	$(26,333)	$(2,727)	$(32,811)	$(61,871)
Balance at April 1, 2014	$(39,923)	$(2,521)	$(14,309)	$(56,753)
Other comprehensive income (loss) during the period, net of tax, before reclassifications	15,717	(691)	6,707	21,733
Amount reclassified from accumulated other comprehensive income (loss), net of tax	203	314	—	517
Net other comprehensive income (loss) during the period, net of tax	$15,920	$(377)	$6,707	$22,250
Balance at June 30, 2014	$(24,003)	$(2,898)	$(7,602)	$(34,503)
Balance at January 1, 2014	$(53,665)	$(2,462)	$(6,909)	$(63,036)
Other comprehensive income (loss) during the period, net of tax, before reclassifications	29,439	(1,047)	(693)	27,699
Amount reclassified from accumulated other comprehensive income (loss), net of tax	223	611	—	834
Net other comprehensive income (loss) during the period, net of tax	$29,662	$(436)	$(693)	$28,533
Balance at June 30, 2014	$(24,003)	$(2,898)	$(7,602)	$(34,503)

Details Regarding the Component of Accumulated Other Comprehensive Income	Amount Reclassified from Accumulated Other Comprehensive Income for the Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014	Impacted Line on the Consolidated Statements of Income
Accumulated unrealized losses on securities					
(Losses) gains included in net income	$(24)	$(336)	$500	$(369)	(Losses) gains on available-for-sale securities, net
	(24)	(336)	500	(369)	Income before taxes
Tax effect	$10	$133	$(196)	$146	Income tax expense
Net of tax	$(14)	$(203)	$304	$(223)	Net income
Accumulated unrealized losses on derivative instruments					
Amount reclassified to interest expense on junior subordinated debentures	$457	$521	$871	$1,014	Interest on junior subordinated debentures
	(457)	(521)	(871)	(1,014)	Income before taxes
Tax effect	$179	$207	$341	$403	Income tax expense
Net of tax	$(278)	$(314)	$(530)	$(611)	Net income

Earnings per Share

The following table shows the computation of basic and diluted earnings per share for the periods indicated:

(In thousands, except per share data)		Three Months Ended June 30, 2015	June 30, 2014	Six Months Ended June 30, 2015	June 30, 2015
Net income		$43,831	$38,541	$82,883	$73,041
Less: Preferred stock dividends and discount accretion		1,580	1,581	3,161	3,162
Net income applicable to common shares—Basic	(A)	42,251	36,960	79,722	69,879
Add: Dividends on convertible preferred stock, if dilutive		1,580	1,581	3,161	3,162
Net income applicable to common shares—Diluted	(B)	43,831	38,541	82,883	73,041
Weighted average common shares outstanding	(C)	47,567	46,520	47,404	46,358
Effect of dilutive potential common shares					
Common stock equivalents		1,085	1,327	1,149	1,381
Convertible preferred stock, if dilutive		3,071	3,075	3,071	3,075
Total dilutive potential common shares		4,156	4,402	4,220	4,456
Weighted average common shares and effect of dilutive potential common shares	(D)	51,723	50,922	51,624	50,814
Net income per common share:					
Basic	(A/C)	$0.89	$0.79	$1.68	$1.51
Diluted	(B/D)	$0.85	$0.76	$1.61	$1.44

Potentially dilutive common shares can result from stock options, restricted stock unit awards, stock warrants, the Company’s convertible preferred stock and shares to be issued under the Employee Stock Purchase Plan and the Directors Deferred Fee and Stock Plan, being treated as if they had been either exercised or issued, computed by application of the treasury stock method. While potentially dilutive common shares are typically included in the

computation of diluted earnings per share, potentially dilutive common shares are excluded from this computation in periods in which the effect would reduce the loss per share or increase the income per share. For diluted earnings per share, net income applicable to common shares can be affected by the conversion of the Company's convertible preferred stock. Where the effect of this conversion would reduce the loss per share or increase the income per share, net income applicable to common shares is not adjusted by the associated preferred dividends.

Table of Contents

(17) Subsequent Events

On July 24, 2015, the Company acquired Community Financial Shares, Inc. ("CFIS"). CFIS was the parent company of Community Bank - Wheaton/Glen Ellyn ("CBWGE"), which had four banking locations in Wheaton and Glen Ellyn, Illinois. CBWGE was merged into the Company's wholly-owned subsidiary Wheaton Bank. Prior to purchase accounting adjustments, the Company acquired approximately $327 million of assets, including approximately $177 million of loans, assumed approximately $301 million of deposits and assumed approximately $4 million of junior subordinated debentures.

On July 17, 2015, the Company acquired Suburban Illinois Bancorp, Inc. ("Suburban"). Suburban was the parent company of Suburban Bank & Trust Company ("SBT"), which had ten banking locations in Chicago and its suburbs. SBT was merged into the Company's wholly-owned subsidiary Hinsdale Bank. Prior to purchase accounting adjustments, the Company acquired approximately $480 million of assets, including approximately $284 million of loans, assumed approximately $417 million of deposits and assumed approximately $15 million of junior subordinated debentures.

On July 1, 2015, the Company, through its wholly-owned subsidiary Wintrust Bank, acquired North Bank, headquartered in downtown Chicago, Illinois. Through this transaction, prior to purchase accounting adjustments, Wintrust Bank acquired two banking locations and approximately $112 million of assets, including approximately $55 million of loans, and assumed approximately $100 million of deposits.

Table of Contents

ITEM 2
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition as of June 30, 2015 compared with December 31, 2014 and June 30, 2014, and the results of operations for the three and six month periods ended June 30, 2015 and 2014, should be read in conjunction with the unaudited consolidated financial statements and notes contained in this report and the risk factors discussed herein and under Item 1A of the Company's 2014 Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties and, as such, future results could differ significantly from management's current expectations. See the last section of this discussion for further information on forward-looking statements.

Introduction

Wintrust is a financial holding company that provides traditional community banking services, primarily in the Chicago metropolitan area and southern Wisconsin, and operates other financing businesses on a national basis and in Canada through several non-bank subsidiaries. Additionally, Wintrust offers a full array of wealth management services primarily to customers in the Chicago metropolitan area and southern Wisconsin.

Overview

Second Quarter Highlights

The Company recorded net income of $43.8 million for the second quarter of 2015 compared to $38.5 million in the second quarter of 2014. The results for the second quarter of 2015 demonstrate continued operating strengths including strong loan growth, increased mortgage banking revenue due to higher origination volumes from activity during the traditional spring purchase market, and improved credit quality metrics. Additionally, in the second quarter of 2015, the Company issued $125 million of non-cumulative perpetual preferred stock.

The Company increased its loan portfolio, excluding covered loans and mortgage loans held-for-sale, from $13.7 billion at June 30, 2014 and $14.4 billion at December 31, 2014 to $15.5 billion at June 30, 2015. The increase in the current quarter compared to the prior quarters was primarily a result of the Company's commercial banking initiative, growth in the commercial real estate and life insurance premium finance receivables portfolios and acquisitions during the period. The Company is focused on making new loans, including in the commercial and commercial real estate sector, where opportunities that meet our underwriting standards exist. For more information regarding changes in the Company's loan portfolio, see "Financial Condition – Interest Earning Assets" and Note 6 "Loans" of the Financial Statements presented under Item 1 of this report.

Management considers the maintenance of adequate liquidity to be important to the management of risk. During the second quarter of 2015, the Company continued its practice of maintaining appropriate funding capacity to provide the Company with adequate liquidity for its ongoing operations. In this regard, the Company benefited from its strong deposit base, a liquid short-term investment portfolio and its access to funding from a variety of external funding sources including the issuance of Series D preferred stock in the second quarter of 2015. At June 30, 2015, the Company had approximately $843.9 million in overnight liquid funds and interest-bearing deposits with banks.

The Company recorded net interest income of $156.9 million in the second quarter of 2015 compared to $149.2 million in the second quarter of 2014. The higher level of net interest income recorded in the second quarter of 2015 compared to the second quarter of 2014 resulted primarily from a $1.9 billion increase in the balance of average loans, excluding covered loans. The increase in average loans, excluding covered loans, was partially offset by a 22 basis

point decline in the yield on earnings assets and a $889.7 million increase in interest bearing liabilities resulting from an increase in interest bearing deposits, the issuance of subordinated notes at the end of the second quarter of 2014 and the completion of the Canadian secured borrowing transaction at the end of the fourth quarter of 2014.

Non-interest income totaled $77.0 million in the second quarter of 2015 an increase of $22.9 million, or 42%, compared to the second quarter of 2014. The increase in the second quarter of 2015 compared to the second quarter of 2014 was primarily attributable to an increase in mortgage banking revenues, fees from covered call options and the recognition of a $1.5 million BOLI death benefit. Mortgage banking revenue increased $12.2 million when compared to the second quarter of 2014. The increase in mortgage banking revenue in the current quarter as compared to the second quarter of 2014 resulted primarily from a favorable mortgage banking environment in the current quarter. Mortgage loans originated or purchased to be sold to the secondary market were $1.2

billion in the second quarter of 2015 compared to $840.9 million in the second quarter of 2014 (see “-Non-Interest Income” for further detail).

Non-interest expense totaled $154.3 million in the second quarter of 2015, increasing $20.7 million, or 15%, compared to the second quarter of 2014. The increase compared to the second quarter of 2014 was primarily attributable to higher salary and employee benefit costs, increased occupancy, data processing and professional fees, and higher marketing expenses, partially offset by a decrease in OREO expenses (see “-Non-Interest Expense” for further detail).

The Current Economic Environment

The economic environment in the second quarter of 2015 was characterized by continued low interest rates and renewed competition as banks have experienced improvements in their financial condition allowing them to be more active in the lending market. The Company has employed certain strategies to manage net income in the current rate environment, including those discussed below.

Net Interest Income

The Company has leveraged its internal loan pipeline and external growth opportunities to grow its earning assets base. The Company has also continued its efforts to shift a greater portion of its deposit base to non-interest bearing deposits. These deposits as a percentage of total deposits were 23% as of June 30, 2015 as compared to 20% as of June 30, 2014. In the current quarter, the Company's net interest margin declined to 3.41% as compared to 3.62% in the second quarter of 2014 primarily as a result of a reduction in loan yields, run-off of the covered loan portfolio and the completion of the Canadian secured borrowing transaction at the end of the fourth quarter of 2014. However, as a result of the growth in earnings assets and improvement in funding mix, the Company increased net interest income by $7.7 million in the second quarter of 2015 compared to the second quarter of 2014.

The Company has continued its practice of writing call options against certain U.S. Treasury and Agency securities to economically hedge the securities positions and receive fee income to compensate for net interest margin compression. In the second quarter of 2015, the Company recognized $4.6 million in fees on covered call options.

The Company utilizes “back to back” interest rate derivative transactions, primarily interest rate swaps, to receive floating rate interest payments related to customer loans. In these arrangements, the Company makes a floating rate loan to a borrower who prefers to pay a fixed rate. To accommodate the risk management strategy of certain qualified borrowers, the Company enters a swap with its borrower to effectively convert the borrower's variable rate loan to a fixed rate. However, in order to minimize the Company's exposure on these transactions and continue to receive a floating rate, the Company simultaneously executes an offsetting mirror-image derivative with a third party.

Non-Interest Income

In preparation for a rising rate environment, the Company has purchased interest rate cap contracts to offset the negative impact on the net interest margin in a rising rate environment caused by the repricing of variable rate liabilities and lack of repricing of fixed rate loans and securities. As of June 30, 2015, the Company held four interest rate cap derivatives with a total notional value of $446.5 million which are not designated as accounting hedges but are considered to be an economic hedge for the potential rise in interest rates. Because these are not accounting hedges, fluctuations in the cap values are recorded in earnings. In the second quarter of 2015, the Company recognized $153,000 in trading losses related to the mark to market of these interest rate caps. For more information, see Note 13 "Derivatives" of the Financial Statements presented under Item 1 of this report.

The current interest rate environment impacts the profitability and mix of the Company's mortgage banking business which generated revenues of $36.0 million in the second quarter of 2015 and $23.8 million in the second quarter of 2014, representing 15% of total net revenue for the second quarter of 2015 and 12% for the second quarter of 2014. Mortgage banking revenue is primarily comprised of gains on sales of mortgage loans originated for new home purchases as well as mortgage refinancing. Mortgage banking revenue is partially offset by corresponding commission and overhead costs. In the second quarter of 2015, approximately 62% of originations were mortgages associated with new home purchases while 38% of originations were related to refinancing of mortgages. Assuming the housing market continues to improve and interest rates rise, we expect a higher percentage of originations to be attributed to new home purchases.

Non-Interest Expense

Management believes expense management is important amid the low interest rate environment and increased competition to enhance profitability. Cost control and an efficient infrastructure should position the Company appropriately as it continues its growth strategy. Management continues to be disciplined in its approach to growth and will leverage the Company's existing

expense infrastructure to expand its presence in existing and complimentary markets. Management believes that its recent acquisitions have provided operating capacity for balance sheet growth without a commensurate increase in operating expenses which should provide improvement in its overhead ratio, holding all else equal.

Potentially impacting the cost control strategies discussed above, the Company anticipates increased costs resulting from the changing regulatory environment in which we operate. We have already experienced increases in compliance-related costs and we expect that compliance with the Dodd-Frank Act and its implementing regulations will require us to invest significant additional management attention and resources.

Credit Quality

The Company's credit quality metrics remained relatively stable in the second quarter of 2015 compared to the quarter-ended December 31, 2014 and showed improvement compared to the quarter ended June 30, 2014. The Company continues to address non-performing assets and remains disciplined in its approach to growth without sacrificing asset quality. Management primarily reviews credit quality excluding covered loans as those loans are obtained through FDIC-assisted acquisitions and therefore potential credit losses are subject to indemnification by the FDIC.

In particular:

- The Company's provision for credit losses, excluding covered loans, in the second quarter of 2015 totaled $9.7 million, an increase of $2.9 million when compared to the second quarter of 2014. Net charge-offs decreased to $3.9 million in the second quarter of 2015 (which included a $968,000 net recovery related to commercial real estate loans) compared to $6.6 million for the same period in 2014 (of which $2.0 million related to commercial real estate loans).

- The Company's allowance for loan losses, excluding covered loans, totaled $100.2 million at June 30, 2015, reflecting an increase of $8.0 million, or 9%, when compared to the same period in 2014 and an increase of $8.5 million, or 19% annualized, when compared to December 31, 2014. At June 30, 2015, approximately $42.2 million, or 42%, of the allowance for loan losses, excluding covered loans, was associated with commercial real estate loans and another $32.9 million, or 33%, was associated with commercial loans.

- The Company has significant exposure to commercial real estate. At June 30, 2015, $4.9 billion, or 31%, of our loan portfolio, excluding covered loans, was commercial real estate, with approximately 92% located in our market area. As of June 30, 2015, the commercial real estate loan portfolio, excluding PCI loans, was comprised of $395.0 million related to land, residential and commercial construction, $754.8 million related to office buildings, $750.0 million related to retail, $627.4 million related to industrial use, $668.4 million related to multi-family and $1.6 billion related to mixed use and other use types. In analyzing the commercial real estate market, the Company does not rely upon the assessment of broad market statistical data, in large part because the Company's market area is diverse and covers many communities, each of which is impacted differently by economic forces affecting the Company's general market area. As such, the extent of changes in real estate valuations can vary meaningfully among the different types of commercial and other real estate loans made by the Company. The Company uses its multi-chartered structure and local management knowledge to analyze and manage the local market conditions at each of its banks. As of June 30, 2015, the Company had approximately $23.9 million of non-performing commercial real estate loans representing approximately 0.5% of the total commercial real estate loan portfolio.

- Total non-performing loans (loans on non-accrual status and loans more than 90 days past due and still accruing interest), excluding covered loans, was $76.6 million (of which $23.9 million, or 31%, was related to commercial real estate) at June 30, 2015, a decrease of approximately $2.1 million compared to December 31, 2014 and a decrease of $12.1 million compared to June 30, 2014. Non-performing loans

decreased compared to the prior year quarter due to the continued reduction in existing non-performing loans through the efforts of our credit workout teams.

The Company's other real estate owned, excluding covered other real estate owned, decreased to $42.1 million during the second quarter of 2015, compared to $45.6 million at December 31, 2014 and $59.6 million at June 30, 2014. The $42.1 million of other real estate owned as of June 30, 2015 was comprised of $3.0 million of residential real estate development property, $32.6 million of commercial real estate property and $6.4 million of residential real estate property.

During the quarter, Management continued its efforts to resolve problem loans through liquidation rather than retention of loans or real estate acquired as collateral through the foreclosure process. For more information regarding these efforts, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation—Overview and Strategy” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

In addition, during the second quarter of 2015, the Company restructured $1.3 million of certain loans in TDRs, by providing economic concessions to borrowers to better align the terms of their loans with their current ability to pay. At June 30, 2015, approximately $62.8 million in loans had terms modified in TDRs, with $52.2 million of these TDRs in accruing status (see “-Loan Portfolio and Asset Quality” for further detail).

The Company enters into residential mortgage loan sale agreements with investors in the normal course of business. The Company’s practice is generally not to retain long-term fixed rate mortgages on its balance sheet in order to mitigate interest rate risk, and consequently sells most of such mortgages into the secondary market. These agreements provide recourse to investors through certain representations concerning credit information, loan documentation, collateral and insurability. Investors request the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. An increase in requests for loss indemnification can negatively impact mortgage banking revenue as additional recourse expense. The liability for estimated losses on repurchase and indemnification claims for residential mortgage loans previously sold to investors was $4.0 million at June 30, 2015 compared to $3.1 million at December 31, 2014 and $2.9 million at June 30, 2014. For more information regarding requests for indemnification on loans sold, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation—Overview and Strategy” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Trends in Our Three Operating Segments During the Second Quarter

Community Banking

Net interest income. Net interest income for the community banking segment totaled $127.0 million for the second quarter of 2015. Net interest income has increased steadily in recent quarters primarily due to growth in earning assets. The earning asset growth has occurred as a result of the Company's commercial banking initiative as well as franchise expansion through acquisitions.

Funding mix and related costs. Community banking profitability has been bolstered in recent quarters as the Company funded strong loan growth with a more desirable blend of funds. Additionally, non-interest bearing deposits have grown as a result of the Company’s commercial banking initiative and fixed term certificates of deposit have been running off and renewing at lower rates.

Level of non-performing loans and other real estate owned. The Company's credit quality measures have improved in recent quarters. The level of non-performing loans and other real estate owned has declined as the Company remains committed to the timely resolution of non-performing assets.

Mortgage banking revenue. Mortgage banking revenue increased in the current quarter as compared to the previous quarter primarily as a result of higher origination volumes as purchase originations were supplemented by increased refinance activity. Management expects new home purchase originations to remain strong as the housing market improves.

For more information regarding our community banking business, please see “Overview and Strategy—Community Banking” under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation” in the

Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Specialty Finance

Financing of Commercial Insurance Premiums. First Insurance Funding Corporation ("FIFC") and First Insurance Funding of Canada, Inc. ("FIFC Canada") originated approximately $1.5 billion of commercial insurance premium finance loans in the second quarter of 2015, relatively unchanged as compared to $1.4 billion in the first quarter of 2015 and the second quarter of 2014.

Financing of Life Insurance Premiums. FIFC originated approximately $221.7 million in life insurance premium finance loans in the second quarter of 2015 compared to $167.6 million in the first quarter of 2015, and $162.0 million in the second quarter of 2014. The increase in originations in the current quarter is primarily a result of increased demand for financed life insurance.

For more information regarding our specialty finance business, please see “Overview and Strategy—Specialty Finance” under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

59

Wealth Management Activities

The wealth management segment recorded stable revenue in the second quarter of 2015 as compared to the first quarter of 2015 and the second quarter of 2014. The wealth management segment expanded slightly in the current quarter as wealth management revenue increased by 2% and 1% in the second quarter of 2015 as compared to the first quarter of 2015 and second quarter of 2014, respectively. The increase in revenue in 2015 is mostly attributable to continued growth in assets under management due to new customers, as well as market appreciation.

For more information regarding our wealth management business, please see “Overview and Strategy—Wealth Management” under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Recent Acquisition Transactions

Acquisition of Delavan Bancshares, Inc.

On January 16, 2015 the Company completed its acquisition of Delavan. Delavan was the parent company of Community Bank CBD. Community Bank CBD was merged into the Company's wholly-owned subsidiary Town Bank. In addition to the banking facilities, the Company acquired approximately $128 million of loans and assumed approximately $170 million of deposits.

Acquisition of bank facilities and certain related deposits of Talmer Bank & Trust

On August 8, 2014, the Company, through its subsidiary Town Bank, completed its acquisition of certain branch offices and deposits of Talmer Bank & Trust. Through this transaction, Town Bank acquired 11 branch offices and approximately $355 million in deposits.

Acquisition of a bank facility and certain related deposits of THE National Bank

On July 11, 2014, the Company, through its subsidiary Town Bank, completed its acquisition of the Pewaukee, Wisconsin branch of THE National Bank. In addition to the banking facility, Town Bank acquired approximately $75 million in loans and approximately $36 million in deposits.

Acquisition of a bank facility and certain related deposits of Urban Partnership Bank

On May 16, 2014, the Company, through its subsidiary Hinsdale Bank, completed its acquisition of the Stone Park branch office and certain related deposits of Urban Partnership Bank.

Acquisition of two affiliated Canadian insurance premium funding and payment services companies

On April 28, 2014, the Company, through its subsidiary, FIFC Canada, completed its acquisition of 100% of the shares of each of Policy Billing Services Inc. and Equity Premium Finance Inc., two affiliated Canadian insurance premium funding and payment services companies.

Acquisition of a bank facility and certain assets and liabilities of Baytree National Bank &Trust Company

On February 28, 2014, the Company, through its subsidiary Lake Forest Bank and Trust Company ("Lake Forest Bank"), completed an acquisition of a bank branch from Baytree National Bank & Trust Company. In addition to the

banking facility, Lake Forest Bank acquired certain assets and approximately $15 million of deposits.

Table of Contents

Acquisitions Completed Subsequent to June 30, 2015

On July 24, 2015, the Company acquired Community Financial Shares, Inc. ("CFIS"). CFIS was the parent company of Community Bank - Wheaton/Glen Ellyn ("CBWGE"), which had four banking locations in Wheaton and Glen Ellyn, Illinois. CBWGE was merged into the Company's wholly-owned subsidiary Wheaton Bank. Prior to purchase accounting adjustments, the Company acquired approximately $327 million of assets, including approximately $177 million of loans, assumed approximately $301 million of deposits and assumed approximately $4 million of junior subordinated debentures.

On July 17, 2015, the Company acquired Suburban Illinois Bancorp, Inc. ("Suburban"). Suburban was the parent company of Suburban Bank & Trust Company ("SBT"), which had ten banking locations in Chicago and its suburbs. SBT was merged into the Company's wholly-owned subsidiary Hinsdale Bank. Prior to purchase accounting adjustments, the Company acquired approximately $480 million of assets, including approximately $284 million of loans, assumed approximately $417 million of deposits and approximately $15 million of junior subordinated debentures.

On July 1, 2015, the Company, through its wholly-owned subsidiary Wintrust Bank, acquired North Bank, with two banking locations and headquartered in downtown Chicago, Illinois. Through this transaction, prior to purchase accounting adjustments, Wintrust Bank acquired approximately $112 million of assets, including approximately $55 million of loans, and approximately $100 million of deposits.

Other Completed Transactions

Preferred Stock Issuance

In June 2015, the Company issued and sold 5,000,000 shares of fixed-to-floating non-cumulative perpetual preferred stock, Series D, liquidation preference $25 per share (the “Series D Preferred Stock”) for $125.0 million in an equity offering. If declared, dividends on the Series D Preferred Stock are payable quarterly in arrears at a fixed rate of 6.50% per annum from the original issuance date to, but excluding, July 15, 2025, and from (and including) that date at a floating rate equal to three-month LIBOR plus a spread of 4.06% per annum. The Company received proceeds, after deducting underwriting discounts and commissions and prior to expenses, of approximately $121.2 million from the issuance, which are intended to be used for general corporate purposes.

Subordinated Notes Issuance

On June 13, 2014, the Company announced the closing of its public offering of $140.0 million aggregate principal amount of its 5.00% Subordinated Notes due 2024. The Company received proceeds prior to expenses of approximately $139.1 million from the offering, after deducting underwriting discounts and commissions, which are intended to be used for general corporate purposes.

Table of Contents

RESULTS OF OPERATIONS

Earnings Summary

The Company's key operating measures for the three and six months ended June 30, 2015, as compared to the same period last year, are shown below:

(Dollars in thousands, except per share data)	Three months ended June 30, 2015		Three months ended June 30, 2014		Percentage (%) or Basis Point (bp) Change	
Net income	$43,831		$38,541		14	%
Net income per common share—Diluted	0.85		0.76		12	
Net revenue [1]	233,905		203,282		15	
Net interest income	156,892		149,180		5	
Net interest margin [2]	3.41	%	3.62	%	(21) bp	
Net overhead ratio [2] [3]	1.53		1.74		(21	)
Efficiency ratio [2] [4]	65.64		65.36		28	
Return on average assets	0.87		0.84		3	
Return on average common equity	8.38		8.03		35	
Return on average tangible common equity	10.86		10.43		43	

(Dollars in thousands, except per share data)	Six months ended June 30, 2015		Six months ended June 30, 2014		Percentage (%) or Basis Point (bp) Change	
Net income	$82,883		$73,041		13	%
Net income per common share—Diluted	1.61		1.44		12	
Net revenue [1]	450,337		392,817		15	
Net interest income	308,783		293,186		5	
Net interest margin [2]	3.42	%	3.61	%	(19) bp	
Net overhead ratio [2] [3]	1.61		1.84		(23	)
Efficiency ratio [2] [4]	66.72		67.12		(40	)
Return on average assets	0.83		0.81		2	
Return on average common equity	8.02		7.74		28	
Return on average tangible common equity	10.42		10.08		34	
At end of period						
Total assets	$20,799,924		$18,895,681		10	%
Total loans, excluding loans held-for-sale, excluding covered loans	15,513,650		13,749,996		13	
Total loans, including loans held-for-sale, excluding covered loans	16,010,933		14,113,623		13	
Total deposits	17,082,418		15,556,376		10	
Total shareholders' equity	2,264,982		1,998,235		13	
Tangible common equity ratio (TCE) [2]	7.7	%	8.0	%	(30) bp	
Tangible common equity ratio, assuming full conversion of preferred stock [2]	8.4	%	8.7	%	(30	)
Book value per common share [2]	$42.24		$40.21		5	%
Tangible common book value per share [2]	33.02		31.64		4	
Market price per common share	53.38		46.00		16	
Excluding covered loans:						
Allowance for credit losses to total loans [5]	0.65	%	0.68	%	(3) bp	
Non-performing loans to total loans	0.49	%	0.64	%	(15) bp	

(1) Net revenue is net interest income plus non-interest income.
(2) See following section titled, "Supplementary Financial Measures/Ratios" for additional information on this performance measure/ratio.
(3) The net overhead ratio is calculated by netting total non-interest expense and total non-interest income, annualizing this amount, and dividing by that period's total average assets. A lower ratio indicates a higher degree of efficiency.
(4) The efficiency ratio is calculated by dividing total non-interest expense by tax-equivalent net revenues (less securities gains or losses). A lower ratio indicates more efficient revenue generation.
(5) The allowance for credit losses includes both the allowance for loan losses and the allowance for lending-related commitments.

Certain returns, yields, performance ratios, and quarterly growth rates are "annualized" in this presentation and throughout this report to represent an annual time period. This is done for analytical purposes to better discern for decision-making purposes underlying performance trends when compared to full-year or year-over-year amounts. For example, balance sheet growth rates are most often expressed in terms of an annual rate. As such, 5% growth during a quarter would represent an annualized growth rate of 20%.

Table of Contents

Supplemental Financial Measures/Ratios

The accounting and reporting policies of Wintrust conform to GAAP in the United States and prevailing practices in the banking industry. However, certain non-GAAP performance measures and ratios are used by management to evaluate and measure the Company's performance. These include taxable-equivalent net interest income (including its individual components), net interest margin (including its individual components), the efficiency ratio, tangible common equity ratio, tangible common book value per share and return on average tangible common equity. Management believes that these measures and ratios provide users of the Company's financial information a more meaningful view of the performance of the interest-earning assets and interest-bearing liabilities and of the Company's operating efficiency. Other financial holding companies may define or calculate these measures and ratios differently.

Management reviews yields on certain asset categories and the net interest margin of the Company and its banking subsidiaries on a fully taxable equivalent ("FTE") basis. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources. Net interest income on a FTE basis is also used in the calculation of the Company's efficiency ratio. The efficiency ratio, which is calculated by dividing non-interest expense by total taxable-equivalent net revenue (less securities gains or losses), measures how much it costs to produce one dollar of revenue. Securities gains or losses are excluded from this calculation to better match revenue from daily operations to operational expenses. Management considers the tangible common equity ratio and tangible book value per common share as useful measurements of the Company's equity. The Company references the return on average tangible common equity as a measurement of profitability.

Table of Contents

A reconciliation of certain non-GAAP performance measures and ratios used by the Company to evaluate and measure the Company's performance to the most directly comparable GAAP financial measures is shown below:

(Dollars and shares in thousands)	Three months ended June 30, 2015		Three months ended June 30 2014		Six months ended June 30, 2015		Six months ended June 30, 2014	
Calculation of Net Interest Margin and Efficiency Ratio								
(A) Interest Income (GAAP)	$175,241		$166,550		$345,598		$327,876	
Taxable-equivalent adjustment:								
—Loans	328		281		655		511	
—Liquidity management assets	787		489		1,514		944	
—Other earning assets	27		2		34		6	
Interest Income—FTE	$176,383		$167,322		$347,801		$329,337	
(B) Interest Expense (GAAP)	18,349		17,370		36,815		34,690	
Net interest income—FTE	158,034		149,952		310,986		294,647	
(C) Net Interest Income (GAAP) (A minus B)	$156,892		$149,180		$308,783		$293,186	
(D) Net interest margin (GAAP)	3.39	%	3.60	%	3.39	%	3.59	%
Net interest margin—FTE	3.41	%	3.62	%	3.42	%	3.61	%
(E) Efficiency ratio (GAAP)	65.96	%	65.61	%	67.05	%	67.37	%
Efficiency ratio—FTE	65.64	%	65.36	%	66.72	%	67.12	%
(F) Net Overhead ratio (GAAP)	1.53	%	1.74	%	1.61	%	1.84	%
Calculation of Tangible Common Equity ratio (at period end)								
Total shareholders' equity	$2,264,982		$1,998,235					
(G) Less: Convertible preferred stock	(126,312	)	(126,467	)				
Less: Non-convertible preferred stock	(125,000	)	—					
Less: Intangible assets	(439,570	)	(398,615	)				
(H) Total tangible common shareholders' equity	$1,574,100		$1,473,153					
Total assets	$20,799,924		$18,895,681					
Less: Intangible assets	(439,570	)	(398,615	)				
(I) Total tangible assets	$20,360,354		$18,497,066					
Tangible common equity ratio (H/I)	7.7	%	8.0	%				
Tangible common equity ratio, assuming full conversion of preferred stock ((H-G)/I)	8.4	%	8.7	%				
Calculation of book value per share								
Total shareholders' equity	$2,264,982		$1,998,235					
Less: Preferred stock	(251,312	)	(126,467	)				
(J) Total common equity	$2,013,670		$1,871,768					
(K) Actual common shares outstanding	47,677		46,553					
Book value per share (J/K)	$42.24		$40.21					
Tangible common book value per share (H/K)	$33.02		$31.64					
Calculation of return on average common equity								
(L) Net income applicable to common shares	$42,251		$36,960		$79,722		$69,879	
Add: After-tax intangible asset amortization	597		708		1,212		1,418	
(M) Tangible net income applicable to common shares	42,848		37,668		80,934		71,297	
Total average shareholders' equity	2,156,128		1,971,656		2,135,357		1,947,785	
Less: Average preferred stock	(134,586	)	(126,473	)	(130,538	)	(126,475	)

(N) Total average common shareholders' equity	2,021,542	1,845,183	2,004,819	1,821,310
Less: Average intangible assets	(439,455)	(396,425)	(437,964)	(394,574)
(O) Total average tangible common shareholders' equity	1,582,087	1,448,758	1,566,855	1,426,736
Return on average common equity, annualized (L/N)	8.38 %	8.03 %	8.02 %	7.74 %
Return on average tangible common equity, annualized (M/O)	10.86 %	10.43 %	10.42 %	10.08 %

64

Critical Accounting Policies

The Company's Consolidated Financial Statements are prepared in accordance with GAAP in the United States and prevailing practices of the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments, and as such have a greater possibility that changes in those estimates and assumptions could produce financial results that are materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event, are based on information available as of the date of the financial statements; accordingly, as information changes, the financial statements could reflect different estimates and assumptions. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views critical accounting policies to include the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be most subject to revision as new information becomes available. For a more detailed discussion on these critical accounting policies, see "Summary of Critical Accounting Policies" beginning on page 50 of the Company's 2014 Form 10-K.

Net Income

Net income for the quarter ended June 30, 2015 totaled $43.8 million, an increase of $5.3 million, or 14%, compared to the second quarter of 2014. On a per share basis, net income for the second quarter of 2015 totaled $0.85 per diluted common share compared to $0.76 in the second quarter of 2014.

The most significant factors impacting net income for the second quarter of 2015 as compared to the same period in the prior year include an increase in net interest income as a result of growth in earning assets, higher mortgage banking revenue due to a favorable mortgage banking environment, higher fees from covered call options and the recognition of a $1.5 million BOLI death benefit. These improvements were partially offset by an increase in salary and employee benefit expense from increased salaries caused by the addition of employees from various acquisitions and higher staffing levels as the Company grows and an increase in commissions and incentive compensation attributable to higher expenses on variable pay based arrangements as well as increased advertising and marketing expenses for community-related advertisements and sponsorships. The return on average common equity for the second quarter of 2015 was 8.38%, compared to 8.03% for the prior year second quarter.

Table of Contents

Net Interest Income

The primary source of the Company's revenue is net interest income. Net interest income is the difference between interest income and fees on earnings assets, such as loans and securities, and interest expense on the liabilities to fund those assets, including interest bearing deposits and other borrowings. The amount of net interest income is affected by both changes in the level of interest rates, and the amount and composition of earning assets and interest bearing liabilities. Net interest margin represents tax-equivalent net interest income as a percentage of the average earning assets during the period.

Quarter Ended June 30, 2015 compared to the Quarters Ended March 31, 2015 and June 30, 2014
The following table presents a summary of the Company's net interest income and related net interest margin, calculated on a fully taxable equivalent basis, for the second quarter of 2015 as compared to the first quarter of 2015 (sequential quarters) and second quarter of 2014 (linked quarters):

	Average Balance for three months ended,			Interest for three months ended,			Yield/Rate for three months ended,		
(Dollars in thousands)	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	March 31, 2015	June 30, 2014
Liquidity management assets(1)(2)(7)	$2,709,176	$2,868,906	$2,607,980	$15,949	$16,214	$14,850	2.36%	2.29%	2.28%
Other earning assets(2)(3)(7)	32,115	27,717	27,463	283	201	207	3.54	2.94	3.02
Loans, net of unearned income(2)(4)(7)	15,632,875	15,031,917	13,710,535	156,970	151,316	145,169	4.03	4.08	4.25
Covered loans	202,663	214,211	292,553	3,181	3,687	7,096	6.30	6.98	9.73
Total earning assets(7)	$18,576,829	$18,142,751	$16,638,531	$176,383	$171,418	$167,322	3.81%	3.83%	4.03%
Allowance for loan and covered loan losses	(101,211)	(96,918)	(98,255)						
Cash and due from banks	236,242	249,687	232,716						
Other assets	1,545,136	1,530,720	1,529,950						
Total assets	$20,256,996	$19,826,240	$18,302,942						
Interest-bearing deposits	$13,115,453	$12,863,507	$12,284,444	$11,996	$11,814	$11,759	0.37%	0.37%	0.38%
Federal Home Loan Bank advances	347,656	357,532	446,778	1,812	2,156	2,705	2.09	2.45	2.43
Other borrowings	193,660	194,994	148,135	787	788	510	1.63	1.64	1.38
Subordinated notes	140,000	140,000	27,692	1,777	1,775	354	5.07	5.07	5.06
Junior subordinated notes	249,493	249,493	249,493	1,977	1,933	2,042	3.13	3.10	3.24
Total interest-bearing liabilities	$14,046,262	$13,805,526	$13,156,542	$18,349	$18,466	$17,370	0.52%	0.54%	0.53%
Non-interest bearing deposits	3,725,728	3,584,452	2,880,501						

Other liabilities	328,878	321,906	294,243						
Equity	2,156,128	2,114,356	1,971,656						
Total liabilities and shareholders' equity	$20,256,996	$19,826,240	$18,302,942						
Interest rate spread[(5)(7)]							3.29%	3.29%	3.50%
Net free funds/contribution[(6)]	$4,530,567	$4,337,225	$3,481,989				0.12%	0.13%	0.12%
Net interest income/ margin[(7)]				$158,034	$152,952	$149,952	3.41%	3.42%	3.62%

(1) Liquidity management assets include available-for-sale securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements.

(2) Interest income on tax-advantaged loans, trading securities and securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate of 35%. The total adjustments for the three months ended June 30, 2015, March 31, 2015 and June 30, 2014 were $1.1 million, $1.1 million and $772,000, respectively.

(3) Other earning assets include brokerage customer receivables and trading account securities.

(4) Loans, net of unearned income, include loans held-for-sale and non-accrual loans.

(5) Interest rate spread is the difference between the yield earned on earning assets and the rate paid on interest-bearing liabilities.

(6) Net free funds are the difference between total average earning assets and total average interest-bearing liabilities. The estimated contribution to net interest margin from net free funds is calculated using the rate paid for total interest-bearing liabilities.

(7) See "Supplemental Financial Measures/Ratios" for additional information on this performance ratio.

Table of Contents

Six months ended June 30, 2015 compared to six months ended June 30, 2014

The following table presents a summary of the Company's net interest income and related net interest margin, calculated on a fully
taxable equivalent basis, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 :

(Dollars in thousands)	Average Balance for six months ended,		Interest for six months ended,		Yield/Rate for six months ended,	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Liquidity management assets[(1)(2)(7)]	$2,788,600	$2,627,243	$32,163	$29,383	2.33 %	2.26 %
Other earning assets[(2)(3)(7)]	29,928	28,190	484	429	3.26	3.07
Loans, net of unearned income[(2)(4)(7)]	15,334,056	13,495,523	308,285	285,489	4.05	4.27
Covered loans	208,405	309,127	6,869	14,036	6.65	9.16
Total earning assets[(7)]	$18,360,989	$16,460,083	$347,801	$329,337	3.82 %	4.03 %
Allowance for loan and covered loan losses	(99,077)	(104,247)				
Cash and due from banks	242,927	228,046				
Other assets	1,537,969	1,558,950				
Total assets	$20,042,808	$18,142,832				
Interest-bearing deposits	$12,990,176	$12,203,266	$23,810	$23,682	0.37 %	0.39 %
Federal Home Loan Bank advances	352,566	418,036	3,968	5,348	2.27	2.58
Other borrowings	194,324	196,274	1,575	1,260	1.63	1.29
Subordinated notes	140,000	13,923	3,552	354	5.07	5.06
Junior subordinated notes	249,493	249,493	3,910	4,046	3.12	3.23
Total interest-bearing liabilities	$13,926,559	$13,080,992	$36,815	$34,690	0.53 %	0.53 %
Non-interest bearing deposits	3,655,480	2,804,111				
Other liabilities	325,412	309,944				
Equity	2,135,357	1,947,785				
Total liabilities and shareholders' equity	$20,042,808	$18,142,832				
Interest rate spread[(5)(7)]					3.29 %	3.50 %
Net free funds/contribution[(6)]	$4,434,430	$3,379,091			0.13 %	0.11 %
Net interest income/ margin[(7)]			$310,986	$294,647	3.42 %	3.61 %

(1) Liquidity management assets include available-for-sale securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements.
(2) Interest income on tax-advantaged loans, trading securities and securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate of 35%. The total adjustments for the six months ended June 30, 2015 and June 30, 2014 were $2.2 million and $1.5 million, respectively.
(3) Other earning assets include brokerage customer receivables and trading account securities.
(4) Loans, net of unearned income, include loans held-for-sale and non-accrual loans.
(5) Interest rate spread is the difference between the yield earned on earning assets and the rate paid on interest-bearing liabilities.
(6)

Net free funds are the difference between total average earning assets and total average interest-bearing liabilities. The estimated contribution to net interest margin from net free funds is calculated using the rate paid for total interest-bearing liabilities.

(7) See “Supplemental Financial Measures/Ratios” for additional information on this performance ratio.

Analysis of Changes in Tax-equivalent Net Interest Income

The following table presents an analysis of the changes in the Company’s tax-equivalent net interest income comparing the three month periods ended June 30, 2015 to March 31, 2015 and June 30, 2014, and the six month periods ended June 30, 2015 and June 30, 2014. The reconciliations set forth the changes in the tax-equivalent net interest income as a result of changes in volumes, changes in rates and differing number of days in each period:

(Dollars in thousands)	Second Quarter of 2015 Compared to First Quarter of 2015	Second Quarter of 2015 Compared to Second Quarter of 2014	First Six Months of 2015 Compared to First Six Months of 2014
Tax-equivalent net interest income for comparative period	$152,952	$149,952	$294,647
Change due to mix and growth of earning assets and interest-bearing liabilities (volume)	4,861	17,381	33,672
Change due to interest rate fluctuations (rate)	(1,459)	(9,299)	(17,333)
Change due to number of days in each period	1,680	—	—
Tax-equivalent net interest income for the period ended June 30, 2015	$158,034	$158,034	$310,986

67

Table of Contents

Non-interest Income

For the second quarter of 2015, non-interest income totaled $77.0 million, an increase of $22.9 million, or 42%, compared to the second quarter of 2014. On a year-to-date basis, non-interest income for the first six months of 2015 totaled $141.6 million and increased $41.9 million compared to the same period in 2014. The increases in both periods are mostly due to increases in mortgage banking revenue, fees from covered call options, and the recognition of a $1.5 million BOLI death benefit.

The following table presents non-interest income by category for the periods presented:

(Dollars in thousands)	Three Months Ended June 30, 2015	June 30, 2014	$ Change	% Change
Brokerage	$6,750	$8,270	$(1,520)	(18)%
Trust and asset management	11,726	9,952	1,774	18
Total wealth management	18,476	18,222	254	1
Mortgage banking	36,007	23,804	12,203	51
Service charges on deposit accounts	6,474	5,688	786	14
Losses on available-for-sale securities, net	(24)	(336)	312	(93)
Fees from covered call options	4,565	1,244	3,321	NM
Trading gains (losses), net	160	(743)	903	NM
Other:				
Interest rate swap fees	2,347	1,192	1,155	97
BOLI	2,180	675	1,505	NM
Administrative services	1,053	938	115	12
Miscellaneous	5,775	3,418	2,357	69
Total Other	11,355	6,223	5,132	82
Total Non-Interest Income	$77,013	$54,102	$22,911	42 %

(Dollars in thousands)	Six months ended June 30, 2015	June 30, 2014	$ Change	% Change
Brokerage	$13,602	$15,361	$(1,759)	(11)%
Trust and asset management	22,974	19,674	3,300	17
Total wealth management	36,576	35,035	1,541	4
Mortgage banking	63,807	40,232	23,575	59
Service charges on deposit accounts	12,771	11,034	1,737	16
Gains (losses) on available-for-sale securities, net	500	(369)	869	NM
Fees from covered call options	8,925	2,786	6,139	NM
Trading losses, net	(317)	(1,395)	1,078	(77)
Other:				
Interest rate swap fees	4,538	2,143	2,395	NM
BOLI	2,946	1,387	1,559	NM
Administrative services	2,079	1,796	283	16
Miscellaneous	9,729	6,982	2,747	39
Total Other	19,292	12,308	6,984	57
Total Non-Interest Income	$141,554	$99,631	$41,923	42 %

NM - Not Meaningful

The significant changes in non-interest income for the three and six month periods ended June 30, 2015 compared to the three and six month periods ended June 30, 2014 are discussed below.

Wealth management revenue totaled $18.5 million in the second quarter of 2015 compared to $18.2 million in the second quarter of 2014, an increase of 1%. On a year-to-date basis, wealth management revenues totaled $36.6 million for the first six months of 2015, compared to $35.0 million for the first six months of 2014. The increase in the current year period is primarily attributable

to growth in assets under management from new customers and market appreciation. Wealth management revenue is comprised of the trust and asset management revenue of The Chicago Trust Company and Great Lakes Advisors and the brokerage commissions, money managed fees and insurance product commissions at Wayne Hummer Investments.

For the quarter ended June 30, 2015, mortgage banking revenue totaled $36.0 million, an increase of $12.2 million, or 51% when compared to the second quarter of 2014. For the six months ended June 30, 2015, mortgage banking revenue totaled $63.8 million compared to $40.2 million for the six months ended June 30, 2014. The increase in mortgage banking revenue in the the three and six months ended June, 30 2015 as compared to the prior year periods resulted primarily from higher origination volumes as a result of a favorable mortgage banking environment in the current quarter. Mortgage loans originated and purchased to be sold to the secondary market were $1.2 billion in the second quarter of 2015 as compared to $840.9 million in the second quarter of 2014. On a year-to-date basis, mortgage loan originations were $2.1 billion for the six months ended June 30, 2015 compared to $1.4 billion for the same period of the prior year. Mortgage banking revenue is comprised of revenue from activities related to originating, selling and servicing residential real estate loans for the secondary market, including gains or losses from the sale of mortgage loans originated, origination fees, underwriting fees and other fees associated with the origination of loans. Mortgage revenue is also impacted by changes in the fair value of MSRs as the Company does not hedge this change in fair value. The Company typically originates mortgage loans held-for-sale with associated MSRs either retained or released. The Company records MSRs at fair value on a recurring basis.

The Company enters into residential mortgage loan sale agreements with investors in the normal course of business. These agreements usually require certain representations concerning credit information, loan documentation, collateral and insurability. Investors have requested the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. Management maintains a liability for estimated losses on loans expected to be repurchased or on which indemnification is expected to be provided and regularly evaluates the adequacy of this recourse liability based on trends in repurchase and indemnification requests, actual loss experience, known and inherent risks in the loans, and current economic conditions. The liability for estimated losses on repurchase and indemnification claims for residential mortgage loans previously sold to investors was $4.0 million and $2.9 million at June 30, 2015 and 2014, respectively, and was included in other liabilities on the Consolidated Statements of Condition.

Management believes that the Company’s foreclosure process related to mortgage loans held-for-sale continues to be effective and operate in compliance with all applicable laws. Before beginning the foreclosure process, a mortgage loan foreclosure working group of the Bank reviews the identified delinquent loan. All documents and activities related to the foreclosure process are executed in-house by mortgage department personnel.
Service charges on deposit accounts totaled $6.5 million in the second quarter of 2015, an increase of $786,000 compared to the quarter ended June 30, 2014. On a year-to-date basis, service charges on deposit accounts totaled $12.8 million for the six months ended June 30, 2015 as compared to $11.0 million for the same period of the prior year. The increase in current year periods is primarily a result of higher account analysis fees on deposit accounts which have increased as a result of the Company's commercial banking initiative.

Fees from covered call option transactions totaled $4.6 million for the second quarter 2015, compared to $1.2 million for the second quarter of 2014. On a year-to-date basis, fees from covered call option transactions totaled $8.9 million for the six months ended June 30, 2015, compared to $2.8 million for the same period of the prior year. The Company has typically written call options with terms of less than three months against certain U.S. Treasury and agency securities held in its portfolio for liquidity and other purposes. Management has effectively entered into these transactions with the goal of economically hedging security positions and enhancing its overall return on its investment portfolio by using fees generated from these options to compensate for net interest margin compression. These option transactions are designed to mitigate overall interest rate risk but do not qualify as hedges pursuant to

accounting guidance. Fees from covered call options increased in the current quarter primarily as a result of selling call options against a larger value of underlying securities resulting in higher premiums received by the Company. There were no outstanding call option contracts at June 30, 2015 and June 30, 2014.

The Company recognized $160,000 of trading gains in the second quarter of 2015 compared to trading losses of $743,000 in the second quarter of 2014. On a year-to-date basis, the Company recognized $317,000 of trading losses for the six months ended June 30, 2015 compared to $1.4 million of trading losses for the six months ended June 30, 2014. Trading gains and losses recorded by the Company primarily result from fair value adjustments related to interest rate derivatives not designated as hedges, primarily interest rate cap instruments that the Company uses to manage interest rate risk, specifically in the event of future increases in short-term interest rates. The change in value of the cap derivatives reflects the present value of expected cash flows over the remaining life of the caps. These expected cash flows are derived from the expected path for and a measure of volatility for short-term interest rates.

Table of Contents

Other non-interest income totaled $11.4 million in the second quarter of 2015 compared to $6.2 million in the second quarter of 2014. On a year-to-date basis, other non-interest income totaled $19.3 million for the first six months of 2015 as compared to $12.3 million in the same period of the prior year. The increases in current year periods are primarily due to an increase in swap fee revenues resulting from interest rate hedging transactions related to both customer-based trades and the related matched trades with inter-bank dealer counterparties as well as the recognition of a $1.5 million BOLI death benefit.

Non-interest Expense

Non-interest expense for the second quarter of 2015 totaled $154.3 million and increased approximately $20.7 million, or 15%, compared to the second quarter of 2014. The increase compared to the second quarter of 2014 was primarily attributable to higher salary and employee benefit costs and increased equipment, occupancy, data processing, marketing and professional fees. On a year-to-date basis, non-interest expense for the first six months of 2015 totaled $301.6 million and increased $36.7 million, or 14%, compared to the same period in 2014. The increase compared to the first six months of 2014 was primarily attributable to higher salary and employee benefits and increased equipment, occupancy, data processing, marketing and professional fees.

The following table presents non-interest expense by category for the periods presented:

(Dollars in thousands)	Three months ended June 30, 2015	June 30, 2014	$ Change	% Change
Salaries and employee benefits:				
Salaries	$46,617	$43,349	$3,268	8 %
Commissions and incentive compensation	33,387	25,398	7,989	31
Benefits	14,417	13,216	1,201	9
Total salaries and employee benefits	94,421	81,963	12,458	15
Equipment	7,914	7,223	691	10
Occupancy, net	11,401	9,850	1,551	16
Data processing	6,081	4,543	1,538	34
Advertising and marketing	6,406	3,558	2,848	80
Professional fees	5,074	4,046	1,028	25
Amortization of other intangible assets	934	1,156	(222)	(19)
FDIC insurance	3,047	3,196	(149)	(5)
OREO expense, net	841	2,490	(1,649)	(66)
Other:				
Commissions—3rd party brokers	1,403	1,633	(230)	(14)
Postage	1,578	1,465	113	8
Miscellaneous	15,197	12,468	2,729	22
Total other	18,178	15,566	2,612	17
Total Non-Interest Expense	$154,297	$133,591	$20,706	15 %

70

Table of Contents

(Dollars in thousands)	Six months ended June 30, 2015	June 30, 2014	$ Change	% Change
Salaries and employee benefits:				
Salaries	$93,465	$87,085	$6,380	7 %
Commissions and incentive compensation	58,881	46,931	11,950	25
Benefits	32,205	27,881	4,324	16
Total salaries and employee benefits	184,551	161,897	22,654	14
Equipment	15,750	14,626	1,124	8
Occupancy, net	23,752	20,843	2,909	14
Data processing	11,529	9,258	2,271	25
Advertising and marketing	10,313	6,374	3,939	62
Professional fees	9,738	7,500	2,238	30
Amortization of other intangible assets	1,947	2,319	(372)	(16)
FDIC insurance	6,034	6,147	(113)	(2)
OREO expense, net	2,252	6,466	(4,214)	(65)
Other:				
Commissions—3rd party brokers	2,789	3,290	(501)	(15)
Postage	3,211	2,894	317	11
Miscellaneous	29,749	23,292	6,457	28
Total other	35,749	29,476	6,273	21
Total Non-Interest Expense	$301,615	$264,906	$36,709	14 %

The significant changes in non-interest expense for the three and six months ended June 30, 2015 compared to the period ended June 30, 2014 are discussed below.

Salaries and employee benefits expense increased $12.5 million, or 15%, in the second quarter of 2015 compared to the second quarter of 2014 primarily as a result of a $8.0 million increase in commissions and incentive compensation primarily attributable to higher expenses on variable pay based arrangements, a $3.3 million increase in salaries as a result of various acquisitions and additional staffing as the Company grows and a $1.2 million increase in employee benefits from higher insurance costs. On a year-to-date basis, salaries and employee benefits expense increased $22.7 million, or 14%, in the first six months of 2015 compared to the first six months on 2014 primarily as a result of a $12.0 million increase in commissions and incentive compensation related to higher expenses on variable pay based arrangements, a $6.4 million increase in salaries as a result of various acquisitions and additional staffing as the Company grows and a $4.3 million increase in employee benefits resulting from higher insurance costs and adjustments to pension liabilties.

Equipment expense totaled $7.9 million for the second quarter of 2015, an increase of $691,000 compared to the second quarter of 2014. On a year-to-date basis, equipment expense totaled $15.8 million for the first six months of 2015 as compared to $14.6 million for the first six months of 2014. The increase in the current year periods is primarily related to increased software license fees and maintenance and repair expenses. Equipment expense includes depreciation on equipment, maintenance and repairs, equipment rental and software fees.

Occupancy expense for the second quarter of 2015 was $11.4 million, an increase of $1.6 million, or 16%, compared to the same period in 2014. On a year-to-date basis, occupancy expense totaled $23.8 million for the first six months of 2015, as compared to $20.8 million for the first six months of 2014. The increase in the current year periods is primarily the result of increased rent expense on leased properties as well as increased depreciation and property taxes on owned locations including those obtained in the Company's recent acquisitions. Occupancy expense includes depreciation on premises, real estate taxes, utilities and maintenance of premises, as well as net rent expense for leased premises.

Advertising and marketing expenses for the second quarter of 2015 were $6.4 million, as compared to $3.6 million for the second quarter of 2014. On a year-to-date basis, advertising and marketing expenses totaled $10.3 million for the first six months of 2015, as compared to $6.4 million for the first six months of 2014. The increase in the current year periods relates primarily to expenses for community-related advertisements and sponsorships. Marketing costs are incurred to promote the Company's brand, commercial banking capabilities, the Company's various products, to attract loans and deposits and to announce new branch openings as well as the expansion of the Company's non-bank businesses. The level of marketing expenditures depends on the type of marketing programs utilized which are determined based on the market area, targeted audience, competition and various other factors.

Professional fees for the second quarter of 2015 were $5.1 million, as compared to $4.0 million for the second quarter of 2014. The increase in the second quarter of 2015 compared to the second quarter of 2014 is primarily the result of increased legal expense,

including legal fees incurred in connection with recent acquisitions. On a year-to-date basis, professional fees for the first six months of 2015 were $9.7 million, as compared to $7.5 million for the first six months of 2014. The increase in current year period as compared to the same period in 2014 relates primarily to increased legal and consulting fees. Professional fees include legal, audit and tax fees, external loan review costs and normal regulatory exam assessments.

OREO expense totaled $841,000 in the second quarter of 2015 compared to $2.5 million recorded in the second quarter of 2014. The decrease in the first quarter of 2015 compared to the same period in 2014 is primarily due to fewer negative valuation adjustments of OREO properties as well as higher gains recorded on non-covered OREO sales in the current quarter. On a year-to-date basis, OREO expenses totaled $2.3 million for the first six months of 2015 as compared to $6.5 million for the same period in 2014. The decrease in the first six months of 2015 is primarily the result of fewer negative valuation adjustments of OREO properties. OREO costs include all costs related to obtaining, maintaining and selling other real estate owned properties.

Miscellaneous other expenses in the second quarter of 2015 increased $2.6 million or 17%, as compared to the quarter ended June 30, 2014. On a year-to-date basis, miscellaneous expense increased $6.3 million compared to the same period in 2014. The increase in the current year periods compared to the same periods in 2014 are due to increased travel and entertainment expenses and increased costs related to postage, insurance and operating losses. Miscellaneous expense includes ATM expenses, correspondent bank charges, directors' fees, telephone, travel and entertainment, corporate insurance, dues and subscriptions, problem loan expenses, operating losses and lending origination costs that are not deferred.

Income Taxes

The Company recorded income tax expense of $26.3 million for the three months ended June 30, 2015, compared to $24.5 million for same period of 2014. Income tax expense was $50.3 million and $46.3 million for the six months ended June 30, 2015 and 2014, respectively. The effective tax rates were 37.5% and 38.9% for the second quarters of 2015 and 2014, respectively, and 37.8% and 38.8% for the 2015 and 2014 year-to-date periods, respectively. The lower effective tax rates in the three months and six months ended June 30, 2015 as compared to the same periods of 2014 were a result of lower state income tax rates in Illinois in 2015 and an increase in tax-exempt BOLI income.

Operating Segment Results

The Company’s operations consist of three primary segments: community banking, specialty finance and wealth management. The Company’s profitability is primarily dependent on the net interest income, provision for credit losses, non-interest income and operating expenses of its community banking segment. For purposes of internal segment profitability, management allocates certain intersegment and parent company balances. Management allocates a portion of revenues to the specialty finance segment related to loans originated by the specialty finance segment and sold to the community banking segment. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates a portion of the net interest income earned by the community banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. Finally, expenses incurred at the Wintrust parent company are allocated to each segment based on each segment's risk-weighted assets.

The community banking segment’s net interest income for the quarter ended June 30, 2015 totaled $127.0 million as compared to $121.2 million for the same period in 2014, an increase of $5.8 million, or 5%. On a year-to-date basis, net interest income for the segment increased by $11.7 million from $238.0 million for the first six months of 2014 to $249.6 million for the first six months of 2015. The increase in both the three and six month periods is primarily attributable to growth in earning assets including those acquired in bank acquisitions. The community banking segment’s non-interest income totaled $56.3 million in the second quarter of 2015, an increase of $22.9 million, or 69%, when compared to the second quarter of 2014 total of $33.3 million. On a year-to-date basis, non-interest income totaled $101.2 million for the first six months of 2015, an increase of $40.5 million, or 67%, compared to $60.7 million in the six months ended June 30, 2014. The increase in non-interest income in the quarter and year-to-date periods was primarily attributable to higher mortgage banking revenues from higher originations in 2015

as a result of the favorable mortgage environment. The community banking segment’s net income for the quarter ended June 30, 2015 totaled $29.1 million, an increase of $4.5 million as compared to net income in the second quarter of 2014 of $24.6 million. On a year-to-date basis, the community banking segment's net income was $54.1 million for the first six months of 2015 as compared to $47.2 million for the first six months of 2014.

The specialty finance segment's net interest income totaled $21.3 million for the quarter ended June 30, 2015, compared to $19.8 million for the same period in 2014, an increase of $1.5 million, or 8%. The specialty finance segment’s non-interest income totaled $9.1 million for the three month period ending June 30, 2015 compared to $8.5 million for the three month period ending June 30, 2014. On a year-to-date basis, net interest income and non-interest income increased by $3.4 million and $670,000, respectively, in the first six months of 2015 as compared to the first six months of 2014. The increases in both net interest income and non-interest income in the current year periods are primarily the result of increased loan balances since the prior year periods.

Our commercial premium finance operations, life insurance finance operations and accounts receivable finance operations accounted for 57%, 35% and 8%, respectively, of the total revenues of our specialty finance business for the six month period ending June 30, 2015. The net income of the specialty finance segment for the quarter ended June 30, 2015 totaled $11.4 million as compared to $10.3 million for the quarter ended June 30, 2014. On a year-to-date basis, the net income of the specialty finance segment for the six months ended June 30, 2015 totaled $22.3 million as compared to $19.3 million for the six months ended June 30, 2014.

The wealth management segment reported net interest income of $4.3 million for the second quarter of 2015 compared to $4.0 million in the same quarter of 2014. On a year-to-date basis, net interest income totaled $8.5 million for the first six months of 2015 as compared to $8.1 million for the first six months of 2014. Net interest income for this segment is primarily comprised of an allocation of the net interest income earned by the community banking segment on non-interest bearing and interest-bearing wealth management customer account balances on deposit at the banks. Wealth management customer account balances on deposit at the banks averaged $880.7 million and $838.1 million in the first six months of 2015 and 2014, respectively. This segment recorded non-interest income of $19.0 million for the second quarter of 2015, which was relatively flat compared to $19.2 million for the second quarter of 2014. On a year-to-date basis, the wealth management segment's non-interest income totaled $37.7 million during the first six months of 2015 as compared to $36.2 million in the first six months of 2014. The increase in non-interest income on a year-to-date basis is primarily attributable to growth in assets under management due to new customers as well as market appreciation. Distribution of wealth management services through each bank continues to be a focus of the Company as the number of financial advisors in its banks continues to increase. The Company is committed to growing the wealth management segment in order to better service its customers and create a more diversified revenue stream. The wealth management segment’s net income totaled $3.3 million for the second quarter of 2015 compared to net income of $3.6 million for the second quarter of 2014. On a year-to-date basis, wealth management segment's net income totaled $6.5 million for the six month periods ending June 30, 2015 and 2014.

Financial Condition

Total assets were $20.8 billion at June 30, 2015, representing an increase of $1.9 billion, or 10%, when compared to June 30, 2014 and an increase of approximately $417.7 million, or 8% on an annualized basis, when compared to March 31, 2015. Total funding, which includes deposits, all notes and advances, including the junior subordinated debentures, was $18.2 billion at June 30, 2015, $17.9 billion at March 31, 2015, and $16.6 billion at June 30, 2014. See Notes 5, 6, 9, 10 and 11 of the Consolidated Financial Statements presented under Item 1 of this report for additional period-end detail on the Company's interest-earning assets and funding liabilities.

Interest-Earning Assets

The following table sets forth, by category, the composition of average earning asset balances and the relative percentage of total average earning assets for the periods presented:

	Three Months Ended								
	June 30, 2015			March 31, 2015			June 30, 2014		
(Dollars in thousands)	Balance	Percent		Balance	Percent		Balance	Percent	
Loans:									
Commercial	$4,249,214	23	%	$3,979,193	22	%	$3,525,503	21	%
Commercial real estate	4,756,767	26		4,625,033	26		4,315,297	26	
Home equity	714,808	4		713,537	4		709,741	4	
Residential real estate (1)	929,493	5		805,620	4		704,249	4	
Premium finance receivables	4,839,482	26		4,727,623	26		4,285,940	26	
Other loans	143,111	1		180,911	1		169,805	1	
Total loans, net of unearned income excluding covered loans (2)	$15,632,875	85	%	$15,031,917	83	%	$13,710,535	82	%
Covered loans	202,663	1		214,211	1		292,553	2	
Total average loans (2)	$15,835,538	86	%	$15,246,128	84	%	$14,003,088	84	%
Liquidity management assets (3)	$2,709,176	14	%	$2,868,906	16	%	2,607,980	16	%
Other earning assets (4)	32,115	—		27,717	—		27,463	—	
Total average earning assets	$18,576,829	100	%	$18,142,751	100	%	$16,638,531	100	%
Total average assets	$20,256,996			$19,826,240			$18,302,942		
Total average earning assets to total average assets		92	%		92	%		91	%

(1) Includes mortgage loans held-for-sale

(2) Includes loans held-for-sale and non-accrual loans

(3) Liquidity management assets include available-for-sale securities, other securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements

(4) Other earning assets include brokerage customer receivables and trading account securities

Total average earning assets for the second quarter of 2015 increased $1.9 billion, or 12%, to $18.6 billion, compared to the second quarter of 2014, and increased $434.1 million, or 10% on an annualized basis, compared to the first quarter of 2015. Average earning assets comprised 92% of average total assets at June 30, 2015 and March 31, 2015 and 91% at June 30, 2014.

Average total loans, net of unearned income, totaled $15.8 billion in the second quarter of 2015, increasing $1.8 billion, or 13%, from the second quarter of 2014 and $589.4 million, or 16% on an annualized basis, from the first quarter of 2015. Average commercial loans totaled $4.2 billion in the second quarter of 2015, and increased $723.7 million, or 21%, over the average balance in the same period of 2014, while average commercial real estate loans totaled $4.8 billion in the second quarter of 2015, increasing $441.5 million, or 10%, compared to the second quarter of 2014. Combined, these categories comprised 57% and 56% of the average loan portfolio in the second quarters of 2015 and 2014, respectively. Average balances increased compared to the quarter ended March 31, 2015, with average commercial loans increasing by $270.0 million, or 27% annualized, and average commercial real estate loans increasing by $131.7 million, or 11% annualized. The growth realized in these categories for the second quarter of 2015 as compared to the sequential and prior year periods is primarily attributable to increased business development

efforts and various bank acquisitions.

Home equity loans averaged $714.8 million in the second quarter of 2015, and increased $5.1 million, or 1%, when compared to the average balance in the same period of 2014 and increased $1.3 million, or 1% annualized, when compared to quarter ended March 31, 2015. The Company has been actively managing its home equity portfolio to ensure that diligent pricing, appraisal and other underwriting activities continue to exist. The Company has not sacrificed asset quality or pricing standards when originating new home equity loans. Our home equity loan portfolio has performed well in light of the deterioration in the overall residential

real estate market experienced from 2008 to 2012. The number of new home equity line of credit commitments originated by us has decreased due to the refinancing of these loans into long-term fixed-rate residential real estate loans and declines in housing valuations that have decreased the amount of equity against which homeowners may borrow.

Residential real estate loans averaged $929.5 million in the second quarter of 2015, and increased $225.2 million, or 32% from the average balance of $704.2 million in same period of 2014. Additionally, compared to the quarter ended March 31, 2015, the average balance increased $123.9 million, or 62% on an annualized basis. This category includes mortgage loans held-for-sale. By selling residential mortgage loans into the secondary market, the Company eliminates the interest-rate risk associated with these loans, as they are predominantly long-term fixed rate loans, and provides a source of non-interest revenue. Average mortgage loans held-for-sale increased when compared to the quarter ended June 30, 2015 and March 31, 2015 as result of higher origination volumes due to an improved mortgage banking environment.

Average premium finance receivables totaled $4.8 billion in the second quarter of 2015, and accounted for 31% of the Company's average total loans. Premium finance receivables consist of a commercial portfolio and a life portfolio, each comprising approximately 50% of the average total balance of premium finance receivables for the second quarter of 2015, and 54% and 46%, respectively, for the second quarter of 2014. In the second quarter of 2015, average premium finance receivables increased $553.5 million, or 13%, from the average balance of $4.3 billion at the same period of 2014. Additionally, the average balance increased $111.9 million, or 9% on an annualized basis, from the average balance of $4.7 billion in the quarter ended March 31, 2015. The increase during 2015 compared to both periods was the result of continued originations within the portfolio due to the effective marketing and customer servicing. Approximately $1.7 billion of premium finance receivables were originated in the second quarter of 2015 compared to $1.6 billion during the same period of 2014.

Other loans represent a wide variety of personal and consumer loans to individuals as well as indirect automobile and consumer loans and high-yielding short-term accounts receivable financing to clients in the temporary staffing industry located throughout the United States. Consumer loans generally have shorter terms and higher interest rates than mortgage loans but generally involve more credit risk due to the type and nature of the collateral. Additionally, short-term accounts receivable financing may also involve greater credit risks than generally associated with the loan portfolios of more traditional community banks depending on the marketability of the collateral.

Covered loans averaged $202.7 million in the second quarter of 2015, and decreased $89.9 million, or 31%, when compared to the average balance in the same period of 2014 and decreased $11.5 million, or 22% annualized, when compared to quarter ended March 31, 2015. Covered loans represent loans acquired through the nine FDIC-assisted transactions, all of which occurred prior to 2013. These loans are subject to loss sharing agreements with the FDIC. The FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, foreclosed real estate, and certain other assets. The Company expects the covered loan portfolio to continue to decrease as these acquired loans are paid-off. See Note 3 of the Consolidated Financial Statements presented under Item 1 of this report for a discussion of these acquisitions, including the aggregation of these loans by risk characteristics when determining the initial and subsequent fair value.

Funds that are not utilized for loan originations are used to purchase investment securities and short term money market investments, to sell as federal funds and to maintain in interest bearing deposits with banks. Average liquidity management assets accounted for 14% of total average earning assets in the second quarter of 2015 compared to 16% in the second quarter of 2014 and first quarter of 2015. Average liquidity management assets increased $101.2 million in the second quarter of 2015 compared to the same period in 2014, and decreased $159.7 million compared to the first quarter of 2015. The balances of these assets can fluctuate based on management's ongoing effort to manage liquidity and for asset liability management purposes.

Other earning assets include brokerage customer receivables and trading account securities. In the normal course of business, Wayne Hummer Investments, LLC ("WHI") activities involve the execution, settlement, and financing of various securities transactions. WHI's customer securities activities are transacted on either a cash or margin basis. In margin transactions, WHI, under an agreement with an out-sourced securities firm, extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in customer's

accounts. In connection with these activities, WHI executes and the out-sourced firm clears customer transactions relating to the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose WHI to off-balance-sheet risk, particularly in volatile trading markets, in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event a customer fails to satisfy its obligations, WHI under the agreement with the outsourced securities firm, may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. WHI seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. WHI monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or to reduce positions when necessary.

Table of Contents

(Dollars in thousands)	Average Balances for the Six Months Ended June 30, 2015 Balance	Percent		June 30, 2014 Balance	Percent	
Loans:						
Commercial	$4,114,949	22	%	$3,416,867	21	%
Commercial real estate	4,691,264	26	%	4,285,818	26	%
Home equity	714,176	4	%	711,165	4	%
Residential real estate [1]	867,899	5	%	682,870	4	%
Premium finance receivables	4,783,862	26	%	4,227,062	26	%
Other loans	161,906	1	%	171,741	1	%
Total loans, net of unearned income excluding covered loans [2]	$15,334,056	84	%	$13,495,523	82	%
Covered loans	208,405	1	%	309,127	2	%
Total average loans [2]	$15,542,461	85	%	$13,804,650	84	%
Liquidity management assets [3]	$2,788,600	15	%	$2,627,243	16	%
Other earning assets [4]	29,928	—	%	28,190	—	%
Total average earning assets	$18,360,989	100	%	$16,460,083	100	%
Total average assets	$20,042,808			$18,142,832		
Total average earning assets to total average assets		92	%		91	%

(1) Includes mortgage loans held-for-sale
(2) Includes loans held-for-sale and non-accrual loans
(3) Liquidity management assets include available-for-sale securities, other securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements
(4) Other earning assets include brokerage customer receivables and trading account securities

Total average loans for the first six months of 2015 increased $1.7 billion or 13%, over the previous year period. Similar to
the quarterly discussion above, approximately $698.1 million of this increase relates to the commercial portfolio, $556.8 million of this increase relates to the premium finance receivables portfolio and $405.4 million of this increase relates to the commercial real estate portfolio. The increase is partially offset by a decrease of $100.7 million in covered loans.

Deposits

Total deposits at June 30, 2015 were $17.1 billion, an increase of $1.5 billion, or 10%, compared to total deposits at June 30, 2014. See Note 9 to the Consolidated Financial Statements presented under Item 1 of this report for a summary of period end deposit balances.

The following table sets forth, by category, the maturity of time certificates of deposit as of June 30, 2015:

Time Certificates of Deposit Maturity/Re-pricing Analysis As of June 30, 2015	CDARs & Brokered Certificates of Deposit [1]	MaxSafe Certificates of Deposit [1]	Variable Rate Certificates of Deposit [2]	Other Fixed Rate Certificates of Deposit [1]	Total Time Certificates of Deposits	Weighted-Average Rate of Maturing Time Certificates of Deposit [3]	
(Dollars in thousands)							
1-3 months	$36,934	$82,699	$155,178	$ 638,089	$912,900	0.60	%
4-6 months	2,176	63,095	—	525,567	590,838	0.66	%
7-9 months	—	25,024	—	508,782	533,806	0.76	%
10-12 months	36,503	20,922	—	433,959	491,384	0.66	%
13-18 months	165,613	23,708	—	559,339	748,660	0.94	%
19-24 months	43,300	7,468	—	275,589	326,357	1.02	%

24+ months	3,950	12,748	—	316,233	332,931	1.23	%
Total	$288,476	$235,664	$155,178	$ 3,257,558	$3,936,876	0.79	%

(1) This category of certificates of deposit is shown by contractual maturity date.

(2) This category includes variable rate certificates of deposit and savings certificates with the majority repricing on at least a monthly basis.

(3) Weighted-average rate excludes the impact of purchase accounting fair value adjustments.

76

Table of Contents

The following table sets forth, by category, the composition of average deposit balances and the relative percentage of total average deposits for the periods presented:

	Three Months Ended					
	June 30, 2015		March 31, 2015		June 30, 2014	
(Dollars in thousands)	Balance	Percent	Balance	Percent	Balance	Percent
Non-interest bearing	$3,725,728	21 %	$3,584,452	21 %	$2,880,501	20 %
NOW and interest bearing demand deposits	2,275,633	14	2,220,911	14	1,989,919	13
Wealth management deposits	1,500,580	9	1,287,880	8	1,244,757	8
Money market	3,801,315	23	3,726,151	23	3,500,186	23
Savings	1,533,151	9	1,537,283	9	1,438,264	9
Time certificates of deposit	4,004,774	24	4,091,282	25	4,111,318	27
Total average deposits	$16,841,181	100 %	$16,447,959	100 %	$15,164,945	100 %

Total average deposits for the second quarter of 2015 were $16.8 billion, an increase of $1.7 billion, or 11%, from the second quarter of 2014. The increase in average deposits is primarily attributable to additional deposits associated with the Company's bank acquisitions as well as increased commercial lending relationships. The Company continues to see a beneficial shift in its deposit mix as average non-interest bearing deposits increased $845.2 million, or 29%, in the second quarter of 2015 compared to the second quarter of 2014.

Wealth management deposits are funds from the brokerage customers of WHI, the trust and asset management customers of CTC and brokerage customers from unaffiliated companies which have been placed into deposit accounts of the banks (“wealth management deposits” in the table above). Wealth Management deposits consist primarily of money market accounts. Consistent with reasonable interest rate risk parameters, these funds have generally been invested in loan production of the banks as well as other investments suitable for banks.

Brokered Deposits

While the Company obtains a portion of its total deposits through brokered deposits, the Company does so primarily as an asset-liability management tool to assist in the management of interest rate risk. The Company does not consider brokered deposits to be a vital component of its current liquidity resources. Historically, brokered deposits have represented a small component of the Company’s total deposits outstanding, as set forth in the table below:

	June 30,		December 31,		
(Dollars in thousands)	2015	2014	2014	2013	2012
Total deposits	$17,082,418	$15,556,376	$16,281,844	$14,668,789	$14,428,544
Brokered deposits	879,673	876,201	718,986	476,139	787,812
Brokered deposits as a percentage of total deposits	5.1 %	5.6 %	4.4 %	3.2 %	5.5 %

Brokered deposits include certificates of deposit obtained through deposit brokers, deposits received through the Certificate of Deposit Account Registry Program (“CDARS”), and wealth management deposits of brokerage customers from unaffiliated companies which have been placed into deposit accounts of the banks.

77

Table of Contents

Other Funding Sources

Although deposits are the Company's primary source of funding its interest-earning assets, the Company's ability to manage the types and terms of deposits is somewhat limited by customer preferences and market competition. As a result, in addition to deposits and the issuance of equity securities and the retention of earnings, the Company uses several other funding sources to support its growth. These sources include short-term borrowings, notes payable, Federal Home Loan Bank advances, subordinated debt, secured borrowings and junior subordinated debentures. The Company evaluates the terms and unique characteristics of each source, as well as its asset-liability management position, in determining the use of such funding sources.

The following table sets forth, by category, the composition of the average balances of other funding sources for the quarterly periods presented:

	Three Months Ended		
(Dollars in thousands)	June 30, 2015	March 31, 2015	June 30, 2014
Federal Home Loan Bank advances	$347,656	$357,532	$446,778
Other borrowings:			
Notes payable	13,187	—	180
Federal funds purchased	873	1,639	2,795
Securities sold under repurchase agreements	39,950	52,281	125,995
Secured borrowings	121,018	122,299	—
Other	18,632	18,775	19,165
Total other borrowings	$193,660	$194,994	$148,135
Subordinated notes	140,000	140,000	27,692
Junior subordinated debentures	249,493	249,493	249,493
Total other funding sources	$930,809	$942,019	$872,098

FHLB advances provide the banks with access to fixed rate funds which are useful in mitigating interest rate risk and achieving an acceptable interest rate spread on fixed rate loans or securities. Additionally, the banks have the ability to borrow shorter-term, overnight funding from the FHLB for other general purposes. These FHLB advances to the banks totaled $444.0 million at June 30, 2015, compared to $416.0 million at March 31, 2015 and $580.6 million at June 30, 2014.

Other borrowings include notes payables, federal funds purchased, securities sold under repurchase agreements, the Canadian secured borrowing transaction completed in December 2014 and a fixed-rate promissory note entered into in August 2012 related to an office building complex owned by the Company. These borrowings totaled $261.9 million, $187.0 million and $43.7 million at June 30, 2015, March 31, 2015 and June 30, 2014, respectively.

Notes payable balances represent the balances on separate loan agreements with unaffiliated banks and an unsecured promissory note as a result of the Great Lakes Advisors acquisition. The separate loan agreements with unaffiliated banks included a $100.0 million revolving credit facility that was replaced in 2014 by a separate $150 million loan agreement with unaffiliated banks consisting of a $75.0 million revolving credit facility and a $75.0 million term facility. Both loan facilities are available for corporate purposes such as to provide capital to fund continued growth at existing bank subsidiaries, possible future acquisitions and for other general corporate matters. At June 30, 2015, the Company had an outstanding balance of $75.0 million compared to no outstanding balance at March 31, 2015 under the term facility. The Company was required to borrow the entire amount of the term facility on June 15, 2015 and all such borrowings must be repaid by June 15, 2020. At June 30, 2015 and March 31, 2015, the Company had no outstanding balance on the $75.0 million revolving credit facility. The Company had no outstanding balance on the unsecured promissory note at June 30, 2015, March 31, 2015, and June 30, 2014 after the remaining balance was paid-off in the second quarter of 2014.

Securities sold under repurchase agreements represent sweep accounts for certain customers in connection with master repurchase agreements at the banks as well as short-term borrowings from banks and brokers. These borrowings totaled $48.3 million, $50.1 million, and $24.6 million at June 30, 2015, March 31, 2015 and June 30, 2014, respectively. This funding category typically fluctuates based on customer preferences and daily liquidity needs of the banks, their customers and the banks' operating subsidiaries.

The average balance of secured borrowings represents a third party Canadian transaction in 2014 ("Canadian Secured Borrowing"). Under the Canadian Secured Borrowing, in December 2014, the Company, through its subsidiary, FIFC Canada, sold an undivided

78

co-ownership interest in all receivables owed to FIFC Canada to an unrelated third party in exchange for a cash payment of approximately C$150 million pursuant to a receivables purchase agreement ("Receivables Purchase Agreement"). The proceeds received from the transaction are reflected on the Company's Consolidated Statements of Condition as a secured borrowing owed to the unrelated third party and translated to the Company's reporting currency as of the respective date. The translated balance of the Canadian Secured Borrowing under the Receivables Purchase Agreement totaled $120.1 million at June 30, 2015 compared to $118.2 million at March 31, 2015. At June 30, 2015, the interest rate of the Canadian Secured Borrowing was 1.4928%.

Other borrowings include a fixed-rate promissory note entered into in August 2012 related to an office building complex owned by the Company. At June 30, 2015, the fixed-rate promissory note had an outstanding balance of $18.6 million compared to $18.7 million at March 31, 2015 and $19.1 million at June 30, 2014.

At June 30, 2015, March 31, 2015, and June 30, 2014, subordinated notes totaled $140.0 million. In the second quarter of 2014, the Company issued $140.0 million of subordinated notes receiving $139.1 million in net proceeds. The notes have a stated interest rate of 5.00% and mature in June 2024.

The Company had $249.5 million of junior subordinated debentures outstanding as of June 30, 2015, March 31, 2015 and June 30, 2014. The amounts reflected on the balance sheet represent the junior subordinated debentures issued to nine trusts by the Company and equal the amount of the preferred and common securities issued by the trusts. At December 31, 2014, junior subordinated debentures, subject to certain limitations, qualified as Tier 1 regulatory capital of the Company and the amount in excess of those certain limitations could, subject to other restrictions, be included in Tier 2 capital. Starting on January 1, 2015, a portion of these junior subordinated debentures, subject to certain limitations, still qualify as Tier 1 regulatory capital of the Company and the amount in excess of those certain limitations could, subject to other restrictions, be included in Tier 2 capital, but the Company will remain well-capitalized. At June 30, 2015, $60.5 million and $181.5 million of the junior subordinated debentures, net of common securities, were included in the Company's Tier 1 and Tier 2 regulatory capital, respectively. Starting on January 1, 2016, these junior subordinated debentures no longer qualify as Tier 1 regulatory capital of the Company, however, subject to other restrictions, could be included in Tier 2 capital. Interest expense on these debentures is deductible for tax purposes, resulting in a cost-efficient form of regulatory capital.

See Notes 10 and 11 of the Consolidated Financial Statements presented under Item 1 of this report for details of period end balances and other information for these various funding sources.

Shareholders' Equity

Total shareholders' equity was $2.3 billion at June 30, 2015, reflecting an increase of $266.7 million since June 30, 2014 and $195.2 million since December 31, 2014. The increase from December 31, 2014 was the result of $121.2 million from the issuance of Series D preferred stock, net of costs, net income of $82.9 million, $19.2 million from the issuance of shares of the Company's common stock related to the acquisition of Delavan, $5.3 million credited to surplus for stock-based compensation costs and $4.8 million from the issuance of shares of the Company's common stock (and related tax benefit) pursuant to various stock compensation plans, net of treasury shares, partially offset by $16.8 million in net unrealized losses from available-for-sale securities, net of tax, common stock dividends of $10.4 million, $7.5 million of foreign currency translation adjustments, net of tax, preferred stock dividends of $3.2 million and $210,000 of net unrealized losses from cash flow hedges, net of tax.

The following tables reflect various consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve Bank for a bank holding company:

	June 30, 2015		March 31, 2015		June 30, 2014	
Leverage ratio	9.8	%	9.2	%	10.5	%
Tier 1 capital to risk-weighted assets	10.7		10.1		11.7	
Common equity Tier 1 capital to risk-weighted assets	9.0		9.1		N/A	
Total capital to risk-weighted assets	13.1		12.5		13.2	
Total average equity-to-total average assets(1)	10.6		10.7		10.8	

(1) Based on quarterly average balances.

Table of Contents

	Minimum Capital Requirements		Well Capitalized	
Leverage ratio	4.0	%	5.0	%
Tier 1 capital to risk-weighted assets	6.0		8.0	
Common equity Tier 1 capital to risk-weighted assets	4.5		6.5	
Total capital to risk-weighted assets	8.0		10.0	

The Company’s principal sources of funds at the holding company level are dividends from its subsidiaries, borrowings under its loan agreement with unaffiliated banks and proceeds from the issuances of subordinated debt and additional equity. Refer to Notes 10, 11 and 16 of the Consolidated Financial Statements presented under Item 1 of this report for further information on these various funding sources. Management is committed to maintaining the Company’s capital levels above the “Well Capitalized” levels established by the Federal Reserve for bank holding companies.

The Company’s Board of Directors approves dividends from time to time, however, the ability to declare a dividend is limited by the Company's financial condition, the terms of the Company's 5.00% non-cumulative perpetual convertible preferred stock, Series C, the terms of the Company's fixed-to-floating rate non-cumulative perpetual preferred stock, Series D, the terms of the Company’s Trust Preferred Securities offerings and under certain financial covenants in the Company’s revolving and term facilities. In January, April and July of 2015, the Company declared a quarterly cash dividend of $0.11 per common share. In January, April, July and October of 2014, the Company declared a quarterly cash dividend of $0.10 per common share.

See Note 16 of the Consolidated Financial Statements presented under Item 1 of this report for details on the Company’s issuance of Series D and Series C preferred stock in June 2015 and March 2012, respectively.

Table of Contents

LOAN PORTFOLIO AND ASSET QUALITY

Loan Portfolio

The following table shows the Company’s loan portfolio by category as of the dates shown:

	June 30, 2015			December 31, 2014			June 30, 2014		
(Dollars in thousands)	Amount	% of Total		Amount	% of Total		Amount	% of Total	
Commercial	$4,330,344	27	%	$3,924,394	26	%	$3,640,430	26	%
Commercial real estate	4,850,590	31		4,505,753	31		4,353,472	31	
Home equity	712,350	5		716,293	5		713,642	5	
Residential real estate	503,015	3		483,542	3		451,905	3	
Premium finance receivables—commercial	2,460,408	16		2,350,833	16		2,378,529	17	
Premium finance receivables—life insurance	2,537,475	16		2,277,571	16		2,051,645	15	
Consumer and other	119,468	1		151,012	1		160,373	1	
Total loans, net of unearned income, excluding covered loans	$15,513,650	99	%	$14,409,398	98	%	$13,749,996	98	%
Covered loans	193,410	1		226,709	2		275,154	2	
Total loans	$15,707,060	100	%	$14,636,107	100	%	$14,025,150	100	%

Commercial and commercial real estate loans. Our commercial and commercial real estate loan portfolios are comprised primarily of commercial real estate loans and lines of credit for working capital purposes. The table below sets forth information regarding the types, amounts and performance of our loans within these portfolios (excluding covered loans) as of June 30, 2015 and 2014:

As of June 30, 2015 (Dollars in thousands)	Balance	% of Total Balance		Nonaccrual	> 90 Days Past Due and Still Accruing	Allowance For Loan Losses Allocation
Commercial:						
Commercial and industrial	$2,534,459	27.6	%	$4,424	$—	$21,693
Franchise	228,599	2.5		905	—	1,852
Mortgage warehouse lines of credit	213,797	2.3		—	—	1,571
Community Advantage—homeowner associations	114,883	1.3		—	—	3
Aircraft	6,831	0.1		—	—	9
Asset-based lending	832,455	9.1		—	—	6,382
Tax exempt	199,185	2.2		—	—	1,186
Leases	187,630	2.0		65	—	166
Other	2,772	—		—	—	20
PCI - commercial loans [(1)]	9,733	0.1		—	474	18
Total commercial	$4,330,344	47.2	%	$5,394	$474	$32,900
Commercial Real Estate:						
Residential construction	$57,602	0.6	%	$—	$—	$687
Commercial construction	249,543	2.7		19	—	2,656
Land	87,837	1.0		2,035	—	2,513
Office	754,817	8.2		6,360	701	7,133
Industrial	627,407	6.8		2,568	—	4,526
Retail	749,991	8.2		2,352	—	5,003
Multi-family	668,448	7.3		1,730	—	7,172
Mixed use and other	1,592,122	17.3		8,119	—	12,173
PCI - commercial real estate [(1)]	62,823	0.7		—	15,646	335
Total commercial real estate	$4,850,590	52.8	%	$23,183	$16,347	$42,198
Total commercial and commercial real estate	$9,180,934	100.0	%	$28,577	$16,821	$75,098
Commercial real estate—collateral location by state:						
Illinois	$3,874,674	79.9	%			
Wisconsin	571,625	11.8				
Total primary markets	$4,446,299	91.7	%			
Florida	58,820	1.2				
Arizona	19,636	0.4				
Indiana	88,575	1.8				
Other (no individual state greater than 0.8%)	237,260	4.9				
Total	$4,850,590	100.0	%			

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

82

Table of Contents

As of June 30, 2014 (Dollars in thousands)	Balance	% of Total Balance		Nonaccrual	> 90 Days Past Due and Still Accruing	Allowance For Loan Losses Allocation
Commercial:						
Commercial and industrial	$2,012,480	25.2	%	$6,216	$—	$16,237
Franchise	223,456	2.8		—	—	1,888
Mortgage warehouse lines of credit	148,211	1.9		—	—	1,229
Community Advantage—homeowner associations	94,009	1.2		—	—	—
Aircraft	7,847	0.1		—	—	10
Asset-based lending	778,344	9.7		295	—	5,562
Tax exempt	208,913	2.6		—	—	1,017
Leases	144,435	1.8		—	—	6
Other	9,792	0.1		—	—	78
PCI - commercial loans [(1)]	12,943	0.2		—	1,452	11
Total commercial	$3,640,430	45.6	%	$6,511	$1,452	$26,038
Commercial Real Estate:						
Residential construction	$29,959	0.4	%	$—	$—	$500
Commercial construction	155,059	1.9		839	—	2,184
Land	105,927	1.3		2,367	—	3,084
Office	667,917	8.4		10,950	—	7,442
Industrial	617,640	7.7		5,097	—	4,577
Retail	697,095	8.7		6,909	—	6,467
Multi-family	636,169	8.0		689	—	4,302
Mixed use and other	1,378,439	17.2		9,470	309	12,146
PCI - commercial real estate [(1)]	65,267	0.8		—	15,682	—
Total commercial real estate	$4,353,472	54.4	%	$36,321	$15,991	$40,702
Total commercial and commercial real estate	$7,993,902	100.0	%	$42,832	$17,443	$66,740
Commercial real estate—collateral location by state:						
Illinois	$3,661,706	84.1	%			
Wisconsin	374,486	8.6				
Total primary markets	$4,036,192	92.7	%			
Florida	64,473	1.5				
Arizona	15,330	0.4				
Indiana	93,708	2.2				
Other (no individual state greater than 0.5%)	143,769	3.2				
Total	$4,353,472	100.0	%			

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

We make commercial loans for many purposes, including working capital lines, which are generally renewable annually and supported by business assets, personal guarantees and additional collateral. Commercial business lending is generally considered to involve a slightly higher degree of risk than traditional consumer bank lending. Primarily as a result of growth in the commercial portfolio, our allowance for loan losses in our commercial loan portfolio is $32.9 million as of June 30, 2015 compared to $26.0 million as of June 30, 2014.

Our commercial real estate loans are generally secured by a first mortgage lien and assignment of rents on the property. Since most of our bank branches are located in the Chicago metropolitan area and southern Wisconsin, 91.7% of our commercial real estate loan portfolio is located in this region. While commercial real estate market

conditions have improved recently, a number

of specific markets continue to be under stress. We have been able to effectively manage and reduce our total non-performing commercial real estate loans. As of June 30, 2015, our allowance for loan losses related to this portfolio is $42.2 million compared to $40.7 million as of June 30, 2014.

The Company also participates in mortgage warehouse lending by providing interim funding to unaffiliated mortgage bankers to finance residential mortgages originated by such bankers for sale into the secondary market. The Company's loans to the mortgage bankers are secured by the business assets of the mortgage companies as well as the specific mortgage loans funded by the Company, after they have been pre-approved for purchase by third party end lenders. The Company may also provide interim financing for packages of mortgage loans on a bulk basis in circumstances where the mortgage bankers desire to competitively bid on a number of mortgages for sale as a package in the secondary market. Amounts advanced with respect to any particular mortgage loan are usually required to be repaid within 21 days. In the current period, mortgage warehouse lines increased to $213.8 million as of June 30, 2015 from $148.2 million as of June 30, 2014 as a result of a more favorable mortgage banking environment.

Home equity loans. Our home equity loans and lines of credit are originated by each of our banks in their local markets where we have a strong understanding of the underlying real estate value. Our banks monitor and manage these loans, and we conduct an automated review of all home equity loans and lines of credit at least twice per year. This review collects current credit performance for each home equity borrower and identifies situations where the credit strength of the borrower is declining, or where there are events that may influence repayment, such as tax liens or judgments. Our banks use this information to manage loans that may be higher risk and to determine whether to obtain additional credit information or updated property valuations. As a result of this work and general market conditions, we have modified our home equity offerings and changed our policies regarding home equity renewals and requests for subordination. In a limited number of situations, the unused availability on home equity lines of credit was frozen.

The rates we offer on new home equity lending are based on several factors, including appraisals and valuation due diligence, in order to reflect inherent risk, and we place additional scrutiny on larger home equity requests. In a limited number of cases, we issue home equity credit together with first mortgage financing, and requests for such financing are evaluated on a combined basis. It is not our practice to advance more than 85% of the appraised value of the underlying asset, which ratio we refer to as the loan-to-value ratio, or LTV ratio, and a majority of the credit we previously extended, when issued, had an LTV ratio of less than 80%.

Our home equity loan portfolio has performed well in light of the ongoing volatility in the overall residential real estate market. The number of new home equity line of credit commitments originated by us has decreased due to declines in housing valuations that have decreased the amount of equity against which homeowners may borrow and the refinancing of these loans into long-term fixed-rate residential real estate loans.

Residential real estate mortgages. Our residential real estate portfolio predominantly includes one- to four-family adjustable rate mortgages that have repricing terms generally from one to three years, construction loans to individuals and bridge financing loans for qualifying customers. As of June 30, 2015, our residential loan portfolio totaled $503.0 million, or 3% of our total outstanding loans.

Our adjustable rate mortgages relate to properties located principally in the Chicago metropolitan area and southern Wisconsin or vacation homes owned by local residents. These adjustable rate mortgages are often non-agency conforming. Adjustable rate mortgage loans decrease the interest rate risk we face on our mortgage portfolio. However, this risk is not eliminated due to the fact that such loans generally provide for periodic and lifetime limits on the interest rate adjustments among other features. Additionally, adjustable rate mortgages may pose a higher risk of delinquency and default because they require borrowers to make larger payments when interest rates rise. As of June 30, 2015, $16.6 million of our residential real estate mortgages, or 3.3% of our residential real estate loan portfolio, excluding PCI loans, were classified as nonaccrual, $3.6 million were 30 to 89 days past due (0.7%) and $480.4 million were current (96.0%). We believe that since our loan portfolio consists primarily of locally originated loans, and since the majority of our borrowers are longer-term customers with lower LTV ratios, we face a relatively low risk of borrower default and delinquency.

While we generally do not originate loans for our own portfolio with long-term fixed rates due to interest rate risk considerations, we can accommodate customer requests for fixed rate loans by originating such loans and then selling

them into the secondary market, for which we receive fee income. We may also selectively retain certain of these loans within the banks' own portfolios where they are non-agency conforming, or where the terms of the loans make them favorable to retain. A portion of the loans we sold into the secondary market were sold with the servicing of those loans retained. The amount of loans serviced for others as of June 30, 2015 and 2014 was $820.5 million and $926.7 million, respectively. All other mortgage loans sold into the secondary market were sold without the retention of servicing rights.

It is not our current practice to underwrite, and we have no plans to underwrite, subprime, Alt A, no or little documentation loans, or option ARM loans. As of June 30, 2015, approximately $7.4 million of our mortgage loans consist of interest-only loans.

Premium finance receivables – commercial. FIFC and FIFC Canada originated approximately $1.5 billion in commercial insurance premium finance receivables during the second quarter of 2015 compared to $1.4 billion during the same quarter of the prior year. During the six months ended June 30, 2015 and 2014, FIFC and FIFC Canada originated approximately $2.9 billion and $2.8 billion, respectively, in commercial insurance premium finance receivables. FIFC and FIFC Canada make loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. The loans are originated by working through independent medium and large insurance agents and brokers located throughout the United States and Canada. The insurance premiums financed are primarily for commercial customers' purchases of liability, property and casualty and other commercial insurance.

This lending involves relatively rapid turnover of the loan portfolio and high volume of loan originations. Because of the indirect nature of this lending through third party agents and brokers and because the borrowers are located nationwide and in Canada, this segment is more susceptible to third party fraud than relationship lending. The Company performs ongoing credit and other reviews of the agents and brokers, and performs various internal audit steps to mitigate against the risk of any fraud. The majority of these loans 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.

Premium finance receivables—life insurance. FIFC originated approximately $221.7 million in life insurance premium finance receivables in the second quarter of 2015 as compared to $162.0 million of originations in the second quarter of 2014. For the six months ended June 30, 2015 and 2014, FIFC originated approximately $389.3 million and $275.6 million, respectively, in life insurance premium finance receivables. The Company continues to experience increased competition and pricing pressure within the current market. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and legal counsel. 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.

Consumer and other. Included in the consumer and other loan category is a wide variety of personal and consumer loans to individuals as well as high yielding short-term accounts receivable financing to clients in the temporary staffing industry located throughout the United States. The Banks originate consumer loans in order to provide a wider range of financial services to their customers.

Consumer loans generally have shorter terms and higher interest rates than mortgage loans but generally involve more credit risk than mortgage loans due to the type and nature of the collateral. Additionally, short-term accounts receivable financing may also involve greater credit risks than generally associated with the loan portfolios of more traditional community banks depending on the marketability of the collateral.

Table of Contents

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table classifies the commercial loan portfolios at June 30, 2015 by date at which the loans reprice or mature, and the type of rate exposure:

As of June 30, 2015 (Dollars in thousands)	One year or less	From one to five years	Over five years	Total
Commercial				
Fixed rate	$80,756	$483,461	$207,124	$771,341
Variable rate				
With floor feature	661,242	4,986	—	666,228
Without floor feature	2,886,538	6,237	—	2,892,775
Total commercial	3,628,536	494,684	207,124	4,330,344
Commercial real estate				
Fixed rate	$344,569	$1,467,391	$174,827	$1,986,787
Variable rate				
With floor feature	297,154	8,227	—	305,381
Without floor feature	2,521,925	35,875	622	2,558,422
Total commercial real estate	3,163,648	1,511,493	175,449	4,850,590
Premium finance receivables, net of unearned income				
Fixed rate	2,503,841	65,498	379	2,569,718
Variable rate				
With floor feature	—	—	—	—
Without floor feature	2,428,165	—	—	2,428,165
Total premium finance receivables (1)	4,932,006	65,498	379	4,997,883

Table of Contents

Past Due Loans and Non-Performing Assets

Our ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, the Company operates a credit risk rating system under which our credit management personnel assign a credit risk rating to each loan at the time of origination and review loans on a regular basis to determine each loan's credit risk rating on a scale of 1 through 10 with higher scores indicating higher risk. The credit risk rating structure used is shown below:

1 Rating —	Minimal Risk (Loss Potential – none or extremely low) (Superior asset quality, excellent liquidity, minimal leverage)
2 Rating —	Modest Risk (Loss Potential demonstrably low) (Very good asset quality and liquidity, strong leverage capacity)
3 Rating —	Average Risk (Loss Potential low but no longer refutable) (Mostly satisfactory asset quality and liquidity, good leverage capacity)
4 Rating —	Above Average Risk (Loss Potential variable, but some potential for deterioration) (Acceptable asset quality, little excess liquidity, modest leverage capacity)
5 Rating —	Management Attention Risk (Loss Potential moderate if corrective action not taken) (Generally acceptable asset quality, somewhat strained liquidity, minimal leverage capacity)
6 Rating —	Special Mention (Loss Potential moderate if corrective action not taken) (Assets in this category are currently protected, potentially weak, but not to the point of substandard classification)
7 Rating —	Substandard Accrual (Loss Potential distinct possibility that the bank may sustain some loss, but no discernable impairment) (Must have well defined weaknesses that jeopardize the liquidation of the debt)
8 Rating —	Substandard Non-accrual (Loss Potential well documented probability of loss, including potential impairment) (Must have well defined weaknesses that jeopardize the liquidation of the debt)
9 Rating —	Doubtful (Loss Potential extremely high) (These assets have all the weaknesses in those classified "substandard" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly improbable)
10 Rating —	Loss (fully charged-off) (Loans in this category are considered fully uncollectible.)

Each loan officer is responsible for monitoring his or her loan portfolio, recommending a credit risk rating for each loan in his or her portfolio and ensuring the credit risk ratings are appropriate. These credit risk ratings are then ratified by the bank's chief credit officer and/or concurrence credit officer. Credit risk ratings are determined by evaluating a number of factors including, a borrower's financial strength, cash flow coverage, collateral protection and guarantees. A third party loan review firm independently reviews a significant portion of the loan portfolio at each of the Company's subsidiary banks to evaluate the appropriateness of the management-assigned credit risk ratings. These ratings are subject to further review at each of our bank subsidiaries by the applicable regulatory authority, including the Federal Reserve Bank of Chicago, the Office of the Comptroller of the Currency, the State of Illinois and the State of Wisconsin and are also reviewed by our internal audit staff.

The Company's problem loan reporting system automatically includes all loans with credit risk ratings of 6 through 9. This system is designed to provide an on-going detailed tracking mechanism for each problem loan. Once management determines that a loan has deteriorated to a point where it has a credit risk rating of 6 or worse, the Company's Managed Asset Division performs an overall credit and collateral review. As part of this review, all underlying collateral is identified and the valuation methodology is analyzed and tracked. As a result of this initial review by the Company's Managed Asset Division, the credit risk rating is reviewed and a portion of the outstanding loan balance may be deemed uncollectible or an impairment reserve may be established. The Company's impairment analysis utilizes an independent re-appraisal of the collateral (unless such a third-party evaluation is not possible due to the unique nature of the collateral, such as a closely-held business or thinly traded securities). In the case of commercial real estate collateral, an independent third party appraisal is ordered by the Company's Real Estate Services Group to determine if there has been any change in the underlying collateral value. These independent appraisals are reviewed by the Real Estate Services Group and sometimes by independent third party valuation experts and may be adjusted depending upon market conditions. An appraisal is ordered at least once a year for these loans, or more often if market conditions dictate. In the event that the underlying value of the collateral cannot be easily determined, a detailed valuation methodology is prepared by the Managed Asset Division. A summary of this analysis is provided to the directors' loan committee of the bank which originated the credit for approval of a charge-off, if necessary.

Through the credit risk rating process, loans are reviewed to determine if they are performing in accordance with the original contractual terms. If the borrower has failed to comply with the original contractual terms, further action may be required by the

87

Table of Contents

Company, including a downgrade in the credit risk rating, movement to non-accrual status, a charge-off or the establishment of a specific impairment reserve. In the event a collateral shortfall is identified during the credit review process, the Company will work with the borrower for a principal reduction and/or a pledge of additional collateral and/or additional guarantees. In the event that these options are not available, the loan may be subject to a downgrade of the credit risk rating. If we determine that a loan amount or portion thereof, is uncollectible the loan's credit risk rating is immediately downgraded to an 8 or 9 and the uncollectible amount is charged-off. Any loan that has a partial charge-off continues to be assigned a credit risk rating of an 8 or 9 for the duration of time that a balance remains outstanding. The Managed Asset Division undertakes a thorough and ongoing analysis to determine if additional impairment and/or charge-offs are appropriate and to begin a workout plan for the credit to minimize actual losses.

The Company's approach to workout plans and restructuring loans is built on the credit-risk rating process. A modification of a loan with an existing credit risk rating of 6 or worse or a modification of any other credit, which will result in a restructured credit risk rating of 6 or worse must be reviewed for TDR classification. In that event, our Managed Assets Division conducts an overall credit and collateral review. A modification of a loan is considered to be a TDR if both (1) the borrower is experiencing financial difficulty and (2) for economic or legal reasons, the bank grants a concession to a borrower that it would not otherwise consider. The modification of a loan where the credit risk rating is 5 or better both before and after such modification is not considered to be a TDR. Based on the Company's credit risk rating system, it considers that borrowers whose credit risk rating is 5 or better are not experiencing financial difficulties and therefore, are not considered TDRs.

TDRs, which are by definition considered impaired loans, are reviewed at the time of modification and on a quarterly basis to determine if a specific reserve is needed. The carrying amount of the loan is compared to the expected payments to be received, discounted at the loan's original rate, or for collateral dependent loans, to the fair value of the collateral less the estimated cost to sell. Any shortfall is recorded as a specific reserve.

For non-TDR loans, if based on current information and events, it is probable that the Company will be unable to collect all amounts due to it according to the contractual terms of the loan agreement, a loan is considered impaired, and a specific impairment reserve analysis is performed and if necessary, a specific reserve is established. In determining the appropriate reserve for collateral-dependent loans, the Company considers the results of appraisals for the associated collateral.

Table of Contents

Non-performing Assets, excluding covered assets

The following table sets forth Wintrust's non-performing assets and TDRs performing under the contractual terms of the loan agreement, excluding covered assets and PCI loans, as of the dates shown:

(Dollars in thousands)	June 30, 2015	March 31, 2015	December 31, 2014	June 30, 2014
Loans past due greater than 90 days and still accruing [1]:				
Commercial	$—	$—	$474	$—
Commercial real estate	701	—	—	309
Home equity	—	—	—	—
Residential real estate	—	—	—	—
Premium finance receivables—commercial	9,053	8,062	7,665	10,275
Premium finance receivables—life insurance	351	—	—	649
Consumer and other	110	91	119	73
Total loans past due greater than 90 days and still accruing	10,215	8,153	8,258	11,306
Non-accrual loans [2]:				
Commercial	5,394	5,586	9,157	6,511
Commercial real estate	23,183	29,982	26,605	36,321
Home equity	5,695	7,665	6,174	5,804
Residential real estate	16,631	14,248	15,502	15,294
Premium finance receivables—commercial	15,156	15,902	12,705	12,298
Premium finance receivables—life insurance	—	—	—	—
Consumer and other	280	236	277	1,116
Total non-accrual loans	66,339	73,619	70,420	77,344
Total non-performing loans:				
Commercial	5,394	5,586	9,631	6,511
Commercial real estate	23,884	29,982	26,605	36,630
Home equity	5,695	7,665	6,174	5,804
Residential real estate	16,631	14,248	15,502	15,294
Premium finance receivables—commercial	24,209	23,964	20,370	22,573
Premium finance receivables—life insurance	351	—	—	649
Consumer and other	390	327	395	1,189
Total non-performing loans	$76,554	$81,772	$78,677	$88,650
Other real estate owned	33,044	33,131	36,419	51,673
Other real estate owned—from acquisitions	9,036	9,126	9,223	7,915
Other repossessed assets	231	259	303	311
Total non-performing assets	$118,865	$124,288	$124,622	$148,549
TDRs performing under the contractual terms of the loan agreement	52,174	54,687	69,697	72,199
Total non-performing loans by category as a percent of its own respective category's period-end balance:				
Commercial	0.12 %	0.13 %	0.25 %	0.18 %
Commercial real estate	0.49	0.64	0.59	0.84
Home equity	0.80	1.08	0.86	0.81
Residential real estate	3.31	2.87	3.21	3.38
Premium finance receivables—commercial	0.98	1.03	0.87	0.95
Premium finance receivables—life insurance	0.01	—	—	0.03
Consumer and other	0.33	0.25	0.26	0.74
Total non-performing loans	0.49 %	0.55 %	0.55 %	0.64 %

Total non-performing assets, as a percentage of total assets	0.57	%	0.61	%	0.62	%	0.79	%
Allowance for loan losses as a percentage of total non-performing loans	130.89	%	115.50	%	116.56	%	104.06	%

(1) As of the dates shown, no TDRs were past due greater than 90 days and still accruing interest.

(2) Non-accrual loans included TDRs totaling $10.6 million, $12.5 million, $12.6 million and $15.9 million as of June 30, 2015, March 31, 2015, December 31, 2014 and June 30, 2014, respectively.

Table of Contents

Non-performing Commercial and Commercial Real Estate

Commercial non-performing loans totaled $5.4 million as of June 30, 2015 compared to $9.6 million as of December 31, 2014 and $6.5 million as of June 30, 2014. Commercial real estate non-performing loans totaled $23.9 million as of June 30, 2015 compared to $26.6 million as of December 31, 2014 and $36.6 million as of June 30, 2014.

Management is pursuing the resolution of all credits in this category. At this time, management believes reserves are appropriate to absorb inherent losses that are expected upon the ultimate resolution of these credits.

Non-performing Residential Real Estate and Home Equity

Non-performing home equity and residential real estate loans totaled $22.3 million as of June 30, 2015. The balance remained relatively unchanged compared to $21.7 million and $21.1 million at December 31, 2014 and June 30, 2014. The June 30, 2015 non-performing balance is comprised of $16.6 million of residential real estate (74 individual credits) and $5.7 million of home equity loans (35 individual credits). On average, this is approximately 7 non-performing residential real estate loans and home equity loans per chartered bank within the Company. The Company believes control and resolution of these loans is very manageable. At this time, management believes reserves are adequate to absorb inherent losses that are expected upon the ultimate resolution of these credits.

Non-performing Commercial Premium Finance Receivables

The table below presents the level of non-performing property and casualty premium finance receivables as of June 30, 2015 and 2014, and the amount of net charge-offs for the quarters then ended.

(Dollars in thousands)	June 30, 2015		June 30, 2014	
Non-performing premium finance receivables—commercial	$24,209		$22,573	
- as a percent of premium finance receivables—commercial outstanding	0.98	%	0.95	%
Net charge-offs of premium finance receivables—commercial	$1,068		$1,180	
- annualized as a percent of average premium finance receivables—commercial	0.18	%	0.20	%

Fluctuations in this category may occur due to timing and nature of account collections from insurance carriers. The Company's underwriting standards, regardless of the condition of the economy, have remained consistent. We anticipate that net charge-offs and non-performing asset levels in the near term will continue to be at levels that are within acceptable operating ranges for this category of loans. Management is comfortable with administering the collections at this level of non-performing property and casualty premium finance receivables and believes reserves are adequate to absorb inherent losses that may occur upon the ultimate resolution of these credits.

Due to the nature of collateral for commercial premium finance receivables, it customarily takes 60-150 days to convert the collateral into cash. Accordingly, the level of non-performing commercial premium finance receivables is not necessarily indicative of the loss inherent in the portfolio. In the event of default, Wintrust has the power to cancel the insurance policy and collect the unearned portion of the premium from the insurance carrier. In the event of cancellation, the cash returned in payment of the unearned premium by the insurer should generally be sufficient to cover the receivable balance, the interest and other charges due. Due to notification requirements and processing time by most insurance carriers, many receivables will become delinquent beyond 90 days while the insurer is processing the return of the unearned premium. Management continues to accrue interest until maturity as the unearned premium is ordinarily sufficient to pay-off the outstanding balance and contractual interest due.

Table of Contents

Loan Portfolio Aging

The following table shows, as of June 30, 2015, only 0.6% of the entire portfolio, excluding covered loans, is non-accrual or greater than 90 days past due and still accruing interest with only 0.4% either one or two payments past due. In total, 99.0% of the Company's total loan portfolio, excluding covered loans, as of June 30, 2015 is current according to the original contractual terms of the loan agreements.

The tables below show the aging of the Company's loan portfolio at June 30, 2015 and March 31, 2015:

As of June 30, 2015 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$4,424	$—	$1,846	$6,027	$2,522,162	$2,534,459
Franchise	905	—	113	396	227,185	228,599
Mortgage warehouse lines of credit	—	—	—	—	213,797	213,797
Community Advantage—homeowners association	—	—	—	—	114,883	114,883
Aircraft	—	—	—	—	6,831	6,831
Asset-based lending	—	—	1,767	7,423	823,265	832,455
Tax exempt	—	—	—	—	199,185	199,185
Leases	65	—	—	—	187,565	187,630
Other	—	—	—	—	2,772	2,772
PCI - commercial (1)	—	474	—	233	9,026	9,733
Total commercial	5,394	474	3,726	14,079	4,306,671	4,330,344
Commercial real estate						
Residential construction	—	—	—	4	57,598	57,602
Commercial construction	19	—	—	—	249,524	249,543
Land	2,035	—	1,123	2,399	82,280	87,837
Office	6,360	701	163	2,601	744,992	754,817
Industrial	2,568	—	18	484	624,337	627,407
Retail	2,352	—	896	2,458	744,285	749,991
Multi-family	1,730	—	933	223	665,562	668,448
Mixed use and other	8,119	—	2,405	3,752	1,577,846	1,592,122
PCI - commercial real estate (1)	—	15,646	3,490	2,798	40,889	62,823
Total commercial real estate	23,183	16,347	9,028	14,719	4,787,313	4,850,590
Home equity	5,695	—	511	3,365	702,779	712,350
Residential real estate	16,631	—	2,410	1,205	480,427	500,673
PCI - residential real estate (1)	—	264	84	—	1,994	2,342
Premium finance receivables						
Commercial insurance loans	15,156	9,053	5,048	11,071	2,420,080	2,460,408
Life insurance loans	—	351	—	6,823	2,145,981	2,153,155
PCI - life insurance loans (1)	—	—	—	—	384,320	384,320
Consumer and other	280	110	196	919	117,963	119,468
Total loans, net of unearned income, excluding covered loans	$66,339	$26,599	$21,003	$52,181	$15,347,528	$15,513,650
Covered loans	6,353	10,030	1,333	1,720	173,974	193,410
Total loans, net of unearned income	$72,692	$36,629	$22,336	$53,901	$15,521,502	$15,707,060

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

91

Table of Contents

Aging as a % of Loan Balance: As of June 30, 2015	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Commercial						
Commercial and industrial	0.2 %	— %	0.1 %	0.2 %	99.5 %	100.0 %
Franchise	0.4	—	—	0.2	99.4	100.0
Mortgage warehouse lines of credit	—	—	—	—	100.0	100.0
Community Advantage—homeowners association	—	—	—	—	100.0	100.0
Aircraft	—	—	—	—	100.0	100.0
Asset-based lending	—	—	0.2	0.9	98.9	100.0
Tax exempt	—	—	—	—	100.0	100.0
Leases	—	—	—	—	100.0	100.0
Other	—	—	—	—	100.0	100.0
PCI - commercial (1)	—	4.9	—	2.4	92.7	100.0
Total commercial	0.1	—	0.1	0.3	99.5	100.0
Commercial real estate						
Residential construction	—	—	—	—	100.0	100.0
Commercial construction	—	—	—	—	100.0	100.0
Land	2.3	—	1.3	2.7	93.7	100.0
Office	0.8	0.1	—	0.3	98.8	100.0
Industrial	0.4	—	—	0.1	99.5	100.0
Retail	0.3	—	0.1	0.3	99.3	100.0
Multi-family	0.3	—	0.1	—	99.6	100.0
Mixed use and other	0.5	—	0.2	0.2	99.1	100.0
PCI - commercial real estate (1)	—	24.9	5.6	4.5	65.0	100.0
Total commercial real estate	0.5	0.3	0.2	0.3	98.7	100.0
Home equity	0.8	—	0.1	0.5	98.6	100.0
Residential real estate	3.3	—	0.5	0.2	96.0	100.0
PCI - residential real estate (1)	—	11.3	3.6	—	85.1	100.0
Premium finance receivables						
Commercial insurance loans	0.6	0.5	0.2	0.4	98.3	100.0
Life insurance loans	—	—	—	0.3	99.7	100.0
PCI - life insurance loans (1)	—	—	—	—	100.0	100.0
Consumer and other	0.2	0.1	0.2	0.8	98.7	100.0
Total loans, net of unearned income, excluding covered loans	0.4 %	0.2 %	0.1 %	0.3 %	99.0 %	100.0 %
Covered loans	3.3	5.2	0.7	0.9	89.9	100.0
Total loans, net of unearned income	0.5 %	0.2 %	0.1 %	0.3 %	98.9 %	100.0 %

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

As of March 31, 2015 (Dollars in thousands)	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Loan Balances:						
Commercial						
Commercial and industrial	$5,586	$—	$4,756	$16,949	$2,457,174	$2,484,465
Franchise	—	—	—	457	225,305	225,762
Mortgage warehouse lines of credit	—	—	—	—	186,372	186,372
Community Advantage - homeowners association	—	—	—	—	108,382	108,382
Aircraft	—	—	291	389	6,295	6,975
Asset-based lending	—	—	—	4,819	805,866	810,685
Municipal	—	—	—	—	205,195	205,195
Leases	—	—	65	517	171,432	172,014
Other	—	—	—	—	2,735	2,735
PCI - commercial [(1)]	—	612	—	—	8,735	9,347
Total commercial	5,586	612	5,112	23,131	4,177,491	4,211,932
Commercial real estate						
Residential construction	—	—	—	—	46,796	46,796
Commercial construction	—	—	—	992	209,039	210,031
Land	2,646	—	—	1,942	84,454	89,042
Office	8,243	—	171	3,144	731,568	743,126
Industrial	3,496	—	61	1,719	599,050	604,326
Retail	4,975	—	—	2,562	734,990	742,527
Multi-family	1,750	—	393	3,671	649,589	655,403
Mixed use and other	8,872	—	808	10,847	1,532,036	1,552,563
PCI - commercial real estate [(1)]	—	18,120	4,639	3,242	40,671	66,672
Total commercial real estate	29,982	18,120	6,072	28,119	4,628,193	4,710,486
Home equity	7,665	—	693	2,825	698,100	709,283
Residential real estate	14,248	—	753	8,735	469,826	493,562
PCI - residential real estate [(1)]	—	266	—	84	2,013	2,363
Premium finance receivables						
Commercial insurance loans	15,902	8,062	4,476	19,392	2,271,791	2,319,623
Life insurance loans	—	—	8,994	5,415	1,972,197	1,986,606
PCI - life insurance loans [(1)]	—	—	—	—	389,048	389,048
Consumer and other	236	91	111	634	129,084	130,156
Total loans, net of unearned income, excluding covered loans	$73,619	$27,151	$26,211	$88,335	$14,737,743	$14,953,059
Covered loans	7,079	16,434	558	6,128	179,495	209,694
Total loans, net of unearned income	$80,698	$43,585	$26,769	$94,463	$14,917,238	$15,162,753

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

93

Table of Contents

Aging as a % of Loan Balance: As of March 31, 2015	Nonaccrual	90+ days and still accruing	60-89 days past due	30-59 days past due	Current	Total Loans
Commercial						
Commercial and industrial	0.2 %	— %	0.2 %	0.7 %	98.9 %	100.0 %
Franchise	—	—	—	0.2	99.8	100.0
Mortgage warehouse lines of credit	—	—	—	—	100.0	100.0
Community Advantage - homeowners association	—	—	—	—	100.0	100.0
Aircraft	—	—	4.2	5.6	90.2	100.0
Asset-based lending	—	—	—	0.6	99.4	100.0
Municipal	—	—	—	—	100.0	100.0
Leases	—	—	—	0.3	99.7	100.0
Other	—	—	—	—	100.0	100.0
PCI - commercial (1)	—	6.5	—	—	93.5	100.0
Total commercial	0.1	—	0.1	0.6	99.2	100.0
Commercial real estate						
Residential construction	—	—	—	—	100.0	100.0
Commercial construction	—	—	—	0.5	99.5	100.0
Land	3.0	—	—	2.2	94.8	100.0
Office	1.1	—	—	0.4	98.5	100.0
Industrial	0.6	—	—	0.3	99.1	100.0
Retail	0.7	—	—	0.3	99.0	100.0
Multi-family	0.3	—	0.1	0.6	99.0	100.0
Mixed use and other	0.6	—	0.1	0.7	98.6	100.0
PCI - commercial real estate (1)	—	27.2	7.0	4.9	60.9	100.0
Total commercial real estate	0.6	0.4	0.1	0.6	98.3	100.0
Home equity	1.1	—	0.1	0.4	98.4	100.0
Residential real estate	2.9	—	0.2	1.8	95.1	100.0
PCI - residential real estate(1)	—	11.3	—	3.6	85.1	100.0
Premium finance receivables						
Commercial insurance loans	0.7	0.4	0.2	0.8	97.9	100.0
Life insurance loans	—	—	0.5	0.3	99.2	100.0
PCI - life insurance loans (1)	—	—	—	—	100.0	100.0
Consumer and other	0.2	0.1	0.1	0.5	99.1	100.0
Total loans, net of unearned income, excluding covered loans	0.5 %	0.2 %	0.2 %	0.6 %	98.5 %	100.0 %
Covered loans	3.4	7.8	0.3	2.9	85.6	100.0
Total loans, net of unearned income	0.5 %	0.3 %	0.2 %	0.6 %	98.4 %	100.0 %

(1) PCI loans represent loans acquired with evidence of credit quality deterioration since origination, in accordance with ASC 310-30. Loan agings are based upon contractually required payments.

As of June 30, 2015, only $21.0 million of all loans, excluding covered loans, or 0.1%, were 60 to 89 days past due and $52.2 million or 0.3%, were 30 to 59 days (or one payment) past due. As of March 31, 2015, $26.2 million of all loans, excluding covered loans, or 0.2%, were 60 to 89 days past due and $88.3 million, or 0.6%, were 30 to 59 days (or one payment) past due. The majority of the commercial and commercial real estate loans shown as 60 to 89 days

and 30 to 59 days past due are included on the Company's internal problem loan reporting system. Loans on this system are closely monitored by management on a monthly basis. Commercial and commercial real estate loans with delinquencies from 30 to 89 days past-due decreased $20.9 million since March 31, 2015.

The Company's home equity and residential loan portfolios continue to exhibit low delinquency ratios. Home equity loans at June 30, 2015 that are current with regard to the contractual terms of the loan agreement represent 98.6% of the total home equity portfolio. Residential real estate loans, excluding PCI loans, at June 30, 2015 that are current with regards to the contractual terms of the loan agreements comprise 96.0% of total residential real estate loans outstanding.

Table of Contents

Nonperforming Loans Rollforward

The table below presents a summary of non-performing loans, excluding covered loans and PCI loans, for the periods presented:

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Balance at beginning of period	$81,772	$90,124	$78,677	$103,334
Additions, net	8,828	15,143	17,808	20,798
Return to performing status	(847)	(1,094)	(1,563)	(3,067)
Payments received	(6,580)	(3,083)	(10,949)	(6,813)
Transfer to OREO and other repossessed assets	(4,365)	(9,741)	(6,905)	(19,754)
Charge-offs	(2,755)	(4,602)	(4,556)	(9,376)
Net change for niche loans [1]	501	1,903	4,042	3,528
Balance at end of period	$76,554	$88,650	$76,554	$88,650

(1) This includes activity for premium finance receivables and indirect consumer loans.

PCI loans are excluded from non-performing loans as they continue to earn interest income from the related accretable yield, independent of performance with contractual terms of the loan. See Note 7 of the Consolidated Financial Statements presented under Item 1 of this report for further discussion of non-performing loans and the loan aging during the respective periods.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of the probable and reasonably estimable loan losses that our loan portfolio is expected to incur. The allowance for loan losses is determined quarterly using a methodology that incorporates important risk characteristics of each loan, as described below under "How We Determine the Allowance for Credit Losses." This process is subject to review at each of our bank subsidiaries by the applicable regulatory authority, including the Federal Reserve Bank of Chicago, the Office of the Comptroller of the Currency, the State of Illinois and the State of Wisconsin.

Management determined that the allowance for loan losses was appropriate at June 30, 2015, and that the loan portfolio is well diversified and well secured, without undue concentration in any specific risk area. While this process involves a high degree of management judgment, the allowance for credit losses is based on a comprehensive, well documented, and consistently applied analysis of the Company's loan portfolio. This analysis takes into consideration all available information existing as of the financial statement date, including environmental factors such as economic, industry, geographical and political factors. The relative level of allowance for credit losses is reviewed and compared to industry peers. This review encompasses levels of total nonperforming loans, portfolio mix, portfolio concentrations, current geographic risks and overall levels of net charge-offs. Historical trending of both the Company's results and the industry peers is also reviewed to analyze comparative significance.

Table of Contents

Allowance for Credit Losses, excluding covered loans

The following table summarizes the activity in our allowance for credit losses during the periods indicated.

(Dollars in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Allowance for loan losses at beginning of period	$94,446	$92,275	$91,705	$96,922
Provision for credit losses	9,701	6,813	15,886	10,117
Other adjustments	(93)	(105)	(341)	(253)
Reclassification from (to) allowance for unfunded lending-related commitments	4	(146)	(109)	(164)
Charge-offs:				
Commercial	1,243	2,384	1,920	3,032
Commercial real estate	856	2,351	1,861	6,844
Home equity	1,847	730	2,431	2,997
Residential real estate	923	689	1,554	915
Premium finance receivables—commercial	1,526	1,492	2,789	2,702
Premium finance receivables—life insurance	—	—	—	—
Consumer and other	115	213	226	386
Total charge-offs	6,510	7,859	10,781	16,876
Recoveries:				
Commercial	285	270	655	587
Commercial real estate	1,824	342	2,136	487
Home equity	39	122	87	379
Residential real estate	16	74	92	205
Premium finance receivables—commercial	458	312	787	631
Premium finance receivables—life insurance	—	2	—	4
Consumer and other	34	153	87	214
Total recoveries	2,656	1,275	3,844	2,507
Net charge-offs	(3,854)	(6,584)	(6,937)	(14,369)
Allowance for loan losses at period end	$100,204	$92,253	$100,204	$92,253
Allowance for unfunded lending-related commitments at period end	884	884	884	884
Allowance for credit losses at period end	$101,088	$93,137	$101,088	$93,137
Annualized net charge-offs by category as a percentage of its own respective category's average:				
Commercial	0.09%	0.24%	0.06%	0.14%
Commercial real estate	(0.08)	0.19	(0.01)	0.30
Home equity	1.01	0.34	0.66	0.74
Residential real estate	0.39	0.35	0.34	0.21
Premium finance receivables—commercial	0.18	0.20	0.17	0.18
Premium finance receivables—life insurance	—	—	—	—
Consumer and other	0.23	0.14	0.17	0.20
Total loans, net of unearned income, excluding covered loans	0.10%	0.19%	0.09%	0.21%
Net charge-offs as a percentage of the provision for credit losses	39.73%	96.62%	43.68%	142.02%
Loans at period-end, excluding covered loans	$15,513,650	$13,749,996		
	0.65%	0.67%		

Allowance for loan losses as a percentage of loans at period end		
Allowance for credit losses as a percentage of loans at period end	0.65 %	0.68 %

The allowance for credit losses, excluding the allowance for covered loan losses, is comprised of an allowance for loan losses, which is determined with respect to loans that we have originated, and an allowance for lending-related commitments. Our allowance for lending-related commitments is determined with respect to funds that we have committed to lend but for which funds have not yet been disbursed and is computed using a methodology similar to that used to determine the allowance for loan losses. The allowance for unfunded lending-related commitments totaled $884,000 as of June 30, 2015 and June 30, 2014.

Additions to the allowance for loan losses are charged to earnings through the provision for credit losses. Charge-offs represent the amount of loans that have been determined to be uncollectible during a given period, and are deducted from the allowance for

loan losses, and recoveries represent the amount of collections received from loans that had previously been charged off, and are credited to the allowance for loan losses. See Note 7 of the Consolidated Financial Statements presented under Item 1 of this report for further discussion of activity within the allowance for loan losses during the period and the relationship with respective loan balances for each loan category and the total loan portfolio, excluding covered loans.

How We Determine the Allowance for Credit Losses

The allowance for loan losses includes an element for estimated probable but undetected losses and for imprecision in the credit risk models used to calculate the allowance. If the loan is impaired, the Company analyzes the loan for purposes of calculating our specific impairment reserves as part of the Problem Loan Reporting system review. A general reserve is separately determined for loans not considered impaired. See Note 7 of the Consolidated Financial Statements presented under Item 1 of this report for further discussion of the specific impairment reserve and general reserve as it relates to the allowance for credit losses for each loan category and the total loan portfolio, excluding covered loans.

Specific Impairment Reserves:

Loans with a credit risk rating of a 6 through 9 are reviewed on a monthly basis to determine if (a) an amount is deemed uncollectible (a charge-off) or (b) it is probable that the Company will be unable to collect amounts due in accordance with the original contractual terms of the loan (impaired loan). If a loan is impaired, the carrying amount of the loan is compared to the expected payments to be reserved, discounted at the loan’s original rate, or for collateral dependent loans, to the fair value of the collateral less the estimated cost to sell. Any shortfall is recorded as a specific impairment reserve.

At June 30, 2015, the Company had $103.4 million of impaired loans with $50.7 million of this balance requiring $10.1 million of specific impairment reserves. At March 31, 2015, the Company had $112.4 million of impaired loans with $48.6 million of this balance requiring $6.2 million of specific impairment reserves. The most significant fluctuations in impaired loans with specific impairment from March 31, 2015 to June 30, 2015 occurred within the office and residential real estate portfolios. The recorded investment in this portion of the office portfolio decreased $1.3 million, while the specific impairment reserves increased $1.8 million. The increase in specific impairment was primarily the result of one impaired loan requiring a $1.5 million specific impairment reserve during the current period that did not require a specific impairment reserve at March 31, 2015. The recorded investment and specific impairment reserves in the residential real estate portfolio increased $3.2 million and $1.2 million, respectively, which was primarily the result of one credit relationship with a recorded investment of $2.2 million becoming impaired at June 30, 2015. See Note 7 of the Consolidated Financial Statements presented under Item 1 of this report for further discussion of impaired loans and the related specific impairment reserve.

General Reserves:

For loans with a credit risk rating of 1 through 7 that are not considered impaired loans, reserves are established based on the type of loan collateral, if any, and the assigned credit risk rating. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on the average historical loss experience over a five-year period, and consideration of current environmental factors and economic trends, all of which may be susceptible to significant change.

We determine this component of the allowance for loan losses by classifying each loan into (i) categories based on the type of collateral that secures the loan (if any), and (ii) one of ten categories based on the credit risk rating of the loan, as described above under “Past Due Loans and Non-Performing Assets.” Each combination of collateral and credit risk rating is then assigned a specific loss factor that incorporates the following factors:

- historical loss experience;
- changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;

- changes in national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio;
- changes in the nature and volume of the portfolio and in the terms of the loans;
- changes in the experience, ability, and depth of lending management and other relevant staff;

Table of Contents

- changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans;
- changes in the quality of the bank's loan review system;
- changes in the underlying collateral for collateral dependent loans;
- the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the bank's existing portfolio.

In the second quarter of 2012, the Company modified its historical loss experience analysis from incorporating five-year average loss rate assumptions to incorporating three–year average loss rate assumptions. The reason for the migration at that time was charge-off rates from earlier years in the five-year period were no longer relevant as that period was characterized by historically low credit losses which then built up to a peak in credit losses as a result of the stressed economic environment and depressed real estate valuations that affected both the U.S. economy, generally, and the Company's local markets.

In the second quarter of 2015, the Company returned to incorporating five-year average loss rate assumptions for its historical loss experience to capture an extended credit cycle. The five–year average loss rate assumption analysis is computed for each of the Company's collateral codes. The historical loss experience is combined with the specific loss factor for each combination of collateral and credit risk rating which is then applied to each individual loan balance to determine an appropriate general reserve. The historical loss rates are updated on a quarterly basis and are driven by the performance of the portfolio and any changes to the specific loss factors are driven by management judgment and analysis of the factors described above. The Company also analyzes the three- and four-year average historical loss rates on a quarterly basis as a comparison.

Home Equity and Residential Real Estate Loans:

The determination of the appropriate allowance for loan losses for residential real estate and home equity loans differs slightly from the process used for commercial and commercial real estate loans. The same credit risk rating system, Problem Loan Reporting system, collateral coding methodology and loss factor assignment are used. The only significant difference is in how the credit risk ratings are assigned to these loans.

The home equity loan portfolio is reviewed on a loan by loan basis by analyzing current FICO scores of the borrowers, line availability, recent line usage, an approaching maturity and the aging status of the loan. Certain of these factors, or combination of these factors, may cause a portion of the credit risk ratings of home equity loans across all banks to be downgraded. Similar to commercial and commercial real estate loans, once a home equity loan's credit risk rating is downgraded to a 6 through 9, the Company's Managed Asset Division reviews and advises the subsidiary banks as to collateral valuations and as to the ultimate resolution of the credits that deteriorate to a non-accrual status to minimize losses.

Residential real estate loans that are downgraded to a credit risk rating of 6 through 9 also enter the problem loan reporting system and have the underlying collateral evaluated by the Managed Assets Division.

Premium Finance Receivables:

The determination of the appropriate allowance for loan losses for premium finance receivables is based on the assigned credit risk rating of loans in the portfolio. Loss factors are assigned to each risk rating in order to calculate an allowance for credit losses. The allowance for loan losses for these categories is entirely a general reserve.

Effects of Economic Recession and Real Estate Market:

In recent years, the Company's primary markets, which are mostly in suburban Chicago, have not experienced the same levels of credit deterioration in residential mortgage and home equity loans as certain other major metropolitan markets, however, the Company's markets have clearly been under stress. As of June 30, 2015, home equity loans and residential mortgages comprised 5% and 3%, respectively, of the Company's total loan portfolio. At June 30, 2015 (excluding covered loans), approximately 3.8% of all of the Company's residential mortgage loans, excluding covered loans and PCI loans, and approximately 0.9% of all of the Company's home equity loans, are on nonaccrual status or more than one payment past due. Current delinquency statistics of these two portfolios, demonstrating that although there is stress in the Chicago metropolitan and southern Wisconsin markets, our portfolios of residential mortgages and home equity loans are performing reasonably well as reflected in the aging of the Company's loan portfolio table shown earlier in this section.

Methodology in Assessing Impairment and Charge-off Amounts
In determining the amount of impairment or charge-offs associated with collateral dependent loans, the Company values the loan generally by starting with a valuation obtained from an appraisal of the underlying collateral and then deducting estimated selling costs to arrive at a net appraised value. We obtain the appraisals of the underlying collateral typically on an annual basis from one of a pre-approved list of independent, third party appraisal firms. Types of appraisal valuations include "as-is", "as-complete", "as-stabilized", bulk, fair market, liquidation and "retail sellout" values.

In many cases, the Company simultaneously values the underlying collateral by marketing the property to market participants interested in purchasing properties of the same type. If the Company receives offers or indications of interest, we will analyze the price and review market conditions to assess whether in light of such information the appraised value overstates the likely price and that a lower price would be a better assessment of the market value of the property and would enable us to liquidate the collateral. Additionally, the Company takes into account the strength of any guarantees and the ability of the borrower to provide value related to those guarantees in determining the ultimate charge-off or reserve associated with any impaired loans. Accordingly, the Company may charge-off a loan to a value below the net appraised value if it believes that an expeditious liquidation is desirable in the circumstance and it has legitimate offers or other indications of interest to support a value that is less than the net appraised value. Alternatively, the Company may carry a loan at a value that is in excess of the appraised value if the Company has a guarantee from a borrower that the Company believes has realizable value. In evaluating the strength of any guarantee, the Company evaluates
the financial wherewithal of the guarantor, the guarantor's reputation, and the guarantor's willingness and desire to work with the Company. The Company then conducts a review of the strength of a guarantee on a frequency established as the circumstances and conditions of the borrower warrant.

In circumstances where the Company has received an appraisal but has no third party offers or indications of interest, the Company may enlist the input of realtors in the local market as to the highest valuation that the realtor believes would result in a liquidation of the property given a reasonable marketing period of approximately 90 days. To the extent that the realtors' indication of market clearing price under such scenario is less than the net appraised valuation, the Company may take a charge-off on the loan to a valuation that is less than the net appraised valuation.

The Company may also charge-off a loan below the net appraised valuation if the Company holds a junior mortgage position in a piece of collateral whereby the risk to acquiring control of the property through the purchase of the senior mortgage position is deemed to potentially increase the risk of loss upon liquidation due to the amount of time to ultimately market the property and the volatile market conditions. In such cases, the Company may abandon its junior mortgage and charge-off the loan balance in full.

In other cases, the Company may allow the borrower to conduct a "short sale," which is a sale where the Company allows the borrower to sell the property at a value less than the amount of the loan. Many times, it is possible for the current owner to receive a better price than if the property is marketed by a financial institution which the market place perceives to have a greater desire to liquidate the property at a lower price. To the extent that we allow a short sale at a price below the value indicated by an appraisal, we may take a charge-off beyond the value that an appraisal would have indicated.

Other market conditions may require a reserve to bring the carrying value of the loan below the net appraised valuation such as litigation surrounding the borrower and/or property securing our loan or other market conditions impacting the value of the collateral.

Having determined the net value based on the factors such as those noted above and compared that value to the book value of the loan, the Company arrives at a charge-off amount or a specific reserve included in the allowance for loan

losses. In summary, for collateral dependent loans, appraisals are used as the fair value starting point in the estimate of net value. Estimated costs to sell are deducted from the appraised value to arrive at the net appraised value. Although an external appraisal is the primary source of valuation utilized for charge-offs on collateral dependent loans, alternative sources of valuation may become available between appraisal dates. As a result, we may utilize values obtained through these alternating sources, which include purchase and sale agreements, legitimate indications of interest, negotiated short sales, realtor price opinions, sale of the note or support from guarantors, as the basis for charge-offs. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. In addition, if an appraisal is not deemed current, a discount to appraised value may be utilized. Any adjustments from appraised value to net value are detailed and justified in an impairment analysis, which is reviewed and approved by the Company's Managed Assets Division.

TDRs

At June 30, 2015, the Company had $62.8 million in loans modified in TDRs. The $62.8 million in TDRs represents 122 credits in which economic concessions were granted to certain borrowers to better align the terms of their loans with their current ability

99

Table of Contents

to pay. The balance decreased from $67.2 million representing 125 credits at March 31, 2015 and decreased from $88.1 million representing 143 credits at June 30, 2014.

Concessions were granted on a case-by-case basis working with these borrowers to find modified terms that would assist them in retaining their businesses or their homes and attempt to keep these loans in an accruing status for the Company. Typical concessions include reduction of the interest rate on the loan to a rate considered lower than market and other modification of terms including forgiveness of a portion of the loan balance, extension of the maturity date, and/or modifications from principal and interest payments to interest-only payments for a certain period. See Note 7 of the Consolidated Financial Statements presented under Item 1 of this report for further discussion regarding the effectiveness of these modifications in keeping the modified loans current based upon contractual terms.

Subsequent to its restructuring, any TDR that becomes nonaccrual or more than 90 days past-due and still accruing interest will be included in the Company's nonperforming loans. Each TDR was reviewed for impairment at June 30, 2015 and approximately $3.7 million of impairment was present and appropriately reserved for through the Company's normal reserving methodology in the Company's allowance for loan losses. Additionally, at June 30, 2015, the Company was committed to lend additional funds to borrowers totaling $726,000 under the contractual terms of TDRs.

The table below presents a summary of restructured loans for the respective periods, presented by loan category and accrual status:

(Dollars in thousands)	June 30, 2015	March 31, 2015	June 30, 2014
Accruing TDRs:			
Commercial	$6,039	$6,273	$5,225
Commercial real estate	42,210	45,417	63,178
Residential real estate and other	3,925	2,997	3,796
Total accruing TDRs	$52,174	$54,687	$72,199
Non-accrual TDRs: (1)			
Commercial	$165	$184	$1,192
Commercial real estate	6,240	8,229	12,656
Residential real estate and other	4,197	4,118	2,060
Total non-accrual TDRs	$10,602	$12,531	$15,908
Total TDRs:			
Commercial	$6,204	$6,457	$6,417
Commercial real estate	48,450	53,646	75,834
Residential real estate and other	8,122	7,115	5,856
Total TDRs	$62,776	$67,218	$88,107
Weighted-average contractual interest rate of TDRs	4.05 %	4.04 %	4.04 %

(1) Included in total non-performing loans.

100

TDR Rollforward

The table below presents a summary of TDRs as of June 30, 2015 and June 30, 2014, and shows the changes in the balance during those periods:

Three Months Ended June 30, 2015 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$6,457	$53,646	$7,115	$67,218
Additions during the period	—	169	1,148	1,317
Reductions:				
Charge-offs	—	—	(7)	(7)
Transferred to OREO and other repossessed assets	—	(771)	(104)	(875)
Removal of TDR loan status [1]	(161)	(188)	—	(349)
Payments received	(92)	(4,406)	(30)	(4,528)
Balance at period end	$6,204	$48,450	$8,122	$62,776

Three Months Ended June 30, 2014 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$7,278	$79,500	$5,739	$92,517
Additions during the period	—	2,020	220	2,240
Reductions:				—
Charge-offs	(17)	(19)	(73)	(109)
Transferred to OREO and other repossessed assets	(252)	(3,780)	—	(4,032)
Removal of TDR loan status [1]	(383)	—	—	(383)
Payments received	(209)	(1,887)	(30)	(2,126)
Balance at period end	$6,417	$75,834	$5,856	$88,107

Six Months Ended June 30, 2015 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$7,576	$67,623	$7,076	$82,275
Additions during the period	—	169	1,442	1,611
Reductions:				—
Charge-offs	(397)	(1)	(40)	(438)
Transferred to OREO and other repossessed assets	(562)	(2,290)	(104)	(2,956)
Removal of TDR loan status [1]	(237)	(8,570)	—	(8,807)
Payments received	(176)	(8,481)	(252)	(8,909)
Balance at period end	$6,204	$48,450	$8,122	$62,776

Six Months Ended June 30, 2014 (Dollars in thousands)	Commercial	Commercial Real Estate	Residential Real Estate and Other	Total
Balance at beginning of period	$7,388	$93,535	$6,180	$107,103
Additions during the period	88	7,177	220	7,485
Reductions:				—
Charge-offs	(23)	(3,732)	(479)	(4,234)
Transferred to OREO and other repossessed assets	(252)	(16,057)	—	(16,309)
Removal of TDR loan status [1]	(383)	—	—	(383)

Payments received	(401)	(5,089)	(65)	(5,555)
Balance at period end	$6,417	$75,834	$5,856	$88,107

(1) Loan was previously classified as a TDR and subsequently performed in compliance with the loan's modified terms for a period of six months (including over a calendar year-end) at a modified interest rate which represented a market rate at the time of restructuring. Per our TDR policy, the TDR classification is removed.

101

Table of Contents

Other Real Estate Owned

In certain circumstances, the Company is required to take action against the real estate collateral of specific loans. The Company uses foreclosure only as a last resort for dealing with borrowers experiencing financial hardships. The Company employs extensive contact and restructuring procedures to attempt to find other solutions for our borrowers. The tables below present a summary of other real estate owned, excluding covered other real estate owned, and shows the activity for the respective periods and the balance for each property type:

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Balance at beginning of period	$42,257	$54,131	$45,642	$50,454
Disposal/resolved	(6,075)	(6,155)	(12,921)	(14,360)
Transfers in at fair value, less costs to sell	6,412	12,801	10,243	27,371
Additions from acquisition	—	—	761	—
Fair value adjustments	(514)	(1,189)	(1,645)	(3,877)
Balance at end of period	$42,080	$59,588	$42,080	$59,588

	Period End		
(Dollars in thousands)	June 30, 2015	March 31, 2015	June 30, 2014
Residential real estate	$6,408	$7,250	$9,007
Residential real estate development	3,031	2,687	3,216
Commercial real estate	32,641	32,320	47,365
Total	$42,080	$42,257	$59,588

Table of Contents

LIQUIDITY

Wintrust manages the liquidity position of its banking operations to ensure that sufficient funds are available to meet customers' needs for loans and deposit withdrawals. The liquidity to meet these demands is provided by maturing assets, liquid assets that can be converted to cash and the ability to attract funds from external sources. Liquid assets refer to money market assets such as Federal funds sold and interest bearing deposits with banks, as well as available-for-sale debt securities which are not pledged to secure public funds.

The Company believes that it has sufficient funds and access to funds to meet its working capital and other needs. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation - Interest-Earning Assets, -Deposits, -Other Funding Sources and -Shareholders' Equity sections of this report for additional information regarding the Company's liquidity position.

INFLATION

A banking organization's assets and liabilities are primarily monetary. Changes in the rate of inflation do not have as great an impact on the financial condition of a bank as do changes in interest rates. Moreover, interest rates do not necessarily change at the same percentage as inflation. Accordingly, changes in inflation are not expected to have a material impact on the Company. An analysis of the Company's asset and liability structure provides the best indication of how the organization is positioned to respond to changing interest rates. See "Quantitative and Qualitative Disclosures About Market Risks" section of this report for additional information.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of federal securities laws. Forward-looking information can be identified through the use of words such as "intend," "plan," "project," "expect," "anticipate," "believe," "estimate," "contemplate," "possible," "point," "will," "may," "should," "would" and "could." Forward-looking statements and information are not historical facts, are premised on many factors and assumptions, and represent only management's expectations, estimates and projections regarding future events. Similarly, these statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include, but are not limited to, those listed below and the Risk Factors discussed under Item 1A of the Company's 2014 Annual Report on Form 10-K and in any of the Company's subsequent SEC filings. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Such forward-looking statements may be deemed to include, among other things, statements relating to the Company's future financial performance, the performance of its loan portfolio, the expected amount of future credit reserves and charge-offs, delinquency trends, growth plans, regulatory developments, securities that the Company may offer from time to time, and management's long-term performance goals, as well as statements relating to the anticipated effects on financial condition and results of operations from expected developments or events, the Company's business and growth strategies, including future acquisitions of banks, specialty finance or wealth management businesses, internal growth and plans to form additional de novo banks or branch offices. Actual results could differ materially from those addressed in the forward-looking statements as a result of numerous factors, including the following:

- negative economic conditions that adversely affect the economy, housing prices, the job market and other factors that may affect the Company's liquidity and the performance of its loan portfolios, particularly in the markets in which it operates;
- the extent of defaults and losses on the Company's loan portfolio, which may require further increases in its allowance for credit losses;
- estimates of fair value of certain of the Company's assets and liabilities, which could change in value significantly from period to period;
- the financial success and economic viability of the borrowers of our commercial loans;
- market conditions in the commercial real estate market in the Chicago metropolitan area and southern Wisconsin;
- the extent of commercial and consumer delinquencies and declines in real estate values, which may require further increases in the Company's allowance for loan and lease losses;

- inaccurate assumptions in our analytical and forecasting models used to manage our loan portfolio;
- changes in the level and volatility of interest rates, the capital markets and other market indices that may affect, among other things, the Company’s liquidity and the value of its assets and liabilities;
- competitive pressures in the financial services business which may affect the pricing of the Company’s loan and deposit products as well as its services (including wealth management services);
- failure to identify and complete favorable acquisitions in the future or unexpected difficulties or developments related to the integration of the Company’s recent or future acquisitions;

- unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;
- any negative perception of the Company's reputation or financial strength;
- ability to raise additional capital on acceptable terms when needed;
- disruption in capital markets, which may lower fair values for the Company's investment portfolio;
- ability to use technology to provide products and services that will satisfy customer demands and create efficiencies in operations;
- adverse effects on our information technology systems resulting from failures, human error or tampering;
- adverse effects of failures by our vendors to provide agreed upon services in the manner and at the cost agreed, particularly our information technology vendors;
- increased costs as a result of protecting our customers from the impact of stolen debit card information;
- accuracy and completeness of information the Company receives about customers and counterparties to make credit decisions;
- ability of the Company to attract and retain senior management experienced in the banking and financial services industries;
- environmental liability risk associated with lending activities;
- the impact of any claims or legal actions, including any effect on our reputation;
- losses incurred in connection with repurchases and indemnification payments related to mortgages;
- the loss of customers as a result of technological changes allowing consumers to complete their financial transactions without the use of a bank;
- the soundness of other financial institutions;
- the expenses and delayed returns inherent in opening new branches and de novo banks;
- examinations and challenges by tax authorities;
- changes in accounting standards, rules and interpretations and the impact on the Company's financial statements;
- the ability of the Company to receive dividends from its subsidiaries;
- a decrease in the Company's regulatory capital ratios, including as a result of further declines in the value of its loan portfolios, or otherwise;
- legislative or regulatory changes, particularly changes in regulation of financial services companies and/or the products and services offered by financial services companies, including those resulting from the Dodd-Frank Act;
- a lowering of our credit rating;
- changes in U.S. monetary policy;
- restrictions upon our ability to market our products to consumers and limitations on our ability to profitably operate our mortgage business resulting from the Dodd-Frank Act;
- increased costs of compliance, heightened regulatory capital requirements and other risks associated with changes in regulation and the current regulatory environment, including the Dodd-Frank Act;
- the impact of heightened capital requirements;
- increases in the Company's FDIC insurance premiums, or the collection of special assessments by the FDIC;
- delinquencies or fraud with respect to the Company's premium finance business;
- credit downgrades among commercial and life insurance providers that could negatively affect the value of collateral securing the Company's premium finance loans;
- the Company's ability to comply with covenants under its credit facility; and
- fluctuations in the stock market, which may have an adverse impact on the Company's wealth management business and brokerage operation.

Therefore, there can be no assurances that future actual results will correspond to these forward-looking statements. The reader is cautioned not to place undue reliance on any forward-looking statement made by the Company. Any such statement speaks only as of the date the statement was made or as of such date that may be referenced within the statement. The Company undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances after the date of the press release. Persons are advised, however, to consult further disclosures management makes on related subjects in its reports filed with the Securities and Exchange Commission and in its

press releases.

Table of Contents

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

As an ongoing part of its financial strategy, the Company attempts to manage the impact of fluctuations in market interest rates on net interest income. This effort entails providing a reasonable balance between interest rate risk, credit risk, liquidity risk and maintenance of yield. Asset-liability management policies are established and monitored by management in conjunction with the boards of directors of the banks, subject to general oversight by the Risk Management Committee of the Company's Board of Directors. The policies establish guidelines for acceptable limits on the sensitivity of the market value of assets and liabilities to changes in interest rates.

Interest rate risk arises when the maturity or re-pricing periods and interest rate indices of the interest earning assets, interest bearing liabilities, and derivative financial instruments are different. It is the risk that changes in the level of market interest rates will result in disproportionate changes in the value of, and the net earnings generated from, the Company's interest earning assets, interest bearing liabilities and derivative financial instruments. The Company continuously monitors not only the organization's current net interest margin, but also the historical trends of these margins. In addition, management attempts to identify potential adverse changes in net interest income in future years as a result of interest rate fluctuations by performing simulation analysis of various interest rate environments. If a potential adverse change in net interest margin and/or net income is identified, management would take appropriate actions with its asset-liability structure to mitigate these potentially adverse situations. Please refer to Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of the net interest margin.

Since the Company's primary source of interest bearing liabilities is from customer deposits, the Company's ability to manage the types and terms of such deposits is somewhat limited by customer preferences and local competition in the market areas in which the banks operate. The rates, terms and interest rate indices of the Company's interest earning assets result primarily from the Company's strategy of investing in loans and securities that permit the Company to limit its exposure to interest rate risk, together with credit risk, while at the same time achieving an acceptable interest rate spread.

The Company's exposure to interest rate risk is reviewed on a regular basis by management and the Risk Management Committees of the boards of directors of the banks and the Company. The objective of the review is to measure the effect on net income and to adjust balance sheet and derivative financial instruments to minimize the inherent risk while at the same time maximize net interest income.

The following interest rate scenarios display the percentage change in net interest income over a one-year time horizon assuming increases and decreases of 100 and 200 basis points. The Static Shock Scenario results incorporate actual cash flows and repricing characteristics for balance sheet instruments following an instantaneous, parallel change in market rates based upon a static (i.e. no growth or constant) balance sheet. Conversely, the Ramp Scenario results incorporate management's projections of future volume and pricing of each of the product lines following a gradual, parallel change in market rates over twelve months. Actual results may differ from these simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies. The interest rate sensitivity for both the Static Shock and Ramp Scenarios at June 30, 2015, December 31, 2014 and June 30, 2014 is as follows:

Static Shock Scenarios	+200 Basis Points		+100 Basis Points		-100 Basis Points	
June 30, 2015	14.8	%	7.3	%	(10.5	)%
December 31, 2014	13.4	%	6.4	%	(10.1	)%
June 30, 2014	13.6	%	6.8	%	(11.5	)%

Ramp Scenarios	+200 Basis Points		+100 Basis Points		-100 Basis Points	
June 30, 2015	6.4	%	3.3	%	(4.0	)%
December 31, 2014	5.4	%	2.5	%	(3.9	)%

June 30, 2014	5.0 %	2.4 %	(4.0)%

One method utilized by financial institutions, including the Company, to manage interest rate risk is to enter into derivative financial instruments. Derivative financial instruments include interest rate swaps, interest rate caps and floors, futures, forwards, option contracts and other financial instruments with similar characteristics. Additionally, the Company enters into commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery

Table of Contents

of mortgage loans to third party investors. See Note 13 of the Consolidated Financial Statements presented under Item 1 of this report for further information on the Company's derivative financial instruments.

During the second quarter of 2015, the Company entered into certain covered call option transactions related to certain securities held by the Company. The Company uses these option transactions (rather than entering into other derivative interest rate contracts, such as interest rate floors) to economically hedge positions and compensate for net interest margin compression by increasing the total return associated with the related securities through fees generated from these options. Although the revenue received from these options is recorded as non-interest income rather than interest income, the increased return attributable to the related securities from these options contributes to the Company's overall profitability. The Company's exposure to interest rate risk may be impacted by these transactions. To mitigate this risk, the Company may acquire fixed rate term debt or use financial derivative instruments. There were no covered call options outstanding as of June 30, 2015.

ITEM 4
CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer carried out an evaluation under their supervision, with the participation of other members of management as they deemed appropriate, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as contemplated by Exchange Act Rule 13a-15. Based upon, and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, in all material respects, in timely alerting them to material information relating to the Company (and its consolidated subsidiaries) required to be included in the periodic reports the Company is required to file and submit to the SEC under the Exchange Act.

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the period that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II —
Item 1: Legal Proceedings

The Company and its subsidiaries, from time to time, are subject to pending and threatened legal action and proceedings arising
in the ordinary course of business.

In accordance with applicable accounting principles, the Company establishes an accrued liability for litigation and threatened litigation actions and proceedings when those actions present loss contingencies which are both probable and estimable. In actions for which a loss is reasonably possible in future periods, the Company determines whether it can estimate a loss or range of possible loss. To determine whether a possible loss is estimable, the Company reviews and evaluates its material litigation on an ongoing basis, in conjunction with any outside counsel handling the matter, in light of potentially relevant factual and legal developments. This review may include information learned through the discovery process, rulings on substantive or dispositive motions, and settlement discussions.

On March 15, 2012, a former mortgage loan originator employed by Wintrust Mortgage Company, named Wintrust, Barrington
Bank and its subsidiary, Wintrust Mortgage Company, as defendants in a Fair Labor Standards Act class action lawsuit filed in
the U.S. District Court for the Northern District of Illinois (the “FLSA Litigation”). The suit asserts that Wintrust Mortgage Company violated the federal Fair Labor Standards Act and challenges the manner in which Wintrust Mortgage Company classified its loan originators and compensated them for their work. The suit also seeks to assert these claims as a class. On September 30, 2013, the Court entered an order conditionally certifying an “opt-in” class in this case. Notice to the potential class members was sent on or about October 22, 2013, primarily informing the putative class of the right to opt-into the class and setting a deadline for same. Approximately 15% of the notice recipients joined the class. On September 26, 2014, the Court stayed actions by opt-in plaintiffs with arbitration agreements, which reduced the class size by more than 40%. The Court also denied the opt-in plaintiffs’ motion for equitable tolling, which the Company anticipates will reduce the class size by an additional 15%. On April 30, 2015, the parties settled the dispute for an immaterial amount and the court approved the settlement on June 17, 2015.

On January 15, 2015, Lehman Brothers Holdings, Inc. sent a demand letter asserting that Wintrust Mortgage must indemnify it for losses arising from loans sold by Wintrust Mortgage to Lehman Brothers Bank, FSB under a Loan Purchase Agreement between Wintrust Mortgage, as successor to SGB Corporation, and Lehman Brothers Bank. While no litigation has been initiated, the demand is the precursor for triggering the alternative dispute resolution process mandated by the U.S. Bankruptcy Court for the Southern District of New York.

The Company has reserved an amount for the Lehman Brothers Holdings demand that is immaterial to its results of operations or financial condition. Such litigation and threatened litigation actions necessarily involve substantial uncertainty and it is not possible at this time to predict the ultimate resolution or to determine whether, or to what extent, any loss with respect to these legal proceedings may exceed the amounts reserved by the Company.

Based on information currently available and upon consultation with counsel, management believes that the eventual outcome of any pending or threatened legal actions and proceedings will not have a material adverse effect on the operations or financial
condition of the Company. However, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the results of operations or financial condition for a particular period.
Item 1A: Risk Factors
There were no material changes from the risk factors set forth under Part I, Item 1A “Risk Factors” in the Company’s Form 10-K for the fiscal year ended December 31, 2014.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

No purchases of the Company's common shares were made by or on behalf of the Company or any "affiliated purchaser" as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during the three months ended June 30, 2015. There is currently no authorization to repurchase shares of outstanding common stock.

Table of Contents

Item 6: Exhibits:

(a) Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

• Includes the following financial information included in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WINTRUST FINANCIAL CORPORATION
(Registrant)

Date: August 10, 2015

/s/ DAVID L. STOEHR
David L. Stoehr
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

109