

WINTRUST FINANCIAL CORP

Form 10-K

February 29, 2008

2007 Weathering the Perfect Banking Storm

What Can Wintrust Do?

Treasury Management

Retail & Wholesale Lockbox

On-Line Lockbox (iBusinessPay)

On-Line Banking & Reporting (iBusinessBanking)

Remote Deposit Capture (iBusinessCapture)

Merchant Card Program

Payroll Services (CheckMate)

ACH & Wire Transfer Services

International Banking Services

Commercial Lending

Lending limit of greater than \$180 million

Commercial & Industrial (Asset Based) Lending

Commercial Real Estate, Mortgages & Construction

Lines of Credit

Letters of Credit

Property & Casualty Insurance Premium Financing

Life Insurance Financing

Retail Banking

Footprint of 15 chartered banks and 77 facilities

Deposit Products

Home Equity and Installment Loans

Residential Mortgages

Wealth Management

Asset Management (Individual & Institutional)

Financial Planning

Brokerage

Retirement Plans (Business)

Trust & Estate Services (Corporate & Personal)

Specialized Financial Services for:

Aircraft Owners

Building Management Companies

Condominium & Homeowner Associations

Insurance Agents & Brokers

Municipalities & School Districts

Physicians, Dentists and other medical personnel

Temporary Staffing & Security Companies

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We have always had a policy of presenting our goals, objectives and financial results in an up front manner to our shareholders. In this annual report, we are confirming our policy of reporting thoroughly the financial results, accounting policies and objectives of Wintrust Financial Corporation and our operating subsidiaries.

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Selected Financial Trends

Note: M=Million

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Wintrust Financial Corporation

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| | Years Ended December 31, | | | | |
|--|--|--------------|--------------|--------------|--------------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| | <i>(dollars in thousands, except per share data)</i> | | | | |
| Selected Financial Condition Data | | | | | |
| (at end of year): | | | | | |
| Total assets | \$ 9,368,859 | \$ 9,571,852 | \$ 8,177,042 | \$ 6,419,048 | \$ 4,747,398 |
| Total loans | 6,801,602 | 6,496,480 | 5,213,871 | 4,348,346 | 3,297,794 |
| Total deposits | 7,471,441 | 7,869,240 | 6,729,434 | 5,104,734 | 3,876,621 |
| Notes payable | 60,700 | 12,750 | 1,000 | 1,000 | 26,000 |
| Federal Home Loan Bank advances | 415,183 | 325,531 | 349,317 | 303,501 | 144,026 |
| Subordinated notes | 75,000 | 75,000 | 50,000 | 50,000 | 50,000 |
| Junior subordinated debentures | 249,662 | 249,828 | 230,458 | 204,489 | 96,811 |
| Total shareholders equity | 739,555 | 773,346 | 627,911 | 473,912 | 349,837 |
| Selected Statements of Operations Data: | | | | | |
| Net interest income | \$ 261,550 | \$ 248,886 | \$ 216,759 | \$ 157,824 | \$ 120,492 |
| Net revenue ⁽¹⁾ | 341,638 | 340,118 | 310,316 | 243,276 | 193,084 |
| Net income | 55,653 | 66,493 | 67,016 | 51,334 | 38,118 |
| Net income per common share Basic | 2.31 | 2.66 | 2.89 | 2.49 | 2.11 |
| Net income per common share Diluted | 2.24 | 2.56 | 2.75 | 2.34 | 1.98 |
| Cash dividends declared per common share | 0.32 | 0.28 | 0.24 | 0.20 | 0.16 |
| Selected Financial Ratios and Other Data: | | | | | |
| <i>Performance Ratios:</i> | | | | | |
| Net interest margin | 3.11% | 3.10% | 3.16% | 3.17% | 3.20% |
| Core net interest margin ⁽²⁾ | 3.38 | 3.32 | 3.37 | 3.31 | 3.32 |
| Non-interest income to average assets | 0.85 | 1.02 | 1.23 | 1.57 | 1.76 |
| Non-interest expense to average assets | 2.57 | 2.56 | 2.62 | 2.86 | 2.98 |
| Net overhead ratio ⁽³⁾ | 1.72 | 1.54 | 1.39 | 1.30 | 1.22 |
| Efficiency ratio ⁽⁴⁾ | 71.06 | 66.96 | 63.97 | 64.45 | 63.52 |
| Return on average assets | 0.59 | 0.74 | 0.88 | 0.94 | 0.93 |
| Return on average equity | 7.64 | 9.47 | 11.00 | 13.12 | 14.36 |
| Average total assets | \$ 9,442,277 | \$ 8,925,557 | \$ 7,587,602 | \$ 5,451,527 | \$ 4,116,618 |

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| | | | | | |
|---|-------------------|------------|------------|------------|------------|
| Average total shareholders equity | 727,972 | 701,794 | 609,167 | 391,335 | 265,495 |
| Ending loan-to-deposit ratio | 91.0% | 82.6% | 77.5% | 85.2% | 85.1% |
| Average loans to average deposits ratio | 90.1 | 82.2 | 83.4 | 87.7 | 86.4 |
| Average interest earning assets to average interest bearing liabilities | 106.93 | 107.78 | 108.83 | 109.89 | 109.68 |
| <i>Asset Quality Ratios:</i> | | | | | |
| Non-performing loans to total loans | 1.06% | 0.57% | 0.50% | 0.43% | 0.72% |
| Non-performing assets to total assets | 0.81 | 0.39 | 0.34 | 0.29 | 0.51 |
| Allowance for credit losses ⁽⁵⁾ to: | | | | | |
| Total loans | 0.75 | 0.72 | 0.78 | 0.79 | 0.77 |
| Non-performing loans | 70.81 | 126.14 | 155.69 | 184.13 | 107.59 |
| <i>Common Share Data at end of year:</i> | | | | | |
| Market price per common share | \$ 33.13 | \$ 48.02 | \$ 54.90 | \$ 56.96 | \$ 45.10 |
| Book value per common share | \$ 31.56 | \$ 30.38 | \$ 26.23 | \$ 21.81 | \$ 17.43 |
| Common shares outstanding | 23,430,490 | 25,457,935 | 23,940,744 | 21,728,548 | 20,066,265 |
| <i>Other Data at end of year:</i> | | | | | |
| Number of: | | | | | |
| Bank subsidiaries | 15 | 15 | 13 | 12 | 9 |
| Non-bank subsidiaries | 8 | 8 | 10 | 10 | 7 |
| Banking offices | 77 | 73 | 62 | 50 | 36 |

(1) *Net revenue is net interest income plus non-interest income.*

(2) *The core net interest margin excludes the effect of the net interest expense associated with the Company's junior subordinated debentures and*

the interest expense incurred to fund common stock repurchases.

- (3) *The net overhead ratio is calculated by netting total non-interest expense and total non-interest income 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.*

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To Our Fellow Shareholders

Welcome to Wintrust Financial Corporation's 2007 annual report. We thank you for being a shareholder.

Market Headwinds

For the first 14 years of Wintrust's existence, our community bank philosophy and related customer service levels produced a company that enjoyed growth rates substantially above industry standards. We committed the capital and a lot of hard work to take advantage of a banking industry that seemed to be turning its back on providing good old fashioned customer service. However, in 2007, management decided to temporarily suspend historical growth patterns due to a number of environmental factors that limited profitable growth.

As we noted in our 2006 Annual Report, the banking environment was characterized by a disadvantageous inverted yield curve, a loosened lending environment devoid of credit spreads and substantial market liquidity. This resulted in intense price competition. In essence, profitable growth at acceptable risk levels was taken away—a tough occurrence for all banks but especially a growth-oriented bank such as ours. It also seemed apparent that a negative credit cycle was soon to be upon us as we continued to see loan deals get done by many different competitors with what we considered unacceptable underwriting terms.

This seems to be the perfect storm that formed throughout the past two years in the banking and financial services industry. The environment has produced strong headwinds for almost everyone in the banking sector.

Our Response and Strategies in Place

Our response to the unfavorable environment was to stay committed to our core loan underwriting standards and not sacrifice our asset quality or pricing standards simply to grow outstanding loan balances and short-term profits. Our sincere belief is that if a bank forsakes credit quality in the short run, it will ultimately give back all of the short-term profits many times over in the form of credit losses down the road. Accordingly, since the marketplace was not allowing for profitable growth within acceptable risk parameters, we made a conscious decision to not commit the Company's capital to growth that did not produce acceptable returns. Rather, we decided to allocate our capital to growing our younger banks and actually shrinking the larger banks by allowing high cost non-core customer relationships to exit. By slowing the growth, we were able to use excess capital to repurchase common stock—an investment that we think was sound given the alternatives.

Just as it may take sailors slightly longer to get to their destination when facing headwinds, we have not sacrificed our long-term growth for short-term profit strategies. We believe that we are sitting in an advantageous spot due to our strategic measures taken during 2007. We maintained our strict adherence to our high core loan underwriting standards, focused more heavily on deposit pricing discipline, worked to shift our deposit mix to be less dependent on higher cost fixed-rate certificates of deposit (CDs), and focused more on expense control.

We say we believe we are in an advantageous spot because we think that those banks that stayed true to their credit underwriting standards over the past few years will not be burdened by troubled loan portfolios going forward. We think we are one of those banks who have kept our powder dry to fight the ongoing battle and take advantage of future opportunities.

Wintrust is now positioned to resume its previously successful growth strategies. We believe that 2008 will be a year of opportunities on the lending side of the business as many banks are fighting credit issues. Market liquidity has dried up to a certain extent and there has been much disruption in Chicago banking due to several local bank acquisitions. In fact, at year-end 2007, our loan-to-deposit ratio was north of 90% making us asset driven again. Being asset driven allows us to get more aggressive on growing the franchise while also allowing for the sale of excess asset generation to take place thereby augmenting income.

Make no mistake, our overall core strategies have remained the same over the years except for this temporary change in tactics. It is our hope that when this credit cycle is over, our investments in the Company's core strategies

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will payoff over the long term with a greater base to generate earnings and increased franchise value to shareholders. We have a resolute interest in growing earnings and our balance sheet for all of our franchises but only if we can do so in a safe and sound manner.

Credit Back to Normal

We believe our consistent underwriting standards are geared towards incurring credit losses in the range of 20-30 basis points of average loans which was generally our history from 1991 to 2003. The last few years have been extraordinarily good from a credit loss perspective and our loss ratios have been below the expected range. However, as we have indicated before, we believe the current credit cycle may result in loss ratios closer to pre-2004 levels. In providing you with our best estimates, we are keenly aware that these are uncertain times and no one is larger than the market. The banking business is one where we take measured risks every day through investments in loans and other earning assets. The key is to control the risk and get paid an appropriate amount for taking such risk. We truly believe that we have always maintained consistent underwriting standards that should control risk and limit losses to acceptable levels.

Mortgage Market Turmoil How We Weathered the Storm

Surely you have all heard or read about the huge problems experienced by the mortgage industry as a whole in 2007. During 2007, our Company originated in excess of \$1.9 billion of mortgage loans. We sell the majority of those long-term fixed rate loans to the secondary market in order to reduce interest rate risk. As a condition to selling those loans, we generally retain certain recourse obligations in the event of early payment defaults, misrepresentation of warranties and other matters. As a result of the rapid change in the dynamics of the marketplace, we recorded losses related to those recourse obligations and valuations of mortgages held for sale of approximately \$4 million, after-tax. To put this into perspective, this is only about one quarter of one percent of the amount of loans originated. Although we are obviously not pleased with any loss, we do believe it was relatively insignificant compared to the total amount originated during the year. However, we have revised our underwriting standards to limit the exposure to this type of loss in the future. Separately, we are optimistic about the mortgage market in 2008. The lower rate environment that we are currently experiencing should drive more origination volume from customers refinancing their existing mortgages. We continue to add mortgage personnel throughout our banking locations which should help increase mortgage loan production during 2008.

Net Interest Margin Challenges

The Company's net interest margin remained stable in 2007, with an actual uptick of one basis point to 3.11%. Our core net interest margin, which excludes interest expense associated with Wintrust's junior subordinated debentures and the interest expense incurred to fund common stock repurchases, increased six basis points to 3.38%.

The interest margin challenges faced by all banks in 2007 are well known: loan pricing pressures, rate cuts by the Federal Reserve and a yield curve not quite recovered from its recent inversion. However, the Company took necessary steps to lower its cost of funds with better deposit pricing discipline and rebalancing its deposit mix from higher cost fixed-rate savings vehicles such as CDs to lower rate savings vehicles like money market, savings and NOW accounts. At the same time, industry underwriting and lending terms appear to be returning to the norm. The return of credit spreads and sound underwriting standards in the industry should allow us to better compete on a variety of lending opportunities, while still allowing us to be

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compensated for our time and risk. However, despite some of these encouraging signs, progress made could very well be offset by the margin compression caused by continued rate cuts by the Federal Reserve Bank.

Repurchasing Shares of Common Stock

Beginning in the later half of 2006, the Company began to repurchase its common shares under plans approved by the Board of Directors. Given declining stock price multiples in the banking sector and our decision to slow growth due to unacceptable market conditions, we thought the repurchase of our shares was a sound investment. In total, since the July 2006 Board authorization, we have repurchased approximately 2.8 million shares at an average price under \$43 per share. Accordingly, approximately 11% of the common shares of the Company have been repurchased.

In January 2008, the Company authorized the repurchase of up to another one million shares of our common stock. Our decision to continue our share repurchase program demonstrates the Company's confidence in its long-term growth and commitment towards building shareholder value. Going forward, we will be selective in repurchasing shares while monitoring growth during the year and making sure we maintain sufficient capital to support growth opportunities.

Our Newest Addition to the Family

On November 1, 2007, the Company announced the completion of its acquisition of 100% of the ownership interests of Broadway Premium Funding Corporation (Broadway). Broadway was founded in 1999 and had approximately \$60 million of premium finance receivables outstanding at the date of acquisition. Broadway provides financing for commercial property, casualty and professional insurance premiums, mainly through insurance agents and brokers in the northeastern portion of the United States and California. Broadway, now a subsidiary of the Company's FIRST Insurance Funding (FIRST) premium finance unit, expands the footprint of our commercial premium finance receivables niche and serves a segment of small- to mid-sized businesses not previously covered by FIRST. We welcome the Broadway team to the Wintrust family and are excited about the growth opportunities that exist in their niche of the premium finance market.

The Big Banks and Merger Mania

Over the course of 2007, there were a couple of highly publicized bank mergers that affected the markets where our current banks compete. This creates a beneficial environment for the Company as mergers and acquisitions set money in motion. Suddenly, a client that used to be a big fish in a small pond at one of the acquired institutions sees the pond increase in size comparable to an ocean.

Wintrust is uniquely positioned to capture not only retail customers, but new commercial clients as well. Our philosophy of providing the same or better big bank products, coupled with community bank service we are known for, is ideal for this opportunity. We get back to our bread-and-butter and key differentiator, allowing us to position ourselves as having the best customer service around.

As a result, we have gone on the offensive and begun to use the Wintrust brand for the first time in the commercial banking landscape. This includes advertisements, direct mail and other marketing collateral. We hope you enjoy the many Wintrust

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commercial customers featured in the Client Profiles or in the Clients Having It All sections appearing throughout this Annual Report.

Our Key Advantage of Service, Service, Service

As we have continually stated, our key advantage is our people. Our dedicated staff constantly carries forward our mantra of Service, Service, Service .

Our decentralized management approach allows senior management at each franchise to manage their company and their employees. These employees are the key to our success. Our clients and customers truly appreciate the unparalleled service that our valued employees provide.

Giving Thanks

As is customary in our letter to shareholders we feel a debt of gratitude and feel some thank yous are in order. Let's start by thanking our leadership teams our management and directors. Your stewardship and efforts are an important reason for our success. Thank you.

And then let's thank our employees and welcome those who recently joined our Wintrust team, either from our acquisition of Broadway Premium Funding, or the launch of one of our new bank facilities, or by joining an existing member of our family. As previously mentioned, our dedicated employees provide our clients and customers the best service around. Thank you.

Thanks as well to our shareholders for keeping us focused on what we do best growing our franchises by delivering products uniquely positioned to meet the financial needs of consumers with the key differentiator of service.

And finally, thank you to our clients and customers banking, lending, mortgage, wealth management, premium finance, employment agencies for trusting us to deliver our products and services. Without you, we don't exist. Thank you.

In Summary

Muhammad Ali coined a phrase that we think is applicable to our current state of mind as a Company. He developed a strategy he called, Rope-a-Dope, with the idea to lie on the ropes of a boxing ring, conserve energy and allow the opponent to strike him repeatedly in hopes of making him tire and open up weaknesses to exploit for the inevitable counterattack, which would eventually lead to victory.

We see 2007 as a year of conserving energy and are poised to push off the ropes with gloves off as we hopefully are quick to come out of the current credit cycle and yield environment.

Your continued support of our business is greatly appreciated and we are excited about making 2008 a good year for the Company. Please enjoy the rest of our 2007 Annual Report. We hope to see you at our Annual Meeting, to be held on Thursday, May 22, 2008 at 10:00a.m. It will be held at the Deer Path Inn located at 255 East Illinois Road in Lake Forest, Illinois.

Sincerely,

John S. Lillard
Chairman

Edward J. Wehmer
*President &
Chief Executive Officer*

David A. Dykstra
*Senior Executive Vice President &
Chief Operating Officer*

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Overall Financial Performance

In 2007, total assets remained relatively unchanged from 2006, and earnings suffered due to a challenging interest rate environment and other market conditions previously discussed. However, the Company did achieve a record level of loans as we surpassed the \$6.8 billion mark.

Core Growth

Though growth was not at the level our shareholders have come to expect, our core balance sheet remains strong. Total assets of \$9.4 billion were near our 2006 record of \$9.6 billion. Furthermore, the Company has doubled in size in a five-year period, which is a substantial achievement, especially in the competitive financial services industry. Earnings per diluted share decreased to \$2.24 in 2007 from \$2.56 in 2006. Shareholders' equity also decreased as a consequence of the repurchase of our common shares. The amount of treasury stock increased substantially from 2006 as the Company continued to repurchase shares, a demonstration of our belief that our stock was undervalued and represented a good investment relative to other investment alternatives. Despite the treasury stock purchases, book value per common share increased by \$1.18, or 3.9%, to \$31.56.

Net Revenue

Overall net revenue, which includes net interest income and non-interest income, increased 0.4% to \$341.6 million. Our net interest margin remained relatively stable at 3.11% in 2007, up one basis point from the prior year, as we continued to face extremely competitive loan and deposit pricing pressures.

Most banking institutions, ours included, have been affected by the inverted yield curve. When long-term interest rates are lower than short-term interest rates, it squeezes the spread between interest earned on our assets and interest paid on liabilities. While the curve has been begun to move toward a normal positive-sloping shape, the Federal Reserve Bank's rate cuts make for a complicated operating environment. Lower interest rates are generally not favorable to community bank organizations because interest spreads get compressed. Rates on lower cost deposits generally can not be lowered as much as the Federal Reserve's rate cuts. Asset yields, however, are not so constrained. To counteract deposit pricing pressures, the Company has begun to make progress in shifting its mix of retail deposits away from high-rate CDs into lower cost, variable-rate NOW, money market and wealth management deposits.

Our other main source of revenue, non-interest income, fell 12.2% in 2007 to \$80.1 million. The decrease was primarily attributed to \$8.5 million less of trading income recognized on interest rate swaps in 2006 and a decline in mortgage banking revenue of \$7.5 million. Offsetting these two large decreases were the BOLI death benefit recorded in the third quarter of 2007, the gain recognized on the Company's investment in an unaffiliated bank holding company that was acquired by another bank holding company and the gain recognized on the sale of Company owned land.

Asset Quality

At December 31, 2007, non-performing assets were \$75.7 million, or 0.81%, of total assets, compared to \$37.4 million, or 0.39%, of total assets at December 31, 2006. The increase in non-performing assets is concentrated in three credit relationships. These relationships are being carefully monitored with work-out plans in process.

We believe our consistent underwriting standards are geared towards incurring credit losses in the range of 20-30 basis

Clients Having It All

You have all the parts for our commercial banking needs. By understanding what we are trying to do as a business, you know what needs to get done, and you take care of it quickly for us.

Brian and Greg Panek, Panek Precision

I switched from my old bank to a Wintrust Community Bank because they provide personal service, they're always available and most importantly they understand the business.

Marc Kresmery, Marc Kresmery Construction LLC

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points, which was generally our history from 1991 to 2003. The last few years have been extraordinarily good from a credit loss perspective. As we have indicated before, we believe the current credit cycle may result in loss ratios closer to pre-2004 levels. Both non-performing assets and net charge-offs increased in 2007, but are at levels that are within acceptable operating ranges and are as expected. Sound asset quality has always been a basic operating tenet for us and we are committed to maintaining a good quality loan portfolio. As mentioned earlier, we believe the current credit cycle may result in higher loss ratios in 2008, but hopefully only back to the historical levels we experienced prior to 2004. We believe that the allowance for loan losses is adequate to provide for inherent losses in the portfolio.

Dividend Payouts

In January and July of 2007, our Board of Directors approved semiannual cash dividends of \$0.16 per share of outstanding common stock. These dividends were paid in February and August. This annualized cash dividend of \$0.32 per share represented a 14% increase over the per share common stock dividends paid during 2006.

And in January 2008, our Board approved a semi-annual cash dividend of \$0.18 per share of outstanding common stock. The dividend was paid on February 21, 2008, to shareholders of record as of February 7, 2008. This cash dividend, on an annualized basis, represents a 13% increase over the per share common stock dividends paid during 2007. Following is a historical summary of our increasing dividend distributions:

| Year | Diluted Earnings | Dividend Per Share | Dividend Payout Ratio |
|-------------|-----------------------------|-------------------------------|--------------------------------------|
| 2007 | \$2.24 | \$0.320 | 14.3% |
| 2006 | 2.56 | 0.280 | 10.9 |
| 2004 | 2.75 | 0.240 | 8.7 |
| 2003 | 2.34 | 0.200 | 8.5 |
| 2002 | 1.98 | 0.160 | 8.1 |
| 2001 | 1.60 | 0.120 | 7.5 |

While we have increased our dividend every year since we initiated payment of dividends, we continue to retain the majority of our earnings to fund future growth and to build a strong, long-term franchise. Although the payment of future dividends will be subject to our Board's periodic review of the financial condition, earnings, and capital requirements of the Company, it is our present intent to continue paying regular semiannual cash dividends.

Clients Having It All

I switched from my old bank because you make banking the way it used to be. I get personal service, even though I am hundreds of miles away. Wintrust is more flexible than the larger banks, with tailored products and services that fit my needs.

John Petrakis, McDonald's Owner/Operator, Orlando, FL

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Our Banking and Wealth Management Locations

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Wintrust Financial Corporation

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Our Other Locations and Our Brands

**FIRST Insurance/Broadway Premium Finance, Tricom Funding, and WestAmerica Mortgage Distribution
Our Bank Brands
Our Other Brands**

2007 Annual Report

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As we have grown over the years, many wonder how we can stay true to our community banking model. With 15 chartered banks and 77 facilities, it may seem like a challenging task to outsiders. However, our decentralized, multi-chartered approach means that our local leadership teams maintain proper focus on the communities we serve and on our customers.

In 2007, we made a renewed commitment to the customer service experience. We sent mystery shoppers to our retail facilities to gauge how well we are satisfying customer needs and implementing cross-sell initiatives. The shopping results showed that the consistency of the retail experience across our 15 chartered banks is solid, but can always be improved. In a tough interest rate environment where it does not make sense to compete on rates, we believe more than ever before that top-notch customer service is our strongest point of differentiation.

Below is a chart of FDIC deposit market share as of June 30, 2007, for each Wintrust main bank zip code.

| Bank | De Novo Opening | Acquisition Date | Deposit Market Share Rank |
|----------------------|----------------------------|-----------------------------|--|
| 1. Lake Forest Bank | 12/91 | | 1 (out of 10) |
| 2. Hinsdale Bank | 10/93 | | 2 (out of 14) |
| 3. North Shore Bank | 9/94 | | 1 (out of 7) |
| 4. Libertyville Bank | 10/95 | | 1 (out of 9) |
| 5. Barrington Bank | 12/96 | | 2 (out of 9) |
| 6. Crystal Lake Bank | 12/97 | | 2 (out of 15) |
| 7. Northbrook Bank | 11/00 | | 3 (out of 14) |
| 8. Advantage Bank | | 10/03 | 2 (out of 15) |
| 9. Village Bank | | 12/03 | 1 (out of 10) |
| 10. Beverly Bank | 4/04 | | 3 (out of 9) |
| 11. Wheaton Bank | | 9/04 | 3 (out of 19) |
| 12. Town Bank | | 10/04 | 1 (out of 5) |
| 13. State Bank | | 1/05 | 1 (out of 8) |
| 14. Old Plank Bank | 3/06 | | 4 (out of 13) |
| 15. St. Charles Bank | | 5/06 | 16 (out of 20) |

With aggressive marketing, all retail locations are striving increase penetration into their markets and increase market share. The tried-and-true approach is to erode the market share of big bank competitors. Bank mergers and acquisitions in the Chicagoland area generally assist us in this task. We are well-positioned as a customer-centric alternative to the big banks in our markets. This positioning is central to our continued retail growth.

Indeed, as the true community banks in our markets, we provide a number of value-added services that the big banks can't or won't offer. From community shredding days to credit scoring seminars to events for children via our Junior Savers Club to travel clubs for our senior citizen customers, our banks are clearly more than just a place to make deposits. We are fully invested in the communities we serve, and it doesn't just stop at the bank level. Our bankers are actively involved in their communities and local organizations, effectively putting community interests first in all they do.

Commercial Banking

In 2006, Wintrust banks enhanced the infrastructure, sales people and products to better enable us to go head to head with larger banks. This year proved to be an opportune time for our aggressive rollout and positioning of these

services. Big banks were swallowing up the banking leaders in our Chicago bank market. For the first time in our Company's history we began marketing the Wintrust Financial Corporation name to establish a brand in the commercial banking arena.

Our efforts started with a letter to the top 100 personal banking customers for each individual bank brand that were identified as local businesspersons. The letter introduced Wintrust, but also positioned the bank as locally managed, with local decision making authority. However, we let them in on the fact their local community bank is not just that. Behind their community bank and its superior customer service is a larger financial services company. The response was favorable with many customers surprised and receptive to the news. They know that

Clients Having It All

My Wintrust Bank is easy to do business with, trusting, accommodating and flexible. They have been great to work with and have made business easier by customizing products to fit my company's specific needs.

Todd Augustine, President, Augustine Custom Homes, Inc., Fox Valley Homebuilders Association

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our community banks develop and foster relationships, both in personal and commercial banking. Given the favorable response to our initial efforts, the Company followed up with advertising in local and regional business publications. The original advertisements (three of the four can be viewed on page 6) were based upon one of our more historically successful anti-big bank merger advertisements. From July to December, we ran this campaign of four advertisements, followed with direct mail pieces to targeted commercial and small business lists. The response to our commercial banking initiative has been gratifying. We will continue to pursue growth in this area as we truly believe we can competitively offer all the commercial services that our customers need and do so in a more tailored fashion than our large bank competitors.

Wintrust has also developed a few specialty divisions as needs have become apparent within our commercial banking business. Wintrust Commercial Realty Advisors, based out of our Northbrook Bank, provides brokering services to some of our commercial relationships for loans that do not necessarily fit the criteria for our Banks' loan portfolios. Yet, we maintain the primary relationship and receive fees for this service. Wintrust Government Funds is charged with assisting our Banks in the municipal, school districts and other institutional arenas. Physicians Financial Care, based out of our Barrington and Village Banks, is providing specialized, personal and commercial banking, as well as financial planning needs to doctors in our market areas.

For 2008, Wintrust plans to continue aggressive commercial marketing to further spread our message of community bank service, backed by big bank resources and technology. Our clients "Have It All" and we want prospective clients to know they can too.

Clients Having It All

At Plastic Bottle Corporation, I'm committed to my customers, employees and vendors. I believe in trust and integrity. I expect that from my bank as well, and that's what I get from our banking relationship. We mold plastic bottles, you mold relationships. You've wanted to understand our business first, and then help with our financial needs. It's a relationship that works.

- Stuart Feen, President, Plastic Bottle Corporation

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Update on Our Other Companies

Wayne Hummer Wealth Management

As one of the oldest and most successful Chicago-based wealth management organizations, Wayne Hummer Wealth Management (Wayne Hummer) has more than 170 professionals, over 15,000 clients and approximately \$7 billion in client assets under administration. Wayne Hummer marked its fifth year as a Wintrust company in 2007, and it has grown from just two offices to 23 branch locations, mostly in our community banks, in that time.

A provider of comprehensive wealth management services including financial planning, investments, trust services, asset management and insurance, Wayne Hummer has a strong heritage of ethics, integrity, client service and dependability. We offer all the products, technology and capabilities of a national company with the personal service and attention of a boutique wealth management firm.

The strategy of cross-selling Wintrust bank customers our wealth management products and services is working. For 2007, Wayne Hummer s referral program generated more than 2,400 referrals from over 350 Wintrust bankers. Both clients and our bankers are realizing the benefits of getting a complete array of financial solutions from their hometown bank.

Significant investments have been made in the core business as well. In October 2007, Wayne Hummer moved its headquarters to a new location right above Union Station in downtown Chicago. The move allowed Wayne Hummer to centralize all downtown employees to a single floor, resulting in better servicing of our clients needs. We also added 12 net new wealth managers to our stable of professionals.

Since the acquisition of the Wayne Hummer Companies in 2002, we have focused on providing smooth integration of all the wealth management units together and into our banking network. We have successfully established one brand image and upgraded the capabilities throughout the wealth management system. The trust arm of the wealth management companies continues to have success in servicing existing customers and attracting new ones. In fact, in 2007, the trust assets under administration surpassed the \$1 billion level. Likewise, our brokerage business continues to grow its revenue base after significant investments in state-of-the-art systems and upgraded product offerings. Growth associated with Financial Advisors located in our banking locations is especially promising with most reporting double-digit growth in their brokerage revenue.

The third aspect of the wealth management business is asset management, an area we are targeting for significant future growth. In order to provide for the growth of this important aspect of the business model, it was essential that we supplement our existing talent base to provide the appropriate infrastructure for growth. To that end, in the first quarter of 2008, the ongoing search for additional senior management resulted in the hiring of a new Chief Investment Officer and new Product Head for our asset management division. We are excited about the opportunities that exist in the marketplace and the national recognition and skill set that recent executive hires are bringing to the table. We intend to build a comprehensive array of products to fill out a diversified aggregate portfolio. Our steadfast commitment

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to invest in and grow the asset management business coupled with the rich heritage of the Wayne Hummer franchise should enable us to develop new winning investment strategies for our private clients and institutional investors.

WestAmerica Mortgage Company

In 2007, WestAmerica focused on improving operating efficiencies, boosting service standards and managing every production branch to contribute to overall profitability. This focus was necessary with the mortgage industry in a state of disarray as a result of the widespread issues surrounding sub-prime mortgages. Additionally, warehouse interest spreads were virtually non-existent with the inverted yield curve and, as noted earlier in this report, we had losses associated with certain recourse obligations due primarily to early payment defaults on loans that had been sold into the secondary market.

However, we remain cautiously optimistic that 2008 will bode well for our mortgage operation. The yield curve has improved somewhat in early 2008, which should provide additional margins on loans that we warehouse, pending sale to the secondary market. Also, the overall rate environment has lowered which, if rates stay low, should provide for increased refinancing volumes. Further, recent increases in conventional and government loan limits should help WestAmerica's business.

We will also continue our ongoing effort to gain further presence in more of our banking facilities. To that end, WestAmerica will boost its presence with lobby signage, point-of-sale displays, and participation in every possible cross-sell opportunity. This should build awareness to over 125,000 Wintrust bank households at a relatively low cost.

Clients Having It All

The people at our Wintrust Community Bank raised the comfort level with what we had to do. This was a major project. Everyone made us feel comfortable, from the top down. The bank worked with us and educated us every step of the way. They were knowledgeable, walked us through the process and even did the leg work for us. At the time, no other bank could step up to the plate and deliver. Our bank knew our mission and was very supportive. I would highly recommend it to anyone to pursue a Wintrust Bank for a commercial project like ours. Their communication is excellent, they have superior knowledge of the process, and demonstrate a willingness and passion for getting the job done.

Robert M. Martens, Chief Executive Officer, Family Service & Community Mental Health Center for McHenry County

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FIRST Insurance Funding Corp.

The premium finance industry in 2007 faced a second tough year as the volatile interest rate environment and soft insurance market saw premiums drop up to 20% in some markets, reducing loan volume and interest margins. However, unlike many of its competitors who saw a decline in origination volumes due to the soft insurance market, FIRST increased its loan production level slightly to \$3.1 billion while it increased its number of loans by almost 10%. The increase in the number of accounts is reflective of the solid reputation that FIRST has in the premium finance arena and the hard work put forth by the team at FIRST. It is important to understand that the expanded customer base positions us well for substantial increases in volumes when the insurance market swings back to higher premium levels.

Like the Wintrust banks, FIRST is also positioning itself as the provider of complete financial solutions. One new product line established by FIRST in 2007 was the financing for life insurance policies tied to high-net-worth estate planning needs.

Additionally, working with our subsidiary bank, Lake Forest Bank, FIRST can provide its independent insurance agency customers with loans for agency perpetuation, acquisitions, equipment, real estate and working capital. Coupled with FIRST's core premium finance business, its leading edge technology and Lake Forest Bank's deposit products, FIRST's customers have access to a full suite of financial tools to help make them more successful in a very competitive market.

The November addition of Broadway Premium Funding Corporation, one of the leaders in premium financing for the small-to middle-market that will continue to run as a separate brand, gives Wintrust access to a segment of smaller and midsized insurance agents not previously covered by FIRST.

As one of the largest premium finance organizations in the country, FIRST and Broadway continue to prove their industry leadership with cutting edge technology and unique products and services.

Clients Having It All

The products and services I've received from my Wintrust Community Bank really measure up. It is clear that the bank is committed to working with businesses and serving their needs. I get the products available at a large, downtown bank and the personalized service of a small, hometown bank. I'm not just a number here - I've become a bigger fish in a smaller pond.

Mark E. Echales, Executive Vice-President & GM, American Building Services

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Tricom Inc. of Milwaukee

The general temporary staffing industry once again saw temperate growth in 2007. This is causing intensified pricing competition among providers of temporary staffing industry financing and back office solutions. Nonetheless, Tricom maintained a net revenue contribution to the Company of approximately \$8 million in 2007, and a net income contribution of \$1.4 million. Acceptable results considering the significant compression of spreads in the industry. The strategy of aggressive marketing is working. Juxtaposing Tricom's strengths against the identified weaknesses of our primary competition is a method being used to generate awareness of the benefits of working with Tricom. In Tricom's business, the key driver to growth is demonstrating our service levels and capabilities coupled with fair pricing. We think we provide better and more services per dollar of cost than our competitors. As we unbundled the price of combined services and fully disclose our pricing structure, potential customers consistently realize that Tricom really does offer excellent value. We fully intend to build the customer base of this franchise in 2008.

Clients Having It All

i-Business Banking, superior customer service and the experienced professionals at my community bank define what's best to me. I expect a high level commitment from my business partners and that's what I'm now getting from my bank. You can bet the house on it!

Patrick A. Finn, Custom Homes and Remodeling

When we partnered with a Wintrust Community Bank, we knew that our decision was as important as choosing the quality products that go into every project we build. We switched from our old bank to a Wintrust Community Bank because they made banking the way it used to be—we get personal service.

Mike & Bob Brenner, Micro Builders

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Table of Contents*Growth and Earnings Strategies***It is Time For Everyone to Have It All**

Almost since our inception, we've had the same mantra: Same or better products as the big banks. Same or better technology as the big banks. Win customers with exceptional service. Our product offering and technology have always put us on the same playing field as the big-and mega-national banks. What has always differentiated us is service.

Service First

We make fulfilling clients' needs our top priority, whether in banking, mortgages, wealth management or any of our other businesses. This results in more satisfied customers and higher customer loyalty.

Over the years, we've always measured our customers' level of satisfaction and have been proud of our results. In 2007, we went one step further and began a Mystery Shopping program with our banks. While we confirmed what we always knew, that our banks performed better than our peers, we also learned that there is always room for improvement. This valuable tool now presents us with new opportunities to train our employees and improve our already high level of customer service.

To ensure customer service improvements at our banking facilities, each charter is appointing an Ambassador of Customer Experience, who will make it his or her job to ensure each banking facility is as warm, inviting, attractive, and functional from a customer's perspective as it possibly can be. In other words, we continue to look for all possible ways to not become complacent with our level of service but rather find ways to always improve upon the most important differentiating aspect of our business.

Proven Recipe for a Strong Franchise

In 2007, we started reminding everyone, customers and non-customers that with Wintrust banks they could in fact Have It All: Big Bank Resources and Community Bank Service. This belief has always been at the core of what we do and allowed us to develop a long-term recipe for success:

1. Start with a strong base of community banks;
2. Add a growing commercial banking business;
3. Fold in expanding wealth management services; and
4. Top off with asset niches and other income generators.

1. Start with a Strong Base of Community Banks

Wintrust's 15 bank charters and 77 locations are the backbone of our organization. It is here that we strengthen our relationships, serve our communities and build our business. Nine banks and 56 facilities were *de novo* launches. The remaining banks and locations have been added via acquisition since 2003. We will continue to add additional branches via *de novo* launches and perhaps acquisition if the right opportunity presents itself.

Deposit Market Share-Chicago MSA

| Bank Holding Company | At June 30, 2007 | | At June 30, 2006 | |
|----------------------------|---------------------------|----------------------|---------------------------|----------------------|
| | In-market Deposit Dollars | Deposit Market Share | In-market Deposit Dollars | Deposit Market Share |
| 1) JP Morgan Chase & Co. * | \$38.9 BB | 14.5% | \$40.1 BB | 15.3% |
| 2) ABN AMRO Holding N.V. * | \$34.6 BB | 12.9% | \$37.0 BB | 14.1% |
| 3) Bank of Montreal * | | 11.1% | | 9.8% |

| | | | | |
|--|--------------|-------------|--------------|-------------|
| | \$29.7 | | \$25.6 | |
| | BB | | BB | |
| | \$8.9 | | \$7.3 | |
| 4) Northern Trust Corporation | BB | 3.3% | BB | 2.8% |
| | \$8.4 | | \$8.5 | |
| 5) Fifth Third Bancorp * | BB | 3.1% | BB | 3.2% |
| | \$8.4 | | \$8.2 | |
| 6) Corus Bankshares | BB | 3.1% | BB | 3.2% |
| | \$7.8 | | \$7.3 | |
| 7) Royal Bank of Scotland Group * | BB | 2.9% | BB | 2.8% |
| | \$7.6 | | \$7.3 | |
| 8) Citigroup, Inc. * | BB | 2.8% | BB | 2.6% |
| | \$7.2 | | \$7.2 | |
| 9) Wintrust Financial Corporation | BB | 2.7% | BB | 2.8% |

Source: FDIC website Summary of Deposits as of June 30, 2007 and June 30, 2006. Market share data is for the Chicago Metropolitan Statistical Area.

* - Corporate Headquarters is out-of-state.

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Since our inception in 1991, we've used a proven mix of operating and marketing strategies that allow us to position ourselves differently from the centralized big banks and to better deliver our community bank products and services.

Our unique growth strategies include:

Decentralized Management. The management teams at each of our 15 banks ultimately control the fate of their banks. Each has profit responsibilities and the authority to make decisions locally. Our local decision making structure results in more flexibility and customized products to better meet local needs. It also allows better pricing, quicker decisions, more community involvement and customer service more in tune with local customers and businesses. This autonomy lets us attract and retain the best and most entrepreneurial bankers in the area who embrace the responsibility, accountability and the glory.

Local Board and Local Bankers. Each bank is governed by a local board of directors made up of business and community leaders who are influential in the bank's market. These boards not only bring local oversight, they also supply local contacts and their involvement is required to make our banks real community banks.

We staff our banks with local bankers who are deeply involved and well known in their communities. Their local roots are what make each Wintrust bank a good hometown bank. Though the "Shop Locally" fads often come and go, we know that most people prefer to bank with the professionals and institutions they know. Ultimately, everyone wants to work with local bankers that know them and can better meet their needs.

Local Branding. We not only run our banks locally, we also brand many of our banks and branches after the local communities. The Advantage Bank group is a good example, with its branches also positioned locally as Old Town Bank & Trust of Bloomington, Elk Grove Village Bank & Trust and Roselle Bank & Trust.

Aggressive and Creative Marketing. When Wintrust enters a new market, we have a variety of very aggressive introductory marketing programs. These are designed to quickly acquire new customers, expand our customer base and allow us to grow into our overhead and reach profitability quickly.

After our introductory period, our banks continue to be aggressive with marketing to grow household penetration and accounts per household. We do this with targeted direct mail and consistent campaigns that build our distinct community bank positioning. Sometimes, this may take the form of ads that poke fun at the big banks, positioning them as profits-over-service institutions. Other times, it's simply a matter of defining what community banking is and proving that Wintrust banks live up to that definition.

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2. Add a Growing Commercial Banking Business

Mid-2007 saw a new marketing initiative from Wintrust. For the first time in our history, we started promoting the Wintrust brand to commercial customers. Our fish campaign began to promote Wintrust's complete suite of commercial banking products and superior customer service.

In 2008, we'll continue this with our Have It All campaign. Focusing on customer testimonials, this series of ads and direct mail highlights the complete financial solutions we've provided to Wintrust commercial customers, while promoting our key differentiator service and strong relationships.

As in years past, our key target is middle market commercial and industrial businesses and our primary competition is the larger banks. We have sophisticated treasury management capabilities and technology that are every bit as good as the big banks and the professionals who know how to sell and implement these programs.

The opportunities available to Wintrust in 2008, especially in commercial banking, are almost incalculable. The acquisitions of some competitors and the credit foibles of others have opened up a window that the Wintrust banks can perfectly fit through.

3. Fold in Expanding Wealth Management Services

The wealth management services provided by our three Wayne Hummer companies (Investment, Trust and Asset Management) allow us to be complete financial providers to all Wintrust customers.

We still have an amazing opportunity to grow our investment and trust groups within our community banks. Our Banks are in most of the desirable markets of northeastern Illinois and southern Wisconsin. We will continue to convince our bank customers that we can serve their wealth management needs better than the big-box type, national firms.

Wayne Hummer Asset Management Company is also primed to see real growth in 2008. The appointment of Daniel J. Cardell, CFA, as President and Chief Investment Officer and Todd D. Doersch as Head of Product Management, will enable us to develop new investment strategies for our private clients and institutional investors and be a key step in realizing our vision of becoming the area's premier money manager.

As in previous years, we will continue increasing the number of Wayne Hummer Wealth Management personnel at our Banks. We are concentrating on opportunities for new wealth management experts that live within our communities, giving them the opportunity, like our bankers, to work in the same communities in which they live.

4. Top Off with Asset Niches and Other Income Generators

One of the things that allows our community banks to be flexible in meeting the needs of customers and not chasing the latest banking fads is Wintrust's commitment to asset niches and other income generators.

Many community and regional banks have difficulty generating loans from the local consumers and small businesses that exceed 60% of their lending capacity without compromising credit quality. Some overcome this by making questionable loans or following the nationals into questionable sectors.

Clients Having It All

I switched from my old bank to a Wintrust Community Bank because I get personal service from them. They know who I am, and they help me take care of my business.

Vicki Baker, Gifts of Distinction

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Wintrust overcomes this limitation by augmenting our community banks' loan portfolios with non-traditional earning assets. This improves the profitability of our community banks, gives us additional income to continue to invest in growth, diversifies our loan portfolios and allows the banks to maintain their credit standards. Asset niches allow us to grow the right way, so we never feel compelled to pursue bad credits for the sake of growth.

Wintrust banks and their subsidiaries operate a number of companies that specialize in non-traditional bank lending functions. Non-bank asset niches account for 16.3% of total loans while specialty banking asset niches account for 5.6%.

| | <u>% of Total Loans</u> |
|---|--------------------------------|
| <i>Non-Bank Asset Niches</i> | |
| Premium finance lending (FIRST and Broadway) | 15.9% |
| Temporary staffing industry financing (Tricom) | 0.4% |
| | 16.3% |
| <i>Specialty Banking Asset Niches</i> | |
| Indirect consumer (primarily auto lending at Hinsdale Bank) | 3.5% |
| Mortgage warehouse lending (Hinsdale Bank) | 0.8% |
| Condominium and association lending (Community Advantage- Barrington Bank) | 0.7% |
| Small craft aviation lending (NorthAmerican Aviation Finance-Crystal Lake Bank) | 0.6% |
| | 5.6% |

We also continue to develop fee based services and internal specialties that help Wintrust diversify revenue. This includes not only our wealth management (Wayne Hummer) and residential mortgage (WestAmerica) companies, but also a number of other specialties like commercial mortgage brokerage and municipal services.

Acquisitions

Acquisitions remain an important and viable source of growth for many companies. Since 1999, Wintrust has added a number of banking and other complementary businesses via acquisition. These acquisitions are an important tactic for Wintrust to add key strategic and niche assets, as well as expand into banking locations and markets, creating value for our shareholders.

Banking Acquisitions. Over the past several years, we've been contacted by many Midwestern community banks with the goal of merging their community-based bank and branches into the Wintrust family. This year has not been any different. While we entertained several proposals, there were no opportunities that brought the necessary value to Wintrust.

It is our goal to continue to add new banks in attractive markets, either on a *de novo* basis or by acquisition, always taking into account business sense and shareholder value. Our bank acquisitions have proved successful in the past and have grown deposits, assets, and market share.

Other Acquisitions. We also continue to evaluate non-banking opportunities. These include wealth management and asset or fee income generators. Adding these types of companies will diversify our earning assets and fee-based income businesses to supplement and diversify Wintrust's revenue stream.

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Wintrust Financial Corporation

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Beginning of Financial Review Section

Now that you have read some of the highlights for the Company in the year 2007, take a closer look at the full story of our financial performance in the remaining pages of our Annual Report.

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Management's Discussion and Analysis

FORWARD-LOOKING STATEMENTS

This document and the documents incorporated by reference herein contain forward-looking statements within the meaning of federal securities laws. Forward-looking information in this document can be identified through the use of words such as may, will, intend, plan, project, expect, anticipate, should, would, believe, possible, and point. Forward-looking statements and information are not historical facts, are premised on many factors, 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 in Item 1A on page 115 of this Report. 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 projected growth, anticipated improvements in earnings, earnings per share and other financial performance measures, and management's long-term performance goals, as well as statements relating to the anticipated effects on financial results of condition from expected developments or events, the Company's business and growth strategies, including anticipated internal growth, plans to form additional *de novo* banks and to open new branch offices, and to pursue additional potential development or acquisitions of banks, wealth management entities or specialty finance businesses. Actual results could differ materially from those addressed in the forward-looking statements as a result of numerous factors, including the following:

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).

Changes in the interest rate environment, which may influence, among other things, the growth of loans and deposits, the quality of the Company's loan portfolio, the pricing of loans and deposits and interest income.

The extent of defaults and losses on our loan portfolio.

Unexpected difficulties or unanticipated developments related to the Company's strategy of *de novo* bank formations and openings. *De novo* banks typically require 13 to 24 months of operations before becoming profitable, due to the impact of organizational and overhead expenses, the startup phase of generating deposits and the time lag typically involved in redeploying deposits into attractively priced loans and other higher yielding earning assets.

The ability of the Company to obtain liquidity and income from the sale of premium finance receivables in the future and the unique collection and delinquency risks associated with such loans.

Failure to identify and complete acquisitions in the future or unexpected difficulties or unanticipated developments related to the integration of acquired entities with the Company.

Legislative or regulatory changes or actions, or significant litigation involving the Company.

Changes in general economic conditions in the markets in which the Company operates.

The ability of the Company to receive dividends from its subsidiaries.

The loss of customers as a result of technological changes allowing consumers to complete their financial transactions without the use of a bank.

The ability of the Company to attract and retain senior management experienced in the banking and financial services industries.

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 or on behalf of Wintrust. 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. Wintrust does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Persons are advised, however, to consult any further disclosures management makes on related subjects in its reports filed with the Securities and Exchange Commission (SEC) and in its press releases.

The Company undertakes no obligation to release revisions to these forward-looking statements or reflect events or circumstances after the date of this Annual Report.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion highlights the significant factors affecting the operations and financial condition of Wintrust for the three years ended December 31, 2007. This discussion and analysis should be read in conjunction with the Company s Consolidated Financial Statements and Notes thereto, and Selected Financial Highlights appearing elsewhere within this report.

Table of Contents**OPERATING SUMMARY**

Wintrust's key measures of profitability and balance sheet changes are shown in the following table (dollars in thousands, except per share data):

| | Years Ended December 31, | | | % or basis point (bp)change 2006 to 2007 | % or basis point (bp)change 2005 to 2006 |
|--|-----------------------------|--------------|--------------|---|---|
| | 2007 | 2006 | 2005 | | |
| Net income | \$ 55,653 | \$ 66,493 | \$ 67,016 | (16)% | (1)% |
| Net income per common share | | | | | |
| Diluted | \$ 2.24 | \$ 2.56 | \$ 2.75 | (13)% | (7)% |
| Net revenue ⁽¹⁾ | \$ 341,638 | \$ 340,118 | \$ 310,316 | % | 10% |
| Net interest income | \$ 261,550 | \$ 248,886 | \$ 216,759 | 5 % | 15% |
| Net interest margin ⁽⁵⁾ | 3.11% | 3.10% | 3.16% | 1 bp | (6)bp |
| Core net interest margin ⁽²⁾⁽⁵⁾ | 3.38% | 3.32% | 3.37% | 6 bp | (5)bp |
| Net overhead ratio ⁽³⁾ | 1.72% | 1.54% | 1.39% | 18 bp | 15 bp |
| Efficiency ratio ⁽⁴⁾⁽⁵⁾ | 71.06% | 66.96% | 63.97% | 410 bp | 299 bp |
| Return on average assets | 0.59% | 0.74% | 0.88% | (15)bp | (14)bp |
| Return on average equity | 7.64% | 9.47% | 11.00% | (183)bp | (153)bp |
| At end of period: | | | | | |
| Total assets | \$ 9,368,859 | \$ 9,571,852 | \$ 8,177,042 | (2)% | 17% |
| Total loans | \$ 6,801,602 | \$ 6,496,480 | \$ 5,213,871 | 5% | 25% |
| Total deposits | \$ 7,471,441 | \$ 7,869,240 | \$ 6,729,434 | (5)% | 17% |
| Total equity | \$ 739,555 | \$ 773,346 | \$ 627,911 | (4)% | 23% |
| Book value per common share | \$ 31.56 | \$ 30.38 | \$ 26.23 | 4% | 16% |
| Market price per common share | \$ 33.13 | \$ 48.02 | \$ 54.90 | (31)% | (13)% |
| Common shares outstanding | 23,430,490 | 25,457,935 | 23,940,744 | (8)% | 6% |

(1) Net revenue is net interest income plus non-interest income.

(2) Core net interest margin excludes the effect of the net interest expense associated with Wintrust's junior subordinated debentures and

the interest expense incurred to fund common stock repurchases.

(3) *The net overhead ratio is calculated by netting total non-interest expense and total non-interest income 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 revenue (excluding securities gains or losses). A lower ratio indicates more efficient revenue generation.*

(5) *See Non-GAAP Financial Measures/Ratios for additional information on this performance measure/ratio.*

Please refer to the Consolidated Results of Operations section later in this discussion for an analysis of the Company's operations for the past three years.

NON-GAAP FINANCIAL MEASURES/RATIOS

The accounting and reporting policies of the Company conform to generally accepted accounting principles (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), core net interest margin and the efficiency ratio. Management believes that these measures and ratios provide users of the Company's financial information with 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 the 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.

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Management also evaluates the net interest margin excluding the interest expense associated with the Company's junior subordinated debentures and the interest expense incurred to fund common stock repurchases (Core Net Interest Margin). Because junior subordinated debentures are utilized by the Company primarily as capital instruments and the cost incurred to fund common stock repurchases is capital utilization related, management finds it useful to view the net interest margin excluding these expenses and deems it to be a more meaningful view of the operational net interest margin of the Company.

The following table presents 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 for the years ended December 31, 2007, 2006 and 2005 (dollars in thousands):

| | Years Ended December 31, | | |
|--|-------------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| (A) Interest income (GAAP) | \$611,557 | \$557,945 | \$407,036 |
| Taxable-equivalent adjustment | | | |
| - Loans | 826 | 409 | 531 |
| - Liquidity management assets | 2,388 | 1,195 | 777 |
| - Other earning assets | 13 | 17 | 19 |
| Interest income FTE | \$614,784 | \$559,566 | \$408,363 |
| (B) Interest expense (GAAP) | 350,007 | 309,059 | 190,277 |
| Net interest income FTE | \$264,777 | \$250,507 | \$218,086 |
| (C) Net interest income (GAAP) (A minus B) | \$261,550 | \$248,886 | \$216,759 |
| Net interest income FTE | \$264,777 | \$250,507 | \$218,086 |
| Add: Interest expense on junior subordinated debentures and interest cost incurred for common stock repurchases ⁽¹⁾ | 23,170 | 17,838 | 14,672 |
| Core net interest income FTE ⁽²⁾ | \$287,947 | \$268,345 | \$232,758 |
| (D) Net interest margin (GAAP) | 3.07% | 3.07% | 3.14% |
| Net interest margin FTE | 3.11% | 3.10% | 3.16% |
| Core net interest margin FTE ⁽²⁾ | 3.38% | 3.32% | 3.37% |
| (E) Efficiency ratio (GAAP) | 71.74% | 67.28% | 64.25% |
| Efficiency ratio FTE | 71.06% | 66.96% | 63.97% |

(1) Interest expense from the junior subordinated debentures is net of the interest income on the Common Securities owned by the Trusts and included in interest income. Interest cost incurred for common stock repurchases is estimated using current period average rates on certain debt obligations.

(2) Core net interest income and core net interest margin are by definition a non-GAAP measure/ratio. The GAAP equivalents are the net interest income and net interest margin determined in accordance with GAAP (lines C and D in the table).

OVERVIEW AND STRATEGY

Wintrust is a financial holding company, providing traditional community banking services as well as a full array of wealth management services. The Company has grown rapidly since its inception and its Banks have been among the fastest growing community-oriented *de novo* banking operations in Illinois and the country. As of December 31, 2007, the Company operated 15 community-oriented bank subsidiaries (the Banks) with 77 banking locations. During 2007, the Company acquired a premium finance company and opened five new bank branches. During 2006, the Company acquired one bank with five locations, opened its ninth *de novo* bank and opened five new branches. However, the Company temporarily curtailed balance sheet growth trends in 2007 given the interest rate and credit environments. Additionally, the historical financial performance of the Company has been affected by costs associated with growing market share in deposits and loans, establishing new banks and opening new branch facilities, and building an experienced management team. The Company's experience has been that it generally takes 13-24 months for new banking offices to first achieve operational profitability.

Management's ongoing focus is to balance further asset growth with earnings growth by seeking to fully leverage the existing capacity within each of the Banks and non-bank subsidiaries. One aspect of this strategy is to continue to pursue specialized lending or earning asset niches in order to maintain the mix of earning assets in higher-yielding loans as well as diversify the loan portfolio. Another aspect of this strategy is a continued focus on less aggressive deposit pricing at the Banks with significant market share and more established customer bases.

Wintrust also provides a full range of wealth management services through its trust, asset management and broker-dealer subsidiaries.

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De Novo Bank Formations, Branch Openings and Acquisitions

The Company developed its community banking franchise through the formation of nine *de novo* banks, the opening of branch offices of the Banks and acquisitions. Following is a summary of the expansion of the Company's banking franchise through newly chartered banks, new branching locations and acquisitions over the last three years.

2007 Banking Expansion Activity

Opened the following branch locations

Hoffman Estates, Illinois, a branch of Barrington Bank

Hartland, Wisconsin, a branch of Town Bank

Bloomington, Illinois, a branch of Advantage Bank

Island Lake, Illinois, a branch of Libertyville Bank

North Chicago, Illinois, a branch of Lake Forest Bank

Closed the following branch location

Glen Ellyn Bank, temporary facility opened in 2005, a branch of Wheaton Bank

2006 Banking Expansion Activity

Opened the Company's ninth *de novo* bank

Old Plank Trail Bank in Frankfort, Illinois

Opened the following branch locations

St. Charles, Illinois, a branch of St. Charles Bank

Algonquin Bank & Trust, a branch of Crystal Lake Bank

Mokena, Illinois, a branch of Old Plank Trail Bank

Elm Grove, Wisconsin, a branch of Town Bank

New Lenox, Illinois, a branch of Old Plank Trail Bank

Acquired the following banks

Hinsbrook Bank with locations in Willowbrook, Downers Grove, Glen Ellyn, Darien and Geneva

2005 Banking Expansion Activity

Opened the following branch locations

Wales, Wisconsin, a branch of Town Bank

Glen Ellyn Bank, a branch of Wheaton Bank

West Northbrook, a branch of Northbrook Bank

Lake Bluff drive through facility added to existing banking office; a branch of Lake Forest Bank

Northwest Highway in Barrington, a branch of Barrington Bank

Palatine Bank & Trust, a branch of Barrington Bank Acquired the following banks

State Bank of The Lakes with locations in Antioch, Lindenhurst, Grayslake, Spring Grove and McHenry

First Northwest Bank with two locations in Arlington Heights
Closed the following branch location

Wayne Hummer Bank, a branch of North Shore Bank

**Earning Asset, Wealth Management
and Other Business Niches**

As previously mentioned, the Company continues to pursue specialized earning asset and business niches in order to maximize the Company's revenue stream as well as diversify its loan portfolio. A summary of the Company's more significant earning asset niches and non-bank operating subsidiaries follows.

Wayne Hummer Investments LLC (WHI), a registered broker-dealer, provides a full-range of investment products and services tailored to meet the specific needs of individual and institutional investors throughout the country, primarily in the Midwest. In addition, WHI provides a full range of investment services to clients through a network of relationships with community-based financial institutions located primarily in Illinois. Although headquartered in Chicago, WHI also operates an office in Appleton, Wisconsin that opened in 1936 and serves the greater Appleton area. As of December 31, 2007, WHI had branch locations in offices in a majority of the Company's fifteen banks. WHI had approximately \$5.6 billion in client assets at December 31, 2007.

Wayne Hummer Asset Management (WHAMC), a registered investment advisor, is the investment advisory affiliate of WHI. WHAMC provides money management, financial planning and investment advisory services to individuals and institutional, municipal and tax-exempt organizations. WHAMC also provides portfolio management and financial supervision for a wide-range of pension and profit sharing plans. At December 31, 2007, assets under management totaled approximately \$541 million.

Wayne Hummer Trust Company (WHTC) was formed to offer trust and investment management services to all communities served by the Banks. In addition to offering trust services to existing bank customers at each of the Banks, the Company believes WHTC can successfully compete for trust business by targeting small to mid-size businesses and affluent individuals whose needs command the personalized attention offered by WHTC's experienced trust professionals. Services offered by WHTC typically include traditional trust products and services, as well as investment management services. Assets under administration by WHTC as of December 31, 2007 were approximately \$1.0 billion.

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First Insurance Funding Corp. (FIFC) is the Company's most significant specialized earning asset niche, originating approximately \$3.1 billion in loan (premium finance receivables) volume during 2007. FIFC makes loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. The loans are originated by FIFC working through independent medium and large insurance agents and brokers located throughout the United States. 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 and because the borrowers are located nationwide, this segment may be more susceptible to third party fraud, however no material third party fraud has occurred since the third quarter of 2000. The majority of these loans are purchased by the Banks in order to more fully utilize their lending capacity, and these loans generally provide the Banks with higher yields than alternative investments. However, excess FIFC originations over the capacity to retain such loans within the Banks' loan portfolios may be sold to an unrelated third party with servicing retained.

Additionally, in 2007, FIFC began to make loans to irrevocable life insurance trusts to purchase life insurance policies for high net-worth individuals. The loans are originated through independent insurance agents or financial advisors and legal counsel. The life insurance policy is the primary collateral on the loan and, in most cases, the loans are also secured by a letter of credit.

On November 1, 2007, the Company acquired Broadway Premium Funding Corporation (Broadway). Broadway is a commercial finance company that specializes in financing insurance premiums for corporate entities. Its products are marketed through insurance agents and brokers to their small to mid-size corporate clients. Broadway is headquartered in New York City and services clients primarily in the northeastern United States and California. Broadway is a subsidiary of FIFC.

SGB Corporation d/b/a WestAmerica Mortgage Company (WestAmerica) engages primarily in the origination and purchase of residential mortgages for sale into the secondary market. WestAmerica's affiliate Guardian Real Estate Services, Inc. (Guardian) provides the document preparation and other loan closing services to West America and its network of mortgage brokers. West America sells its loans with servicing released and does not currently engage in servicing loans for others. WestAmerica maintains principal origination offices in nine states, including Illinois, and originates loans in other states through wholesale and correspondent offices. WestAmerica provides the Banks with the ability to use an enhanced loan origination and documentation system which allows WestAmerica and each Bank to better utilize existing operational capacity and expand the mortgage products offered to the Banks' customers. WestAmerica's production of adjustable rate mortgage loans may be retained by the Banks in their loan portfolios, resulting in additional earning assets to the combined organization, thus adding further desired diversification to the Company's earning asset base.

Tricom, Inc (Tricom) is a company that has been in business since 1989 and specializes in providing high-yielding, short-term accounts receivable financing and value-added out-sourced administrative services, such as data processing of payrolls, billing and cash management services to clients in the temporary staffing industry. Tricom's clients, located throughout the United States, provide staffing services to businesses in diversified industries. These receivables may involve greater credit risks than generally associated with the loan portfolios of more traditional community banks depending on the marketability of the collateral. The principal sources of repayments on the receivables are payments received by the borrowers from their customers who are located throughout the United States. Tricom mitigates this risk by employing lockboxes and other cash management techniques to protect its interests. Tricom's revenue principally consists of interest income from financing activities and fee-based revenues from administrative services. Tricom processed payrolls with associated client billings of approximately \$467 million in 2007 and \$531 million in 2006.

In addition to the earning asset niches provided by the Company's non-bank subsidiaries, several earning asset niches operate within the Banks, including indirect auto lending which is conducted through Hinsdale Bank, and Barrington Bank's Community Advantage program that provides lending, deposit and cash management services to condominium, homeowner and community associations. In addition, Hinsdale Bank operates a mortgage warehouse lending program that provides loan and deposit services to mortgage brokerage companies located predominantly in the Chicago

metropolitan area, and Crystal Lake Bank has a specialty in small aircraft lending. The Company continues to pursue the development or acquisition of other specialty lending businesses that generate assets suitable for bank investment and/or secondary market sales.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The Company's Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles 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. These estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies and accounting principles inher-

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ently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be 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. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

A summary of the Company's significant accounting policies is presented in Note 1 to the Consolidated Financial Statements. These policies, along with the disclosures presented in the other financial statement notes and in this Management's Discussion and Analysis section, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. 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 the determination of the allowance for loan losses and the allowance for losses on lending-related commitments, the valuation of the retained interest in the premium finance receivables sold, 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 the most subject to revision as new information becomes available.

Allowance for Loan Losses and Allowance for Losses on Lending-Related Commitments

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which are susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheet. The Company also maintains an allowance for lending-related commitments, specifically unfunded loan commitments and letters of credit, which relates to certain amounts the Company is committed to lend but for which funds have not yet been disbursed. Management has established credit committees at each of the Banks that evaluate the credit quality of the loan portfolio and the level of the adequacy of the allowance for loan losses and the allowance for lending-related commitments. See Note 1 to the Consolidated Financial Statements and the section titled "Credit Risk and Asset Quality" later in this report for a description of the methodology used to determine the allowance for loan losses and the allowance for lending-related commitments.

Sales of Premium Finance Receivables

The gains on the sale of premium finance receivables are determined based on management's estimates of the underlying future cash flows of the loans sold. Cash flow projections are used to allocate the Company's initial investment in a loan between the loan, the servicing asset and the Company's retained interest, including its guarantee obligation, based on their relative fair values. Gains or losses are recognized for the difference between the proceeds received and the cost basis allocated to the loan. The Company's retained interest includes a servicing asset, an interest only strip and a guarantee obligation pursuant to the terms of the sale agreement. The estimates of future cash flows from the underlying loans incorporate assumptions for prepayments, late payments and other factors. The Company's guarantee obligation is estimated based on the historical loss experience and credit risk factors of the loans. If actual cash flows from the underlying loans are less than originally anticipated, the Company's retained interest may be impaired, and such impairment would be recorded as a charge to earnings. Because the terms of the loans sold are less than ten months, the estimation of the cash flows is inherently easier to monitor than if the assets had longer durations, such as mortgage loans. See Note 1 to the Consolidated Financial Statements and the section titled "Non-interest

Income later in this report for further analysis of the gains on sale of premium finance receivables.

Impairment Testing of Goodwill

As required by Statement of Financial Accounting Standards (SFAS) 142, Goodwill and Other Intangible Assets, the Company performs impairment testing of goodwill on an annual basis or more frequently when events warrant.

Valuations are estimated in good faith by management primarily through the use of publicly available valuations of comparable entities for the Company s bank subsidiaries and internal cash flow models using financial projections in the reporting unit s business plan, if public valuations are not available for the Company s non-bank entities.

Table of Contents*Valuation and Accounting for Derivative Instruments*

The Company utilizes derivative instruments to manage risks such as interest rate risk or market risk. The Company's policy prohibits using derivatives for speculative purposes.

Accounting for derivatives differs significantly depending on whether a derivative is designated as a hedge, which is a transaction intended to reduce a risk associated with a specific asset or liability or future expected cash flow at the time it is purchased. In order to qualify as a hedge, a derivative must be designated as such by management.

Management must also continue to evaluate whether the instrument effectively reduces the risk associated with that item. To determine if a derivative instrument continues to be an effective hedge, the Company must make assumptions and judgments about the continued effectiveness of the hedging strategies and the nature and timing of forecasted transactions. If the Company's hedging strategy were to become ineffective, hedge accounting would no longer apply and the reported results of operations or financial condition could be materially affected.

Income Taxes

The Company is subject to the income tax laws of the U.S., its states and other jurisdictions where it conducts business. These laws are complex and subject to different interpretations by the taxpayer and the various taxing authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these inherently complex laws, related regulations and case law. In the process of preparing the Company's tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law.

On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are reassessed on a quarterly basis, if business events or circumstances warrant.

On January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48) which clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have a material impact on the Company.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of Wintrust's results of operations requires an understanding that a majority of the Company's bank subsidiaries have been started as new banks since December 1991. Wintrust is still a relatively young company that has a strategy of continuing to build its customer base and securing broad product penetration in each marketplace that it serves. The Company has expanded its banking franchise from three banks with five offices in 1994 to 15 Banks with 77 offices at the end of 2007. FIFC has matured from its limited operations in 1991 to a company that generated, on a national basis, \$3.1 billion in premium finance receivables in 2007. In addition, the wealth management companies have been building a team of experienced professionals who are located within a majority of the Banks. These expansion activities have understandably suppressed faster, opportunistic earnings. However, as the Company matures and our existing Banks become more profitable, the start-up costs associated with future bank and branch openings and other new financial services ventures will not have as significant an impact on earnings. Additionally, the Company's more mature Banks have several operating ratios that are either comparable to or better than peer group data, suggesting that as the Banks become more established, the overall earnings level will continue to increase.

Earnings Summary

Net income for the year ended December 31, 2007, totaled \$55.7 million, or \$2.24 per diluted common share, compared to \$66.5 million, or \$2.56 per diluted common share, in 2006, and \$67.0 million, or \$2.75 per diluted common share, in 2005. During 2007, net income declined by 16% while earnings per diluted common share declined by 13%, and during 2006, net income remained essentially the same, decreasing 1%, while earnings per diluted common share decreased 7%. Financial results in 2007 were negatively impacted by a continued compression of interest rate spreads, an increase in provision for credit losses, lower levels of mortgage banking revenue and a

reduced level of trading income. Financial results in 2006 were negatively impacted by the adoption of SFAS 123R (stock option expense), compressed interest spreads, a decrease in fees from covered call options, lower levels of mortgage banking revenue and lower sales of premium finance receivables, and was positively impacted by the fair value adjustments related to certain derivatives.

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 earning 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 earn-

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ing assets and interest bearing liabilities. In order to compare the tax-exempt asset yields to taxable yields, interest income in the following discussion and tables is adjusted to tax-equivalent yields based on the marginal corporate Federal tax rate of 35%.

Tax-equivalent net interest income in 2007 totaled \$264.8 million, up from \$250.5 million in 2006 and \$218.1 million in 2005, representing increases of \$14.3 million, or 6%, in 2007 and \$32.4 million, or 15%, in 2006. These improved levels of net interest income were primarily attributable to increases in average earning assets. The table presented later in this section, titled "Changes in Interest Income and Expense," presents the dollar amount of changes in interest income and expense, by major category, attributable to changes in the volume of the balance sheet category and changes in the rate earned or paid with respect to that category of assets or liabilities for 2007 and 2006. Average earning assets increased \$426.5 million, or 5%, in 2007 and \$1.2 billion, or 17%, in 2006. Loans are the most significant component of the earning asset base as they earn interest at a higher rate than the other earning assets. Average loans increased \$811.5 million, or 14%, in 2007 and \$875.4 million, or 17%, in 2006. Total average loans as a percentage of total average earning assets were 80%, 74% and 75% in 2007, 2006, and 2005, respectively. The average yield on loans was 7.71% in 2007, 7.60% in 2006 and 6.54% in 2005, reflecting an increase of 11 basis points in 2007 and an increase of 106 basis points in 2006. The higher loan yield in 2007 compared to 2006 is a result of the higher average rate environment in the first three quarters of 2007. The higher loan yield in 2006 compared to 2005 is reflective of the interest rate increases effected by the Federal Reserve Bank offset by continued competitive loan pricing pressures. Similarly, the average rate paid on interest bearing deposits, the largest component of the Company's interest bearing liabilities, was 4.26% in 2007, 3.97% in 2006 and 2.80% in 2005, representing an increase of 29 basis points in 2007 and an increase of 117 basis points in 2006. The interest bearing deposits yield increased in 2007 due to higher costs of retail deposits as rates have generally risen in 2007, continued competitive pricing pressures on fixed-maturity time deposits in most markets and promotional pricing activities associated with opening additional *de novo* branches.

Net interest margin, which reflects net interest income as a per-cent of average earning assets, remained relatively flat at 3.11% in 2007 compared to 3.10% in 2006. During 2007, the Company's focus on retail deposit pricing and changing the mix of deposits has helped offset the competitive pricing of retail certificates of deposit. The Company has made progress in shifting its mix of retail deposits away from certificates of deposit into lower cost, more variable rate NOW, money market and wealth management deposits. Net interest margin in 2005 was 3.16%.

The core net interest margin was 3.38% in 2007, 3.32% in 2006 and 3.37% in 2005. Management evaluates the core net interest margin excluding the net interest expense associated with the Company's junior subordinated debentures and the interest expense incurred to fund common stock repurchases. Because junior subordinated debentures are utilized by the Company primarily as capital instruments and the cost incurred to fund common stock repurchases is capital utilization related, management finds it useful to view the net interest margin excluding these expenses and deems them to be a more accurate view of the operational net interest margin of the Company. See Non-GAAP Financial Measures/Ratios section of this report.

Net interest income and net interest margin were also affected by amortization of valuation adjustments to earning assets and interest-bearing liabilities of acquired businesses. Under the purchase method of accounting, assets and liabilities of acquired businesses are required to be recognized at their estimated fair value at the date of acquisition. These valuation adjustments represent the difference between the estimated fair value and the carrying value of assets and liabilities acquired. These adjustments are amortized into interest income and interest expense based upon the estimated remaining lives of the assets and liabilities acquired. See Note 7 of the Consolidated Financial Statements for further discussion of the Company's business combinations.

Table of Contents**Average Balance Sheets, Interest Income and Expense, and Interest Rate Yields and Costs**

The following table sets forth the average balances, the interest earned or paid thereon, and the effective interest rate, yield or cost for each major category of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2007, 2006 and 2005. The yields and costs include loan origination fees and certain direct origination costs that are considered adjustments to yields. Interest income on non-accruing loans is reflected in the year that it is collected, to the extent it is not applied to principal. Such amounts are not material to net interest income or the net change in net interest income in any year. Non-accrual loans are included in the average balances and do not have a material effect on the average yield. Net interest income and the related net interest margin have been adjusted to reflect tax-exempt income, such as interest on municipal securities and loans, on a tax-equivalent basis. This table should be referred to in conjunction with this analysis and discussion of the financial condition and results of operations (dollars in thousands):

| | Years Ended December 31, | | | | | | | | |
|--|-----------------------------------|-------------------------------|-----------------|-----------------------------------|-------------------------------|-----------------|-----------------------------------|-------------------------------|-----------------|
| | 2007 | | | 2006 | | | 2005 | | |
| | Average Balance ⁽¹⁾ | Average Yield/ Interest | Average Rate | Average Balance ⁽¹⁾ | Average Yield/ Interest | Average Rate | Average Balance ⁽¹⁾ | Average Yield/ Interest | Average Rate |
| Assets | | | | | | | | | |
| Interest bearing deposits with banks | \$ 14,036 | \$ 841 | 5.99% | \$ 13,361 | \$ 651 | 4.87% | \$ 9,003 | \$ 278 | 3.10% |
| Securities | 1,588,542 | 81,790 | 5.15 | 1,930,662 | 94,593 | 4.90 | 1,627,523 | 67,333 | 4.14 |
| Federal funds sold and securities purchased under resale agreements | 72,141 | 3,774 | 5.23 | 110,775 | 5,393 | 4.87 | 102,199 | 3,485 | 3.41 |
| Total liquidity management assets ^{(2) (8)} | 1,674,719 | 86,405 | 5.16 | 2,054,798 | 100,637 | 4.90 | 1,738,725 | 71,096 | 4.09 |
| Other earning assets ^{(2) (3)} | 24,721 | 1,943 | 7.86 | 29,675 | 2,136 | 7.20 | 23,644 | 1,345 | 5.69 |
| Loans, net of unearned income ⁽²⁾ ^{(4) (8)} | 6,824,880 | 526,436 | 7.71 | 6,013,344 | 456,793 | 7.60 | 5,137,912 | 335,922 | 6.54 |
| Total earning assets ⁽⁸⁾ | 8,524,320 | 614,784 | 7.21 | 8,097,817 | 559,566 | 6.91 | 6,900,281 | 408,363 | 5.92 |
| Allowance for loan losses | (48,605) | | | (44,648) | | | (40,566) | | |
| Cash and due from banks | 131,271 | | | 125,253 | | | 138,253 | | |
| Other assets | 835,291 | | | 747,135 | | | 589,634 | | |

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| | | | | | | | | | | |
|--|--------------------|------------------|--------------|-------------|-----------|-------|-------------|-------------|-------|--|
| Total assets | \$9,442,277 | | | \$8,925,557 | | | | \$7,587,602 | | |
| Liabilities and Shareholders Equity | | | | | | | | | | |
| Deposits interest bearing: | | | | | | | | | | |
| NOW accounts | \$ 938,960 | \$ 25,033 | 2.67% | \$ 774,481 | \$ 19,548 | 2.52% | \$ 699,323 | \$ 11,973 | 1.71% | |
| Wealth management deposits | 547,408 | 24,871 | 4.54 | 464,438 | 20,456 | 4.40 | 407,816 | 10,181 | 2.50 | |
| Money market accounts | 696,760 | 22,427 | 3.22 | 639,590 | 17,497 | 2.74 | 657,788 | 11,071 | 1.68 | |
| Savings accounts | 302,339 | 4,504 | 1.49 | 307,142 | 4,275 | 1.39 | 298,468 | 2,629 | 0.88 | |
| Time deposits | 4,442,469 | 218,079 | 4.91 | 4,509,488 | 203,953 | 4.52 | 3,507,771 | 120,398 | 3.43 | |
| Total interest bearing deposits | 6,927,936 | 294,914 | 4.26 | 6,695,139 | 265,729 | 3.97 | 5,571,166 | 156,252 | 2.80 | |
| Federal Home Loan Bank advances | | | | | | | | | | |
| | 400,552 | 17,558 | 4.38 | 364,149 | 14,675 | 4.03 | 333,108 | 11,912 | 3.58 | |
| Notes payable and other borrowings | 318,540 | 13,794 | 4.33 | 149,764 | 5,638 | 3.76 | 167,930 | 4,178 | 2.49 | |
| Subordinated notes | 75,000 | 5,181 | 6.81 | 66,742 | 4,695 | 6.94 | 50,000 | 2,829 | 5.66 | |
| Junior subordinated debentures | 249,739 | 18,560 | 7.33 | 237,249 | 18,322 | 7.62 | 217,983 | 15,106 | 6.93 | |
| Total interest bearing liabilities | 7,971,767 | 350,007 | 4.39 | 7,513,043 | 309,059 | 4.11 | 6,340,187 | 190,277 | 3.00 | |
| Non-interest bearing deposits | 647,715 | | | 623,542 | | | 592,879 | | | |
| Other liabilities | 94,823 | | | 87,178 | | | 45,369 | | | |
| Equity | 727,972 | | | 701,794 | | | 609,167 | | | |
| Total liabilities and shareholders equity | \$9,442,277 | | | \$8,925,557 | | | \$7,587,602 | | | |
| Interest rate spread ^{(5) (8)} | | | 2.82% | | | 2.80% | | | 2.92% | |
| Net free funds/contribution ⁽⁶⁾ | \$ 552,553 | | 0.29% | \$ 584,774 | | 0.30% | \$ 560,094 | | 0.24% | |
| Net interest income/Net | | \$264,777 | 3.11% | | \$250,507 | 3.10% | | \$218,086 | 3.16% | |

| | | | |
|---|--------------|-------|-------|
| interest margin ⁽⁸⁾ | | | |
| Core net interest margin ^{(7) (8)} | 3.38% | 3.32% | 3.37% |

(1) *Average balances were generally computed using daily balances.*

(2) *Interest income on tax-advantaged loans, trading account securities and securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate of 35%. The total adjustments reflected in the above table are \$3.2 million, \$1.6 million and \$1.3 million in 2007, 2006 and 2005 respectively.*

(3) *Other earning assets include brokerage customer receivables and trading account securities.*

(4) *Loans, net of unearned income, include mortgages 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) *The core net interest margin excludes the effect of the net interest expense associated with Wintrust's junior subordinated debentures and the interest expense incurred to fund common stock repurchases.*

(8) *See Non-GAAP Financial Measures/Ratios for additional information on this performance measure/ratio.*

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The following table shows the dollar amount of changes in interest income (on a tax-equivalent basis) and expense by major categories of interest-earning assets and interest-bearing liabilities attributable to changes in volume or rate for the periods indicated (in thousands):

| | Years Ended December 31, | | | 2006 Compared to 2005 | | |
|--|--------------------------|----------------------------|-----------------|--------------------------|----------------------------|-----------------|
| | 2007 Compared to 2006 | | | 2006 Compared to 2005 | | |
| | Change Due to Rate | Change Due to Volume | Total Change | Change Due to Rate | Change Due to Volume | Total Change |
| Interest income: | | | | | | |
| Interest bearing | | | | | | |
| deposits with banks | \$ 156 | 34 | 190 | \$ 202 | 171 | 373 |
| Securities | 4,633 | (17,436) | (12,803) | 13,536 | 13,724 | 27,260 |
| Federal funds sold and securities purchased under resale agreement | 375 | (1,994) | (1,619) | 1,595 | 313 | 1,908 |
| Total liquidity management assets | 5,164 | (19,396) | (14,232) | 15,333 | 14,208 | 29,541 |
| Other earning assets | 185 | (378) | (193) | 404 | 387 | 791 |
| Loans | 6,749 | 62,894 | 69,643 | 58,934 | 61,937 | 120,871 |
| Total interest income | 12,098 | 43,120 | 55,218 | 74,671 | 76,532 | 151,203 |
| Interest expense: | | | | | | |
| Deposits interest bearing: | | | | | | |
| NOW accounts | 1,199 | 4,286 | 5,485 | 5,437 | 2,138 | 7,575 |
| Wealth management deposits | 667 | 3,748 | 4,415 | 8,690 | 1,585 | 10,275 |
| Money market accounts | 3,266 | 1,664 | 4,930 | 6,742 | (316) | 6,426 |
| Savings accounts | 296 | (67) | 229 | 1,567 | 79 | 1,646 |
| Time deposits | 17,220 | (3,094) | 14,126 | 51,354 | 32,201 | 83,555 |
| Total interest expense deposits | 22,648 | 6,537 | 29,185 | 73,790 | 35,687 | 109,477 |
| Federal Home Loan Bank advances | 1,340 | 1,543 | 2,883 | 1,587 | 1,176 | 2,763 |
| Notes payable and other borrowings | 966 | 7,190 | 8,156 | 2,849 | (1,389) | 1,460 |
| Subordinated notes | (86) | 572 | 486 | 786 | 1,080 | 1,866 |
| | (699) | 937 | 238 | 1,822 | 1,394 | 3,216 |

Junior subordinated
debentures

| | | | | | | |
|----------------------------|-------------------|---------------|---------------|------------|--------|---------|
| Total interest expense | 24,169 | 16,779 | 40,948 | 80,834 | 37,948 | 118,782 |
| Net interest income | \$(12,071) | 26,341 | 14,270 | \$ (6,163) | 38,584 | 32,421 |

The changes in net interest income are created by changes in both interest rates and volumes. The change in the Company's net interest income for the periods under review was predominantly impacted by the growth in the volume of the overall interest-earning assets (specifically loans) and interest-bearing deposit liabilities. In the table above, volume variances are computed using the change in volume multiplied by the previous year's rate. Rate variances are computed using the change in rate multiplied by the previous year's volume. The change in interest due to both rate and volume has been allocated between factors in proportion to the relationship of the absolute dollar amounts of the change in each.

Provision for Credit Losses

The provision for credit losses totaled \$14.9 million in 2007, \$7.1 million in 2006, and \$6.7 million in 2005. Net charge-offs totaled \$10.9 million in 2007, \$5.2 million in 2006 and \$4.9 million in 2005. The allowance for loan losses as a percentage of loans at December 31, 2007, 2006 and 2005 was 0.74%, 0.71% and 0.77%, respectively. Non-performing loans were \$71.9 million and \$36.9 million at December 31, 2007 and 2006, respectively. The increase in non-performing loans in 2007 as compared to 2006 was primarily the result of \$32.3 million related to three credit relationships. See the Credit Risk and Asset Quality section of this report for more detail on non-performing loans. In 2007, the Company reclassified \$36,000 from its allowance for loan losses to a separate liability account which represents the portion of the allowance for loan losses that was associated with lending-related commitments, specifically unfunded loan commitments and letters of credit. In 2006, the Company reclassified \$92,000 from the allowance for lending-related commitments to its allowance for loan losses. In future periods, the provision for credit losses may contain both a component related to funded loans (provision for loan losses) and a component related to lending-related commitments (provision for unfunded loan commitments and letters of credit). Management believes the allowance for loan losses is adequate to provide for inherent losses in the port-

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folio. There can be no assurances however, that future losses will not exceed the amounts provided for, thereby affecting future results of operations. The amount of future additions to the allowance for loan losses and the allowance for lending-related commitments will be dependent upon management's assessment of the adequacy of the allowance based on its evaluation of economic conditions, changes in real estate values, interest rates, the regulatory environment, the level of past-due and non-performing loans, and other factors. Please refer to the Credit Risk and Asset Quality section of this report for further discussion of the Company's loan loss experience and non-performing assets.

Non-interest Income

Non-interest income totaled \$80.1 million in 2007, \$91.2 million in 2006 and \$93.6 million in 2005, reflecting a decrease of 12% in 2007 compared to 2006, and a decrease of 3% in 2006 compared to 2005. Non-interest income as a percentage of net revenue declined to 23% in 2007 compared to 27% in 2006 and 30% in 2005. The decline in non-interest income in 2007 compared to 2006 is attributable to lower levels of trading income recognized on interest rate swaps and mortgage banking valuation and recourse obligation adjustments in 2007 and the \$2.4 million gain on the sale of the Wayne Hummer Growth Fund in 2006 offset by higher levels of gains on available-for-sale securities and higher wealth management fees. The following table presents non-interest income by category for 2007, 2006 and 2005 (in thousands):

| | Years ended December 31, | | | 2007 compared to 2006 | | 2006 compared to 2005 | |
|---|--------------------------|--------|---------|-----------------------|----------|-----------------------|----------|
| | 2007 | 2006 | 2005 | \$ Change | % Change | \$ Change | % Change |
| Brokerage | \$20,346 | 19,615 | 20,154 | \$ 731 | 4% | \$ (539) | (3)% |
| Trust and asset management | 10,995 | 12,105 | 9,854 | (1,110) | (9) | 2,251 | 23 |
| Total wealth management fees | 31,341 | 31,720 | 30,008 | (379) | (1) | 1,712 | 6 |
| Mortgage banking | 14,888 | 22,341 | 25,913 | (7,453) | (33) | (3,572) | (14) |
| Service charges on deposit accounts | 8,386 | 7,146 | 5,983 | 1,240 | 17 | 1,163 | 19 |
| Gain on sales of premium finance receivables | 2,040 | 2,883 | 6,499 | (843) | (29) | (3,616) | (56) |
| Administrative services | 4,006 | 4,598 | 4,539 | (592) | (13) | 59 | 1 |
| Gains on available-for-sale securities, net | 2,997 | 17 | 1,063 | 2,980 | NM | (1,046) | (98) |
| Other: | | | | | | | |
| Fees from covered call options | 2,628 | 3,157 | 11,434 | (529) | (17) | (8,277) | (72) |
| Trading income – net cash settlement of swaps | | 1,237 | 440 | (1,237) | NM | 797 | 181 |
| Trading income (loss) change in fair market value | 265 | 7,514 | (1,339) | (7,249) | (97) | 8,853 | 661 |
| Bank Owned Life Insurance | 4,909 | 2,948 | 2,431 | 1,961 | 67 | 517 | 21 |
| Miscellaneous | 8,628 | 7,671 | 6,586 | 957 | 13 | 1,085 | 17 |

| | | | | | | | |
|---------------------------|-----------------|--------|--------|-------------------|--------------|-----------|------|
| Total other | 16,430 | 22,527 | 19,552 | (6,097) | (27) | 2,975 | 15 |
| Total non-interest income | \$80,088 | 91,232 | 93,557 | \$(11,144) | (12)% | \$(2,325) | (3)% |

*NM Not
Meaningful*

Wealth management is comprised of the trust and asset management revenue of WHTC and the asset management fees, brokerage commissions, trading commissions and insurance product commissions generated by the Wayne Hummer Companies. Trust and asset management fees represent WHTC's trust fees which include fees earned on assets under management, custody fees and other trust related fees and WHAMC's fees for advisory services to individuals and institutions, municipal and tax-exempt organizations, including the management of the Wayne Hummer proprietary mutual funds. The brokerage income is generated by WHI, the Company's broker-dealer subsidiary.

Brokerage revenue is directly impacted by trading volumes. In 2007, brokerage revenue totaled \$20.3 million, reflecting an increase of \$731,000, or 4%, compared to 2006. The Company anticipates continued recognition of revenue enhancement capabilities and continued growth of the wealth management platform throughout its banking locations. In 2006, brokerage revenue totaled \$19.6 million reflecting a decrease of \$539,000, or 3%, compared to 2005.

Trust and asset management revenue totaled \$11.0 million in 2007, a decrease of \$1.1 million, or 9%, compared to 2006. The Wayne Hummer Growth Fund, which was managed by WHAMC and had total assets of \$162 million at December 31, 2005, was sold during the first quarter of 2006 for a gain of \$2.4 million which is included in this category. In 2006, trust and asset management fees totaled \$12.1 million and increased \$2.3 million, or 23%, compared to 2005. This increase is attributable to the \$2.4 million gain

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recorded in 2006 on the sale of the Wayne Hummer Growth Fund. Trust and asset management fees are based primarily on the market value of the assets under management or administration. Trust assets and assets under management totaled \$1.6 billion at December 31, 2007, \$1.4 billion at December 31, 2006 and \$1.6 billion at December 31, 2005.

Mortgage banking includes revenue from activities related to originating, selling and servicing residential real estate loans for the secondary market. Mortgage banking revenue totaled \$14.9 million in 2007, \$22.3 million in 2006, and \$25.9 million in 2005, reflecting a decrease of \$7.4 million, or 33%, in 2007, and \$3.6 million, or 14%, in 2006. In 2007, the Company recorded \$4.2 million in losses related to recourse obligations on residential mortgage loans sold to investors. These losses primarily related to mortgages originated through wholesale channels which experienced early payment defaults. Also, in 2007 compared to 2006, the Company recorded an additional \$1.8 million in lower of cost or market adjustments for residential mortgage loans held-for-sale. The remainder of the decrease in mortgage banking is a result of lower origination volumes in 2007 compared to 2006. Future growth of mortgage banking is impacted by the interest rate environment and will continue to be dependent upon the relative level of long-term interest rates. A continuation of the existing depressed residential real estate environment may continue to hamper mortgage banking production growth. Effective January 1, 2006, the Company adopted the provisions of SFAS 156 and elected the fair value measurement method for mortgage servicing rights (MSRs). Prior to January 1, 2006, MSRs were accounted for at the lower of their initial carrying value, net of accumulated amortization, or fair value. Included in the 2007 mortgage banking revenue decrease is \$125,000 of MSR valuation adjustment (additional expense) compared to 2006. Included in the 2006 mortgage banking revenue decrease is \$514,000 of MSR valuation adjustment compared to 2005 amortization expense.

Service charges on deposit accounts totaled \$8.4 million in 2007, \$7.1 million in 2006 and \$6.0 million in 2005. These increases of 17% in 2007 and 19% in 2006, were due primarily to the overall larger household account base. The majority of deposit service charges relates to customary fees on overdrawn accounts and returned items. The level of service charges received is substantially below peer group levels, as management believes in the philosophy of providing high quality service without encumbering that service with numerous activity charges.

Gain on sales of premium finance receivables results from the Company's sales of premium finance receivables to unrelated third parties. However, from the third quarter of 2006 to the third quarter of 2007, all of the receivables originated by FIFC were purchased by the Banks to more fully utilize their lending capacity. In the fourth quarter of 2007, due to the Company's average loan-to-average deposit ratio being consistently above the target of 85% to 90%, the Company reinstated its program of selling premium finance receivables, with servicing retained, to unrelated third parties. Having a program in place to sell premium finance receivables to third parties allows the Company to execute its strategy to be asset-driven while providing the benefits of additional sources of liquidity and revenue. The level of premium finance receivables sold to unrelated third parties depends in large part on the capacity of the Banks to retain such loans in their portfolio and therefore, it is possible that sales of these receivables may occur in the future.

Loans sold to unrelated third parties totaled \$230 million in 2007, \$303 million in 2006 and \$562 million in 2005, representing 8%, 10% and 21% of FIFC's total originations in 2007, 2006 and 2005, respectively. The Company recognized net gains totaling \$2.0 million in 2007, \$2.9 million in 2006 and \$6.5 million in 2005 related to this activity.

As FIFC continues to service the loans sold, it recognizes a retained interest in the loans sold which consists of a servicing asset, interest only strip and a recourse obligation, upon each sale. Recognized gains, recorded in accordance with SFAS 140, as well as the Company's retained interests in these loans are based on the Company's projection of cash flows that will be generated from the loans. The cash flow model incorporates the amounts FIFC is contractually entitled to receive from the customer, including an estimate of late fees, the amounts due to the purchaser of the loans, fees paid to insurance agents as well as estimates of the term of the loans and credit losses. Significant differences in actual cash flows and the projected cash flows can cause impairment to the servicing asset and interest only strip as well as the recourse obligation. The Company monitors the performance of these loans on a static pool basis and adjusts the assumptions in its cash flow model when warranted. These loans have relatively short maturities (less than 12 months) and prepayments are not highly correlated to movements in interest rates. Due to the short-term nature of

these loans, the Company believes that the book value of the servicing asset approximates fair value.

The Company capitalized \$2.0 million and amortized \$590,000 in servicing assets related to the sale of these loans in 2007, and capitalized \$2.8 million and amortized \$4.7 million in servicing assets related to sale of these loans in 2006. As of December 31, 2007, the Company's retained interest in the loans sold included a servicing asset of \$1.9 million, an interest only strip of \$2.6 million and a liability for its recourse obligation of \$179,000.

Gains are significantly dependent on the spread between the net yield on the loans sold and the rate passed on to the purchasers. The net yield on the loans sold and the rates passed on to the purchasers typically do not react in a parallel fashion, therefore causing the spreads to vary from period to period. This spread was 3.70% in 2007, compared to 2.62% to 3.24% in 2006 and 2.71% to 3.74% in 2005.

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The Company typically makes a clean up call by repurchasing the remaining loans in the pools sold after approximately ten months from the sale date. Upon repurchase, the loans are recorded in the Company's premium finance receivables portfolio and any remaining balance of the Company's retained interest is recorded as an adjustment to the gain on sale of premium finance receivables. Clean-up calls resulted in increased gains of \$444,000, \$761,000, and \$248,000 in 2007, 2006 and 2005, respectively. The Company continuously monitors the performance of the loan pools to the projections and adjusts the assumptions in its cash flow model when warranted. Credit losses on loans sold were estimated at 0.20% of the estimated average balances in 2007, at 0.15% for 2006 and at a range of 0.15% to 0.25% for 2005. The gains are also influenced by the number of months these loans are estimated to be outstanding. The estimated average terms of the loans were nine months in 2007 and in 2006, and eight to nine months in 2005. The applicable discount rate used in determining gains related to this activity was the same in 2007, 2006 and 2005.

At December 31, 2007 and 2006, premium finance loans sold and serviced for others for which the Company retains a recourse obligation related to credit losses totaled approximately \$219.9 million and \$58.3 million, respectively. The remaining estimated recourse obligation carried in other liabilities was approximately \$179,000 and \$129,000, at December 31, 2007 and 2006, respectively. Credit losses incurred on loans sold are applied against the recourse obligation liability that is established at the date of sale. Credit losses, net of recoveries, for premium finance receivables sold and serviced for others totaled \$129,000 in 2007, \$191,000 in 2006 and \$269,000 in 2005. At December 31, 2007, non-performing loans related to this sold portfolio were approximately \$180,000, or less than 1% of the sold loans, compared to \$3.5 million, or 6%, of the sold loans at December 31, 2006. The premium finance portfolio owned by the Company had a ratio of non-performing loans to total loans of 1.80% at December 31, 2007 and 1.07% at December 31, 2006. Ultimate losses on premium finance loans are substantially less than non-performing loans for the reasons noted in the Non-performing Premium Finance Receivables portion of the Credit Risk and Asset Quality section of this report.

Administrative services revenue generated by Tricom was \$4.0 million in 2007, \$4.6 million in 2006 and \$4.5 million in 2005. This revenue comprises income from administrative services, such as data processing of payrolls, billing and cash management services, to temporary staffing service clients located throughout the United States. Tricom also earns interest and fee income from providing high-yielding, short-term accounts receivable financing to this same client base, which is included in the net interest income category. The decrease in revenue in 2007 compared to 2006 is a result of slower growth in new customer relationships and a decrease in revenue from existing clients. In 2006 compared to 2005, Tricom increased sales volumes with its current client base, however experienced competitive rate pressures.

Gains on available-for-sale securities totaled \$3.0 million in 2007, \$17,000 in 2006 and \$1.1 million in 2005. Included in gains in 2007 was a \$2.5 million gain recognized in the fourth quarter of 2007 on the Company's investment in an unaffiliated bank holding company that was acquired by another bank holding company.

Premium income from covered call option transactions totaled \$2.6 million in 2007, \$3.2 million in 2006 and \$11.4 million in 2005. The higher fees from covered call options in 2005 was due to the mix in the types of underlying securities and the volatility in the marketplace that resulted in higher premiums for the options.

During 2007, call option contracts were written against \$1.1 billion of underlying securities, compared to \$1.6 billion in 2006 and \$3.3 billion in 2005. The same security may be included in this total more than once to the extent that multiple call option contracts were written against it if the initial call option contracts were not exercised. The Company routinely writes 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 enters into these transactions with the goal of enhancing its overall return on its investment portfolio by using the fees generated from these options to compensate for net interest margin compression. These option transactions are designed to increase the total return associated with holding certain investment securities and do not qualify as hedges pursuant to SFAS 133. There were no outstanding call option contracts at December 31, 2007 or December 31, 2006.

The Company recognized trading income related to interest rate swaps not designated in hedge relationships and the trading account assets of its broker-dealer. Trading income recognized for the net cash settlement of swaps is income

that would have been recognized regardless of whether the swaps were designated in hedging relationships. However, in the absence of hedge accounting, the net cash settlement of the swaps is included in trading income rather than net interest income. Trading income totaled \$265,000 in 2007 and \$8.8 million in 2006, compared to a loss of \$0.9 million in 2005. At June 30, 2006, the Company had \$231.1 million of interest rate swaps that were initially documented at their inception dates as being in hedging relationships with the Company's variable rate junior subordinated debentures and subordinated notes, but subsequently, management determined that the hedge documentation did not meet the standards of SFAS 133. In July 2006, the Company settled its position in these interest rate swap contracts by selling them

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to third parties. The Company realized approximately \$5.8 million from the settlement of these swaps and eliminated any further earnings volatility due to the changes in fair values.

Bank Owned Life Insurance (BOLI) generated non-interest income of \$4.9 million in 2007, \$2.9 million in 2006 and \$2.4 million in 2005. This income typically represents adjustments to the cash surrender value of BOLI policies; however in the third quarter of 2007, the Company recorded a non-taxable \$1.4 million death benefit gain. The Company initially purchased BOLI to consolidate existing term life insurance contracts of executive officers and to mitigate the mortality risk associated with death benefits provided for in executive employment contracts and in connection with certain deferred compensation arrangements. The Company has purchased additional BOLI since then, including \$8.9 million of BOLI that was owned by State Bank of the Lakes and \$8.4 million owned by Hinsbrook Bank when Wintrust acquired these banks. BOLI totaled \$84.7 million at December 31, 2007 and \$82.1 million at December 31, 2006, and is included in other assets.

Miscellaneous other non-interest income includes loan servicing fees, service charges, rental income from equipment leases and miscellaneous other income. In 2007, the Company recognized a \$2.6 million gain from the sale of property held by the Company, which was partially offset by \$1.4 million of losses recognized on various limited partnership investments. Approximately \$1.0 million of these partnership losses relate to a low income housing tax credit investment which generates tax credits that are recorded directly to income tax expense. The increase in 2006 compared to 2005 is as a result of growth in the Company's balance sheet.

Non-interest Expense

Non-interest expense totaled \$242.9 million in 2007, and increased \$14.1 million, or 6%, compared to 2006. In 2006, non-interest expense totaled \$228.8 million, and increased \$30.1 million, or 15%, compared to 2005. The non-interest expense categories increased as a result of acquisitions in 2005, 2006 and 2007, the new branch locations opened and the new *de novo* bank opened at the end of the first quarter of 2006. In 2007, Wintrust added five locations that added to all categories of non-interest expense.

The following table presents non-interest expense by category for 2007, 2006 and 2005 (in thousands):

| | Years ended December 31, | | | 2007 compared to 2006 | | 2006 compared to 2005 | |
|---|--------------------------|---------|---------|--------------------------|-------------|--------------------------|-------------|
| | 2007 | 2006 | 2005 | \$ Change | % Change | \$ Change | % Change |
| Salaries and employee benefits | \$141,816 | 137,008 | 118,071 | \$ 4,808 | 4% | \$18,937 | 16% |
| Equipment | 15,363 | 13,529 | 11,779 | 1,834 | 14 | 1,750 | 15 |
| Occupancy, net | 21,987 | 19,807 | 16,176 | 2,180 | 11 | 3,631 | 22 |
| Data processing | 10,420 | 8,493 | 7,129 | 1,927 | 23 | 1,364 | 19 |
| Advertising and marketing | 5,318 | 5,074 | 4,970 | 244 | 5 | 104 | 2 |
| Professional fees | 7,090 | 6,172 | 5,609 | 918 | 15 | 563 | 10 |
| Amortization of other intangible assets | 3,861 | 3,938 | 3,394 | (77) | (2) | 544 | 16 |
| Other: | | | | | | | |
| Commissions 3rd party brokers | 3,854 | 3,842 | 3,823 | 12 | | 19 | 1 |
| Postage | 3,841 | 3,940 | 3,665 | (99) | (3) | 275 | 8 |
| Stationery and supplies | 3,159 | 3,233 | 3,262 | (74) | (2) | (29) | (1) |

| | | | | | | | |
|----------------------------|------------------|---------|---------|-----------------|------------|----------|-----|
| FDIC Insurance | 3,713 | 911 | 926 | 2,802 | 308 | (15) | (2) |
| Miscellaneous | 22,513 | 22,873 | 19,886 | (360) | (2) | 2,987 | 15 |
| Total other | 37,080 | 34,799 | 31,562 | 2,281 | 7 | 3,237 | 10 |
| Total non-interest expense | \$242,935 | 228,820 | 198,690 | \$14,115 | 6% | \$30,130 | 15% |

Wintrust's net overhead ratio, which is non-interest expense less non-interest income as a percent of total average assets, was 1.72% in 2007, 1.54% in 2006 and 1.39% in 2005. This ratio has steadily increased the past few years as the Company has increased staff levels to accommodate new facilities and growth at existing facilities, while non-interest income from mortgage banking and fees generated from covered call options have slowed over the past few years.

Salaries and employee benefits is the largest component of non-interest expense, accounting for 58% of the total in 2007, 60% of the total in 2006 and 59% in 2005. For the year ended December 31, 2007, salaries and employee benefits totaled \$141.8 million and increased \$4.8 million, or 4% compared to 2006. Base pay components and the impact of the Hinsbrook and Broadway acquisitions contributed to the majority of the increase in 2007 compared to 2006. The increase in 2006 compared to 2005 is comprised of fixed and variable compensation components increasing \$10.9 million, the adoption of SFAS 123(R) increasing costs by \$5.6 million and

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total benefits increasing \$2.4 million. See Note 18 of the Consolidated Financial Statements for further information on SFAS 123(R). For the year ended December 31, 2006, salaries and employee benefits totaled \$137.0 million, and increased \$18.9 million, or 16%, compared to 2005.

Equipment expense, which includes furniture, equipment and computer software depreciation and repairs and maintenance costs, totaled \$15.4 million in 2007, \$13.5 million in 2006 and \$11.8 million in 2005, reflecting increases of 14% in 2007 and 15% in 2006. These increases were caused by higher levels of expense related to the furniture, equipment and computer software required at new facilities and at existing facilities due to increased staffing.

Occupancy expense for the years 2007, 2006 and 2005 was \$22.0 million, \$19.8 million and \$16.2 million, respectively, reflecting increases of 11% in 2007 and 22% in 2006. Occupancy expense includes depreciation on premises, real estate taxes, utilities and maintenance of premises, as well as net rent expense for leased premises. Increases in 2007 and 2006 reflect the increases in the number of facilities operated as well as market increases in operating costs of such facilities.

Data processing expenses totaled \$10.4 million in 2007, \$8.5 million in 2006 and \$7.1 million in 2005, representing increases of 23% in 2007 and 19% in 2006. The increases are primarily due to the additional costs of acquired banks, new branch facilities at existing banks and the overall growth of loan accounts.

Advertising and marketing expenses totaled \$5.3 million for 2007, \$5.1 million for 2006 and \$5.0 million for 2005. Marketing costs are necessary to attract loans and deposits at the newly chartered banks, to announce new branch openings as well as the expansion of the wealth management business, to continue to promote community-based products at the more established locations and, in 2007, to promote the Company's commercial banking capabilities. 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. Management continues to utilize targeted marketing programs in the more mature market areas.

Professional fees include legal, audit and tax fees, external loan review costs and normal regulatory exam assessments. These fees totaled \$7.1 million in 2007, \$6.2 million in 2006 and \$5.6 million in 2005. The increase for 2007 is primarily related to increased legal costs related to non-performing loans. The increase for 2006 is attributable to the general growth in the Company's total assets, the expansion of the banking franchise and the acquisition of Hinsbrook Bank.

Amortization of other intangibles assets relates to the amortization of core deposit premiums and customer list intangibles established in connection with the application of SFAS 142 to business combinations. See Note 8 of the Consolidated Financial Statements for further information on these intangible assets.

Commissions paid to 3rd party brokers primarily represent the commissions paid on revenue generated by WHI through its network of unaffiliated banks.

FDIC insurance totaled \$3.7 million in 2007 and \$0.9 million in both 2006 and 2005. The significant increase in 2007 is a result of a higher rate structure imposed on all financial institutions beginning in 2007.

Miscellaneous non-interest expense includes ATM expenses, correspondent banking charges, directors' fees, telephone, travel and entertainment, corporate insurance and dues and subscriptions. These expenses represent a large collection of controllable daily operating expenses. This category decreased \$0.4 million, or 2%, in 2007 and increased \$3.0 million, or 15%, in 2006. The decrease in 2007 compared to 2006 reflects management's continued efforts to control daily operating expenses. The increase in 2006 compared to 2005 is in line with increases in the other non-interest expense categories for that period and reflects the growth in the Company's balance sheet.

Income Taxes

The Company recorded income tax expense of \$28.2 million in 2007, \$37.7 million in 2006 and \$37.9 million in 2005. The effective tax rates were 33.6%, 36.2% and 36.1% in 2007, 2006 and 2005, respectively. Please refer to Note 17 to the Consolidated Financial Statements for further discussion and analysis of the Company's tax position, including a reconciliation of the tax expense computed at the statutory tax rate to the Company's actual tax expense.

Operating Segment Results

As described in Note 24 to the Consolidated Financial Statements, the Company's operations consist of four primary segments: banking, premium finance, Tricom 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 banking segment. The net interest income of the banking segment includes income and related interest costs from portfolio loans that were purchased from the premium finance segment. For purposes of internal segment profitability analysis, management reviews the results of its premium finance segment as if all loans originated and sold to the banking segment were retained within that segment's operations. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates the net interest income earned by the banking segment on deposit balances of customers of the wealth management segment to the wealth management segment.

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The banking segment's net interest income for the year ended December 31, 2007 totaled \$259.0 million as compared to \$235.2 million for the same period in 2006, an increase of \$23.8 million, or 10%. The increase in net interest income for 2006 when compared to the total of \$211.7 million in 2005 was \$23.5 million, or 11%. The increase in 2007 compared to 2006 is primarily a result of an increase in net interest margin which was attributable to a higher loan-to-deposit ratio and the shift in deposits away from higher cost retail certificates of deposit in 2007. The increase in 2006 compared to 2005 was primarily the result of continued growth in the loan portfolio partially offset by the effect of a decrease in net interest margin. Total loans increased 8% in 2007 and 22% in 2006. Provision for credit losses increased to \$14.3 million in 2007 compared to \$6.3 million in 2006 and \$6.5 million in 2005. The banking segment's non-interest income totaled \$36.3 million in 2007, a decrease of \$4.3 million, or 11%, when compared to the 2006 total of \$40.6 million. The decrease in non-interest income in 2007 is primarily a result of lower mortgage banking revenues which were impacted by mortgage banking valuation and recourse obligation adjustments totaling \$6.0 million. In 2006, non-interest income for the banking segment decreased \$10.4 million, or 20% when compared to the 2005 total of \$51.0 million. The decrease in 2006 compared to 2005 is primarily a result of a lower level of fees from covered call options and lower mortgage banking revenues. The banking segment's net income for the year ended December 31, 2007 totaled \$62.3 million, an increase of \$1.2 million, or 2%, as compared to the 2006 total of \$61.1 million. Net income for the year ended December 31, 2006 decreased \$8.3 million, or 12%, as compared to the 2005 total of \$69.4 million.

The premium finance segment's net interest income totaled \$60.5 million for the year ended December 31, 2007 and increased \$18.1 million, or 43%, over the \$42.4 million in 2006. This increase was primarily the result of \$275 million of higher average levels of premium finance receivables compared to 2006. In November 2007, the Company completed the acquisition of Broadway Premium Funding Corporation which is now included in the premium finance segment results since the date of acquisition. Wintrust did not sell any premium finance receivables to an unrelated third party financial institution in the third and fourth quarters of 2006 or the first three quarters of 2007. The premium finance segment's non-interest income totaled \$2.0 million, \$2.9 million and \$6.5 million for the years ended December 31, 2007, 2006 and 2005, respectively. Non-interest income for this segment reflects the gains from the sale of premium finance receivables to an unrelated third party, as more fully discussed in the Consolidated Results of Operations section. Net after-tax profit of the premium finance segment totaled \$29.8 million, \$19.6 million and \$21.7 million for the years ended December 31, 2007, 2006 and 2005, respectively. New receivable originations totaled \$3.1 billion in 2007, \$3.0 billion in 2006 and \$2.7 billion in 2005. The increases in new volumes each year is indicative of this segment's ability to increase market penetration in existing markets and establish a presence in new markets.

The Tricom segment data reflects the business associated with short-term accounts receivable financing and value-added out-sourced administrative services, such as data processing of payrolls, billing and cash management services that Tricom provides to its clients in the temporary staffing industry. The segment's net interest income was \$3.9 million in 2007 and 2006, and \$4.1 million in 2005. Non-interest income for 2007 was \$4.0 million, decreasing \$592,000 or 13%, from the \$4.6 million reported in 2006. Revenue trends at Tricom reflect the general staffing trends of the economy and the entrance of new competitors in most market places served by Tricom. The segment's net income was \$1.4 million in 2007, \$1.8 million in 2006 and \$1.8 million 2005. The decrease in net income in 2007 compared to 2006 and 2005 is a result of growth in new customer relationships offset by a decrease in revenue from existing clients.

The wealth management segment reported net interest income of \$12.9 million for 2007 compared to \$6.3 million for 2006 and \$1.4 million for 2005. Net interest income is comprised of the net interest earned on brokerage customer receivables at WHI and an allocation of the net interest income earned by the banking segment on non-interest bearing and interest-bearing wealth management customer account balances on deposit at the Banks. The allocated net interest income included in this segment's profitability was \$11.7 million (\$7.2 million after tax) in 2007 and \$5.2 million (\$3.2 million after tax) in 2006. During the third quarter of 2006, the Company changed the measurement methodology for the net interest income component of the wealth management segment. In conjunction with the change in the executive management team for this segment in the third quarter of 2006, the contribution attributable to

the wealth management deposits was redefined to measure the full net interest income contribution. In previous periods, the contribution from these deposits was limited to the value as an alternative source of funding for each bank. As such, the contribution in previous periods did not capture the total net interest income contribution of this funding source. Current executive management of this segment uses this measured contribution to determine overall profitability. Wealth management customer account balances on deposit at the Banks averaged \$538.7 million, \$465.4 million and \$407.8 million in 2007, 2006 and 2005, respectively. This segment recorded non-interest income of \$39.3 million for 2007 as compared to \$38.0 million for 2006 and \$36.6 million in 2005. In 2006, this segment's non-interest income included a \$2.4 million gain on the sale of the Wayne Hummer Growth Fund. Distribution of wealth management services through each bank subsidiary continues to be a focus of the Company as the number of brokers in its Banks continues to increase. Wealth management revenue growth generated in the banking locations is significantly outpacing the growth derived from the

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traditional Wayne Hummer Investment downtown Chicago sources. Wintrust is committed to growing the wealth management segment in order to better service its customers and create a more diversified revenue stream and continues to focus on reducing the fixed cost structure of this segment to a variable cost structure. This segment reported net income of \$7.7 million for 2007 compared to \$3.3 million for 2006 and a net loss of \$589,000 for 2005.

ANALYSIS OF FINANCIAL CONDITION

The Company's total assets were \$9.4 billion at December 31, 2007, a decrease of \$203.0 million, or 2%, when compared to the \$9.6 billion at December 31, 2006. Total assets increased \$1.4 billion, or 17%, in 2006 over the \$8.2 billion at December 31, 2005. In 2007, available-for-sale securities decreased \$535.9 million, while loans increased \$305.1 million. In 2006, loans increased \$1.3 billion, representing the most significant component of the total asset growth in 2006.

Interest-Earning Assets

The following table sets forth, by category, the composition of average earning assets and the relative percentage of each category to total average earning assets for the periods presented (dollars in thousands):

| | Years Ended December 31, | | | | | |
|---|---------------------------------|-------------------------|-----------------|------------------|-----------------|------------------|
| | 2007 | | 2006 | | 2005 | |
| | Average Balance | Percent of Total | Average Balance | Percent of Total | Average Balance | Percent of Total |
| Loans: | | | | | | |
| Commercial and commercial real estate | \$4,182,205 | 49% | \$3,647,982 | 45% | \$2,931,230 | 42% |
| Home equity Residential real estate (1) | 652,034 | 8 | 641,494 | 8 | 621,160 | 9 |
| Premium finance receivables | 335,894 | 4 | 365,159 | 5 | 401,473 | 6 |
| Indirect consumer loans | 1,264,941 | 15 | 989,689 | 12 | 847,970 | 12 |
| Tricom finance receivables | 248,203 | 3 | 229,757 | 3 | 195,697 | 3 |
| Consumer and other loans | 33,552 | | 41,703 | 1 | 36,599 | 1 |
| | 108,051 | 1 | 97,560 | 1 | 103,783 | 2 |
| Total loans, net of unearned income (2) | 6,824,880 | 80 | 6,013,344 | 75 | 5,137,912 | 75 |
| Liquidity management assets (3) | 1,674,719 | 20 | 2,054,798 | 25 | 1,738,725 | 25 |
| Other earnings assets (4) | 24,721 | | 29,675 | | 23,644 | |
| Total average earning assets | \$8,524,320 | 100% | \$8,097,817 | 100% | \$6,900,281 | 100% |
| Total average assets | \$9,442,277 | | \$8,925,557 | | \$7,587,602 | |
| | | 90% | | 91% | | 91% |

Total average earning
assets to total average
assets

(1) *Includes mortgage
loans
held-for-sale*

(2) *Includes
non-accrual loans*

(3) *Includes
available-for-sale
securities, interest
earning deposits
with banks and
federal funds sold
and securities
purchased under
resale agreements*

(4) *Includes
brokerage
customer
receivables and
trading account
securities*

Average earning assets increased \$426.5 million, or 5%, in 2007 and \$1.2 billion, or 17%, in 2006. The ratio of average earning assets as a percent of total average assets in 2007 declined slightly to 90% from 91% in 2006 and 2005.

Total average loans increased \$811.5 million, or 14%, in 2007, and \$875.4 million, or 17%, in 2006. The increase in average loans was primarily funded by proceeds from maturing liquidity management assets and higher levels of average deposits. The average loans to average deposits ratio increased to 90.1% in 2007 from 82.2% in 2006 and 83.4% in 2005. Due to the increase of the average loan-to-deposit ratio in 2007 to the high-end of management's target range of 85% - 90%, the Company reinstated its program of selling premium finance receivables to unrelated third parties by selling \$230.0 million of outstanding balances in the fourth quarter of 2007. The sale of premium finance receivables is discussed below in more detail.

Loans. Total loans at December 31, 2007 were \$6.8 billion, increasing \$305.1 million, or 5%, over the December 31, 2006 total of \$6.5 billion. Average total loans, net of unearned income, totaled \$6.8 billion in 2007, \$6.0 billion in 2006 and \$5.1 billion in 2005.

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Average commercial and commercial real estate loans, the largest loan category, totaled \$4.2 billion in 2007, and increased \$534.2 million, or 15%, over the average balance in 2006. The average balance in 2006 increased \$716.8 million, or 24%, over the average balance in 2005. This category comprised 61% of the average loan portfolio in 2007 and 2006. The growth realized in this category is attributable to increased business development efforts, acquisitions, and to a lesser extent the reclassification of \$78.6 million of loans in the fourth quarter of 2006 from the residential real estate category to commercial and commercial real estate.

In order to minimize the time lag typically experienced by *de novo* banks in redeploying deposits into higher yielding earning assets, the Company has developed lending programs focused on specialized earning asset niches that generally have large volumes of homogeneous assets that can be acquired for the Banks' portfolios and possibly sold in the secondary market to generate fee income. These specialty niches also diversify the Banks' loan portfolios and add higher yielding earning assets that help to improve the net interest margin. However, these loans may involve greater credit risk than generally associated with loan portfolios of more traditional community banks due to marketability of the collateral, or because of the indirect relationship the Company has with the underlying borrowers. Specialty loan programs include premium finance, indirect auto, Tricom finance receivables, mortgage broker warehouse lending through Hinsdale Bank, the Community Advantage program at Barrington Bank, which provides lending, deposit and cash management services to condominium, homeowner and community associations and the small aircraft lending program at Crystal Lake Bank. Other than the premium finance receivables, Tricom finance receivables and indirect auto, all of the loans generated by these specialty loan programs are included in commercial and commercial real estate loans in the preceding table. Management continues to evaluate other specialized types of earning assets to assist with the deployment of deposit funds and to diversify the earning asset portfolio.

Home equity loans averaged \$652.0 million in 2007, and increased \$10.5 million, or 2%, when compared to the average balance in 2006. Home equity loans averaged \$641.5 million in 2006, and increased \$20.3 million, or 3%, when compared to the average balance in 2005. Unused commitments on home equity lines of credit totaled \$878.1 million at December 31, 2007 and \$846.8 million at December 31, 2006.

Residential real estate loans averaged \$335.9 million in 2007, and decreased \$29.3 million, or 8%, from the average balance in 2006. 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. The remaining loans in this category are maintained within the Banks' loan portfolios and represent mostly adjustable rate mortgage loans and shorter-term fixed rate mortgage loans. The Company does not think it has a significant exposure related to subprime mortgages. WestAmerica, which originated certain subprime mortgages for sale into the secondary market, substantially modified its product offerings in the second quarter of 2007 in an effort to reduce the risk associated with subprime mortgages. The lower average residential real estate loans in 2007 have resulted from the Company's reclassification of \$78.6 million of loans in the fourth quarter of 2006, which are now included in commercial and commercial real estate.

Premium finance receivables are originated through FIFC and to a lesser extent Broadway. These receivables represent loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. All premium finance receivables originated by FIFC are subject to the Company's credit standards, and substantially all such loans are made to commercial customers. The Company rarely finances consumer insurance premiums.

Average premium finance receivables totaled \$1.3 billion in 2007, and accounted for 19% of the Company's average total loans. Average premium finance receivables increased \$275.3 million, or 28%, from the average balance of \$989.7 million in 2006. The increase in the average balance of premium finance receivables is a result of the Company's decision to suspend the sale of premium finance receivables to an unrelated third party beginning in the third quarter of 2006 and to a lesser extent from loans acquired through the Broadway acquisition in the fourth quarter of 2007. Also, in the fourth quarter of 2007, due to the Company's average loan-to-average deposit ratio being consistently above the target range of 85% to 90%, the Company reinstated its program of selling premium finance receivables, with servicing retained, to unrelated third parties. The majority of the receivables originated by FIFC are sold to the Banks and retained in their loan portfolios. Having a program in place to sell premium finance receivables

to third parties allows the Company to execute its strategy to be asset-driven while providing the benefits of additional sources of liquidity and revenue. The level of premium finance receivables sold to unrelated third parties depends in large part on the capacity of the Banks to retain such loans in their portfolio and therefore, it is possible that sales of these receivables may occur in the future. See Consolidated Results of Operations for further information on these loan sales. Total premium finance loan originations were \$3.1 billion, \$3.0 billion and \$2.7 billion in 2007, 2006 and 2005, respectively.

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Indirect consumer loans are comprised primarily of automobile loans (94% of the indirect portfolio) and boat loans at State Bank of The Lakes. These loans are financed from networks of unaffiliated automobile and boat dealers located throughout the Chicago and southern Wisconsin metropolitan areas with which the Company has established relationships. Indirect auto loans are secured by new and used automobiles and generally have an original maturity of 36 to 72 months with the average actual maturity estimated to be approximately 40 to 45 months. The risks associated with the Company's portfolios are diversified among many individual borrowers. Like other consumer loans, the indirect consumer loans are subject to the Banks' established credit standards. Management regards substantially all of these loans as prime quality loans. Management continually monitors the dealer relationships to ensure the Banks are not dependent on any one dealer as a source of such loans. During 2007, 2006 and 2005 average indirect consumer loans totaled \$248.2 million, \$229.8 million and \$195.7 million, respectively.

Tricom finance receivables represent high-yielding short-term accounts receivable financing to Tricom's clients in the temporary staffing industry located throughout the United States. These receivables may involve greater credit risks than generally associated with the loan portfolios of more traditional community banks depending on the marketability of the collateral. The principal sources of repayments on the receivables are payments due to the borrowers from their customers who are located throughout the United States. The Company mitigates this risk by employing lockboxes and other cash management techniques to protect their interests. Typically, Tricom also provides value-added out-sourced administrative services to many of these clients, such as data processing of payrolls, billing and cash management services, which generate additional fee income. Average Tricom finance receivables were \$33.6 million in 2007, \$41.7 million in 2006 and \$36.6 million in 2005. Lower activity from existing clients and slower growth in new customer relationships has led to the decrease in Tricom finance receivables in 2007 compared with 2006. Higher sales volumes with Tri-com's existing client base coupled with new client business lead to the higher level of Tricom finance receivables in 2006 compared with 2005.

Liquidity Management Assets. 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. The balances of these assets fluctuate frequently based on deposit inflows, the level of other funding services and loan demand. Average liquidity management assets accounted for 20% of total average earning assets in 2007 and 25% in 2006 and 2005. Average liquidity management assets decreased \$380.1 million in 2007 compared to 2006, and increased \$316.1 million in 2006 compared to 2005. The decrease in average liquidity management assets in 2007 is the result of the maturity of various available-for-sale securities, primarily in the first half of 2007. As a result of the current interest rate environment, loan growth and the Company's balance sheet strategy, not all maturities were replaced with new purchases. The Company has put in place a deposit pricing strategy which has resulted in a gradual shift away from dependence upon retail certificates of deposits and resulted in an increase in the average loan-to-average-deposit ratio. The increase in average liquidity management assets in 2006 compared to 2005 was a result of increases in average deposits and other funding sources exceeding increases in average loans in 2006.

Other earning assets. Average other earning assets include trading account securities and brokerage customer receivables at WHI. In the normal course of business, 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 the 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 an 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.

Deposits and Other Funding Sources

The dynamics of community bank balance sheets are generally dependent upon the ability of management to attract additional deposit accounts to fund the growth of the institution. As the Banks and branch offices are still relatively young, the generation of new deposit relationships to gain market share and establish themselves in the community as the bank of choice is particularly important. When determining a community to establish a *de novo* bank, the Company generally will enter a community where it believes the new bank can gain the number one or two position in deposit market share. This is usually accomplished by initially paying competitively high deposit rates to gain the relationship and then by introducing the customer to the Company's unique way of providing local banking services.

Deposits. Total deposits at December 31, 2007, were \$7.5 billion, decreasing \$398 million, or 5%, compared to the \$7.9 billion at December 31, 2006. Average deposit balances in 2007 were \$7.6 billion, reflecting an increase of \$257 million, or 4%, compared to the average balances in 2006. During 2006, average deposits increased \$1.2 billion, or 19%, compared to the prior year.

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The decrease in year end deposits in 2007 over 2006 reflects the Company's initiatives in 2007 to reduce the level of higher rate certificates of deposit. During 2007, the Company's retail deposit pricing strategies focused on shifting the mix of deposits away from certificates of deposit into lower rate and more variable rate NOW and money market accounts.

The following table presents the composition of average deposits by product category for each of the last three years (dollars in thousands):

| | Years Ended December 31, | | | | | |
|-------------------------------|--------------------------|------------------|-----------------|------------------|-----------------|------------------|
| | 2007 | | 2006 | | 2005 | |
| | Average Balance | Percent of Total | Average Balance | Percent of Total | Average Balance | Percent of Total |
| Non-interest bearing deposits | \$ 647,715 | 9% | \$ 623,542 | 9% | \$ 592,879 | 9% |
| NOW accounts | 938,960 | 12 | 774,481 | 10 | 699,323 | 11 |
| Wealth management deposits | 547,408 | 7 | 464,438 | 6 | 407,816 | 7 |
| Money market accounts | 696,760 | 9 | 639,590 | 9 | 657,788 | 11 |
| Savings accounts | 302,339 | 4 | 307,142 | 4 | 298,468 | 5 |
| Time certificates of deposit | 4,442,469 | 59 | 4,509,488 | 62 | 3,507,771 | 57 |
| Total deposits | \$7,575,651 | 100% | \$7,318,681 | 100% | \$6,164,045 | 100% |

Wealth management deposits are funds from the brokerage customers of WHI and the trust and asset management customers managed by Wayne Hummer Trust Company which have been placed into deposit accounts of the Banks (Wealth management deposits in table above). Consistent with reasonable interest rate risk parameters, the funds have generally been invested in loan production of the Banks as well as other investments suitable for banks.

The following table presents average deposit balances for each Bank and the relative percentage of total consolidated average deposits held by each Bank during each of the past three years (dollars in thousands):

| | Years Ended December 31, | | | | | |
|------------------------------|--------------------------|------------------|-----------------|------------------|-----------------|------------------|
| | 2007 | | 2006 | | 2005 | |
| | Average Balance | Percent of Total | Average Balance | Percent of Total | Average Balance | Percent of Total |
| Lake Forest Bank | \$1,060,954 | 14% | \$1,048,493 | 14% | \$ 947,014 | 15% |
| Hinsdale Bank ⁽³⁾ | 1,037,514 | 14 | 888,430 | 12 | 740,092 | 12 |
| North Shore Bank | 781,699 | 10 | 819,010 | 11 | 767,464 | 12 |
| Libertyville Bank | 798,522 | 11 | 741,231 | 10 | 662,330 | 11 |
| Barrington Bank | 700,728 | 9 | 707,620 | 10 | 653,509 | 11 |
| Crystal Lake Bank | 470,586 | 6 | 457,486 | 6 | 410,168 | 7 |
| Northbrook Bank | 613,943 | 8 | 632,337 | 9 | 554,717 | 9 |
| Advantage Bank | 241,117 | 3 | 219,689 | 3 | 209,136 | 3 |
| Village Bank ⁽¹⁾ | 491,307 | 6 | 504,021 | 7 | 359,224 | 6 |
| Beverly Bank | 141,186 | 2 | 138,800 | 2 | 83,285 | 1 |

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| | | | | | | |
|--|--------------------|-------------|-------------|------|-------------|------|
| Wheaton Bank ⁽³⁾ | 244,158 | 3 | 157,440 | 2 | 94,194 | 2 |
| Town Bank | 399,857 | 6 | 358,295 | 5 | 283,548 | 5 |
| State Bank of The Lakes | 428,653 | 6 | 418,805 | 6 | 399,364 | 6 |
| Old Plank Trail Bank ⁽²⁾ | 108,887 | 1 | 44,569 | 1 | | |
| St. Charles Bank ⁽³⁾ | 56,540 | 1 | 182,455 | 2 | | |
| Total deposits | \$7,575,651 | 100% | \$7,318,681 | 100% | \$6,164,045 | 100% |
| Percentage increase from prior year | | 4% | | 19% | | 40% |

(1) For 2005, represents effect on consolidated average deposits from effective acquisition date of March 31, 2005 for First Northwest Bank, which was merged with Village Bank. At December 31, 2005, Village Bank had total deposits of \$498.0 million.

(2) For 2006, represents effect on consolidated average deposits from effective organization date of March 23, 2006 for Old Plank Trail Bank. At December 31, 2006, Old Plank Trail Bank had total deposits of \$92.0 million.

(3) For 2006, represents effect

on consolidated average deposits from effective acquisition date of May 31, 2006 for Hinsbrook Bank. Branches (and related deposits) from Hinsbrook Bank were sold to Hinsdale Bank and Wheaton Bank in the fourth quarter of 2006. Hinsbrook's Geneva branch was renamed St. Charles Bank.

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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, as well as the retention of earnings, the Company uses several other funding sources to support its growth. These other sources include short-term borrowings, notes payable, FHLB advances, subordinated debt 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 composition of average other funding sources in 2007, 2006 and 2005 is presented in the following table (dollars in thousands):

| | Years Ended December 31, | | | | | |
|---------------------------------|--------------------------|------------------|-----------------|------------------|-----------------|------------------|
| | 2007 | | 2006 | | 2005 | |
| | Average Balance | Percent of Total | Average Balance | Percent of Total | Average Balance | Percent of Total |
| Notes payable | \$ 51,979 | 5% | \$ 6,913 | 1% | \$ 12,100 | 2% |
| Federal Home Loan Bank advances | 400,552 | 38 | 364,149 | 45 | 333,108 | 43 |
| Subordinated notes | 75,000 | 7 | 66,742 | 8 | 50,000 | 7 |
| Short-term borrowings | 264,743 | 25 | 140,968 | 17 | 152,575 | 20 |
| Junior subordinated debentures | 249,739 | 25 | 237,249 | 29 | 217,983 | 28 |
| Other | 1,818 | | 1,883 | | 3,255 | |
| Total other funding sources | \$1,043,831 | 100% | \$817,904 | 100% | \$769,021 | 100% |

Notes payable balances represent the balances on a credit agreement with an unaffiliated bank. This credit facility is 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 December 31, 2007 and 2006, the Company had \$60.7 million and \$12.8 million, respectively, of notes payable outstanding. See Note 11 to the Consolidated Financial Statements for further discussion of the terms of this credit facility.

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. FHLB advances to the Banks totaled \$415.2 million at December 31, 2007, and \$325.5 million at December 31, 2006. See Note 12 to the Consolidated Financial Statements for further discussion of the terms of these advances.

The Company borrowed \$75.0 million under three separate \$25 million subordinated note agreements. Each subordinated note requires annual principal payments of \$5.0 million beginning in the sixth year of the note and has terms of ten years with final maturity dates in 2012, 2013 and 2015. These notes qualify as Tier II regulatory capital. See Note 13 to the Consolidated Financial Statements for further discussion of the terms of the notes.

Short-term borrowings include securities sold under repurchase agreements and federal funds purchased. These borrowings totaled \$252.6 million and \$159.9 million at December 31, 2007 and 2006, respectively. Securities sold under repurchase agreements primarily represent sweep accounts for certain customers in connection with master repurchase agreements at the Banks. This funding category fluctuates based on customer preferences and daily liquidity needs of the Banks, their customers and the Banks' operating subsidiaries.

The Company has \$249.7 million of junior subordinated debentures outstanding as of December 31, 2007. 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. On September 1, 2006, the Company issued \$51.5 million of 6.84% fixed rate junior subordinated debentures in connection with a private placement of the related Trust Preferred Securities and on September 5, 2006, the Company used the proceeds from this issuance to redeem at par \$32.0 million of 9.0% fixed rate junior subordinated debentures originally issued in 1998. See Note 15 of the Consolidated Financial Statements for further discussion of the Company's junior subordinated debentures. Junior subordinated debentures, subject to certain limitations, currently qualify as Tier 1 regulatory capital. Interest expense on these debentures is deductible for tax purposes, resulting in a cost-efficient form of regulatory capital.

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Shareholders' Equity. Total shareholders' equity was \$739.6 million at December 31, 2007 reflecting a decrease of \$33.7 million from the December 31, 2006 total of \$773.3 million. In 2006, shareholders' equity increased \$145.4 million over the December 31, 2005 balance. During 2007, shareholders' equity increased \$47.8 million as a result of earnings retention (\$55.7 million of net income less dividends of \$7.8 million), \$10.8 million due to stock-based compensation costs, \$8.9 million from the issuance of shares (including related tax benefits) pursuant to various stock-based compensation plans and \$4.1 million from other comprehensive income, net of tax. Shareholders' equity decreased \$105.9 million in 2007 as a result of the purchase of 2,506,717 shares of treasury stock, at an average price of \$42.23 per share.

The \$145.4 million increase in shareholders' equity in 2006 was primarily due to the retention of \$59.5 million of earnings (\$66.5 million of net income less dividends of \$7.0 million), \$57.1 million due to stock issued in business combinations, \$11.6 million from the issuance of 200,000 new shares in final settlement of a forward sale agreement of the company's common stock, \$17.3 million due to stock-based compensation costs pursuant to the adoption of SFAS 123R, \$14.2 million from the issuance of shares (including related tax benefits) pursuant to various stock-based compensation plans and \$1.1 million from the cumulative effect adjustment of a change in accounting for MSRs pursuant to the adoption of SFAS 156. Shareholders' equity decreased \$16.3 million in 2006 as a result of the purchase of 344,089 shares of treasury stock, at an average price of \$47.50 per share.

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The following table summarizes the activity in the allowance for credit losses during the last five years (dollars in thousands):

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|------------------|---------|---------|---------|---------|
| Allowance for loan losses at beginning of year | \$ 46,055 | 40,283 | 34,227 | 25,541 | 18,390 |
| Provision for credit losses | 14,879 | 7,057 | 6,676 | 6,298 | 10,999 |
| Allowance acquired in business combinations | 362 | 3,852 | 4,792 | 5,110 | 1,602 |
| Reclassification from/(to) allowance for lending-related commitments | (36) | 92 | (491) | | |
| Charge-offs: | | | | | |
| Commercial and commercial real estate loans | 8,958 | 4,534 | 3,252 | 2,356 | 2,382 |
| Home equity loans | 289 | 97 | 88 | | 358 |
| Residential real estate loans | 147 | 81 | 198 | | |
| Consumer and other loans | 593 | 371 | 363 | 204 | 222 |
| Premium finance receivables | 2,425 | 2,760 | 2,067 | 1,852 | 2,558 |
| Indirect consumer loans | 873 | 584 | 555 | 425 | 937 |
| Tricom finance receivables | 252 | 50 | | 33 | |
| Total charge-offs | 13,537 | 8,477 | 6,523 | 4,870 | 6,457 |
| Recoveries: | | | | | |
| Commercial and commercial real estate loans | 1,732 | 2,299 | 527 | 1,148 | 339 |
| Home equity loans | 61 | 31 | | 6 | 39 |
| Residential real estate loans | 6 | 2 | | | 13 |
| Consumer and other loans | 178 | 148 | 243 | 104 | 40 |
| Premium finance receivables | 514 | 567 | 677 | 738 | 399 |
| Indirect consumer loans | 172 | 191 | 155 | 152 | 173 |
| Tricom finance receivables | 3 | 10 | | | 4 |
| Total recoveries | 2,666 | 3,248 | 1,602 | 2,148 | 1,007 |
| Net charge-offs | (10,871) | (5,229) | (4,921) | (2,722) | (5,450) |
| Allowance for loan losses at end of year | \$ 50,389 | 46,055 | 40,283 | 34,227 | 25,541 |
| | 493 | 457 | 491 | | |

Allowance for lending-related commitments at end of year

| | | | | | |
|---|------------------|--------|--------|--------|--------|
| Allowance for credit losses at end of year | \$ 50,882 | 46,512 | 40,774 | 34,227 | 25,541 |
|---|------------------|--------|--------|--------|--------|

Net charge-offs (recoveries) by category as a percentage of its own respective category's average:

| | | | | | |
|---|--------------|-------|-------|--------|--------|
| Commercial and commercial real estate loans | 0.17% | 0.06% | 0.09% | 0.06% | 0.14% |
| Home equity loans | 0.04 | 0.01 | 0.01 | (0.00) | 0.08 |
| Residential real estate loans | 0.04 | 0.02 | 0.05 | | (0.01) |
| Consumer and other loans | 0.38 | 0.23 | 0.12 | 0.13 | 0.34 |
| Premium finance receivables | 0.15 | 0.22 | 0.16 | 0.14 | 0.34 |
| Indirect consumer loans | 0.28 | 0.17 | 0.20 | 0.15 | 0.45 |
| Tricom finance receivables | 0.74 | 0.10 | | 0.12 | (0.02) |
| Total loans, net of unearned income | 0.16% | 0.09% | 0.10% | 0.07% | 0.18% |

Net charge-offs as a percentage of the provision for credit losses

| | | | | | |
|--|---------------|--------|--------|--------|--------|
| | 73.07% | 74.10% | 73.71% | 43.22% | 49.55% |
|--|---------------|--------|--------|--------|--------|

| | | | | | |
|--|---------------------|-----------|-----------|-----------|-----------|
| Year-end total loans | \$ 6,801,602 | 6,496,480 | 5,213,871 | 4,348,346 | 3,297,794 |
| Allowance for loan losses as a percentage of loans at end of year | 0.74% | 0.71% | 0.77% | 0.79% | 0.77% |
| Allowance for credit losses as a percentage of loans at end of year | 0.75% | 0.72% | 0.78% | 0.79% | 0.77% |

Table of Contents**Risk Elements in the Loan Portfolio**

The following table sets forth the allocation of the allowance for loan losses and the allowance for losses on lending-related commitments by major loan type and the percentage of loans in each category to total loans (dollars in thousands):

| | 2007 | | 2006 | | 2005 | | 2004 | | 2003 | |
|--|-----------------|--------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|
| | % of | | % of | | % of | | % of | | % of | |
| | Loan | | Loan | | Loan | | Loan | | Loan | |
| | Type | | Type | | Type | | Type | | Type | |
| | to | | to | | to | | to | | to | |
| | Total | | Total | | Total | | Total | | Total | |
| | Amount | Loans | Amount | Loans | Amount | Loans | Amount | Loans | Amount | Loans |
| Allowance for loan losses allocation: | | | | | | | | | | |
| Commercial and commercial real estate | \$38,995 | 65% | \$32,943 | 63% | \$28,288 | 61% | \$20,016 | 57% | \$ 7,421 | 50% |
| Home equity | 2,057 | 10 | 1,985 | 10 | 1,835 | 12 | 1,404 | 13 | 467 | 14 |
| Residential real estate | 1,290 | 3 | 1,381 | 3 | 1,372 | 5 | 993 | 5 | 417 | 5 |
| Consumer and other | 1,442 | 2 | 1,757 | 1 | 1,516 | 1 | 1,585 | 2 | 418 | 2 |
| Premium finance receivables | 3,672 | 16 | 4,838 | 18 | 4,586 | 16 | 7,708 | 18 | 5,495 | 23 |
| Indirect consumer loans | 2,900 | 4 | 3,019 | 4 | 2,538 | 4 | 2,149 | 4 | 915 | 5 |
| Tricom finance receivables | 33 | | 132 | 1 | 148 | 1 | 372 | 1 | 143 | 1 |
| Unallocated | | | | | | | | | 10,265 | |
| Total allowance for loan losses | \$50,389 | 100% | \$46,055 | 100% | \$40,283 | 100% | \$34,227 | 100% | \$25,541 | 100% |

Allowance category as a percent of total allowance:

| | | | | | |
|---------------------------------------|-----|-----|-----|-----|-----|
| Commercial and commercial real estate | 77% | 72% | 70% | 58% | 29% |
| Home equity | 4 | 4 | 5 | 4 | 2 |
| Residential real estate | 3 | 3 | 4 | 3 | 1 |

| | | | | | |
|---|-----------------|----------|----------|----------|----------|
| Consumer and other | 3 | 4 | 4 | 5 | 2 |
| Premium finance receivables | 7 | 10 | 11 | 23 | 22 |
| Indirect consumer loans | 6 | 7 | 6 | 6 | 3 |
| Tricom finance receivables | | | | 1 | 1 |
| Unallocated | | | | | 40 |
| Total allowance for loan losses | 100% | 100% | 100% | 100% | 100% |
| Allowance for losses on lending-related commitments: | | | | | |
| Commercial and commercial real estate | \$ 493 | \$ 457 | \$ 491 | \$ | \$ |
| Total allowance for credit losses | \$50,882 | \$46,512 | \$40,774 | \$34,227 | \$25,541 |

Management has determined that the allowance for loan losses and the allowance for losses on lending-related commitments were adequate at December 31, 2007. The Company's loan rating process is an integral component of the methodology utilized in determining the adequacy of the allowance for loan losses. The Company utilizes a loan rating system to assign risk to loans and utilizes that risk rating system to assist in developing the Problem Loan Report as a means of reporting non-performing and potential problem loans. At each scheduled meeting of the Boards of Directors of the Banks and the Wintrust Risk Management Committee, a Problem Loan Report is presented, showing loans that are non-performing and loans that may warrant additional monitoring. Accordingly, in addition to those loans disclosed under Past Due Loans and Non-performing Assets, there are certain loans in the portfolio which management has identified, through its Problem Loan Report, which exhibit a higher than normal credit risk. These Problem Loan Report credits are reviewed individually by management to determine whether any specific reserve amount should be allocated for each respective credit. However, these loans are still performing and, accordingly, are not included in non-performing loans. Management's philosophy is to be proactive and conservative in assigning risk ratings to loans and identifying loans to be included on the Problem Loan Report. The principal amount of loans on the Company's Problem Loan Report (exclusive of those loans reported as non-performing) as of December 31, 2007 and December 31, 2006, was approximately \$142.1 million and \$84.7 million, respectively. The increase in 2007 is primarily a result of Problem Loan Report credits in the commercial and commercial real estate category. We believe these loans are performing and, accordingly, do not cause management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms.

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In 2004, the Company refined its methodology for determining certain elements of the allowance for loan losses. This refinement resulted in allocation of the allowance to specific loan portfolio groupings. The Company maintains its allowance for loan losses at a level believed adequate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of Problem Loan Report loans and actual loss experience, changes in the composition of the loan portfolio, historical loss experience, changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices, changes in the experience, ability and depth of lending management and staff, changes in national and local economic and business conditions and developments, including the condition of various market segments and changes in the volume and severity of past due and classified loans and trends in the volume of non-accrual loans, troubled debt restructurings and other loan modifications. The allowance for loan losses also includes an element for estimated probable but undetected losses and for imprecision in the credit risk models used to calculate the allowance. The methodology used since 2004 refined the process so that this element was calculated for each loan portfolio grouping. In prior years, this element of the allowance was associated with the loan portfolio as a whole rather than with a specific loan portfolio grouping. In 2007, the increase in the amount of allowance for loan losses can be primarily attributed to the potential losses for loans on the Company's Problem Loan Report, specifically commercial and commercial real estate. 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 historical loss experience, and consideration of current environmental factors and economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more frequently if deemed necessary.

The Company also maintains an allowance for lending-related commitments, specifically unfunded loan commitments and letters of credit, to provide for the risk of loss inherent in these arrangements. The allowance for lending-related commitments relates to certain amounts that the Company is 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. This allowance is included in other liabilities on the Consolidated Statement of Condition while the corresponding provision for these losses is recorded as a component of the provision for credit losses.

An analysis of commercial and commercial real estate loans actual loss experience is conducted to assess reserves established for credits with similar risk characteristics. An allowance is established for loans on the Problem Loan Report and for pools of loans based on the loan types and the risk ratings assigned. The Company separately measures the fair value of impaired commercial and commercial real estate loans using either the present value of expected future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the collateral if the loan is collateral dependent. Problem Loan Report loans, which include nonperforming loans, are subject to impairment valuation. Commercial and commercial real estate loans continue to represent a larger percentage of the Company's total loans outstanding. The credit risk of commercial and commercial real estate loans is largely influenced by the impact on borrowers of general economic conditions, which can be challenging and uncertain. Historically low net charge-offs of commercial and commercial real-estate loans may not be indicative of future charge-off levels. The home equity, residential real estate, consumer and other loan allocations are based on analysis of historical delinquency and charge-off statistics and trends and the current economic environment. Allocations for niche loans such as premium finance receivables, indirect consumer and Tricom finance receivables are based on an analysis of historical delinquency and charge-off statistics, historical growth trends and historical economic trends.

The allowance for loan losses as of December 31, 2007, increased \$4.3 million to \$50.4 million from December 31, 2006. The allowance for loan losses as a percentage of total loans at December 31, 2007 and 2006 was 0.74% and 0.71%, respectively. As a percent of average total loans, total net charge-offs for 2007 and 2006 were 0.16% and 0.09%, respectively. While management believes that the allowance for loan losses is adequate to provide for losses inherent in the portfolio, there can be no assurances that future losses will not exceed the amounts provided for,

thereby affecting future earnings. In 2007, the Company reclassified \$36,000 from its allowance for loan losses to its allowance for lending-related commitments, specifically unfunded loan commitments and letters of credit. In 2006, the Company reclassified \$92,000 from the allowance for lending-related commitments to its allowance for loan losses. The allowance for credit losses is comprised of the allowance for loan losses and the allowance for lending-related commitments. In future periods, the provision for credit losses may contain both a component related to funded loans (provision for loan losses) and a component related to lending-related commitments (provision for unfunded loan commitments and letters of credit).

Commercial and commercial real estate loans represent the largest loan category in the Company's loan portfolio, accounting for 65% of total loans at December 31, 2007. Net charge-offs in this category totaled \$7.2 million, or 0.17% of average loans in this category in 2007, and \$2.2 million, or 0.06% of average loans in this category in 2006.

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Premium finance receivable loans represent the second largest loan category in the Company's portfolio, accounting for 16% of total loans at December 31, 2007. Net charge-offs totaled \$1.9 million in 2007 as compared to \$2.2 million in 2006. Net charge-offs were 0.15% of average premium finance receivables in 2007 versus 0.22% in 2006. As noted in the next section of this report, non-performing premium finance receivables as a percent of total premium finance receivables were 1.80% at December 31, 2007 and 1.07% at December 31, 2006.

Past Due Loans and Non-performing Assets

The following table classifies the Company's non-performing assets as of December 31 for each of last five years. The information in the table should be read in conjunction with the detailed discussion following the table (dollars in thousands):

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|------------------|---------------|---------------|---------------|---------------|
| Loans past due greater than 90 days and still accruing: | | | | | |
| Residential real estate and home equity ⁽¹⁾ | \$ 51 | 308 | 159 | | |
| Commercial, consumer and other | 14,742 | 8,454 | 1,898 | 715 | 1,024 |
| Premium finance receivables | 8,703 | 4,306 | 5,211 | 3,869 | 3,439 |
| Indirect consumer loans | 517 | 297 | 228 | 280 | 313 |
| Tricom finance receivables | | | | | |
| Total loans past due greater than 90 days and still accruing | 24,013 | 13,365 | 7,496 | 4,864 | 4,776 |
| Non-accrual loans: | | | | | |
| Residential real estate and home equity ⁽¹⁾ | 3,215 | 1,738 | 457 | 2,660 | 3,217 |
| Commercial, consumer and other | 33,267 | 12,959 | 11,712 | 3,550 | 9,646 |
| Premium finance receivables | 10,725 | 8,112 | 6,189 | 7,396 | 5,994 |
| Indirect consumer loans | 560 | 376 | 335 | 118 | 107 |
| Tricom finance receivables | 74 | 324 | | | |
| Total non-accrual | 47,841 | 23,509 | 18,693 | 13,724 | 18,964 |
| Total non-performing loans: | | | | | |
| Residential real estate and home equity ⁽¹⁾ | 3,266 | 2,046 | 616 | 2,660 | 3,217 |
| Commercial, consumer and other | 48,009 | 21,413 | 13,610 | 4,265 | 10,670 |
| Premium finance receivables | 19,428 | 12,418 | 11,400 | 11,265 | 9,433 |
| Indirect consumer loans | 1,077 | 673 | 563 | 398 | 420 |
| Tricom finance receivables | 74 | 324 | | | |
| Total non-performing loans | 71,854 | 36,874 | 26,189 | 18,588 | 23,740 |
| Other real estate owned | 3,858 | 572 | 1,400 | | 368 |
| Total non-performing assets | \$ 75,712 | 37,446 | 27,589 | 18,588 | 24,108 |

Total non-performing loans by category as a percent of its own respective category's year end balance:

| | | | | | |
|--|---------------|---------|---------|---------|---------|
| Residential real estate and home equity ⁽¹⁾ | 0.36% | 0.23% | 0.07% | 0.32% | 0.48% |
| Commercial, consumer and other | 1.06 | 0.51 | 0.42 | 0.17 | 0.63 |
| Premium finance receivables | 1.80 | 1.07 | 1.40 | 1.46 | 1.26 |
| Indirect consumer loans | 0.45 | 0.27 | 0.28 | 0.23 | 0.24 |
| Tricom finance receivables | 0.27 | 0.74 | | | |
| | | | | | |
| Total non-performing loans | 1.06% | 0.57% | 0.50% | 0.43% | 0.72% |
| | | | | | |
| Total non-performing assets as a percentage of total assets | 0.81% | 0.39% | 0.34% | 0.29% | 0.51% |
| | | | | | |
| Allowance for loan losses as a percentage of non-performing loans | 70.13% | 124.90% | 153.82% | 184.13% | 107.59% |

(1) Residential real estate and home equity loans that are non-accrual and past due greater than 90 days and still accruing do not include non-performing mortgage loans held-for-sale. These loans totaled \$2.0 million as of December 31, 2007. Mortgage loans held-for-sale are carried at the lower of cost or market applied on an aggregate basis by loan type. Charges related to adjustments to record the loans at fair value are recognized in mortgage

*banking
revenue.*

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The non-performing residential real estate and home equity loans totaled \$3.3 million at December 31, 2007. The balance increased \$1.2 million from December 31, 2006. This category of non-performing loans consists of 14 individual credits representing eight home equity loans and six residential real estate loans. The average balance of loans in this category is approximately \$233,000. On average, this is less than one residential real estate loan or home equity loan per chartered bank within the Company and the control and collection of these loans is very manageable. Each non-performing credit is well secured and in the process of collection. Management does not expect any material losses from the resolution of any of the credits in this category.

Non-performing Commercial, Consumer and Other

The commercial, consumer and other non-performing loan category totaled \$48.0 million as of December 31, 2007. The balance in this category increased \$26.6 million from December 31, 2006. The increase in the non-performing loans since December 31, 2006 was primarily the result of \$32.3 million related to three credit relationships. One of the relationships, totaling approximately \$15.8 million, relates to two residential real estate developments in the southwestern suburbs of Chicago that are partially developed and were acquired as a result of the Hinsbrook Bank acquisition. Current market conditions have substantially slowed the sale of single family home lots. The Company believes the projects have reasonable long term viability; however, given the current state of the residential real estate market, the ultimate resolution of these problem loans could span a lengthy period of time until market conditions stabilize. The Company is working on various scenarios to minimize the holding periods and future losses, if any. Another addition to this non-performing loan category relates to a credit that approximates \$10.4 million secured by a low rise apartment complex that is being converted to condominiums. The project is located in one of the Company's primary market areas. Sales have slowed on the project to levels less than originally projected. This loan was initially structured with significant equity and mezzanine debt subordinate to our position resulting in a conservative loan-to-value position at the inception of the loan. The Company believes that the current market conditions may have impacted the valuation of the property, but not to a level where our principal is at substantial risk. We believe our first lien position relative to the value of the collateral to be favorable. Management of the Company believes that there is reasonable interest in this property from investors and anticipates a relatively quick resolution to this situation. The other significant addition to this category of non-performing loans is a \$6.1 million loan relationship made to a long-time commercial customer of the Company who is involved in several small residential developments in the northern suburbs of Chicago. The slowdown in the residential real estate market has impacted the borrower's ability to service the debt; however, sales do continue at a slower than projected pace. The loan relates to a variety of properties and these properties are not concentrated in any one development. Based on the Company's evaluation of the collateral, we believe our loan is adequately secured at this time and anticipate that this loan will be resolved during 2008 as a result of collateral liquidations.

Non-performing Premium Finance Receivables

The table below presents the level of non-performing premium finance receivables as of December 31, 2007 and 2006, and the amount of net charge-offs for the years then ended (dollars in thousands):

| | 2007 | 2006 |
|--|------------------|-----------|
| Non-performing premium finance receivables | \$ 19,428 | \$ 12,418 |
| - as a percent of premium finance receivables outstanding | 1.80% | 1.07% |
| Net charge-offs of premium finance receivables | \$ 1,911 | \$ 2,193 |
| - annualized as a percent of average premium finance receivables | 0.15% | 0.22% |

As noted below, fluctuations in this category may occur due to timing and nature of account collections from insurance carriers. Management is comfortable with administering the collections at this level of non-performing

premium finance receivables and expects that such ratios will remain at relatively low levels.

The ratio of non-performing premium finance receivables fluctuates throughout the year due to the nature and timing of canceled account collections from insurance carriers. Due to the nature of collateral for premium finance receivables, it customarily takes 60-150 days to convert the collateral into cash collections. Accordingly, the level of non-performing 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. Interest continues to accrue until maturity as the unearned premium is usually sufficient to pay-off the outstanding balance and contractual interest due.

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Non-performing Indirect Consumer Loans

Total non-performing indirect consumer loans were \$1.1 million at December 31, 2007, compared to \$673,000 at December 31, 2006. The ratio of these non-performing loans to total indirect consumer loans was 0.45% at December 31, 2007 compared to 0.27% at December 31, 2006. As noted in the Allowance for Credit Losses table, net charge-offs as a percent of total indirect consumer loans were 0.28% for the year ended December 31, 2007 compared to 0.17% in the same period in 2006. The level of nonperforming and net charge-offs of indirect consumer loans continues to be below standard industry ratios for this type of lending.

Potential Problem Loans

Management believes that any loan where there are serious doubts as to the ability of such borrowers to comply with the present loan repayment terms should be identified as a non-performing loan and should be included in the disclosure of Past Due Loans and Non-performing Assets. Accordingly, at the periods presented in this report, the Company has no potential problem loans as defined by SEC regulations.

Loan Concentrations

Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. The Company had no concentrations of loans exceeding 10% of total loans at December 31, 2007, except for loans included in the premium finance operating segment, which are diversified throughout the United States.

EFFECTS OF 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 does 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.

Table of Contents**Asset-Liability Management**

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 repricing 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 earlier sections of this discussion and analysis for further discussion of the net interest margin.

Since the Company's primary source of interest bearing liabilities is customer deposits, the Company's ability to manage the types and terms of such deposits may be 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.

One method utilized by financial institutions to manage interest rate risk is to enter into derivative financial instruments. A derivative financial instrument includes interest rate swaps, interest rate caps and floors, futures, forwards, option contracts and other financial instruments with similar characteristics. See Note 21 of the Consolidated Financial Statements for information on the Company's derivative financial instruments.

During 2007 and 2006, the Company also 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 increase the total return associated with the related securities. 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 affected 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 December 31, 2007 or December 31, 2006.

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 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. Tools used by management include a standard gap analysis and a rate simulation model whereby changes in net interest income are measured in the event of various changes in interest rate indices. An institution with more assets than liabilities re-pricing over a given time frame is considered asset sensitive and will generally benefit from rising rates, and conversely, a higher level of re-pricing liabilities versus assets would generally be beneficial in a declining rate environment.

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Standard gap analysis reflects contractual re-pricing information for assets, liabilities and derivative financial instruments. While the gap position and related ratios illustrated in the following table are useful tools that management can use to assess the general positioning of the Company's and its subsidiaries' balance sheets, it is only as of a point in time and static in nature. The following table illustrates the Company's estimated interest rate sensitivity and periodic and cumulative gap positions based on contractual re-pricing and maturities as of December 31, 2007:

| (Dollars in thousands) | Time to Maturity or Repricing | | | | Total |
|---|--------------------------------------|----------------|--------------|-----------------|-----------|
| | 0-90 Days | 91-365 Days | 1-5 Years | Over 5 Years | |
| Assets: | | | | | |
| Federal funds sold and securities purchased under resale agreements | \$ 90,964 | | | | 90,964 |
| Interest-bearing deposits with banks | 10,410 | | | | 10,410 |
| Available-for-sale securities | 382,162 | 131,865 | 276,996 | 512,814 | 1,303,837 |
| Total liquidity management assets | 483,536 | 131,865 | 276,996 | 512,814 | 1,405,211 |
| Loans, net of unearned income ⁽¹⁾ | 3,727,333 | 1,517,815 | 1,487,716 | 178,290 | 6,911,154 |
| Other earning assets | 25,777 | | | | 25,777 |
| Total earning assets | 4,236,646 | 1,649,680 | 1,764,712 | 691,104 | 8,342,142 |
| Other non-earning assets | | | | 1,026,717 | 1,026,717 |
| Total assets (RSA) | \$4,236,646 | 1,649,680 | 1,764,712 | 1,717,821 | 9,368,859 |
| Liabilities and Shareholders | | | | | |
| Equity: | | | | | |
| Interest-bearing deposits ⁽²⁾ | \$4,162,455 | 1,949,766 | 694,525 | 431 | 6,807,177 |
| Federal Home Loan Bank advances | 10,701 | 4,996 | 179,486 | 220,000 | 415,183 |
| Notes payable and other borrowings | 254,434 | 60,700 | | | 315,134 |
| Subordinated notes | 75,000 | | | | 75,000 |
| Junior subordinated debentures | 191,887 | 6,228 | 51,547 | | 249,662 |
| Total interest-bearing liabilities | 4,694,477 | 2,021,690 | 925,558 | 220,431 | 7,862,156 |
| Demand deposits | | | | 664,264 | 664,264 |
| Other liabilities | | | | 102,884 | 102,884 |
| Shareholders' equity | | | | 739,555 | 739,555 |

Effect of derivative financial instruments⁽³⁾:

| | | | | | |
|---|--------------|-----------|-----------|-----------|-----------|
| Interest rate swaps (Company pays fixed, receives floating) | (175,000) | | 85,000 | 90,000 | |
| Total liabilities and shareholders' equity including effect of derivative financial instruments (RSL) | \$4,519,477 | 2,021,690 | 1,010,558 | 1,817,134 | 9,368,859 |
| Repricing gap (RSA - RSL) | \$ (282,831) | (372,010) | 754,154 | (99,313) | |
| Cumulative repricing gap | \$ (282,831) | (654,841) | 99,313 | | |
| Cumulative RSA/Cumulative RSL | 94% | 90% | 101% | | |
| Cumulative RSA/Total assets | 45% | 63% | 82% | | |
| Cumulative RSL/Total assets | 48% | 70% | 81% | | |
| Cumulative GAP/Total assets | (3)% | (7)% | 1% | | |
| Cumulative GAP/Cumulative RSA | (7)% | (11)% | 1% | | |

(1) *Loans, net of unearned income, include mortgage loans held-for-sale and nonaccrual loans.*

(2) *Non-contractual interest-bearing deposits are subject to immediate withdrawal and, therefore, are included in 0-90 days.*

(3) *Excludes interest rate swaps to qualified commercial customers as they are offset with interest rate swaps entered into with third parties and*

have no effect on the Company's interest rate sensitivity. See Note 21 of the Consolidated Financial Statements for further discussion of these interest rate swaps.

As seen in the table, the Company's gap analysis as of December 31, 2007, reflects that the Company is in a negative gap position, which generally indicates the Company would benefit from a declining rate environment. However, the shape of the yield curve, an institution's funding sources and deposit mix, and the inability to have negative interest rates can create undue margin compression even for liability sensitive institutions operating in a low interest rate environment.

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As a result of the static position and inherent limitations of gap analysis, management uses an additional measurement tool to evaluate its asset-liability sensitivity that determines exposure to changes in interest rates by measuring the percentage change in net interest income due to changes in interest rates over a two-year time horizon. Management measures its exposure to changes in interest rates using many different interest rate scenarios. One interest rate scenario utilized is to measure the percentage change in net interest income assuming an instantaneous permanent parallel shift in the yield curve of 100 and 200 basis points, both upward and downward. Utilizing this measurement concept, the interest rate risk of the Company, expressed as a percentage change in net interest income over a two-year time horizon due to changes in interest rates, at December 31, 2007 and December 31, 2006, is as follows:

| | + 200 Basis Points | + 100 Basis Points | - 100 Basis Points | - 200 Basis Points |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Percentage change in net interest income due to an immediate 200 basis point shift in the yield curve: | | | | |
| December 31, 2007 | 9.5% | 6.4% | (1.4)% | (9.9)% |
| December 31, 2006 | 4.6% | 1.7% | (2.0)% | (7.2)% |

These results are based solely on an instantaneous permanent parallel shift in the yield curve and do not reflect the net interest income sensitivity that may arise from other factors, such as changes in the shape of the yield curve or changes in the spread between key market rates. The above results are conservative estimates due to the fact that no management actions to mitigate potential changes in net interest income are included in this simulation process. These management actions could include, but would not be limited to, delaying a change in deposit rates, extending the maturities of liabilities, the use of derivative financial instruments, changing the pricing characteristics of loans or modifying the growth rate of certain types of assets or liabilities.

Liquidity and Capital Resources

The Company and the Banks are subject to various regulatory capital requirements established by the federal banking agencies that take into account risk attributable to balance sheet and off-balance sheet activities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly discretionary actions by regulators, that if undertaken could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Federal Reserve's capital guidelines require bank holding companies to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%, of which at least 4.0% must be in the form of Tier 1 Capital. The Federal Reserve also requires a minimum leverage ratio of Tier 1 Capital to total assets of 3.0% for strong bank holding companies (those rated a composite 1 under the Federal Reserve's rating system). For all other bank holding companies, the minimum ratio of Tier 1 Capital to total assets is 4.0%. In addition the Federal Reserve continues to consider the Tier 1 leverage ratio in evaluating proposals for expansion or new activities. The following table summarizes the capital guidelines for bank holding companies, as well as the Company's capital ratios as of December 31, 2007, 2006 and 2005:

| Minimum Ratios | Well Capitalized Ratios | Wintrust's Ratios at Year-end 2007 | Wintrust's Ratios at Year-end 2006 | Wintrust's Ratios at Year-end 2005 |
|---------------------------|--|---|---|---|
|---------------------------|--|---|---|---|

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| | | | | | |
|--|------|-------|-------|-------|-------|
| Tier 1 Leverage Ratio | 4.0% | 5.0% | 7.7% | 8.2% | 8.3% |
| Tier 1 Capital to Risk-Weighted Assets | 4.0% | 6.0% | 8.7% | 9.8% | 10.3% |
| Total Capital to Risk-Weighted Assets | 8.0% | 10.0% | 10.2% | 11.3% | 11.9% |
| Total average equity to total average assets | N/A | N/A | 7.7% | 7.9% | 8.0% |

As reflected in the table, each of the Company's capital ratios at December 31, 2007, exceeded the well-capitalized ratios established by the Federal Reserve. Refer to Note 19 of the Consolidated Financial Statements for further information on the capital positions of the Banks.

The Company's principal sources of funds at the holding company level are dividends from its subsidiaries, borrowings under its loan agreement with an unaffiliated bank and proceeds from the issuances of subordinated debt, junior subordinated debentures and additional equity. Refer to Notes 11, 13, 15 and 23 of the Consolidated Financial Statements for further information on the Company's notes payable, subordinated note, junior subordinated debentures and shareholders' equity, respectively. Management is committed to maintaining the Company's capital levels above the Well Capitalized levels established by the Federal Reserve for bank holding companies.

On March 30, 2005, Wintrust consummated the partial settlement of the forward sale agreement the Company entered into on December 14, 2004 with Royal Bank of Canada, an affiliate of RBC Capital Markets Corporation, relating to the forward sale by Wintrust of 1.2 million shares of Wintrust's common stock. Pursuant to and in partial settlement of the forward sale agreement, Wintrust issued 1.0 million shares of its common stock, and received net proceeds of \$55.8 million from Royal Bank of Canada. Additionally, on December 14, 2005, Wintrust amended certain terms of the forward sale agreement for the purpose of extending the maturity date for the remaining 200,000 shares from December 17, 2005 to December 17,

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2006. In conjunction with the completion of the acquisition of HBI in May 2006, the forward sale agreement was fully settled with Wintrust issuing 200,000 shares of its common stock and receiving net proceeds of \$11.6 million. The Company issued 1,120,033 shares of common stock in May 2006 in connection with the acquisition of HBI.

Banking laws impose restrictions upon the amount of dividends that can be paid to the holding company by the Banks. Based on these laws, the Banks could, subject to minimum capital requirements, declare dividends to the Company without obtaining regulatory approval in an amount not exceeding (a) undivided profits, and (b) the amount of net income reduced by dividends paid for the current and prior two years. In addition, the payment of dividends may be restricted under certain financial covenants in the Company's revolving credit line agreement. At January 1, 2008, subject to minimum capital requirements at the Banks, approximately \$28.5 million was available as dividends from the Banks without prior regulatory approval. However, since the Banks are required to maintain their capital at the well-capitalized level (due to the Company being approved as a financial holding company), funds otherwise available as dividends from the Banks are limited to the amount that would not reduce any of the Banks' capital ratios below the well-capitalized level. At January 1, 2008, approximately \$17.0 million was available as dividends from the Banks without compromising the Banks' well-capitalized positions. During 2007, 2006 and 2005 the subsidiaries paid dividends to Wintrust totaling \$105.9 million, \$183.6 million and \$45.1 million, respectively.

The Company declared its first semi-annual cash dividend on its common stock in 2000 and has increased the dividend each year thereafter. The dividend payout ratio was 14.3% in 2007, 10.9% in 2006 and 8.7% in 2005. The Company continues to target an earnings retention ratio of approximately 85% to 90% to support continued growth. The \$0.32 cash dividend per share paid in 2007 represented a 14% increase over the \$0.28 cash dividend per share paid in 2006. Along those same lines, the semi-annual dividend of \$0.18 per share in January 2008 represents (on an annualized basis) \$0.36 per share, or a 13% increase over 2007.

In July 2006, the Company's Board of Directors authorized the repurchase of up to 2.0 million shares of the Company's outstanding common stock over 18 months. Through April 2007, the Company repurchased a total of approximately 1.8 million shares at an average price of \$45.74 per share under the July 2006 share repurchase plan. In April 2007, the Company's Board of Directors terminated the July 2006 authorization and authorized the repurchase of up to an additional 1.0 million shares of the Company's outstanding common stock over 12 months. The Company began to repurchase shares under the this authorization in July 2007 and repurchased all 1.0 million shares at an average price of \$37.57 per share during the third and fourth quarters of 2007. In January 2008, the Company's Board of Directors authorized the repurchase of up to an additional 1.0 million shares of the Company's outstanding common stock over the next 12 months.

Liquidity management at the Banks involves planning to meet anticipated funding needs at a reasonable cost. Liquidity management is guided by policies, formulated and monitored by the Company's senior management and each Bank's asset/liability committee, which take into account the marketability of assets, the sources and stability of funding and the level of unfunded commitments. The Banks' principal sources of funds are deposits, short-term borrowings and capital contributions from the holding company. In addition, the Banks are eligible to borrow under Federal Home Loan Bank advances and certain Banks are eligible to borrow at the Federal Reserve Bank Discount Window, another source of liquidity.

Core deposits are the most stable source of liquidity for community banks due to the nature of long-term relationships generally established with depositors and the security of deposit insurance provided by the FDIC. Core deposits are generally defined in the industry as total deposits less time deposits with balances greater than \$100,000.

Approximately 55% of the Company's total assets were funded by core deposits at the end of 2007 and 2006. The remaining assets were funded by other funding sources such as time deposits with balances in excess of \$100,000, borrowed funds and equity capital. Due to the affluent nature of many of the communities that the Company serves, management believes that many of its time deposits with balances in excess of \$100,000 are also a stable source of funds.

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. Net liquid assets represent the sum of the liquid asset categories less the amount of assets pledged to secure public funds. At December 31, 2007, net liquid assets totaled approximately

\$191.4 million, compared to approximately \$346.7 million at December 31, 2006.

The Banks routinely accept deposits from a variety of municipal entities. Typically, these municipal entities require that banks pledge marketable securities to collateralize these public deposits. At December 31, 2007 and 2006, the Banks had approximately \$780.8 million and \$910.1 million, respectively, of securities collateralizing such public deposits and other short-term borrowings. Deposits requiring pledged assets are not considered to be core deposits, and the assets that are pledged as collateral for these deposits are not deemed to be liquid assets.

The Company is not aware of any known trends, commitments, events, regulatory recommendations or uncertainties that would have any adverse effect on the Company's capital resources, operations or liquidity.

Table of Contents**CONTRACTUAL OBLIGATIONS, COMMITMENTS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ARRANGEMENTS**

The Company has various financial obligations, including contractual obligations and commitments, that may require future cash payments.

Contractual Obligations. The following table presents, as of December 31, 2007, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the Consolidated Financial Statements:

| | Note Reference | One Year or Less | Payments Due In | | | Total |
|---|----------------|--------------------|-----------------|----------------|----------------|------------------|
| | | | 1 - 3 Years | 3 - 5 Years | Over 5 Years | |
| <i>(in thousands)</i> | | | | | | |
| Deposits ⁽¹⁾ | 10 | \$6,743,086 | 519,731 | 208,424 | 296 | 7,471,537 |
| Notes payable | 11 | 59,700 | | | 1,000 | 60,700 |
| FHLB advances ^{(1) (2)} | 12 | 15,698 | 20,500 | 159,000 | 220,000 | 415,198 |
| Subordinated notes | 13 | 5,000 | 20,000 | 30,000 | 20,000 | 75,000 |
| Other borrowings | 14 | 200,057 | 21,877 | 32,500 | | 254,434 |
| Junior subordinated debentures ⁽¹⁾ | 15 | | | | 249,493 | 249,493 |
| Operating leases | 16 | 3,059 | 6,768 | 4,991 | 16,777 | 31,595 |
| Purchase obligations ⁽³⁾ | | 20,425 | 19,921 | 753 | 496 | 41,595 |
| Total | | \$7,047,025 | 608,797 | 435,668 | 508,062 | 8,599,552 |

(1) *Excludes basis adjustment for purchase accounting valuations.*

(2) *Certain advances provide the FHLB with call dates which are not reflected in the above table.*

(3) *Purchase obligations presented above primarily relate to certain contractual obligations for services related*

to the construction of facilities, data processing and the outsourcing of certain operational activities.

The Company also enters into derivative contracts under which the Company is required to either receive cash from or pay cash to counterparties depending on changes in interest rates. Derivative contracts are carried at fair value representing the net present value of expected future cash receipts or payments based on market rates as of the balance sheet date. Because the derivative liabilities recorded on the balance sheet at December 31, 2007 do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above.

Commitments. The following table presents a summary of the amounts and expected maturities of significant commitments as of December 31, 2007. Further information on these commitments is included in Note 20 of the Consolidated Financial Statements.

| | One Year or Less | 1 - 3 Years | 3 - 5 Years | Over 5 Years | Total |
|---|-----------------------|----------------|----------------|-----------------|-----------|
| | <i>(in thousands)</i> | | | | |
| <i>Commitment type:</i> | | | | | |
| Commercial, commercial real estate and construction | \$1,201,230 | 334,497 | 171,812 | 144,699 | 1,852,238 |
| Residential real estate | 113,640 | | | | 113,640 |
| Revolving home equity lines of credit | 878,102 | | | | 878,102 |
| Letters of credit | 104,103 | 65,434 | 3,643 | 39 | 173,219 |
| Commitments to sell mortgage loans | 218,913 | | | | 218,913 |

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Contingent Liabilities. In connection with the sale of premium finance receivables, the Company continues to service the receivables and maintains a recourse obligation to the purchasers should the underlying borrowers default on their obligations. The estimated recourse obligation is taken into account in recording the sale, effectively reducing the gain recognized. As of December 31, 2007, outstanding premium finance receivables sold to and serviced for third parties for which the Company has a recourse obligation were \$219.9 million and the estimated recourse obligation was \$179,000 and included in other liabilities on the balance sheet. Please refer to the Consolidated Results of Operations section of this report for further discussion of these loan sales.

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. On occasion, 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. Upon completion of its own investigation, the Company generally repurchases or provides indemnification on certain loans. Indemnification requests are generally received within two years subsequent to sale. 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. At December 31, 2007 the liability for estimated losses on repurchase and indemnification was \$1.9 million and was included in other liabilities on the balance sheet.

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Table of Contents*Consolidated Financial Statements***WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION***(In thousands, except share data)*

| | December 31, | |
|---|---------------------|-------------|
| | 2007 | 2006 |
| Assets | | |
| Cash and due from banks | \$ 170,190 | 169,071 |
| Federal funds sold and securities purchased under resale agreements | 90,964 | 136,221 |
| Interest bearing deposits with banks | 10,410 | 19,259 |
| Available-for-sale securities, at fair value | 1,303,837 | 1,839,716 |
| Trading account securities | 1,571 | 2,324 |
| Brokerage customer receivables | 24,206 | 24,040 |
| Mortgage loans held-for-sale | 109,552 | 148,331 |
| Loans, net of unearned income | 6,801,602 | 6,496,480 |
| Less: Allowance for loan losses | 50,389 | 46,055 |
| Net loans | 6,751,213 | 6,450,425 |
| Premises and equipment, net | 339,297 | 311,041 |
| Accrued interest receivable and other assets | 273,678 | 180,889 |
| Goodwill | 276,204 | 268,936 |
| Other intangible assets | 17,737 | 21,599 |
| Total assets | \$9,368,859 | 9,571,852 |
| Liabilities and Shareholders Equity | | |
| Deposits: | | |
| Non-interest bearing | \$ 664,264 | 699,203 |
| Interest bearing | 6,807,177 | 7,170,037 |
| Total deposits | 7,471,441 | 7,869,240 |
| Notes payable | 60,700 | 12,750 |
| Federal Home Loan Bank advances | 415,183 | 325,531 |
| Other borrowings | 254,434 | 162,072 |
| Subordinated notes | 75,000 | 75,000 |
| Junior subordinated debentures | 249,662 | 249,828 |
| Accrued interest payable and other liabilities | 102,884 | 104,085 |
| Total liabilities | 8,629,304 | 8,798,506 |

Shareholders' equity:

Preferred stock, no par value; 20,000,000 shares authorized, no shares issued and outstanding

Common stock, no par value; \$1.00 stated value; 60,000,000 shares authorized; 26,281,296 and 25,802,024 shares issued at December 31, 2007

and 2006, respectively

Surplus

Treasury stock, at cost, 2,850,806 and 344,089 shares at December 31, 2007 and 2006, respectively

Common stock warrants

Retained earnings

Accumulated other comprehensive loss

| | |
|------------------|----------|
| 26,281 | 25,802 |
| 539,127 | 519,233 |
| (122,196) | (16,343) |
| 459 | 681 |
| 309,556 | 261,734 |
| (13,672) | (17,761) |

Total shareholders' equity

| | |
|----------------|---------|
| 739,555 | 773,346 |
|----------------|---------|

Total liabilities and shareholders' equity

| | |
|--------------------|-----------|
| \$9,368,859 | 9,571,852 |
|--------------------|-----------|

See accompanying Notes to Consolidated Financial Statements

Table of Contents**WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME***(In thousands, except per share data)*

| | Years Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Interest income | | | |
| Interest and fees on loans | \$525,610 | 456,384 | 335,391 |
| Interest bearing deposits with banks | 841 | 651 | 279 |
| Federal funds sold and securities purchased under resale agreements | 3,774 | 5,393 | 3,485 |
| Securities | 79,402 | 93,398 | 66,555 |
| Trading account securities | 55 | 51 | 68 |
| Brokerage customer receivables | 1,875 | 2,068 | 1,258 |
| Total interest income | 611,557 | 557,945 | 407,036 |
| Interest expense | | | |
| Interest on deposits | 294,914 | 265,729 | 156,252 |
| Interest on Federal Home Loan Bank advances | 17,558 | 14,675 | 11,912 |
| Interest on notes payable and other borrowings | 13,794 | 5,638 | 4,178 |
| Interest on subordinated notes | 5,181 | 4,695 | 2,829 |
| Interest on junior subordinated debentures | 18,560 | 18,322 | 15,106 |
| Total interest expense | 350,007 | 309,059 | 190,277 |
| Net interest income | 261,550 | 248,886 | 216,759 |
| Provision for credit losses | 14,879 | 7,057 | 6,676 |
| Net interest income after provision for credit losses | 246,671 | 241,829 | 210,083 |
| Non-interest income | | | |
| Wealth management | 31,341 | 31,720 | 30,008 |
| Mortgage banking | 14,888 | 22,341 | 25,913 |
| Service charges on deposit accounts | 8,386 | 7,146 | 5,983 |
| Gain on sales of premium finance receivables | 2,040 | 2,883 | 6,499 |
| Administrative services | 4,006 | 4,598 | 4,539 |
| Fees from covered call options | 2,628 | 3,157 | 11,434 |
| Gains on available-for-sale securities, net | 2,997 | 17 | 1,063 |
| Other | 13,802 | 19,370 | 8,118 |
| Total non-interest income | 80,088 | 91,232 | 93,557 |
| Non-interest expense | | | |
| Salaries and employee benefits | 141,816 | 137,008 | 118,071 |
| Equipment | 15,363 | 13,529 | 11,779 |
| Occupancy, net | 21,987 | 19,807 | 16,176 |

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| | | | |
|--|------------------|---------|---------|
| Data processing | 10,420 | 8,493 | 7,129 |
| Advertising and marketing | 5,318 | 5,074 | 4,970 |
| Professional fees | 7,090 | 6,172 | 5,609 |
| Amortization of other intangible assets | 3,861 | 3,938 | 3,394 |
| Other | 37,080 | 34,799 | 31,562 |
| Total non-interest expense | 242,935 | 228,820 | 198,690 |
| Income before income taxes | 83,824 | 104,241 | 104,950 |
| Income tax expense | 28,171 | 37,748 | 37,934 |
| Net income | \$ 55,653 | 66,493 | 67,016 |
| Net income per common share Basic | \$ 2.31 | 2.66 | 2.89 |
| Net income per common share Diluted | \$ 2.24 | 2.56 | 2.75 |

See accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY***(In thousands, except share data)*

| | Compre- hensive income (loss) | Common stock | Surplus | Treasury stock | Common stock warrants | Retained earnings | Accumulated other comprehensive income (loss) | Total shareholders equity |
|--|--|-----------------|---------|-------------------|-----------------------------|----------------------|---|---------------------------------|
| Balance at December 31, 2004 | | \$ 21,729 | 319,147 | | 828 | 139,566 | (7,358) | 473,912 |
| Comprehensive income: | | | | | | | | |
| Net income | \$ 67,016 | | | | | 67,016 | | 67,016 |
| Other comprehensive loss, net of tax: | | | | | | | | |
| Unrealized losses on securities, net of reclassification adjustment | (11,081) | | | | | | (11,081) | (11,081) |
| Unrealized gains on derivative instruments | 106 | | | | | | 106 | 106 |
| Comprehensive Income | 56,041 | | | | | | | |
| Cash dividends declared on common stock | | | | | | (5,449) | | (5,449) |
| Common stock issued for: | | | | | | | | |
| New issuance, net of costs | | 1,000 | 54,845 | | | | | 55,845 |
| Business combinations | | 601 | 29,986 | | | | | 30,587 |
| Exercise of stock options | | 461 | 12,692 | | | | | 13,153 |
| Restricted stock awards | | 19 | 832 | | | | | 851 |
| Employee stock purchase plan | | 35 | 1,679 | | | | | 1,714 |
| Exercise of common stock warrants | | 89 | 935 | | (84) | | | 940 |

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| | | | | | | | |
|---|---------|-----------|---------|----------|---------|----------|----------|
| Director compensation plan | | 7 | 310 | | | | 317 |
| Balance at December 31, 2005 | | \$ 23,941 | 420,426 | 744 | 201,133 | (18,333) | 627,911 |
| Comprehensive income: | | | | | | | |
| Net income | 66,493 | | | | 66,493 | | 66,493 |
| Other comprehensive income, net of tax: | | | | | | | |
| Unrealized gains on securities, net of reclassification adjustment | 2,051 | | | | | 2,051 | 2,051 |
| Unrealized losses on derivative instruments | (1,479) | | | | | (1,479) | (1,479) |
| Comprehensive Income | 67,065 | | | | | | |
| Cash dividends declared on common stock | | | | | (6,961) | | (6,961) |
| Common stock repurchases | | | | (16,343) | | | (16,343) |
| Cumulative effect of change in accounting for mortgage servicing rights | | | | | 1,069 | | 1,069 |
| Stock-based compensation | | | 17,282 | | | | 17,282 |
| Common stock issued for: | | | | | | | |
| New issuance, net of costs | 200 | 11,384 | | | | | 11,584 |
| Business combinations | 1,123 | 55,965 | | | | | 57,088 |
| Exercise of stock options | 401 | 11,317 | | | | | 11,718 |
| Restricted stock awards | 73 | (135) | | | | | (62) |
| Employee stock purchase plan | 37 | 1,949 | | | | | 1,986 |
| Exercise of common stock warrants | 14 | 476 | | (63) | | | 427 |
| | 13 | 569 | | | | | 582 |

Director
compensation plan

| | | | | | | | |
|---|------------------|----------------|------------------|--------------|----------------|-----------------|------------------|
| Balance at December 31, 2006 | \$ 25,802 | 519,233 | (16,343) | 681 | 261,734 | (17,761) | 773,346 |
| Comprehensive income: | | | | | | | |
| Net income | 55,653 | | | | 55,653 | | 55,653 |
| Other comprehensive income, net of tax: | | | | | | | |
| Unrealized gains on securities, net of reclassification adjustment | 8,185 | | | | | 8,185 | 8,185 |
| Unrealized losses on derivative instruments | (4,096) | | | | | (4,096) | (4,096) |
| Comprehensive Income | \$ 59,742 | | | | | | |
| Cash dividends declared on common stock | | | | | (7,831) | | (7,831) |
| Common stock repurchases | | | (105,853) | | | | (105,853) |
| Stock-based compensation | | 10,846 | | | | | 10,846 |
| Common stock issued for: | | | | | | | |
| Exercise of stock options | 298 | 6,518 | | | | | 6,816 |
| Restricted stock awards | 112 | (472) | | | | | (360) |
| Employee stock purchase plan | 39 | 1,652 | | | | | 1,691 |
| Exercise of common stock warrants | 14 | 634 | | (222) | | | 426 |
| Director compensation plan | 16 | 716 | | | | | 732 |
| Balance at December 31, 2007 | \$ 26,281 | 539,127 | (122,196) | 459 | 309,556 | (13,672) | 739,555 |

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS***(In thousands)*

| | Years Ended December 31, | | |
|---|---------------------------------|---------------|----------------|
| | 2007 | 2006 | 2005 |
| Operating Activities: | | | |
| Net income | \$ 55,653 | 66,493 | 67,016 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for credit losses | 14,879 | 7,057 | 6,676 |
| Depreciation and amortization | 20,010 | 17,622 | 14,113 |
| Deferred income tax (benefit) expense | (4,837) | (1,207) | 345 |
| Stock-based compensation | 10,845 | 12,159 | 4,450 |
| Tax benefit from stock-based compensation arrangements | 2,024 | 5,281 | 7,038 |
| Excess tax benefits from stock-based compensation arrangements | (2,623) | (4,565) | |
| Net amortization (accretion) of premium on securities | 618 | (1,136) | 2,638 |
| Fair market value change of interest rate swaps | | (1,809) | 1,809 |
| Mortgage servicing rights fair value change and amortization, net | 1,030 | 905 | 1,423 |
| Originations and purchases of mortgage loans held-for-sale | (1,949,742) | (1,971,894) | (2,196,638) |
| Proceeds from sales of mortgage loans held-for-sale | 1,997,445 | 1,922,284 | 2,227,636 |
| Bank owned life insurance, net of claims | (3,521) | (2,948) | (2,431) |
| Gain on sales of premium finance receivables | (2,040) | (2,883) | (6,499) |
| Decrease (increase) in trading securities, net | 753 | (714) | 1,989 |
| Net (increase) decrease in brokerage customer receivables | (166) | 3,860 | 3,947 |
| Gain on mortgage loans sold | (12,341) | (12,736) | (10,054) |
| Gain on available-for-sale securities, net | (2,997) | (17) | (1,063) |
| (Gain) loss on sales of premises and equipment, net | (2,529) | (14) | 40 |
| Increase in accrued interest receivable and other assets, net | (1,589) | (7,867) | (5,140) |
| (Decrease) increase in accrued interest payable and other liabilities, net | (5,496) | 13,521 | (389) |
| Net Cash Provided by Operating Activities | 115,376 | 41,392 | 116,906 |
| Investing Activities: | | | |
| Proceeds from maturities of available-for-sale securities | 801,547 | 857,199 | 384,840 |
| Proceeds from sales of available-for-sale securities | 252,706 | 372,613 | 1,068,470 |
| Purchases of available-for-sale securities | (586,817) | (1,069,596) | (1,827,642) |
| Proceeds from sales of premium finance receivables | 229,994 | 302,882 | 561,802 |
| Net cash paid for acquisitions | (11,594) | (51,070) | (79,222) |
| Net decrease (increase) in interest bearing deposits with banks | 8,849 | (6,819) | (7,191) |
| Net increase in loans | (487,676) | (1,211,300) | (1,007,090) |
| Redemptions of Bank Owned Life Insurance | 1,306 | | |
| Purchases of premises and equipment, net | (42,829) | (64,824) | (47,006) |

| | | | |
|---|-------------------|-----------|-----------|
| Net Cash Provided by (Used for) Investing Activities | 165,486 | (870,915) | (953,039) |
| Financing Activities: | | | |
| (Decrease) increase in deposit accounts | (397,938) | 717,044 | 1,038,247 |
| Increase (decrease) in other borrowings, net | 39,801 | 63,476 | (133,755) |
| Increase (decrease) in notes payable, net | 47,950 | 11,750 | (5,000) |
| Increase (decrease) in Federal Home Loan Bank advances, net | 89,698 | (36,080) | 22,815 |
| Net proceeds from issuance of junior subordinated debentures | | 50,000 | 40,000 |
| Redemption of junior subordinated debentures, net | | (31,050) | (20,000) |
| Proceeds from issuance of subordinated note | | 25,000 | |
| Repayment of subordinated note | | (8,000) | |
| Excess tax benefits from stock-based compensation arrangements | 2,623 | 4,565 | |
| Issuance of common stock, net of issuance costs | | 11,584 | 55,845 |
| Issuance of common stock resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants | 6,550 | 8,465 | 8,769 |
| Treasury stock purchases | (105,853) | (16,343) | |
| Dividends paid | (7,831) | (6,961) | (5,449) |
| Net Cash (Used for) Provided by Financing Activities | (325,000) | 793,450 | 1,001,472 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (44,138) | (36,073) | 165,339 |
| Cash and Cash Equivalents at Beginning of Year | 305,292 | 341,365 | 176,026 |
| Cash and Cash Equivalents at End of Year | \$ 261,154 | 305,292 | 341,365 |
| Supplemental Disclosures of Cash Flow Information: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 351,795 | 304,088 | 183,804 |
| Income taxes, net | 30,992 | 33,281 | 28,618 |
| Acquisitions: | | | |
| Fair value of assets acquired, including cash and cash equivalents | 59,683 | 483,723 | 707,406 |
| Value ascribed to goodwill and other intangible assets | 7,221 | 79,832 | 92,597 |
| Fair value of liabilities assumed | 53,095 | 448,409 | 660,452 |
| Non-cash activities | | | |
| Common stock issued for acquisitions | | 57,088 | 30,587 |
| Transfer to other real estate owned from loans | 5,427 | 2,439 | 1,456 |
| Loans transferred from held-for-sale to portfolio | 3,419 | | |

See accompanying Notes to Consolidated Financial Statements.

Table of Contents***Notes to Consolidated Financial Statements*****Description of the Business**

Wintrust Financial Corporation (Wintrust or the Company) is a financial holding company currently engaged in the business of providing traditional community banking services to customers in the Chicago metropolitan area and southern Wisconsin. Additionally, the Company operates various non-bank subsidiaries.

Wintrust has 15 wholly-owned bank subsidiaries (collectively, the Banks), nine of which the Company started as *de novo* institutions, including Lake Forest Bank & Trust Company (Lake Forest Bank), Hinsdale Bank & Trust Company (Hinsdale Bank), North Shore Community Bank & Trust Company (North Shore Bank), Libertyville Bank & Trust Company (Libertyville Bank), Barrington Bank & Trust Company, N.A. (Barrington Bank), Crystal Lake Bank & Trust Company, N.A. (Crystal Lake Bank), Northbrook Bank & Trust Company (Northbrook Bank), Beverly Bank & Trust Company, N.A. (Beverly Bank) and Old Plank Trail Community Bank, N.A. (Old Plank Trail Bank). The Company acquired Advantage National Bank (Advantage Bank) in October 2003, Village Bank & Trust (Village Bank) in December 2003, Northview Bank & Trust (Northview Bank) in September 2004, Town Bank in October 2004, State Bank of The Lakes in January 2005, First Northwest Bank in March 2005 and Hinsbrook Bank and Trust (Hinsbrook Bank) in May 2006. In December 2004, Northview Bank's Wheaton branch became its main office, it was renamed Wheaton Bank & Trust (Wheaton Bank) and its two Northfield locations became branches of Northbrook Bank and its Mundelein location became a branch of Libertyville Bank. In May 2005, First Northwest Bank was merged into Village Bank. In November 2006, Hinsbrook Bank's Geneva branch was renamed St. Charles Bank & Trust (St. Charles Bank), its Willowbrook, Downers Grove and Darien locations became branches of Hinsdale Bank and its Glen Ellyn location became a branch of Wheaton Bank.

The Company provides, on a national basis, loans to businesses to finance insurance premiums on their commercial insurance policies (premium finance receivables) through First Insurance Funding Corporation (FIFC). FIFC is a wholly-owned subsidiary of Crabtree Capital Corporation (Crabtree) which is a wholly-owned subsidiary of Lake Forest Bank.

In November 2007, the Company acquired Broadway Premium Funding Corporation (Broadway). Broadway also provides loans to businesses to finance insurance premiums, mainly through insurance agents and brokers in the northeastern portion of the United States and California. Broadway is a wholly-owned subsidiary of FIFC.

Wintrust, through Tricom, Inc. of Milwaukee (Tricom), provides high-yielding short-term accounts receivable financing (Tricom finance receivables) and value-added out-sourced administrative services, such as data processing of payrolls, billing and cash management services, to the temporary staffing industry, with clients located throughout the United States. Tricom is a wholly-owned subsidiary of Hinsdale Bank.

The Company provides a full range of wealth management services through its trust, asset management and broker-dealer subsidiaries. Trust and investment services are provided at the Banks through the Company's wholly-owned subsidiary, Wayne Hummer Trust Company, N.A. (WHTC), a *de novo* company started in 1998. Wayne Hummer Investments, LLC (WHI) is a broker-dealer providing a full range of private client and securities brokerage services to clients located primarily in the Midwest. WHI has office locations staffed by one or more registered financial advisors in a majority of the Company's Banks. WHI also provides a full range of investment services to individuals through a network of relationships with community-based financial institutions primarily in Illinois. WHI is a wholly-owned subsidiary of North Shore Bank. Focused Investments LLC was a wholly-owned subsidiary of WHI and was merged into WHI in December 2006. Wayne Hummer Asset Management Company (WHAMC) provides money management services and advisory services to individuals, institutions and municipal and tax-exempt organizations, in addition to portfolio management and financial supervision for a wide range of pension and profit-sharing plans. WHAMC is a wholly-owned subsidiary of Wintrust. WHI, WHAMC and Focused were acquired in 2002, and are collectively referred to as the Wayne Hummer Companies . In February 2003, the Company acquired Lake Forest Capital Management (LFCM), a registered investment advisor, which was merged into WHAMC.

In May 2004, the Company acquired SGB Corporation d/b/a WestAmerica Mortgage Company (WestAmerica) and its affiliate, Guardian Real Estate Services, Inc. (Guardian). WestAmerica engages primarily in the origination and

purchase of residential mortgages for sale into the secondary market, and Guardian provides document preparation and other loan closing services to WestAmerica and a network of mortgage brokers. WestAmerica maintains principal origination offices in nine states, including Illinois, and originates loans in other states through wholesale and correspondent offices. WestAmerica and Guardian are wholly-owned subsidiaries of Barrington Bank. Wintrust Information Technology Services Company (WITS) provides information technology support, item capture, imaging and statement preparation services to the Wintrust subsidiaries and is a wholly-owned subsidiary of Wintrust.

Table of Contents**(1) Summary of Significant Accounting Policies**

The accounting and reporting policies of Wintrust and its subsidiaries conform to generally accepted accounting principles (GAAP) in the United States and prevailing practices of the banking industry. In the preparation of the consolidated financial statements, management is required to make certain estimates and assumptions that affect the reported amounts contained in the consolidated financial statements. Management believes that the estimates made are reasonable; however, changes in estimates may be required if economic or other conditions change beyond management s expectations. Reclassifications of certain prior year amounts have been made to conform to the current year presentation. The following is a summary of the Company s more significant accounting policies.

Principles of Consolidation

The consolidated financial statements of Wintrust include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Business Combinations

Business combinations are accounted for by the purchase method of accounting. Under the purchase method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the income statement from the effective date of acquisition.

Cash Equivalents

For purposes of the consolidated statements of cash flows, Win-trust considers cash on hand, cash items in the process of collection, non-interest bearing amounts due from correspondent banks, federal funds sold and securities purchased under resale agreements with original maturities of three months or less, to be cash equivalents.

Securities

The Company classifies securities upon purchase in one of three categories: trading, held-to-maturity, or available-for-sale. Trading securities are bought principally for the purpose of selling them in the near term. Held-to-maturity securities are those debt securities in which the Company has the ability and positive intent to hold until maturity. All other securities are currently classified as available-for-sale as they may be sold prior to maturity. Held-to-maturity securities are stated at amortized cost, which represents actual cost adjusted for premium amortization and discount accretion using methods that approximate the effective interest method. Available-for-sale securities are stated at fair value. Unrealized gains and losses on available-for-sale securities, net of related taxes, are included as accumulated other comprehensive income and reported as a separate component of shareholders equity. Trading account securities are stated at fair value. Realized and unrealized gains and losses from sales and fair value adjustments are included in other non-interest income.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed other than temporary is charged to earnings, resulting in the establishment of a new cost basis for the security. Interest and dividends, including amortization of premiums and accretion of discounts, are recognized as interest income when earned. Realized gains and losses for securities classified as available-for-sale are included in non-interest income and are derived using the specific identification method for determining the cost of securities sold.

Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest. Securities, generally U.S. government and Federal agency securities, pledged as collateral under these financing arrangements cannot be sold by the secured party. The fair value of collateral either received from or provided to a third party is monitored and additional collateral is obtained or requested to be returned as deemed

appropriate.

Brokerage Customer Receivables

The Company, under an agreement with an out-sourced securities clearing firm, extends credit to its brokerage customers to finance their purchases of securities on margin. The Company receives income from interest charged on such extensions of credit. Brokerage customer receivables represent amounts due on margin balances. Securities owned by customers are held as collateral for these receivables.

Table of Contents*Mortgage Loans Held-for-Sale*

Mortgage loans are classified as held-for-sale when originated or acquired with the intent to sell the loan into the secondary market. Market conditions or other developments may change management's intent with respect to the disposition of these loans and loans previously classified as mortgage loans held-for-sale may be reclassified to the loan portfolio. Loans that are transferred between mortgage loans held-for-sale and the loan portfolio are recorded at the lower of cost or market at the date of transfer.

Mortgage loans held-for-sale are carried at the lower of cost or market applied on an aggregate basis by loan type. Fair value is based on either quoted prices for the same or similar loans or values obtained from third parties. Charges related to adjustments to record the loans at fair value are recognized in mortgage banking revenue. When these loans are sold, the loans are removed from the balance sheet and a gain or loss is recognized in mortgage banking revenue.

Loans, Allowance for Loan Losses and Allowance for Losses on Lending-Related Commitments

Loans, which include premium finance receivables, Tricom finance receivables and lease financing, are generally reported at the principal amount outstanding, net of unearned income. Interest income is recognized when earned. Loan origination fees and certain direct origination costs are deferred and amortized over the expected life of the loan as an adjustment to the yield using methods that approximate the effective interest method. Finance charges on premium finance receivables are earned over the term of the loan based on actual funds outstanding, beginning with the funding date, using a method which approximates the effective yield method.

Interest income is not accrued on loans where management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations, or where interest or principal is 90 days or more past due, unless the loans are adequately secured and in the process of collection. Cash receipts on non-accrual loans are generally applied to the principal balance until the remaining balance is considered collectible, at which time interest income may be recognized when received.

The Company allocates the allowance for loan losses to specific loan portfolio groups and maintains its allowance for loan losses at a level believed adequate by management to absorb probable losses inherent in the loan portfolio. The allowance for loan losses is based on the size and current risk characteristics of the loan portfolio, an assessment of Problem Loan Report loans and actual loss experience, changes in the composition of the loan portfolio, historical loss experience, changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices, changes in the experience, ability and depth of lending management and staff, changes in national and local economic and business conditions and developments, including the condition of various market segments and changes in the volume and severity of past due and classified loans and trends in the volume of non-accrual loans, troubled debt restructurings and other loan modifications. The allowance for loan losses also includes an element for estimated probable but undetected losses and for imprecision in the credit risk models used to calculate the allowance. The Company reviews Problem Loan Report loans on a case-by-case basis to allocate a specific dollar amount of allowance, whereas all other loans are reserved for based on assigned allowance percentages evaluated by loan groupings. The loan groupings utilized by the Company are commercial and commercial real estate, residential real estate, home equity, premium finance receivables, indirect consumer, Tricom finance receivables and consumer. 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 historical loss experience, and consideration of current environmental factors and economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more frequently if deemed necessary.

In accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 03-3,

Accounting for Certain Loans or Debt Securities Acquired in a Transfer, loans acquired after January 1, 2005, including debt securities, are recorded at the amount of the Company's initial investment and no valuation allowance is carried over from the seller for individually-evaluated loans that have evidence of deterioration in credit quality since origination, and for which it is probable all contractual cash flows on the loan will be unable to be collected. Also, the

excess of all undiscounted cash flows expected to be collected at acquisition over the purchaser's initial investment are recognized as interest income on a level-yield basis over the life of the loan. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life, while subsequent decreases are recognized as impairment. Loans carried at fair value, mortgage loans held-for-sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of SOP 03-3. In estimating expected losses, the Company evaluates loans for impairment in accordance with Statement of Financial Accounting Standard (SFAS) 114, Accounting by Creditors for Impairment of a Loan. A loan is considered impaired when, based on current information and events, it is probable that a

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creditor will be unable to collect all amounts due pursuant to the contractual terms of the loan. Impaired loans are generally considered by the Company to be commercial and commercial real estate loans that are non-accrual loans, restructured loans or loans with principal and/or interest at risk, even if the loan is current with all payments of principal and interest. 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 less costs to sell. If the estimated fair value of the loan is less than the recorded book value, a valuation allowance is established as a component of the allowance for loan losses.

The Company also maintains an allowance for lending-related commitments, specifically unfunded loan commitments and letters of credit, to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses. This allowance is included in other liabilities on the statement of condition while the corresponding provision for these losses is recorded as a component of the provision for credit losses.

Mortgage Servicing Rights

The Company originates mortgage loans for sale to the secondary market, the majority of which are sold without retaining servicing rights. There are certain loans, however, that are originated and sold to governmental agencies, with servicing rights retained. Mortgage servicing rights (MSR) associated with loans originated and sold, where servicing is retained, are capitalized at the time of sale at fair value based on the future net cash flows expected to be realized for performing the servicing activities, and included in other assets in the consolidated statements of condition. The change in MSR fair value is recorded as a component of mortgage banking revenue in non-interest income in the consolidated statements of income. For purposes of measuring fair value, a third party valuation is obtained. This valuation 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. Estimates of fair value include assumptions about prepayment speeds, interest rates and other factors which are subject to change over time. Changes in these underlying assumptions could cause the fair value of mortgage servicing rights to change significantly in the future. Prior to the adoption of SFAS 156, Accounting for the Servicing of Financial Assets An Amendment of FASB Statement No. 140 (SFAS 156) on January 1, 2006, the capitalized value of mortgage servicing rights was carried at the lower of the initial carrying value, adjusted for amortization, or estimated fair value.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Useful lives range from two to ten years for furniture, fixtures and equipment, two to five years for software and computer-related equipment and seven to 39 years for buildings and improvements. Land improvements are amortized over a period of 15 years and leasehold improvements are amortized over the shorter of the useful life of the improvement or the term of the respective lease. Land and antique furnishings and artwork are not subject to depreciation. Expenditures for major additions and improvements are capitalized, and maintenance and repairs are charged to expense as incurred. Internal costs related to the configuration and installation of new software and the modification of existing software that provides additional functionality are capitalized.

Long-lived depreciable assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of a long-lived asset are less than its carrying value. In that event, a loss is recognized for the difference between the carrying value and the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis. Impairment losses are recognized in other non-interest expense.

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 income or expense, as appropriate. At December 31, 2007 and 2006, other real estate owned totaled \$3.9 million and \$572,000, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. In accordance with SFAS 142,

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Goodwill and Other Intangible Assets, goodwill is not amortized, but rather is tested for impairment on an annual basis or more frequently when events warrant. Intangible assets which have finite lives are amortized over their estimated useful lives and also are subject to impairment testing. All of the Company's other intangible assets have finite lives and are amortized over varying periods not exceeding ten years.

Bank-Owned Life Insurance

The Company owns bank-owned life insurance (BOLI) on certain executives. BOLI balances are recorded at their cash surrender values and are included in other assets. Changes in the cash surrender values are included in non-interest income. At December 31, 2007 and 2006, BOLI totaled \$84.7 million and \$82.1 million, respectively.

Derivative Instruments

The Company enters into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the future cash flows or the value of certain assets and liabilities. The Company is also required to recognize certain contracts and commitments, including certain commitments to fund mortgage loans held-for-sale, as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative. The Company accounts for derivatives in accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which requires that all derivative instruments be recorded in the statement of condition at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset or liability attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Formal documentation of the relationship between a derivative instrument and a hedged asset or liability, as well as the risk-management objective and strategy for undertaking each hedge transaction and an assessment of effectiveness is required at inception to apply hedge accounting. In addition, formal documentation of ongoing effectiveness testing is required to maintain hedge accounting.

Fair value hedges are accounted for by recording the fair value of the derivative instrument and the fair value related to the risk being hedged of the hedged asset or liability on the statement of condition with corresponding offsets recorded in the income statement. The adjustment to the hedged asset or liability is included in the basis of the hedged item, while the fair value of the derivative is recorded as a freestanding asset or liability. Actual cash receipts or payments and related amounts accrued during the period on derivatives included in a fair value hedge relationship are recorded as adjustments to the interest income or expense recorded on the hedged asset or liability.

Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the statement of condition as either a freestanding asset or liability, with a corresponding offset recorded in other comprehensive income within shareholders' equity, net of deferred taxes. Amounts are reclassified from other comprehensive income to interest expense in the period or periods the hedged forecasted transaction affects earnings.

Under both the fair value and cash flow hedge scenarios, changes in the fair value of derivatives not considered to be highly effective in hedging the change in fair value or the expected cash flows of the hedged item are recognized in earnings as non-interest income during the period of the change.

Derivative instruments that do not qualify as hedges pursuant to SFAS 133 are reported on the statement of condition at fair value and the changes in fair value are recognized in earnings as non-interest income during the period of the change.

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as derivatives not qualifying for hedge accounting. Fair values of these mortgage derivatives are estimated based on changes in mortgage rates from the date of the commitments. Changes in the fair values of these derivatives are included in mortgage banking revenue.

Periodically, the Company sells options to an unrelated bank or dealer for the right to purchase certain securities held within the Banks' investment portfolios. These option transactions are designed primarily to increase the total return associated with holding these securities as earning assets. These transactions do not qualify as hedges pursuant to

SFAS 133 and, accordingly, changes in fair values of these contracts, are reported in other non-interest income. There were no covered call option contracts outstanding as of December 31, 2007 or 2006.

Junior Subordinated Debentures Offering Costs

In connection with the Company's currently outstanding junior subordinated debentures, approximately \$726,000 of offering costs were incurred, including underwriting fees, legal and professional fees, and other costs. These costs are included in other assets and are being amortized as an adjustment to interest expense using a method that approximates the effective interest method. As of December 31, 2007, the unamortized balance of these costs was approximately \$384,000. See Note 15 for further information about the junior subordinated debentures.

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Trust Assets, Assets Under Management and Brokerage Assets

Assets held in fiduciary or agency capacity for customers are not included in the consolidated financial statements as they are not assets of Wintrust or its subsidiaries. Fee income is recognized on an accrual basis and is included as a component of non-interest income.

Administrative Services Revenue

Administrative services revenue is recognized as services are performed, in accordance with the accrual method of accounting. These services include providing data processing of payrolls, billing and cash management services to Tricom's clients in the temporary staffing services industry.

Income Taxes

Wintrust and its subsidiaries file a consolidated Federal income tax return. Income tax expense is based upon income in the consolidated financial statements rather than amounts reported on the income tax return. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as an income tax benefit or income tax expense in the period that includes the enactment date.

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. In accordance with FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes, which the Company adopted effective January 1, 2007, uncertain tax positions are initially recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Interest and penalties on income tax uncertainties are classified within income tax expense in the income statement.

Stock-Based Compensation Plans

On January 1, 2006, the Company adopted provisions of FASB Statement No. 123(R), Share-Based Payment (SFAS 123R), using the modified prospective transition method. Under this transition method, compensation cost is recognized in the financial statements beginning January 1, 2006, based on the requirements of SFAS 123R for all share-based payments granted after that date and based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, Accounting for Stock-Based Compensation for all share-based payments granted prior to, but not yet vested as of December 31, 2005. Results for prior periods have not been restated.

Prior to 2006, the Company accounted for stock-based compensation using the intrinsic value method set forth in APB 25, as permitted by SFAS 123. The intrinsic value method provides that compensation expense for employee stock options is generally not recognized if the exercise price of the option equals or exceeds the fair value of the stock on the date of grant. As a result, for periods prior to 2006, compensation expense was generally not recognized in the Consolidated Statements of Income for stock options. Compensation expense has always been recognized for restricted share awards. On January 1, 2006, the Company reclassified \$5.2 million of liabilities related to previously recognized compensation cost for restricted share awards that had not been vested as of that date to surplus as these awards represented equity awards as defined in SFAS 123R.

Compensation cost is measured as the fair value of the awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options and the market price of the Company's stock at the date of grant is used to estimate the fair value of restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

SFAS 123R requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation expense is reduced for estimated forfeitures prior to vesting primarily based on historical forfeiture data. Estimated forfeitures are reassessed in subsequent periods and

may change based on new facts and circumstances. Prior to January 1, 2006, actual forfeitures were accounted for as they occurred for purposes of required pro forma stock compensation disclosures.

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The Company issues new shares to satisfy option exercises and vesting of restricted shares.

The following table reflects the Company's pro forma net income and earnings per share as if compensation expense for the Company's stock options, determined based on the fair value at the date of grant consistent with the method of SFAS 123, had been included in the determination of the Company's net income for the year ended December 31, 2005 (in thousands, except per share data):

| | Year Ended December 31, 2005 |
|---|------------------------------------|
| Net income: | |
| As reported | \$ 67,016 |
| Compensation cost of stock options based on fair value, net of related tax effect | (3,313) |
| Pro forma | \$ 63,703 |
| Earnings per share Basic: | |
| As reported | \$ 2.89 |
| Compensation cost of stock options based on fair value, net of related tax effect | (0.14) |
| Pro forma | \$ 2.75 |
| Earnings per share Diluted: | |
| As reported | \$ 2.75 |
| Compensation cost of stock options based on fair value, net of related tax effect | (0.13) |
| Pro forma | \$ 2.62 |

Advertising Costs

Advertising costs are expensed in the period in which they are incurred.

Start-up Costs

Start-up and organizational costs are expensed in the period in which they are incurred.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, net of deferred taxes, and adjustments related to cash flow hedges, net of deferred taxes.

Stock Repurchases

The Company periodically repurchases shares of its outstanding common stock through open market purchases or other methods. Repurchased shares are recorded as treasury shares on the trade date using the treasury stock method, and the cash paid is recorded as treasury stock.

Sales of Premium Finance Receivables

Sales of premium finance receivables to an unrelated third party are recognized in accordance with SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. The Company recognizes as a gain or loss the difference between the proceeds received and the allocated cost basis of the loans. The allocated cost basis of the loans is determined by allocating the Company's initial investment in the loan between the loan and the Company's retained interests, based on their relative fair values. The retained interests include assets for the servicing rights and interest only strip and a liability for the Company's guarantee obligation pursuant to the terms of the sale agreement. The servicing assets and interest only strips are included in other assets and the liability for the

guarantee obligation is included in other liabilities. If actual cash flows are less than estimated, the servicing assets and interest only strips would be impaired and charged to earnings. Loans sold in these transactions have terms of less than twelve months, resulting in minimal prepayment risk. The Company typically makes a clean-up call by repurchasing the remaining loans in the pools sold after approximately 10 months from the sale date. Upon repurchase, the loans are recorded in the Company's premium finance receivables portfolio and any remaining balance of the Company's retained interest is recorded as an adjustment to the gain on sale of premium finance receivables.

Variable Interest Entities

In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which addresses the consolidation rules to be applied to entities defined in FIN 46 as variable interest entities, the Company does not consolidate its interests in subsidiary trusts formed for purposes of issuing trust preferred securities. Management believes that FIN 46 is not applicable to its various other investments or interests.

Table of Contents**(2) Recent Accounting Pronouncements***Accounting for Uncertainty in Income Taxes*

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes, effective for the Company beginning on January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification of interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have a material impact on the Company.

Accounting for Split-Dollar Life Insurance Arrangements

In September 2006, the FASB ratified the Emerging Issues Task Force (EITF) consensus on EITF Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). The EITF is limited to the recognition of a liability and related compensation costs for endorsement split-dollar insurance arrangements that provide a benefit to an employee that extends to postretirement periods. Therefore, the provisions of EITF 06-4 would not apply to a split-dollar insurance arrangement that provides a specified benefit to an employee that is limited to the employee's active service period with an employer. EITF is effective for fiscal years beginning after December 15, 2007. The effect of initially applying the guidance would be accounted for as a cumulative-effect adjustment to beginning retained earnings with the option of retrospective application. The adoption of EITF 06-4 did not materially impact the consolidated financial statements.

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a framework for measuring fair value and requires expanded disclosure about the information used to measure fair value. The statement applies whenever other statements require, or permit, assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances and is effective January 1, 2008. The adoption of SFAS 157 did not materially impact the consolidated financial statements.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement of Financial Accounting Standards 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS No. 159 provides entities with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 is effective January 1, 2008. The adoption of SFAS 159 did not materially impact the consolidated financial statements.

Business Combinations

In December 2007, the FASB issued Statement of Financial Accounting Standards 141(R), Business Combinations (SFAS 141R). SFAS 141R requires the acquiring entity in a business combination to recognize the full fair value of the assets acquired and liabilities assumed in a transaction at the acquisition date; the immediate expense recognition of transaction costs; and accounting for restructuring plans separately from the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited.

Accounting for Written Loan Commitments at Fair Value Through Earnings

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 109 (SAB 109), Written Loan Commitments Recorded at Fair Value through Earnings. SAB 109 states that the expected cash flows related to servicing the loan should be included in the measurement of all written loan commitments that are accounted for at fair value. Prior to SAB 109, this component of value was not incorporated into the fair value of the loan commitment. SAB 109 is effective for financial statements issued for fiscal years December 15, 2007. The Company does not expect SAB 109 to have a material impact to its financial statements.

Table of Contents**(3) Available-for-Sale Securities**

A summary of the available-for-sale securities portfolio presenting carrying amounts and gross unrealized gains and losses as of December 31, 2007 and 2006 is as follows (in thousands):

| | December 31, 2007 | | | | December 31, 2006 | | | |
|--|-------------------|------------------------|-------------------------|------------|-------------------|------------------------|-------------------------|------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair Value | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair Value |
| U.S. Treasury | \$ 33,161 | 73 | (125) | 33,109 | 35,990 | 8 | (1,926) | 34,072 |
| U.S. Government agencies | 321,548 | 783 | (288) | 322,043 | 696,946 | 396 | (6,768) | 690,574 |
| Municipal | 49,376 | 246 | (495) | 49,127 | 49,602 | 206 | (599) | 49,209 |
| Corporate notes and other debt | 45,920 | 12 | (3,130) | 42,802 | 61,246 | 391 | (1,557) | 60,080 |
| Mortgage-backed Federal Reserve/FHLB stock and other equity securities | 699,166 | 282 | (10,602) | 688,846 | 884,130 | 405 | (18,247) | 866,288 |
| | 167,591 | 319 | | 167,910 | 138,283 | 1,210 | | 139,493 |
| Total available-for-sale securities | \$ 1,316,762 | 1,715 | (14,640) | 1,303,837 | 1,866,197 | 2,616 | (29,097) | 1,839,716 |

The decrease in U.S. Government agencies as of December 31, 2007 compared to December 31, 2006 is primarily related to the maturity of Federal Home Loan Bank (FHLB) bonds partially offset by new purchases.

The following table presents the portion of the Company's available-for-sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2007 (in thousands):

| | Continuous unrealized losses existing for less than 12 months | | Continuous unrealized losses existing for greater than 12 months | | Total | |
|--------------------------------|---|-------------------|--|-------------------|------------|-------------------|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| U.S. Treasury | \$ | | 10,076 | (125) | 10,076 | (125) |
| U.S. Government agencies | 86,993 | (99) | 36,099 | (189) | 123,092 | (288) |
| Municipal | 9,601 | (224) | 16,617 | (271) | 26,218 | (495) |
| Corporate notes and other debt | 18,943 | (1,515) | 19,234 | (1,615) | 38,177 | (3,130) |
| Mortgage-backed | 1,371 | (1) | 667,570 | (10,601) | 668,941 | (10,602) |
| Total | \$ 116,908 | (1,839) | 749,596 | (12,801) | 866,504 | (14,640) |

Management does not believe any individual unrealized loss as of December 31, 2007 represents an other-than-temporary impairment. All mortgage-backed securities are of investment grade quality and issued by government-backed agencies. The fair value of available-for-sale securities includes investments totaling approximately \$749.6 million with unrealized losses of \$12.8 million, which have been in an unrealized loss position for greater than 12 months. U.S. Treasury, U.S. Government agencies and Mortgage-backed securities totaling \$713.7 million with unrealized losses of \$10.9 million are primarily fixed-rate investments with temporary impairment resulting from increases in interest rates since the purchase of the investments. The Company has the intent and ability to hold these investments until such time as the values recover or until maturity.

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The amortized cost and fair value of securities as of December 31, 2007 and 2006, by contractual maturity, are shown in the following table. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Mortgage-backed securities are not included in the maturity categories in the following maturity summary as actual maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without penalties (in thousands):

| | December 31, 2007 | | December 31, 2006 | |
|---|-------------------|------------|-------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | \$ 184,645 | 184,739 | 459,736 | 458,858 |
| Due in one to five years | 48,381 | 47,392 | 58,404 | 57,814 |
| Due in five to ten years | 92,708 | 90,998 | 295,613 | 287,258 |
| Due after ten years | 124,271 | 123,952 | 30,031 | 30,005 |
| Mortgage-backed | 699,166 | 688,846 | 884,130 | 866,288 |
| Federal Reserve/FHLB Stock and other equity | 167,591 | 167,910 | 138,283 | 139,493 |
| Total available-for-sale securities | \$ 1,316,762 | 1,303,837 | 1,866,197 | 1,839,716 |

In 2007, 2006 and 2005, the Company had gross realized gains on sales of available-for-sale securities of \$3.6 million, \$510,000 and \$1.1 million, respectively. During 2007, 2006 and 2005, gross realized losses on sales of available-for-sale securities totaled \$628,000, \$493,000 and \$40,000, respectively. Proceeds from sales of available-for-sale securities during 2007, 2006 and 2005, were \$253 million, \$373 million and \$1.1 billion, respectively. At December 31, 2007 and 2006, securities having a carrying value of \$780.8 million and \$910.1 million, respectively, were pledged as collateral for public deposits, trust deposits, FHLB advances and securities sold under repurchase agreements. At December 31, 2007, there were no securities of a single issuer, other than U.S. Government-sponsored agency securities, which exceeded 10% of shareholders equity.

(4) Loans

A summary of the loan portfolio at December 31, 2007 and 2006 is as follows (in thousands):

| | 2007 | 2006 |
|---------------------------------------|--------------|-----------|
| Commercial and commercial real estate | \$ 4,408,661 | 4,068,437 |
| Home equity | 678,298 | 666,471 |
| Residential real estate | 226,686 | 207,059 |
| Premium finance receivables | 1,078,185 | 1,165,846 |
| Indirect consumer loans | 241,393 | 249,534 |
| Tricom finance receivables | 27,719 | 43,975 |
| Consumer and other loans | 140,660 | 95,158 |
| Total loans | \$ 6,801,602 | 6,496,480 |

At December 31, 2007 and 2006, premium finance receivables were recorded net of unearned income of \$23.3 million and \$27.9 million, respectively. Total loans include net deferred loan fees and costs and fair value purchase accounting adjustments totaling \$6.6 million at December 31, 2007 and \$2.0 million at December 31, 2006.

Certain real estate loans, including mortgage loans held-for-sale, and home equity loans with balances totaling approximately \$663.9 million and \$607.1 million, at December 31, 2007 and 2006, respectively, were pledged as collateral to secure the availability of borrowings from certain Federal agency banks. At December 31, 2007, approximately \$461.9 million of these pledged loans are included in a blanket pledge of qualifying loans to the Federal Home Loan Bank (FHLB). The remaining \$202.0 million of pledged loans was used to secure potential borrowings at the Federal Reserve Bank discount window. At December 31, 2007 and 2006, the Banks borrowed \$415.2 million and \$325.5 million, respectively, from the FHLB in connection with these collateral arrangements. See Note 12 for a summary of these borrowings.

The Company's loan portfolio is generally comprised of loans to consumers and small to medium-sized businesses located within the geographic market areas that the Banks serve. The premium finance receivables and Tricom finance receivables portfolios are made to customers on a national basis and the majority of the indirect consumer loans are generated through a network of local automobile dealers. As a result, the Company strives to maintain a loan portfolio that is diverse in terms of loan type, industry, borrower and geographic concentrations. Such diversification reduces the exposure to economic downturns that may occur in different segments of the economy or in different industries. It is the policy of the Company to review each prospective credit in order to determine the appropriateness and, when required, the adequacy of security or collateral necessary to obtain when making a loan. The type of collateral, when required, will vary from liquid assets to real estate. The Company seeks to assure access to collateral, in the event of default, through adherence to state lending laws and the Company's credit monitoring procedures.

Table of Contents**(5) Allowance for Loan Losses and Allowance for Losses on Lending-Related Commitments**

A summary of the activity in the allowance for loan losses for the years ended December 31, 2007, 2006, and 2005 is as follows (in thousands):

| | Years Ended December 31, | | |
|--|---------------------------------|---------|---------|
| | 2007 | 2006 | 2005 |
| Allowance at beginning of year | \$ 46,055 | 40,283 | 34,227 |
| Provision for credit losses | 14,879 | 7,057 | 6,676 |
| Allowance acquired in business combinations | 362 | 3,852 | 4,792 |
| Reclassification from/(to) allowance for losses on lending-related commitments | (36) | 92 | (491) |
| Charge-offs | (13,537) | (8,477) | (6,523) |
| Recoveries | 2,666 | 3,248 | 1,602 |
| Allowance at end of year | \$ 50,389 | 46,055 | 40,283 |

The Company also maintains an allowance for lending-related commitments, specifically unfunded loan commitments and letters of credit. The balance of the allowance for lending-related commitments was \$493,000 and \$457,000 at December 31, 2007 and 2006, respectively.

A summary of non-accrual and impaired loans and their impact on interest income as well as loans past due greater than 90 days and still accruing interest are as follows (in thousands):

| | Years Ended December 31, | | |
|--|---------------------------------|--------|--------|
| | 2007 | 2006 | 2005 |
| Total non-accrual loans (as of year-end) | \$47,841 | 23,509 | 18,693 |
| Reduction of interest income from non-accrual loans | 1,790 | 1,126 | 1,258 |
| Average balance of impaired loans | 15,359 | 10,230 | 9,331 |
| Interest income recognized on impaired loans | 361 | 140 | 581 |
| Loans past due greater than 90 days and still accruing | 24,013 | 13,365 | 7,496 |

Management evaluates the value of the impaired loans primarily by using the fair value of the collateral. A summary of impaired loan information at December 31, 2007 and 2006 is as follows (in thousands):

| | 2007 | 2006 |
|--|-----------------|--------|
| Impaired loans | \$28,759 | 11,191 |
| Impaired loans that had allocated specific allowance for loan losses | 22,515 | 6,165 |
| Allocated allowance for loan losses | 2,308 | 1,400 |

(6) Mortgage Servicing Rights

Effective January 1, 2006, the Company adopted the provisions of SFAS 156 and elected the fair value measurement method for mortgage servicing rights (MSRs). Upon adoption, the carrying value of the MSRs was increased to fair value by recognizing a cumulative effect adjustment of \$1.7 million pre-tax, or \$1.1 million after tax. Following is a

summary of the changes in the carrying value of MSR's, accounted for at fair value, for the years ending December 31, 2007 and 2006 (in thousands):

| | 2007 | 2006 |
|--|-----------|---------|
| Balance at beginning of year | \$ 5,031 | 3,630 |
| Cumulative effect of change in accounting | | 1,727 |
| Additions from loans sold with servicing retained | 729 | 579 |
| Changes in fair value due to: | | |
| Payoffs and paydowns | (773) | (802) |
| Changes in valuation inputs or assumptions | (257) | (103) |
| Fair value at end of year | \$ 4,730 | 5,031 |
| Unpaid principal balance of mortgage loans serviced for others | \$487,660 | 494,695 |

Prior to January 1, 2006, MSR's were accounted for at the lower of their initial carrying value, net of accumulated amortization, or fair value. MSR's were periodically evaluated for impairment and a valuation allowance was established through a charge to income when the carrying value exceeded the fair value and was believed to be temporary. Changes in the carrying value of MSR's, accounted for using the amortization method, for the year ended December 31, 2005 follow (in thousands):

| | 2005 |
|--|-----------|
| Balance at beginning of year | \$ 2,179 |
| Balance acquired in business combinations | 2,064 |
| Additions from loans sold with servicing retained | 810 |
| Amortization | (1,423) |
| Balance at end of year | 3,630 |
| Fair value at end of year | \$ 5,357 |
| Unpaid principal balance of mortgage loans serviced for others | \$521,520 |

There was no valuation allowance at December 31, 2005.

The Company recognizes MSR assets on residential real estate loans sold upon the sale of the loans when it retains the obligation to service the loans and the servicing fee is more than adequate compensation. The recognition of MSR assets and subsequent change in fair value are recognized in mortgage banking revenue. MSR's are subject to decline in value from actual and expected prepayment of the underlying loans. The Company does not specifically hedge the value of its MSR's.

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Fair values are provided by a third party which uses a discounted cash flow model that incorporates the objective characteristics of the portfolio as well as subjective valuation parameters that purchasers of servicing would apply to such portfolios sold into the secondary market. The subjective factors include loan prepayment speeds, interest rates, servicing costs and other economic factors.

(7) Business Combinations

The Company completed one business combination in 2007. The acquisition was accounted for under the purchase method of accounting; thus, the results of operations prior to the effective date of acquisition were not included in the accompanying consolidated financial statements. Goodwill and other purchase accounting adjustments were recorded upon the completion of the acquisition, which did not have a material impact on the consolidated financial statements. On November 1, 2007, the Company completed the acquisition of 100% of the ownership interests of Broadway Premium Funding Corporation (Broadway). Broadway was founded in 1999 and had approximately \$60 million of premium finance receivables outstanding at the date of acquisition. Broadway provides financing for commercial property and casualty insurance premiums, mainly through insurance agents and brokers in the northeastern portion of the United States and California. Broadway is a subsidiary of FIFC.

(8) Goodwill and Other Intangible Assets

A summary of goodwill by business segment is as follows (in thousands):

| | Jan 1, 2007 | Goodwill Acquired | Impairment Losses | Dec 31, 2007 |
|-------------------|------------------------|------------------------------|------------------------------|-------------------------|
| Banking | \$ 245,805 | (109) | | 245,696 |
| Premium Finance | | 7,221 | | 7,221 |
| Tricom | 8,958 | | | 8,958 |
| Wealth management | 14,173 | 156 | | 14,329 |
| Total | \$ 268,936 | 7,268 | | 276,204 |

Approximately \$24.9 million of the December 31, 2007 book balance of goodwill is deductible for tax purposes. The decrease in the Banking segment's goodwill primarily relates to adjustments of prior estimates of fair values associated with the acquisition of Hinsbrook Bank partially offset by additional contingent consideration earned by former owners of Guardian as a result of attaining certain performance measures. Wintrust could pay additional consideration pursuant to the West America and Guardian transaction through June 2009. Any payments would be reflected in the Banking segment's goodwill.

The increase in goodwill in the wealth management segment represents additional contingent consideration earned by the former owners of LFCM as a result of attaining certain performance measures pursuant to the terms of the LFCM purchase agreement. Wintrust is no longer required to pay additional consideration pursuant to this transaction. LFCM was merged into WHAMC in February 2003.

A summary of finite-lived intangible assets as of December 31, 2007 and 2006 and the expected amortization as of December 31, 2007 is follows (in thousands):

| | December 31, 2007 | 2006 |
|----------------------------|------------------------------|---------|
| Wealth management segment: | | |
| Customer list intangibles | | |
| Gross carrying amount | \$ 3,252 | 3,252 |
| Accumulated amortization | (2,800) | (2,463) |

| | | |
|------------------------------|------------------|---------|
| Net carrying amount | 452 | 789 |
| Banking segment: | | |
| Core deposit intangibles | | |
| Gross carrying amount | 27,918 | 27,918 |
| Accumulated amortization | (10,633) | (7,108) |
| Net carrying amount | 17,285 | 20,810 |
| | | |
| Total intangible assets, net | \$ 17,737 | 21,599 |
| Estimated amortization | | |
| 2008 | \$ 3,862 | |
| 2009 | 2,717 | |
| 2010 | 2,381 | |
| 2011 | 2,253 | |
| 2012 | 2,251 | |

The customer list intangibles recognized in connection with the acquisitions of LFCM in 2003 and WHAMC in 2002, are being amortized over seven-year periods on an accelerated basis. The core deposit intangibles recognized in connection with the Company's seven bank acquisitions in the last five years are being amortized over ten-year periods on an accelerated basis. Total amortization expense associated with finite-lived intangibles in 2007, 2006 and 2005 was \$3.9 million, \$3.9 million and \$3.4 million, respectively.

Table of Contents**(9) Premises and Equipment, Net**

A summary of premises and equipment at December 31, 2007 and 2006 is as follows (in thousands):

| | 2007 | 2006 |
|---|-------------------|---------|
| Land | \$ 77,868 | 81,458 |
| Buildings and leasehold improvements | 253,000 | 204,249 |
| Furniture, equipment and computer software | 82,705 | 71,616 |
| Construction in progress | 8,003 | 21,545 |
| | 421,576 | 378,868 |
| Less: Accumulated depreciation and amortization | 82,279 | 67,827 |
| Total premises and equipment, net | \$ 339,297 | 311,041 |

Depreciation and amortization expense related to premises and equipment, totaled \$17.1 million in 2007, \$13.5 million in 2006 and \$12.1 million in 2005.

(10) Deposits

The following is a summary of deposits at December 31, 2007 and 2006 (in thousands):

| | 2007 | 2006 |
|-------------------------------|---------------------|-----------|
| Non-interest bearing accounts | \$ 664,264 | 699,203 |
| NOW accounts | 1,014,780 | 844,875 |
| Wealth Management deposits | 599,426 | 529,730 |
| Money market accounts | 701,972 | 690,938 |
| Savings accounts | 297,586 | 304,362 |
| Time certificates of deposit | 4,193,413 | 4,800,132 |
| Total deposits | \$ 7,471,441 | 7,869,240 |

The scheduled maturities of time certificates of deposit at December 31, 2007 and 2006 are as follows (in thousands):

| | 2007 | 2006 |
|------------------------------------|---------------------|-----------|
| Due in one year | \$ 3,464,962 | 3,704,507 |
| Due in one to two years | 386,937 | 643,252 |
| Due in two to three years | 132,794 | 185,803 |
| Due in three to four years | 141,148 | 106,111 |
| Due in four to five years | 67,276 | 157,783 |
| Due after five years | 296 | 2,676 |
| Total time certificates of deposit | \$ 4,193,413 | 4,800,132 |

The following table sets forth the scheduled maturities of time deposits in denominations of \$100,000 or more at December 31 (in thousands):

| | 2007 | 2006 |
|------------------------------|--------------------|-----------|
| Maturing within 3 months | \$ 708,559 | 613,214 |
| After 3 but within 6 months | 493,223 | 560,578 |
| After 6 but within 12 months | 645,061 | 794,749 |
| After 12 months | 482,818 | 669,957 |
| Total | \$2,329,661 | 2,638,498 |

(11) Notes Payable

The notes payable balance was \$60.7 million and \$12.8 million at December 31, 2007 and 2006, respectively. These balances represent the outstanding balances on a \$101.0 million loan agreement (Agreement) with an unaffiliated bank. The Agreement consists of a \$100.0 million revolving note, which matures on June 1, 2008 and a \$1.0 million note that matures on June 1, 2015. At December 31, 2007, the notes payable balance includes the \$1.0 million note and a \$59.7 million outstanding balance on the \$100.0 million revolving note. Effective January 1, 2007, interest is calculated, at the Company's option, at a floating rate equal to either: (1) LIBOR plus 115 basis points or (2) the greater of the lender's prime rate or the Federal Funds Rate plus 50 basis points. At December 31, 2007 and 2006, the interest rates were 6.27% and 6.77%, respectively.

The Agreement is secured by the stock of some of the Banks and contains 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 December 31, 2007, the Company is in compliance with all debt covenants. The Agreement may 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.

Table of Contents**(12) Federal Home Loan Bank Advances**

A summary of the outstanding FHLB advances at December 31, 2007 and 2006, is as follows (in thousands):

| | 2007 | 2006 |
|--|------------------|---------|
| 2.77% advance due February 2007 | \$ | 25,000 |
| 4.89% advance due November 2007 | | 3,034 |
| Variable-rate advance due January 2008 | 3,698 | |
| 5.37% advance due February 2008 | 2,502 | 2,518 |
| 3.32% advance due March 2008 | 2,501 | 2,505 |
| 4.36% advance due March 2008 | 2,000 | 2,000 |
| 2.72% advance due May 2008 | 1,996 | 1,986 |
| 4.78% advance due October 2008 | 3,000 | 3,000 |
| 4.40% advance due July 2009 | 2,026 | 2,044 |
| 4.85% advance due November 2009 | 3,000 | 3,000 |
| 4.58% advance due March 2010 | 5,018 | 5,026 |
| 4.61% advance due March 2010 | 2,500 | 2,500 |
| 4.50% advance due September 2010 | 4,942 | 4,918 |
| 4.88% advance due November 2010 | 3,000 | 3,000 |
| 4.60% advance due July 2011 | 30,000 | 30,000 |
| 3.30% advance due November 2011 | 25,000 | 25,000 |
| 4.61% advance due January 2012 | 53,000 | |
| 4.68% advance due January 2012 | 16,000 | |
| 4.44% advance due April 2012 | 5,000 | |
| 4.78% advance due June 2012 | 25,000 | |
| 4.79% advance due June 2012 | | 25,000 |
| 3.99% advance due September 2012 | 5,000 | |
| 3.78% advance due February 2015 | 25,000 | 25,000 |
| 4.12% advance due February 2015 | 25,000 | 25,000 |
| 3.70% advance due June 2015 | 40,000 | 40,000 |
| 4.55% advance due February 2016 | 45,000 | 45,000 |
| 4.83% advance due May 2016 | 50,000 | 50,000 |
| 3.47% advance due November 2017 | 10,000 | |
| 4.18% advance due February 2022 | 25,000 | |
| Federal Home Loan Bank advances | \$415,183 | 325,531 |

At December 31, 2007 all but one of the FHLB advances were fixed-rate term obligations. The Company entered into a \$3.7 million, 30-day variable-rate advance in December 2007. The rate on the variable advance adjusts daily and was 3.77% at December 31, 2007. All of the advances due after 2011 have varying call dates ranging from January 2008 to February 2011. FHLB advances are stated at par value of the debt adjusted for unamortized fair value adjustments recorded in connection with advances acquired through acquisitions.

At December 31, 2007, the weighted average contractual interest rate on FHLB advances was 4.31%, which is also the same as the weighted average effective interest rate, which reflects amortization of fair value adjustments associated with FHLB advances acquired through acquisitions.

FHLB advances are collateralized by qualifying residential real estate loans and certain securities. The Banks have arrangements with the FHLB whereby, based on available collateral, they could have borrowed an additional

\$85.2 million at December 31, 2007.

(13) Subordinated Notes

A summary of the subordinated notes at December 31, 2007 and 2006 is as follows (in thousands):

| | 2007 | 2006 |
|---|-----------------|--------|
| Subordinated note, due October 29, 2012 | \$25,000 | 25,000 |
| Subordinated note, due May 1, 2013 | 25,000 | 25,000 |
| Subordinated note, due May 29, 2015 | 25,000 | 25,000 |
| Total subordinated notes | \$75,000 | 75,000 |

The subordinated notes were issued in 2002, 2003 and 2005. Each subordinated note has a term of ten years and may be redeemed by the Company at any time prior to maturity. The subordinated note issued in 2005 was signed by the Company on October 25, 2005, but was not funded until May 2006. The proceeds from the issuance were used to fund the acquisition of Hinsbrook Bank. Each note requires annual principal payments of \$5.0 million beginning in the sixth year of the note. The interest rate on each subordinated note is calculated at a rate equal to LIBOR plus 1.30%. In 2006, the interest rate on each subordinated note was calculated at a rate equal to LIBOR plus 1.60%. At December 31, 2007 and 2006, the weighted average contractual interest rate on the subordinated notes was 6.38% and 6.97%, respectively. In connection with the issuances of the subordinated notes in 2002 and 2003, the Company incurred costs totaling \$1.0 million. These costs are included in other assets and are being amortized to interest expense using a method that approximates the effective interest method. At December 31, 2007 and 2006, the unamortized balance of these costs were \$380,000 and \$508,000, respectively. No issuance costs were incurred in connection with the subordinated note issued in 2005. The subordinated notes qualify as Tier II capital under the regulatory capital requirements.

(14) Other Borrowings

The following is a summary of other borrowings at December 31, 2007 and 2006 (in thousands):

| | 2007 | 2006 |
|---|------------------|---------|
| Federal funds purchased | \$ 4,223 | |
| Securities sold under repurchase agreements | 248,334 | 159,883 |
| Other | 1,877 | 2,189 |
| Total other borrowings | \$254,434 | 162,072 |

At December 31, 2007 securities sold under repurchase agreements represent \$165.5 million of customer sweep accounts in connection with master repurchase agreements at the Banks as well as \$82.8 million of short-term borrowings from banks and brokers. Securities

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pledged for these borrowings 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.

Other includes a 6.17% fixed-rate mortgage (which matures May 1, 2010) related to the Company's Northfield banking office.

(15) Junior Subordinated Debentures

As of December 31, 2007 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 Bank-shares, 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 issuances of the Trust Preferred Securities and the Common Securities solely in Junior Subordinated Debentures (Debentures) issued by the Company, with the same maturities and interest rates as the Trust Preferred Securities. The Debentures are the sole assets of the Trusts. In each Trust the Common Securities represent approximately 3% of the Debentures and the Trust Preferred Securities represent approximately 97% of the Debentures.

The Trusts are reported in the Company's financial statements as unconsolidated subsidiaries; the Debentures are reflected as Junior subordinated debentures and the Common Securities are included in Available-for-sale Securities. A summary of the Company's junior subordinated debentures, which represents the par value of the obligations and basis adjustments for the unamortized fair value adjustments recognized at the acquisition dates for the Northview, Town and First Northwest obligations at December 31, 2007 and 2006, is as follows (in thousands):

| | 2007 | 2006 |
|--|------------------|----------------|
| Variable rate (LIBOR + 3.25%) Debentures owed to Wintrust Capital Trust III, due April 7, 2033 | \$ 25,774 | 25,774 |
| Variable rate (LIBOR + 2.80%) Debentures owed to Wintrust Statutory Trust IV, due December 8, 2033 | 20,619 | 20,619 |
| Variable rate (LIBOR + 2.60%) Debentures owed to Wintrust Statutory Trust V, due May 11, 2034 | 41,238 | 41,238 |
| Variable rate (LIBOR + 1.95%) Debentures owed to Wintrust Capital Trust VII, due March 15, 2035 | 51,550 | 51,550 |
| Variable rate (LIBOR + 1.45%) Debentures owed to Wintrust Capital Trust VIII due September 30, 2035 | 41,238 | 41,238 |
| Fixed rate (6.84%) Debentures owed to Wintrust Capital Trust IX, due September 15, 2036 | 51,547 | 51,547 |
| Fixed rate (6.35%) Debentures owed to Northview Capital Trust I, due November 8, 2033 | 6,228 | 6,279 |
| Variable rate (LIBOR + 3.00%) Debentures owed to Town Bankshares Capital Trust I, due November 8, 2033 | 6,239 | 6,301 |
| Variable rate (LIBOR + 3.00%) Debentures owed to First Northwest Capital Trust I, due May 31, 2034 | 5,229 | 5,282 |
| Total junior subordinated debentures | \$249,662 | 249,828 |

The interest rates associated with the variable rate Debentures are based on the three-month LIBOR rate and were 8.49%, 7.63%, 7.43%, 6.94%, 6.28%, 7.91%, and 7.83%, for Wintrust Capital Trust III, Wintrust Statutory Trust IV, Wintrust Statutory Trust V, Wintrust Capital Trust VII, Wintrust Capital Trust VIII, Town Bankshares Capital Trust I and First Northwest Capital Trust I, respectively, at December 31, 2007. The interest rate on the Debentures of Wintrust Capital Trust IX, currently fixed at 6.84%, changes to a variable rate equal to three-month LIBOR plus 1.63% effective September 15, 2011, and the interest rate on

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the Debentures of Northview Capital Trust I, fixed at 6.35% at December 31, 2007, changed to a variable rate equal to three-month LIBOR plus 3.00% effective February 8, 2008. At December 31, 2007, the weighted average contractual interest rate on the Debentures was 7.14%. In August 2006, the Company entered into \$175 million of interest rate swaps, which are designated in hedge relationships, to hedge the variable cash flows of certain Debentures. On a hedge-adjusted basis, the weighted average interest rate on the Debentures was 7.38% at December 31, 2007.

Distributions on the common and preferred securities issued by the Trusts are payable quarterly at a rate per annum equal to the interest rate being earned by the Trusts on the Debentures held by the Trusts. Interest expense on the Debentures is deductible for income tax purposes.

On September 1, 2006, the Company issued \$51.5 million of Debentures to Wintrust Capital Trust IX with an initial fixed rate of 6.84%, and on September 5, 2006, the Company used proceeds from this issuance to redeem, at par value, \$32.0 million of the Debentures of Wintrust Capital Trust I with a fixed interest rate of 9.00%. In connection with the redemption of the Debentures of Wintrust Capital Trust I, the Company expensed \$304,000 of unamortized issuance costs.

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 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 payment of interest on the 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 Debentures at maturity or their earlier redemption. The Debentures are redeemable in whole or in part prior to maturity, at the discretion of the Company if certain conditions are met, and only after the Company has obtained Federal Reserve approval, if then required under applicable guidelines or regulations. The Debentures held by the Trusts are first redeemable, in whole or in part, by the Company as follows:

| | |
|---------------------------------|--------------------|
| Wintrust Capital Trust III | April 7, 2008 |
| Wintrust Statutory Trust IV | December 31, 2008 |
| Wintrust Statutory Trust V | June 30, 2009 |
| Wintrust Capital Trust VII | March 15, 2010 |
| Wintrust Capital Trust VIII | September 30, 2010 |
| Wintrust Capital Trust IX | September 15, 2011 |
| Northview Capital Trust I | August 8, 2008 |
| Town Bankshares Capital Trust I | August 8, 2008 |
| First Northwest Capital Trust I | May 31, 2009 |

The junior subordinated debentures, subject to certain limitations, qualify as Tier 1 capital of the Company for regulatory purposes. On February 28, 2005, the Federal Reserve issued a final rule that retains Tier I capital treatment for these instruments but with stricter limits. Under the rule, which is effective March 31, 2009, and has a transition period until then, the aggregate amount of junior subordinated debentures and certain other capital elements is limited to 25% of Tier I capital elements (including junior subordinated debentures), net of goodwill less any associated deferred tax liability. The amount of junior subordinated debentures and certain other capital elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. Applying the final rule at December 31, 2007, the Company would still be considered well-capitalized under regulatory capital guidelines.

(16) Minimum Lease Commitments

The Company occupies certain facilities under operating lease agreements. Gross rental expense related to the Company's operating leases was \$5.9 million in 2007, \$5.8 million in 2006 and \$5.0 million in 2005. The Company also leases certain owned premises and receives rental income from such agreements. Gross rental income related to

the Company's buildings totaled \$1.9 million, \$1.6 million and \$1.8 million, in 2007, 2006 and 2005, respectively. Future minimum gross rental payments for office space and future minimum gross rental income as of December 31, 2007 for all noncancelable leases are as follows (in thousands):

| | Future minimum gross rental payments | Future minimum gross rental income |
|------------------------------|--|--|
| 2008 | \$ 3,059 | 1,764 |
| 2009 | 3,486 | 1,655 |
| 2010 | 3,282 | 1,178 |
| 2011 | 2,725 | 589 |
| 2012 | 2,266 | 399 |
| 2013 and thereafter | 16,777 | 557 |
| Total minimum future amounts | \$31,595 | 6,142 |

Table of Contents**(17) Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2007, 2006 and 2005 is summarized as follows (in thousands):

| | Years Ended December 31, | | |
|-----------------------------|---------------------------------|---------|--------|
| | 2007 | 2006 | 2005 |
| Current income taxes: | | | |
| Federal | \$28,982 | 34,667 | 33,399 |
| State | 4,026 | 4,288 | 4,190 |
| Total current income taxes | 33,008 | 38,955 | 37,589 |
| Deferred income taxes: | | | |
| Federal | (3,974) | (1,213) | 603 |
| State | (863) | 6 | (258) |
| Total deferred income taxes | (4,837) | (1,207) | 345 |
| Total income tax expense | \$28,171 | 37,748 | 37,934 |

Included in total income tax expense is income tax expense applicable to net gains on available-for-sale securities of \$1.1 million in 2007, \$6,000 in 2006 and \$405,000 in 2005.

The exercise of certain stock options and the vesting and issuance of restricted shares produced tax benefits of \$2.0 million in 2007, \$5.3 million in 2006 and \$7.0 million in 2005 which were recorded directly to shareholders equity.

A reconciliation of the differences between taxes computed using the statutory Federal income tax rate of 35% and actual income tax expense is as follows (in thousands):

| | Years Ended December 31, | | |
|--|---------------------------------|--------|--------|
| | 2007 | 2006 | 2005 |
| Income tax expense based upon the Federal statutory rate on income before income taxes | \$29,338 | 36,484 | 36,733 |
| Increase (decrease) in tax resulting from: | | | |
| Tax-exempt interest, net of interest expense disallowance | (885) | (777) | (800) |
| State taxes, net of federal tax benefit | 2,056 | 2,791 | 2,556 |
| Income earned on bank owned life insurance | (1,659) | (968) | (807) |
| Other, net | (679) | 218 | 252 |
| Income tax expense | \$28,171 | 37,748 | 37,934 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2007 and 2006 are as follows (in thousands):

| | 2007 | 2006 |
|---|---------------------|------------|
| Deferred tax assets: | | |
| Allowance for credit losses | \$19,291 | 17,135 |
| Net unrealized losses on securities (SFAS 115) | 4,978 | 10,192 |
| Net unrealized losses on derivatives (SFAS 133) | 3,492 | 920 |
| Federal net operating loss carryforward | 717 | 1,362 |
| Deferred compensation | 4,776 | 4,458 |
| Stock-based compensation | 7,019 | 5,002 |
| Other | 2,527 | 2,441 |
| Total gross deferred tax assets | 42,800 | 41,510 |
| Deferred tax liabilities: | | |
| Premises and equipment | 11,655 | 11,767 |
| Deferred loan fees and costs | 2,688 | 2,099 |
| Capitalized servicing rights | 2,550 | 2,120 |
| Goodwill and intangible assets | 10,740 | 11,404 |
| FHLB stock dividends | 2,810 | 2,784 |
| Deferred gain on termination of derivatives | 1,638 | 2,464 |
| Other | 173 | 520 |
| Total gross deferred tax liabilities | 32,254 | 33,158 |
| Net deferred tax assets | \$10,546 | 8,352 |

At December 31, 2007, Wintrust had Federal net operating loss carryforwards of \$2.0 million which are available to offset future taxable income. These net operating losses expire in 2009 and 2010 and are subject to certain statutory limitations.

Management believes that it is more likely than not that the recorded deferred tax assets will be fully realized and therefore no valuation allowance is necessary. The conclusion that it is more likely than not that the deferred tax assets will be realized is based on the Company's historical earnings trend, its current level of earnings and prospects for continued growth and profitability.

The Company adopted the provisions of FIN 48 on January 1, 2007. FIN 48 requires companies to record a liability (or a reduction of an asset) for the uncertainty associated with certain tax positions. This liability is referred to as an Unrecognized Tax Benefit as it reflects the fact that the Company has not recognized the benefit associated with the tax position. Wintrust evaluated its tax positions at December 31, 2006 and throughout 2007, in accordance with FIN 48. Based on this evaluation, the Company determined that it does not have any tax positions for which unrecognized tax benefits must be recorded. In addition, for the year ended December 31, 2007, the Company has no

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interest or penalties relating to income tax positions recognized in the income statement or in the balance sheet. Tax years that remain open and subject to audit by major tax jurisdictions include the Company's 2004-2007 Federal income tax returns and its 2004-2007 Illinois income tax returns.

(18) Employee Benefit and Stock Plans*Stock Incentive Plan*

The 2007 Stock Incentive Plan (the 2007 Plan), which was approved by the Company's shareholders in January 2007, permits the grant of incentive stock options, nonqualified stock options, rights and restricted stock, as well as the conversion of outstanding options of acquired companies to Wintrust options. The 2007 Plans provide for the issuance of up to 500,000 shares of common stock. All grants made in 2007 were made pursuant to the 2007 Plan and as of December 31, 2007, 274,337 shares were available for future grant. The 2007 Plan replaced the Wintrust Financial Corporation 1997 Stock Incentive Plan (the 1997 Plan) which had substantially similar terms. The 2007 Plan and the 1997 Plan are collectively referred to as the Plans. The Plans cover substantially all employees of Wintrust.

The Company typically awards stock-based compensation in the form of stock options and restricted share awards. In general, the Plans provide for the grant of options to purchase shares of Wintrust's common stock at the fair market value of the stock on the date the options are granted. Options generally vest ratably over a five-year period and expire at such time as the Compensation Committee determines at the time of grant. The 2007 Plan provides for a maximum term of seven years from the date of grant for stock options while the 1997 Plan provided for a maximum term of ten years. Restricted Stock Unit Awards (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. Holders of the restricted shares 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 expense recognized in the Consolidated Statements of Income was \$10.8 million, \$12.2 million and \$4.4 million and the related tax benefits were \$4.1 million, \$4.6 million and \$1.7 million in 2007, 2006 and 2005, respectively. Compensation expense recognized in 2007 and 2006 was due to stock options and restricted share awards recorded under SFAS 123R and recognized ratably over the vesting period. Stock-based compensation expense recognized in 2005 was due primarily to restricted share awards recorded under APB 25 at intrinsic value and recognized ratably over the vesting period.

Compensation cost is measured as the fair value of an award on the date of grant. The Company estimates the fair value of stock options at the date of grant using a Black-Scholes option-pricing model that utilizes the assumptions outlined in the following table. These assumptions are consistent with the provisions of SFAS 123R and the Company's prior period pro forma disclosures of net income and earnings per share, including stock option expense. 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 is based on historical exercise and termination behavior as well as the term of the option, and expected stock price volatility is based on historical volatility of the Company's common stock, which correlates with the expected life of the options. 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 assumptions were used to determine the fair value of options granted in the years ending December 31, 2007, 2006 and 2005:

| | 2007 | 2006 | 2005 |
|---------------------------------|--------------|-------|-------|
| Expected dividend yield | 0.9% | 0.5% | 0.5% |
| Expected volatility | 26.3% | 24.7% | 23.6% |
| Risk-free rate | 4.2% | 4.6% | 4.2% |
| Expected option life (in years) | 6.8 | 7.9 | 8.5 |

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A summary of the Plans' stock option activity for the years ended December 31, 2007, 2006 and 2005 is as follows:

| | Common Shares | Weighted Average Strike Prices | Remaining Contractual Term⁽¹⁾ | Intrinsic Value⁽²⁾ (\$000) |
|--|--------------------------|---|---|--|
| Outstanding at January 1, 2005 | 3,047,278 | \$ 23.41 | | |
| Conversion of options of acquired companies | 5,865 | 13.35 | | |
| Granted | 488,850 | 53.91 | | |
| Exercised | (465,348) | 13.02 | | |
| Forfeited or canceled | (57,163) | 39.22 | | |
| Outstanding at December 31, 2005 | 3,019,482 | \$ 29.63 | 5.7 | \$76,744 |
| Exercisable at December 31, 2005 | 1,762,985 | \$ 19.89 | 4.3 | \$61,845 |
| Outstanding at January 1, 2006 | 3,019,482 | \$ 29.63 | | |
| Conversion of options of acquired companies | 2,046 | 24.42 | | |
| Granted | 221,600 | 51.03 | | |
| Exercised | (400,874) | 15.73 | | |
| Forfeited or canceled | (56,190) | 44.71 | | |
| Outstanding at December 31, 2006 | 2,786,064 | \$ 33.02 | 5.8 | \$47,228 |
| Exercisable at December 31, 2006 | 1,774,699 | \$ 24.71 | 4.6 | \$43,029 |
| Outstanding at January 1, 2007 | 2,786,064 | \$ 33.02 | | |
| Granted | 126,000 | 37.32 | | |
| Exercised | (298,579) | 14.85 | | |
| Forfeited or canceled | (108,304) | 47.89 | | |
| Outstanding at December 31, 2007 | 2,505,181 | \$ 34.76 | 5.2 | \$17,558 |
| Exercisable at December 31, 2007 | 1,822,830 | \$ 29.42 | 4.5 | \$17,534 |
| Vested or expected to vest at December 31, 2007 | 2,475,180 | \$ 34.58 | 5.2 | \$17,572 |

(1) Represents the weighted average contractual remaining life in

years.

- (2) *Aggregate intrinsic value represents the total pretax intrinsic value (i.e., the difference between the Company's average of the high and low stock price at year end 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 year. Options with exercise prices above the year end stock price are excluded from the calculation of intrinsic value. This amount will change based on the fair market value of the Company's stock.*

The weighted average per share grant date fair value of options granted during the years ended December 31, 2007, 2006 and 2005 was \$12.83, \$19.41 and \$20.09, respectively. The aggregate intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005, was \$7.3 million, \$14.4 million and \$18.6 million, respectively. Cash received from option exercises under the Plan for the years ended December 31, 2007, 2006 and 2005 was \$4.4 million, \$6.3 million and \$6.1 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$2.4 million, \$5.4 million and \$6.8 million for 2007, 2006 and 2005, respectively. A summary of the Plans' restricted share award activity for the years ended December 31, 2007, 2006 and 2005 is as follows:

| | 2007 | | 2006 | | 2005 | |
|----------------------------------|------------------|--|---------------|---|---------------|---|
| | Common | Weighted Average Grant-Date Fair Value | Common | Weighted Average Grant-Date Fair Value | Common | Weighted Average Grant-Date Fair Value |
| Restricted Shares | Shares | Value | Shares | Fair Value | Shares | Fair Value |
| Outstanding at beginning of year | 335,904 | \$51.78 | 206,157 | \$53.55 | 25,512 | \$40.68 |
| Granted | 99,663 | 39.51 | 207,343 | 50.63 | 200,902 | 53.97 |
| Vested (shares issued) | (112,880) | 51.35 | (73,694) | 53.48 | (19,068) | 40.65 |
| Forfeited | (14,060) | 47.51 | (3,902) | 51.87 | (1,189) | 54.92 |
| Outstanding at end of year | 308,627 | \$48.16 | 335,904 | \$51.78 | 206,157 | \$53.55 |

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The fair value of restricted shares is determined based on the average of the high and low trading prices on the grant date.

The actual tax benefit realized upon the vesting of restricted shares is based on the fair value of the shares on the vesting date and the estimated tax benefit of the awards is based on fair value of the awards on the grant date. The actual tax benefit realized upon the vesting of restricted shares in 2007 and 2006 was \$359,000 and \$62,000, respectively, less than the estimated tax benefit for those shares. In 2005, the actual tax benefit realized upon the vesting of restricted shares was \$123,000 more than the estimated tax benefit of those awards. These differences in actual and estimated tax benefits were recorded directly to shareholders' equity.

As of December 31, 2007, there was \$18.8 million of total unrecognized compensation cost related to non-vested share based arrangements under the Plan. That cost is expected to be recognized over a weighted average period of approximately two years. The total fair value of shares vested during the years ended December 31, 2007, 2006 and 2005 was \$11.5 million, \$9.5 million and \$5.2 million, respectively.

Other Employee Benefits

Wintrust and its subsidiaries also provide 401(k) Retirement Savings Plans ("401(k) Plans"). The 401(k) Plans cover all employees meeting certain eligibility requirements. Contributions by employees are made through salary deductions at their direction, subject to certain Plan and statutory limitations. Employer contributions to the 401(k) Plans are made at the employer's discretion. Generally, participants completing 501 hours of service are eligible to share in an allocation of employer contributions. The Company's expense for the employer contributions to the 401(k) Plans was approximately \$2.8 million in 2007, \$2.5 million in 2006, and \$2.4 million in 2005.

The Wintrust Financial Corporation Employee Stock Purchase Plan ("SPP") is designed to encourage greater stock ownership among employees, thereby enhancing employee commitment to the Company. The SPP gives eligible employees the right to accumulate funds over an offering period to purchase shares of common stock. The Company has reserved 375,000 shares of its authorized common stock for the SPP. All shares offered under the SPP will be either newly issued shares of the Company or shares issued from treasury, if any. In accordance with the SPP, the purchase price of the shares of common stock may not be lower than the lesser of 85% of the fair market value per share of the Common Stock on the first day of the offering period or 85% of the fair market value per share of the common stock on the last date for the offering period. The Company's Board of Directors authorized a purchase price calculation at 90% of fair market value for each of the offering periods. During 2007, 2006 and 2005, a total of 38,717 shares, 36,737 shares and 35,173 shares, respectively, were issued to participant accounts and approximately \$170,000, \$284,000 and \$274,000, respectively, was recognized as compensation expense. The current offering period concludes on March 31, 2008. The Company plans to continue to periodically offer common stock through this SPP subsequent to March 31, 2008. At December 31, 2007, 127,651 shares were available for future grants under the SPP.

The Company does not currently offer other postretirement benefits such as health care or other pension plans.

The Wintrust Financial Corporation Directors Deferred Fee and Stock Plan ("DDFS Plan") allows directors of the Company and its subsidiaries to choose to receive payment of directors fees in either cash or common stock of the Company and to defer the receipt of the fees. The DDFS Plan is designed to encourage stock ownership by directors. The Company has reserved 225,000 shares of its authorized common stock for the DDFS Plan. All shares offered under the DDFS Plan will be either newly issued shares of the Company or shares issued from treasury. The number of shares issued is determined on a quarterly basis based on the fees earned during the quarter and the fair market value per share of the common stock on the last trading day of the preceding quarter. The shares are issued annually and the directors are entitled to dividends and voting rights upon the issuance of the shares. During 2007, 2006 and 2005, a total of 15,843 shares, 12,916 shares and 7,530 shares, respectively, were issued to directors. For those directors that elect to defer the receipt of the common stock, the Company maintains records of stock units representing an obligation to issue shares of common stock. The number of stock units equals the number of shares that would have been issued had the director not elected to defer receipt of the shares. Additional stock units are credited at the time dividends are paid, however no voting rights are associated with the stock units. The shares of common stock represented by the stock units are issued in the year specified by the directors in their participation agreements. At December 31, 2007, the Company has an obligation to issue 135,890 shares of common stock to

directors that elected to defer the receipt of stock and has 38,894 shares available for future grants under the DDFS Plan.

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Banking laws place restrictions upon the amount of dividends which can be paid to Wintrust by the Banks. Based on these laws, the Banks could, subject to minimum capital requirements, declare dividends to Wintrust without obtaining regulatory approval in an amount not exceeding (a) undivided profits, and (b) the amount of net income reduced by dividends paid for the current and prior two years. During 2007, 2006 and 2005, cash dividends totaling \$105.9 million, \$183.6 million and \$45.1 million, respectively, were paid to Wintrust by the Banks. As of January 1, 2008, the Banks had approximately \$28.5 million available to be paid as dividends to Wintrust without prior regulatory approval; however, only \$17.0 million was available as dividends from the Banks without reducing their capital below the well-capitalized level.

The Banks are also required by the Federal Reserve Act to maintain reserves against deposits. Reserves are held either in the form of vault cash or balances maintained with the Federal Reserve Bank and are based on the average daily deposit balances and statutory reserve ratios prescribed by the type of deposit account. At December 31, 2007 and 2006, reserve balances of approximately \$22.3 million and \$17.2 million, respectively, were required to be maintained at the Federal Reserve Bank.

The Company and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balancesheet items as calculated under regulatory accounting practices. The Company's and the Banks' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier 1 leverage capital (as defined) to average quarterly assets (as defined).

The Federal Reserve's capital guidelines require bank holding companies to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%, of which at least 4.0% must be in the form of Tier 1 Capital. The Federal Reserve also requires a minimum Tier 1 leverage ratio (Tier 1 Capital to total assets) of 3.0% for strong bank holding companies (those rated a composite 1 under the Federal Reserve's rating system). For all other banking holding companies, the minimum Tier 1 leverage ratio is 4.0%. In addition the Federal Reserve continues to consider the Tier 1 leverage ratio in evaluating proposals for expansion or new activities. As reflected in the following table, the Company met all minimum capital requirements at December 31, 2007 and 2006:

| | 2007 | 2006 |
|--|--------------|-------|
| Total Capital to Risk Weighted Assets | 10.2% | 11.3% |
| Tier 1 Capital to Risk Weighted Assets | 8.7 | 9.8 |
| Tier 1 Leverage Ratio | 7.7 | 8.2 |

In 2002, Wintrust became designated as a financial holding company. Bank holding companies approved as financial holding companies may engage in an expanded range of activities, including the businesses conducted by the Wayne Hummer Companies. As a financial holding company, Wintrust's Banks are required to maintain their capital positions at the well-capitalized level. As of December 31, 2007, the Banks were categorized as well capitalized under the regulatory framework for prompt corrective action. The ratios required for the Banks to be well capitalized by regulatory definition are 10.0%, 6.0%, and 5.0% for Total Capital to Risk-Weighted Assets, Tier 1 Capital to Risk-Weighted Assets and Tier 1 Leverage Ratio, respectively. There are no conditions or events since the most recent notification that management believes would materially affect the Banks' regulatory capital categories.

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The Banks' actual capital amounts and ratios as of December 31, 2007 and 2006 are presented in the following table (dollars in thousands):

| | December 31, 2007 | | | | December 31, 2006 | | | |
|--|-------------------|-------|--|-------|-------------------|-------|--|-------|
| | Actual Amount | Ratio | To Be Well Capitalized by Regulatory Definition Amount | Ratio | Actual Amount | Ratio | To Be Well Capitalized by Regulatory Definition Amount | Ratio |
| Total Capital (to Risk Weighted Assets): | | | | | | | | |
| Lake Forest Bank | \$139,274 | 10.3% | \$135,922 | 10.0% | \$150,690 | 11.5% | \$130,757 | 10.0% |
| Hinsdale Bank | 119,436 | 10.7 | 111,440 | 10.0 | 126,216 | 10.7 | 117,827 | 10.0 |
| North Shore Bank | 82,878 | 11.0 | 75,059 | 10.0 | 77,896 | 10.3 | 75,622 | 10.0 |
| Libertyville Bank | 89,840 | 10.6 | 84,813 | 10.0 | 82,297 | 10.4 | 78,836 | 10.0 |
| Barrington Bank | 77,828 | 10.9 | 71,232 | 10.0 | 72,063 | 10.3 | 70,078 | 10.0 |
| Crystal Lake Bank | 49,745 | 10.7 | 46,396 | 10.0 | 49,644 | 10.6 | 47,028 | 10.0 |
| Northbrook Bank | 59,639 | 11.0 | 54,396 | 10.0 | 56,788 | 10.4 | 54,663 | 10.0 |
| Advantage Bank | 25,073 | 10.0 | 24,967 | 10.0 | 22,175 | 10.4 | 21,262 | 10.0 |
| Village Bank | 46,461 | 10.7 | 43,380 | 10.0 | 43,574 | 10.4 | 42,091 | 10.0 |
| Beverly Bank | 15,521 | 11.8 | 13,205 | 10.0 | 15,713 | 13.1 | 11,955 | 10.0 |
| Town Bank | 49,688 | 10.2 | 48,720 | 10.0 | 40,021 | 10.6 | 37,719 | 10.0 |
| Wheaton Bank | 26,243 | 11.1 | 23,721 | 10.0 | 24,677 | 10.6 | 23,244 | 10.0 |
| State Bank of The Lakes | 48,028 | 11.0 | 43,774 | 10.0 | 47,020 | 12.3 | 38,285 | 10.0 |
| Old Plank Trail Bank | 18,730 | 11.1 | 16,917 | 10.0 | 19,127 | 25.3 | 7,564 | 10.0 |
| St. Charles Bank | 11,656 | 11.8 | 9,866 | 10.0 | 11,272 | 22.6 | 4,981 | 10.0 |
| Tier 1 Capital (to Risk Weighted Assets): | | | | | | | | |
| Lake Forest Bank | \$131,061 | 9.6% | \$ 81,553 | 6.0% | \$143,081 | 10.9% | \$ 78,454 | 6.0% |

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| | | | | | | | | |
|-------------------------|---------|------|--------|-----|---------|------|--------|-----|
| Hinsdale Bank | 111,298 | 10.0 | 66,864 | 6.0 | 117,802 | 10.0 | 70,696 | 6.0 |
| North Shore Bank | 78,321 | 10.4 | 45,035 | 6.0 | 73,751 | 9.8 | 45,373 | 6.0 |
| Libertyville Bank | 83,890 | 9.9 | 50,888 | 6.0 | 77,079 | 9.8 | 47,301 | 6.0 |
| Barrington Bank | 73,786 | 10.4 | 42,739 | 6.0 | 68,117 | 9.7 | 42,047 | 6.0 |
| Crystal Lake Bank | 47,032 | 10.1 | 27,837 | 6.0 | 47,210 | 10.0 | 28,217 | 6.0 |
| Northbrook Bank | 56,278 | 10.3 | 32,638 | 6.0 | 53,595 | 9.8 | 32,798 | 6.0 |
| Advantage Bank | 23,783 | 9.5 | 14,980 | 6.0 | 20,853 | 9.8 | 12,757 | 6.0 |
| Village Bank | 43,896 | 10.1 | 26,028 | 6.0 | 41,012 | 9.7 | 25,254 | 6.0 |
| Beverly Bank | 14,629 | 11.1 | 7,923 | 6.0 | 15,051 | 12.6 | 7,173 | 6.0 |
| Town Bank | 46,707 | 9.6 | 29,232 | 6.0 | 37,790 | 10.0 | 22,631 | 6.0 |
| Wheaton Bank | 24,674 | 10.4 | 14,233 | 6.0 | 23,395 | 10.1 | 13,934 | 6.0 |
| State Bank of The Lakes | 45,425 | 10.4 | 26,265 | 6.0 | 44,288 | 11.6 | 22,971 | 6.0 |
| Old Plank Trail Bank | 17,804 | 10.5 | 10,150 | 6.0 | 18,634 | 24.6 | 4,538 | 6.0 |
| St. Charles Bank | 10,574 | 10.7 | 5,920 | 6.0 | 11,066 | 22.1 | 2,988 | 6.0 |

Tier 1 Leverage Ratio:

| | | | | | | | | |
|-------------------------|-----------|------|-----------|------|-----------|------|-----------|------|
| Lake Forest Bank | \$131,061 | 8.3% | \$ 78,488 | 5.0% | \$143,081 | 9.7% | \$ 73,518 | 5.0% |
| Hinsdale Bank | 111,298 | 9.2 | 60,357 | 5.0 | 117,802 | 9.8 | 60,193 | 5.0 |
| North Shore Bank | 78,321 | 8.4 | 46,843 | 5.0 | 73,751 | 7.6 | 48,437 | 5.0 |
| Libertyville Bank | 83,890 | 8.5 | 49,219 | 5.0 | 77,079 | 8.4 | 45,897 | 5.0 |
| Barrington Bank | 73,786 | 9.3 | 39,672 | 5.0 | 68,117 | 8.0 | 42,323 | 5.0 |
| Crystal Lake Bank | 47,032 | 8.4 | 27,934 | 5.0 | 47,210 | 8.4 | 27,988 | 5.0 |
| Northbrook Bank | 56,278 | 8.5 | 33,218 | 5.0 | 53,595 | 7.5 | 35,939 | 5.0 |
| Advantage Bank | 23,783 | 7.6 | 15,649 | 5.0 | 20,853 | 7.7 | 13,477 | 5.0 |
| Village Bank | 43,896 | 8.0 | 27,338 | 5.0 | 41,012 | 6.9 | 29,601 | 5.0 |
| Beverly Bank | 14,629 | 8.7 | 8,406 | 5.0 | 15,051 | 9.3 | 8,105 | 5.0 |
| Town Bank | 46,707 | 8.9 | 26,180 | 5.0 | 37,790 | 8.5 | 22,127 | 5.0 |
| Wheaton Bank | 24,674 | 8.3 | 14,932 | 5.0 | 23,395 | 9.3 | 12,560 | 5.0 |
| State Bank of The Lakes | 45,425 | 8.5 | 26,698 | 5.0 | 44,288 | 8.6 | 25,622 | 5.0 |
| Old Plank Trail Bank | 17,804 | 10.6 | 8,372 | 5.0 | 18,634 | 18.0 | 5,184 | 5.0 |
| St. Charles Bank | 10,574 | 10.6 | 4,991 | 5.0 | 11,006 | 22.9 | 2,405 | 5.0 |

Wintrust's mortgage banking and broker/dealer subsidiaries are also required to maintain minimum net worth capital requirements with various governmental agencies. The mortgage banking subsidiary's net worth requirements are governed by the Department of Housing and Urban Development and the broker/dealer's net worth requirements are governed by the United States Securities and Exchange Commission. As of December 31, 2007, these subsidiaries met their minimum net worth capital requirements.

Table of Contents**(20) Commitments and Contingencies**

The Company has outstanding, at any time, a number of commitments to extend credit. These commitments include revolving home equity line and other credit agreements, term loan commitments and standby and commercial letters of credit. Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party.

These commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the Consolidated Statements of Condition. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Commitments to extend commercial, commercial real estate and construction loans totaled \$1.9 billion and \$1.6 billion as of December 31, 2007 and 2006, respectively, and unused home equity and credit card lines totaled \$890.2 million and \$865.1 million, respectively. Standby and commercial letters of credit totaled \$187.1 million at December 31, 2007 and \$175.3 million at December 31, 2006.

In addition, at December 31, 2007 and 2006, the Company had approximately \$113.6 million and \$117.8 million, respectively, in commitments to fund residential mortgage loans to be sold into the secondary market. These lending commitments are also considered derivative instruments under the guidelines of SFAS 133. The Company also enters into forward contracts for the future delivery of residential mortgage loans at specified interest rates to reduce the interest rate risk associated with commitments to fund loans as well as mortgage loans held-for-sale. These forward contracts are also considered derivative instruments under SFAS 133 and had contractual amounts of approximately \$218.9 million at December 31, 2007 and \$262.7 million at December 31, 2006. See Note 21 for further discussion on derivative instruments.

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. On occasion, 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 Company sold approximately \$1.9 billion of mortgage loans in 2007 and in 2006. During 2007, the Company provided approximately \$4.9 million for estimated losses related to recourse obligations on residential mortgage loans sold to investors. These estimated losses primarily related to mortgages obtained through wholesale channels which experienced early payment defaults. Repurchase or indemnification requests for early payment defaults are typically received within 90-120 days subsequent to sale. The Company substantially modified its product offerings in the second quarter of 2007 in an effort to reduce the risk associated with these contingencies. Losses charged against the liability for estimated losses were \$3.3 million and \$395,000 for 2007 and 2006, respectively. The liability for estimated losses on repurchase and indemnification was \$1.9 million and \$322,000 at December 31, 2007 and 2006, respectively, and was included in other liabilities on the balance sheet.

In connection with the sale of premium finance receivables, the Company continues to service the receivables and maintains a recourse obligation to the purchasers should the underlying borrowers default on their obligations. The estimated recourse obligation is taken into account in recording the sale, effectively reducing the gain recognized. The Company did not sell any premium finance receivables to unrelated third parties from the third quarter of 2006 to the third quarter of 2007. As a result, all outstanding premium finance receivables sold and serviced for others were paid-off in the second quarter of 2007. Sales resumed in the fourth quarter of 2007 and therefore, the Company

established a new recourse obligation for this most recent sale. As of December 31, 2007 and 2006, outstanding premium finance receivables sold to and serviced for third parties for which the Company has a recourse obligation were \$219.9 million and \$58.3 million, respectively. Losses charged against the recourse obligation were \$129,000, \$191,000 and \$269,000 for 2007, 2006 and 2005, respectively. At December 31, 2007 and 2006, the recorded recourse obligation related to these loans was \$179,000 and \$129,000, respectively.

The Company utilizes an out-sourced securities clearing platform and has agreed to indemnify the clearing broker of WHI for losses that it may sustain from the customer accounts introduced by WHI. At December, 31, 2007, the total amount of customer balances maintained by the clearing broker and subject to indemnification was approximately \$24 million. 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.

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In the ordinary course of business, there are legal proceedings pending against the Company and its subsidiaries. Management believes the aggregate liabilities, if any, resulting from such actions would not have a material adverse effect on the financial position of the Company.

(21) Derivative Financial Instruments

The Company enters into derivative financial instruments as part of its strategy to manage its exposure to adverse 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 (such as a rate, security price or price index) as 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. Derivatives are also implicit in certain contracts and commitments.

Management's objective in using derivative financial instruments is to protect against the risk of interest rate movements on the value of certain assets and liabilities and on future cash flows. Derivative instruments that have been used by the Company include interest rate caps and interest rate swaps with indices that relate to the pricing of specific assets or liabilities and covered call options that relate to specific investment securities. In addition, interest rate lock commitments provided to customers for the origination of mortgage loans that will be sold into the secondary market as well as forward agreements the Company enters into to sell such loans to protect itself against adverse changes in interest rates are deemed to be derivative instruments.

In accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, the Company recognizes derivative financial instruments at fair value on the Consolidated Statement of Condition, regardless of the purpose or intent for holding the instrument. Derivatives are included in other assets or other liabilities, as appropriate. Changes in the fair value of derivative financial instruments are either recognized in income or in shareholders' equity as a component of 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 the changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective hedges, are recorded as a component of comprehensive income, net of deferred taxes, and reclassified to earnings when the hedged transaction affects earnings. Changes in fair values of derivatives not qualifying as hedges, including changes in fair values 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 periodically validated by comparison with valuations provided by the respective counterparties.

Derivative instruments have inherent risks, primarily market risk and credit risk. Market risk is associated with changes in interest rates. 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 which is determined based on the interaction of the notional amount of the contract with the underlying, and not the notional principal amounts used to express the volume of the transactions. Management monitors the market risk and credit risk associated with derivative financial instruments as part of its overall Asset/Liability management process. The Company does not enter into derivatives for purely speculative purposes.

Table of Contents*Interest Rate Swaps*

The table below summarizes the Company's interest rate swaps at December 31, 2007 and 2006 that were entered into to hedge certain interest-bearing liabilities (in thousands):

| Maturity Date (Call Option Date) | Notional Amount | December 31, 2007 | | | Type of Hedging |
|-------------------------------------|--------------------|---------------------------------|-----------------|-------------|--------------------|
| | | Fair Value Gain (Loss) | Receive Rate | Pay Rate | Relationship |
| Pay fixed, receive variable: | | | | | |
| October 2011 | \$ 25,000 | (1,165) | 5.24% | 5.26% | Cash Flow |
| September 2011 | 20,000 | (922) | 4.83% | 5.25% | Cash Flow |
| September 2011 | 40,000 | (1,847) | 4.83% | 5.25% | Cash Flow |
| September 2013 | 50,000 | (2,852) | 4.99% | 5.30% | Cash Flow |
| September 2013 | 40,000 | (2,281) | 4.83% | 5.30% | Cash Flow |
| Total | \$ 175,000 | (9,067) | | | |

| December 31, 2006 | | | | | |
|-------------------------------------|-------------------|----------------|-------|-------|-----------|
| Pay fixed, receive variable: | | | | | |
| October 2011 | \$ 25,000 | (276) | 5.37% | 5.26% | Cash Flow |
| September 2011 | 20,000 | (218) | 5.36% | 5.25% | Cash Flow |
| September 2011 | 40,000 | (440) | 5.36% | 5.25% | Cash Flow |
| September 2013 | 50,000 | (813) | 5.36% | 5.30% | Cash Flow |
| September 2013 | 40,000 | (643) | 5.36% | 5.30% | Cash Flow |
| Total | \$ 175,000 | (2,390) | | | |

The interest rate swaps outstanding at December 31, 2007 as reflected in the above table, were designated as cash flow hedges pursuant to SFAS 133. The unrealized losses of \$9.1 million and \$2.4 million at December 31, 2007 and 2006, respectively, are included in other liabilities. These hedges were considered highly effective during 2007 and 2006 and none of the change in fair value of these derivatives was attributed to hedge ineffectiveness. The changes in fair value, net of tax, are separately disclosed in the statement of changes in shareholders' equity as a component of comprehensive income. During 2008, the Company estimates that \$2.1 million of unrealized losses will be reclassified from accumulated other comprehensive income to interest expense.

At December 31, 2005 the Company had \$231.1 million of interest rate swaps outstanding that were not documented as being in hedging relationships pursuant to the requirements of SFAS 133. All of these swaps were terminated in the third quarter of 2006. Changes in market value related to these interest rate swaps during 2005 and 2006 were recognized in non-interest income. In addition, since these swaps were not considered hedges pursuant to SFAS 133,

the quarterly net settlements were included in non-interest income.

The Company's banking subsidiaries offer certain derivative products directly to qualified commercial borrowers. The Company economically hedges customer derivative transactions by entering into offsetting derivatives executed with a third party. Derivative transactions executed as part of this program are not designated in SFAS 133 hedge relationships and are, therefore, marked-to-market through earnings each period. In most cases, the derivatives have mirror-image terms, which results in the positions' changes in fair value offsetting completely through earnings each period. However, to the extent that the derivatives are not a mirror-image, changes in fair value will not completely offset, resulting in some earnings impact each period. At December 31, 2007, the aggregate notional value of interest rate swaps with various commercial borrowers totaled \$32.6 million and the aggregate notional value of mirror-image interest rate swaps with third parties also totaled \$32.6 million. These interest rate swaps mature between August 2010 and May 2016. These swaps were reported on the Company's balance sheet at December 31, 2007, by a derivative asset of \$1.7 million and a derivative liability of \$1.6 million. At December 31, 2006, the aggregate notional value of interest rate swaps with various commercial borrowers totaled \$21.1 million and the aggregate notional value of the mirror-image swaps totaled \$21.1 million. At December 31, 2006, these swaps reported on the Company's balance sheet by a derivative asset of \$506,000 and a derivative liability of \$506,000. These interest rate swaps are not reflected in the above table.

Mortgage Banking Derivatives

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company's practice

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to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships pursuant to SFAS 133. At December 31, 2007, the Company had a notional amount of approximately \$114 million of interest rate lock commitments and \$219 million of forward commitments for the future delivery of residential mortgage loans. The fair value of these mortgage banking derivatives was reflected by a derivative asset of \$528,000 and a derivative liability of \$543,000. At December 31, 2006, the Company had a notional amount of approximately \$118 million of interest rate lock commitments and \$263 million of forward commitments for the future delivery of residential mortgage loans. The fair value of these mortgage banking derivatives was reflected by a derivative asset of \$360,000 and a derivative liability of \$342,000. Fair values were estimated based on changes in mortgage rates from the date of the commitments.

Changes in the fair values of these mortgage-banking derivatives are included in mortgage banking revenue.

Other Derivatives

The Company has also used interest rate caps to hedge cash flow variability of certain deposit products. However, no interest rate cap contracts were entered into in 2007 or 2006, and the Company had no interest rate cap contracts outstanding at December 31, 2007 or December 31, 2006.

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 increase the total return associated with the investment securities portfolio. These options do not qualify as hedges pursuant to SFAS 133 and, accordingly, changes in the fair value of these contracts are recognized as non-interest income. There were no covered call options outstanding as of December 31, 2007 or 2006.

(22) Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2007 and 2006 (in thousands):

| | At December 31, 2007 | | At December 31, 2006 | |
|---------------------------------------|----------------------|------------|----------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Assets: | | | | |
| Cash and cash equivalents | \$ 261,154 | 261,154 | 305,292 | 305,292 |
| Interest bearing deposits with banks | 10,410 | 10,410 | 19,259 | 19,259 |
| Available-for-sale securities | 1,303,837 | 1,303,837 | 1,839,716 | 1,839,716 |
| Trading account securities | 1,571 | 1,571 | 2,324 | 2,324 |
| Brokerage customer receivables | 24,206 | 24,206 | 24,040 | 24,040 |
| Mortgage loans held-for-sale | 109,552 | 110,774 | 148,331 | 149,512 |
| Loans, net of unearned income | 6,801,602 | 7,040,983 | 6,496,480 | 6,616,989 |
| Accrued interest receivable and other | 120,629 | 120,629 | 121,346 | 121,346 |
| Total financial assets | \$ 8,632,961 | 8,873,564 | 8,956,788 | 9,078,478 |
| Financial Liabilities: | | | | |
| Non-maturity deposits | \$ 3,278,028 | 3,278,028 | 3,069,108 | 3,069,108 |
| Deposits with stated maturities | 4,193,413 | 4,209,146 | 4,800,132 | 4,786,022 |
| Notes payable | 60,700 | 60,700 | 12,750 | 12,750 |

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| | | | | |
|------------------------------------|---------------------|------------------|-----------|-----------|
| Federal Home Loan Bank advances | 415,183 | 428,779 | 325,531 | 323,962 |
| Subordinated notes | 75,000 | 75,000 | 75,000 | 75,000 |
| Other borrowings | 254,434 | 254,434 | 162,072 | 162,072 |
| Junior subordinated debentures | 249,662 | 261,811 | 249,828 | 249,431 |
| Accrued interest payable | 21,245 | 21,245 | 22,861 | 22,861 |
| Total financial liabilities | \$ 8,547,665 | 8,589,143 | 8,717,282 | 8,701,206 |
| Derivative contracts: | | | | |
| Interest rate swap contracts | \$ (9,058) | (9,058) | (2,390) | (2,390) |
| Mortgage banking derivatives | (15) | (15) | 18 | 18 |

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Cash and cash equivalents. Cash and cash equivalents include cash and demand balances from banks, Federal funds sold and securities purchased under resale agreements. The carrying value of cash and cash equivalents approximates fair value due to the short maturity of those instruments.

Interest bearing deposits with banks. The carrying value of interest bearing deposits with banks approximates fair value due to the short maturity of those instruments.

Available-for-sale securities. The fair values of available-for-sale securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable assets.

Trading account securities. The fair values of trading account securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable assets.

Brokerage customer receivables. The carrying value of brokerage customer receivables approximates fair value due to the relatively short period of time to repricing of variable interest rates.

Mortgage loans held-for-sale. Fair value is based on either observable market prices or prices obtained from third parties.

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.

Accrued interest receivable and accrued interest payable. The carrying values of accrued interest receivable and accrued interest payable approximate market values due to the relatively short period of time to expected realization.

Deposit liabilities. The fair value of deposits with no stated maturity, such as non-interest bearing deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand as of year-end (i.e. the carrying value). 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.

Notes payable. The carrying value of notes payable approximates fair value due to the relatively short period of time to repricing of variable interest rates.

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.

Subordinated notes. The carrying value of the subordinated notes payable approximates fair value due to the relatively short period of time to repricing of variable interest rates.

Other borrowings. Carrying value of other borrowings approximates fair value due to the relatively short period of time to maturity or repricing.

Junior subordinated debentures. The fair value of the junior subordinated debentures is based on the discounted value of contractual cash flows.

Interest rate swap agreements. The fair value is based on quoted market prices as of the last business day of the year.

Commitments to extend credit and standby letters of credit. The fair value of commitments to extend credit is based on fees currently charged to enter into similar arrangements, the remaining term of the agreement, the present creditworthiness of the counterparty, and the difference between current interest rates and committed interest rates on the commitments. The majority of the Company's commitments contain variable interest rates; thus the carrying value approximates fair value.

The fair value of letters of credit is based on fees currently charged for similar arrangements. The fair value of such commitments is not material and is not shown here.

Mortgage banking derivatives consist of commitments to fund mortgages for sale into the secondary market (interest rate locks) and forward commitments to end investors for the sale of such loans. Fair value is determined based on changes in mortgage rates from the date of the commitments.

The above fair value estimates were made at a point in time based on relevant market information and other assumptions about the financial instruments. As no active market exists for a significant portion of the Company's financial instruments, fair value estimates were based on judgments regarding current economic conditions, future expected cash flows and loss experience, risk characteristics and other factors. These estimates are subjective in nature and involve uncertainties and therefore cannot be calculated with precision. Changes in these assumptions could significantly affect these estimates. In addition, the fair value estimates only reflect existing on and off-balance sheet financial instruments and do not attempt to assess the value of

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anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the value of depositor relationships, premises and equipment, intangible assets and the Company's trust and asset management businesses have not been considered.

(23) Shareholders' Equity

A summary of the Company's common and preferred stock at December 31, 2007 and 2006 is as follows:

| | 2007 | 2006 |
|-------------------------|-------------------|------------|
| Common Stock: | | |
| Shares authorized | 60,000,000 | 60,000,000 |
| Shares issued | 26,281,296 | 25,802,024 |
| Shares outstanding | 23,430,490 | 25,457,935 |
| Cash dividend per share | \$ 0.32 | \$ 0.28 |
| Preferred Stock: | | |
| Shares authorized | 20,000,000 | 20,000,000 |
| Shares issued | | |
| Shares outstanding | | |

The Company reserves shares of its authorized common stock specifically for its Stock Incentive Plan, its Employee Stock Purchase Plan and its Directors Deferred Fee and Stock Plan. The reserved shares and these plans are detailed in Note 18 Employee Benefit and Stock Plans.

The Company has issued warrants to acquire common stock. The warrants entitle the holders to purchase one share of the Company's common stock at a purchase price of \$30.50 per share. Warrants outstanding at December 31, 2007 and 2006 were 19,000 and 33,000, respectively. The expiration date on the remaining outstanding warrants at December 31, 2007 is February 2013.

On March 30, 2005, Wintrust consummated the partial settlement of the forward sale agreement the Company entered into on December 14, 2004 with Royal Bank of Canada, an affiliate of RBC Capital Markets Corporation, relating to the forward sale by Wintrust of 1.2 million shares of Wintrust's common stock. Pursuant to and in partial settlement of the forward sale agreement, Wintrust issued 1.0 million shares of its common stock, and received net proceeds of \$55.8 million from Royal Bank of Canada. Additionally, on December 14, 2005, Wintrust amended certain terms of the forward sale agreement for the purpose of extending the maturity date for the remaining 200,000 shares from December 17, 2005 to December 17, 2006. In conjunction with the completion of the acquisition of Hinsbrook Bank in May 2006, the forward sale agreement was fully settled with Wintrust issuing 200,000 shares of its common stock and receiving net proceeds of \$11.6 million. The Company issued 1,120,033 shares of common stock in May 2006 in connection with the acquisition Hinsbrook Bank.

In July 2006, the Company's Board of Directors authorized the repurchase of up to 2.0 million shares of the Company's outstanding common stock over 18 months. The Company repurchased a total of approximately 1.8 million shares at an average price of \$45.74 per share under the July 2006 share repurchase plan. In April 2007, the Company's Board of Directors terminated the prior plan and authorized the repurchase of up to an additional 1.0 million shares of the Company's outstanding common stock over 12 months. The Company began to repurchase shares under the new plan in July 2007 and repurchased all 1.0 million shares at an average price of \$37.57 per share during the third and fourth quarters of 2007. As of December 31, 2007, the Company had 2,850,806 shares in Treasury Stock. In January 2008, the Company's Board of Directors authorized the repurchase of up to 1.0 million additional shares of the Company's outstanding common stock over the next 12 months.

At the January 2008 Board of Directors meeting, a semi-annual cash dividend of \$0.18 per share (\$0.36 on an annualized basis) was declared. It was paid on February 21, 2008 to shareholders of record as of February 7, 2008.

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The following table summarizes the components of other comprehensive income (loss), including the related income tax effects, for the years ending December 31, 2007, 2006 and 2005 (in thousands):

| | 2007 | 2006 | 2005 |
|--|-----------------|---------|----------|
| Unrealized net gains (losses) on available-for-sale securities | \$16,552 | 3,222 | (16,824) |
| Related tax (expense) benefit | (6,512) | (1,160) | 6,399 |
| Net after tax unrealized gains (losses) on available-for-sale securities | 10,040 | 2,062 | (10,425) |
| Less: reclassification adjustment for net gains realized in net income during the year | 2,997 | 17 | 1,063 |
| Related tax expense | (1,142) | (6) | (407) |
| Net after tax reclassification adjustment | 1,855 | 11 | 656 |
| Unrealized net gains (losses) on available-for-sale securities, net of reclassification adjustment | 8,185 | 2,051 | (11,081) |
| Net unrealized gains (losses) on derivatives used as cash flow hedges | (6,677) | (2,390) | 173 |
| Related tax benefit (expense) | 2,581 | 911 | (67) |
| Net unrealized gains (losses) on derivatives used as cash flow hedges | (4,096) | (1,479) | 106 |
| Total other comprehensive income (loss) | \$ 4,089 | 572 | (10,975) |

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A roll-forward of the change in accumulated other comprehensive loss for the years ending December 31, 2007, 2006 and 2005 is as follows (in thousands):

| | 2007 | 2006 | 2005 |
|---|-------------------|----------|----------|
| Accumulated other comprehensive loss at beginning of year | \$(17,761) | (18,333) | (7,358) |
| Other comprehensive income (loss) | 4,089 | 572 | (10,975) |
| Accumulated other comprehensive loss at end of year | \$(13,672) | (17,761) | (18,333) |

Accumulated other comprehensive loss at December 31, 2007, 2006 and 2005 is comprised of the following components (in thousands):

| | 2007 | 2006 | 2005 |
|---|-------------------|----------|----------|
| Accumulated unrealized losses on securities available-for-sale | \$ (8,097) | (16,282) | (18,333) |
| Accumulated unrealized losses on derivatives used as cash flow hedges | (5,575) | (1,479) | |
| Total accumulated other comprehensive loss at end of year | \$(13,672) | (17,761) | (18,333) |

(24) Segment Information

The Company's operations consist of four primary segments: banking, premium finance, Tricom and wealth management. Through its fifteen bank subsidiaries located in Chicago, suburban Chicago and southern Wisconsin communities, the Company provides traditional community banking products and services to individuals and businesses such as accepting deposits, advancing loans, administering ATMs, maintaining safe deposit boxes, and providing other related services. The premium finance operations consist of financing the payment of commercial insurance premiums, on a national basis, through FIFC and Broadway. Significant portions of the loans originated by FIFC are sold to the Banks and are retained in each of their loan portfolios. The Tricom segment encompasses the operations of the Company's non-bank subsidiary that provides short-term accounts receivable financing and value-added out-sourced administrative services, such as data processing of payrolls, billing and cash management services, to temporary staffing service clients throughout the United States. The wealth management segment includes WHTC, WHAMC and WHI. WHTC offers trust services to existing customers of the Banks and targets affluent individuals and small to mid-size businesses whose needs command personalized attention by experienced trust and asset management professionals. WHI, a broker/dealer, provides a full-range of investment products and services tailored to meet the specific needs of individual investors, primarily in the Midwest. WHI also provides a full range of investment services to clients through a network of community-based financial institutions primarily in Illinois. WHAMC is a registered investment advisor and the investment advisory affiliate of WHI.

The four 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. The banking segment has a different regulatory environment than the premium finance, Tricom and wealth management segments. While the Company's management monitors each of the fifteen bank subsidiaries operations and profitability separately, as well as that of its mortgage company, 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.

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 generally the same as those described in the Summary of Significant Accounting Policies in Note 1 to the Consolidated Financial Statements. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. Intersegment revenue and transfers are generally accounted for at current market prices. The parent and intersegment eliminations reflect parent company information and intersegment eliminations.

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The following is a summary of certain operating information for reportable segments (in thousands):

| | Banking | Premium Finance | Tricom | Wealth Management | Parent & Intersegment Eliminations | Consolidated |
|-------------------------------|----------------|----------------------------|---------------|------------------------------|---|---------------------|
| 2007 | | | | | | |
| Net interest income (expense) | \$ 259,049 | 60,504 | 3,891 | 12,931 | (74,825) | 261,550 |
| Provision for credit losses | 14,326 | 1,917 | 120 | | (1,484) | 14,879 |
| Noninterest income | 36,315 | 2,040 | 4,006 | 39,257 | (1,530) | 80,088 |
| Noninterest expense | 186,762 | 11,231 | 5,498 | 39,836 | (392) | 242,935 |
| Income tax expense (benefit) | 31,945 | 19,619 | 900 | 4,628 | (28,921) | 28,171 |
| Net income (loss) | \$ 62,331 | 29,777 | 1,379 | 7,724 | (45,558) | 55,653 |
| | | | | | | |
| Total assets at end of year | \$9,334,725 | 1,123,177 | 41,551 | 63,479 | (1,194,073) | 9,368,859 |
| | | | | | | |
| 2006 | | | | | | |
| Net interest income (expense) | \$ 235,166 | 42,376 | 3,914 | 6,347 | (38,917) | 248,886 |
| Provision for credit losses | 6,342 | 2,196 | 120 | | (1,601) | 7,057 |
| Noninterest income | 40,625 | 2,883 | 4,598 | 38,021 | 5,105 | 91,232 |
| Noninterest expense | 175,088 | 10,593 | 5,370 | 39,177 | (1,408) | 228,820 |
| Income tax expense (benefit) | 33,274 | 12,882 | 1,207 | 1,933 | (11,548) | 37,748 |
| Net income (loss) | \$ 61,087 | 19,588 | 1,815 | 3,258 | (19,255) | 66,493 |
| | | | | | | |
| Total assets at end of year | \$9,447,666 | 1,222,197 | 57,570 | 58,378 | (1,213,959) | 9,571,852 |
| | | | | | | |
| 2005 | | | | | | |
| Net interest income (expense) | \$ 211,705 | 40,533 | 4,101 | 1,419 | (40,999) | 216,759 |
| Provision for credit losses | 6,501 | 1,386 | 15 | | (1,226) | 6,676 |
| Noninterest income | 50,995 | 6,499 | 4,539 | 36,619 | (5,095) | 93,557 |

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| | | | | | | |
|---------------------------------|-------------|---------|--------|--------|-----------|-----------|
| Noninterest expense | 147,512 | 10,034 | 5,599 | 39,017 | (3,472) | 198,690 |
| Income tax expense (benefit) | 39,240 | 13,884 | 1,212 | (390) | (16,012) | 37,934 |
| Net income (loss) | \$ 69,447 | 21,728 | 1,814 | (589) | (25,384) | 67,016 |
| | | | | | | |
| Total assets at end of year | \$8,065,671 | 859,536 | 63,858 | 61,828 | (873,851) | 8,177,042 |

The premium finance segment information shown in the above tables was derived from internal profitability reports, which assumes that all loans originated and sold to the banking segment are retained within the segment that originated the loans. All related loan interest income, allocations for interest expense, provisions for credit losses and allocations for other expenses are included in the premium finance segment. The banking segment information also includes all amounts related to these loans, as these loans are retained within the Banks' loan portfolios. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates the net interest income earned by the banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. Accordingly, the intersegment eliminations include adjustments necessary for each category to agree with the related consolidated financial statements.

During the third quarter of 2006, the Company changed the measurement methodology for the net interest income component of the wealth management segment. In conjunction with the change in the executive management team for this segment in the third quarter of 2006, the contribution attributable to the wealth management deposits was redefined to measure the full net interest income contribution. In previous periods, the contribution from these deposits to the wealth management segment was limited to the value as an alternative source of funding for each Bank. As such, the contribution in previous periods did not capture the total net interest income contribution of this funding source. Executive management of this segment currently uses this measured contribution to determine the overall profitability of the wealth management segment.

Table of Contents**(25) Condensed Parent Company Financial Statements**

Condensed parent company only financial statements of Wintrust follow:

Balance Sheets*(in thousands):*

| | December 31, | |
|--|---------------------|------------------|
| | 2007 | 2006 |
| Assets | | |
| Cash | \$ 735 | 648 |
| Other investments | 47,093 | 64,453 |
| Loans to subsidiaries | 1,140 | 2,300 |
| Investment in subsidiaries | 1,095,504 | 1,064,294 |
| Goodwill | 8,347 | 8,347 |
| Other assets | 23,650 | 26,046 |
| Total assets | \$1,176,469 | 1,166,088 |
| Liabilities and Shareholders Equity | | |
| Other liabilities | \$ 19,437 | 8,836 |
| Notes payable | 60,700 | 12,750 |
| Subordinated notes | 75,000 | 75,000 |
| Other borrowings | 32,115 | 46,328 |