WINTRUST FINANCIAL CORP
Form 10-K
February 29, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2011

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period from to ___________

Commission File Number 001-35077

Wintrust Financial Corporation

(Exact name of registrant as specified in its charter)

Illinois	**36-3873352**
(State of incorporation or organization)	(I.R.S. Employer Identification No.)

727 North Bank Lane

Lake Forest, Illinois 60045

(Address of principal executive offices)

Registrant s telephone number, including area code: **(847) 615-4096**

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	**The NASDAQ Global Select Market**
Warrants (expiring December 19, 2018)	**The NASDAQ Global Select Market**

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

None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes þ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨ Yes ¨ No

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

Large accelerated filer þ	Accelerated filer ¨	Non-Accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes þ No

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2011 (the last business day of the registrant s most recently completed second quarter), determined using the closing price of the common stock on that day of $32.18, as reported by the NASDAQ Global Select Market, was $1,102,160,430.

As of February 22, 2012, the registrant had 36,293,039 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company s Annual Meeting of Shareholders to be held on May 24, 2012 are incorporated by reference into Part III.

TABLE OF CONTENTS

		Page
	PART I	
ITEM 1	Business	3
ITEM 1A.	Risk Factors	17
ITEM 1B.	Unresolved Staff Comments	28
ITEM 2.	Properties	28
ITEM 3.	Legal Proceedings	28
ITEM 4.	Mine Safety Disclosures	28
	PART II	
ITEM 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	29
ITEM 6.	Selected Financial Data	31
ITEM 7.	Management s Discussion and Analysis of Financial Condition and Results of Operation	32
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	81
ITEM 8.	Financial Statements and Supplementary Data	83
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	144
ITEM 9A.	Controls and Procedures	144
ITEM 9B.	Other Information	147
	PART III	
ITEM 10.	Directors, Executive Officers and Corporate Governance	147
ITEM 11.	Executive Compensation	147
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	147
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	148
ITEM 14.	Principal Accountant Fees and Services	148
	PART IV	
ITEM 15.	Exhibits and Financial Statement Schedules	149
	Signatures	155

PART I

ITEM I. BUSINESS

Overview

Wintrust Financial Corporation, an Illinois corporation (we, Wintrust or the Company), which was incorporated in 1992, is a financial holding company based in Lake Forest, Illinois, with total assets of approximately $15.9 billion as of December 31, 2011. We conduct our businesses through three segments: community banking, specialty finance and wealth management.

We provide community-oriented, personal and commercial banking services to customers located in the Chicago metropolitan area and in southeastern Wisconsin (our Market Area) through our fifteen wholly owned banking subsidiaries (collectively, the banks), as well as the origination and purchase of residential mortgages for sale into the secondary market through Wintrust Mortgage, a division of Barrington Bank and Trust Company, N.A. (Barrington Bank),. For the years ended December 31, 2011, 2010 and 2009, the community banking segment had net revenues of $568 million, $520 million and $393 million, respectively, and net income (loss) of $84 million, $71 million and $(26 million), respectively. The community banking segment had total assets of $15.2 billion, $13.3 billion and $12.0 billion as of December 31, 2011, 2010 and 2009, respectively. The community banking segment accounted for 87% of our net revenues for the year ended December 31, 2011. All of these measurements are based on our reportable segments and do not reflect intersegment eliminations.

We provide specialty finance services, including financing for the payment of commercial insurance premiums and life insurance premiums (premium finance receivables) on a national basis through our wholly owned subsidiary, First Insurance Funding Corporation (FIFC), and short-term accounts receivable financing (Tricom finance receivables) and outsourced administrative services through our wholly owned subsidiary, Tricom, Inc. of Milwaukee (Tricom). For the years ended December 31, 2011, 2010 and 2009, the specialty finance segment had net revenues of $116 million, $104 million and $232 million, respectively, and net income of $46 million, $33 million and $120 million, respectively. The specialty finance segment had total assets of $3.3 billion, $2.9 billion and $2.2 billion as of December 31, 2011, 2010 and 2009, respectively. It accounted for 18% of our net revenues for the year ended December 31, 2011. All of these measurements are based on our reportable segments and do not reflect intersegment eliminations.

We provide a full range of wealth management services primarily to customers in our Market Area through three separate subsidiaries, including The Chicago Trust Company, N.A. (CTC), Wayne Hummer Investments, LLC (WHI) and Great Lakes Advisors, LLC (Great Lakes Advisors). For the years ended December 31, 2011, 2010 and 2009, the wealth management segment had net revenues of $63 million, $58 million and $51 million, respectively, and net income of $7 million, $7 million and $6 million, respectively. The wealth management segment had total assets of $92 million, $65 million and $62 million as of December 31, 2011, 2010 and 2009, respectively. It accounted for 10% of our net revenues for the year ended December 31, 2011. All of these measurements are based on our reportable segments and do not reflect intersegment eliminations.

Our Business

Community Banking

Through our banks, we provide community-oriented, personal and commercial banking services to customers located in our Market Area. Our customers include individuals, small to mid-sized businesses, local governmental units and institutional clients residing primarily in the banks local service areas. The banks have a community banking and marketing strategy. In keeping with this strategy, the banks provide highly personalized and responsive service, a characteristic of locally-owned and managed institutions. As such, the banks compete for deposits principally by offering depositors a variety of deposit programs, convenient office locations, hours and other services, and for loan originations primarily through the interest rates and loan fees they charge, the efficiency and quality of services they provide to borrowers and the variety of their loan and cash management products. Using our decentralized corporate structure to our advantage, in 2008, we announced the creation of our MaxSafe® deposit accounts, which provide customers with expanded Federal Deposit Insurance Corporation (FDIC) insurance coverage by spreading a customer s deposit across our fifteen banks. This product differentiates our banks from many of our competitors that have consolidated their bank charters into branches. In 2010, we opened a downtown Chicago office to work with each of our banks to capture core commercial and industrial business. Our commercial and industrial lenders in our downtown office operate in close partnership with lenders at our community banks. By combining our expertise in the commercial and industrial sector with our high level of personal service and full suite of banking products, we believe we create another point of differentiation from both our larger and smaller competitors. The banks also offer home equity, home mortgage, consumer, and real estate loans, safe deposit facilities, ATMs, internet banking and other innovative and traditional services specially tailored to meet the needs of customers in their market areas.

We developed our banking franchise through *de novo* organization of nine banks and the purchase of eight banks, two of which was merged into an existing Wintrust bank. The organizational efforts began in 1991, when a group of experienced bankers and local business people identified an unfilled niche in the Chicago metropolitan area retail banking market. As large banks acquired smaller ones and personal service was subjected to consolidation strategies, the opportunity increased for locally owned and operated, highly personal service-oriented banks. As a result, Lake Forest Bank and Trust Company (Lake Forest Bank) was founded in December 1991 to service the Lake Forest and Lake Bluff communities. As of December 31, 2011, we had 99 banking locations.

We now own fifteen banks, including nine Illinois-chartered banks, Lake Forest Bank, Hinsdale Bank and Trust Company (Hinsdale Bank), North Shore Community Bank and Trust Company (North Shore Bank), Libertyville Bank and Trust Company (Libertyville Bank), Northbrook Bank & Trust Company (Northbrook Bank), Village Bank & Trust (Village Bank), Wheaton Bank & Trust Company (Wheaton Bank), State Bank of The Lakes and St. Charles Bank & Trust Company (St. Charles Bank). In addition, we have one Wisconsin-chartered bank, Town Bank, and five nationally chartered banks, Barrington Bank, Crystal Lake Bank & Trust Company, N.A. (Crystal Lake Bank), Schaumburg Bank & Trust Company, N.A. (Schaumburg Bank), Beverly Bank & Trust Company, N.A. (Beverly Bank) and Old Plank Trail Community Bank, N.A. (Old Plank Trail Bank).

Each Bank is subject to regulation, supervision and regular examination by: (1) the Secretary of the Illinois Department of Financial and Professional Regulation (Illinois Secretary) and the Board of Governors of the Federal Reserve System (Federal Reserve) for Illinois-chartered banks; (2) the Office of the Comptroller of the Currency (OCC) for nationally-chartered banks or (3) the Wisconsin Department of Financial Institutions (Wisconsin Department) and the Federal Reserve for Town Bank.

We also engage in the origination and purchase of residential mortgages for sale into the secondary market through Wintrust Mortgage, and provide other loan closing services to a network of mortgage brokers. Mortgage banking operations are also performed within certain banks. Wintrust Mortgage, a division of Barrington Bank, sells many of its loans with servicing released. Some of our banks engage in loan servicing, as a portion of the loans sold by the banks into the secondary market are sold with the servicing of those loans retained. Wintrust Mortgage maintains principal origination offices in a number of states, including Illinois, and originates loans in states through correspondent channels. Wintrust Mortgage also established offices at several of the banks and provides the banks with the ability to use an enhanced loan origination and documentation system. This allows Wintrust Mortgage and the banks to better utilize existing operational capacity and improve the product offering for the banks customers.

We also offer several niche lending products through the banks. These include Barrington Bank s Community Advantage program which provides lending, deposit and cash management services to condominium, homeowner and community associations, Hinsdale Bank s mortgage warehouse lending program which provides loan and deposit services to mortgage brokerage companies located predominantly in the Chicago metropolitan area, Crystal Lake Bank s North American Aviation Financing division which provides small aircraft lending, Lake Forest Bank s franchise lending program which provides lending primarily to restaurant franchisees and Hinsdale Bank s indirect auto lending program originates new and used automobile loans, generated through a network of automobile dealers located in the Chicago metropolitan area, secured by new and used vehicles and diversified among many individual borrowers. We did not originate indirect auto loans from the third quarter of 2008 through the third quarter of 2010, but restarted loans under this program as market conditions became more favorable. In aggregate, these other specialty loans generated through divisions of the banks comprised approximately 4.6% of our loan and lease portfolio at December 31, 2011.

Specialty Finance

We conduct our specialty finance businesses through indirect non-bank subsidiaries. Our wholly owned subsidiary, FIFC, engages in the premium finance receivables business, our most significant specialized lending niche, including commercial insurance premium finance and life insurance premium finance.

In its commercial insurance premium finance operations, FIFC makes loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. Approved medium and large insurance agents and brokers located throughout the United States assist FIFC in arranging each commercial premium finance loan between the borrower and FIFC. FIFC evaluates each loan request according to its own underwriting criteria including the amount of the down payment on the insurance policy, the term of the loan, the credit quality of the insurance company providing the financed insurance policy, the interest rate, the borrower s previous payment history, if any, and other factors deemed appropriate. Upon approval of the loan by FIFC, the borrower makes a down payment on the financed insurance policy, which is generally done by providing payment to the agent or broker, who then forwards it to the insurance company. FIFC may either forward the financed amount of the remaining policy premiums directly to the insurance carrier or to the agent or broker for remittance to the insurance carrier on FIFC s behalf. In some cases the agent or broker may hold our collateral, in the form of the proceeds of the unearned insurance premium from the insurance company, and forward it to FIFC in the event of a default by the borrower. Because the agent or broker is the primary contact to the ultimate borrowers who are located nationwide and because proceeds and our collateral may be handled by the agent or brokers during the term of the loan, FIFC may be more susceptible to third party (i.e., agent or broker) fraud. The Company performs ongoing credit and other reviews of the agents and brokers, and performs various internal audit steps to mitigate against the risk of any fraud.

The commercial and property premium finance business is subject to regulation in the majority of states. Regulation typically governs notices to borrowers prior to cancellation of a policy, notices to insurance companies, maximum interest rates and late fees and approval of loan documentation. FIFC is licensed or otherwise qualified to provide financing of commercial insurance policies in all 50 states states and FIFC s compliance department regularly monitors changes to regulations and updates policies and programs accordingly.

In 2007, FIFC began financing life insurance policy premiums generally used for estate planning purposes of high net-worth borrowers. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and legal counsel. The cash surrender value of the life insurance policy is the primary form of collateral. In addition, these loans often are secured with a letter of credit, marketable securities or certificates of deposit. In some cases, FIFC may make a loan that has a partially unsecured position. In 2009, FIFC significantly expanded its life insurance premium finance business by purchasing a portfolio of domestic life insurance premium finance loans with an aggregate unpaid principal balance of approximately $1.0 billion and certain related assets from two affiliates of American International Group, Inc. (AIG), for an aggregate purchase price of $745.9 million.

The life insurance premium finance business is governed under banking regulations but is not subject to additional systemic regulation. FIFC s compliance department regularly monitors the regulatory environment and the company s compliance with existing regulations. FIFC maintains a policy prohibiting the knowing financing of stranger-originated life insurance and has established procedures to identify and prevent the company from financing such policies. While a carrier could potentially put at risk the cash surrender value of a policy, which serves as FIFC s primary collateral, by challenging the validity of the insurance contract for lack of an insurable interest, FIFC believes it has strong counterclaims against any such claims by carriers, in addition to recourse to borrowers and guarantors as well as to additional collateral in certain cases.

FIFC s premium finance loans are primarily secured by the insurance policies financed by the loans. These insurance policies are written by a large number of insurance companies geographically dispersed throughout the country. Our premium finance receivables balances finance insurance policies which are spread among a large number of insurers, however one of the insurers represents approximately 15% of such balances and two additional insurers each represent approximately 5% of such balances. FIFC consistently monitors carrier ratings and financial performance of our carriers. In the event ratings fall below certain levels, most of FIFC s life insurance premium finance policies provide for an event of default and allow FIFC to have recourse to borrowers and guarantors as well as to additional collateral in certain cases. For the commercial premium finance business, the term of the loans is sufficiently short such that in the event of a decline in carrier ratings, FIFC can restrict or eliminate additional loans to finance premiums to such carriers.

Through our wholly owned subsidiary, Tricom, we provide high-yielding, short-term accounts receivable financing and value-added, outsourced administrative services, such as data processing of payrolls, billing and cash management services to the temporary staffing industry. Tricom s clients, located throughout the United States, provide staffing services to businesses in diversified industries. During 2011, Tricom processed payrolls with associated client billings of approximately $415 million and contributed approximately $7.7 million to our revenue, net of interest expense. Net revenue is based on our reportable segments and does not reflect intersegment eliminations.

In 2011, our commercial premium finance operations, life insurance premium finance operations and accounts receivable finance operations accounted for 56%, 37% and 7%, respectively, of the total revenues of our specialty finance business.

Wealth Management Activities

We offer a full range of wealth management services through three separate subsidiaries, including trust and investment services, asset management and securities brokerage services. In February 2002, we acquired WHI and Wayne Hummer Asset Management Company which are headquartered in Chicago. Soon thereafter, in order to further expand our wealth management business, we acquired Lake Forest Capital Management Company, a registered investment advisor with approximately $300 million of assets under management at the time of acquisition and, in 2009, further added to our capabilities in this area with the purchase of certain assets and assumption of certain liabilities of Advanced Investment Partners, LLC which specializes in the active management of domestic equity investment strategies and expands our institutional investment business.

In July 2011, the Company acquired Great Lakes Advisors which merged with Wintrust s existing asset management business. Great Lakes Advisors, our registered investment adviser, provides money management services and advisory services to individuals, mutual funds and institutional municipal and tax-exempt organizations. Great Lakes Advisors also provides portfolio management and financial supervision for a wide range of pension and profit-sharing plans as well as money management and advisory services to CTC. At December 31, 2011, the Company s wealth management subsidiaries had approximately $13.8 billion of assets under administration, which includes $2.0 billion of assets owned by the Company and its subsidiary banks.

CTC, our trust subsidiary, offers trust and investment management services to clients through offices located in downtown Chicago and at various banking offices of our fifteen banks. CTC is subject to regulation, supervision and regular examination by the OCC.

WHI, our registered broker/dealer subsidiary, has been operating since 1931. Through WHI, we provide a full range of private client and securities brokerage services to clients located primarily in the Midwest. WHI is headquartered in downtown Chicago, operates an office in Appleton, Wisconsin, and as of December 31, 2011, established branch locations in offices at a majority of our banks. WHI also provides a full range of investment services to clients through a network of relationships with community-based financial institutions primarily located in Illinois.

Strategy and Competition

Historically, we have executed a growth strategy through branch openings and *de novo* bank formations, expansion of our wealth management and premium finance business, development of specialized earning asset niches and acquisitions of other community-oriented banks or specialty finance companies. However, beginning in 2006, we made a decision to slow our growth due to unfavorable credit spreads, loosened underwriting standards by many of our competitors, and intense price competition. In August 2008, we raised $50 million of private equity. This investment was followed shortly by an investment by the U.S. Department of Treasury (Treasury) of $250 million and a warrant to purchase 1,643,295 shares of Wintrust Common Stock through the Capital Purchase Program (CPP). The CPP investment was not necessary for our short-or long-term health. However, the CPP investment presented an opportunity for the Company. By providing us with a significant source of relatively inexpensive capital, the Treasury s CPP investment allowed us to accelerate our growth cycle, expand lending and meet former Treasury Secretary Paulson s stated purpose for the program, which was designed to attract broad participation by healthy institutions that have plenty of capital to get through this period, but are not positioned to lend as widely as is necessary to support our economy.

With this $300 million of additional capital, we began to increase our lending and deposits in late 2008. This additional capital allowed us to be in a position to take advantage of opportunities in a disrupted marketplace during 2009, 2010 and 2011 by:

- Increasing our lending as other financial institutions pulled back;
- Hiring quality lenders and other staff away from larger and smaller institutions that may have substantially deviated from a customer-focused approach or who may have substantially limited the ability of their staff to provide credit or other services to their customers;
- Investing in dislocated assets such as the purchased life insurance premium finance portfolio and certain collateralized mortgage obligations; and
- Purchasing banks and banking assets either directly or through the FDIC-assisted process in areas key to our geographic expansion.

In March 2010, we further strengthened our capital position through a public offering of 6,670,000 shares of our common stock at $33.25 per share. Our net proceeds totaled $210.3 million. In December 2010, we sold an additional 3,685,897 shares of our common stock at $30.00 per share and 4.6 million 7.5% tangible equity units at a public offering price of $50.00 per unit (the concurrent offerings). We received net proceeds of $327.5 million from the concurrent offerings. Together, our capital offerings aggregated nearly $540 million in net proceeds.

On December 22, 2010, we repurchased all 250,000 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the Series B Preferred Stock) which we issued to the Treasury under the Troubled Asset Relief Program (TARP) CPP. The Series B Preferred Stock was repurchased at a price of $251.3 million, which included accrued and unpaid dividends of $1.3 million.

Management is committed to maintaining the Company s capital levels above the Well Capitalized levels established by the Federal Reserve for bank holding companies. Our strategy and competitive position for each of our business segments is summarized in further detail, below.

Community Banking

We compete in the commercial banking industry through our banks in the communities they serve. The commercial banking industry is highly competitive and the banks face strong direct competition for deposits, loans and other financial related services. The banks compete with other commercial banks, thrifts, credit unions and stockbrokers. Some of these competitors are local, while others are statewide or nationwide.

As a mid-size financial services company, we expect to benefit from greater access to financial and managerial resources than our smaller local competitors while maintaining our commitment to local decision-making and to our community banking philosophy. In particular, we are able to provide a wider product selection and larger credit facilities than many of our smaller competitors, and we believe our service offerings help us in recruiting talented staff. Since the beginning of 2009, we have continued to add more lenders throughout the community banking organization, many of whom have joined us because of our ability to offer a range of products and level of services which compete effectively with both larger and smaller market participants. We have continued to expand our product delivery systems, including a wide variety of electronic banking options for our retail and commercial customers which allow us to provide a level of service typically associated with much larger banking institutions. Consequently, management views technology as a great equalizer to offset some of the inherent advantages of its significantly larger competitors. Additionally, we have access to public capital markets whereas many of our local competitors are privately held and may have limited capital raising capabilities.

We also believe we are positioned to compete effectively with other larger and more diversified banks, bank holding companies and other financial services companies due to the multi-chartered approach that pushes accountability for building a franchise and a high level of customer service down to each of our banking franchises. Additionally, we believe that we provide a relatively complete portfolio of products that is responsive to the majority of our customers needs through the retail and commercial operations supplied by our banks, and through our mortgage and wealth management operations. The breadth of our product mix allows us to compete effectively with our larger competitors while our multi-chartered approach with local and accountable management provides for what we believe is superior customer service relative to our larger and more centralized competitors.

Wintrust Mortgage, a division of Barrington Bank, as well as the mortgage banking functions within the banks, competes with large mortgage brokers as well as other banking organizations. Consolidation, on-going investor push-backs, enhanced regulatory guidance and the promise of equal oversight for both banks and independent lenders have created challenges for small and medium-sized independent mortgage lenders. Wintrust Mortgage s size, bank affiliation, branding, technology, business development tools and reputation makes the firm well positioned to compete in this environment. While earnings will fluctuate with the rise and fall of long-term interest rates, mortgage banking revenue will be a continuous source of revenue for us and our mortgage lending relationships will continue to provide franchise value to our other financial service businesses.

In 2011, we furthered our growth strategy by purchasing, through certain of our banking subsidiaries, a number of additional banks and banking locations. In three FDIC-assisted transactions, we purchased a total of nine new banking locations, four in Chicago, one in Bloomingdale, Illinois, one in Itasca, Illinois, one in Norridge, Illinois, one in Park Ridge, Illlinois and one in Wood Dale, Illinois. Each of these acquisitions allowed us to expand our franchise into strategic locations on a cost-effective basis. In addition, we acquired three new banking locations in a non-FDIC-assisted transaction in Elgin, Illinois, that were merged into the Company s wholly-owned subsidiary bank, St. Charles Bank. Also, in 2011, we acquired three closed banking facilities from the FDIC in Crystal Lake, Illinois, Schaumburg, Illinois and Des Plaines, Illinois that were re-opened for business by Wintrust in 2011. We believe that these strategic acquisitions will allow us to grow into contiguous markets which we do not currently service and expand our footprint.

Specialty Finance

FIFC encounters intense competition from numerous other firms, including a number of national commercial premium finance companies, companies affiliated with insurance carriers, independent insurance brokers who offer premium finance services and other lending institutions. Some of its competitors are larger and have greater financial and other resources. FIFC competes with these entities by emphasizing a high level of knowledge of the insurance industry, flexibility in structuring financing transactions, and the timely funding of qualifying contracts. We believe that our commitment to service also distinguishes us from our competitors. Additionally, we believe that FIFC s acquisition of a large life insurance premium finance portfolio and related assets in 2009 enhanced our ability to market and sell life insurance premium finance products.

Tricom competes with numerous other firms, including a small number of similar niche finance companies and payroll processing firms, as well as various finance companies, banks and other lending institutions. Tricom s management believes that its commitment to service distinguishes it from competitors. To the extent that other finance companies, financial institutions and payroll processing firms add greater programs and services to their existing businesses, Tricom s operations could be negatively affected.

Wealth Management Activities

Our wealth management companies (CTC, WHI and Great Lakes Advisors) compete with larger wealth management subsidiaries of other larger bank holding companies as well as with other trust companies, brokerage and other financial service companies, stockbrokers and financial advisors. We believe we can successfully compete for trust, asset management and brokerage business by offering personalized attention and customer service to small to midsize businesses and affluent individuals. We continue to recruit and hire experienced professionals from the larger Chicago area wealth management companies, which is expected to help in attracting new customer relationships.

Supervision and Regulation

Bank holding companies, banks and investment firms are extensively regulated under federal and state law. References under this heading to applicable statutes or regulations are brief summaries or portions thereof which do not purport to be complete and which are qualified in their entirety by reference to those statutes and regulations and regulatory interpretations thereof. Any change in applicable laws or regulations may have a material effect on the business of commercial banks and bank holding companies, including the Company, the banks, FIFC, CTC, WHI, Great Lakes Advisors, Tricom and Wintrust Mortgage. The supervision, regulation and examination of banks and bank holding companies by bank regulatory agencies are intended primarily for the protection of depositors rather than stockholders of banks and bank holding companies. This section discusses recent regulatory developments impacting the Company and its subsidiaries, including the Emergency Economic Stabilization Act and the Temporary Liquidity Guarantee Program (TLGP). Following that presentation, the discussion turns to the regulation and supervision of the Company and its subsidiaries under various federal and state rules and regulations applicable to bank holding companies, broker-dealer and investment advisors.

Extraordinary Government Programs

During the past three years, the federal government, the Federal Reserve Bank of New York (the New York Fed) and the FDIC have made a number of programs available to banks and other financial institutions in an effort to ensure a well-functioning U.S. financial system. The Company participated in three such programs. Two of these programs, the CPP of the Treasury and the New York Fed s Term Asset-Backed Securities Loan Facility (TALF), have provided the Company with a significant amount of relatively inexpensive funding, which the Company used to accelerate its growth cycle and expand lending.

Capital Purchase Program. In October 2008, the Treasury announced that it intended to use a portion of the initial funds allocated to it pursuant to the Emergency Economic Stabilization Act of 2008, to invest directly in financial institutions through the newly-created CPP which was designed to attract broad participation by healthy institutions which have plenty of capital to get through this period, but are not positioned to lend as widely as is necessary to support our economy. In December 2008, the Company sold the Treasury $250 million in the Company s Series B Preferred Stock, and warrants to purchase the Company s common stock.

On December 22, 2010, the Company repurchased all the shares of Series B Preferred Stock. The Series B Preferred Stock was repurchased at a price of $251.3 million, which included accrued and unpaid dividends of $1.3 million. In addition, on February 14, 2011, the Treasury sold, through an underwritten public offering to purchasers other than the Company, all of the Company s warrants that it had received in connection with the CPP investment.

Participation in the CPP placed a number of restrictions on the Company, including limitations on the ability to increase dividends and restrictions on the compensation of its employees and executives. Participation in the CPP also subjected the Company to increased oversight by the Treasury, banking regulators and Congress. As a result of the Company s exit from the CPP, these restrictions have been terminated.

TALF-Eligible Issuance. In addition, in September 2009, one of the Company s subsidiaries sold $600 million in aggregate principal amount of its asset-backed notes in a securitization transaction sponsored by FIFC. The asset backed notes are eligible collateral under TALF and certain investors therefore received non-recourse funding from the New York Fed in order to purchase the notes. As a result, FIFC believes it received greater proceeds at lower interest rates from the securitization than it otherwise would have received in non-TALF-eligible transactions.

Increased FDIC Insurance for Non-Interest-Bearing Transaction Accounts. Each of our bank subsidiaries have also benefited from federal programs which provide increased FDIC insurance coverage for certain deposit accounts. At present, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and implementing regulations issued by the FDIC provide unlimited federal insurance of the net amount of certain non-interest-bearing transaction accounts at all insured depository institutions, including our bank subsidiaries, through December 31, 2012. After December 31, 2012, depositors will receive federal insurance up to the standard maximum deposit insurance amount of $250,000, which increased amount was made permanent by the Dodd-Frank Act.

Bank Regulation; Bank Holding Company and Subsidiary Regulations

General. Lake Forest Bank, Hinsdale Bank, North Shore Bank, Libertyville Bank, Northbrook Bank, Village Bank, Wheaton Bank, State Bank of The Lakes and St. Charles Bank are Illinois-chartered banks and as such they and their subsidiaries are subject to supervision and examination by the Illinois Secretary. Each of these Illinois-chartered banks is a member of the Federal Reserve and, as such, is subject to additional examination by the Federal Reserve as their primary federal regulator. Barrington Bank, Crystal Lake Bank, Schaumburg Bank, Beverly Bank, Old Plank Trail Bank and CTC are federally-chartered and are subject to supervision and examination by the OCC pursuant to the National Bank Act and regulations promulgated thereunder. Town Bank is a Wisconsin-chartered bank and a member of the Federal Reserve, and as such is subject to supervision by the Wisconsin Department and the Federal Reserve.

Financial Holding Company Regulations. The Company is a bank holding company that has elected to be treated by the Federal Reserve as a financial holding company for purposes of the Bank Holding Company Act of 1956, as amended, including regulations promulgated by the Federal Reserve (the BHC Act), as augmented by the provisions of the Gramm-Leach-Bliley Act (the GLB Act), which established a comprehensive framework to permit affiliations among commercial banks, insurance companies and securities firms. The Company became a financial holding company in 2002. Bank holding companies that elect to be treated as financial holding companies may engage in an expanded range of activities, including the businesses conducted by the wealth management subsidiaries. Financial holding companies, unlike traditional bank holding companies, can engage in certain activities without prior Federal Reserve approval, subject to certain post-commencement notice procedures. Effective July 2011, the Dodd- Frank Act requires a bank holding company that elects treatment as a financial holding company, including us, to be both well-capitalized and well-managed. This is in addition to the existing requirement that a financial holding company s subsidiary banks be well-capitalized and well-managed as defined in the applicable regulatory standards. If these conditions are not maintained, and the financial holding company fails to correct any deficiency within 180 days, the Federal Reserve may require the Company to either divest control of its banking subsidiaries or, at the election of the Company, cease to engage in any activities not permissible for a bank holding company that is not a financial holding company. Moreover, during the period of non-compliance, the Federal Reserve

8

can place any limitations on the financial holding company that it believes to be appropriate. Furthermore, if the Federal Reserve determines that a financial holding company has not maintained at least a satisfactory rating under the Community Reinvestment Act (CRA) at all of its controlled banking subsidiaries, the Company will not be able to commence any new financial activities or acquire a company that engages in such activities, although the Company will still be allowed to engage in activities closely related to banking and make investments in the ordinary course of conducting merchant banking activities. In April 2008, the Company was notified that one of its bank subsidiaries received a needs to improve rating under the CRA, therefore, the Company is subject to restrictions on further expansion in certain situations.

Federal Reserve Regulations. The Company continues to be subject to supervision and regulation by the Federal Reserve under the BHC Act. The Company is required to file with the Federal Reserve periodic reports and such additional information as the Federal Reserve may require pursuant to the BHC Act. The Federal Reserve examines the Company and may examine the banks and the Company s other subsidiaries.

The BHC Act requires prior Federal Reserve approval for, among other things, the acquisition by a bank holding company of direct or indirect ownership or control of more than 5% of the voting shares or substantially all the assets of any bank, or for a merger or consolidation of a bank holding company with another bank holding company. With certain exceptions, the BHC Act prohibits a financial holding company from acquiring direct or indirect ownership or control of voting shares of any company which is not a business that is financial in nature or incidental thereto, and from engaging directly or indirectly in any activity that is not financial in nature or incidental thereto. Also, as discussed below, the Federal Reserve expects bank holding companies to maintain strong capital positions while experiencing growth. The Federal Reserve, as a matter of policy, may require a bank holding company to be well-capitalized at the time of filing an acquisition application and upon consummation of the acquisition.

Under the BHC Act, the banks are prohibited from engaging in certain tying arrangements in connection with an extension of credit, lease, sale of property or furnishing of services. That means that, except with respect to traditional banking products (loans, deposits or trust services), the banks may not condition a customer s purchase of services on the purchase of other services from any of the banks or other subsidiaries of the Company.

It has been the policy of the Federal Reserve that the Company is expected to act as a source of financial and managerial strength to its subsidiaries, and to commit resources to support the subsidiaries. The Federal Reserve has taken the position that in implementing this policy, it may require the Company to provide such support even when the Company otherwise would not consider itself able to do so. The Dodd-Frank Act codified the requirement of holding companies, like the Company, to serve as a source of financial strength to their subsidiary depository institutions, which statutory requirement was effective in July 2011.

Interstate Acquisitions. The Dodd-Frank Act amended the BHC Act to require that a bank holding company be well-capitalized and well-managed, not merely adequately capitalized and adequately managed, in order to acquire a bank located outside of the bank holding company s home state. This amendment was effective in July 2011.

Federal Reserve Capital Requirements. The Federal Reserve has adopted risk-based capital requirements for assessing capital adequacy of all bank holding companies, including financial holding companies. These standards define regulatory capital and establish minimum capital ratios in relation to assets, both on an aggregate basis and as adjusted for credit risks and off-balance sheet exposures. Under the Federal Reserve s risk-based guidelines, capital is classified into two categories. For bank holding companies, Tier 1 capital, or core capital, consists of common stockholders equity, qualifying noncumulative perpetual preferred stock including related surplus, qualifying cumulative perpetual preferred stock including related surplus (subject to certain limitations), minority interests in the common equity accounts of consolidated subsidiaries and qualifying trust preferred securities, and is reduced by goodwill, specified intangible assets and certain other items (Tier 1 Capital). Tier 2 capital, or supplementary capital, consists of the following items, all of which are subject to certain conditions and limitations: the allowance for credit losses; perpetual preferred stock and related surplus; hybrid capital instruments; unrealized holding gains on marketable equity securities; perpetual debt and mandatory convertible debt securities; term subordinated debt and intermediate-term preferred stock.

Under the Federal Reserve s capital guidelines, bank holding companies are required 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%. In addition, the Federal Reserve continues to consider the Tier 1 leverage ratio (Tier 1 capital to average quarterly assets) in evaluating proposals for expansion or new activities.

In its capital adequacy guidelines, the Federal Reserve emphasizes that the foregoing standards are supervisory minimums and that banking organizations generally are expected to operate well above the minimum ratios. These guidelines also provide that banking organizations experiencing growth, whether internally or through acquisition, are expected to maintain strong capital positions substantially above the minimum levels. In light of the recent financial turmoil, it is generally expected that capital requirements will be revisited on a national and international basis.

As of December 31, 2011, the Company s total capital to risk-weighted assets ratio was 13.0%, its Tier 1 Capital to risk-weighted asset ratio was 11.8% and its leverage ratio was 9.4%. Capital requirements for the banks generally parallel the capital requirements previously noted for bank holding companies. Each of the banks is subject to applicable capital requirements on a separate company basis. The federal banking regulators must take prompt corrective action with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. There are five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. of December 31, 2011, each of the Company s banks was categorized as well capitalized. In order to maintain the Company s designation as a financial holding company, each of the banks is required to maintain capital ratios at or above the well capitalized levels.

Dividend Limitations. Because the Company s consolidated net income consists largely of net income of the banks and its non-bank subsidiaries, the Company s ability to pay dividends depends upon its receipt of dividends from these entities. Federal and state statutes and regulations impose restrictions on the payment of dividends by the Company, the banks and its non-bank subsidiaries. (See Bank Regulation; Additional Regulation of Dividends for further discussion of dividend limitations.)

Federal Reserve policy provides that a bank holding company should not pay dividends unless (i) the bank holding company s net income over the last four quarters (net of dividends paid) is sufficient to fully fund the dividends, (ii) the prospective rate of earnings retention appears consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries and (iii) the bank holding company will continue to meet minimum required capital adequacy ratios. The policy also provides that a bank holding company should inform the Federal Reserve reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in a material adverse change to the bank holding company s capital structure. Additionally, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to prohibit or limit the payment of dividends by bank holding companies.

Bank Regulation; Federal Deposit Insurance Act

General. The deposits of the banks are insured by the Deposit Insurance Fund (DIF) under the provisions of the Federal Deposit Insurance Act, as amended (the FDIA), and the banks are, therefore, also subject to supervision and examination by the FDIC. The FDIA requires that the appropriate federal regulatory authority (the Federal Reserve in the case of Lake Forest Bank, North Shore Bank, Hinsdale Bank, Libertyville Bank, Northbrook Bank, Village Bank, Wheaton Bank, State Bank of The Lakes, Town Bank and St. Charles Bank and the OCC in the case of Barrington Bank, Crystal Lake Bank, Schaumburg Bank, Beverly Bank, Old Plank Trail Bank, and CTC) approve any merger and/or consolidation by or with an insured bank, as well as the establishment or relocation of any bank or branch office and any change-in-control of an insured bank that is not subject to review by the Federal Reserve as a holding company regulator. The FDIA also gives the Federal Reserve, the OCC and the FDIC power to issue cease and desist orders against banks, holding companies or persons regarded as institution affiliated parties. A cease and desist order can either prohibit such entities from engaging in certain unsafe and unsound bank activity or can require them to take certain affirmative action. The appropriate federal regulatory authority with respect to each bank also supervises compliance with the provisions of federal law and regulations which, in addition to other requirements, place restrictions on loans by FDIC-insured banks (and their affiliates) to their directors, executive officers and principal shareholders.

Prompt Corrective Action. The FDIA requires the federal banking regulators to take prompt corrective action with respect to depository institutions that fall below minimum capital standards and prohibits any depository institution from making any capital distribution that would cause it to be undercapitalized. Institutions that are not adequately capitalized may be subject to a variety of supervisory actions including, but not limited to, restrictions on growth, investment activities, capital distributions and management fees and will be required to submit a capital restoration plan which, to be accepted by the regulators, must be guaranteed in part by any company having control of the institution (such as the Company). In other respects, the FDIA provides for enhanced supervisory authority, including authority for the appointment of a conservator or receiver for undercapitalized institutions. The capital-based prompt corrective action provisions of the FDIA and their implementing regulations generally apply to all FDIC-insured depository institutions. However, federal banking agencies have indicated that, in regulating bank holding companies, the agencies may take appropriate action at the holding company level based on their assessment of the effectiveness of supervisory actions imposed upon subsidiary insured depository institutions pursuant to the prompt corrective action provisions of the FDIA.

Standards for Safety and Soundness. The FDIA requires the federal bank regulatory agencies to prescribe standards of safety and soundness, by regulations or guidelines, relating generally to operations and management, asset growth, asset quality, earnings, stock valuation and compensation. The federal bank regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards pursuant to the FDIA. The guidelines establish general standards relating to internal controls and information systems, informational security, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. Additional restrictions on compensation applied to the Company as a result of its participation in the CPP. As a result of the Company s exit from the CPP, these restrictions have been

10

terminated. See Extraordinary Government Programs Capital Purchase Program. However, the Dodd-Frank Act also imposes restrictions on and additional disclosure regarding incentive compensation. In addition, each of the Federal Reserve and the OCC adopted regulations that authorize, but do not require, the Federal Reserve or the OCC, as the case may be, to order an institution that has been given notice by the Federal Reserve or the OCC, as the case may be, that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the Federal Reserve or the OCC, as the case may be, must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an under-capitalized association is subject under the prompt corrective action provisions of the FDIA. If an institution fails to comply with such an order, the Federal Reserve or the OCC, as the case may be, may seek to enforce such order in judicial proceedings and to impose civil money penalties. The Federal Reserve, the OCC and the other federal bank regulatory agencies also adopted guidelines for asset quality and earnings standards.

Other FDIA Provisions. A range of other provisions in the FDIA include requirements applicable to: closure of branches; additional disclosures to depositors with respect to terms and interest rates applicable to deposit accounts; uniform regulations for extensions of credit secured by real estate; restrictions on activities of and investments by state-chartered banks; modification of accounting standards to conform to generally accepted accounting principles including the reporting of off-balance sheet items and supplemental disclosure of estimated fair market value of assets and liabilities in financial statements filed with the banking regulators; increased penalties in making or failing to file assessment reports with the FDIC; and increased reporting requirements on agricultural loans and loans to small businesses.

In addition, the federal banking agencies adopted a final rule, which modified the risk-based capital standards, to provide for consideration of interest rate risk when assessing the capital adequacy of a bank. Under this rule, federal regulators and the FDIC must explicitly include a bank s exposure to declines in the economic value of its capital due to changes in interest rates as a factor in evaluating a bank s capital adequacy. The federal banking agencies also have adopted a joint agency policy statement providing guidance to banks for managing interest rate risk. The policy statement emphasizes the importance of adequate oversight by management and a sound risk management process. The assessment of interest rate risk management made by the banks examiners will be incorporated into the banks overall risk management rating and used to determine the effectiveness of management.

Insurance of Deposit Accounts. Under the FDIA, as an FDIC-insured institution, each of the banks is required to pay deposit insurance premiums based on the risk it poses to the DIF. Each institution s assessment rate depends on the capital category and supervisory category to which it is assigned. The FDIC has authority to raise or lower assessment rates on insured deposits in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments. In light of the significant increase in depository institution failures in 2008, 2009 and 2010 and the temporary increase of general deposit insurance limits to $250,000 per depositor (made permanent by the Dodd-Frank Act), the DIF incurred substantial losses during recent years. The Dodd-Frank Act also contains several provisions that affect deposit insurance premiums, including a change in the assessment base for federal deposit insurance from the amount of insured deposits to average total consolidated assets less average tangible equity and an increase in the minimum reserve ratio of the DIF from 1.15% to 1.35% of insured deposits (with the FDIC having until September 30, 2020 to meet the new minimum) and the deletion of the statutory cap for the reserve ratio. On December 14, 2010, the FDIC released a final rule setting the designated reserve ratio at 2%, 65 basis points above the statutory minimum. On February 7, 2011, the FDIC adopted a final rule implementing the changes to the deposit assessment base under the Dodd-Frank Act. Under the final rule, which was effective on April 1, 2011, the change in the assessment base definition is accompanied by a change in assessment rates, which will initially range from 2.5 basis points to 45 basis points. The FDIC has indicated that these changes will generally not require an increase in the level of assessments, and may result in decreased assessments, for depository institutions (such as each of our bank subsidiaries) with less than $10 billion in assets. However, there is a risk that the banks deposit insurance premiums will continue to increase if failures of insured depository institutions continue to deplete the DIF.

In addition, the Deposit Insurance Fund Act of 1996 authorizes the Financing Corporation (FICO) to impose assessments on DIF assessable deposits in order to service the interest on FICO s bond obligations. The amount assessed is in addition to the amount, if any, paid for deposit insurance under the FDIC s risk-related assessment rate schedule. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. The FICO annualized assessment rate is 0.66 cents per $100 of deposits for the first quarter of 2012.

Deposit insurance may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Such terminations can only occur, if contested, following judicial review through the federal courts. The management of each of the banks does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Under the cross-guarantee provision of the FDIA, as augmented by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), insured depository institutions such as the banks may be liable to the FDIC with respect to any loss or reasonably anticipated loss incurred by the FDIC resulting from the default of, or FDIC assistance to, any commonly controlled insured depository institution. The banks are commonly controlled within the meaning of the FIRREA cross-guarantee provision.

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

Bank Regulation; Additional Regulation of Dividends

As Illinois state-chartered banks, Lake Forest Bank, North Shore Bank, Hinsdale Bank, Libertyville Bank, Northbrook Bank, Village Bank, Wheaton Bank, State Bank of The Lakes and St. Charles Bank, each may not pay dividends in an amount greater than its current net profits after deducting bad debts out of undivided profits provided that its surplus equals or exceeds its capital. For the purpose of determining the amount of dividends that an Illinois bank may pay, bad debts are defined as debts upon which interest is past due and unpaid for a period of six months or more unless such debts are well-secured and in the process of collection. As a Wisconsin state-chartered bank, Town Bank may declare dividends out of its undivided profits, after provision for payment of all expenses, losses, required reserves, taxes and interest. In addition, if Town Bank s dividends declared and paid in either of the prior two years exceeded net income for such year, then the bank may not declare a dividend that exceeds year-to-date net income except with written consent of the Wisconsin Division of Financial Institutions. Furthermore, federal regulations also prohibit any Federal Reserve member bank, including each of the Company s Illinois-chartered banks and Town Bank, from declaring dividends in any calendar year in excess of its net income for the year plus the retained net income for the preceding two years, less any required transfers to the surplus account unless there is approval by the Federal Reserve. Similarly, as national associations supervised by the OCC, each of Barrington Bank, Crystal Lake Bank, Beverly Bank, Schaumburg Bank, Old Plank Trail Bank and CTC may not declare dividends in any year in excess of its net income for the year plus the retained net income for the preceding two years, minus the sum of any transfers required by the OCC and any transfers required to be made to a fund for the retirement of any preferred stock, nor may any of them declare a dividend in excess of undivided profits. Furthermore, the OCC may, after notice and opportunity for hearing, prohibit the payment of a dividend by a national bank if it determines that such payment would constitute an unsafe or unsound practice or if it determines that the institution is undercapitalized.

In addition to the foregoing, the ability of the Company, the banks and CTC to pay dividends may be affected by the various minimum capital requirements and the capital and noncapital standards established under the FDIA, as described above. The right of the Company, its shareholders and its creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to the prior claims of creditors of the respective subsidiaries. The Company s ability to pay dividends is likely to be dependent on the amount of dividends paid by the banks. No assurance can be given that the banks will, in any circumstances, pay dividends to the Company.

Bank Regulation; Other Regulation of Financial Institutions

Anti-Money Laundering. On October 26, 2001, the USA PATRIOT Act of 2001 (the PATRIOT Act) was enacted into law, amending in part the Bank Secrecy Act (BSA). The BSA and the PATRIOT Act contain anti-money laundering (AML) and financial transparency laws as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including: standards for verifying customer identification at account opening; rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; reports by nonfinancial entities and businesses filed with the Treasury s Financial Crimes Enforcement Network for transactions exceeding $10,000; and due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondence accounts for non-U.S. persons. Each bank is subject to the PATRIOT Act and, therefore, is required to provide its employees with AML training, designate an AML compliance officer and undergo an annual, independent audit to assess the effectiveness of its AML Program. The Company has established policies, procedures and internal controls that are designed to comply with these AML requirements.

Protection of Client Information. Many aspects of the Company s business are subject to increasingly comprehensive legal requirements concerning the use and protection of certain client information including those adopted pursuant to the GLB Act as well as the Fair and Accurate Credit Transactions Act of 2003 (the FACT Act), which amended the Fair Credit Reporting Act (FCRA). Provisions of the GLB Act require a financial institution to disclose its privacy policy to consumer-purpose customers and require that such customers be given a choice (through an opt-out notice) to forbid certain types of sharing of nonpublic personal information about them with certain nonaffiliated third persons. The Company and each of our banks and operating subsidiaries have a written privacy notice that is delivered to each of their customers when customer relationships begin, and annually thereafter, in compliance with the GLB Act. In accordance with that privacy notice, the Company and each of the banks protect the security of information about their customers, educate their employees about the importance of protecting customer privacy, and allow their customers to opt out of certain types of information sharing. The Company and each of the banks require business partners with whom they share such information to have adequate security safeguards and to abide by the redisclosure and reuse provisions of the GLB Act. The Company and each of the banks have developed and implemented programs to fulfill the expressed requests of customers and consumers to opt out of information sharing subject to the GLB Act. The federal banking regulators have interpreted the requirements of the GLB Act to require banks to take, and the Company and the banks are subject to state law requirements that require them to take, certain actions in the event that certain information about customers is compromised. If the federal or state regulators of the financial subsidiaries establish further guidelines for addressing customer privacy issues, the Company and/or each of the banks may need to amend their privacy policies and adapt their internal procedures. The Company and the banks may also be subject to additional requirements under state laws.

12

Moreover, like other lending institutions, the banks and certain other of our operating subsidiaries utilize credit bureau data in their underwriting activities. Use of such data is regulated under the FCRA, and the FCRA also regulates credit reporting, prescreening, sharing of information between affiliates, and the use of affiliate data for marketing purposes. The FCRA was amended by the FACT Act in 2003, which added a number of regulatory requirements. The Company, the banks and certain of our operating subsidiaries may also be subject to additional requirements under similar state laws.

Community Reinvestment. Under the CRA, a financial institution has a continuing and affirmative obligation, consistent with the safe and sound operation of such institution, to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. However, institutions are rated on their performance in meeting the needs of their communities. Performance is judged in three areas: (a) a lending test, to evaluate the institution s record of making loans in its assessment areas; (b) an investment test, to evaluate the institution s record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and business; and (c) a service test, to evaluate the institution s delivery of services through its branches, ATMs and other offices. The CRA requires each federal banking agency, in connection with its examination of a financial institution, to assess and assign one of four ratings to the institution s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by the institution, including applications for charters, branches and other deposit facilities, relocations, mergers, consolidations, acquisitions of assets or assumptions of liabilities, and bank and savings association acquisitions. An unsatisfactory record of performance may be the basis for denying or conditioning approval of an application by a financial institution or its holding company. The CRA also requires that all institutions make public disclosure of their CRA ratings. Each of the banks received a satisfactory or better rating from the Federal Reserve or the OCC on their most recent CRA performance evaluations except for North Shore which received a needs improvement rating. In response to this rating, North Shore has undertaken numerous efforts to improve the results of the next CRA evaluation, including, but not limited to, increased community development lending, investments and services, increased outreach, an enhanced marketing effort for low and moderate income communities and individuals, enhanced CRA training for bank staff and implementation of strong internal monitoring to proactively track progress. Because one of the banks received a needs to improve rating on its most recent CRA performance evaluation, and given the Company s holding company status, the Company is now subject to restrictions on further expansion of the Company s or the banks activities.

Federal Reserve System. The banks are subject to Federal Reserve regulations requiring depository institutions to maintain interest-bearing reserves against their transaction accounts (primarily NOW and regular checking accounts). As of December 31, 2011, the first $11.5 million of otherwise reservable balances (subject to adjustments by the Federal Reserve for each of the banks) are exempt from the reserve requirements. A 3% reserve ratio applies to balances over $11.5 million up to and including $71.0 million and a 10% reserve ratio applies to balances in excess of $71.0 million.

Brokered Deposits. Well capitalized institutions are not subject to limitations on brokered deposits, while adequately capitalized institutions are able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the rate paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. An adequately capitalized institution that receives a waiver is not permitted to offer interest rates on brokered deposits significantly exceeding the market rates in the institution s home area or nationally, and undercapitalized institutions may not solicit any deposits by offering such rates. Each of the banks is eligible to accept brokered deposits (as a result of their capital levels) and may use this funding source from time to time when management deems it appropriate from an asset/liability management perspective.

Enforcement Actions. Federal and state statutes and regulations provide financial institution regulatory agencies with great flexibility to undertake enforcement action against an institution that fails to comply with regulatory requirements, particularly capital requirements. Possible enforcement actions include the imposition of a capital plan and capital directive to civil money penalties, cease and desist orders, receivership, conservatorship or the termination of deposit insurance.

Compliance with Consumer Protection Laws. The banks are also subject to many federal consumer protection statutes and regulations including the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Electronic Fund Transfer Act, the Consumer Financial Protection Act, the Federal Trade Commission Act and analogous state statutes, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Servicemembers Civil Relief Act and the Home Mortgage Disclosure Act. Wintrust Mortgage, as a division of Barrington Bank, must also comply with many of these consumer protection statutes and regulations. Violation of these statutes can lead to significant potential liability, in litigation by consumers as well as enforcement actions by regulators. Among other things, these acts:

- require creditors to disclose credit terms in accordance with legal requirements;

require banks to disclose deposit account terms and electronic fund transfer terms in accordance with legal requirements;

limit consumer liability for unauthorized transactions;

impose requirements and limitations on the users of credit reports and those who provide information to credit reporting agencies;

prohibit discrimination against an applicant in any consumer or business credit transaction;

prohibit unfair, deceptive or abusive acts or practices;

require banks to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;

require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;

prohibit certain lending practices and limit escrow amounts with respect to real estate transactions; and

prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

During the past several years, federal regulators finalized a number of significant amendments to the regulations implementing these statutes. Among other things, the Federal Reserve, the FDIC and the OCC have adopted new rules applicable to the banks (and in some cases, Wintrust Mortgage, as a division of Barrington Bank) that govern various aspects of consumer credit and rules that govern practices and disclosures with respect to overdraft programs. These rules may affect the profitability of our consumer banking activities.

There are currently pending proposals to further amend some of these statutes and their implementing regulations, and there may be additional proposals or final amendments in 2011 or beyond. The Dodd-Frank Act established the Bureau within the Federal Reserve, and both transferred to the Bureau existing regulatory and supervisory authority with respect to many of these regulations, and gave the Bureau new authority under the Consumer Financial Protection Act. The Bureau may change existing regulations or issue new regulations or interpretations. In addition, other federal and state regulators have issued, and may in the future issue, guidance on these requirements, or other aspects of the Company s business. The developments may impose additional burdens on the Company and its subsidiaries.

Transactions with Affiliates. Transactions between a bank and its holding company or other affiliates are subject to various restrictions imposed by state and federal regulatory agencies. Such transactions include loans and other extensions of credit, purchases of or investments in securities and other assets, and payments of fees or other distributions. In general, these restrictions limit the amount of transactions between an institution and an affiliate of such institution, as well as the aggregate amount of transactions between an institution and all of its affiliates, and require transactions with affiliates to be on terms comparable to those for transactions with unaffiliated entities. Transactions between banking affiliates may be subject to certain exemptions under applicable federal law.

Limitations on Ownership. Under the Illinois Banking Act, any person who acquires 25% or more of the Company s stock may be required to obtain the prior approval of the Illinois Secretary. Similarly, under the Federal Change in Bank Control Act, a person must give 60 days written notice to the Federal Reserve and may be required to obtain the prior regulatory consent of the Federal Reserve before acquiring control of 10% or more of any class of the Company s outstanding stock. Generally, an acquisition of more than

10% of the Company s stock by a corporate entity, including a corporation, partnership or trust, and more than 5% of the Company s stock by a bank holding company, would require prior Federal Reserve approval under the BHC Act.

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

Broker-Dealer and Investment Adviser Regulation

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

As a result of federal and state registrations and SRO memberships, WHI is subject to over-lapping schemes of regulation which cover all aspects of its securities businesses. Such regulations cover, among other things, minimum net capital requirements; uses and safekeeping of clients funds; record-keeping and reporting requirements; supervisory and organizational procedures intended to assure compliance with securities laws and to prevent improper trading on material nonpublic information; personnel-related matters, including qualification and licensing of supervisory and sales personnel; limitations on extensions of credit in securities transactions; clearance and settlement procedures; suitability determinations as to certain customer transactions; limitations on the amounts and types of fees and commissions that may be charged to customers; and regulation of proprietary trading activities and affiliate transactions. Violations of the laws and regulations governing a broker-dealer s actions can result in censures, fines, the issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of a broker-dealer or its officers or employees, or other similar actions by both federal and state securities administrators, as well as the SROs.

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

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

Monetary Policy and Economic Conditions. The earnings of banks and bank holding companies are affected by general economic conditions and also by the credit policies of the Federal Reserve. Through open market transactions, variations in the discount rate and the establishment of reserve requirements, the Federal Reserve exerts considerable influence over the cost and availability of funds obtainable for lending or investing. The Federal Reserve s monetary policies and other government programs have affected the operating results of all commercial banks in the past and are expected to do so in the future. The Company and the banks cannot fully predict the nature or the extent of any effects which fiscal or monetary policies may have on their business and earnings.

Beginning in 2008 and continuing into 2011, there was significant disruption of credit markets on a national and global scale. Liquidity in credit markets was severely depressed. Major financial institutions sought bankruptcy protection, and a number of banks have failed and been placed into receivership or acquired. Other major financial institutions including Fannie Mae, Freddie Mac, and AIG have been entirely or partially nationalized by the federal government. The economic conditions in 2008 and 2009 have also affected consumers and businesses, including their ability to repay loans. This has been particularly true in the mortgage area. Real estate values have decreased in many areas of the country. There has been a large increase in mortgage defaults and foreclosure filings on a nationwide basis.

In response to these events, there have also been an unprecedented number of governmental initiatives designed to respond to the stresses experienced in financial markets in 2008 and 2009. Treasury, the Federal Reserve, the FDIC and other agencies have taken a number of steps to enhance the liquidity support available to financial institutions. The Company and the banks have participated in some of these programs, such as the CPP under the TARP. There have been other initiatives that have had an effect on credit markets generally, even though the Company has not participated. Most of these programs were discontinued in 2010. Federal and state regulators have also issued guidance encouraging banks and other mortgage lenders to make accommodations and re-work mortgage loans in order to avoid foreclosure. Additional guidance and other modifications issued under these foreclosure mitigation programs may affect the Company in 2012.

Employees

At December 31, 2011, the Company and its subsidiaries employed a total of 2,933 full-time-equivalent employees. The Company provides its employees with comprehensive medical and dental benefit plans, life insurance plans, 401(k) plans and an employee stock purchase plan. The Company considers its relationship with its employees to be good.

Available Information

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

Supplemental Statistical Data

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

Investment Securities Portfolio

The following table presents the carrying value of the Company s available-for-sale securities portfolio, by investment category, as of December 31, 2011, 2010 and 2009:

(Dollars in thousands)	**2011**	2010	2009
U.S. Treasury	**$ 16,173**	$ 96,097	$ 110,816
U.S. Government agencies	**765,916**	884,055	576,176
Municipal	**60,098**	52,303	65,336
Corporate notes and other:			
Financial issuers	**142,644**	187,007	41,746
Retained subordinated securities			47,702
Other	**27,292**	74,908	
Mortgage-backed: (1)			
Agency	**218,612**	158,653	216,544
Non-agency CMOs	**29,939**	3,028	107,984
Non-agency CMOs Alt A			50,778
Other equity securities	**31,123**	40,251	37,984
Total available-for-sale securities	**$ 1,291,797**	$ 1,496,302	$ 1,255,066

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

Tables presenting the carrying amounts and gross unrealized gains and losses for securities available-for-sale at December 31, 2011 and 2010 are included by reference to Note 3 to the Consolidated Financial Statements included in the 2011 Annual Report to Shareholders, which is incorporated herein by reference. The fair value of available-for-sale securities as of December 31, 2011, by maturity distribution, is as follows:

	$000,000	$000,000	$000,000	$000,000	$000,000	$000,000	$000,000
(Dollars in thousands)	Within 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Mortgage-backed	Other Equities	Total
U.S. Treasury	$ 10,019	6,154					16,173
U.S. Government agencies	71,188	423,043	33,401	238,284			765,916
Municipal	16,244	19,735	11,431	12,688			60,098
Corporate notes and other:							
Financial issuers	14,372	64,247	50,676	13,349			142,644
Other	9,839	17,453					27,292
Mortgage-backed: (1)							
Agency					218,612		218,612
Non-agency CMOs					29,939		29,939
Other equity securities						31,123	31,123
Total available-for-sale securities	$ 121,662	530,632	95,508	264,321	248,551	31,123	1,291,797

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

The weighted average yield for each range of maturities of securities, on a tax-equivalent basis, is shown below as of December 31, 2011:

	$000,000 Within 1 year	$000,000 From 1 to 5 years	$000,000 From 5 to 10 years	$000,000 After 10 years	$000,000 Mortgage-backed	$000,000 Other Equities	$000,000 Total
U.S. Treasury	0.21%	1.31%					0.63%
U.S. Government agencies	0.44%	0.62%	3.84%	3.54%			1.65%
Municipal	2.24%	3.97%	4.76%	6.97%			4.29%
Corporate notes and other:							
Financial issuers	4.00%	1.75%	3.50%	5.77%			2.97%
Other	1.66%	2.67%					2.31%
Mortgage-backed: [1]							
Agency					4.25%		4.25%
Non-agency CMOs					1.63%		1.63%
Other equity securities						3.98%	3.98%
Total available-for-sale securities	1.18%	0.96%	3.77%	3.82%	3.93%	3.98%	2.42%

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

16

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Operating Environment

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

The U.S. economy was in a recession from the third quarter of 2008 to the second quarter of 2009, and economic activity continues to be restrained. The housing and real estate markets have also been experiencing extraordinary slowdowns since 2007. Additionally, unemployment rates remained historically high during these periods. These factors have had a significant negative effect on us and other companies in the financial services industry. As a lending institution, our business is directly affected by the ability of our borrowers to repay their loans, as well as by the value of collateral, such as real estate, that secures many of our loans. Market turmoil has led to an increase in charge-offs and has negatively impacted consumer confidence and the level of business activity. However, net charge-offs decreased to $103.3 million in 2011 from $109.7 million in 2010 and non-performing loans decreased to $120.1 million as of December 31, 2011 from $142.0 million as of December 31, 2010. Our balance of other real estate owned (OREO) was

$86.5 million at December 31, 2011 and $71.2 million at December 31, 2010. Continued weakness or further deterioration in the economy, real estate markets or unemployment rates, particularly in the markets in which we operate, will likely diminish the ability of our borrowers to repay loans that we have given them, the value of any collateral securing such loans and may cause increases in delinquencies, problem assets, charge-offs and provision for credit losses, all of which could materially adversely affect our financial condition and results of operations. Further, the underwriting and credit monitoring policies and procedures that we have adopted may not prevent losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

Except for our premium finance business and certain other niche businesses, our success depends primarily on the general economic conditions of the specific local markets in which we operate. Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services to customers primarily in the Chicago metropolitan and southeast Wisconsin metropolitan areas. The local economic conditions in these areas significantly impact the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources. Specifically, most of the loans in our portfolio are secured by real estate located in the Chicago metropolitan area. Our local market area has experienced recent negative changes in overall market conditions relating to real estate valuation. These market conditions are exacerbated by the liquidation of troubled assets into the market, which creates additional supply and drives appraised valuations of real estate lower. Further declines in economic conditions, including inflation, recession, unemployment, changes in securities markets or other factors impacting these local markets could, in turn, have a material adverse effect on our financial condition and results of operations. Continued deterioration in the real estate markets where collateral for our mortgage loans is located could adversely affect the borrower s ability to repay the loan and the value of the collateral securing the loan, and in turn the value of our assets.

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

We maintain an allowance for loan losses that is intended to absorb credit losses that we expect to incur in our loan portfolio. At each balance sheet date, our management determines the amount of the allowance for loan losses based on our estimate of probable and reasonably estimable losses in our loan portfolio, taking into account probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified.

Because our allowance for loan losses represents an estimate of probable losses, there is no certainty that it will be adequate over time to cover credit losses in the portfolio, particularly if there is continued deterioration in general economic or market conditions or events that adversely affect specific customers. In 2011, we charged off $103.3 million in loans (net of recoveries) and decreased our allowance for loan losses from $113.9 million at December 31, 2010 to $110.4 million at December 31, 2011. Our allowance for loan losses, excluding covered loans, represents 1.05% of total loans outstanding at December 31, 2011, compared to 1.19% at December 31, 2010. Estimating loan loss allowances for our newer banks is more difficult because rapidly growing and de novo bank loan portfolios are, by their nature, unseasoned. Therefore, our newer bank subsidiaries may be more susceptible to changes in estimates, and to losses exceeding estimates, than banks with more seasoned loan portfolios.

Although we believe our loan loss allowance is adequate to absorb probable and reasonably estimable losses in our loan portfolio, if our estimates are inaccurate and our actual loan losses exceed the amount that is anticipated, our financial condition and liquidity could be materially adversely affected.

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

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

The repayment of our commercial loans is dependent upon the financial success and viability of the borrower. If the economy remains weak for a prolonged period or experiences further deterioration or if the industry or market in which the borrower operates weakens, our borrowers may experience depressed or dramatic and sudden decreases in revenues that could hinder their ability to repay their loans. Our commercial loan portfolio totaled $2.5 billion, or 22% of our total loan portfolio, at December 31, 2011, compared to $2.0 billion, or 21% of our total loan portfolio, at December 31, 2010.

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

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

As of December 31, 2011, approximately 31% of our total loan portfolio was secured by real estate, compared to approximately 34% as of December 31, 2010, the majority of which is commercial real estate. The commercial and residential real estate market continues to experience a variety of difficulties. In particular, market conditions in the Chicago metropolitan area, in which a majority of our real estate loans are concentrated, have declined significantly beginning in 2007. As a result of increased levels of commercial and consumer delinquencies and declining real estate values, which reduce the customer s borrowing power and the value of the collateral securing the loan, for the last five years, we have experienced higher than normal levels of charge-offs and provisions for loan losses. Increases in commercial and consumer delinquency levels or continued declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations.

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

Wintrust is exposed to interest rate risk in its core banking activities of lending and deposit taking, since changes in prevailing interest rates affect the value of our assets and liabilities. Such changes may adversely affect our net interest income, which is the difference between interest income and interest expense. Our net interest income is affected by the fact that assets and liabilities reprice at different times and by different amounts as interest rates change. Net interest income represents our largest source of net income, and was $461.4 million and $415.8 million for the years ended December 31, 2011 and 2010, respectively.

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

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

We seek to mitigate our interest rate risk through several strategies, which may not be successful. With the relatively low interest rates that prevailed in recent years, we were able to augment the total return of our investment securities portfolio by selling call options on fixed-income securities that we own. We recorded fee income of approximately $13.6 million, $2.2 million and $2.0 million for the years ended December 31, 2011, 2010 and 2009, respectively. We also mitigate our interest rate risk by entering into interest rate

18

swaps and other interest rate derivative contracts from time to time with counterparties. To the extent that the market value of any derivative contract moves to a negative market value, we are subject to loss if the counterparty defaults. In the future, there can be no assurance that such mitigation strategies will be available or successful.

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

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

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

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

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

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

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

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

- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

If we are unable to compete effectively, we will lose market share and income from deposits, loans and other products may be reduced. This could adversely affect our profitability and have a material adverse effect on our business, financial condition and results of operations.

If we are unable to continue to identify favorable acquisitions or successfully integrate our acquisitions, our growth may be limited and our results of operations could suffer.

In the past several years, we have completed numerous acquisitions of banks, other financial service related companies and financial service related assets, including acquisitions of troubled financial institutions, as more fully described below. We expect to continue to make such acquisitions in the future. Wintrust seeks merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Failure to successfully identify and complete acquisitions likely will result in Wintrust achieving slower growth. Acquiring other banks, businesses or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities or asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to our business, including diversion of our management s time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of Wintrust s tangible book value and net income per common share may occur as a result of any future transaction. In addition, certain acquisitions may expose us to additional regulatory risks, including from foreign governments. Our ability to comply with any such regulations will impact the success of any such acquisitions. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

Our participation in FDIC-assisted acquisitions may present additional risks to our financial condition and results of operations.

As part of our growth strategy, we have made opportunistic partial acquisitions of troubled financial institutions in transactions facilitated by the FDIC, including our recent acquisitions of Community First Bank, The Bank of Commerce and First Chicago Bank & Trust through our bank subsidiaries. These acquisitions, and any future FDIC-assisted transactions we may undertake, involve greater risk than traditional acquisitions because they are typically conducted on an accelerated basis, allowing less time for us to prepare for and evaluate possible transactions, or to prepare for integration of an acquired institution. These transactions also present risks of customer loss, strain on management resources related to collection and management of problem loans and problems related to the integration of operations and personnel of the acquired financial institutions. As a result, there can be no assurance that we will be able to successfully integrate the financial institutions we acquire, or that we will realize the anticipated benefits of the acquisitions. Additionally, while the FDIC may agree to assume certain losses in transactions that it facilitates, there can be no assurances that we would not be required to raise additional capital as a condition to, or as a result of, participation in an FDIC-assisted transaction. Any such transactions and related issuances of stock may have dilutive effect on earnings per share. Furthermore, we may face competition from other financial institutions with respect to proposed FDIC-assisted transactions.

We are also subject to certain risks relating to our loss sharing agreements with the FDIC. Under a loss sharing agreement, the FDIC generally agrees to reimburse the acquiring bank for a portion of any losses relating to covered assets of the acquired financial institution. This is an important financial term of any FDIC-assisted transaction, as troubled financial institutions often have poorer asset quality. As a condition to reimbursement, however, the FDIC requires the acquiring bank to follow certain servicing procedures. A failure to follow servicing procedures or any other breach of a loss sharing agreement by us could result in the loss of FDIC reimbursement. While we have established a group dedicated to servicing the loans covered by the FDIC loss sharing agreements, there can be no assurance that we will be able to comply with the FDIC servicing procedures. In addition, reimbursable losses and recoveries under loss sharing agreements are based on the book value of the relevant loans and other assets as determined by the FDIC as of the effective dates of the acquisitions. The amount that the acquiring banks realize on these assets could differ materially from the carrying value that will be reflected in our financial statements, based upon the timing and amount of collections on the covered loans in future periods. Any failure to receive reimbursement, or any material differences between the amount of reimbursements that we do receive and the carrying value reflected in our financial statements, could have a material negative effect on our financial condition and results of operations.

An actual or perceived reduction in our financial strength may cause others to reduce or cease doing business with us, which could result in a decrease in our net interest income.

Our customers rely upon our financial strength and stability and evaluate the risks of doing business with us. If we experience diminished financial strength or stability, actual or perceived, including due to market or regulatory developments, announced or rumored business developments or results of operations, or a decline in stock price, customers may withdraw their deposits or otherwise seek services from other banking institutions and prospective customers may select other service providers. The risk that we may be perceived as less creditworthy relative to other market participants is increased in the current market environment, where the consolidation of financial institutions, including major global financial institutions, is resulting in a smaller number of much larger counterparties and competitors. If customers reduce their deposits with us or select other service providers for all or a portion of the services that we provide them, net interest income and fee revenues will decrease accordingly, and could have a material adverse effect on our results of operations.

If our growth requires us to raise additional capital, that capital may not be available when it is needed or the cost of that capital may be very high.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations (see -Risks Related to Our Regulatory Environment-If we fail to meet our regulatory capital ratios, we may be forced to raise capital or sell assets) and as we grow, internally and through acquisitions, the amount of capital required to support our operations grows as well. We may need to raise additional capital to support continued growth both internally and through acquisitions. Any capital we obtain may result in the dilution of the interests of existing holders of our common stock.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time which are outside our control and on our financial condition and performance. If we cannot raise additional capital when needed, or on terms acceptable to us, our ability to further expand our operations through internal growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and negatively affected.

Disruption in the financial markets could result in lower fair values for our investment securities portfolio.

The Company s available-for-sale securities are carried at fair value. Major disruptions in the capital markets experienced in the past three years have adversely affected investor demand for all classes of securities and resulted in volatility in the fair values of the Company s investment securities.

Accounting standards require the Company to categorize these according to a fair value hierarchy. Over 96% of the Company s available-for-sale securities were categorized in level 2 of the fair value hierarchy (meaning that their fair values were determined by quoted prices for similar assets or other observable inputs). Significant prolonged reduced investor demand could manifest itself in lower fair values for these securities and may result in recognition of an other-than-temporary or permanent impairment of these assets, which could lead to accounting charges and have a material adverse effect on the Company s financial condition and results of operations.

The remaining securities in our investment securities portfolio were categorized as level 3 (meaning that their fair values were determined by inputs that are unobservable in the market and therefore require a greater degree of management judgment). The determination of fair value for securities categorized in level 3 involves significant judgment due to the complexity of factors contributing to the valuation, many of which are not readily observable in the market. The current market disruptions make valuation of such securities even more difficult and subjective. In addition, the nature of the business of the third party source that is valuing the securities at any given time could impact the valuation of the securities. Consequently, the ultimate sales price for any of these securities could vary significantly from the recorded fair value at December 31, 2011, especially if the security is sold during a period of illiquidity or market disruption or as part of a large block of securities under a forced transaction.

There can be no assurance that decline in market value associated with these disruptions will not result in other-than-temporary or permanent impairments of these assets, which would lead to accounting charges which could have a material negative effect on our business, financial condition and results of operations.

New lines of business and new products and services are essential to our ability to compete but may subject us to additional risks.

We continually implement new lines of business and offer new products and services within existing lines of business to offer our customers a competitive array of products and services. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology can increase efficiency and enable financial institutions to better serve customers and to reduce costs. However, some new technologies needed to compete effectively result in incremental operating costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in operations. Many of our competitors, because of their larger size and available capital, have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could cause a loss of customers and have a material adverse effect on our business.

At the same time, there can be substantial risks and uncertainties associated with these efforts, particularly in instances where the markets for such services are still developing. In developing and marketing new lines of business and/or new products or services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition, and results of operations.

Failures of our information technology systems may adversely effect our operations.

We are increasingly depending upon computer and other information technology systems to manage our business. We rely upon information technology systems to process, record and monitor and disseminate information about our operations. In some cases, we depend on third parties to provide or maintain these systems. While we perform a review of controls instituted by our critical vendors in accordance with industry standards, we must rely on the continued maintenance of these controls by the outside party, including safeguards over the security of customer data. If any of our financial, accounting or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. Security breaches in our online banking systems could also have an adverse effect on our reputation and could subject us to possible liability. Our systems may also be affected by events that are beyond our control, which may include, for example, computer viruses, electrical or telecommunications outages or other damage to our property or assets. Although we take precautions against malfunctions and security breaches, our efforts may not be adequate to prevent problems that could materially adversely effect our business, financial condition and results of operations.

We depend on the accuracy and completeness of information we receive about our customers and counterparties to make credit decisions.

We rely on information furnished by or on behalf of customers and counterparties in deciding whether to extend credit or enter into other transactions. This information could include financial statements, credit reports, and other financial information. We also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other financial information could have a material adverse impact on our business, financial condition and results of operations.

If we are unable to attract and retain experienced and qualified personnel, our ability to provide high quality service will be diminished and our results of operations may suffer.

We believe that our future success depends, in part, on our ability to attract and retain experienced personnel, including our senior management and other key personnel. Our business model is dependent upon our ability to provide high quality, personal service at our community banks. In addition, as a holding company that conducts its operations through our subsidiaries, we are focused on providing entrepreneurial-based compensation to the chief executives of each our business units. As a Company with start-up and growth oriented operations, we are cognizant that to attract and retain the managerial talent necessary to operate and grow our businesses we often have to compensate our executives with a view to the business we expect them to manage, rather than the size of the business they currently manage. Accordingly, executive compensation restrictions such as those we were subject to during our participation in the CPP, as well any restrictions we may subject to in the future, may negatively impact our ability to retain and attract senior management. The loss of any of our senior managers or other key personnel, or our inability to identify, recruit and retain such personnel, could materially and adversely affect our business, results of operations and financial condition.

We are subject to environmental liability risk associated with lending activities.

A significant portion of the Company s loan portfolio is secured by real property. In the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. In addition, we own and operate a number of properties that may be subject to similar environmental liability risks.

Environmental laws may require the Company to incur substantial expenses and could materially reduce the affected property s value or limit the Company s ability to use or sell the affected property. The costs associated with investigation and remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company s business, financial condition and results of operations.

22

Losses incurred in connection with actual or projected repurchases and indemnification payments related to mortgages that we have sold into the secondary market may exceed our financial statement reserves and we may be required to increase such reserves in the future. Increases to our reserves and losses incurred in connection with actual loan repurchases and indemnification payments could have a material adverse effect on our business, financial condition, results of operation or cash flows.

We engage in the origination and purchase of residential mortgages for sale into the secondary market. In connection with such sales, we make certain representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. Due, in part, to recent increased mortgage payment delinquency rates and declining housing prices, we have been receiving such requests for loan repurchases and indemnification payments relating to the representations and warranties with respect to such loans. We have been able to reach settlements with a number of purchasers, and believe that we have established appropriate reserves with respect to indemnification requests. While we have recently received fewer requests for indemnification, it is possible that the number of such requests will increase or that we will not be able to reach settlements with respect to such requests in the future. Accordingly, it is possible that losses incurred in connection with loan repurchases and indemnification payments may be in excess of our financial statement reserves, and we may be required to increase such reserves and may sustain additional losses associated with such loan repurchases and indemnification payments in the future. Increases to our reserves and losses incurred by us in connection with actual loan repurchases and indemnification payments in excess of our reserves could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Consumers may decide not to use banks to complete their financial transactions, which could adversely affect our business and results of operations.

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely impacted by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including the Federal home Loan bank, commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition our credit risk may be exacerbated when collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount due to us. Any such losses could have material adverse effect on our business, financial condition and results of operations.

Europe s debt crisis could have a material adverse effect on our business, financial condition and liquidity.

The possibility that certain European Union (EU) member states will default on their debt obligations have negatively impacted economic conditions and global markets. The continued uncertainty over the outcome of international and the EU s financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. The negative impact on economic conditions and global markets could also have a material adverse effect on our liquidity, financial condition and results of operations.

De novo operations and branch openings often involve significant expenses and delayed returns and may negatively impact Wintrust s profitability.

Our financial results have been and will continue to be impacted by our strategy of de novo bank formations and branch openings. While the recent financial crisis and interest rate environment has caused us to open fewer de novo banks, we expect to undertake additional de novo bank formations or branch openings when market conditions improve. Based on our experience, we believe that it generally takes over 13 months for de novo banks to first achieve operational profitability, depending on the number of banking facilities opened, the impact of organizational and overhead expenses, the start-up phase of generating deposits and the time lag typically involved in redeploying deposits into attractively priced loans and other higher yielding earning assets. However, it may take longer than expected or than the amount of time Wintrust has historically experienced for new banks and/or banking facilities to reach profitability, and there can be no guarantee that these new banks or branches will ever be profitable. Moreover, the FDIC s recent issuance extending the enhanced supervisory period for de novo banks from three to seven years, including higher capital requirements during this period, could also delay a new bank s ability to contribute to the Company s earnings and impact the Company s willingness to expand through de novo bank formation. To the extent we undertake additional de novo bank, branch and business formations, our level of reported net income, return on average equity and return on average assets will be impacted by startup costs associated with such operations, and it is likely to continue to experience the effects of higher expenses relative to operating income from the new operations. These expenses may be higher than we expected or than our experience has shown, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to examinations and challenges by tax authorities, and changes in federal and state tax laws and changes in interpretation of existing laws can impact our financial results.

In the normal course of business, we, as well as our subsidiaries, are routinely subject to examinations from federal and state tax authorities regarding the amount of taxes due in connection with investments we have made and the businesses in which we have engaged. Recently, federal and state tax authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to among other things tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in our favor, they could have a material adverse effect on our financial condition and results of operations. Given the current economic and political environment and ongoing budgetary pressures, the enactment of new federal or state tax legislation may occur. The enactment of such legislation, or changes in the interpretation of existing law, including provisions impacting tax rates, apportionment, consolidation or combination, income, expenses and credits may have a material adverse effect on our business, financial condition and results of operations.

Changes in accounting policies or accounting standards could materially adversely affect how we report our financial results and financial condition.

Our accounting policies are fundamental to understanding our financial results and financial condition. Some of these policies require use of estimates and assumptions that affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses. From time to time, the Financial Accounting Standards Board and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

We are a bank holding company, and our sources of funds, including to pay dividends, are limited.

We are a bank holding company and our operations are primarily conducted by and through our 15 operating banks, which are subject to significant federal and state regulation. Cash available to pay dividends to our stockholders, repurchase our shares or repay our indebtedness is derived primarily from dividends received from our banks and our ability to receive dividends from our subsidiaries is restricted. Various statutory provisions restrict the amount of dividends our banks can pay to us without regulatory approval. The banks may not pay cash dividends if that payment could reduce the amount of their capital below that necessary to meet the adequately capitalized level in accordance with regulatory capital requirements. It is also possible that, depending upon the financial condition of the banks and other factors, regulatory authorities could conclude that payment of dividends or other payments, including payments to us, is an unsafe or unsound practice and impose restrictions or prohibit such payments. Our inability to receive dividends from the banks could adversely affect our business, financial condition and results of operations.

Anti-takeover provisions could negatively impact our stockholders.

Certain provisions of our articles of incorporation, by-laws and Illinois law may have the effect of impeding the acquisition of control of Wintrust by means of a tender offer, a proxy fight, open-market purchases or otherwise in a transaction not approved by our board of directors. For example, our board of directors may issue additional authorized shares of our capital stock to deter future attempts to gain control of Wintrust, including the authority to determine the terms of any one or more series of preferred stock, such as voting rights, conversion rates and liquidation preferences. As a result of the ability to fix voting rights for a series of preferred stock, the board has the power, to the extent consistent with its fiduciary duty, to issue a series of preferred stock to persons friendly to management in order to attempt to block a merger or other transaction by which a third party seeks control, and thereby assist the incumbent board of directors and management to retain their respective positions. In addition, our articles of incorporation expressly elect to be governed by the provisions of Section 7.85 of the Illinois Business Corporation Act, which would make it more difficult for another party to acquire us without the approval of our board of directors.

The ability of a third party to acquire us is also limited under applicable banking regulations. The Bank Holding Company Act of

1956 requires any bank holding company (as defined in that Act) to obtain the approval of the Federal Reserve prior to acquiring more than 5% of our outstanding common stock. Any person other than a bank holding company is required to obtain prior approval of the Federal Reserve to acquire 10% or more of our outstanding common stock under the Change in Bank Control Act of 1978. Any holder of 25% or more of our outstanding common stock, other than an individual, is subject to regulation as a bank holding company under the Bank Holding Company Act. For purposes of calculating ownership thresholds under these banking regulations, bank regulators would likely at least take the position that the minimum number of shares, and could take the position that the maximum number of shares, of Wintrust common stock that a holder is entitled to receive pursuant to securities convertible into or settled in Wintrust common stock, including pursuant to Wintrust s tangible equity units or warrants to purchase Wintrust common stock held by such holder, must be taken into account in calculating a stockholder s aggregate holdings of Wintrust common stock.

These provisions may have the effect of discouraging a future takeover attempt that is not approved by our board of directors but which our individual shareholders may deem to be in their best interests or in which our shareholders may receive a substantial premium for their shares over then-current market prices. As a result, shareholders who might desire to participate in such a transaction may not have an opportunity to do so. Such provisions will also render the removal of our current board of directors or management more difficult.

Risks Related to Our Regulatory Environment

If we fail to meet our regulatory capital ratios, we may be forced to raise capital or sell assets.

As a banking institution, we are subject to regulations that require us to maintain certain capital ratios, such as the ratio of our Tier

1 capital to our risk-based assets. If our regulatory capital ratios decline, as a result of decreases in the value of our loan portfolio or otherwise, we will be required to improve such ratios by either raising additional capital or by disposing of assets. If we choose to dispose of assets, we cannot be certain that we will be able to do so at prices that we believe to be appropriate, and our future operating results could be negatively affected. If we choose to raise additional capital, we may accomplish this by selling additional shares of common stock, or securities convertible into or exchangeable for common stock, which could significantly dilute the ownership percentage of holders of our common stock and cause the market price of our common stock to decline. Additionally, events or circumstances in the capital markets generally may increase our capital costs and impair our ability to raise capital at any given time.

Legislative and regulatory actions taken now or in the future regarding the financial services industry may significantly increase our costs or limit our ability to conduct our business in a profitable manner.

We are already subject to extensive federal and state regulation and supervision. The cost of compliance with such laws and regulations can be substantial and adversely affect our ability to operate profitably. While we are unable to predict the scope or impact of any potential legislation or regulatory action, bills that would result in significant changes to financial institutions have been introduced in Congress and it is possible that such legislation or implementing regulations could significantly increase our regulatory compliance costs, impede the efficiency of our internal business processes, negatively impact the recoverability of certain of our recorded assets, require us to increase our regulatory capital, interfere with our executive compensation plans, or limit our ability to pursue business opportunities in an efficient manner including our plan for de novo growth and growth through acquisitions.

President Obama signed into law the Dodd-Frank Act on July 21, 2010. This law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, including heightened capital requirements, and to prepare numerous studies and reports for Congress. Although the impact of the Dodd-Frank Act will depend, in part, on the form of these rules and regulations, we expect compliance with the new law to increase our cost of doing business, and may reduce our ability to generate revenue-producing assets.

The Dodd-Frank Act changes federal preemption available for national banks and eliminates federal preemption for subsidiaries of national banks, which may subject the Company s national banks and their subsidiaries, including Wintrust Mortgage, to additional state regulation. With regard to mortgage lending, the Dodd-Frank Act imposes new requirements regarding the origination and servicing of residential mortgage loans. The law creates a variety of new consumer protections, including limitations on the manner by which loan originators may be compensated and an obligation of the part of lenders to assess and verify a borrower s ability to repay a residential mortgage loan.

The Dodd-Frank Act also enhances provisions relating to affiliate and insider lending restrictions and loans-to-one-borrower limitations. Federal banking law currently limits a national bank s ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expands the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions. It also eventually will prohibit state-chartered banks (including certain of the Company s banking subsidiaries) from engaging in derivative transactions unless the state lending limit laws take into account credit exposure to such transactions.

Additional provisions of the Dodd-Frank Act are described in this report under Management s Discussion and Analysis of Financial Condition and Results of Operations Overview and Strategy Financial Regulatory Reform.

Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies, the full extent of the impact that its requirements will have on our operations is unclear. However, its requirements may, individually or in the aggregate, have a material adverse effect upon the Company s business, results of operations, cash flows and financial position.

Financial reform legislation may reduce our ability to market our products to consumers and may limit our ability to profitably operate our mortgage business.

The Dodd-Frank Act also establishes the Bureau of Consumer Financial Protection (the Bureau) within the Federal Reserve, which will regulate consumer financial products and services. On July 21, 2011, the consumer financial protection functions currently assigned to the federal banking and other designated agencies shifted to the Bureau. The Bureau now has broad rulemaking authority over a wide range of consumer protection laws that apply to banks and thrifts, including the authority to prohibit unfair, deceptive or abusive acts or practices, and to enact regulations to ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent and competitive. In particular, the Bureau may enact sweeping reforms in the mortgage broker industry which may increase the costs of engaging in these activities for all market participants, including our subsidiaries. Additionally, the Bureau has broad supervisory, examination and enforcement authority. State attorneys general and other state officials will also be authorized to enforce consumer protection rules issued by the Bureau.

Recently enacted financial reform legislation will result in increased capital requirements and is expected to increase our costs of doing business.

The Dodd-Frank Act requires the issuance of new banking regulations regarding the establishment of minimum leverage and risk-based capital requirements for bank holding companies and banks. These regulations, which are required to be effective within 18 months from the enactment of the Dodd-Frank Act, are required to be no less stringent than current capital requirements applied to insured depository institutions and may, in fact, be higher when established by the agencies. Although Wintrust s outstanding trust preferred securities will remain eligible for Tier 1 capital treatment, any future issuances of trust preferred securities will not be Tier 1 capital. The Dodd-Frank Act also requires the regulatory agencies to seek to make capital requirements for bank holding companies and insured institutions countercyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contraction. In December 2011, the Federal Reserve issued proposed rules requiring annual stress tests. If implemented as proposed, these rules will result in increased compliance costs.

International initiatives regarding bank capital requirements may require heightened capital

In December 2010 and January 2011, the Basel Committee on Banking Supervision published reforms regarding changes to bank capital, leverage and liquidity requirements, commonly referred to as Basel III. The Basel III rules are intended to apply to large, internationally active banking organizations, and are not generally expected to apply to us. If implemented without change by U.S. banking regulators, the provisions of Basel III may have significant impact on requirements applicable to such large organizations including heightened requirements regarding Tier 1 common equity, and alterations to bank liquidity standards. In addition, while we do not expect to be subject to Basel III, in implementing Basel III, the U.S. federal banking agencies may decide to make similar changes to the capital requirements applicable to other banking organizations, including us.

We are not able to predict at this time the content of capital and liquidity guidelines or regulations that may be adopted by regulatory agencies having authority over us and our subsidiaries or the impact that any changes in regulation would have on us. If new standards require us or our banking subsidiaries to maintain more capital, with common equity as a more predominant component, or manage the configuration of our assets and liabilities in order to comply with formulaic liquidity requirements, such regulation could significantly impact our return on equity, financial condition, operations, capital position and ability to pursue business opportunities.

Our FDIC insurance premiums may increase, which could negatively impact our results of operations.

Recent insured institution failures, as well as deterioration in banking and economic conditions, have significantly increased FDIC loss provisions, resulting in a decline of its deposit insurance fund to historical lows. In addition, the Emergency Economic Stabilization Act of 2008, as amended, increased the limit on FDIC coverage to $250,000 per depositor through December 31, 2013 (made permanent by the Dodd-Frank Act). These developments have caused our FDIC insurance premiums to increase, and may cause additional increases. Certain provisions of the Dodd-Frank Act may further affect our FDIC insurance premiums. The Dodd- Frank Act includes provisions that change the assessment base for federal deposit insurance from the amount of insured deposits to average total consolidated assets less average tangible capital, eliminate the maximum size of the DIF, eliminate the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds, and increase the minimum reserve ratio of the DIF from 1.15% to 1.35%. Beginning in late 2010, the FDIC has issued regulations implementing some of these changes. The FDIC has indicated that the changes to the assessment base, and accompanying changes to the assessment rates, will generally not require an increase in the level of assessments, and may result in decreased assessments, for depository institutions with less than $10 billion in assets (such as each of our bank subsidiaries). However, there is a risk that the banks deposit insurance premiums will continue to increase if failures of insured depository institutions continue to deplete the DIF. Any such increase may negatively impact our financial condition and results of operations.

26

Risks Related to Our Niche Businesses

Our premium finance business may involve a higher risk of delinquency or collection than our other lending operations, and could expose us to losses.

We provide financing for the payment of commercial insurance premiums and life insurance premiums on a national basis through our wholly owned subsidiary, FIFC. Commercial insurance premium finance loans involve a different, and possibly higher, risk of delinquency or collection than life insurance premium finance loans and the loan portfolios of our bank subsidiaries because these loans are issued primarily through relationships with a large number of unaffiliated insurance agents and because the borrowers are located nationwide. As a result, risk management and general supervisory oversight may be difficult. As of December 31, 2011, we had $1.4 billion of commercial insurance premium finance loans outstanding, which represented 13% of our total loan portfolio as of such date.

FIFC may also be more susceptible to third party fraud with respect to commercial insurance premium finance loans because these loans are originated and many times funded through relationships with unaffiliated insurance agents and brokers. In the second quarter of 2010, fraud perpetrated against a number of premium finance companies in the industry, including the property and casualty division of FIFC, increased both the Company s net charge-offs and provision for credit losses by $15.7 million. Acts of fraud are difficult to detect and deter, and we cannot assure investors that FIFC s risk management procedures and controls will prevent losses from fraudulent activity.

FIFC may be exposed to the risk of loss in our life insurance premium finance business because of fraud. While FIFC maintains a policy prohibiting the knowing financing of stranger-originated life insurance and has established procedures to identify and prevent the company from financing such policies, FIFC cannot be certain that it will never provide loans with respect to such a policy. In the event such policies were financed, a carrier could potentially put at risk the cash surrender value of a policy, which serves as FIFC s primary collateral, by challenging the validity of the insurance contract for lack of an insurable interest.

See the below risk factor Widespread financial difficulties or credit downgrades among commercial and life insurance providers could lessen the value of the collateral securing our premium finance loans and impair the financial condition and liquidity of FIFC for a discussion of further risks associated with our insurance premium finance activities.

While FIFC is licensed as required and carefully monitors compliance with regulation of each of its businesses, there can be no assurance that FIFC will not be negatively impacted by material changes in the regulatory environment.

Additionally, to the extent that affiliates of insurance carriers, banks, and other lending institutions add greater service and flexibility to their financing practices in the future, our competitive position and results of operations could be adversely affected. FIFC s life insurance premium finance business could be materially negatively impacted by changes in the federal or state estate tax provisions. There can be no assurance that FIFC will be able to continue to compete successfully in its markets.

Widespread financial difficulties or credit downgrades among commercial and life insurance providers could lessen the value of the collateral securing our premium finance loans and impair the financial condition and liquidity of FIFC.

FIFC s premium finance loans are primarily secured by the insurance policies financed by the loans. These insurance policies are written by a large number of insurance companies geographically dispersed throughout the country. Our premium finance receivables balances finance insurance policies which are spread among a large number of insurers; however, one of the insurers represents approximately 15% of such balances and one additional insurer represents approximately 5% of such balances. FIFC consistently monitors carrier ratings and financial performance of our carriers. While FIFC can mitigate its risks as a result of this monitoring to the extent that commercial or life insurance providers experience widespread difficulties or credit downgrades, the value of our collateral will be reduced. FIFC is also subject to the possibility of insolvency of insurance carriers in the commercial and life insurance businesses that are in possession of our collateral. If one or more large nationwide insurers were to fail, the value of our portfolio could be significantly negatively impacted. A significant downgrade in the value of the collateral supporting our premium finance business could impair our ability to create liquidity for this business, which, in turn could negatively impact our ability to expand.

If we fail to comply with certain of our covenants under our securitization facility, the holders of the related notes could declare a rapid amortization event, which would require us to repay any outstanding amounts immediately, which could significantly impair our liquidity.

In September 2009, our indirect subsidiary, FIFC Premium Funding I, LLC, sold $600 million in aggregate principal amount of its Series 2009-A Premium Finance Asset Backed Notes, Class A (the Notes), which were issued in a securitization transaction sponsored by FIFC. The related indenture contains certain financial and other covenants that must be met in order to continue to sell notes into the facility. In addition, if any of these covenants are breached, the holders of the Notes may, under certain circumstances, declare a rapid amortization event, which would require us to repay any outstanding notes immediately. Such an event could significantly impair our liquidity.

Our Wealth Management Business in general, and WHI s brokerage operation, in particular, exposes us to certain risks associated with the securities industry.

Our wealth management business in general, and WHI s brokerage operations in particular, present special risks not borne by community banks that focus exclusively on community banking. For example, the brokerage industry is subject to fluctuations in the stock market that may have a significant adverse impact on transaction fees, customer activity and investment portfolio gains and losses. Likewise, additional or modified regulations may adversely affect our wealth management operations. Each of our wealth management operations is dependent on a small number of professionsals whose departure could result in the loss of a significant number of customer accounts. A significant decline in fees and commissions or trading losses suffered in the investment portfolio could adversely affect our results of operations. In addition, we are subject to claim arbitration risk arising from customers who claim their investments were not suitable or that their portfolios were too actively traded. These risks increase when the market, as as a whole, declines. The risks associated with retail brokerage may not be supported by the income generated by our wealth management operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company s executive offices are located in the banking facilities of Lake Forest Bank. Certain corporate functions are also located at the various bank subsidiaries and as well as an office building complex in Rosemont, Illinois acquired by the Company in June 2011. The Company is in the process of occupying the Rosemont building and anticipates that during 2012 the Company s corporate headquarters will relocate to the Rosemont building.

The Company s banks operate through 99 banking facilities, the majority of which are owned. The Company owns 154 automatic teller machines, the majority of which are housed at banking locations. The banking facilities are located in communities throughout the Chicago metropolitan area and southern Wisconsin. Excess space in certain properties is leased to third parties.

The Company s wealth management subsidiaries have one location in downtown Chicago, one in Appleton, Wisconsin, and one in Florida, all of which are leased, as well as office locations at various of our banks. Wintrust Mortgage, a division of Barrington Bank, has 37 locations in ten states, all of which are leased, as well as office locations at various of our banks. FIFC has one location in Northbrook, Illinois which is owned and locations in Jersey City, New Jersey and Long Island, New York which are leased. Tricom has one location in Menomonee Falls, Wisconsin which is owned. Wintrust Information Technology Services Company (WITS) has office locations in Villa Park, Illinois and Wood Dale, Illinois, both of which are owned. In addition, the Company owns other real estate acquired for further expansion that, when considered in the aggregate, is not material to the Company s financial position.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries, from time to time, are subject to pending and threatened legal action and proceedings arising in the ordinary course of business. Any such litigation currently pending against the Company or its subsidiaries is incidental to the Company s business and, based on information currently available to management, management believes the outcome of such actions or proceedings will not have a material adverse effect on the operations or financial position of the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock is traded on The NASDAQ Global Select Stock Market under the symbol WTFC. The following table sets forth the high and low sales prices reported on NASDAQ for the common stock by fiscal quarter during 2011 and 2010.

	2011		2010	
	High	**Low**	High	Low
Fourth Quarter	**$ 30.34**	**$ 24.30**	$ 33.97	$ 28.40
Third Quarter	**34.87**	**25.68**	37.25	27.79
Second Quarter	**37.34**	**30.08**	44.93	33.05
First Quarter	**36.97**	**31.13**	38.47	29.86

Performance Graph

The following performance graph compares the five-year percentage change in the Company s cumulative shareholder return on common stock compared with the cumulative total return on composites of (1) all NASDAQ Global Select Market stocks for United States companies (broad market index) and (2) all NASDAQ Global Select Market bank stocks (peer group index). Cumulative total return is computed by dividing the sum of the cumulative amount of dividends for the measurement period and the difference between the Company s share price at the end and the beginning of the measurement period by the share price at the beginning of the measurement period. The NASDAQ Global Select Market for United States companies index comprises all domestic common shares traded on the NASDAQ Global Select Market and the NASDAQ Small-Cap Market. The NASDAQ Global Select Market bank stocks index comprises all banks traded on the NASDAQ Global Select Market and the NASDAQ Small-Cap Market.

This graph and other information furnished in the section titled Performance Graph under this Part II, Item 5 of this Form 10-K shall not be deemed to be soliciting materials or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

Total Return Performance Comparison

(in percent)

	2006	2007	2008	2009	2010	**2011**
Wintrust Financial Corporation	100.00	69.66	44.25	66.10	71.14	**61.15**
NASDAQ Total US	100.00	108.47	66.35	95.38	113.19	**113.81**
NASDAQ Bank Index	100.00	79.26	57.79	48.42	57.29	**51.19**

Approximate Number of Equity Security Holders

As of February 22, 2012 there were approximately 1,514 shareholders of record of the Company s common stock.

Dividends on Common Stock

The Company s Board of Directors approved the first semiannual dividend on the Company s common stock in January 2000 and has continued to approve a semi-annual dividend since that time. The payment of dividends is subject to statutory restrictions and restrictions arising under the terms of our 8.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series A (the Series A Preferred Stock), the Company s Trust Preferred Securities offerings, the Company s 7.5% tangible equity units and under certain financial covenants in the Company s credit agreement. Under the terms of the Company s revolving credit facility amended on October 28, 2011, the Company is prohibited from paying dividends on any equity interests, including its common stock and preferred stock, if such payments would cause the Company to be in default under its credit facility.

Following is a summary of the cash dividends paid in 2011 and 2010:

Record Date	Payable Date	Dividend per Share
February 11, 2010	February 25, 2010	$0.09
August 12, 2010	August 26, 2010	$0.09
February 10, 2011	February 24, 2011	$0.09
August 11, 2011	August 25, 2011	$0.09

In January 2012, the Company s Board of Directors approved a semi-annual dividend of $0.09 per share. The dividend was paid on February 23, 2012 to shareholders of record as of February 9, 2012.

Because the Company s consolidated net income consists largely of net income of the banks and certain wealth management subsidiaries, the Company s ability to pay dividends generally depends upon its receipt of dividends from these entities. The banks ability to pay dividends is regulated by banking statutes. See Bank Regulation; Additional Regulation of Dividends on page 12 of this Form 10-K. During 2011, 2010 and 2009, the banks paid $27.8 million, $11.5 million and $100.0 million, respectively, in dividends to the Company.

Reference is also made to Note 20 to the Consolidated Financial Statements and Liquidity and Capital Resources contained in this Form 10-K for a description of the restrictions on the ability of certain subsidiaries to transfer funds to the Company in the form of dividends.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

No purchases of the Company s common shares were made by or on behalf of the Company or any affiliated purchaser as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during the year ended December 31, 2011. There is currently no authorization to repurchase shares of outstanding common stock.

ITEM 6. SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Financial Condition Data (at end of period):					
Total assets	**$ 15,893,808**	$ 13,980,156	$ 12,215,620	$ 10,658,326	$ 9,368,859
Total loans, excluding covered loans	**10,521,377**	9,599,886	8,411,771	7,621,069	6,801,602
Total deposits	**12,307,267**	10,803,673	9,917,074	8,376,750	7,471,441
Junior subordinated debentures	**249,493**	249,493	249,493	249,515	249,662
Total shareholders equity	**1,543,533**	1,436,549	1,138,639	1,066,572	739,555
Selected Statements of Income Data:					
Net interest income	**$ 461,377**	$ 415,836	$ 311,876	$ 244,567	$ 261,550
Net revenue (1)	**651,075**	607,996	629,523	344,245	341,493
Pre-tax adjusted earnings (2)	**225,451**	199,033	124,696	97,008	100,791
Net income	**77,575**	63,329	73,069	20,488	55,653
Net income per common share Basic	**2.08**	1.08	2.23	0.78	2.31
Net income per common share Diluted	**1.67**	1.02	2.18	0.76	2.24
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Net interest margin (2)	**3.42%**	3.37%	3.01%	2.81%	3.11%
Non-interest income to average assets	**1.27%**	1.42%	2.78%	1.02%	0.85%
Non-interest expense to average assets	**2.82%**	2.82%	3.01%	2.63%	2.57%
Net overhead ratio (3)	**1.55%**	1.40%	0.23%	1.60%	1.72%
Efficiency ratio (2) (4)	**64.58%**	63.77%	54.44%	73.00%	71.05%
Return on average assets	**0.52%**	0.47%	0.64%	0.21%	0.59%
Return on average common equity	**5.11%**	3.01%	6.70%	2.44%	7.64%
Average total assets	**$ 14,920,160**	$ 13,556,612	$ 11,415,322	$ 9,753,220	$ 9,422,277
Average total shareholders equity	**1,484,720**	1,352,135	1,081,792	779,437	727,972
Average loans to average deposits ratio (excluding covered loans)	**88.3%**	91.1%	90.5%	94.3%	90.1%
Average loans to average deposits ratio (including covered loans)	**92.8**	93.4	90.5	94.3	90.1
Common Share Data at end of period:					
Market price per common share	**$ 28.05**	$ 33.03	$ 30.79	$ 20.57	$ 33.13
Book value per common share (2)	**$ 34.23**	$ 32.73	$ 35.27	$ 33.03	$ 31.56
Tangible common book value per share (2)	**$ 26.72**	$ 25.80	$ 23.22	$ 20.78	$ 19.02
Common shares outstanding	**35,978,349**	34,864,068	24,206,819	23,756,674	23,430,490
Other Data at end of period: (7)					
Leverage Ratio	**9.4%**	10.1%	9.3%	10.6%	7.7%
Tier 1 Capital to risk-weighted assets	**11.8%**	12.5%	11.0%	11.6%	8.7%
Total capital to risk-weighted assets	**13.0%**	13.8%	12.4%	13.1%	10.2%
Tangible Common Equity ratio (TCE) (2) (6)	**7.5%**	8.0%	4.7%	4.8%	4.9%
Allowance for credit losses (5)	**$ 123,612**	$ 118,037	$ 101,831	$ 71,353	$ 50,882
Non-performing loans	**120,084**	141,958	131,804	136,094	71,854
Allowance for credit losses(5) to total loans, excluding covered loans	**1.17%**	1.23%	1.21%	0.94%	0.75%
Non-performing loans to total loans, excluding covered loans	**1.14%**	1.48%	1.57%	1.79%	1.06%

Number of:					
Bank subsidiaries	**15**	15	15	15	15
Non-bank subsidiaries	**7**	8	8	7	8
Banking offices	**99**	86	78	79	77

(1) *Net revenue includes net interest income and non-interest income*

(2) *See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures/Ratios, for a reconciliation of this performance measure/ratio to GAAP.*

(3) *The net overhead ratio is calculated by netting total non-interest expense and total non-interest income, annualizing this amount, and dividing by that period s total average assets. A lower ratio indicates a higher degree of efficiency.*

(4) *The efficiency ratio is calculated by dividing total non-interest expense by tax-equivalent net revenue (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 unfunded lending-related commitments, but excluding the allowance for covered loan losses.*

(6) *Total shareholders equity minus preferred stock and total intangible assets divided by total assets minus total intangible assets*

(7) *Asset quality ratios exclude covered loans.*

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This document contains forward-looking statements within the meaning of federal securities laws. Forward-looking information can be identified through the use of words such as intend, plan, project, expect, anticipate, believe, estimate, contemplate, possible, should, would and could. Forward-looking statements and information are not historical facts, are premised on many factors and assumptions, and represent only management s expectations, estimates and projections regarding future events. Similarly, these statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include, but are not limited to, those listed below and the Risk Factors discussed in Item 1A on page 18 of this Form 10-K. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Such forward-looking statements may be deemed to include, among other things, statements relating to the Company s future financial performance, the performance of its loan portfolio, the expected amount of future credit reserves and charge-offs, delinquency trends, growth plans, regulatory developments, securities that the Company may offer from time to time, and management s long-term performance goals, as well as statements relating to the anticipated effects on financial condition and results of operations from expected developments or events, the Company s business and growth strategies, including future acquisitions of banks, specialty finance or wealth management businesses, internal growth and plans to form additional *de novo* banks or branch offices. Actual results could differ materially from those addressed in the forward-looking statements as a result of numerous factors, including the following:

- negative economic conditions that adversely affect the economy, housing prices, the job market and other factors that may affect the Company s liquidity and the performance of its loan portfolios, particularly in the markets in which it operates;

- the extent of defaults and losses on the Company s loan portfolio, which may require further increases in its allowance for credit losses;

- estimates of fair value of certain of the Company s assets and liabilities, which could change in value significantly from period to period;

- the financial success and economic viability of the borrowers of our commercial loans;

- the extent of commercial and consumer delinquencies and declines in real estate values, which may require further increases in the Company s allowance for loan and lease losses;

- changes in the level and volatility of interest rates, the capital markets and other market indices that may affect, among other things, the Company s liquidity and the value of its assets and liabilities;

- competitive pressures in the financial services business which may affect the pricing of the Company s loan and deposit products as well as its services (including wealth management services);

- failure to identify and complete favorable acquisitions in the future or unexpected difficulties or developments related to the integration of recent or future acquisitions;

- unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;

- any negative perception of the Company s reputation or financial strength;

ability to raise additional capital on acceptable terms when needed;

disruption in capital markets, which may lower fair values for the Company s investment portfolio;

ability to use technology to provide products and services that will satisfy customer demands and create efficiencies in operations;

adverse effects on our information technology systems resulting from failures, human error or tampering;

accuracy and completeness of information the Company receives about customers and counterparties to make credit decisions;

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

environmental liability risk associated with lending activities;

losses incurred in connection with repurchases and indemnification payments related to mortgages;

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

the soundness of other financial institutions;

the possibility that certain European Union member states will default on their debt obligations, which may affect the Company s liquidity, financial conditions and results of operations;

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

examinations and challenges by tax authorities;

changes in accounting standards, rules and interpretations and the impact on the Company s financial statements;

the ability of the Company to receive dividends from its subsidiaries;

a decrease in the Company s regulatory capital ratios, including as a result of further declines in the value of its loan portfolios, or otherwise;

legislative or regulatory changes, particularly changes in regulation of financial services companies and/or the products and services offered by financial services companies, including those resulting from the Dodd-Frank Act;

restrictions upon our ability to market our products to consumers and limitations on our ability to profitably operate our mortgage business resulting from the Dodd-Frank Act;

increased costs of compliance, heightened regulatory capital requirements and other risks associated with changes in regulation and the current regulatory environment, including the Dodd-Frank Act;

changes in capital requirements resulting from Basel II and III initiatives;

increases in the Company s FDIC insurance premiums, or the collection of special assessments by the FDIC;

delinquencies or fraud with respect to the Company s premium finance business;

credit downgrades among commercial and life insurance providers that could negatively affect the value of collateral securing the Company s premium finance loans;

the Company s ability to comply with covenants under its securitization facility and credit facility;

fluctuations in the stock market, which may have an adverse impact on the Company s wealth management business and brokerage operation; and

significant litigation involving the Company.

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. The Company undertakes no obligation to release revisions to these forward-looking statements or reflect events or circumstances after the date of this Form 10-K. Persons are advised, however, to consult further disclosures management makes on related subjects in its reports filed with the SEC and in its press releases.

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, 2011. 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 Form 10-K.

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)	**2011**	Years Ended December 31, 2010	2009	**% or Basis Point (bp)change 2010 to 2011**	% or Basis Point (bp)change 2009 to 2010
Net income	**$ 77,575**	$ 63,329	$ 73,069	**22%**	(13)%
Net income per common share Diluted	**1.67**	1.02	2.18	**64**	(53)
Pre-tax adjusted earnings [(1)]	**225,451**	199,033	124,696	**13**	60
Net revenue [(2)]	**651,075**	607,996	629,523	**7**	(3)
Net interest income	**461,377**	415,836	311,876	**11**	33
Net interest margin [(1)]	**3.42%**	3.37%	3.01%	**5bp**	36bp
Net overhead ratio [(3)]	**1.55**	1.40	0.23	**15**	117
Efficiency ratio [(1) (4)]	**64.58**	63.77	54.44	**81**	933
Return on average assets	**0.52**	0.47	0.64	**5**	(17)
Return on average common equity	**5.11**	3.01	6.70	**210**	(369)
At end of period					
Total assets	**$ 15,893,808**	$ 13,980,156	$ 12,215,620	**14 %**	14%
Total loans, excluding loans held-for-sale, excluding covered loans	**10,521,377**	9,599,886	8,411,771	**10**	14
Total loans, including loans held-for-sale, excluding covered loans	**10,841,901**	9,971,333	8,687,486	**9**	15
Total deposits	**12,307,267**	10,803,673	9,917,074	**14**	9
Total shareholders equity	**1,543,533**	1,436,549	1,138,639	**7**	26
Tangible common equity ratio (TCE) [(2)]	**7.5 %**	8.0%	4.7 %	**(50)bp**	330 bp
Book value per common share [(1)]	**34.23**	32.73	35.27	**5 %**	(7)%
Tangible common book value per common share [(1)]	**26.72**	25.80	23.22	**4**	11
Market price per common share	**28.05**	33.03	30.79	**(15)**	7

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

(2) Net revenue is net interest income plus non-interest income

(3) The net overhead ratio is calculated by netting total non-interest expense and total non-interest income, annualizing this amount, and dividing by that period s total average assets. A lower ratio indicates a higher degree of efficiency.

(4) The efficiency ratio is calculated by dividing total non-interest expense by tax-equivalent net revenues (less securities gains or losses). A lower ratio indicates more efficient revenue generation.

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 Wintrust 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), the efficiency ratio, tangible common equity ratio, tangible common book value per share and pre-tax adjusted earnings. Management believes that these measures and ratios provide users of the Company s financial information a more meaningful view of the performance of the interest-earning assets and interest-bearing liabilities and of the Company s operating efficiency. Other financial holding companies may define or calculate these measures and ratios differently.

Management reviews yields on certain asset categories and the net interest margin of the Company and its banking subsidiaries on a fully taxable-equivalent (FTE) basis. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources. Net interest income on a FTE basis is also used in the calculation of the Company s efficiency ratio. The efficiency ratio, which is calculated by dividing non-interest expense by total taxable-equivalent net revenue (less securities gains or losses), measures how much it costs to produce one dollar of revenue. Securities gains or losses are excluded from this calculation to better match revenue from daily operations to operational expenses. Management considers the tangible common equity ratio and tangible book value per common share as useful measurements of the Company s equity. Pre-tax adjusted earnings is a significant metric in assessing the Company s operating performance. Pre-tax adjusted earnings is adjusted to exclude the provision for credit losses and certain significant items.

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 last 5 years.

	Years Ended December 31,				
(Dollars and shares in thousands, except per share data)	**2011**	2010	2009	2008	2007
Calculation of Net Interest Margin and Efficiency Ratio					
(A) Interest Income (GAAP)	**$ 605,793**	$ 593,107	$ 527,614	$ 514,723	$ 611,557
Taxable-equivalent adjustment:					
-Loans	**458**	334	462	645	826
-Liquidity management assets	**1,224**	1,377	1,720	1,795	2,388
-Other earning assets	**12**	17	38	47	13
Interest Income FTE	**$ 607,487**	$ 594,835	$ 529,834	$ 517,210	$ 614,784
(B) Interest Expense (GAAP)	**144,416**	177,271	215,738	270,156	350,007
Net interest income FTE	**$ 463,071**	$ 417,564	$ 314,096	$ 247,054	$ 264,777
(C) Net Interest Income (GAAP) (A minus B)	**$ 461,377**	$ 415,836	$ 311,876	$ 244,567	$ 261,550
(D) Net interest margin (GAAP)	**3.41%**	3.35%	2.99%	2.78%	3.07%
Net interest margin FTE	**3.42%**	3.37%	3.01%	2.81%	3.11%
(E) Efficiency ratio (GAAP)	**64.75%**	63.95%	54.64%	73.52%	71.74%
Efficiency ratio FTE	**64.58%**	63.77%	54.44%	73.00%	71.05%
Calculation of Tangible Common Equity ratio (at period end)					
Total shareholders' equity	**$ 1,543,533**	$ 1,436,549	$ 1,138,639	$ 1,066,572	$ 739,555
Less: Preferred stock	**(49,768)**	(49,640)	(284,824)	(281,873)	
Less: Intangible assets	**(327,538)**	(293,765)	(291,649)	(290,918)	(293,941)
(F) Total tangible common shareholders equity	**$ 1,166,227**	$ 1,093,144	$ 562,166	$ 493,781	$ 445,614
Total assets	**$ 15,893,808**	$ 13,980,156	$ 12,215,620	$ 10,658,326	$ 9,368,859
Less: Intangible assets	**(327,538)**	(293,765)	(291,649)	(290,918)	(293,941)
(G) Total tangible assets	**$ 15,566,270**	$ 13,686,391	$ 11,923,971	$ 10,367,408	$ 9,074,918
Tangible common equity ratio (F/G)	**7.5%**	8.0%	4.7%	4.8%	4.9%
Calculation of Pre-Tax Adjusted Earnings					
Income before taxes	**$ 128,033**	$ 100,807	$ 117,504	$ 30,641	$ 83,824
Add: Provision for credit losses	**102,638**	124,664	167,932	57,441	14,879
Add: OREO expenses, net	**26,340**	19,331	18,963	2,023	111
Add: Recourse obligation on loans previously sold	**439**	10,970	937		4,210
Add: Covered loan expense	**2,831**	689			
Add: Mortgage servicing rights fair value adjustments	**4,673**	2,955	2,031	2,364	1,029
Less: Loss (gain) from investment partnerships	**600**	(1,155)	(138)	234	
Less: Gain on bargain purchases	**(37,974)**	(44,231)	(156,013)		
Less: Trading (gains) losses	**(337)**	(5,165)	(26,788)	134	(265)
Less: (Gains) losses on available-for-sale securities, net	**(1,792)**	(9,832)	268	4,171	(2,997)
Pre-tax adjusted earnings	**$ 225,451**	$ 199,033	$ 124,696	$ 97,008	$ 100,791

Calculation of book value per share					
Total shareholders equity	**$ 1,543,533**	$ 1,436,549	$ 1,138,639	$ 1,066,572	$ 739,555
Less: Preferred stock	**(49,768)**	(49,640)	(284,824)	(281,873)	
(H) Total common equity	**$ 1,493,765**	$ 1,386,909	$ 853,815	$ 784,699	$ 739,555
Actual common shares outstanding	**35,978**	34,864	24,207	23,757	23,430
Add: TEU conversion shares	**7,666**	7,512			
(I) Common shares used for book value calculation	**43,644**	42,376	24,207	23,757	23,430
Book value per share (H/I)	**$ 34.23**	$ 32.73	$ 35.27	$ 33.03	$ 31.56
Tangible common book value per share (F/I)	**$ 26.72**	$ 25.80	$ 23.22	$ 20.78	$ 19.02

OVERVIEW AND STRATEGY

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

2011 Highlights

The Company recorded net income of $77.6 million for the year of 2011 compared to $63.3 million and $73.1 million for the years of 2010 and 2009, respectively. The results for 2011 demonstrate continued operating strengths as credit related costs remain at levels similar to previous years, loans outstanding increased, demand deposits related to this loan growth increased, and the beneficial shift in our deposit mix away from single-product CD customers continued. The Company also continues to take advantage of the opportunities that have resulted from distressed credit markets specifically, a dislocation of assets, banks and people in the overall market. For more information, see Overview and Strategy Acquisition Transactions.

The Company increased its loan portfolio, excluding covered loans, from $9.6 billion at December 31, 2010 to $10.5 billion at December 31, 2011. This increase was primarily a result of the Company s commercial banking initiative, loans obtained in the acquisition of Elgin State Bank, as well as growth in the premium finance receivables life insurance portfolio. The Company continues to make new loans, including in the commercial and commercial real estate sector, where opportunities that meet our underwriting standards exist. The withdrawal of many banks in our area from active lending combined with our strong local relationships has presented us with opportunities to make new loans to well qualified borrowers who have been displaced from other institutions. For more information regarding changes in the Company s loan portfolio, see Analysis of Financial Condition Interest Earning Assets and Note 4 Loans of the Financial Statements presented under Item 1 of this report.

Management considers the maintenance of adequate liquidity to be important to the management of risk. Accordingly, during 2011, the Company continued its practice of maintaining appropriate funding capacity to provide the Company with adequate liquidity for its ongoing operations. In this regard, the Company benefited from its strong deposit base, a liquid short-term investment portfolio and its access to funding from a variety of external funding sources. At December 31, 2011, the Company had overnight liquid funds and interest-bearing deposits with banks of $919.0 million compared to $1.0 billion at December 31, 2010.

The Company experienced a 32% decline in mortgage origination volumes in 2011 compared to the previous year. This decline in originations resulted from an industry-wide fall-off in residential real-estate loan originations as well as our exit from our wholesale mortgage origination channel in late 2010. Additionally, despite a continued low rate environment in 2011, many borrowers refinanced mortgages in 2010. Interest rates did not decrease significantly enough for borrowers to pursue another refinancing in 2011.

The Company recorded net interest income of $461.4 million in 2011 compared to $415.8 million and $311.9 million in 2010 and 2009, respectively. The higher level of net interest income recorded in 2011 compared to 2010 resulted from an increase in average earning assets of $1.1 billion. This average earning asset growth was primarily a result of the $671.9 million increase in average loans, $288.3 million of average covered loan growth from the FDIC-assisted bank acquisitions and a $169.7 million increase in liquidity management and other earning assets. Growth in the commercial and industrial portfolio of $330.8 million, in the life insurance premium finance portfolio of $266.8 million and in the commercial insurance premium finance loan portfolio of $145.4 accounted for the majority of the total average loan growth over the past 12 months. The average earning asset growth of $1.1 billion over the past 12 months was primarily funded by a $602.6 million increase in the average balances of interest-bearing deposits and an increase in the average balance of net free funds of $354.7 million.

Non-interest income totaled $189.7 million in 2011, decreasing $2.5 million, or 1%, compared to 2010. The change was primarily attributable to lower bargain purchase gains recorded during the current period relating to the FDIC-assisted transactions than during the comparable period as well as lower net gains on available-for-sale securities in 2011, partially offset by higher wealth management revenues and fees from covered call options in the current period. Non-interest income totaled $192.2 million in 2010, decreasing $125.5 million, or 40%, compared to 2009. The decrease in 2010 compared to 2009 was primarily attributable to the $156.0 million of bargain purchase gains recorded during 2009 related to the life insurance premium finance loan acquisition in 2009.

Non-interest expense totaled $420.4 million in 2011, increasing $37.9 million, or 10%, compared to 2010. The increase compared to 2010 was primarily attributable to a $22.0 million increase in salaries and employee benefits. The increase in salaries and employee benefits was, in turn, attributable to an $18.2 million increase in salaries resulting from additional employees from acquisitions and larger staffing as the company grows and a $6.2 million increase in employee benefits (primarily health plan and payroll taxes related), partially offset by a $2.4 million decrease in bonus expense and commissions attributable to variable pay based revenue. Non-interest expense totaled $382.5 million in 2010, increasing $38.4 million, or 11%, compared to 2009. The increase compared to 2009 was primarily attributable to a $28.9 million increase in salaries and employee benefits. The increase in salaries and employee benefits was, in turn, attributable to a $12.6 million increase in bonus expense and commissions as variable pay based revenue increased (primarily wealth management revenue and mortgage banking revenue), an $11.4 million increase in salaries resulting from additional employees from the three FDIC-assisted transactions in 2010 and larger staffing as the company grows, and a $4.9 million increase in employee benefits (primarily health plan and payroll taxes related).

The Current Economic Environment

The Company s results during 2011 continued to be impacted by the existing stressed economic environment and depressed real estate valuations that affected both the U.S. economy, generally, and the Company s local markets, specifically. In response to these conditions, Management continued to carefully monitor the impact on the Company of the financial markets, the depressed values of real property and other assets, loan performance, default rates and other financial and macro-economic indicators in order to navigate the challenging economic environment. In particular:

The Company s 2011 provision for credit losses, excluding covered loans, totaled $97.9 million, a decrease of $26.8 million when compared to 2010 and a decrease of $70.0 million when compared to 2009. Net charge-offs, excluding covered loans, decreased to $103.3 million in 2011 (of which $92.0 million related to commercial and commercial real estate loans), compared to $109.7 million in 2010 (of which $78.4 million related to commercial and commercial real estate loans) and $137.4 million in 2009 (of which $122.9 million related to commercial and commercial real estate loans).

The Company decreased its allowance for loan losses, excluding covered loans to $110.4 million at December 31, 2011, reflecting a decrease of $3.5 million, or 3%, when compared to 2010. At December 31, 2011, approximately $56.4 million, or 51%, of the allowance for loan losses, excluding covered loans, was associated with commercial real estate loands and another $31.2 million, or 28%, was associated with commercial loans.

Wintrust has significant exposure to commercial real estate. At December 31, 2011, $3.5 billion, or 31%, of our loan portfolio was commercial real estate, with more than 92% located in our Market Area. The commercial real estate loan portfolio was comprised of $414.2 million related to land, residential and commercial construction, $554.4 million related to office buildings loans, $536.7 million related to retail loans, $555.8 million related to industrial use loans, $314.6 million related to multi-family loans and $1.1 billion related to mixed use and other use types. In analyzing the commercial real estate market, the Company does not rely upon the assessment of broad market statistical data, in large part because the Company s market area is diverse and covers many communities, each of which is impacted differently by economic forces affecting the Company s general market area. As such, the extent of the decline in real estate valuations can vary meaningfully among the different types of commercial and other real estate loans made by the Company. The Company uses its multi-chartered structure and local management knowledge to analyze and manage the local market conditions at each of its banks. Despite these efforts, as of December 31, 2011, the Company had approximately $66.5 million of non-performing commercial real estate loans representing approximately 2% of the total commercial real estate loan portfolio. $35.7 million, or 54%, of the total non-performing commercial real estate loan portfolio related to the land, residential and commercial construction sector which remains under stress due to the significant oversupply of new homes in certain portions of our market area.

Total non-performing loans (loans on non-accrual status and loans more than 90 days past due and still accruing interest), excluding covered loans, were $120.1 million (of which $66.5 million, or 55%, was related to commercial real estate) at December 31, 2011, a decrease of $21.9 million compared to December 31, 2010. Non-performing loans decreased as a result of the Company s efforts to resolve problem loans through liquidation.

The Company s other real estate owned, excluding covered other real estate owned, increased by $15.3 million, to $86.5 million during 2011, from $71.2 million at December 31, 2010. The increase in other real estate owned included $7.4 million of properties acquired in the acquisition of Elgin State Bank. The $86.5 million of other real estate owned as of December 31, 2011 was comprised of $19.9 million of residential real estate development property, $59.3 million of commercial real estate property and $7.3 million of residential real estate property.

During 2011, Management continued its efforts to aggressively resolve problem loans through liquidation, rather than retention, of loans or real estate acquired as collateral through the foreclosure process. This strategic effort was implemented in 2009. Management believes that some financial institutions have taken a longer term view of problem loan situations, hoping to realize higher values on acquired collateral through extended marketing efforts or an improvement in market conditions. Management believed that the distressed macro-economic conditions would continue to exist in 2011 and that the banking industry s continued elevated levels in non-performing loans would lead to many properties being sold by financial institutions, thus saturating the market and possibly driving fair values of non-performing loans and foreclosed collateral further downwards. Accordingly, since 2009 the Company has attempted to liquidate as many non-performing loans and assets as possible. Management believes these actions will serve the Company well in the future by providing some protection for the Company from further valuation deterioration and permitting Management to spend less time on resolution of problem loans and more time on growing the Company s core business and the evaluation of other opportunities presented by this volatile economic environment. The Company continues to take advantage of the opportunities that many times result from distressed credit markets specifically, a dislocation of assets, banks and people in the overall market.

The level of loans past due 30 days or more and still accruing interest, excluding covered loans, totaled $147.9 million as of December 31, 2011, increasing $1.0 million compared to the balance of $146.9 million as of December 31, 2010. Management is very cognizant of the volatility in and the fragile nature of the national and local economic conditions and that some borrowers can experience severe difficulties and default suddenly even if they have never previously been delinquent in loan payments. Accordingly, Management believes that the current economic conditions will continue to apply stress to the quality of the Company s loan portfolio. Accordingly, Management plans to continue to direct significant attention toward the prompt identification, management and resolution of problem loans.

Additionally in 2011, the Company restructured certain loans by providing economic concessions to borrowers to better align the terms of their loans with their current ability to pay. At December 31, 2011, approximately $130.5 million in loans had terms modified, with $119.9 million of these modified loans in accruing status. These actions helped financially stressed borrowers maintain their homes or businesses and kept these loans in an accruing status for the Company. The Company considers restructuring loans when it appears that both the borrower and the Company can benefit and preserve a solid and sustainable relationship. See Note 5 Allowance for Loan Losses, Allowance for Losses on Lending-Related Commitments and Impaired Loans for additional discussion of restructured loans.

An acceleration or continuation of real estate valuation and macroeconomic deterioration could result in higher default levels, a significant increase in foreclosure activity, and a material decline in the value of the Company s assets.

Mortgage loan originations were lower in 2011 compared to 2010 and 2009, resulting in a decrease in gains on sales of loans in the current year. The Company enters into residential mortgage loan sale agreements with investors in the normal course of business. The Company s practice is generally not to retain long-term fixed rate mortgages on its balance sheet in order to mitigate interest rate risk, and consequently sells most of such mortgages into the secondary market. These agreements provide recourse to investors through certain representations concerning credit information, loan documentation, collateral and insurability. Investors request the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. An increase in requests for loss indemnification can negatively impact mortgage banking revenue as additional recourse expense. The Company recognized $439,000 of expense related to loss indemnification claims in 2011 for loans previously sold, a decrease of $10.5 million compared to 2010 primarily from lower recourse obligations adjustments as the number of indemnification requests from investors declined as well as lower loss estimates on future indemnification requests. The Company has established a $2.5 million estimated liability, as of December 31, 2011, on loans expected to be repurchased from loans sold to investors, which is based on trends in repurchase and indemnification requests, actual loss experience, known and inherent risks in the loan and current economic conditions.

Community Banking

As of December 31, 2011, our community banking franchise consisted of 15 community banks with 99 locations. Through these banks, we provide banking and financial services primarily to individuals, small to mid-sized businesses, local governmental units and institutional clients residing primarily in the banks local service areas. These services include traditional deposit products such as demand, NOW, money market, savings and time deposit accounts, as well as a number of unique deposit products targeted to specific market segments. The banks also offer home equity, home mortgage, consumer, real estate and commercial loans, safe deposit facilities, ATMs, internet banking and other innovative and traditional services specially tailored to meet the needs of customers in their market areas. Profitability of our community banking franchise is primarily driven by our net interest income and margin, our funding mix and related costs, the level of non-performing loans and other real estate owned, the amount of mortgage banking revenue and our history of establishing *de novo* banks.

Net interest income and margin. The primary source of our 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 liabilities to fund those assets, including deposits and other borrowings. Net interest income can change significantly from period to period based on general levels of interest rates, customer prepayment patterns, the mix of interest-earning assets and the mix of interest-bearing and non-interest bearing deposits and borrowings.

Funding mix and related costs. Our most significant source of funding is core deposits, which are comprised of non-interest bearing deposits, non-brokered interest-bearing transaction accounts, savings deposits and domestic time deposits. Our branch network is our principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Our profitability has been bolstered in recent quarters as fixed term certificates of deposit have been renewing at lower rates given the historically low interest rate levels in the marketplace recently and growth in non-interest bearing deposits as a result of the Company s commercial banking initiative.

Level of non-performing loans and other real estate owned. The level of non-performing loans and other real estate owned can significantly impact our profitability as these loans and other real estate owned do not accrue any income, can be subject to charge-offs and write-downs due to deteriorating market conditions and generally result in additional legal and collections expenses. Given the current economic conditions, these costs, specifically problem loan expenses, have been at elevated levels in recent years.

Mortgage banking revenue. Our community banking franchise is also influenced by the level of fees generated by the origination of residential mortgages and the sale of such mortgages into the secondary market. 2011 was characterized by the continuation of an

38

industry wide decline in real-estate loan originations which resulted in a decrease in the Company s real-estate loan originations in

2011 as compared to 2010. The decrease in mortgage banking revenue in the 2011 as compared to 2010 resulted primarily from a decrease in gain on sales of loans and other fees, which was driven by lower origination volumes in the current year. Partially offsetting the decrease in gains on sales of loans and other fees was a $10.5 million positive impact from lower recourse obligation adjustments as the number of indemnification requests from investors declined as well as lower loss estimates on future indemnification requests.

Establishment of de novo operations. Our historical financial performance has been affected by costs associated with growing market share in deposits and loans, establishing and acquiring banks, opening new branch facilities and building an experienced management team. Our financial performance generally reflects the improved profitability of our banking subsidiaries as they mature, offset by the costs of establishing and acquiring banks and opening new branch facilities. From our experience, it generally takes over 13 months for new banks to achieve operational profitability depending on the number and timing of branch facilities added.

In determining the timing of the formation of *de novo* banks, the opening of additional branches of existing banks, and the acquisition of additional banks, we consider many factors, particularly our perceived ability to obtain an adequate return on our invested capital driven largely by the then existing cost of funds and lending margins, the general economic climate and the level of competition in a given market. We began to slow the rate of growth of new locations in 2007 due to tightening net interest margins on new business which, in the opinion of management, did not provide enough net interest spread to be able to garner a sufficient return on our invested capital. From the second quarter of 2008 to the first quarter of 2010, we did not establish a new banking location either through a *de novo* opening or through an acquisition, due to the financial system crisis and recessionary economy and our decision to utilize our capital to support our existing franchise rather than deploy our capital for expansion through new locations which tend to operate at a loss in the early months of operation. Thus, while expansion activity from 2007 through 2009 had been at a level below earlier periods in our history, we have resumed the formation of additional branches and acquisitions of additional banks. See discussion of 2010 and 2011 acquisition activity in the Overview and Strategy Acquisition Transactions section below.

In addition to the factors considered above, before we engage in expansion through *de novo* branches or banks we must first make a determination that the expansion fulfills our objective of enhancing shareholder value through potential future earnings growth and enhancement of the overall franchise value of the Company. Generally, we believe that, in normal market conditions, expansion through *de novo* growth is a better long-term investment than acquiring banks because the cost to bring a de novo location to profitability is generally substantially less than the premium paid for the acquisition of a healthy bank. Each opportunity to expand is unique from a cost and benefit perspective. FDIC-assisted acquisitions offer a unique opportunity for the Company to expand into new and existing markets in a non-traditional manner. Potential FDIC-assisted acquisitions are reviewed in a similar manner as a *de novo* branch or bank opportunities, however, FDIC-assisted acquisitions have the ability to immediately enhance shareholder value. Factors including the valuation of our stock, other economic market conditions, the size and scope of the particular expansion opportunity and competitive landscape all influence the decision to expand via *de novo* growth or through acquisition.

Specialty Finance

Through our specialty finance segment, we offer financing of insurance premiums for businesses and individuals; accounts receivable financing, value-added, out-sourced administrative services; and other specialty finance businesses. Our wholly owned subsidiary, FIFC, engages in the premium finance receivables business, our most significant specialized lending niche, including commercial insurance premium finance and life insurance premium finance. We conduct the remainder of our specialty finance businesses through indirect subsidiaries, which are subsidiaries of our banks.

Financing of Commercial Insurance Premiums

FIFC originated approximately $3.5 billion in commercial insurance premium finance receivables in 2011. 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 is more susceptible to third party fraud than relationship lending. In the second quarter of 2010, fraud perpetrated against a number of premium finance companies in the industry, including the property and casualty division of our premium financing subsidiary, increased both the Company s net charge-offs and provision for credit losses by $15.7 million. Actions have been taken by the Company to decrease the likelihood of this type of loss from recurring in this line of business for the Company by the enhancement of various control procedures to mitigate the risks associated with this lending. The Company has conducted a thorough review of the premium finance commercial portfolio and found no signs of similar situations. In the second quarter of 2011, the Company recovered $5.0 million from insurance coverage of the $15.7 million fraud loss. The Company continues to pursue additional recoveries, but does not anticipate any significant additional recoveries.

The majority of these loans are purchased by the banks in order to more fully utilize their lending capacity as these loans generally

provide the banks with higher yields than alternative investments. Historically, FIFC originations that were not purchased by the banks were sold to unrelated third parties with servicing retained. However, during the third quarter of 2009, FIFC sold $695 million in commercial premium finance receivables to our indirect subsidiary, FIFC Premium Funding I, LLC, which in turn sold $600 million in aggregate principal amount of notes backed by such premium finance receivables in a securitization transaction sponsored by FIFC. Subsequent to December 31, 2009, this securitization transaction has been accounted for as a secured borrowing and the securitization entity is treated as a consolidated subsidiary of the Company. Accordingly, beginning on January 1, 2010, all of the assets and liabilities of the securitization entity have been included directly on the Company s Consolidated Statements of Condition.

The primary driver of profitability related to the financing of commercial insurance premiums is the net interest spread that FIFC can produce between the yields on the loans generated and the cost of funds allocated to the business unit. The commercial insurance premium finance business is a competitive industry and yields on loans are influenced by the market rates offered by our competitors. We fund these loans either through the securitization facility described above or through our deposits, the cost of which is influenced by competitors in the retail banking markets in the Chicago and Milwaukee metropolitan areas.

Financing of Life Insurance Premiums

In 2007, FIFC began financing life insurance policy premiums generally used for estate planning purposes of high net-worth borrowers. In 2009, FIFC expanded this niche lending business segment when it purchased a portfolio of domestic life insurance premium finance loans for an aggregate purchase price of $745.9 million.

FIFC originated approximately $469.7 million in life insurance premium finance receivables in 2011. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and/or legal counsel. The cash surrender value of the life insurance policy is the primary form of collateral. In addition, these loans often are secured with a letter of credit, marketable securities or certificates of deposit. In some cases, FIFC may make a loan that has a partially unsecured position. Similar to the commercial insurance premium finance receivables, the majority of life insurance premium finance receivables are purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments.

The Company believes that its life insurance premium finance loans have a lower level of risk and delinquency than the Company s commercial and residential real estate loans because of the nature of the collateral. The life insurance policy is the primary form of collateral. If cash surrender value is not sufficient, then letters of credit, marketable securities or certificates of deposit are used to provide additional security. Since the collateral is highly liquid and generally has a value in excess of the loan amount, any defaults or delinquencies are generally cured relatively quickly by the borrower or the collateral is generally liquidated in an expeditious manner to satisfy the loan obligation. Greater than 95% of loans are fully secured. However, less than 5% of the loans are partially unsecured and in those cases, a greater risk exists for default. No loans are originated on a fully unsecured basis.

As with the commercial premium finance business, the primary driver of profitability related to the financing of life insurance premiums is the net interest spread that FIFC can produce between the yields on the loans generated and the cost of funds allocated to the business unit. Profitability of financing both commercial and life insurance premiums is also meaningfully impacted by leveraging information technology systems, maintaining operational efficiency and increasing average loan size, each of which allows us to expand our loan volume without significant capital investment.

Wealth Management Activities

We currently offer a full range of wealth management services including trust and investment services, asset management services and securities brokerage services, through three separate subsidiaries including WHI, CTC and Great Lakes Advisors. In October 2010, the Company changed the name of its trust and investment services subsidiary, Wayne Hummer Trust Company, N.A., to the Chicago Trust Company, N.A. Additionally, in July 2011, the Company s asset management company, Wayne Hummer Asset Management Company, changed its name to Great Lakes Advisors, LLC.

The primary influences on the profitability of the wealth management business can be associated with the level of commission received related to the trading performed by the brokerage customers for their accounts and the amount of assets under management for which asset management and trust units receive a management fee for advisory, administrative and custodial services. As such, revenues are influenced by a rise or fall in the debt and equity markets and the resulting increase or decrease in the value of our client accounts on which our fees are based. The commissions received by the brokerage unit are not as directly influenced by the directionality of the debt and equity markets but rather the desire of our customers to engage in trading based on their particular situations and outlooks of the market or particular stocks and bonds. Profitability in the brokerage business is impacted by commissions which fluctuate over time.

Federal Government, Federal Reserve and FDIC Programs

During the past three years, the federal government, the New York Fed and the FDIC have made a number of programs available to banks and other financial institutions in an effort to ensure a well-functioning U.S. financial system. The Company participated in three such programs. Two of these programs, the CPP of the Treasury and the New York Fed s TALF, have provided the Company with a significant amount of relatively inexpensive funding, which the Company used to accelerate its growth cycle and expand lending.

Capital Purchase Program. In October 2008, the Treasury announced that it intended to use a portion of the initial funds allocated to it pursuant to the Emergency Economic Stabilization Act of 2008, to invest directly in financial institutions through the newly-created CPP which was designed to attract broad participation by healthy institutions which have plenty of capital to get through this period, but are not positioned to lend as widely as is necessary to support our economy. In December 2008, the Company sold the Treasury $250 million in the Company s Series B Preferred Stock, and warrants to purchase the Company s common stock.

On December 22, 2010, the Company repurchased all the shares of Series B Preferred Stock. The Series B Preferred Stock was repurchased at a price of $251.3 million, which included accrued and unpaid dividends of $1.3 million. In addition, on February 14,

2011, the Treasury sold, through an underwritten public offering to purchasers other than the Company, all of the Company s warrants that it had received in connection with the CPP investment.

Participation in the CPP placed a number of restrictions on the Company, including limitations on the ability to increase dividends and restrictions on the compensation of its employees and executives. Participation in the CPP also subjected the Company to increased oversight by the Treasury, banking regulators and Congress. As a result of the Company s exit from the CPP, these restrictions have been terminated.

TALF-Eligible Issuance. In addition, in September 2009, one of the Company s subsidiaries sold $600 million in aggregate principal amount of its asset-backed notes in a securitization transaction sponsored by FIFC. The asset backed notes are eligible collateral under TALF and certain investors therefore received non-recourse funding from the New York Fed in order to purchase the notes. As a result, FIFC believes it received greater proceeds at lower interest rates from the securitization than it otherwise would have received in non-TALF-eligible transactions.

Increased FDIC Insurance for Non-Interest-Bearing Transaction Accounts. Each of our bank subsidiaries have also benefited from federal programs which provide increased FDIC insurance coverage for certain deposit accounts. At present, the Dodd-Frank Act and implementing regulations issued by the FDIC provide unlimited federal insurance of the net amount of certain non-interest-bearing transaction accounts at all insured depository institutions, including our bank subsidiaries, through December 31, 2012. After December 31, 2012, depositors will receive federal insurance up to the standard maximum deposit insurance amount of $250,000, which increased amount was made permanent by the Dodd-Frank Act.

Financial Regulatory Reform

In July 2010, the President signed into law the Dodd-Frank Act, which contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. While final rulemaking under the Dodd-Frank Act will occur over the course of several years, changes mandated by the Dodd-Frank Act, as well as other legislative and regulatory changes, could have a significant impact on us by, for example, requiring us to change our business practices, requiring us to meet more stringent capital, liquidity and leverage ratio requirements, limiting our ability to pursue business opportunities, imposing additional costs on us, limiting fees we can charge for services, impacting the value of our assets, or otherwise adversely affecting our businesses. These changes may also require us to invest significant management attention and resources in order to comply with new statutory and regulatory requirements. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies, the full extent of the impact that such requirements will have on our operations is unclear.

The Dodd-Frank Act also addresses risks to the economy and the financial system. It contemplates enhanced regulation of derivatives, restrictions on and additional disclosure of executive compensation, additional corporate governance requirements, and oversight of credit rating agencies. It also strengthens the ability of the regulatory agencies to supervise and examine bank holding companies and their subsidiaries. The Dodd-Frank Act requires a bank holding company that elects treatment as a financial holding company, including us, to be both well-capitalized and well-managed in addition to the existing requirement that a financial holding company s subsidiary banks be well-capitalized and well-managed. Bank holding companies and banks must also be both well-capitalized and well-managed in order to engage in interstate bank acquisitions.

Among other things, the Dodd-Frank Act requires the issuance of new banking regulations regarding the establishment of minimum leverage and risk-based capital requirements for bank holding companies and banks. These regulations, which are required to be effective within 18 months from the enactment of the Dodd-Frank Act, are required to be no less stringent than current capital requirements applied to insured depository institutions and may, in fact, be higher when established by the agencies. Although Wintrust s outstanding trust preferred securities will remain eligible for Tier 1 capital treatment, any future issuances of trust preferred securities will not be Tier 1 capital. The Dodd-Frank Act also requires the regulatory agencies to seek to make capital requirements for bank holding companies and insured institutions countercyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contraction. In December, 2011, the

Federal Reserve issued proposed rules requiring annual stress tests and the establishment of a risk committee. If implemented as proposed, these rules will result in increased compliance costs.

Certain provisions of the Dodd-Frank Act have near-term effect on the Company. In particular, effective one year from the date of enactment, the Dodd-Frank Act eliminated U.S. federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending upon market response, this change could have an adverse impact on our interest expense. In addition, the Dodd-Frank Act includes provisions that changed the assessment base for federal deposit insurance from the amount of insured deposits to average total consolidated assets less average tangible capital, eliminated the maximum size of the DIF eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds, and increased the minimum reserve ratio of the DIF from 1.15% to 1.35%. On December 14, 2010, the FDIC released a final rule setting the designated reserve ratio at 2%, 65 basis points above the statutory minimum. On February 7, 2011, the FDIC adopted a final rule implementing the changes to the deposit assessment base under the Dodd-Frank Act. The FDIC has indicated that these changes will generally not require an increase in the level of assessments, and may result in decreased assessments, for depository institutions (such as each of our bank subsidiaries) with less than $10 billion in assets.

In addition, the Dodd-Frank Act gave the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers, such as our bank subsidiaries, and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve issued final regulations that were effective in October 2011, and that limit interchange fees for electronic debit transactions to 21 cents plus .05% of the transaction, plus an additional 1 cent per transaction fraud adjustment. The rule also imposes requirements regarding routing and exclusivity of electronic debit transactions.

Additionally, the Dodd-Frank Act established the Bureau within the Federal Reserve, which will regulate consumer financial products and services. On July 21, 2011, many of the consumer financial protection functions currently assigned to the federal banking and other designated agencies shifted to the Bureau. The Bureau now has broad rulemaking authority over a wide range of consumer protection laws that apply to banks and thrifts, including the authority to prohibit unfair, deceptive or abusive practices to ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent and competitive. In particular, the Bureau may enact sweeping reforms in the mortgage broker industry which may increase the costs of engaging in these activities for all market participants, including our subsidiaries. Additionally, the Bureau has broad supervisory, examination and enforcement authority. In addition, state attorneys general and other state officials will be authorized to enforce consumer protection rules issued by the Bureau.

The Dodd-Frank Act changes federal preemption available for national banks and eliminates federal preemption for subsidiaries of national banks, which may subject the Company s national banks and their subsidiaries, including Wintrust Mortgage, to additional state regulation. With regard to mortgage lending, the Dodd-Frank Act imposes new requirements regarding the origination and servicing of residential mortgage loans. The law creates a variety of new consumer protections, including limitations on the manner by which loan originators may be compensated and an obligation on the part of lenders to assess and verify a borrower s ability to repay a residential mortgage loan.

The Dodd-Frank Act also enhanced provisions relating to affiliate and insider lending restrictions and loans to one borrower limitations. Federal banking law limits a national bank s ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expanded the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions. It also eventually will prohibit state-chartered banks (including certain of the Company s banking subsidiaries) from engaging in derivative transactions unless the state lending limit laws take into account credit exposure to such transactions.

In addition, the Dodd-Frank Act added a new Section 13 to the Bank Holding Company Act, the so-called Volcker Rule, which generally restricts certain banking entities, and their subsidiaries or affiliates, from engaging in proprietary trading activities and owning equity in or sponsoring any private equity or hedge fund. The Volcker Rule becomes effective July 21, 2012. The draft implementing regulations for the Volcker Rule were issued by various regulatory agencies on October 11 and 12, 2011. Under the proposed regulations, we (or our affiliates) may be restricted from engaging in proprietary trading, investing in third party hedge or private equity funds or sponsoring new funds unless we qualify for an exemption from the rule. We will not know the full impact of the Volcker Rule on our operations or financial condition until the final implementing regulations are adopted sometime in 2012.

Recent Actions Related to Capital and Liquidity

In December 2010 and January 2011, the Basel Committee on Banking Supervision published reforms regarding changes to bank capital, leverage and liquidity requirements, commonly referred to as Basel III. The Basel III rules are intended to apply to large, internationally active banking organizations, and should not apply to us. If implemented without change by U.S. banking regulators, the provisions of Basel III may have significant impact on requirements including heightened requirements applicable to such organizations regarding Tier 1 common equity, and alterations to bank liquidity standards. In addition, while we do not expect to be subject to Basel III, in implementing Basel III, the U.S. Federal banking agencies may decide to make similar changes to the capital requirements applicable to other banking organizations, including us.

We are not able to predict at this time the content of capital and liquidity guidelines or regulations that may be adopted by regulatory agencies having authority over us and our subsidiaries or the impact that any changes in regulation would have on us. If new standards require us or our banking subsidiaries to maintain more capital, with common equity as a more predominant component, or manage the configuration of our assets and liabilities in order to comply with formulaic liquidity requirements, such regulation could significantly impact our return on equity, financial condition, operations, capital position and ability to pursue business opportunities.

Recent Acquisition Transactions

FDIC-Assisted Transactions

On July 8, 2011, the Company announced that its wholly-owned subsidiary bank, Northbrook Bank, acquired certain assets and liabilities and the banking operations of First Chicago Bank & Trust (First Chicago) in an FDIC-assisted transaction. First Chicago operated seven locations in Illinois: three in Chicago, one each in Bloomingdale, Itasca, Norridge and Park Ridge, and had approximately $768.9 million in total assets and $667.8 million in total deposits as of the acquisition date. Northbrook Bank acquired substantially all of First Chicago s assets at a discount of approximately 12% and assumed all of the non-brokered deposits at a premium of approximately 0.5%.

On March 25, 2011, the Company announced that its wholly-owned subsidiary bank, Advantage National Bank Group (Advantage), acquired certain assets and liabilities and the banking operations of The Bank of Commerce (TBOC) in an FDIC-assisted transaction. TBOC operated one location in Wood Dale, Illinois and had approximately $174.0 million in total assets and $164.7 million in total deposits as of the acquisition date. Advantage acquired substantially all of TBOC s assets at a discount of approximately 14% and assumed all of the non-brokered deposits at a premium of approximately 0.1%. Advantage subsequently changed its name to Schaumburg Bank and Trust Company, N.A.

On February 4, 2011, the Company announced that its wholly-owned subsidiary bank, Northbrook Bank, acquired certain assets and liabilities and the banking operations of Community First Bank-Chicago (CFBC) in an FDIC-assisted transaction. CFBC operated one location in Chicago and had approximately $50.9 million in total assets and $48.7 million in total deposits as of the acquisition date. Northbrook Bank acquired substantially all of CFBC s assets at a discount of approximately 8% and assumed all of the non-brokered deposits at a premium of approximately 0.5%.

On August 6, 2010, the Company announced that its wholly-owned subsidiary bank, Northbrook Bank, acquired the banking operations of Ravenswood Bank (Ravenswood) in an FDIC-assisted transaction. Northbrook Bank acquired assets with a fair value of approximately $174 million, and assumed liabilities with a fair value of approximately $123 million. Additionally, on April 23, 2010, the Company acquired the banking operations of two entities in FDIC-assisted transactions. Northbrook Bank acquired assets with a fair value of approximately $157 million and assumed liabilities with a fair value of approximately $192 million of Lincoln Park Savings Bank (Lincoln Park). Wheaton Bank acquired assets with a fair value of approximately $344 million and assumed liabilities with a fair value of approximately $416 million of Wheatland Bank (Wheatland).

Loans comprise the majority of the assets acquired in FDIC-assisted transactions and are subject to loss sharing agreements with the FDIC where the FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned, and certain other assets. Additionally, the loss share agreements with the FDIC require the Company to reimburse the FDIC in the event that actual losses on covered assets are lower than the original loss estimates agreed upon with the FDIC with respect to such assets in the loss share agreements. We refer to the loans subject to these loss-sharing agreements as covered loans. We use the term covered assets to refer to the total of covered loans, covered OREO and certain other covered assets. At their respective acquisition dates, the Company estimated the fair value of the reimbursable losses, which were approximately $273.3 million, $48.9 million and $6.7 million related to the First Chicago, TBOC and CFBC acquisitions, respectively. The agreements with the FDIC require that the Company follow certain servicing procedures or risk losing the FDIC reimbursement of losses related to covered assets.

The loans covered by the loss sharing agreements are classified and presented as covered loans and the estimated reimbursable losses are recorded as FDIC indemnification assets, both in the Consolidated Statements of Condition. The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The fair value for loans reflected expected credit losses at the acquisition date, therefore the Company will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration. The FDIC-assisted transactions resulted in bargain purchase gains of $27.4 million for First Chicago, $8.6 million for TBOC and $2.0 million for CFBC, which are shown as a component of non-interest income on the Company s Consolidated Statements of Income.

In 2010, the Company created the Purchased Assets Division comprised of experienced lenders and finance staff. The Purchased Asset Division is responsible for managing the loan portfolios acquired in FDIC-assisted transactions in addition to managing the financial and regulatory reporting of these transactions. For operations acquired in FDIC-assisted transactions, detailed reporting needs to be submitted to the FDIC on at least a quarterly basis for any assets which are subject to the loss-sharing agreements mentioned above. Reporting on the status of covered assets may continue for five to ten years from the date of acquisition depending on the type of assets acquired.

Other Transactions

On September 30, 2011, the Company completed its acquisition of Elgin State Bancorp, Inc. (ESBI). ESBI was the parent company of Elgin State Bank, which operated three banking locations in Elgin, Illinois. As part of the transaction, Elgin State Bank merged into the Company s wholly-owned subsidiary bank, St. Charles, and the three acquired banking locations are operating as branches of St. Charles under the brand name Elgin State Bank. Elgin State Bank had approximately $263.2 million in assets and $241.1 million in deposits as of September 30, 2011.

On July 1, 2011, the Company acquired Great Lakes Advisors, a Chicago-based investment manager with approximately $2.4 billion in assets under management. Great Lakes Advisors merged with Wintrust s existing asset management business, Wintrust Capital Management, LLC and operates as Great Lakes Advisors, LLC, a Wintrust Wealth Management Company .

On April 13, 2011, the Company announced the acquisition of certain assets and the assumption of certain liabilities of the mortgage banking business of River City Mortgage, LLC (River City) of Bloomington, Minnesota. With offices in Minnesota, Nebraska and North Dakota, River City originated nearly $500 million in mortgage loans in 2010.

On February 3, 2011, the Company acquired certain assets and assumed certain liabilities of the mortgage banking business of Woodfield Planning Corporation (Woodfield) of Rolling Meadows, Illinois. With offices in Rolling Meadows, Illinois and Crystal Lake, Illinois, Woodfield originated approximately $180 million in mortgage loans in 2010.

On October 22, 2010, the Company s wholly-owned subsidiary bank, Wheaton Bank, acquired a branch of First National Bank of Brookfield that is located in Naperville, Illinois. Through this transaction, Wheaton Bank acquired approximately $23 million of deposits, approximately $11 million of performing loans, the property, bank facility and various other assets. This branch operates as Naperville Bank & Trust.

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. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments, and as such have a greater possibility that changes in those estimates and assumptions could produce financial results that are materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event, are based on information available as of the date of the financial statements; accordingly, as information changes, the financial statements could reflect different estimates and assumptions.

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 critical accounting policies to include the determination of the allowance for loan losses, allowance for covered loan losses and the allowance for losses on lending-related commitments, loans acquired with evidence of credit quality deterioration since origination, estimations of fair value, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and income taxes as the accounting areas that require the most subjective and complex judgments, and as such could be most subject to revision as new information becomes available.

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

The allowance for loan losses and the allowance for covered loan losses represent 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. See Note 1 to the Consolidated Financial Statements and the section titled Loan Portfolio and Asset Quality later in this report for a description of the methodology used to determine the allowance for loan losses, allowance for covered loan losses and the allowance for lending-related commitments.

Loans Acquired with Evidence of Credit Quality Deterioration since Origination

Under accounting guidance applicable to loans acquired with evidence of credit quality deterioration since origination, the excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining estimated life of the loans, using the effective-interest method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Changes in the expected cash flows from the date of acquisition will either impact the accretable yield or result in a charge to the provision for credit losses. Subsequent decreases to expected principal cash flows will result in a charge to provision for credit losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. All changes in expected interest cash flows, including the impact of prepayments, will result in reclassifications to/from nonaccretable differences.

Estimations of Fair Value

A portion of the Company s assets and liabilities are carried at fair value on the Consolidated Statements of Condition, with changes in fair value recorded either through earnings or other comprehensive income in accordance with applicable accounting principles generally accepted in the United States. These include the Company s trading account securities, available-for-sale securities, derivatives, mortgage loans held-for-sale, mortgage servicing rights and retained interests from the sale of premium finance receivables. The estimation of fair value also affects certain other mortgage loans held-for-sale, which are not recorded at fair value but at the lower of cost or market. The determination of fair value is important for certain other assets, including goodwill and other intangible assets, impaired loans, and other real estate owned that are periodically evaluated for impairment using fair value estimates.

Fair value is generally defined as the amount at which an asset or liability could be exchanged in a current transaction between willing, unrelated parties, other than in a forced or liquidation sale. Fair value is based on quoted market prices in an active market, or if market prices are not available, is estimated using models employing techniques such as matrix pricing or discounting expected cash flows. The significant assumptions used in the models, which include assumptions for interest rates, discount rates, prepayments and credit losses, are independently verified against observable market data where possible. Where observable market data is not available, the estimate of fair value becomes more subjective and involves a high degree of judgment. In this circumstance, fair value is estimated based on management s judgment regarding the value that market participants would assign to the asset or liability. This valuation process takes into consideration factors such as market illiquidity. Imprecision in estimating these factors can impact the amount recorded on the balance sheet for a particular asset or liability with related impacts to earnings or other comprehensive income. See Note 23 to the Consolidated Financial Statements later in this report for a further discussion of fair value measurements.

Impairment Testing of Goodwill

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 through the use of publicly available valuations of comparable entities or discounted cash flow models using internal financial projections in the reporting unit s business plan.

The goodwill impairment analysis involves a two-step process. The first step is a comparison of the reporting unit s fair value to its carrying value. If the carrying value of a reporting unit was determined to have been higher than its fair value, the second step would have to be performed to measure the amount of impairment loss. The second step allocates the fair value to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

The goodwill impairment analysis requires management to make subjective judgments in determining if an indicator of impairment has occurred. Events and factors that may significantly affect the analysis include: a significant decline in the Company s expected future cash flows, a substantial increase in the discount factor, a sustained, significant decline in the Company s stock price and market capitalization, a significant adverse change in legal factors or in the business climate. Other factors might include changing competitive forces, customer behaviors and attrition, revenue trends, cost structures, along with specific industry and market conditions. Adverse change in these factors could have a significant impact on the recoverability of intangible assets and could have a material impact on the Company s consolidated financial statements.

As of December 31, 2011, the Company had three reporting units; Community Banking, Specialty Finance and Wealth Management. Based on the Company s 2011 goodwill impairment testing, the fair values for all three reporting units were in excess of their carrying value. The Company used a discounted cash flow analysis for these reporting units, using projected cash flows that were based on growth and terminal value assumptions, among other factors. No goodwill impairment was indicated for any of the reporting units.

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. Management reviews its uncertain tax positions and recognition of the benefits of such positions on a regular basis.

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.

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 99 offices at the end of 2011. FIFC has matured from its limited operations in 1991 to a company that generated, on a national basis, $4.0 billion in premium finance receivables in 2011. 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 its existing banks become more profitable, the start-up costs associated with bank and branch openings and other new financial services ventures will not have as significant an impact on earnings as in prior periods.

Earnings Summary

Net income for the year ended December 31, 2011, totaled $77.6 million, or $1.67 per diluted common share, compared to $63.3 million, or $1.02 per diluted common share, in 2010, and $73.1 million, or $2.18 per diluted common share, in 2009. During 2011, net income increased by $14.3 million while earnings per diluted common share increased by $0.65. During 2010, net income decreased by $9.8 million while earnings per diluted common share decreased by $1.16. Financial results in 2011 increased from 2010 as a result of decreases in both interest expense on deposits and the provision for credit losses partially offset by increased salary and employee benefit costs. Financial results in 2010 decreased from 2009 as a result of fewer bargain purchase gains in 2010 partially offset by increases in interest income on loans as well as decreases in the provision for credit losses.

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 earning assets and interest bearing liabilities. Net interest margin represents tax-equivalent net interest income as a percentage of the average earning assets during the period.

Tax-equivalent net interest income in 2011 totaled $463.1 million, up from $417.6 million in 2010 and $314.1 million in 2009, representing an increase of $45.5 million, or 11%, in 2011 and an increase of $103.5 million, or 33%, in 2010. 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 2011 and 2010. Average earning assets increased $1.1 billion, or 9%, in 2011 and $2.0 billion, or 19%, in 2010. Loans are the most significant component of the earning asset base as they earn interest at a higher rate than the other earning assets, excluding covered loans. Average loans, excluding covered loans, increased $671.9 million, or 7%, in 2011 and $1.1 billion, or 14%, in 2010. Total average loans, excluding covered loans, as a percentage of total average earning assets were 75%, 76% and 80% in 2011, 2010 and 2009, respectively. The average yield on loans, excluding covered loans, was 5.03% in 2011, 5.67% in 2010 and 5.59% in 2009, reflecting a decrease of 64 basis points in 2011 and an increase of eight basis points in 2010. The lower loan yield in 2011 compared to 2010 was due to the negative impact of both competitive and economic pricing pressures. The higher loan yield in 2010 compared to 2009 resulted primarily from higher accretion on the purchased life insurance portfolio as more prepayments occurred in 2010. The average rate paid on interest bearing deposits, the largest component of the Company s interest bearing liabilities, was 0.88% in 2011, 1.32% in 2010 and 2.03% in 2009, representing a decrease of 44 basis points in 2011 and 71 basis points in 2010. The lower level of interest bearing deposits rates in 2011 compared to 2010 and 2010 compared to 2009 was due to continued downward re-pricing of retail deposits in recent years. In 2008, the Company also expanded its MaxSafe® suite of products (primarily certificates of deposit and money market accounts) which, due to the Company s fifteen individual bank charters, offer a customer higher FDIC insurance than a customer can achieve at a single charter bank. These MaxSafe® products can typically be priced at lower rates than other certificates of deposit or money market accounts due to the convenience of obtaining the higher FDIC insurance coverage by visiting only one location.

Net interest margin increased to 3.42% in 2011 compared to 3.37% in 2010. The increase in net interest margin in 2011 compared to 2010 was primarily caused by lower costs for interest-bearing deposits and increased balances and higher yields on covered loans, partially offset by lower yields on loans and a lower contribution from net free funds.

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 acquisition 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, typically on an accelerated basis.

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, 2011, 2010 and 2009. 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. 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:

	Years Ended December 31,								
	2011			2010			2009		
(Dollars in thousands)	**Average Balance**	**Interest**	**Average Yield/ Rate**	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Assets									
Interest bearing deposits with banks	**$ 898,967**	**$ 3,419**	**0.38%**	$ 1,202,750	$ 5,171	0.43%	$ 605,644	$ 3,574	0.59%
Securities	**1,895,566**	**49,740**	**2.62**	1,402,255	40,211	2.87	1,392,346	59,091	4.24
Federal funds sold and securities purchased under resale agreements	**45,624**	**116**	**0.25**	49,008	157	0.32	88,663	271	0.31
Total liquidity management assets [1] [6]	**2,840,157**	**53,275**	**1.88**	2,654,013	45,539	1.72	2,086,653	62,936	3.02
Other earning assets [1] [2] [6]	**28,570**	**816**	**2.86**	45,021	1,067	2.37	23,979	659	2.75
Loans, net of unearned income [1] [3] [6]	**10,145,462**	**509,870**	**5.03**	9,473,589	537,534	5.67	8,335,421	466,239	5.59
Covered loans	**520,550**	**43,526**	**8.36**	232,206	10,695	4.61			
Total earning assets [6]	**13,534,739**	**607,487**	**4.49**	12,404,829	594,835	4.80	10,446,053	529,834	5.07
Allowance for loan losses	**(127,660)**			(111,503)			(82,029)		
Cash and due from banks	**138,795**			137,547			108,471		
Other assets	**1,374,286**			1,125,739			942,827		
Total assets	**$ 14,920,160**			$ 13,556,612			$ 11,415,322		
Liabilities and Shareholders Equity									
Deposits interest bearing:									
NOW accounts	**$ 1,568,151**	**$ 5,614**	**0.36%**	$ 1,508,063	$ 8,840	0.59%	$ 1,136,008	$ 8,168	0.72%
Wealth management deposits	**705,736**	**740**	**0.10**	734,837	2,263	0.31	907,013	6,301	0.69
Money market accounts	**1,985,881**	**8,639**	**0.44**	1,666,554	12,196	0.73	1,375,767	17,779	1.29
Savings accounts	**795,828**	**2,188**	**0.27**	619,024	3,655	0.59	457,139	4,385	0.96
Time deposits	**4,956,926**	**70,757**	**1.43**	4,881,472	96,825	1.98	4,543,154	134,626	2.96
Total interest bearing deposits	**10,012,522**	**87,938**	**0.88**	9,409,950	123,779	1.32	8,419,081	171,259	2.03
Federal Home Loan Bank advances	**449,874**	**16,320**	**3.63**	418,981	16,520	3.94	434,520	18,002	4.14
Notes payable and other borrowings	**384,256**	**11,023**	**2.87**	229,569	5,943	2.59	258,322	7,064	2.73
Secured borrowings owed to securitization investors	**600,000**	**12,113**	**2.02**	600,000	12,365	2.06			
Subordinated notes	**43,411**	**750**	**1.70**	56,370	995	1.74	66,205	1,627	2.42
Junior subordinated notes	**249,493**	**16,272**	**6.43**	249,493	17,668	6.98	249,497	17,786	7.03
Total interest-bearing liabilities	**$ 11,739,556**	**$ 144,416**	**1.23%**	$ 10,964,363	$ 177,270	1.61%	$ 9,427,625	$ 215,738	2.29%
Non-interest bearing deposits	**1,481,594**			984,416			788,034		
Other liabilities	**214,290**			255,698			117,871		
Equity	**1,484,720**			1,352,135			1,081,792		
Total liabilities and shareholders equity	**$ 14,920,160**			$ 13,556,612			$ 11,415,322		
Interest rate spread [4] [6]			**3.26%**			3.19%			2.78%
Net free funds/contribution [5]	**$ 1,795,183**		**0.16%**	$ 1,440,466		0.18%	$ 1,018,428		0.23%
Net interest income/Net interest margin[6]		**$ 463,071**	**3.42%**		$ 417,565	3.37%		$ 314,096	3.01%

(1) Interest income on tax-advantaged loans, trading securities and securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate of 35%. The total adjustments for both of the years ended December 31, 2011 and 2010 were $1.7 million, respectively. The total adjustments for the year ended December 31, 2009 were $2.2 million.

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

(3) Loans, net of unearned income, include loans held-for-sale and non-accrual loans.

(4) Interest rate spread is the difference between the yield earned on earning assets and the rate paid on interest-bearing liabilities.

(5) 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.

(6) See Supplemental Financial Measures/Ratios for additional information on this performance ratio.

Changes In Interest Income and Expense

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:

	Years Ended December 31,					
	2011 Compared to 2010			2010 Compared to 2009		
(Dollars in thousands)	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	**$ (553)**	**(1,199)**	**(1,752)**	$ (1,176)	2,773	1,597
Securities	**(3,663)**	**13,192**	**9,529**	(19,188)	308	(18,880)
Federal funds sold and securities purchased under resale agreements	**(31)**	**(10)**	**(41)**	8	(122)	(114)
Total liquidity management assets	**(4,247)**	**11,983**	**7,736**	(20,356)	2,959	(17,397)
Other earning assets	**191**	**(442)**	**(251)**	(102)	510	408
Loans, net of unearned income	**(63,796)**	**36,132**	**(27,664)**	6,758	64,537	71,295
Covered loans	**13,001**	**19,830**	**32,831**		10,695	10,695
Total interest income	**(54,851)**	**67,503**	**12,652**	(13,700)	78,701	65,001
Interest Expense:						
Deposits interest bearing:						
NOW accounts	**(3,701)**	**475**	**(3,226)**	(1,822)	2,494	672
Wealth management deposits	**(963)**	**(560)**	**(1,523)**	(1,982)	(2,056)	(4,038)
Money market accounts	**(5,545)**	**1,988**	**(3,557)**	(8,806)	3,223	(5,583)
Savings accounts	**(2,328)**	**861**	**(1,467)**	(2,000)	1,270	(730)
Time deposits	**(26,165)**	**97**	**(26,068)**	(48,078)	10,277	(37,801)
Total interest expense deposits	**(38,702)**	**2,861**	**(35,841)**	(62,688)	15,208	(47,480)
Federal Home Loan Bank advances	**(1,360)**	**1,160**	**(200)**	(851)	(631)	(1,482)
Notes payable and other borrowings	**703**	**4,377**	**5,080**	(398)	(723)	(1,121)
Secured borrowings owed to securitization investors	**(252)**		**(252)**		12,365	12,365
Subordinated notes	**(22)**	**(223)**	**(245)**	(413)	(219)	(632)
Junior subordinated notes	**(1,396)**		**(1,396)**	(118)		(118)
Total interest expense	**(41,029)**	**8,175**	**(32,854)**	(64,468)	26,000	(38,468)
Net interest income	**$ (13,822)**	**59,328**	**45,506**	$ 50,768	52,701	103,469

The changes in net interest income are created by changes in both interest rates and volumes. 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.

Non-Interest Income

Non-interest income totaled $189.7 million in 2011, $192.2 million in 2010 and $317.6 million in 2009, reflecting a decrease of 1% in 2011 compared to 2010 and a decrease of 40% in 2010 compared to 2009.

The following table presents non-interest income by category for 2011, 2010 and 2009:

	Years ended December 31,			**2011 compared to 2010**		2010 compared to 2009	
(Dollars in thousands)	**2011**	2010	2009	**$ Change**	**% Change**	$ Change	% Change
Brokerage	**$ 24,601**	23,713	17,726	**$ 888**	**4%**	$ 5,987	34%
Trust and asset management	**19,916**	13,228	10,631	**6,688**	**51**	2,597	24
Total wealth management	**44,517**	36,941	28,357	**7,576**	**21**	8,584	30
Mortgage banking	**56,942**	61,378	68,527	**(4,436)**	**(7)**	(7,149)	(10)
Service charges on deposit accounts	**14,963**	13,433	13,037	**1,530**	**11**	396	3
Gain on sales of commercial premium finance receivables			8,576			(8,576)	(100)
Gains (losses) on available-for - sale securities	**1,792**	9,832	(268)	**(8,040)**	**(82)**	10,100	NM
Fees from covered call options	**13,570**	2,235	1,998	**11,335**	**NM**	237	12
Gain on bargain purchases	**37,974**	44,231	156,013	**(6,257)**	**(14)**	(111,782)	(72)
Trading gains	**337**	5,165	26,788	**(4,828)**	**(93)**	(21,623)	(81)
Other:							
Bank Owned Life Insurance	**2,569**	2,404	2,044	**165**	**7**	360	18
Administrative services	**3,071**	2,749	1,975	**322**	**12**	774	39
Miscellaneous	**13,963**	13,792	10,600	**171**	**1**	3,192	30
Total Other	**19,603**	18,945	14,619	**658**	**3**	4,326	30
Total Non-Interest Income	**$ 189,698**	192,160	317,647	**$ (2,462)**	**(1)%**	$ (125,487)	(40)%

NM Not Meaningful

Wealth management revenue is comprised of the trust and asset management revenue of the CTC and Great Lakes Advisors and the brokerage commissions, managed money fees and insurance product commissions at WHI.

Brokerage revenue is directly impacted by trading volumes. In 2011, brokerage revenue totaled $24.6 million, reflecting an increase of $888,000, or 4%, compared to 2010. The increase in brokerage revenue can be attributed to increased customer trading activity. In 2010, brokerage revenue totaled $23.7 million, reflecting an increase of $6.0 million, or 34%, compared to 2009. The increase in brokerage revenue in 2010 can be attributed to the improvement in equity markets resulting in increased customer trading activity.

Trust and asset management revenue totaled $19.9 million in 2011, an increase of $6.7 million, or 51%, compared to 2010. Trust and asset management revenue totaled $13.2 million in 2010, an increase of $2.6 million, or 24%, compared to 2009. Trust and asset management fees are based primarily on the market value of the assets under management or administration. Higher asset levels associated with growth in the wealth management customer base, including those added as a result of the Great Lakes Advisors acquisition, have helped drive revenue growth in 2011. Increased asset valuations due to equity market improvements helped growth from trust and asset management activities in 2010 as compared to 2009.

Mortgage banking revenue includes revenue from activities related to originating, selling and servicing residential real estate loans for the secondary market. Mortgage banking revenue totaled $56.9 million in 2011, $61.4 million in 2010, and $68.5 million in 2009, reflecting a decrease of $4.4 million, or 7%, in 2011, and a decrease of $7.1 million, or 10%, in 2010. Mortgages originated and sold totaled $2.5 billion in 2011 compared to $3.7 billion in 2010 and $4.7 billion in 2009. The decrease in mortgage banking revenue in

2011 compared to 2010 can be primarily attributed to lower origination volumes resulting in fewer gains on sales of loans and other fees, partially offset by decreased recourse expense in 2011. The decrease in mortgage banking revenue in 2010 compared to 2009 resulted primarily from an increase in loss indemnification claims and lower origination volumes, partially offset by higher margins on sales of loans primarily driven by utilizing mandatory execution of forward commitments with investors in 2010. Additionally, the Company enters into residential mortgage loan sale agreements with investors in the normal course of business. These agreements provide recourse to investors through certain representations concerning credit information, loan documentation, collateral and insurability. Investors request the Company to indemnify them against losses on certain loans or to repurchase loans which the investors believe do not comply with applicable representations. An increase in requests for loss indemnification can negatively impact mortgage banking revenue as additional recourse expense. The Company recognized an additional $439,000 of recourse expense related to loss indemnification claims in 2011 for loans previously sold, a decrease of $10.5 million compared to the $11.0 million of such expense recorded in 2010. This liability for loans expected to be repurchased is based on trends in repurchase and indemnification requests, actual loss experience, known and inherent risks in the loans that have been sold, and current economic conditions.

A summary of mortgage banking activities is shown below:

(Dollars in thousands)	Years Ended December 31, 2011	2010	2009
Mortgage loans originated and sold	**$ 2,545,385**	$ 3,746,127	$ 4,666,506
Mortgage loans serviced for others	**958,749**	942,224	738,372
Fair value of mortgage servicing rights (MSRs)	**6,700**	8,762	6,745
MSRs as a percentage of loans serviced	**0.70%**	0.93%	0.91%
Gain on sales of loans and other fees	**$ 62,054**	$ 75,303	$ 71,495
Mortgage servicing rights fair value adjustments	**(4,673)**	(2,955)	(2,031)
Recourse obligation on loans previously sold	**(439)**	(10,970)	(937)
Total mortgage banking revenue	**$ 56,942**	$ 61,378	$ 68,527
Gain on sales of loans and other fees as a percentage of loans sold	**2.44%**	2.01%	1.53%

Service charges on deposit accounts totaled $15.0 million in 2011, $13.4 million in 2010 and $13.0 million in 2009, reflecting an increase of 11% in 2011 and 3% in 2010. The majority of deposit service charges relates to customary fees on overdrawn accounts and returned items. The level of service charges received is below peer group levels, as management believes in the philosophy of providing high quality service without encumbering that service with numerous activity charges.

As a result of accounting requirements effective January 1, 2010, loans transferred into the securitization facility are accounted for as a secured borrowing rather than a sale. Therefore, the Company no longer recognizes gains on sales of premium finance receivables for loans transferred into the securitization. Gain on sales of premium finance receivables of $8.6 million in 2009 is mainly attributable to the transfer of $1.2 billion of premium finance receivables commercial to a revolving securitization during the year.

The Company recognized $1.8 million of net gains on available-for-sale securities in 2011 compared to net gains of $9.8 million in 2010 and net losses of $268,000 in 2009. The net gains in 2010 primarily relate to the sale of certain collateralized mortgage obligations. Included in net gains (losses) on available-for-sale securities are non-cash other-than-temporary-impairment (OTTI) charges recognized in income. The Company did not have any OTTI charges in 2011 and 2010. OTTI charges on certain corporate debt investment securities were $2.6 million in 2009.

Fees from covered call option transactions totaled $13.6 million in 2011, $2.2 million in 2010 and $2.0 million in 2009. The Company has typically written call options with terms of less than three months against certain U.S. Treasury and agency securities held in its portfolio for liquidity and other purposes. Historically, Management has effectively entered into these transactions with the goal of enhancing its overall return on its investment portfolio by using fees generated from these options to compensate for net interest margin compression. These option transactions are designed to increase the total return associated with holding certain investment securities and do not qualify as hedges pursuant to accounting guidance. In 2010 and 2009, Management chose to engage in minimal covered call option activity due to lower than acceptable security yields. There were no outstanding call option contracts at December 31, 2011, December 31, 2010 or December 31, 2009.

Gain on bargain purchases totaled $38.0 million in 2011, $44.2 million in 2010, and $156.0 million in 2009, reflecting an decrease of

$6.3 million in 2011 and a decrease of $111.8 million in 2010. The gain on bargain purchases in 2011 relates to the FDIC-assisted acquisition of TBOC by Schaumburg and the FDIC-assisted acquisitions of CFBC and First Chicago by Northbrook. In 2010, the gains on bargain purchases primarily resulted from three FDIC-assisted bank acquisitions as well as the acquisition of the life insurance premium finance receivable portfolio. In 2010, third party consents were received and all remaining funds held in escrow for the purchase of the life insurance premium finance receivable portfolio were released, resulting in recognition of the remaining deferred bargain purchase gain. The gain on bargain purchase of $156.0 million recognized in 2009 resulted from the acquisition of the life insurance premium finance receivable portfolio. See Note 8 Business Combinations for a discussion of the transaction and gain calculation.

The Company recognized $337,000 of trading gains in 2011, $5.2 million in 2010, and $26.8 million in 2009. The decrease in trading gains in 2011 compared to 2010 as well as 2010 compared to 2009 resulted primarily from realizing larger market value increases on certain collateralized mortgage obligations which were sold in July 2010. The Company purchased these securities at a significant discount in the first quarter of 2009. These securities increased in value after their purchase due to market spreads tightening, increased mortgage prepayments due to the favorable mortgage rate environment and lower than projected default rates.

Bank owned life insurance (BOLI) generated non-interest income of $2.6 million in 2011, $2.4 million in 2010 and $2.0 million in 2009. This income typically represents adjustments to the cash surrender value of BOLI policies. 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 also assumed additional BOLI since then as the result of the acquisition of certain banks. The cash surrender value of BOLI totaled $101.0 million at December 31, 2011 and $92.2 million at December 31, 2010, and is included in other assets.

Administrative services revenue generated by Tricom was $3.1 million in 2011, $2.7 million in 2010 and $2.0 million in 2009. 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 increases in recent years are a result of an increase in the volume of Tricom s client billings.

Miscellaneous other non-interest income totaled $14.0 million in 2011, $13.8 million in 2010 and $10.6 million in 2009. Miscellaneous income includes loan servicing fees, service charges, swap fees and other fees. The increase in miscellaneous income in 2011 compared to 2010 and 2010 compared to 2009 is primarily attributed to swap fee revenues from interest rate hedging transactions related to both customer-based trades and the related matched trades with inter-bank dealer counterparties. The Company recognized $6.8 million of swap fee revenue in 2011 compared to $1.5 million in 2010 and $903,000 in 2009. The revenue recognized on this customer-based activity is sensitive to the pace of organic loan growth, the shape of the LIBOR curve and the customers expectations of interest rates.

Non-Interest Expense

Non-interest expense totaled $420.4 million in 2011, and increased $37.9 million, or 10%, compared to 2010. In 2010, non-interest expense totaled $382.5 million, and increased $38.4 million, or 11%, compared to 2009.

The following table presents non-interest expense by category for 2011, 2010 and 2009:

	Years ended December 31,			**2011 compared to 2010**		2010 compared to 2009	
(Dollars in thousands)	**2011**	2010	2009	**$ Change**	**% Change**	$ Change	% Change
Salaries and employee benefits:							
Salaries	**$ 138,452**	120,210	108,847	**$ 18,242**	**15%**	$ 11,363	10%
Commissions and bonus	**55,721**	58,107	45,503	**(2,386)**	**(4)**	12,604	28
Benefits	**43,612**	37,449	32,528	**6,163**	**16**	4,921	15
Total salaries and employee benefits	**237,785**	215,766	186,878	**22,019**	**10**	28,888	15
Equipment	**18,267**	16,529	16,119	**1,738**	**11**	410	3
Occupancy, net	**28,764**	24,444	23,806	**4,320**	**18**	638	3
Data processing	**14,568**	15,355	12,982	**(787)**	**(5)**	2,373	18
Advertising and marketing	**8,380**	6,315	5,369	**2,065**	**33**	946	18
Professional fees	**16,874**	16,394	13,399	**480**	**3**	2,995	22
Amortization of other intangible assets	**3,425**	2,739	2,784	**686**	**25**	(45)	(2)
FDIC insurance	**14,143**	18,028	21,199	**(3,885)**	**(22)**	(3,171)	(15)
OREO expenses, net	**26,340**	19,331	18,963	**7,009**	**36**	368	2
Other:							
Commissions 3rd party brokers	**3,829**	4,003	3,095	**(174)**	**(4)**	908	29
Postage	**4,672**	4,813	4,833	**(141)**	**(3)**	(20)	
Stationery and supplies	**3,818**	3,374	3,189	**444**	**13**	185	6
Miscellaneous	**39,539**	35,434	31,471	**4,105**	**12**	3,963	13
Total other	**51,858**	47,624	42,588	**4,234**	**9**	5,036	12
Total Non-Interest Expense	**$ 420,404**	382,525	344,087	**$ 37,879**	**10%**	$ 38,438	11%

Salaries and employee benefits is the largest component of non-interest expense, accounting for 57% of the total in 2011, 56% of the total in 2010 and 54% of the total in 2009. For the year ended December 31, 2011, salaries and employee benefits totaled $237.8 million and increased $22.0 million, or 10%, compared to 2010. This increase can be attributed to an $18.2 million increase in salaries resulting from additional employees from acquisitions and larger staffing as the company grows and a $6.2 million increase in employee benefits (primarily health plan and payroll taxes related), partially offset by a $2.4 million decrease in bonus expense and commissions attributable to variable pay based revenue. For the year ended December 31, 2010, salaries and employee benefits totaled $215.8 million and increased $28.9 million, or 15%, compared to 2009. This increase can be attributed to a $12.6 million increase in bonus expense and commissions as variable pay based revenue increased (primarily wealth management revenue and mortgage banking revenue), an $11.4 million increase in salaries resulting from additional employees from the three FDIC-assisted transactions in 2010 and larger staffing as the company grows, and a $4.9 million increase in employee benefits (primarily health plan and payroll taxes related).

Equipment expense, which includes furniture, equipment and computer software, depreciation and repairs and maintenance costs, totaled $18.3 million in 2011, $16.5 million in 2010 and $16.1 million in 2009, reflecting an increase of 11% in 2011 and an increase of 3% in 2010. The increase in 2011 is primarily a result of increased equipment depreciation expense.

Occupancy expense for the years 2011, 2010 and 2009 was $28.8 million, $24.4 million and $23.8 million, respectively, reflecting increases of 18% in 2011 and 3% in 2010. Occupancy expense includes depreciation on premises, real estate taxes, utilities and maintenance of premises, as well as net rent expense for leased premises. The increase in 2011 is primarily the result of rent expense on additional leased premises and depreciation on owned locations which were obtained in the Company s acquisitions.

Data processing expenses totaled $14.6 million in 2011, $15.4 million in 2010 and $13.0 million in 2009, representing a decrease of 5% in 2011 and an increase of 18% in 2010. Data processing expenses have been elevated in 2011 and 2010 primarily due to the overall growth of loan and deposit accounts as well as additional expenses incurred for bank acquisition transactions in 2011 and 2010. The decrease in data processing expenses in 2011 compared to 2010 is primarily a result of more favorable terms from third-party providers.

Advertising and marketing expenses totaled $8.4 million for 2011, $6.3 million for 2010 and $5.4 million for 2009. Marketing costs are necessary to promote the Company s commercial banking capabilities, the Company s MaxSafe® suite of products, to announce new branch openings as well as the expansion of the wealth management business, to continue to promote community-based products and to attract loans and deposits. 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 mass market media promotions as well as targeted marketing programs in certain market areas. In 2011, advertising and marketing costs increased as a result of rebranding initiatives to increase Wintrust name recognition.

Professional fees include legal, audit and tax fees, external loan review costs and normal regulatory exam assessments. These fees totaled $16.9 million in 2011, $16.4 million in 2010 and $13.4 million in 2009. The increases in 2011 and 2010 are primarily related to increased legal costs related to non-performing assets and acquisition related activities.

Amortization of other intangibles assets relates to the amortization of core deposit premiums and customer list intangibles established in connection with certain business combinations. See Note 9 of the Consolidated Financial Statements for further information on these intangible assets.

FDIC insurance expense totaled $14.1 million in 2011, $18.0 million in 2010 and $21.2 million in 2009. Effective April 1, 2011, standards applied in FDIC assessments set forth in the FDIA were revised by the Dodd-Frank Act. These revisions modified definitions of a company s insurance assessment base and assessment rates which led to the Company s decreased FDIC insurance expense in 2011 compared to 2010. The decrease in FDIC insurance expense for 2010 compared to 2009 was a result of an industry-wide special assessment imposed on financial institutions by the FDIC in the second quarter of 2009. Additionally, on December 30, 2009, FDIC insured institutions were required to prepay 13 quarters of estimated deposit insurance premiums. The Company recorded the prepaid deposit insurance premiums as an asset and is expensing them over the three year assessment period.

OREO expenses include all costs associated with obtaining, maintaining and selling other real estate owned properties as well as valuation adjustments. This expense was $26.3 million in 2011, $19.3 million in 2010, and $19.0 million in 2009. While relatively unchanged in 2010 compared to 2009, OREO expenses increased in 2011 primarily related to higher valuation adjustments of properties held in OREO in 2011 as real estate values continued to show stress and generally declined during the year.

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

Miscellaneous non-interest expense includes ATM expenses, correspondent banking charges, directors fees, telephone, travel and entertainment, corporate insurance, dues and subscriptions and lending origination costs that are not deferred. This category increased $4.1 million, or 12%, in 2011 and increased $4.0 million, or 13%, in 2010. The increase in 2011 compared to 2010 is mainly attributable to expenses related to covered assets.

Income Taxes

The Company recorded income tax expense of $50.5 million in 2011, $37.5 million in 2010 and $44.4 million in 2009. The effective tax rates were 39.4%, 37.2% and 37.8% in 2011, 2010 and 2009, respectively. The higher effective tax rate in 2011 compared to 2009 and 2010 is primarily attributable to increases in state income taxes, including the impact of a 2.2% increase in the Illinois corporate tax rate in 2011. Please refer to Note 18 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 25 to the Consolidated Financial Statements, the Company s operations consist of three primary segments: community banking, specialty finance and wealth management. The Company s profitability is primarily dependent on the net interest income, provision for credit losses, non-interest income and operating expenses of its community banking segment. The net interest income of the community banking segment includes interest income and related interest costs from portfolio loans that were purchased from the specialty finance segment. For purposes of internal segment profitability analysis, management reviews the results of its specialty finance segment as if all loans originated and sold to the community banking segment were retained within that segment s operations. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates a portion of the net interest income earned by the community banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. (See wealth management deposits discussion in the Deposits and Other Funding Sources section of this report for more information on these deposits.)

The community banking segment s net interest income for the year ended December 31, 2011 totaled $428.1 million as compared to $386.6 million for the same period in 2010, an increase of $41.5 million, or 11%, whereas the segment s net interest income in 2010 compared to 2009 increased $86.0 million or 29%. The increases in 2011 compared to 2010 as well as 2010 compared to 2009 were primarily attributable to earning assets acquired in FDIC-assisted bank acquisitions in each period and the ability to gather interest-bearing deposits at more reasonable rates. Provision for credit losses decreased to $102.5 million in 2011 compared to $105.0 million in 2010 and $165.3 million in 2009. Provision for credit losses decreased in 2011 compared to 2010 because of improved credit quality ratios, including reduced levels of non-performing loans, in 2011. Non-interest income for the community banking segment increased $7.3 million, or 5% in 2011 when compared to the 2010 total of $133.1 million. This increase was primarily attributable to an increase in fees from covered call options offset by lower bargain purchase gains. The community banking segment s non-interest income totaled $133.1 million in 2010, an increase of $40.5 million, or 44%, when compared to the 2009 total of $92.6 million. This increase was primarily attributable to bargain purchase gains from the three FDIC-assisted acquisitions in 2010. The community banking segment s net income for the year ended December 31, 2011 totaled $83.6 million, an increase of $12.1 million, compared to net income of $71.4 million in 2010. Net income for the year ended December 31, 2010 of $71.4 million was an increase of $97.3 million in net income as compared to a net loss in 2009 of $25.9 million.

The specialty finance segment s net interest income totaled $112.5 million for the year ended December 31, 2011, an increase of $22.6 million, or 25%, over the $89.9 million in 2010. The specialty finance segment s net interest income totaled $89.9 million for the year ended December 31, 2010, an increase of $20.0 million, or 29%, over the $69.9 million in 2009. The specialty finance segment s non-interest income totaled $3.1 million for the year ended December 31, 2011 and decreased $10.5 million from the $13.6 million in 2010. The decrease in non-interest income in 2011 is primarily a result of bargain purchase gain recognized in 2010. See Note 8 of the Consolidated Financial Statements for a discussion of the bargain purchase. For 2011, our commercial premium finance operations, life insurance premium finance operations and accounts receivable finance operations accounted for 56%, 37% and 7%, respectively, of the total revenues of our specialty finance business. Net income of the specialty finance segment totaled $46.4 million, $32.5 million and $120.4 million for the years ended December 31, 2011, 2010 and 2009, respectively. The increase in net income in 2011 compared to 2010 resulted primarily from increased interest income as well as decreased provision expense in 2011. The decrease in net income in 2010 compared to 2009 is a result of the life insurance premium finance receivable bargain purchase gain in 2009 and, in the second quarter of 2010, fraud perpetrated against a number of premium finance companies in the industry, including the property and casualty division of our premium financing subsidiary, which increased the provision for credit losses by $15.7 million.

The wealth management segment reported net interest income of $8.5 for 2011 compared to $12.3 million for 2010 and 2009. Net interest income is comprised of the net interest earned on brokerage customer receivables at WHI and an allocation of a portion of the net interest income earned by the community banking segment on non-interest bearing and interest-bearing wealth management customer account balances on deposit at the banks. The allocated net interest income included in this segment s profitability was $7.8 million ($4.8 million after tax) in 2011 and $11.8 million ($7.3 million after tax) in 2010 and 2009 respectively. During the fourth quarter of 2009, the contribution attributable to the wealth management deposits was redefined to measure the value as an alternative source of funding for each bank. In previous periods, the contribution from these deposits was measured as the full net interest income contribution. The redefined measure better reflects the value of these deposits to the Company. Wealth management customer account balances on deposit at the banks averaged $635.5 million, $617.4 million and $634.4 million in 2011, 2010 and 2009, respectively. This segment recorded non-interest income of $54.9 million for 2011 as compared to $45.4 million for 2010 and $38.3 million for 2009. This increase is primarily due to an increased in customer base as a result of the Great Lakes Advisors acquisition. Distribution of wealth management services through each bank continues to be a focus of the Company as the number of brokers in its banks continues to increase. Wintrust is committed to growing the wealth management segment in order to better service its customers and create a more diversified revenue stream. This segment reported net income of $7.1 million for 2011 compared to $6.9 million for 2010 and $5.6 million for 2009.

ANALYSIS OF FINANCIAL CONDITION

Total assets were $15.9 billion at December 31, 2011, representing an increase of $1.9 billion, or 14%, when compared to December 31, 2010. Total funding, which includes deposits, all notes and advances, including secured borrowings and the junior subordinated debentures, was $14.2 billion at December 31, 2011 and $12.4 billion at December 31, 2010. See Notes 3, 4, and 11 through 15 of the Consolidated Financial Statements for additional period-end detail on the Company s interest-earning assets and funding liabilities.

54

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:

	Years Ended December 31,					
	2011		2010		2009	
(Dollars in thousands)	**Balance**	**Percent**	Balance	Percent	Balance	Percent
Loans:						
Commercial	**$ 2,130,706**	**16%**	$ 1,828,897	15%	$ 1,584,868	15%
Commercial real estate	**3,403,865**	**25**	3,332,850	27	3,405,136	33
Home equity	**885,111**	**7**	922,907	7	919,233	9
Residential real estate [1]	**518,643**	**4**	587,629	5	503,910	5
Premium finance receivables	**3,035,213**	**22**	2,622,935	21	1,653,786	16
Indirect consumer loans	**57,913**		70,295	1	134,757	1
Other loans	**114,011**	**1**	108,076	1	133,731	1
Total loans, net of unearned income [2] excluding covered loans	**$ 10,145,462**	**75%**	$ 9,473,589	77%	$ 8,335,421	80%
Covered loans	**520,550**	**4**	232,206	2		
Total average loans [2]	**$ 10,666,012**	**79%**	$ 9,705,795	79%	$ 8,335,421	80%
Liquidity management assets [3]	**$ 2,840,157**	**21**	2,654,013	21	2,086,653	20
Other earning assets [4]	**28,570**		45,021		23,979	
Total average earning assets	**$ 13,534,739**	**100%**	$ 12,404,829	100%	$ 10,446,053	100%
Total average assets	**$ 14,920,160**		$ 13,556,612		$ 11,415,322	
Total average earning assets to total average assets		**91%**		92%		92%

(1) Includes mortgage loans held-for-sale

(2) Includes loans held-for-sale and non-accrual loans

(3) Liquidity management assets include available-for-sale securities, Federal Home Loan Bank and Federal Reserve Bank stock, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements

(4) Other earning assets include brokerage customer receivables and trading account securities

Total average earning assets increased $1.1 billion, or 9%, in 2011 and $2.0 billion, or 19%, in 2010. Average earning assets comprised 91% of average total assets in 2011 and 92% of average total assets in 2010 and 2009.

Loans. Average total loans, net of unearned income, totaled $10.7 billion and increased $960.2 million, or 10%, in 2011 and $9.7 billion, or 16%, in 2010. Average commercial loans totaled $2.1 billion in 2011, and increased $301.8 million, or 17%, over the average balance in 2010, while average commercial real estate loans totaled $3.4 billion in 2011, increasing $71.0 million, or 2%, since 2010. From 2009 to 2010, average commercial loans increased $244.0 million, or 15%, while average commercial real estate loans decreased slightly by $72.3 million, or 2%. The growth realized in these categories for 2011 and 2010 is primarily attributable to increased business development efforts. Combined, these categories comprised 41% of the average loan portfolio in 2011 and 42% in 2010. Approximately $288.3 million of the average loan increase in 2010 as compared to 2009 relates to the covered loans portfolio, which relates to the various FDIC-assisted acquisitions in 2010 and 2011.

Home equity loans averaged $885.1 million in 2011, and decreased $37.8 million, or 4%, when compared to the average balance in 2010. Home equity loans averaged $922.9 million in 2010, and increased $3.7 million, or 0.4%, when compared to the average balance in 2009. Unused commitments on home equity lines of credit totaled $762.2 million at December 31, 2011 and $829.9 million at December 31, 2010. As a result of economic conditions, the Company has been actively managing its home equity portfolio to ensure that diligent pricing, appraisal and other underwriting activities continue to exist. The Company has not sacrificed asset quality or pricing standards when originating new home equity loans.

Residential real estate loans averaged $518.6 million in 2011, and decreased $69.0 million, or 12%, from the average balance in 2010. Mortgage interest rates, on average, have been higher in 2011 as compared to 2010, which has resulted in lower origination volumes in 2011. In 2010, residential real estate loans averaged $587.6 million, and increased $83.7 million, or 17%, from the average balance in 2009. This category includes mortgage loans held-for-sale. By selling residential mortgage loans into the secondary market, the Company eliminates the interest-rate risk associated with these loans, as they are predominantly long-term fixed rate loans, and provides a source of non-interest revenue.

Average premium finance receivables totaled $3.0 billion in 2011, and accounted for 27% of the Company s average total loans. Premium finance receivables consist of a commercial portfolio and a life portfolio, comprising 47% and 53%, respectively, of the average total balance for 2011 compared to 49% and 51%, respectively, for 2010. In 2011, average premium finance receivables increased $412.3 million, or 16%, compared to 2010. The increase during 2011 compared to 2010 was the result of continued originations within the portfolio due to the effective marketing and customer servicing. Approximately $4.0 billion of premium finance receivables were originated in 2011 compared to approximately $3.7 billion in 2010. In 2010, average premium finance receivables increased $969.1 million, or 59%, from the average balance of $1.7 billion in 2009. The increase in the average balance of premium finance receivables in 2010 is a result of recording the securitization receivables on the statement of condition effective January 1, 2010 and significant originations within the portfolio during the period. Historically, the majority of premium finance receivables, commercial and life insurance, were purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments. FIFC originations of commercial premium finance receivables that were not purchased by the banks were typically sold to unrelated third parties with servicing retained. During the third quarter of 2009, FIFC initially sold $695 million in commercial premium finance receivables to our indirect subsidiary, FIFC Premium Funding I, LLC, which in turn sold $600 million in aggregate principal amount of notes backed by such commercial premium finance receivables in a securitization transaction sponsored by FIFC. Under the terms of the securitization, FIFC had the right, but not the obligation, to securitize additional receivables in the future and is responsible for the servicing, administration and collection of securitized receivables and related security in accordance with FIFC s credit and collection policy. Principal collections on loans in the securitization entity were initially used to subsequently acquire and transfer additional loans into the securitization entity during the stated revolving period. As of December 31, 2011, the stated revolving period has ended and the majority of collections are now being accumulated to payoff the issued instruments as scheduled. FIFC s obligations under the securitization are subject to customary covenants, including the obligation to file and amend financing statements; the obligation to pay costs and expenses; the obligation to indemnify other parties for its breach or failure to perform; the obligation to defend the right, title and interest of the transferee of the conveyed receivables against third party claims; the obligation to repurchase the securitized receivables if certain representations fail to be true and correct and receivables are materially and adversely affected thereby; the obligation to maintain its corporate existence and licenses to operate; and the obligation to qualify the securitized notes under the securities laws. In the event of a default by FIFC under certain of these obligations, the ability to add loans to securitization facility could terminate.

Indirect consumer loans are comprised primarily of automobile loans originated at Hinsdale Bank. These loans are financed from networks of unaffiliated automobile dealers located throughout the Chicago metropolitan area with which the Company had established relationships. 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. In the third quarter of 2008, as a result of competitive pricing pressures, the Company ceased the origination of indirect automobile loans through Hinsdale Bank. However, as a result of favorable pricing opportunities coupled with reduced competition in the indirect consumer automobile lending business, the Company re-entered this business with originations through Hinsdale Bank in the fourth quarter of 2010. During 2011, 2010 and 2009 average indirect consumer loans totaled $57.9 million, $70.3 million and $134.8 million, respectively.

Other loans represent a wide variety of personal and consumer loans to individuals as well as high-yielding short-term accounts receivable financing to clients in the temporary staffing industry located throughout the United States. Consumer loans generally have shorter terms and higher interest rates than mortgage loans but generally involve more credit risk due to the type and nature of the collateral. Additionally, short-term accounts receivable financing may also involve greater credit risks than generally associated with the loan portfolios of more traditional community banks depending on the marketability of the collateral.

Covered loans represent loans acquired in FDIC-assisted transactions. These loans are subject to loss sharing agreements with the FDIC. The FDIC has agreed to reimburse the Company for 80% of losses incurred on the purchased loans, other real estate owned, and certain other assets. See Note 8 Business Combinations for a discussion of these acquisitions.

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 sources and loan demand. Average liquidity management assets accounted for 21% of total average earning assets in 2011 and 2010 and 20% in 2009. Average liquidity management assets increased $186.1 million in 2011 compared to 2010, and increased $567.4 million in 2010 compared to 2009. The balances of liquidity management assets can fluctuate based on management s ongoing effort to manage liquidity and for asset liability management purposes.

Other earning assets. Other earning assets include brokerage customer receivables and trading account securities. 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 out-sourced 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

Total deposits at December 31, 2011, were $12.3 billion, increasing $1.5 billion, or 14%, compared to the $10.8 billion at December 31, 2010. Average deposit balances in 2011 were $11.5 billion, reflecting an increase of $1.1 billion, or 11%, compared to the average balances in 2010. During 2010, average deposits increased $1.2 billion, or 13%, compared to the prior year.

The increase in year end and average deposits in 2011 over 2010 reflects the Company s efforts to increase its deposit base. During 2011, a majority of the increase can be attributed to the Company s acquisitions including approximately $667.8 million of deposits in the First Chicago acquisition, $241.1 million of deposits in the Elgin acquisition, $164.7 million of deposits in the TBOC acquisition and $48.7 million in deposits in the CFBC acquisition. Average wealth management deposits decreased in 2011 and 2010 compared to 2009 as a result of fewer deposits of brokerage customers from unaffiliated companies.

The following table presents the composition of average deposits by product category for each of the last three years:

	Years Ended December 31,					
	2011		2010		2009	
(Dollars in thousands)	**Balance**	**Percent**	Balance	Percent	Balance	Percent
Non-interest bearing deposits	**$ 1,481,594**	**13%**	$ 984,416	9%	$ 788,034	9%
NOW accounts	**1,568,151**	**14**	1,508,063	15	1,136,008	12
Wealth management deposits	**705,736**	**6**	734,837	7	907,013	10
Money market accounts	**1,985,881**	**17**	1,666,554	16	1,375,767	15
Savings accounts	**795,828**	**7**	619,024	6	457,139	5
Time certificates of deposit	**4,956,926**	**43**	4,881,472	47	4,543,154	49
Total average deposits	**$ 11,494,116**	**100%**	$ 10,394,366	100%	$ 9,207,115	100%

Wealth management deposits are funds from the brokerage customers of WHI, the trust and asset management customers of CTC and brokerage customers from unaffiliated companies which have been placed into deposit accounts of the banks (wealth management deposits in table above). Wealth management deposits consist primarily of money market accounts. 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:

	Years Ended December 31,					
	2011		2010		2009	
(Dollars in thousands)	**Balance**	**Percent**	Balance	Percent	Balance	Percent
Lake Forest Bank	**$ 1,411,410**	**12%**	$ 1,411,511	14%	$ 1,146,196	12%
Northbrook Bank	**1,340,877**	**12**	845,114	8	692,329	8
North Shore Bank	**1,307,488**	**11**	1,136,925	11	980,079	11
Hinsdale Bank	**1,136,330**	**10**	1,116,568	11	1,086,748	12
Libertyville Bank	**941,939**	**8**	904,783	9	882,366	10
Barrington Bank	**928,459**	**8**	886,261	8	776,009	8
Village Bank	**644,556**	**6**	634,211	6	592,043	6
Town Bank	**629,235**	**6**	595,454	6	571,568	6
Wheaton Bank	**591,791**	**5**	593,409	6	353,845	4
State Bank of The Lakes	**590,497**	**5**	562,418	5	546,774	6
Crystal Lake Bank	**563,268**	**5**	555,920	5	536,091	6
Schaumburg Bank	**469,167**	**4**	370,890	4	353,938	4
Beverly Bank	**337,484**	**3**	297,878	3	246,474	3
St. Charles Bank	**322,216**	**3**	225,688	2	194,534	1
Old Plank Trail Bank	**279,399**	**2**	257,336	2	248,121	3
Total deposits	**11,494,116**	**100**	$ 10,394,366	100%	$ 9,207,115	100%
Percentage increase from prior year		**11%**		13%		20%

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, secured borrowings and junior subordinated debentures. The Company evaluates the terms and unique characteristics of each source, as well as its asset-liability management position, in determining the use of such funding sources.

The composition of average other funding sources in 2011, 2010 and 2009 is presented in the following table:

	Years Ended December 31,					
	2011		2010		2009	
(Dollars in thousands)	**Average Balance**	**Percent of Total**	Average Balance	Percent of Total	Average Balance	Percent of Total
Notes payable	**$ 2,489**	**%**	$ 1,000	%	$ 1,000	%
Federal Home Loan Bank advances	**449,874**	**26**	418,981	27	434,520	43
Secured borrowings owed to securitization investors	**600,000**	**35**	600,000	39		
Subordinated notes	**43,411**	**3**	56,370	4	66,205	7
Short-term borrowings	**343,785**	**20**	226,028	14	255,504	25
Junior subordinated debentures	**249,493**	**14**	249,493	16	249,497	25
Other	**37,982**	**2**	2,541		1,818	
Total other funding sources	**$ 1,727,034**	**100%**	$ 1,554,413	100%	$ 1,008,544	100%

Notes payable balances represent the balances on a credit agreement with unaffiliated banks and an unsecured promissory note as a result of the Great Lakes Advisors acquisition. The credit agreement is a $76 million credit facility 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, 2011 the Company had $52.8 million of notes payable outstanding as compared to $1.0 million outstanding at December 31, 2010. See Note 12 to the Consolidated Financial Statements for further discussion.

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 $474.5 million at December 31,

2011 and $423.5 million at December 31, 2010. See Note 13 to the Consolidated Financial Statements for further discussion of the terms of these advances.

The Company borrowed $75.0 million under three separate $25.0 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. Subject to certain limitations, these notes qualify as Tier 2 regulatory capital. Subordinated notes totaled $35.0 million and $50.0 million at December 31, 2011 and 2010, respectively. See Note 14 to the Consolidated Financial Statements for further discussion of the terms of the notes.

Beginning in 2010, the Company accounted for its third quarter 2009 securitization transaction as a secured borrowing. Secured borrowings totaled $600.0 million at December 31, 2011 and December 31, 2010. See Note 6 to the Consolidated Financial Statements for further discussion.

Other borrowings include securities sold under repurchase agreements, federal funds purchased and debt issued by the Company in conjunction with its tangible equity unit offering in December 2010. These borrowings totaled $443.8 million and $260.6 million at December 31, 2011 and 2010, respectively. Securities sold under repurchase agreements represent sweep accounts for certain customers in connection with master repurchase agreements at the banks as well as short-term borrowings from banks and brokers. This funding category fluctuates based on customer preferences and daily liquidity needs of the banks, their customers and the banks operating subsidiaries. See Note 15 to the Consolidated Financial Statements for further discussion of these borrowings.

The Company has $249.5 million of junior subordinated debentures outstanding as of December 31, 2011 and 2010. 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. See Note 16 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.

Debt issued by the Company in conjunction with its tangible equity unit offering in December 2010 is recorded within other borrowings. The total proceeds attributed to the debt component of the offering, net of issuance costs, was $43.3 million. See Note

24 to the Consolidated Financial Statements for further discussion of these units.

Shareholders Equity. Total shareholders equity was $1.5 billion at December 31, 2011, an increase of $107 million from the December 31, 2010 total of $1.4 billion. The increase in 2011 was a primarily a result of net income of $77.6 million in 2011 less preferred and common stock dividends of $10.3 million, $5.6 million credited to surplus for stock-based compensation costs, $31.5 million from the issuance of shares of the Company s common stock related to acquisitions and pursuant to various stock compensation plans and $2.6 million in higher net unrealized gains from available-for-sale securities and net unrealized gains from cash flow hedges, net of tax.

Changes in shareholders equity from 2009 to 2010 was primarily the result of $494.4 million from the issuance of common stock and tangible equity units in March and December of 2010, net income of $63.3 million less preferred and common stock dividends of $21.2 million, offset by a reduction in preferred stock of $250.0 million.

LOAN PORTFOLIO AND ASSET QUALITY

Loan Portfolio

The following table shows the Company s loan portfolio by category as of December 31 for each of the five previous fiscal years:

	2011		2010		2009		2008		2007	
(Dollars in thousands)	**Amount**	**% of Total**	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial	**$ 2,498,313**	**22%**	$ 2,049,326	21%	$ 1,743,209	21%	$ 1,423,583	19%	$ 1,321,960	20%
Commercial real-estate	**3,514,261**	**31**	3,338,007	34	3,296,697	39	3,355,081	44	3,086,701	45
Home equity	**862,345**	**8**	914,412	9	930,482	11	896,438	12	678,298	10
Residential real-estate	**350,289**	**3**	353,336	3	306,296	4	262,908	3	226,686	3
Premium finance receivables commercial	**1,412,454**	**13**	1,265,500	13	730,144	9	1,243,858	16	1,069,781	16
Premium finance receivables life insurance	**1,695,225**	**15**	1,521,886	15	1,197,893	14	102,728	2	8,404	
Indirect consumer	**64,545**	**1**	51,147	1	98,134	1	175,955	2	241,393	4
Other loans	**123,945**	**1**	106,272	1	108,916	1	160,518	2	168,379	2
Total loans, net of unearned income, excluding covered loans	**$ 10,521,377**	**94%**	$ 9,599,886	97%	$ 8,411,771	100%	$ 7,621,069	100%	$ 6,801,602	100%
Covered loans	**651,368**	**6**	334,353	3						
Total loans	**$ 11,172,745**	**100%**	$ 9,934,239	100%	$ 8,411,771	100%	$ 7,621,069	100%	$ 6,801,602	100%

59

Commercial and commercial real estate loans. The table below sets forth information regarding the types, amounts and performance of our loans within these portfolios (excluding covered loans) as of December 31, 2011 and 2010:

As of December 31, 2011

(Dollars in thousands)	Balance	% of Total Balance	Non-accrual	> 90 Days Past Due and Still Accruing	Allowance For Loan Losses Allocation
Commercial:					
Commercial and industrial	$ 1,450,451	24.2 %	$ 16,154	$	$ 18,787
Franchise	142,775	2.4	1,792		1,571
Mortgage warehouse lines of credit	180,450	3.0			1,409
Community Advantage homeowner associations	77,504	1.3			194
Aircraft	20,397	0.3			110
Asset-based lending	465,737	7.7	1,072		7,705
Municipal	78,319	1.3			1,136
Leases	72,134	1.2			309
Other	2,125	0.1			16
Purchased non-covered commercial loans (1)	8,421	0.1		589	
Total commercial	**$ 2,498,313**	**41.6 %**	**$ 19,018**	**$ 589**	**$ 31,237**
Commercial Real-Estate:					
Residential construction	$ 65,811	1.1 %	$ 1,993	$	$ 1,804
Commercial construction	169,876	2.8	2,158		4,512
Land	178,531	3.0	31,547		12,515
Office	554,446	9.2	10,614		6,929
Industrial	555,802	9.2	2,002		5,314
Retail	536,729	8.9	5,366		4,569
Multi-family	314,557	5.2	4,736		9,337
Mixed use and other	1,086,654	18.1	8,092		11,425
Purchased non-covered commercial real-estate (1)	51,855	0.9		2,198	
Total commercial real-estate	**$ 3,514,261**	**58.4 %**	**$ 66,508**	**$ 2,198**	**$ 56,405**
Total commercial and commercial real-estate	**$ 6,012,574**	**100.0 %**	**$ 85,526**	**$ 2,787**	**$ 87,642**
Commercial real-estate collateral location by state:					
Illinois	$ 2,913,288	82.9 %			
Wisconsin	335,070	9.5			
Total primary markets	**$ 3,248,358**	**92.4 %**			
Florida	57,527	1.6			
Arizona	39,921	1.1			
Indiana	43,322	1.2			
Other (no individual state greater than 0.5%)	125,133	3.7			
Total	**$ 3,514,261**	**100.0 %**			

As of December 31, 2010

(Dollars in thousands)	Balance	% of Total Balance	Nonaccrual	> 90 Days Past Due and Still Accruing	Allowance For Loan Losses Allocation
Commercial:					
Commercial and industrial	$ 1,310,753	24.3 %	$ 15,922	$ 478	$ 22,208
Franchise	119,488	2.2			1,153
Mortgage warehouse lines of credit	131,306	2.4			1,177
Community Advantage homeowner associations	75,542	1.4			323
Aircraft	24,618	0.5			315
Asset-based lending	288,979	5.4	417		5,188
Municipal	56,343	1.0			923
Leases	41,541	0.8	43		483
Other	756	0.1			7
Purchased non-covered commercial loans (1)					
Total commercial	**$ 2,049,326**	**38.1 %**	**$ 16,382**	**$ 478**	**$ 31,777**
Commercial Real-Estate:					

Residential construction	$ 95,947	1.8 %	$ 10,010	$	$ 2,597
Commercial construction	131,672	2.4	1,820		4,035
Land	260,189	4.8	37,602		14,261
Office	535,331	9.9	12,718		8,005
Industrial	500,301	9.3	3,480		5,213
Retail	510,527	9.5	3,265		5,985
Multi-family	290,954	5.4	4,794		5,479
Mixed use and other	1,013,086	18.8	20,274		17,043
Purchased non-covered commercial real-estate [1]					
Total commercial real-estate	**$ 3,338,007**	**61.9 %**	**$ 93,963**	**$**	**$ 62,618**
Total commercial and commercial real-estate	**$ 5,387,333**	**100.0 %**	**$ 110,345**	**$ 478**	**$ 94,395**
Commercial real-estate collateral location by state:					
Illinois	$ 2,695,581	80.8 %			
Wisconsin	356,696	10.7			
Total primary markets	**$ 3,052,277**	**91.5 %**			
Florida	52,457	1.6			
Arizona	42,100	1.3			
Indiana	47,828	1.4			
Other (no individual state greater than 0.5%)	143,345	4.2			
Total	**$ 3,338,007**	**100.0 %**			

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

60

We make commercial loans for many purposes, including: working capital lines, which are generally renewable annually and supported by business assets, personal guarantees and additional collateral; loans to condominium and homeowner associations originated through Barrington Bank s Community Advantage program; small aircraft financing, an earning asset niche developed at Crystal Lake Bank; and franchise lending at Lake Forest Bank. Commercial business lending is generally considered to involve a higher degree of risk than traditional consumer bank lending. Allowance for loan losses in our commercial loan portfolio is $31.2 million as of December 31, 2011 compared to $31.8 million as of December 31, 2010.

Our commercial real estate loans are generally secured by a first mortgage lien and assignment of rents on the property. Since most of our bank branches are located in the Chicago metropolitan area and southeastern Wisconsin, 92.4% of our commercial real estate loan portfolio is located in this region. Commercial real estate market conditions continued to be under stress in 2011, however we have been able to effectively manage and reduce our total non-performing commercial real estate loans during 2011. As of December 31, 2011, our allowance for loan losses related to this portfolio is $56.4 million compared to $62.6 million as of December 31, 2010.

The Company also participates in mortgage warehouse lending by providing interim funding to unaffiliated mortgage bankers to finance residential mortgages originated by such bankers for sale into the secondary market. The Company s loans to the mortgage bankers are secured by the business assets of the mortgage companies as well as the specific mortgage loans funded by the Company, after they have been pre-approved for purchase by third party end lenders. End lender re-payments are sent directly to the Company upon end-lenders acceptance of final loan documentation. The Company may also provide interim financing for packages of mortgage loans on a bulk basis in circumstances where the mortgage bankers desire to competitively bid on a number of mortgages for sale as a package in the secondary market. Typically, the Company will serve as sole funding source for its mortgage warehouse lending customers under short-term revolving credit agreements. Amounts advanced with respect to any particular mortgage loan are usually required to be repaid within 21 days. Despite poor economic conditions generally, and the particularly difficult conditions in the U.S. residential real estate market experienced since 2008, our mortgage warehouse lending business has expanded due to the high demand for mortgage re-financings given the historically low interest rate environment at that time and the fact that many of our competitors exited the market in late 2008 and early 2009. The expansion of this business has caused our mortgage warehouse lines to increase to $180.5 million as of December 31, 2011 from $131.3 million as of December 31, 2010. Our allowance for loan losses with respect to these loans is $1.4 million as of December 31, 2011.

Home equity loans. Our home equity loans and lines of credit are originated by each of our banks in their local markets where we have a strong understanding of the underlying real estate value. Our banks monitor and manage these loans, and we conduct an automated review of all home equity loans and lines of credit at least twice per year. This review collects current credit performance for each home equity borrower and identifies situations where the credit strength of the borrower is declining, or where there are events that may influence repayment, such as tax liens or judgments. Our banks use this information to manage loans that may be higher risk and to determine whether to obtain additional credit information or updated property valuations. As a result of this work and general market conditions, we have modified our home equity offerings and changed our policies regarding home equity renewals and requests for subordination. In a limited number of situations, the unused availability on home equity lines of credit was frozen.

The rates we offer on new home equity lending are based on several factors, including appraisals and valuation due diligence, in order to reflect inherent risk, and we place additional scrutiny on larger home equity requests. In a limited number of cases, we issue home equity credit together with first mortgage financing, and requests for such financing are evaluated on a combined basis. It is not our practice to advance more than 85% of the appraised value of the underlying asset, which ratio we refer to as the loan-to-value ratio, or LTV ratio, and a majority of the credit we previously extended, when issued, had an LTV ratio of less than 80%.

Our home equity loan portfolio has performed well in light of the deterioration in the overall residential real estate market. The number of new home equity line of credit commitments originated by us has decreased due to declines in housing valuations that have decreased the amount of equity against which homeowners may borrow, and a decline in homeowners desire to use their remaining equity as collateral.

Residential real estate mortgages. Our residential real estate portfolio predominantly includes one- to four-family adjustable rate mortgages that have re-pricing terms generally from one to three years, construction loans to individuals and bridge financing loans for qualifying customers. As of December 31, 2011, our residential loan portfolio totaled $350.3 million, or 3% of our total outstanding loans.

Our adjustable rate mortgages relate to properties located principally in our Market Area or vacation homes owned by local residents, and may have terms based on differing indexes. These adjustable rate mortgages are often non-agency conforming because the outstanding balance of these loans exceeds the maximum balance that can be sold into the secondary market. Adjustable rate mortgage loans decrease the interest rate risk we face on our mortgage portfolio. However, this risk is not eliminated because, among other things, such loans generally provide for periodic and lifetime limits on the interest rate adjustments. Additionally, adjustable rate mortgages may pose a higher risk of delinquency and default because they require borrowers to make larger payments when interest rates rise. To date, we have not seen a significant elevation in delinquencies and foreclosures in our residential loan portfolio. As of December 31, 2011, $6.6 million of our residential real estate mortgages, or 1.9% of our residential real estate loan portfolio, were classified as nonaccrual, $5.5 million were 30 to 89 days past due (1.6%) and $338.2 million were current (96.5%). We believe that since our loan portfolio consists primarily of locally originated loans, and since the majority of our borrowers are longer-term customers with lower LTV ratios, we face a relatively low risk of borrower default and delinquency.

While we generally do not originate loans for our own portfolio with long-term fixed rates due to interest rate risk considerations, we can accommodate customer requests for fixed rate loans by originating such loans and then selling them into the secondary market, for which we receive fee income, or by selectively retaining certain of these loans within the banks own portfolios where they are non-agency conforming, or where the terms of the loans make them favorable to retain. A portion of the loans we sold into the secondary market were sold with the servicing of those loans retained. The amount of loans serviced for others as of December 31, 2011 and 2010 was $958.7 million and $942.2 million, respectively. All other mortgage loans sold into the secondary market were sold without the retention of servicing rights.

It is not our practice to underwrite, and we have no plans to underwrite, subprime, Alt A, no or little documentation loans, or option ARM loans. As of December 31, 2011, approximately $19.6 million of our mortgages consist of interest-only loans.

Premium finance receivables commercial. FIFC originated approximately $3.5 billion in commercial insurance premium finance receivables during 2011. 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 is more susceptible to third party fraud than relationship lending. In the second quarter of 2010, a fraud perpetrated against a number of premium finance companies in the industry, including the property and casualty division of our premium financing subsidiary, increased both the Company s net charge-offs and provision for credit losses by $15.7 million. In the second quarter of 2011, the Company recovered $5.0 million from insurance coverage of the $15.7 million fraud loss recorded in the second quarter of 2010. Actions have been taken by the Company to decrease the likelihood of this type of loss from recurring in this line of business for the Company by the enhancement of various control procedures to mitigate the risks associated with this lending. The Company has conducted a thorough review of the premium finance commercial portfolio and found no signs of similar situations.

The majority of these loans are purchased by the banks in order to more fully utilize their lending capacity as these loans generally provide the banks with higher yields than alternative investments. Historically, FIFC originations that were not purchased by the banks were sold to unrelated third parties with servicing retained. However, during the third quarter of 2009, FIFC initially sold $695 million in commercial premium finance receivables to our indirect subsidiary, FIFC Premium Funding I, LLC, which in turn sold $600 million in aggregate principal amount of notes backed by such premium finance receivables in a securitization transaction sponsored by FIFC. Subsequent to December 31, 2009, this securitization transaction is accounted for as a secured borrowing and the securitization entity is treated as a consolidated subsidiary of the Company. See Note 6 of the Consolidated Financial Statements presented under Item 8 of this report for further discussion of this securitization transaction. Accordingly, beginning on January 1, 2010, all of the assets and liabilities of the securitization entity are included directly on the Company s Consolidated Statements of

Condition.

Premium finance receivables life insurance. In 2007, FIFC began financing life insurance policy premiums generally used for estate planning purposes of high net-worth borrowers. In 2009, FIFC expanded this niche lending business segment when it purchased a portfolio of domestic life insurance premium finance loans for a total aggregate purchase price of $745.9 million. See Note 8 of the Consolidated Financial Statements presented under Item 8 of this report for further discussion of this business combination.

FIFC originated approximately $469.7 million in life insurance premium finance receivables in 2011. These loans are originated directly with the borrowers with assistance from life insurance carriers, independent insurance agents, financial advisors and legal counsel. The life insurance policy is the primary form of collateral. In addition, these loans often are secured with a letter of credit, marketable securities or certificates of deposit. In some cases, FIFC may make a loan that has a partially unsecured position.

Indirect consumer loans. As part of its strategy to pursue specialized earning asset niches to augment loan generation within the banks target markets, the Company established fixed-rate automobile loan financing at Hinsdale Bank funded indirectly through unaffiliated automobile dealers. 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. In the third quarter of 2008, the Company, as a result of competitive pricing pressures, ceased the origination of indirect automobile loans through Hinsdale Bank. However, as a result of favorable pricing opportunities coupled with reduced competition in the indirect consumer auto business, the Company re-entered this business in the fourth quarter of 2010 with originations through Hinsdale Bank.

Other Loans. Included in the other loan category is a wide variety of personal and consumer loans to individuals as well as high yielding short-term accounts receivable financing to clients in the t