WINTRUST FINANCIAL CORP
Form 10-Q
May 10, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

OR

o **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 0-21923

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

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock no par value, 24,274,993 shares, as of May 5, 2006

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PART I
ITEM 1. FINANCIAL STATEMENTS

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

(In thousands)	**(Unaudited) March 31, 2006**	December 31, 2005	(Unaudited) March 31, 2005
Assets			
Cash and due from banks	**$ 121,015**	$ 158,136	$ 148,205
Federal funds sold and securities purchased under resale agreements	**123,430**	183,229	70,339
Interest bearing deposits with banks	**14,146**	12,240	6,108
Available-for-sale securities, at fair value	**1,988,050**	1,799,384	1,538,433
Trading account securities	**2,005**	1,610	3,438
Brokerage customer receivables	**29,765**	27,900	29,662
Mortgage loans held-for-sale	**64,437**	85,985	133,131
Loans, net of unearned income	**5,435,317**	5,213,871	4,858,724
Less: Allowance for loan losses	**40,367**	40,283	39,337
Net loans	**5,394,950**	5,173,588	4,819,387
Premises and equipment, net	**254,471**	247,875	217,048
Accrued interest receivable and other assets	**176,489**	272,772	163,179
Goodwill	**196,625**	196,716	196,549
Other intangible assets, net	**16,864**	17,607	20,060
Total assets	**$8,382,247**	$ 8,177,042	$7,345,539
Liabilities and Shareholders Equity			
Deposits:			
Non-interest bearing	**$ 608,769**	$ 620,091	$ 581,828
Interest bearing	**6,273,718**	6,109,343	5,344,257
Total deposits	**6,882,487**	6,729,434	5,926,085
Notes payable	**1,000**	1,000	6,000
Federal Home Loan Bank advances	**367,279**	349,317	336,965
Other borrowings	**86,231**	95,796	154,991
Subordinated notes	**50,000**	50,000	50,000
Long-term debt trust preferred securities	**230,416**	230,458	209,963
Accrued interest payable and other liabilities	**111,947**	93,126	99,320
Total liabilities	**7,729,360**	7,549,131	6,783,324
Shareholders equity:			
Preferred stock			

Common stock	**24,231**	23,941	23,447
Surplus	**435,207**	420,426	407,590
Common stock warrants	**744**	744	828
Retained earnings	**217,842**	201,133	152,623
Accumulated other comprehensive loss	**(25,137)**	(18,333)	(22,273)
Total shareholders equity	**652,887**	627,911	562,215
Total liabilities and shareholders equity	**$ 8,382,247**	$ 8,177,042	$ 7,345,539

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share data)	Three Months Ended March 31, 2006	2005
Interest income		
Interest and fees on loans	**$ 96,651**	$72,279
Interest bearing deposits with banks	**124**	28
Federal funds sold and securities purchased under resale agreements	**1,520**	151
Securities	**21,531**	14,429
Trading account securities	**6**	22
Brokerage customer receivables	**465**	413
Total interest income	**120,297**	87,322
Interest expense		
Interest on deposits	**54,282**	28,972
Interest on Federal Home Loan Bank advances	**3,280**	2,568
Interest on notes payable and other borrowings	**654**	1,779
Interest on subordinated notes	**801**	679
Interest on long-term debt trust preferred securities	**4,116**	3,411
Total interest expense	**63,133**	37,409
Net interest income	**57,164**	49,913
Provision for credit losses	**1,536**	1,231
Net interest income after provision for credit losses	**55,628**	48,682
Non-interest income		
Wealth management	**10,137**	7,944
Mortgage banking	**5,110**	6,527
Service charges on deposit accounts	**1,698**	1,339
Gain on sales of premium finance receivables	**995**	1,656
Administrative services	**1,154**	1,015
Gains on available-for-sale securities, net	**80**	
Other	**9,551**	5,899
Total non-interest income	**28,725**	24,380
Non-interest expense		
Salaries and employee benefits	**33,478**	29,463
Equipment	**3,174**	2,749
Occupancy, net	**4,668**	3,840
Data processing	**1,859**	1,715
Advertising and marketing	**1,120**	994
Professional fees	**1,436**	1,469

Amortization of other intangible assets	**743**	755
Other	**7,982**	7,319
Total non-interest expense	**54,460**	48,304
Income before income taxes	**29,893**	24,758
Income tax expense	**10,880**	9,085
Net income	$ **19,013**	$15,673
Net income per common share Basic	$ **0.79**	$ 0.72
Net income per common share Diluted	$ **0.76**	$ 0.68
Cash dividends declared per common share	$ **0.14**	$ 0.12
Weighted average common shares outstanding	**24,056**	21,831
Dilutive potential common shares	**956**	1,215
Average common shares and dilutive common shares	**25,012**	23,046

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

(In thousands)	**Comprehensive Income**	**Common Stock**	**Surplus**	**Common Stock Warrants**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholders Equity**
Balance at December 31, 2004		$21,729	$319,147	$ 828	$139,566	$ (7,358)	$473,912
Comprehensive income:							
Net income	$ 15,673				15,673		15,673
Other comprehensive income, net of tax:							
Unrealized losses on securities, net of reclassification adjustment	(15,021)					(15,021)	(15,021)
Unrealized gains on derivative instruments	106					106	106
Comprehensive income	$ 758						
Cash dividends declared					(2,616)		(2,616)
Common stock issued for:							
New issuance, net of costs		1,000	54,883				55,883
Business combinations		598	29,834				30,432
Director compensation plan		7	310				317
Employee stock purchase plan and exercises of stock options		94	2,584				2,678
Restricted stock awards		19	832				851
Balance at March 31, 2005		$23,447	$407,590	$ 828	$152,623	$ (22,273)	$562,215
Balance at December 31, 2005		**$23,941**	**$420,426**	**$ 744**	**$201,133**	**$ (18,333)**	**$627,911**
Comprehensive income:							
Net income	**$ 19,013**				**19,013**		**19,013**
Other comprehensive income, net of tax:							
Unrealized losses on securities, net of reclassification adjustment	**(6,804)**					**(6,804)**	**(6,804)**
Comprehensive income	**$ 12,209**						
Cash dividends declared					**(3,373)**		**(3,373)**
Cumulative effect of change in accounting for servicing rights					**1,069**		**1,069**
Stock-based compensation			**8,137**				**8,137**
			2,822				**2,822**

Tax benefit from issuance of shares pursuant to stock-based compensation arrangements						
Common stock issued for:						
Business combinations	**3**	**155**				**158**
Director compensation plan	**13**	**569**				**582**
Employee stock purchase plan and exercises of stock options	**205**	**3,167**				**3,372**
Restricted stock awards	**69**	**(69)**				
Balance at March 31, 2006	**$24,231**	**$435,207**	**$ 744**	**$217,842**	**$ (25,137)**	**$ 652,887**

	Three Months Ended March 31,	
	2006	2005
Disclosure of reclassification amount and income tax impact:		
Unrealized holding losses on available-for-sale securities arising during the period, net	**$ (10,874)**	$ (24,253)
Unrealized holding gains on derivative instruments arising during the period, net		172
Less: Reclassification adjustment for gains included in net income, net	**80**	
Less: Income tax benefit	**(4,150)**	(9,166)
Net unrealized losses on available-for-sale securities and derivative instruments	**$ (6,804)**	$ (14,915)

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Three Months Ended March 31, **2006**	2005
Operating Activities:		
Net income	**$ 19,013**	$ 15,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	**1,536**	1,231
Depreciation and amortization	**3,803**	3,172
Share-based compensation expense	**2,981**	726
Tax benefit from stock-based compensation arrangements	**2,822**	1,292
Excess tax benefits from stock-based compensation arrangements	**(2,395)**	
Net amortization of premium on securities	**76**	1,045
Fair market value change of interest rate swaps	**(4,915)**	(1,070)
Originations and purchases of mortgage loans held-for-sale	**(407,889)**	(473,539)
Proceeds from sales of mortgage loans held-for-sale	**432,019**	449,525
Gain on sales of premium finance receivables	**(995)**	(1,656)
(Increase) decrease in trading securities, net	**(395)**	161
Net (increase) decrease in brokerage customer receivables	**(1,865)**	2,185
Gain on mortgage loans sold	**(2,582)**	(4,188)
Gains on available-for-sale securities, net	**(80)**	
Gain on sales of premises and equipment, net	**(26)**	(11)
Decrease (increase) in accrued interest receivable and other assets, net	**107,773**	(4,863)
Increase in accrued interest payable and other liabilities, net	**24,003**	8,119
Net Cash Provided by (Used for) Operating Activities	**172,884**	(2,198)
Investing Activities:		
Proceeds from maturities of available-for-sale securities	**179,000**	29,837
Proceeds from sales of available-for-sale securities	**16,658**	65,082
Purchases of available-for-sale securities	**(395,182)**	(98,024)
Proceeds from sales of premium finance receivables	**756,056**	146,415
Net cash paid for acquisitions		(78,877)
Net increase in interest-bearing deposits with banks	**(1,906)**	(1,059)
Net increase in loans	**(978,511)**	(234,635)
Purchases of premises and equipment, net	**(9,894)**	(9,117)
Net Cash Used for Investing Activities	**(433,779)**	(180,378)
Financing Activities:		
Increase in deposit accounts	**153,146**	234,578
Decrease in other borrowings, net	**(9,565)**	(74,560)
Increase in Federal Home Loan Bank advances, net	**18,000**	10,300
Excess tax benefits from stock based compensation arrangements	**2,395**	

Issuance of common stock, net of issuance costs		55,883
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	**3,372**	1,509
Dividends paid	**(3,373)**	(2,616)
Net Cash Provided by Financing Activities	**163,975**	225,094
Net Increase (Decrease) in Cash and Cash Equivalents	**(96,920)**	42,518
Cash and Cash Equivalents at Beginning of Period	**341,365**	176,026
Cash and Cash Equivalents at End of Period	**$ 244,445**	$ 218,544

See accompanying notes to unaudited consolidated financial statements.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The consolidated financial statements of Wintrust Financial Corporation and Subsidiaries (Wintrust or Company) presented herein are unaudited, but in the opinion of management reflect all necessary adjustments of a normal or recurring nature for a fair presentation of results as of the dates and for the periods covered by the consolidated financial statements.

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

As of March 31, 2006, Wintrust had 14 wholly-owned bank subsidiaries (collectively, Banks), nine of which the Company started as *de novo* institutions, including Lake Forest Bank & Trust Company (Lake Forest Bank), Hinsdale Bank & Trust Company (Hinsdale Bank), North Shore Community Bank & Trust Company (North Shore Bank), Libertyville Bank & Trust Company (Libertyville Bank), Barrington Bank & Trust Company, N.A. (Barrington Bank), Crystal Lake Bank & Trust Company, N.A. (Crystal Lake Bank), Northbrook Bank & Trust Company (Northbrook Bank), Beverly Bank & Trust, N.A. (Beverly Bank) and Old Plank Trail Community Bank, N.A. (Old Plank Trail Bank). The Company acquired Advantage National Bank (Advantage Bank) in October 2003, Village Bank & Trust (Village Bank) in December 2003, Northview Bank and Trust (Northview Bank) in September 2004, Town Bank in October 2004, State Bank of The Lakes in January 2005 and First Northwest Bank on March 31, 2005. In December 2004, Northview Bank s two Northfield locations became branches of Northbrook Bank, its Mundelein location became a branch of Libertyville Bank and its Wheaton location was renamed Wheaton Bank & Trust (Wheaton Bank). In May 2005, First Northwest Bank was merged into Village Bank.

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

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

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

In May 2004, the Company acquired SGB Corporation d/b/a WestAmerica Mortgage Company (WestAmerica) and its affiliate, Guardian Real Estate Services, Inc. (Guardian). WestAmerica engages primarily in the origination and purchase of residential mortgages for sale into the secondary market, and Guardian provides document preparation and other loan closing services to WestAmerica and a network of mortgage brokers. WestAmerica maintains principal

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origination offices in eleven states, including Illinois, and originates loans in other states through wholesale and correspondent offices. WestAmerica and Guardian are wholly-owned subsidiaries of Barrington Bank.

Wintrust Information Technology Services Company provides information technology support, item capture, imaging and statement preparation services to the Wintrust subsidiaries and is a wholly-owned subsidiary of Wintrust.

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with generally accepted accounting principles. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report and Form 10-K for the year ended December 31, 2005. Operating results reported for the three-month and year-to-date periods are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management s expectations. 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 of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly complex or dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses and the allowance for losses on lending-related commitments, the valuation of the retained interest in the premium finance receivables sold, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and the accounting for income taxes as the areas that are most complex and require the most subjective and complex judgments and as such could be the most subject to revision as new information becomes available.

(2) Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Company considers cash and cash equivalents to include cash and due from banks, federal funds sold and securities purchased under resale agreements with original maturities of 90 days or less.

(3) Available-for-sale Securities

The following table is a summary of the available-for-sale securities portfolio as of the dates shown:

	March 31, 2006		December 31, 2005		March 31, 2005	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury	**$ 36,516**	**$ 34,040**	$ 36,577	$ 34,586	$ 139,353	$ 133,526
U.S. Government agencies	**738,681**	**726,136**	724,273	714,715	647,374	633,684
Municipal	**51,659**	**51,064**	48,853	48,397	56,928	56,664
Corporate notes and other debt	**107,663**	**107,145**	8,467	8,358	8,455	8,411
Mortgage-backed	**967,525**	**942,579**	891,799	874,067	626,851	610,498
Federal Reserve/FHLB stock and other equity securities	**126,647**	**127,086**	119,103	119,261	95,525	95,650
Total available-for-sale securities	**$ 2,028,691**	**$ 1,988,050**	$ 1,829,072	$ 1,799,384	$ 1,574,486	$ 1,538,433

The increase in Corporate notes and other debt as of March 31, 2006 compared to December 31, 2005 and March 31, 2005 is related to purchases made with available liquidity which resulted from lower than expected loan growth in recent quarters.

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(4) Loans

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

(Dollars in thousands)	**March 31, 2006**	December 31, 2005	March 31, 2005
Balance:			
Commercial and commercial real estate	**$ 3,295,334**	$ 3,161,734	$ 2,850,089
Home equity	**622,097**	624,337	636,926
Residential real estate	**273,100**	275,729	281,385
Premium finance receivables	**908,843**	814,681	766,416
Indirect consumer loans	**212,156**	203,002	189,628
Tricom finance receivables	**40,144**	49,453	33,469
Other loans	**83,643**	84,935	100,811
Total loans, net of unearned income	**$ 5,435,317**	$ 5,213,871	$ 4,858,724
Mix:			
Commercial and commercial real estate	**61%**	61%	58%
Home equity	**11**	12	13
Residential real estate	**5**	5	6
Premium finance receivables	**17**	16	16
Indirect consumer loans	**4**	4	4
Tricom finance receivables	**1**	1	1
Other loans	**1**	1	2
Total loans, net of unearned income	**100%**	100%	100%

Indirect consumer loans include auto, boat, snowmobile and other indirect consumer loans. Premium finance receivables are recorded net of unearned income of $20.4 million at March 31, 2006, $16.0 million at December 31, 2005 and $17.3 million at March 31, 2005. Total loans include net deferred loan fees and costs and fair value purchase accounting adjustments totaling $3.3 million at March 31, 2006, $2.6 million at December 31, 2005 and $2.1 million at March 31, 2005.

(5) Deposits

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

(Dollars in thousands)	**March 31, 2006**	December 31, 2005	March 31, 2005
Balance:			
Non-interest bearing	**$ 608,769**	$ 620,091	$ 581,828
NOW accounts	**743,929**	704,640	697,106
Wealth management deposits	**441,856**	421,301	390,819
Money market accounts	**598,775**	610,554	661,874
Savings accounts	**308,651**	308,323	290,551
Time certificates of deposit	**4,180,507**	4,064,525	3,303,907
Total deposits	**$ 6,882,487**	$ 6,729,434	$ 5,926,085

Mix:			
Non-interest bearing	**9%**	9%	10%
NOW accounts	**11**	11	12
Wealth management deposits	**6**	6	6
Money market accounts	**9**	9	11
Savings accounts	**4**	5	5
Time certificates of deposit	**61**	60	56
Total deposits	**100%**	100%	100%

Wealth management deposits represent FDIC-insured deposits at the Banks from brokerage customers of WHI and trust and asset management customers of WHTC.

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(6) Notes Payable, Federal Home Loan Bank Advances, Other Borrowings and Subordinated Notes:
The following table is a summary of notes payable, Federal Home Loan Bank advances, other borrowings and subordinated notes as of the dates shown:

(Dollars in thousands)	**March 31, 2006**	December 31, 2005	March 31, 2005
Notes payable	**$ 1,000**	$ 1,000	$ 6,000
Federal Home Loan Bank advances	**367,279**	349,317	336,965
Other borrowings:			
Federal funds purchased		235	4,341
Securities sold under repurchase agreements	**83,990**	93,312	145,974
Other	**2,241**	2,249	4,676
Total other borrowings	**86,231**	95,796	154,991
Subordinated notes	**50,000**	50,000	50,000
Total notes payable, Federal Home Loan Bank advances, other borrowings and subordinated notes	**$ 504,510**	$ 496,113	$ 547,956

The notes payable balance consists of $1.0 million of notes payable in connection with the Company s $51.0 million loan agreement with an unaffiliated bank. The $1.0 million note is due on June 1, 2015. The Company also has a $50.0 million revolving note, which matures on June 1, 2006, pursuant to the loan agreement. The loan agreement provides the Company with borrowing capacity to support further growth, including possible acquisitions, and other corporate purposes. Interest is calculated, at the Company s option, at a floating rate equal to either: (1) LIBOR plus 140 basis points or (2) the greater of the lender s prime rate or the Federal Funds Rate plus 50 basis points. The loan agreement is secured by the stock of the Company s bank subsidiaries.
Federal Home Loan Bank advances consist of fixed rate obligations of the Banks and are collateralized by qualifying residential real estate loans.
At March 31, 2006, securities sold under repurchase agreements represent $83.8 million of customer balances in sweep accounts in connection with master repurchase agreements at the Banks and $209,000 of short-term borrowings from brokers.
At March 31, 2006, other includes a $2.0 million mortgage that matures on May 1, 2010, related to the Company s Northfield banking office.
The subordinated notes represent two $25.0 million notes, issued in October 2002 and April 2003. Each note requires annual principal payments of $5.0 million beginning after the sixth year, with final maturities in 2012 and 2013. The Company may redeem the subordinated notes at any time prior to maturity. On August 2, 2005, the Company entered into an agreement with the holder of the subordinated notes, effective as of June 7, 2005, to reduce the interest rates payable on each note from LIBOR plus 260 basis points to LIBOR plus 160 basis points. On October 25, 2005, the Company signed an additional $25.0 million subordinated note with the holder of the other subordinated notes with substantially similar terms as the other subordinated notes. As of March 31, 2006, this new subordinated note was unfunded.

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(7) Long-term Debt Trust Preferred Securities

As of March 31, 2006, the Company owned 100% of the Common Securities of nine trusts, Wintrust Capital Trust I, Wintrust Capital Trust III, Wintrust Statutory Trust IV, Wintrust Statutory Trust V, Wintrust Capital Trust VII, Wintrust Capital Trust VIII, Northview Capital Trust I, Town Bankshares Capital Trust I, and First Northwest Capital Trust I (the Trusts) set up to provide long-term financing. The Northview, Town and First Northwest capital trusts were acquired as part of the acquisitions of Northview Financial Corporation, Town Bankshares, Ltd., and First Northwest Bancorp, Inc., respectively. The Trusts were formed for purposes of issuing Trust Preferred Securities to third-party investors and investing the proceeds from the issuance of the Trust Preferred Securities and Common Securities solely in Subordinated Debentures (Debentures) issued by the Company (or assumed by the Company in connection with an acquisition), with the same maturities and interest rates as the Trust Preferred Securities. The Debentures are the sole assets of the Trusts. In each Trust the Common Securities represent approximately 3% of the Debentures and the Trust Preferred Securities represent approximately 97% of the Debentures.

The Trusts are reported in the Company s consolidated financial statements as unconsolidated subsidiaries. Accordingly, the Debentures, which include the Company s ownership interest in the Common Securities of the Trusts, are reflected as Long-term debt trust preferred securities and the Common Securities are included in available-for-sale securities in the Company s Consolidated Statements of Condition.

The following table provides a summary of the Company s Long-term debt trust preferred securities as of March 31, 2006. The Debentures represent the par value of the obligations owed to the Trusts and basis adjustments for unamortized fair value adjustments recognized at the respective acquisition dates for the Northview, Town and First Northwest obligations.

(Dollars in thousands)	Trust Preferred Securities	**Debentures**	Rate Structure	Rate at 3/31/2006	Issue Date	Maturity Date	Earliest Redemption Date
Wintrust Capital Trust I	$ 31,050	**$ 32,010**	Fixed	9.00%	09/1998	09/2028	09/2003
Wintrust Capital Trust III	25,000	**25,774**	L+3.25	7.85%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	20,000	**20,619**	L+2.80	7.78%	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	40,000	**41,238**	L+2.60	7.58%	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	50,000	**51,550**	L+1.95	6.86%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	40,000	**41,238**	L+1.45	6.43%	08/2005	09/2035	09/2010
Northview Capital Trust I	6,000	**6,317**	Fixed	6.35%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	6,000	**6,349**	L+3.00	7.68%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	5,000	**5,321**	L+3.00	7.98%	05/2004	05/2034	05/2009
Total		**$ 230,416**					

The interest rates on the variable rate debentures are based on the three-month LIBOR rate and reset on a quarterly basis. The interest rate on the Northview Capital Trust I changes to a variable rate equal to three-month LIBOR plus 3.00% effective February 8, 2008. Distributions are payable on a quarterly basis.

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

The Trust Preferred Securities, subject to certain limitations, qualify as Tier 1 capital of the Company for regulatory purposes. On February 28, 2005, the Federal Reserve issued a final rule that retains Tier 1 capital treatment for trust preferred securities but with stricter limits. Under the new rule, which is effective on March 31, 2009, and has a transition period until then, the aggregate amount of the trust preferred securities and certain other capital elements is limited to 25% of Tier 1 capital elements (including trust preferred securities), net of goodwill less any associated deferred tax liability. The amount of trust preferred securities and certain other capital elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. Applying the final rule at March 31, 2006, the Company would still be considered well-capitalized under regulatory capital guidelines.

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(8) Segment Information

The segment financial information provided in the following tables has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. Inter-segment revenue and transfers are generally accounted for at current market prices. The net interest income and segment profit of the banking segment includes income and related interest costs from portfolio loans that were purchased from the premium finance segment. For purposes of internal segment profitability analysis, management reviews the results of its premium finance segment as if all loans originated and sold to the banking segment were retained within that segment s operations, thereby causing inter-segment eliminations. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates a portion of the net interest income earned by the Banking segment on deposits balances of customers of the wealth management segment to the wealth management segment. (See Wealth management deposits discussion in Deposits section of this report for more information on these deposits.) The following table presents a summary of certain operating information for each reportable segment for the three months ended for the periods shown:

	Three Months Ended			
	March 31,			% Change
(Dollars in thousands)	2006	2005	$ Change in Contribution	in Contribution
Net interest income:				
Banking	$ 56,235	$ 47,945	$ 8,290	17.3%
Premium finance	9,630	10,927	(1,297)	(11.9)
Tricom	919	942	(23)	(2.4)
Wealth management	369	646	(277)	(42.9)
Parent and inter-segment eliminations	(9,989)	(10,547)	558	(5.3)
Total net interest income	$ 57,164	$ 49,913	$ 7,251	14.5%
Non-interest income:				
Banking	$ 10,498	$ 12,124	$ (1,626)	(13.4)%
Premium finance	995	1,811	(816)	(45.1)
Tricom	1,154	1,015	139	13.7
Wealth management	11,736	8,816	2,920	33.1
Parent and inter-segment eliminations	4,342	614	3,728	607.2
Total non-interest income	$ 28,725	$ 24,380	$ 4,345	17.8%
Segment profit (loss):				
Banking	$ 16,199	$ 15,143	$ 1,056	7.0%
Premium finance	4,649	6,024	(1,375)	(22.8)
Tricom	372	394	(22)	(5.6)
Wealth management	1,087	(424)	1,511	(356.4)
Parent and inter-segment eliminations	(3,294)	(5,464)	2,170	(39.7)
Total segment profit	$ 19,013	$ 15,673	$ 3,340	21.3%

Segment assets:				
Banking	**$ 8,329,232**	$ 7,311,937	$ 1,017,295	13.9%
Premium finance	**950,379**	779,828	170,551	21.9
Tricom	**54,688**	45,859	8,829	19.3
Wealth management	**65,650**	73,057	(7,407)	(10.1)
Parent and inter-segment eliminations	**(1,017,702)**	(865,142)	(152,560)	17.6
Total segment assets	**$ 8,382,247**	$ 7,345,539	$ 1,036,708	14.1%

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(9) Derivative Financial Instruments

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

Derivative instruments have inherent risks, primarily market risk and credit risk. Market risk is associated with changes in interest rates and credit risk relates to the risk that the counterparty will fail to perform according to the terms of the agreement. The amounts potentially subject to market and credit risks are the streams of interest payments under the contracts and the market value of the derivative instrument which is determined based on the interaction of the notional amount of the contract with the underlying, and not the notional principal amounts used to express the volume of the transactions. Management monitors the market risk and credit risk associated with derivative financial instruments as part of its overall Asset/Liability management process.

In accordance with SFAS 133, the Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Derivative financial instruments are included in other assets or other liabilities, as appropriate, on the Consolidated Statements of Condition. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders equity as a component of other comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income in the same period and in the same income statement line as changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivative financial instruments accounted for as cash flow hedges, to the extent they are effective hedges, are recorded as a component of other comprehensive income, net of deferred taxes. Changes in fair values of derivative financial instruments not qualifying as hedges pursuant to SFAS 133 are reported in non-interest income. Derivative contracts are valued using the average fair values provided by the respective counterparties as well as two independent sources.

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Interest Rate Swaps

The tables below identify the Company s interest rate swaps at March 31, 2006 and December 31, 2005, which were entered into to economically hedge certain interest-bearing liabilities (dollars in thousands).

		March 31, 2006				
Issue Date	**Notional Amount**	**Fair Value**	**Receive Rate**	**Pay Rate**	**Maturity Date**	**Counterparty Call Option**
Pay fixed, receive variable:						
February 2005	**$ 25,000**	**$ 400**	**7.85%**	**6.71%**	**April 2033**	**April 2008**
February 2005	**20,000**	**304**	**7.78%**	**6.40%**	**December 2033**	**December 2008**
February 2005	**40,000**	**636**	**7.58%**	**6.27%**	**May 2034**	**June 2009**
February 2005	**50,000**	**969**	**6.86%**	**5.68%**	**March 2035**	**March 2010**
November 2002	**25,000**	**1,150**	**4.82%**	**4.23%**	**October 2012**	**None**
August 2005	**40,000**	**769**	**6.43%**	**5.27%**	**September 2035**	**September 2010**
Total	**200,000**	**4,228**				
Receive fixed, pay variable:						
November 2002	**31,050**	**(1,084)**	**9.00%**	**7.84%**	**September 2028**	**Any time**
Total	**$231,050**	**$ 3,144**				

		December 31, 2005				
Issue Date	Notional Amount	Fair Value	Receive Rate	Pay Rate	Maturity Date	Counterparty Call Option
Pay fixed, receive variable:						
February 2005	$ 25,000	$ (75)	7.40%	6.71%	April 2033	April 2008
February 2005	20,000	(362)	7.33%	6.40%	December 2033	December 2008
February 2005	40,000	(264)	7.13%	6.27%	May 2034	June 2009
February 2005	50,000	(671)	6.44%	5.68%	March 2035	March 2010
November 2002	25,000	598	4.41%	4.23%	October 2012	None
August 2005	40,000	(664)	5.98%	5.27%	September 2035	September 2010
Total	200,000	(1,438)				
Receive fixed, pay variable:						
November 2002	31,050	(371)	9.00%	6.35%	September 2028	Any time
Total	$231,050	$(1,809)				

The Company does not enter into derivatives for purely speculative purposes. These interest rate swaps were entered into to economically hedge certain funding liabilities and are not accounted for as hedges pursuant to the requirements of SFAS 133. The changes in fair value are recognized in non-interest income. These fair value adjustments resulted in gains of $4.8 million in the first quarter of 2006 and $1.1 million in the first quarter of 2005. Additionally, the quarterly net cash settlements resulted in income of $522,000 in the first quarter of 2006 and $74,000 in the same period of 2005 and are also included in non-interest income.

The Company s banking subsidiaries sometimes enter into interest rate swaps to change a specific loan yield from fixed to variable or vice versa. As of March 31, 2006, these swaps had an aggregate notional value of $6.3 million and were reflected by a derivative asset of $73,000 and a derivative liability of $84,000. These interest rate swaps are not documented as being in hedge relationships and are not reflected in the preceding table.

Mortgage Banking Derivatives

The Company s mortgage banking derivatives have not been designated in SFAS 133 hedge relationships. These derivatives include commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of residential mortgage loans. It is the Company s practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates on its commitments to fund the loans as well as on its portfolio of mortgage loans held-for-sale. At March 31, 2006, the Company had approximately $184 million of interest rate lock commitments and $246 million of forward commitments for the future delivery of residential mortgage loans. The estimated fair values of these mortgage banking derivatives are reflected by a derivative asset of $864,000 and a derivative liability of $764,000. The fair values were estimated based on changes in mortgage rates from the dates of the commitments. Changes in the fair value of these mortgage banking derivatives are included in mortgage banking revenue.

Other Derivatives

The Company has also used interest rate caps to hedge cash flow variability of certain deposit products. However, no interest rate cap contracts were entered into in 2005 or in 2006 to date, and the Company had no interest rate cap contracts outstanding at March 31, 2006, December 31, 2005 or March 31, 2005.

Periodically, the Company will sell options to a bank or dealer for the right to purchase certain securities held within the Banks investment portfolios (covered call options). These option transactions are designed primarily to increase the total return associated with the investment securities portfolio. These options do not qualify as hedges pursuant to SFAS 133, and accordingly, changes in fair values of these contracts are recognized as other non-interest income. The Company recognized premium income from these call option transactions of $1.8 million and $2.8 million in the first quarters of 2006 and 2005, respectively. There were no covered call options outstanding as of March 31, 2006, December 31, 2005 or March 31, 2005.

(10) Business Combinations

The Company completed two business combinations in the first quarter of 2005 which were accounted under the purchase method of accounting; thus, the results of operations prior to their respective effective dates were not included in the accompanying consolidated financial statements. Goodwill, core deposit intangibles and other fair value purchase accounting adjustments were recorded upon the completion of each acquisition.

On March 31, 2005, Wintrust completed the acquisition of First Northwest Bancorp, Inc. (FNBI) and its wholly-owned subsidiary, First Northwest Bank. FNBI was acquired for a total purchase price of $44.7 million, consisting of $14.5 million cash, the issuance of 595,123 shares of Wintrust s common stock (then valued at $30.0 million) and vested stock options valued at $238,000. FNBI s results of operations have been included in Wintrust s results of operations since April 1, 2005. In May 2005, First Northwest Bank was merged into Village Bank.

In January, 2005, Wintrust completed the acquisition of Antioch Holding Company (Antioch) and its wholly-owned subsidiary, State Bank of The Lakes. Antioch was acquired for a total purchase price of $95.4 million of cash. Antioch s results of operations have been included in Wintrust s consolidated financial statements since January 1, 2005, the effective date of acquisition.

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(11) Goodwill and Other Intangible Assets

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

(Dollars in thousands)	January 1, 2006	Goodwill Acquired	Impairment Losses	**March 31, 2006**
Banking	$ 173,640	$ (146)	$	**$ 173,494**
Premium finance				
Tricom	8,958			**8,958**
Wealth management	14,118	55		**14,173**
Parent and other				
Total	$ 196,716	$ (91)	$	**$ 196,625**

The net decrease in the Banking segment s goodwill in the first quarter of 2006 of approximately $146,000 primarily related to adjustments of prior estimates of fair values associated with the 2005 acquisition of FNBI and Antioch.

The increase in goodwill in the wealth management segment represents additional contingent consideration earned by the former owners of Lake Forest Capital Management (LFCM) as a result of attaining certain performance measures pursuant to the terms of the LFCM purchase agreement. Wintrust could pay additional consideration pursuant to this transaction through January 2007. LFCM was merged into WHAMC.

A summary of finite-lived intangible assets as of March 31, 2006, December 31, 2005 and March 31, 2005 and the expected amortization as of March 31, 2006 is as follows (in thousands):

	March 31, 2006	December 31, 2005	March 31, 2005
Wealth management segment:			
Customer list intangibles			
Gross carrying amount	**$ 3,252**	3,252	3,252
Accumulated amortization	**(2,173)**	(2,071)	(1,732)
Net carrying amount	**1,079**	1,181	1,520
Banking segment:			
Core deposit intangibles			
Gross carrying amount	**19,988**	19,988	19,563
Accumulated amortization	**(4,203)**	(3,562)	(1,023)
Net carrying amount	**15,785**	16,426	18,540
Total other intangible assets, net	**$ 16,864**	17,607	20,060

Estimated amortization	
Actual in 3 months ended March 31, 2006	**$ 743**
Estimated remaining in 2006	**2,213**
Estimated 2007	**2,423**
Estimated 2008	**2,033**

Estimated	2009	**1,873**
Estimated	2010	**1,725**

The customer list intangibles recognized in connection with the acquisitions of LFCM in 2003 and WHAMC in 2002 are being amortized over seven-year periods on an accelerated basis. The core deposit intangibles recognized in connection with the Company s six bank acquisitions since 2003 are being amortized over ten-year periods on an accelerated basis. Amortization expense associated with finite-lived intangibles totaled approximately $743,000 and $755,000 for the three months ended March 31, 2006 and 2005, respectively.

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(12) Stock-Based Compensation Plans

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

Prior to 2006, the Company accounted for stock-based compensation using the intrinsic value method set forth in APB 25, as permitted by SFAS 123. The intrinsic value provides that compensation expense for employee stock options is generally not recognized if the exercise price of the option equals or exceeds the fair value of the stock on the date of grant. As a result, for periods prior to 2006, compensation expense was generally not recognized in the Consolidated Statements of Income for stock options. Compensation expense has always been recognized for restricted share awards ratably over the period of service, usually the restricted period, based on the fair value of the stock on the date of grant. Compensation cost charged against income related to restricted share awards was $1.5 million ($939,000 net of tax) in the first quarter of 2006 and $726,000 ($448,000 net of tax) in the first quarter of 2005.

As a result of adopting SFAS 123R on January 1, 2006, the Company recorded $1.4 million of compensation expense in the first quarter of 2006. Basic and diluted EPS for the three months ended March 31, 2006, would have been $0.83 and $0.79, respectively, if the Company had not adopted SFAS 123R, compared to the reported basic and diluted EPS of $0.79 and $0.76, respectively. On January 1, 2006, the Company reclassified $5.2 million of liabilities related to previously recognized compensation cost for restricted share awards that had not been vested as of that date to surplus as these awards represent equity awards as defined in SFAS 123R.

The following table reflects the Company s pro forma net income and earnings per share as if compensation expense for the Company s stock options, determined based on the fair value at the date of grant consistent with the method of SFAS 123, had been included in the determination of the Company s net income for the three months ended March 31, 2005.

(Dollars in thousands, except share data)		Three Months Ending March 31, 2005
Net income		
As reported	$	15,673
Compensation cost of stock options based on fair value, net of related tax effect		(729)
Pro forma	$	14,944
Earnings per share Basic		
As reported	$	0.72
Compensation cost of stock options based on fair value, net of related tax effect		(0.04)
Pro forma	$	0.68
Earnings per share Diluted		
As reported	$	0.68
Compensation cost of stock options based on fair value, net of related tax effect		(0.03)
Pro forma	$	0.65

The Company estimates the fair value of stock options at the date of grant using a Black-Scholes option-pricing model that utilizes the assumptions outlined in the following table. These assumptions are consistent with the provisions of SFAS 123R and the Company s prior period pro forma disclosures of net income and earnings per share, including stock option expense. Option-pricing models require the input of highly subjective assumptions and are sensitive to changes in the option s expected life and the price volatility of the underlying stock, which can materially affect the fair value estimate. Expected life is based on historical exercise and termination behavior, and expected stock price volatility is based on historical volatility of the Company s common stock, which correlates with the expected life of the options. The risk-free interest rate is based on the U.S. Treasury curve. Management reviews and adjusts the assumptions used to calculate the fair value of an option on a periodic basis to better reflect expected trends.

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	Three Months Ended	
	March 31, 2006	March 31, 2005
Expected dividend yield	**0.5%**	0.5%
Expected volatility	**23.4%**	23.6%
Risk-free rate	**4.56%**	4.20%
Expected option life (in years)	**8.48**	8.50

In general, the Company awards stock based compensation in the form of stock options and restricted shares, both pursuant to the Wintrust Financial Corporation 1997 Stock Incentive Plan (the Plan). A summary of option activity under the Plan as of March 31, 2006, and changes for the three months then ended is presented below:

Stock Options	Common Shares	Weighted Average Strike Price	Remaining Contractual Term [1]	Intrinsic Value [2] ($000)
Outstanding at January 1, 2006	3,019,482	$ 29.63		
Granted	126,100	52.23		
Exercised	(204,974)	16.46		
Forfeited or canceled	(22,121)	50.03		
Outstanding at March 31, 2006	2,918,487	$ 31.37	6.22	$78,512
Vested or expected to vest at March 31, 2006	2,779,777	$ 30.60	6.11	$76,936
Exercisable at March 31, 2006	1,752,857	$ 21.04	4.82	$65,266

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

(2) Aggregate intrinsic value represents the total pretax intrinsic value (i.e., the difference between the Company s average of the

high and low stock price on the last trading day of the first quarter of 2006 and the option exercise price, multiplied by the number of shares) that would have been received by the option holders if they had exercised their options on March 31, 2006. This amount will change based on the fair market value of the Company s stock.

The weighted average per share grant date fair value of options granted during the three months ended March 31, 2006 and 2005 was $19.88 and $20.42 respectively. The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005, was $7.6 million and $3.5 million, respectively.

A summary of the restricted share award activity under the Plan as of March 31, 2006, and changes for the three months then ended is presented below:

Restricted Shares	Common Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2006	206,157	$ 53.55
Granted	134,515	51.98
Vested (shares issued)	(69,487)	53.59
Forfeited	(400)	52.24
Outstanding at March 31, 2006	270,785	$ 52.75

The fair value of restricted shares is determined based on the average of the high and low trading prices on the grant date. The weighted-average grant-date fair value of shares granted during the three months ended March 31, 2006 and March 31, 2005, was $51.98 and $54.08, respectively.

As of March 31, 2006, there was $27.3 million of total unrecognized compensation cost related to non-vested share based arrangements under the Plan. That cost is expected to be recognized over a weighted average period of 1.8 years. The total fair value of shares vested during the three months ended March 31, 2006 and 2005, was $5.8 million and $2.1 million, respectively.

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Cash received from option exercises under the Plan for the three months ended March 31, 2006 and 2005 was $3.4 million and $1.5 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled $2.9 million and $1.1 million for the three months ended March 31, 2006 and 2005, respectively.
The Company issues new shares to satisfy option exercises and vesting of restricted shares.

(13) Earnings Per Share

The following table shows the computation of basic and diluted EPS for the periods indicated:

		For the Three Months Ended March 31,	
(In thousands, except per share data)		**2006**	2005
Net income	(A)	**$ 19,013**	$ 15,673
Average common shares outstanding	(B)	**24,056**	21,831
Effect of dilutive potential common shares		**956**	1,215
Weighted average common shares and effect of dilutive potential common shares	(C)	**25,012**	23,046
Net income per common share:			
Basic	(A/B)	**$ 0.79**	$ 0.72
Diluted	(A/C)	**$ 0.76**	$ 0.68

The effect of dilutive common shares outstanding results from stock options, restricted stock unit awards, stock warrants, and shares to be issued under the Employee Stock Purchase Plan and the Directors Deferred Fee and Stock Plan, all being treated as if they had been either exercised or issued, computed by application of the treasury stock method.

(14) Recent Accounting Developments

Effective January 1, 2006, the Company early-adopted Statement of Financial Accounting Standards 156, Accounting for Servicing of Financial Assets An Amendment of FASB Statement No. 140 (SFAS 156). SFAS 156 requires separately recognized servicing assets to be recorded at fair value upon the purchase of a servicing right or selling of a loan with servicing retained. SFAS 156 also permits entities to choose to either subsequently measure servicing rights at fair value and report changes in the fair value in earnings or amortize servicing rights in proportion to and over the estimated net servicing income and assess them for impairment. The latter method results in recording servicing rights at lower of amortized cost or fair value. The Company has elected to subsequently measure its mortgage servicing rights at fair value. The adoption of SFAS 156 resulted in an increase in mortgage banking revenue of $296,000 in the first quarter of 2006, an increase in net income in the first quarter of approximately $183,000 (after tax expense) and an increase in the beginning balance of retained earnings by $1.1 million to reflect the excess of the fair value over the carrying value of the servicing rights as of the date of adoption, net of tax, as a cumulative-effect adjustment of the change in accounting.

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

The following discussion and analysis of financial condition as of March 31, 2006, compared with December 31, 2005, and March 31, 2005, and the results of operations for the three month period ended March 31, 2006 and 2005 should be read in conjunction with the Company s unaudited consolidated financial statements and notes contained in this report. This discussion contains forward-looking statements that involve risks and uncertainties and, as such, future results could differ significantly from management s current expectations. See the last section of this discussion for further information on forward-looking statements.

Overview and Strategy

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

Community Banking

As of March 31, 2006, the Company s community banking franchise consisted of 14 community banks (the Banks) with 64 locations. The Company developed its banking franchise through the *de novo* organization of nine banks (47 locations) and the purchase of six banks, one of which was merged into another of our banks, with 17 locations. The Company s newest *de novo* bank, Old Plank Trail Bank, opened in March 2006. Wintrust s first bank was organized in December 1991, as a highly personal service-oriented community bank. Each of the banks organized or acquired since then share that same commitment to community banking. The Company has grown to $8.38 billion in total assets at March 31, 2006 from $7.35 billion in total assets at March 31, 2005, an increase of 14%. The historical financial performance of the Company 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. The Company s financial performance generally reflects the improved profitability of its banking subsidiaries as they mature, offset by the costs of establishing and acquiring banks and opening new branch facilities. The Company s experience has been that it generally takes 13 to 24 months for new banks to achieve operational profitability depending on the number and timing of branch facilities added.

The following table presents the Banks in chronological order based on the date in which they joined Wintrust. Each of the Banks has established additional full-service banking facilities subsequent to their initial openings.

	De novo / Acquired	Date
Lake Forest Bank	*De novo*	December, 1991
Hinsdale Bank	*De novo*	October, 1993
North Shore Bank	*De novo*	September, 1994
Libertyville Bank	*De novo*	October, 1995
Barrington Bank	*De novo*	December, 1996
Crystal Lake Bank	*De novo*	December, 1997
Northbrook Bank	*De novo*	November, 2000
Advantage Bank *(organized 2001)*	Acquired	October, 2003
Village Bank *(organized 1995)*	Acquired	December, 2003

Beverly Bank	*De novo*	April, 2004
Wheaton Bank *(formerly Northview Bank; organized 1993)*	Acquired	September, 2004
Town Bank *(organized 1998)*	Acquired	October, 2004
State Bank of The Lakes *(organized 1894)*	Acquired	January, 2005
First Northwest Bank *(organized 1995; merged into Village Bank in May 2005)*	Acquired	March, 2005
Old Plank Trail Bank	*De novo*	March, 2006

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Following is a summary of the activity related to the expansion of the Company s banking franchise since March 31, 2005:

2006 Banking Expansion Activity

De Novo bank opening:

- Ø New Lenox, Illinois *de novo* opening of Old Plank Trail Bank
- Ø Frankfort, Illinois branch location for Old Plank Trail Bank

New branch locations:

- Ø Gurnee, Illinois permanent location with drive-through replacing temporary location, a branch of Libertyville Bank

2005 Banking Expansion Activity

New branch locations:

- Ø Downers Grove, Illinois permanent location with drive-through replacing temporary location, a branch of Hinsdale Bank.
- Ø Wales, Wisconsin a branch of Town Bank
- Ø Glen Ellyn, Illinois a temporary branch location for Glen Ellyn Bank & Trust, a branch of Wheaton Bank
- Ø Northbrook, Illinois in West Northbrook, a branch of Northbrook Bank
- Ø Beverly neighborhood of Chicago, Illinois main bank permanent location with drive-through for Beverly Bank
- Ø Buffalo Grove, Illinois Buffalo Grove Bank & Trust, a branch of Northbrook Bank
- Ø Lake Bluff, Illinois drive-through facility added to existing bank office; a branch of Lake Forest Bank
- Ø Barrington, Illinois Northwest Highway branch of Barrington Bank

Branch Closure:

- Ø Wayne Hummer Bank (a convenience facility in WHI s downtown Chicago office), a branch of North Shore Bank

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

Specialty Lending

First Insurance Funding Corporation (FIFC) is the Company s most significant specialized earning asset niche, originating $756 million in loan (premium finance receivables) volume in the first quarter of 2006, $680 million in the first quarter of 2005 and $2.7 billion in the calendar year 2005. FIFC makes loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. The loans are originated by FIFC working through independent medium and large insurance agents and brokers located throughout the United States. The insurance premiums financed are primarily for commercial customers purchases of liability, property and casualty and other commercial insurance. This lending involves relatively rapid turnover of the loan portfolio and high volume of loan originations. Because of the indirect nature of this lending and because the borrowers are located nationwide, this segment may be more susceptible to third party fraud than relationship lending; however, management established various control procedures to mitigate the risks associated with this lending. 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. FIFC sold approximately $100 million, or 13%, of the receivables generated in the first quarter of 2006 to an unrelated third party while retaining servicing rights. The Company began selling premium finance receivables to a third party in 1999. The Company s strategy is to maintain its average loan-to-deposit ratio in the range of 85-90% as well as to be asset-driven. The sale of premium finance receivables provides the Company with a means to achieve both of these objectives. During the first quarter of 2006, the Company s average loan-to-deposit ratio was 80%, below the target range. This was due to deposit growth at recently opened *de novo* locations exceeding expectations coupled with strong but slower loan origination growth at the Banks. As a result of the lower than targeted loan to deposit ratio, the Company sold less premium finance receivables during the quarter than in other recent quarters. In addition to

recognizing gains on the sale of these receivables, the proceeds provide the Company with an additional source of liquidity. Consistent with the Company s strategy to be asset-driven, it is probable that similar sales of these receivables will occur in the future; however, future sales of these receivables depend on the level of new volume growth in relation to the capacity to retain such loans within the Banks loan portfolios.

As part of its continuing strategy to enhance and diversify its earning asset base and revenue stream, in May 2004, the Company acquired SGB Corporation d/b/a WestAmerica Mortgage Company (WestAmerica) and WestAmerica s affiliate, Guardian Real Estate Services, Inc. (Guardian). WestAmerica engages primarily in the origination and purchase of residential mortgages for sale into the secondary market, and Guardian provides the document preparation and other loan closing services to WestAmerica and a network of mortgage brokers. WestAmerica sells its loans with servicing released and does not currently engage in servicing loans for others. WestAmerica maintains principal origination offices in eleven states, including Illinois, and originates loans in other states through wholesale and correspondent offices. WestAmerica provides the Banks with the ability to use an enhanced loan origination and documentation system which allows WestAmerica and the Banks to better utilize existing operational capacity and expand the mortgage products offered to the Banks customers. WestAmerica s production of adjustable rate mortgage loan products and other variable rate mortgage loan products may be purchased by the Banks for their loan portfolios resulting in additional earning assets to the combined organization, thus adding further desired diversification to the Company s earning asset base. Mortgage banking activities are also performed by the Banks.

In October 1999, the Company acquired Tricom as part of its continuing strategy to pursue specialized earning asset niches. Tricom is a company based in the Milwaukee area that has been in business since 1989 and specializes in providing high-yielding, short-term accounts receivable financing and value-added, out-sourced administrative services, such as data processing of payrolls, billing and cash management services, to clients in the temporary staffing industry. Tricom s clients, located throughout the United States, provide staffing services to businesses in diversified industries. These receivables may involve greater credit risks than generally associated with the loan portfolios of more traditional community banks depending on the marketability of the collateral. The principal sources of repayments on the receivables are payments to borrowers from their customers who are located throughout the United States. The Company mitigates this risk by employing lockboxes and other cash management techniques to protect its interests. By virtue of the Company s funding resources, this acquisition has provided Tricom with additional capital necessary to expand its financing services in a national market. Tricom s revenue principally consists of interest income from financing activities and fee-based revenues from administrative services.

In addition to the earning asset niches provided by the Company s non-bank subsidiaries, several earning asset niches operate within the Banks, including indirect auto lending which is conducted through Hinsdale Bank and Barrington Bank s Community Advantage program that provides lending, deposit and cash management services to condominium, homeowner and community associations. In addition, Hinsdale Bank operates a mortgage warehouse lending program that provides loan and deposit services to mortgage brokerage companies located predominantly in the Chicago metropolitan area, and Crystal Lake Bank has developed a specialty in small aircraft lending which is operated through its North American Aviation Financing division. The Company continues to pursue the development and/or acquisition of other specialty lending businesses that generate assets suitable for bank investment and/or secondary market sales.

Wealth Management

Wintrust s strategy also includes building and growing its wealth management business, which includes trust, asset management and securities brokerage services marketed primarily under the Wayne Hummer name. In February 2002, the Company completed its acquisition of the Wayne Hummer Companies, comprised of Wayne Hummer Investments LLC (WHI), Wayne Hummer Management Company (subsequently renamed Wayne Hummer Asset Management Company WHAMC) and Focused Investments LLC (Focused), each based in the Chicago area. To further augment its wealth management business, in February 2003, the Company acquired Lake Forest Capital Management (LFCM), a registered investment advisor. LFCM was merged into WHAMC.

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WHAMC, a registered investment advisor, provides money management and advisory services to individuals and institutional municipal and tax-exempt organizations. WHAMC also provides portfolio management and financial supervision for a wide-range of pension and profit sharing plans. In addition, WHAMC is investment advisor for the PathMaster Domestic Equity Fund a mutual fund that became effective in December 2005. The PathMaster Fund is a quantitatively based fund that employs a variety of fundamental investment analytical factors in allocating its holdings of exchange traded funds according to the underlying securities size and style categorization.

WHI, a registered broker-dealer, provides a full-range of investment products and services tailored to meet the specific needs of individual investors throughout the country, primarily in the Midwest. Although headquartered in downtown Chicago, WHI also operates an office in Appleton, Wisconsin as well as in 18 of the Company s banking locations in Illinois and Wisconsin. Focused, a NASD member broker/dealer, is a wholly-owned subsidiary of WHI and provides a full range of investment services to clients through a network of relationships with unaffiliated community-based financial institutions located primarily in Illinois.

In September 1998, the Company formed a trust subsidiary to expand the trust and investment management services that were previously provided through the trust department of Lake Forest Bank. The trust subsidiary, originally named Wintrust Asset Management Company, was renamed Wayne Hummer Trust Company (WHTC) in May 2002, to bring together the Company s wealth management subsidiaries under a common brand name. In addition to offering trust administrative services to existing bank customers at each of the Banks, the Company believes WHTC can successfully compete for trust business by targeting small to mid-size businesses and affluent individuals whose needs command the personalized attention offered by WHTC s experienced trust professionals. WHAMC serves as the investment advisor to WHITC s clients.

The following table presents a summary of the approximate amount of assets under administration and/or management in the Company s wealth management operating subsidiaries as of the dates shown:

(Dollars in thousands)	**March 31, 2006**	December 31, 2005	March 31, 2005
WHTC	**$ 704,006**	$ 658,753	$ 628,383
WHAMC [(1)]	**837,042**	823,409	836,171
WHAMC s proprietary mutual funds	**5,798**	161,568	173,552
WHI brokerage assets in custody	**5,400,000**	5,300,000	5,000,000

(1) Excludes the proprietary mutual funds managed by WHAMC

At the time of the Company s acquisition of the Wayne Hummer Companies, WHAMC was advisor to a family of mutual funds known as the Wayne Hummer funds. In 2006 WHAMC sold the last of these funds, the Wayne Hummer Growth Fund, and realized a gain of approximately $2.4 million on the sale. Wayne Hummer will focus its mutual fund efforts on the PathMaster Fund and similar funds and separately managed mutual fund products currently under consideration.

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RESULTS OF OPERATIONS

Earnings Summary

The Company s key operating measures for 2006, as compared to the same period last year, are shown below:

(Dollars in thousands, except per share data)	**Three Months Ended March 31, 2006**	Three Months Ended March 31, 2005	Percentage (%)/ Basis Point (bp) Change
Net income	**$ 19,013**	$ 15,673	21%
Net income per common share Diluted	**0.76**	0.68	12
Net revenue [1]	**85,889**	74,293	16
Net interest income	**57,164**	49,913	15
Net interest margin [5]	**3.12%**	3.21%	(9)bp
Core net interest margin [2] [5]	**3.33**	3.42	(9)
Net overhead ratio [3]	**1.27**	1.39	(12)
Efficiency ratio [4] [5]	**63.16**	64.75	(159)
Return on average assets	**0.94**	0.91	3
Return on average equity	**12.08**	13.24	(116)
At end of period			
Total assets	**$ 8,382,247**	$ 7,345,539	14%
Total loans	**5,435,317**	4,858,724	12
Total deposits	**6,882,487**	5,926,085	16
Long-term debt trust preferred securities	**230,416**	209,963	10
Total shareholders equity	**652,887**	562,215	16
Book value per common share	**26.94**	23.98	12
Market price per common share	**58.17**	47.09	24
Allowance for credit losses to total loans	**0.75%**	0.81%	(6)bp
Non-performing assets to total assets	**0.32**	0.35	(3)

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

(2) The core net interest margin excludes the net interest expense associated with Wintrust s Long-term debt trust preferred

securities.

(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) *See following section titled, Supplemental Financial Measures/Ratios for additional information on this performance measure/ratio.*

Certain returns, yields, performance ratios, or quarterly growth rates are annualized in this presentation and throughout this report to represent an annual time period. This is done for analytical purposes to better discern for decision-making purposes underlying performance trends when compared to full-year or year-over-year amounts. For example, balance sheet growth rates are most often expressed in terms of an annual rate. As such, 5% growth during a quarter would represent an annualized growth rate of 20%.

Supplemental Financial Measures/Ratios

The accounting and reporting polices 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), core net interest margin and the efficiency ratio. Management believes that these measures and ratios provide users of the Company s financial information with a more meaningful view of the performance of 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

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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 also evaluates the net interest margin excluding the net interest expense associated with the Company s Long-term debt trust preferred securities (Core Net Interest Margin). Because these instruments are utilized by the Company primarily as capital instruments, management finds it useful to view the net interest margin excluding this expense and deems it to be a more meaningful view of the operational net interest margin of the Company.

A reconciliation of certain non-GAAP performance measures and ratios used by the Company to evaluate and measure the Company s performance to the most directly comparable GAAP financial measures is shown below:

	Three Months Ended March 31,	
(Dollars in thousands)	**2006**	2005
(A) Interest income (GAAP)	**$ 120,297**	$ 87,322
Taxable-equivalent adjustment:		
Loans	**130**	153
Liquidity management assets	**281**	147
Other earning assets	**2**	6
Interest income FTE	**$ 120,710**	$ 87,628
(B) Interest expense (GAAP)	**63,133**	37,409
Net interest income FTE	**$ 57,577**	$ 50,219
(C) Net interest income (GAAP) (A minus B)	**$ 57,164**	$ 49,913
Net interest income FTE	**$ 57,577**	$ 50,219
Add: Interest expense on long-term debt trust preferred securities, net[(1)]	**3,995**	3,314
Core net interest income FTE[(2)]	**$ 61,572**	$ 53,533
(D) Net interest margin (GAAP)	**3.09%**	3.18%
Net interest margin FTE	**3.12%**	3.21%
Core net interest margin FTE[(2)]	**3.33%**	3.42%
(E) Efficiency ratio (GAAP)	**63.47%**	65.02%
Efficiency ratio FTE	**63.16%**	64.75%

(1) *Interest expense from the Long-term debt trust preferred securities is net of the interest income on the*

Common Securities owned by the Trusts and included in interest income.

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

Critical Accounting Policies

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Critical accounting policies inherently have greater complexity and greater reliance on the use of estimates, assumptions and judgments than other accounting policies, 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 based on information available as of the date of the financial statements; accordingly, as information changes, the financial statements could reflect different estimates and assumptions. Management currently views critical accounting policies to include the determination of the allowance for loan losses and the allowance for lending-related commitments, the valuation of the retained interest in the premium finance receivables sold, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and the accounting for income taxes as the areas that are most complex and require the most subjective and complex judgments, and as such could be most subject to revision as new information becomes available. For a more detailed discussion on these critical accounting policies, see Summary of Critical Accounting Policies beginning on page 72 of the Company s Annual Report to shareholders for the year ended December 31, 2005.

Net Income

Net income for the quarter ended March 31, 2006 totaled $19.0 million, an increase of $3.3 million, or 21%, over the $15.7 million recorded in the first quarter of 2005. On a per share basis, net income for the first quarter of 2006 totaled $0.76 per diluted common share, an increase of $0.08 per share, or 12%, as compared to the 2005 first quarter total of $0.68 per diluted common share. The return on average equity for the first quarter of 2005 was 12.08%, compared to 13.24% for the prior year quarter.

The lower growth rate in the earnings per share as compared to net income for the first quarter of 2006 compared to the same quarter in 2005 is due primarily to increases in the average number of common shares outstanding. The increase in the number of common shares outstanding was due primarily from the issuance of 1.0 million new shares in late March 2005 in partial settlement of the Company s forward sale agreement with RBC Capital Markets Corporation and 595,123 new shares in late March 2005 in connection with the acquisition of First Northwest Bancorp, Inc.

Wintrust has acquired two operating companies since January 2005; State Bank of The Lakes (effective January 1, 2005) and First Northwest Bank (effective March 31, 2005). The results of operations of each of these entities have been included in Wintrust s results of operations since their respective acquisition dates.

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Net Interest Income

Net interest income, which is the difference between interest income and fees on earning assets and interest expense on deposits and borrowings, is the major source of earnings for Wintrust. Tax-equivalent net interest income for the quarter ended March 31, 2006 totaled $57.6 million, an increase of $7.4 million, or 15%, as compared to the $50.2 million recorded in the same quarter of 2005. In the first quarter of 2006, average loans, the highest yielding component of the earning asset base, represented 72% of total earning assets and increased 586 million, or 12%, over the first quarter of 2005. This increase is primarily attributable to increases in the Company s earning asset base. Average loans in the first quarter of 2006 increased $586 million, or 12%, over the first quarter of 2005 and $82 million, or 6%, on an annualized basis, over the fourth quarter of 2005. The table on page 28 presents a summary of the dollar amount of changes in tax-equivalent net interest income attributable to changes in the volume of earning assets and changes in the rates earned and paid during the first quarter of 2006 compared to the same period of 2005 as well as the fourth quarter of 2005.

The following table presents a summary of the Company s net interest income and related net interest margins, calculated on a fully taxable equivalent basis, for the first quarter of 2006 as compared to the first quarter of 2005 (linked quarters):

	For the Three Months Ended March 31, 2006			For the Three Months Ended March 31, 2005		
(Dollars in thousands)	**Average**	**Interest**	**Rate**	Average	Interest	Rate
Liquidity management assets [1] [2] [8]	**$ 2,060,242**	**$ 23,456**	**4.62%**	$ 1,501,675	$ 14,755	3.98%
Other earning assets [2] [3][8]	**31,818**	**473**	**5.94**	34,119	441	5.24
Loans, net of unearned income [2] [4] [8]	**5,408,010**	**96,781**	**7.26**	4,822,149	72,432	6.09
Total earning assets [8]	**$ 7,500,070**	**$ 120,710**	**6.53%**	$ 6,357,943	$ 87,628	5.59%
Allowance for loan losses	**(41,629)**			(38,295)		
Cash and due from banks	**127,868**			136,256		
Other assets	**653,568**			542,611		
Total assets	**$ 8,239,877**			$ 6,998,515		
Interest-bearing deposits	**$ 6,202,123**	**$ 54,282**	**3.55%**	$ 5,005,533	$ 28,972	2.35%