

# WINTRUST FINANCIAL CORP

## FORM 10-Q (Quarterly Report)

Filed 5/14/1997 For Period Ending 3/31/1997

|             |                                                |
|-------------|------------------------------------------------|
| Address     | 727 N BANK LANE<br>LAKE FOREST, Illinois 60045 |
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| CIK         | 0001015328                                     |
| Industry    | Regional Banks                                 |
| Sector      | Financial                                      |
| Fiscal Year | 12/31                                          |

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 1997  
*Commission File Number 0-21923*

**WINTRUST FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

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

727 North Bank Lane  
Lake Forest, Illinois 60045  
(Address of principal executive offices)

(847) 615-4096

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(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 ☐ No ☒

Indicate the number of shares outstanding of each of issuer's class of common stock, as of the last practicable date.

Common Stock - no par value, 8,019,893 shares, as of May 13, 1997.

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WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)  
(IN THOUSANDS)

|                                                                                                         | MARCH 31,<br>1997 | December 31,<br>1996 | March 31,<br>1996 |
|---------------------------------------------------------------------------------------------------------|-------------------|----------------------|-------------------|
| <b>ASSETS</b>                                                                                           |                   |                      |                   |
| Cash and due from banks-noninterest bearing                                                             | \$ 23,976         | \$ 36,581            | \$ 10,869         |
| Federal funds sold                                                                                      | 46,319            | 38,835               | 49,236            |
| Interest-bearing deposits with banks                                                                    | 15,001            | 18,732               | 19,100            |
| Available-for-Sale securities, at market value                                                          | 62,650            | 69,387               | 103,173           |
| Held-to-Maturity securities, at amortized cost                                                          | 5,001             | 5,001                | 5,001             |
| Loans, net of unearned income                                                                           | 566,894           | 492,548              | 299,773           |
| Less: Allowance for possible loan losses                                                                | 4,073             | 3,636                | 2,961             |
| Net loans                                                                                               | 562,821           | 488,912              | 296,812           |
| Premises and equipment, net                                                                             | 31,892            | 30,277               | 25,361            |
| Accrued interest receivable and other assets                                                            | 14,997            | 16,426               | 10,103            |
| Goodwill and organizational costs                                                                       | 1,914             | 1,886                | 509               |
| Total assets                                                                                            | \$ 764,571        | \$ 706,037           | \$ 520,164        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                             |                   |                      |                   |
| Deposits:                                                                                               |                   |                      |                   |
| Noninterest bearing                                                                                     | \$ 74,850         | \$ 67,164            | \$ 47,416         |
| Interest bearing                                                                                        | 607,343           | 550,865              | 407,812           |
| Total deposits                                                                                          | 682,193           | 618,029              | 455,228           |
| Short-term borrowings                                                                                   | -                 | 7,058                | -                 |
| Notes payable                                                                                           | 6,503             | 22,057               | 12,512            |
| Other liabilities                                                                                       | 12,344            | 16,273               | 11,362            |
| Total liabilities                                                                                       | 701,040           | 663,417              | 479,102           |
| Shareholders' equity                                                                                    |                   |                      |                   |
| Preferred stock                                                                                         | -                 | -                    | 503               |
| issued and outstanding at December 31, 1996, and 113,063<br>issued and outstanding at December 31, 1995 |                   |                      |                   |
| Common stock                                                                                            | 7,997             | 6,603                | 5,905             |
| 6,515,880 and 5,830,866 issued and outstanding at December 31,<br>1996 and 1995, respectively           |                   |                      |                   |
| Surplus                                                                                                 | 71,678            | 52,871               | 50,917            |
| Common stock warrants                                                                                   | 100               | 100                  | 75                |
| Retained deficit                                                                                        | (16,234)          | (16,963)             | (16,346)          |
| Net, unrealized gains (losses) on Available-for-Sale<br>securities, net of tax                          | (10)              | 9                    | 8                 |
| Total shareholders' equity                                                                              | 63,531            | 42,620               | 41,062            |
| Total liabilities and shareholders' equity                                                              | \$ 764,571        | \$ 706,037           | \$ 520,164        |

WINTRUST FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
PERIODS ENDED MARCH 31, 1997 AND 1996  
(IN THOUSANDS EXCEPT PER SHARE DATA)

|                                                                         | THREE MONTHS ENDED<br>MARCH 31, |           |
|-------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                         | 1997                            | 1996      |
| Interest income                                                         | \$ 13,078                       | \$ 8,287  |
| Interest expense                                                        | 7,826                           | 5,207     |
| Net interest income                                                     | 5,252                           | 3,080     |
| Provision for possible loan losses                                      | 679                             | 410       |
| Net interest income after provision for possible loan losses            | 4,573                           | 2,670     |
| Noninterest income                                                      | 1,592                           | 2,014     |
| Securities gains, net                                                   | --                              | --        |
| Total noninterest income                                                | 1,592                           | 2,014     |
| Noninterest expense                                                     | 6,354                           | 4,958     |
| Merger related expenses                                                 | --                              | --        |
| Total noninterest expense                                               | 6,354                           | 4,958     |
| Income before income taxes                                              | (189)                           | (274)     |
| Income tax (benefit) expense                                            | (918)                           | 82        |
| Net income (loss)                                                       | \$ 729                          | \$ (356)  |
| Net income (loss) per common share                                      | \$ 0.10                         | \$ (0.06) |
| Weighted average common shares and common share equivalents outstanding | 7,293                           | 5,862     |

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

|                                                                                      | PREFERRED<br>STOCK | COMMON<br>STOCK | SURPLUS   | WARRANTS | RETAINED<br>(DEFICIT) | NET<br>UNREALIZED<br>GAIN (LOSS)<br>ON SECURITIES<br>AVAILABLE<br>FOR SALE | TOTAL<br>SHAREHOLDERS'<br>EQUITY |
|--------------------------------------------------------------------------------------|--------------------|-----------------|-----------|----------|-----------------------|----------------------------------------------------------------------------|----------------------------------|
| Balance at December 31, 1995                                                         | \$ 503             | \$ 5,831        | \$ 50,053 | \$ 75    | \$ (15,990)           | \$ 15                                                                      | \$ 40,487                        |
| Net loss                                                                             |                    |                 |           |          | (356)                 |                                                                            | (356)                            |
| Common stock issuance                                                                | -                  | 78              | 908       | -        | -                     | -                                                                          | 986                              |
| repurchase of common stock                                                           | -                  | (4)             | (44)      | -        | -                     | -                                                                          | (48)                             |
| Change in net unrealized gain on securities<br>available-for-sale, net of tax effect | -                  | -               | -         | -        | -                     | (7)                                                                        | (7)                              |
| BALANCE AT MARCH 31, 1996                                                            | \$ 503             | \$ 5,905        | \$ 50,917 | \$ 75    | \$ (16,346)           | \$ 8                                                                       | \$ 41,062                        |
| Balance at December 31, 1996                                                         | \$ -               | \$ 6,603        | \$ 52,871 | \$ 100   | \$ (16,963)           | \$ 9                                                                       | \$ 42,620                        |
| Net income                                                                           | -                  | -               | -         | -        | 729                   | -                                                                          | 729                              |
| Common stock issued upon exercise<br>of stock options                                | -                  | 16              | 79        | -        | -                     | -                                                                          | 95                               |
| Common stock issued in conjunction with<br>public offering, net of issuance costs    | -                  | 1,378           | 18,728    | -        | -                     | -                                                                          | 20,106                           |
| Change in net unrealized gain on securities<br>available-for-sale, net of tax effect | -                  | -               | -         | -        | -                     | (19)                                                                       | (19)                             |
| BALANCE AT MARCH 31, 1997                                                            | \$ -               | \$ 7,997        | \$ 71,678 | \$ 100   | \$ (16,234)           | \$ (10)                                                                    | \$ 63,531                        |

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

|                                                                                                        | THREE MONTHS ENDED<br>MARCH 31, |           |
|--------------------------------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                                                        | 1997                            | 1996      |
| <hr/>                                                                                                  |                                 |           |
| OPERATING ACTIVITIES:                                                                                  |                                 |           |
| Net income (loss)                                                                                      | \$ 729                          | (\$356)   |
| Adjustments to reconcile net income (loss) to net cash used for, or provided by, operating activities: |                                 |           |
| Provision for possible loan losses                                                                     | 679                             | 410       |
| Depreciation and amortization                                                                          | 518                             | 440       |
| Deferred income tax (benefit) expense                                                                  | (918)                           | 82        |
| Net accretion/amortization of investment securities                                                    | (163)                           | (209)     |
| Decrease (increase) in other assets, net                                                               | 2,288                           | (1,266)   |
| Decrease in other liabilities, net                                                                     | (3,949)                         | (1,766)   |
| <hr/>                                                                                                  |                                 |           |
| NET CASH USED FOR OPERATING ACTIVITIES                                                                 | (817)                           | (2,665)   |
| <hr/>                                                                                                  |                                 |           |
| INVESTING ACTIVITIES:                                                                                  |                                 |           |
| Proceeds from maturities of Available-for-Sale securities                                              | 30,170                          | 100,966   |
| Purchases of securities                                                                                | (23,270)                        | (146,042) |
| Net decrease in interest bearing deposits                                                              | 3,731                           | 31,500    |
| Net increase in loans                                                                                  | (74,587)                        | (41,753)  |
| Purchases of premises and equipment, net                                                               | (2,102)                         | (1,730)   |
| <hr/>                                                                                                  |                                 |           |
| NET CASH USED FOR INVESTING ACTIVITIES                                                                 | (66,057)                        | (57,059)  |
| <hr/>                                                                                                  |                                 |           |
| FINANCING ACTIVITIES:                                                                                  |                                 |           |
| Increase in deposit accounts                                                                           | 64,164                          | 49,570    |
| Decrease in short-term borrowings, net                                                                 | (7,058)                         | (867)     |
| Proceeds from notes payable                                                                            | -                               | 1,754     |
| Repayment of notes payable                                                                             | (15,554)                        | -         |
| Issuance of common stock, net of issuance costs                                                        | 20,201                          | 938       |
| <hr/>                                                                                                  |                                 |           |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                                              | 61,753                          | 51,395    |
| <hr/>                                                                                                  |                                 |           |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                                              | (5,121)                         | (8,329)   |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                                       | 75,416                          | 68,434    |
| <hr/>                                                                                                  |                                 |           |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                                                             | \$ 70,295                       | \$ 60,105 |
| <hr/>                                                                                                  |                                 |           |

# WINTRUST FINANCIAL CORPORATION

## NOTES TO 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 for a fair presentation of results as of the dates and for the periods covered by the consolidated financial statements.

The consolidated Wintrust entity was formed on September 1, 1996 through a merger transaction whereby the holding companies of Lake Forest, Hinsdale, Libertyville and First Premium were merged with newly formed wholly-owned subsidiaries of North Shore Community Bancorp, Inc. (which changed its name to Wintrust Financial Corporation concurrent with the merger). The merger transaction was accounted for in accordance with the pooling-of-interest method of accounting for a business combination. Accordingly, the consolidated financial statements included herein reflect the combination of the historical financial results of the five entities and the recorded assets and liabilities have been carried forward to the consolidated company at their historical cost.

In October 1996, Wintrust purchased a company known as Wolfhoya Investments, Inc. ("Wolfhoya") for a purchase price of approximately \$1.3 million. Wolfhoya was a company organized prior to the merger transaction by certain directors and officers of the Company for purposes of organizing a de novo banking operation in Barrington, Illinois. At the date of purchase by Wintrust, Wolfhoya had purchased real estate for a permanent banking location and constructed a temporary banking location in downtown Barrington. Wolfhoya had also secured the services of its top three executive officers to run the new de novo bank. On December 19, 1996, Wintrust opened Barrington Bank and Trust Company, the bank that Wolfhoya had begun to organize prior to the acquisition. The acquisition was accounted for using the purchase method of accounting and the purchase price was paid for by issuing approximately 88,000 shares of Wintrust common stock to the shareholders of Wolfhoya.

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. Operating results for the three-month periods presented are not necessarily indicative of the results which may be expected for the entire year.

### (2) Statement of Financial Accounting Standard No. 122:

In May 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 122, "Accounting for Mortgage Servicing Rights, an amendment of Financial Accounting Standard No. 65" (SFAS No. 122). The statement requires the recognition as separate assets the rights to service mortgage loans for others, however those rights are acquired. SFAS No. 122 requires that when a definitive plan exists to sell the loan and retain servicing rights, the cost of the mortgage will be allocated between the loan and the related mortgage servicing right based on their relative fair values at the date of origination or purchase; otherwise the date of sale will be used. Mortgage servicing rights are amortized ratably over the period of the associated estimated net servicing income. SFAS No. 122 also requires assessing the



capitalized mortgage servicing rights for impairment by comparing the recorded book value to the fair value of those rights.

(3) Statement of Financial Accounting Standard No. 114 and No. 118:

The Company follows the guidance of Statement of Financial Accounting Standard No. 114 (as amended by Statement of Financial Accounting Standard No. 118), "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures" to account for impaired loans. A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due. Impaired loans under SFAS No. 114 and SFAS No. 118 are considered by the Company to be nonaccrual loans, restructured loans and loans with principal and/or interest at risk, even if the loan is current with all payments of principal and interest. Impairment is measured by determining the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the fair value of the underlying collateral. If the fair value of the loan is less than the recorded book value, a valuation allowance is established as a component of the allowance for possible loan losses.

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

(4) Statement of Financial Accounting Standard No. 125

As of January 1, 1997, the Company adopted Financial Accounting Standards Board Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS No. 125). SFAS No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is applied prospectively. SFAS No. 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. The adoption of SFAS No. 125 did not have a material impact on the Company's financial position, results of operations or liquidity.

(5) Cash and Cash Equivalents

For the purposes of the Consolidated Statements of Cash Flows, the Company considers cash and cash equivalents to include cash and due from banks and federal funds sold which have an original maturity of 90 days or less.

(6) Per Common Share Data

Earnings per share are calculated by dividing net income, after consideration of preferred stock dividends, by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents are calculated using the treasury stock method.

## ITEM 2

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

#### CONDITION AND RESULTS OF OPERATIONS

Wintrust Financial Corporation ("Wintrust" or "Company") is a multi-bank holding company currently engaged in the business of providing financial services primarily through its banking subsidiaries to customers in the Chicago metropolitan area and financing the payment of insurance premiums, on a national basis, through its subsidiary, First Premium Services, Inc. ("First Premium"). As of March 31, 1997, Wintrust owned five bank subsidiaries ("Banks"), all of which started as de novo institutions, including Lake Forest Bank & Trust Company ("Lake Forest"), Hinsdale Bank & Trust Company ("Hinsdale"), North Shore Community Bank & Trust Company ("North Shore"), Libertyville Bank & Trust Company ("Libertyville") and Barrington Bank & Trust Company ("Barrington").

The consolidated Wintrust entity was formed on September 1, 1996 through a merger transaction whereby the holding companies of Lake Forest, Hinsdale, Libertyville and First Premium were merged with newly formed wholly-owned subsidiaries of North Shore Community Bancorp, Inc. (which changed its name to Wintrust Financial Corporation concurrent with the merger). The merger transaction was accounted for in accordance with the pooling-of-interest method of accounting for a business combination. Accordingly, the consolidated financial statements included herein reflect the combination of the historical financial results of the five entities and the recorded assets and liabilities have been carried forward to the consolidated company at their historical cost.

In October 1996, Wintrust purchased a company known as Wolfhoya Investments, Inc. ("Wolfhoya") for a purchase price of approximately \$1.3 million. Wolfhoya was a company that had a sole business purpose of organizing a de novo banking operation in Barrington, Illinois. At the date of purchase by Wintrust, Wolfhoya had secured a permanent banking location and constructed a temporary banking location in downtown Barrington. Wolfhoya had also secured the services of its top three executive officers to run the new de novo bank. Barrington opened on December 19, 1996. The acquisition was accounted for using the purchase method of accounting and the purchase price was paid for by issuing approximately 88,000 shares of Wintrust common stock to the shareholders of Wolfhoya. Accordingly, the Company's consolidated financial statements reflects the financial condition and results of operations of Barrington since the date of acquisition.

Each of Lake Forest, Hinsdale, Libertyville and First Premium are wholly-owned by mid-tier holding companies known as Lake Forest Bancorp, Inc., Hinsdale Bancorp, Inc., Libertyville Bancorp, Inc., and Crabtree Capital Corporation, respectively. These mid-tier holding companies are all owned 100% by Wintrust.

The existing operating subsidiaries have all started operations within the last seven years. Each of the operating subsidiaries were started in an effort to fulfill a financial services need in the banking and insurance premium financing industries. Lake Forest, Hinsdale, North Shore, Libertyville and Barrington began banking operations in December 1991, October 1993, September 1994, October 1995 and December 1996, respectively. Subsequent to those initial dates of operations, each of the banks, except Libertyville and Barrington have established additional full service banking facilities. First Premium began operations in 1990 and is primarily involved in the financing of property and casualty insurance premiums written through independent insurance

brokers on a national basis for commercial customers. Since its commencement of operations, First Premium has consistently expanded its umbrella of operations to include additional states in which it can operate. As such, Wintrust is a growth oriented company which is still undertaking to establish additional market share in the communities and industry segments it serves.

The management of Wintrust presents the following discussion and analysis of its financial condition as of March 31, 1997 compared with December 31, 1996 and March 31, 1996 and the results of operations for the periods ending March 31, 1997 and 1996. This discussion should be read in conjunction with Wintrust's unaudited consolidated financial statements contained in this report.

## OVERVIEW

Wintrust reported net income for the quarter ended March 31, 1997 of \$729,000 compared to a net loss of \$356,000 in the prior year. A significant factor contributing to the net income in 1997 was the recording of a net tax benefit of \$918,000. The income tax benefit recorded in 1997 reflected management's determination that certain of the Company's subsidiaries earnings history and projected future earnings were sufficient to make a judgment that the realization of a portion of the net deferred tax assets not previously valued was more likely than not to occur. Excluding the impact of income taxes, the Company recorded pre-tax losses of approximately \$189,000 and \$274,000 in the first three months of 1997 and 1996, respectively. The reduction in the pre-tax net loss was a result of improved results at the Company's four banking subsidiaries that existed as of March 1996 and at the Company's premium finance subsidiary. However, the improvement accomplished at those subsidiaries was offset by an expected pre-tax loss of approximately \$483,000 at Barrington, the Company's newest de novo bank opened in December, 1996. Additionally, the 1997 results were negatively impacted by the costs associated with the first year of operations at the Company's full services banking facilities opened in Winnetka, Illinois and Clarendon Hills, Illinois in May 1996 and August 1996, and the opening a new drive-up banking facility in Lake Forest, Illinois during February 1997.

The loss in 1996 was attributable in part to start up costs associated with full service banking operations in (a) Libertyville, Illinois via a newly chartered de novo bank during October 1995, and (b) Glencoe, Illinois in October 1995 via a full service branch banking facility. Additionally, North Shore and Hinsdale opened separately located drive-up/walk-up facilities in the fourth quarter of 1995. Generally, a community bank's results of operations are reliant upon the net interest income to produce an overall profit for the bank. However, as these banking locations were only operational for less than one year, the revenues generated through the net interest income were not sufficient to offset organizational expenses and the overhead established to support full service banking operations, as has been typical during the first twelve to fifteen months of the Company's start-up banking operations and was anticipated by management during its planning of these facilities.

Total assets grew \$58.5 million, or 8% to \$764.6 million as of March 31, 1997 compared to December 31, 1996. Loans increased \$74.4 million, up 15% from year end. Over the same period, deposits grew \$64.2 million, up 10%. Shareholders' equity increased \$20.9 million to \$63.5 million at March 31, 1997 compared with \$42.6 million at December 31, 1996 due primarily to the proceeds received from the Company's common stock offering.

## CONSOLIDATED RESULTS OF OPERATIONS

### NET INTEREST INCOME

Net interest income is defined as the difference between interest income and fees on earning assets and interest expense on deposits and borrowings. The related net interest margin represents the net interest income on a fully tax equivalent basis as a percentage of average earning assets during the period. The following table presents a summary of Wintrust's net interest income and related net interest margin, calculated on a fully taxable equivalent basis (dollars in thousands).

|                                        | THREE MONTHS ENDED<br>MARCH 31, 1997 |          |       | THREE MONTHS ENDED<br>MARCH 31, 1996 |          |       |
|----------------------------------------|--------------------------------------|----------|-------|--------------------------------------|----------|-------|
|                                        | AVERAGE                              | INTEREST | RATE  | AVERAGE                              | INTEREST | RATE  |
| Interest bearing deposits with banks   | \$ 16,167                            | \$ 227   | 5.62% | \$ 33,910                            | \$ 47    | 5.59% |
| Federal funds sold                     | 51,213                               | 651      | 5.09  | 53,171                               | 706      | 5.31  |
| Investment securities*                 | 72,136                               | 970      | 5.38  | 94,475                               | 1,245    | 5.27  |
| Loans, net of unearned discount*       | 516,717                              | 11,257   | 8.71  | 265,177                              | 5,876    | 8.86  |
| Total earning assets                   | \$ 656,233                           | \$13,105 | 7.99% | \$446,733                            | \$ 8,301 | 7.43% |
| Interest-bearing deposits              | \$ 580,814                           | \$ 7,481 | 5.15% | \$383,937                            | \$ 4,886 | 5.09% |
| Short-term borrowings                  | 818                                  | 7        | 3.35  | 508                                  | 6        | 4.72  |
| Term debt                              | 19,015                               | 338      | 7.11  | 13,251                               | 315      | 9.51  |
| Total interest-bearing liabilities     | \$ 600,647                           | \$ 7,826 | 5.21% | \$397,696                            | \$ 5,207 | 5.24% |
| Taxable equivalent net interest income |                                      | \$ 5,279 |       |                                      | \$ 3,094 |       |
| Net interest spread                    |                                      |          | 2.78% |                                      |          | 2.20% |
| Net interest margin                    |                                      |          | 3.22% |                                      |          | 2.77% |

\* Interest income on tax advantaged investment securities and loan reflects a tax equivalent adjustment based on a marginal federal corporate tax of 34%. The total tax-equivalent adjustment reflected in the above table is \$27,000 and \$14,000 in 1997 and 1996, respectively.

The net interest margin increased 0.45% to 3.22% in the first quarter of 1997 from 2.77% in the year ago period. The increase in the net interest margin was primarily the result of a shift in the composition of the earning asset portfolio whereby loans constituted approximately 79% of the average earning assets during the first quarter of 1997 compared to only 59% in the first quarter of 1996. Contributing to the increase of loans is the fact that the Company is now maintaining the premium finance loans originated by First Premium as assets of the subsidiary banks. First Premium had previously funded its loan generation through a securitization facility whereby most loans were sold into the secondary market, with servicing retained by First Premium. The cost of First Premium's funding was more expensive than the cost of funds that could be provided by the subsidiary banks' deposit base. As such, subsequent to the consummation of the merger in September 1996, First Premium has sold their loan production to the subsidiary banks. The sale of the loans to the banks has enabled the

consolidated Wintrust entity to enjoy a larger net interest margin in the first quarter of 1997 as the high yielding insurance premium loans remain on the books of the Company using a lower overall cost of funds.

Additionally, the Company's borrowing costs have been reduced by lower rates charged on term debt. During the first quarter of 1996, each of the predecessor companies were distinct entities with a relatively higher borrowing rates. As a result of the consummation of the merger and consolidation of the debt outstanding at each of the predecessor companies, Wintrust was able to secure more favorable interest rate terms from its lender.

Despite an increase in the net interest margin as discussed above, the Company's net interest margin is low compared to industry standards for a variety of reasons. First, as de novo banking institutions, Wintrust's subsidiary banks have been aggressive in attempting to provide competitive interest rates to the communities they serve. This strategy fulfills the organization's objectives of providing the communities with favorable banking products and thereby garnering high market penetration and deposit growth. Management believes that a strong core deposit base will allow the organization to fund various diversified asset niches in the future that will provide long-term shareholder value. Next, as de novo banking institutions, Wintrust's subsidiary banks have been cautious to originate high quality loans as opposed to originating higher yielding loans that bring more credit risk with them. Also, the subsidiary banks have purposefully maintained an investment portfolio that is short-term in nature in order to facilitate the funding of quality loan demand as it emerged and to keep the banks in a liquid condition in the event that deposit levels fluctuated. In the current interest rate environment, the short-term investment portfolio has been yielding less than a portfolio with extended maturities; however, management believed that this method of investing was prudent given de novo status of the banks.

#### **RECONCILIATION OF THE NET INTEREST INCOME ACCORDING TO RATE AND VOLUME VARIANCES**

The following table presents a reconciliation of Wintrust's net interest income, calculated on a fully taxable equivalent basis between the three month periods ended March 31, 1996 and March 31, 1997. The reconciliation sets forth the change in the net interest income as a result of changes in volumes, changes in rates and the change due to the combination of volume and rate changes (in thousands):

|                                                                                    |          |
|------------------------------------------------------------------------------------|----------|
| Fully tax equivalent net interest income for the three months ended March 31, 1996 | \$ 3,094 |
| Change due to average earning assets fluctuations (volume)                         | 1,451    |
| Change due to interest rate fluctuations (rate)                                    | 503      |
| Change due to rate/volume fluctuations (mix)                                       | 231      |
|                                                                                    | -----    |
| Fully tax equivalent net interest income for the three months ended March 31, 1997 | \$ 5,279 |
|                                                                                    | =====    |

## NONINTEREST INCOME

Total noninterest income decreased approximately \$422,000, or 21%, to \$1.6 million for the first three months of 1997, as compared to \$2.0 million in the same period in 1996. The following table presents noninterest income by category (in thousands):

|                                        | THREE MONTHS ENDED MARCH 31, |          |
|----------------------------------------|------------------------------|----------|
|                                        | 1997                         | 1996     |
| Fees on mortgage loans sold            | \$ 425                       | \$320    |
| Gains on sale of premium finance loans | -                            | 967      |
| Loan servicing fees                    | 176                          | 335      |
| Service charges on deposit accounts    | 158                          | 73       |
| Trust fees                             | 154                          | 115      |
| Securities gains, net                  | -                            | 49       |
| Other income                           | 679                          | 155      |
| Total noninterest income               | \$ 1,592                     | \$ 2,014 |

Beginning in the fourth quarter of 1996 First Premium began selling premium finance loans to the banking subsidiaries. Previously, such loans had been sold to a third-party securitization facility whereby gains on the sale of such loans and related servicing fees were recorded. Fee income earned in 1997 by First Premium in conjunction with the sale and servicing of such loans to the subsidiary banks was eliminated as an intercompany transaction. Consequently, gains on the sale of premium finance loans sold and loan servicing fees decreased from 1996 to 1997. Although these income categories declined in 1997, the Company's net interest margin was impacted positively by the additional interest income that the bank subsidiaries earn over the life of such loans.

Fees on mortgage loans sold relate to income derived by the subsidiary banks for services rendered in originating and selling residential real estate loans into the secondary market. Such fees rose \$105,000 or 33% in the first quarter of 1997 to \$425,000 from \$320,000 in 1996. The increase came as a result of a favorable interest rate environment and the efforts of experienced lenders.

Service charges on deposit accounts more than doubled to \$158,000 for the three months ended March 31, 1997 from \$73,000 from the year ago period. The increase is primarily a result of the 50% increase in deposit balances from March 31, 1996 to March 31, 1997. The majority of service charges on deposit accounts relates to customary fees on accounts in overdraft positions and for returned items on an account. The level of service charges received on deposit accounts is substantially below peer group levels as management believes in the philosophy of providing high quality service without encumbering that service with numerous activity charges. That philosophy has contributed to the growth in retail deposits.

Trust fees increased 34% to \$154,000 from \$115,000 for the three months ended March 31, 1997 and 1996, respectively. The continuing efforts of the trust management team to establish new account relationships and the "hands on" customer service provided to our trust customers has resulted in a steady increase in trust fees. Management anticipates adding additional trust departments to existing banks during the remainder of 1997 and during 1998.

Other noninterest income in 1997 increased to \$679,000 from \$155,000 one year earlier. The increase is primarily related to the settlement of a lawsuit. Excluding the impact of such settlement, other noninterest income remained relatively stable.

## NONINTEREST EXPENSE

Total noninterest expense increased approximately \$1.4 million, or 28%, to \$6.4 million for the first three months of 1997, as compared to \$5.0 million in the same period of 1996. The following table presents noninterest expenses by category (in thousands):

|                                | THREE MONTHS ENDED<br>MARCH 31, |         |
|--------------------------------|---------------------------------|---------|
|                                | 1997                            | 1996    |
| Salaries and employee benefits | \$ 3,456                        | \$2,497 |
| Net occupancy expense          | 482                             | 398     |
| Data processing                | 321                             | 223     |
| Advertising and marketing      | 296                             | 141     |
| Other                          | 1,799                           | 1,699   |
| Total noninterest expense      | \$6,354                         | \$4,958 |

Salaries and employee benefits increased to \$3.5 million for the three months ended March 31, 1997 as compared to \$2.5 million for the same period of the prior year. The increase of approximately \$1.0 million is partially the result of one additional bank (Barrington), two additional full-service branch banking facilities (located in Winnetka, Illinois and Clarendon Hills, Illinois), and a drive-up banking facility in Lake Forest that were in the operations of the first quarter of 1997 but that were not operational during the first quarter of 1996. Barrington accounted for \$0.3 million of the salaries and employee benefits expense in the first quarter of 1997 and the additional branch banking facilities contributed approximately \$0.2 million to the increase. In addition to the increased staffing to support the new banking facilities, the growth in deposit and loan accounts at the previously existing banking locations required additional staffing to maintain our standard of excellent customer service. Also, contributing to the increase in salaries were normal salary increases.

Occupancy expenses increased \$84,000, or 21%, for the three months ended March 31, 1997 to \$482,000 from \$398,000 for the same period of 1996, due primarily to the addition of Barrington and additional branch locations. The Company performs significant research into the demographic nature of a location before entering a new community with a physical banking presence. Management believes the communities have embraced our commitment to the true community banking concept as evidenced by the significant growth in deposits subsequent to the opening of each of these new facilities.

For the three months ended March 31, 1997, data processing expenses increased by \$98,000 to \$321,000, or 44%, over the first three months of 1996. Data processing expenses are highly dependent on the number of accounts processed by the Banks. As a result, the increase of deposit and loan balances from the year-ago level of approximately 50% and 89%, respectively, was the primary reason for increase in this expense category.

Additionally, the first three months of 1997 included data processing costs for Barrington which opened in December 1996.

Advertising and marketing expenses increased to \$296,000 for the first three months of 1997 compared to \$141,000 for the first three months of 1996. Wintrust considers effective marketing to be a cornerstone of establishing effective market share in the communities served. The Company's strategy in establishing new banking locations is to develop community oriented deposit and loan products to attract its deposit base and achieve a relatively high level of penetration into the communities' population of households. Accordingly, the continued growth in banking locations caused the level of marketing expenses to increase. Management anticipates that similar levels of marketing expense will be incurred in future quarters as Wintrust continues to establish its base of customers and promotes the opening of additional banking locations.

Other noninterest expenses increased by \$100,000, or 6%, to \$1.8 million for the three months ended March 31, 1997 from \$1.7 million for the first three months of 1996. This category of expenses contains insurance expense, stationary and supplies expense, postage expense, legal fees, audits and examinations expense, amortization of organizational costs, and other sundry expenses. The 6% increase in this category is a general increase due to the higher volume of accounts outstanding at the banking subsidiaries.

Despite the increases in various noninterest expense categories during the first three months of 1997 compared to 1996, Wintrust's ratio of noninterest expenses to total average assets declined to 3.5% in 1997 from 4.0% in 1996, reflecting management's commitment to maintaining low overhead costs while providing superior customer service. Additionally, Wintrust's net overhead ratio of 2.6% for the three months ended March 31, 1997 is approximately the same as Wintrust's peer group. Thus, despite the significant expansion of banking operations over the last year, the Company has controlled its noninterest expenses in a fashion that is comparable to bank holding companies in its peer group.

## **INCOME TAXES**

The Company recorded an income tax benefit of \$918,000 for the first three months of 1997, whereas an income tax expense of approximately \$82,000 was recorded in the same period of 1996. Prior to the merger date of September 1, 1996, each of the merging companies except Lake Forest had net operating losses and, based upon the start-up nature of the organization, there was not sufficient evidence to justify the full realization of the net deferred tax assets generated by those losses. Accordingly, during 1996, certain valuation allowances were established against deferred tax assets with the combined result being that a minimal amount of federal tax expense or benefit was recorded. As the entities become profitable, the recognition of previously unvalued tax loss benefits are available, subject to certain limitations, to offset tax expense generated from profitable operations. The income tax benefit recorded in 1997 reflected management's determination that certain of the Company's subsidiaries earnings history and projected future earnings were sufficient to make a judgment that the realization of a portion of the net deferred tax assets not previously valued was more likely than not to occur.



## FINANCIAL CONDITION

### INTEREST-EARNING ASSETS

Wintrust's consolidated total assets at March 31, 1997 were \$764.6 million, an 8% increase from the prior year-end level of \$706.0 million, and a 47% increase from the March 31, 1996 level as a result of strong deposit growth. Total loans at March 31, 1997 were \$566.9 million, an increase of \$74.3 million, or 15%, from year-end, and an increase of \$267.1 million or 89% from the level one year ago. As can be seen from the table below, the growth in the loan portfolio has been diversified amongst all categories of loans with each categories' percentage to total earning assets staying relatively constant. However, the level of premium finance loans in relation to total earning assets has increased more than other earning assets since the prior year-end. The increase in premium finance receivables reflects the change to internally financing First Premium loans by the Company's banking subsidiaries from being sold through a securitization facility as was done during the first three quarters of 1996.

At March 31, 1997 total securities and other money market investments (i.e. federal funds sold and interest-bearing deposits with banks) were \$129.0 million, down 2% from \$132.0 million at December 31, 1996, and 27% lower than their year-ago level. The decline in securities and money market investments is a result of funds being invested in the previously mentioned growth in the loan portfolio. As of March 31, 1997, total securities and money market investments were comprised of 25% in U.S. Treasury and government agency securities, 12% in short-term interest-bearing deposits with banks, 36% in overnight federal funds sold, and 27% in other debt and equity securities. As a result of the significant growth in deposit and loans, it has been Wintrust's policy to maintain its investment portfolio in short-term, liquid, and diversified high credit quality investments. Wintrust maintained no trading account securities at March 31, 1997 or in any of the other previous reporting periods.

The following table sets forth Wintrust's end of period earning assets by category and their respective balance and percent of total earning assets.

|                                                             | MARCH 31, 1997 |         | December 31, 1996 |         | March 31, 1996 |         |
|-------------------------------------------------------------|----------------|---------|-------------------|---------|----------------|---------|
| Loans:                                                      | BALANCE        | PERCENT | Balance           | Percent | Balance        | Percent |
| Commercial                                                  | \$199,323      | 29%     | \$182,403         | 29%     | \$121,404      | 26%     |
| Home equity                                                 | 91,832         | 13      | 87,303            | 14      | 59,288         | 12      |
| Indirect auto                                               | 98,650         | 14      | 89,999            | 15      | 43,428         | 9       |
| Residential real estate                                     | 55,087         | 8       | 51,673            | 8       | 12,654         | 3       |
| Premium finance                                             | 94,503         | 14      | 57,453            | 9       | 13,127         | 3       |
| Other                                                       | 27,499         | 4       | 23,717            | 4       | 49,872         | 10      |
| Total loans                                                 | 566,894        | 82      | 492,548           | 79      | 299,773        | 63      |
| Federal funds sold, money<br>market deposits and securities | 128,971        | 18      | 131,955           | 21      | 176,510        | 37      |
| Total earning assets                                        | \$695,865      | 100%    | \$624,503         | 100%    | \$476,283      | 100%    |

## DEPOSITS

Total deposits at March 31, 1997 were \$682.2 million or 50% higher than the year-ago level of \$455.2 million and 10% higher than the year-end 1996 level of \$618.0 million. The following table sets forth the composition of the deposit balances by category and those categories' relative percentage of the total deposits as of the date specified.

|                         | MARCH 31, 1997 |                     | December 31, 1996 |                     | March 31, 1996 |                     |
|-------------------------|----------------|---------------------|-------------------|---------------------|----------------|---------------------|
|                         | BALANCE        | PERCENT<br>OF TOTAL | Balance           | Percent<br>of Total | Balance        | Percent<br>of Total |
| Demand                  | \$ 74,850      | 11%                 | \$ 67,164         | 11%                 | \$ 47,416      | 11%                 |
| NOW                     | 59,377         | 9                   | 57,490            | 9                   | 40,481         | 9                   |
| Money market            | 122,195        | 18                  | 105,508           | 17                  | 82,679         | 18                  |
| Savings                 | 57,001         | 8                   | 63,469            | 10                  | 51,061         | 11                  |
| Certificates of deposit | 368,770        | 54                  | 324,398           | 53                  | 233,591        | 51                  |
| Total                   | \$ 682,193     | 100%                | \$ 618,029        | 100%                | \$ 455,228     | 100%                |

The continued growth in deposit accounts for the three months ended March 31, 1997 is due primarily to the Company's desire to increase market share in communities they serve and to establishing market share in communities which were previously lacking a true community managed bank, that is, banks with local management and boards of directors. Specifically, the opening of Barrington in December 1996 and its growth in deposits contributed to the increase during 1997. As each of the new banking locations is opened, special deposit account promotions are offered to the households in those communities. Customers who open a combination of accounts (generally a combination of an interest-bearing and a non-interest bearing account) during the initial months of operations are afforded special privileges as a "founder" depositor of the bank. These privileges customarily include rights to receive free safe deposit boxes, favorable loan and deposit rates as compared to stated market rates, and other selected perquisites. This "founder" account has been highly successful with the most popular interest-bearing account option being the certificate of deposit account. The banks continue to aggressively promote their products to the communities they serve and attempt to meld the competitive products with superior customer service. The result has been and should continue to be growth in all deposit categories.

## SHAREHOLDERS' EQUITY

Shareholders' equity grew to \$63.5 million at March 31, 1997, from \$42.6 million at December 31, 1996. The primary components of the change in shareholders' equity are the additional issuance of equity capital through an common stock offering of \$20.1 million and the year-to-date net income of approximately \$0.7 million. The proceeds of the stock offering in the first quarter were used to retire debt and general corporate purposes.

During the first quarter of 1997, the Company completed its direct subscription and community offering of its Common Stock. The aggregate sale was 1,377,512 shares of common stock at a price of \$15.50 per share, including 400,000 shares which were underwritten by EVEREN Securities, Inc. The net proceeds (gross proceeds less issuance costs) from the sale of these shares were approximately \$20.1 million. Also, subsequent

to March 31, 1997, an additional 20,000 shares were sold to EVEREN Securities, Inc., at a price of \$15.50 per share, under an option provided by the Company in conjunction with the previously underwritten shares.

The following table reflects various consolidated measures of capital at March 31, 1997 and December 31, 1996:

s

|                                                    | MARCH 31,<br>1997 | December 31,<br>1996 |
|----------------------------------------------------|-------------------|----------------------|
| Leverage ratio                                     | 8.5%              | 6.4%                 |
| Ending tier 1 capital to risk-adjusted asset ratio | 10.1%             | 7.3%                 |
| Ending total capital to risk-adjusted asset ratio  | 10.8%             | 8.0%                 |
| Dividend payout ratio                              | 0.0%              | 0.0%                 |

The Company's consolidated leverage ratio (Tier 1 capital less intangibles/average quarterly assets less intangibles) was 8.5% at March 31, 1997 which places the Company above the "well capitalized" regulatory level. Consolidated Tier 1 and total risk-based capital ratios were also above the "well capitalized" regulatory levels at 10.1% and 10.8%, respectively. Based on guidelines established by the Federal Reserve Bank, a bank holding company is required to maintain a Tier 1 capital to risk-adjusted asset ratio of 4.0% and a total capital to risk-adjusted asset ratio of 8.0%. Management is not aware of any known trends, events, regulatory recommendations or uncertainties that will have any adverse effect on Wintrust's capital resources.

## ASSET QUALITY

### Allowance for Possible Loan Losses

A reconciliation of the activity in the balance of the allowance for possible loan losses for the three month periods under review is shown as follows (dollars in thousands):

|                                                          | THREE MONTHS ENDED MARCH 31, |            |
|----------------------------------------------------------|------------------------------|------------|
|                                                          | 1997                         | 1996       |
| Balance at beginning of period                           | \$ 3,636                     | \$ 2,763   |
| Provision for possible loan losses                       | 679                          | 410        |
| Charge-offs                                              | (265)                        | (216)      |
| Recoveries                                               | 23                           | 4          |
| Balance at March 31                                      | \$ 4,073                     | \$ 2,961   |
| Loans at March 31                                        | \$ 566,894                   | \$ 299,773 |
| Allowance as a percentage of loans                       | 0.72%                        | 0.99%      |
| Annualized net charge-offs as a percentage of :<br>Loans | 0.17%                        | 0.28%      |
| Annualized provision for possible<br>loan losses         | 35.64%                       | 51.71%     |

Management believes that the loan portfolio is well diversified and well secured, without undue concentration in any specific risk area. Control of loan quality is continually monitored by management and is reviewed by the Board of Directors and its Credit Committee on a monthly basis. Independent external review of the loan portfolio is provided by the examinations conducted by regulatory authorities, independent public accountants in conjunction with their annual audit, and an independent loan review performed by an entity engaged by the Board of Directors. The amount of additions to the allowance for possible loan losses which are charged to earnings through the provision for possible loan losses are determined based on a variety of factors, including actual charge-offs during the year, historical loss experience, delinquent loans, and an evaluation of current and prospective economic conditions in the market area. Management believes the allowance for possible loan losses is adequate to cover any potential losses.

Loan losses related to commercial insurance premium financing are minimal since they are generally fully secured by unearned insurance premiums. If a borrower defaults, First Premium seeks to obtain a refund of unearned premiums from the insurer. First Premium bears the credit risk of collections from the insurer. In the event an insurer becomes insolvent and unable to pay claims to an insured or refund unearned premiums upon cancellation of a policy to a finance company, each state provides a state guaranty fund that will pay such a refund, less a per claim deductible in certain states. First Premium diversifies its financing activities among a wide range of brokers and insurers.

### Past Due Loans and Non-performing Assets

The following table presents the Company's non-performing assets as of March 31, 1997 and December 31, 1996.

|                                             | MARCH 31,<br>1997 | December 31,<br>1996 |
|---------------------------------------------|-------------------|----------------------|
| Nonaccrual loans                            | \$ 977            | \$ 1,686             |
| Loans past due 90 days or more              | 979               | 95                   |
| Restructured loans                          | -                 | -                    |
| Total non-performing loans                  | 1,956             | 1,781                |
| Other real estate owned                     | -                 | -                    |
| Total non-performing assets                 | \$ 1,956          | \$ 1,781             |
| Total non-performing loans to total loans   | 0.35%             | 0.36%                |
| Total non-performing assets to total assets | 0.26%             | 0.25%                |
| Nonaccrual loans to total loans             | 0.17%             | 0.34%                |

As of March 31, 1997, the allowance for possible loan losses as a percentage of non-performing loans was 208%.

As of March 31, 1997, two individual credits represent approximately \$1.3 million of the total non-performing assets. The remaining \$0.6 million of non-performing assets are generally comprised of small consumer and

auto loan delinquencies, loans secured by residential real estate and commercial loans that are partially secured by residential real estate properties. Due to the small number of loans past due, collection of the loans is very manageable and management is vigorously pursuing the full collection of each account.

The recorded investment in loans considered to be impaired under SFAS No. 114, at March 31, 1997 and December 31, 1996 was approximated \$1.5 million and \$1.4 million, respectively, for which no specific allowance for possible loan losses was required in accordance with SFAS No. 114.

### **Potential Problem Loans**

In addition to those loans disclosed under "Past Due Loans and Non-performing Assets", there are certain loans in the portfolio which management has identified, through its problem loan identification system which exhibit a higher than normal credit risk. However, these loans do not represent non-performing loans to the Company. Management's review of the total loan portfolio to identify loans where there is concern that the borrower will not be able to continue to satisfy present loan repayment terms includes factors such as review of individual loans, recent loss experience and current economic conditions. Loans in this category include those with characteristics such as those past maturity more than 45 days, those that have recent adverse operating cash flow or balance sheet trends, or have general risk characteristics that the loan officer feels might jeopardize the future timely collection of principal and interest payments. The principal amount of loans in this category as of March 31, 1997 and December 31, 1996 were approximately \$1.3 million and \$1.1 million, respectively.

### **LIQUIDITY AND INTEREST RATE SENSITIVITY**

Wintrust manages the liquidity position of its banking operations to ensure that sufficient funds are available to meet customers' needs for loans and deposit withdrawals. The liquidity to meet the demand is provided by maturing assets, liquid assets that can be converted to cash, and the ability to attract funds from external sources. Liquid assets refer to federal funds sold and to marketable, unpledged securities which can be quickly sold without material loss of principal.

Interest rate sensitivity is the fluctuation in earnings resulting from changes in market interest rates. Wintrust continuously monitors not only the organization's current net interest margin, but also the historical trends of these margins. In addition, Wintrust also attempts to identify potential adverse swings in net interest income in future years, as a result of interest rate movements, by performing computerized simulation analysis of potential interest rate environments. If a potential adverse swing in net interest margin and/or net income are identified, Wintrust then would take appropriate actions within its asset/liability structure to counter these potential adverse situations. Please refer to the section entitled "Net Interest Income" for further discussion.

### **INFLATION**

A banking organization's assets and liabilities are primarily monetary. Changes in the rate of inflation do not have as great an impact on the financial condition of a bank as do changes in interest rates. Moreover, interest rates do not necessarily change at the same percentage as does inflation. An analysis of a banking organization's asset and liability structure provides the best indication of how a banking organization is positioned to respond to changing interest rates and maintain profitability.

## **IMPACT OF NEW ACCOUNTING STANDARDS**

### **Statement of Financial Accounting Standards No. 128:**

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS No. 128). SFAS No. 128 supersedes APB Opinion 15, "Earnings Per Share," and specifies the computation, presentation and disclosure requirements for earnings per share (EPS) for entities with publicly held common stock or potential common stock. SFAS No. 128 was issued to simplify the computations of EPS and to make the United States standard more compatible with EPS standards of the International Accounting Standards Committee. It replaces the presentation of primary and fully-diluted EPS, respectively. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation.

Basic EPS, unlike primary EPS, excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is computed similarly to fully-diluted EPS under APB 15.

SFAS No. 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997 and is not expected to have a material impact on the Company.

### **Statement of Financial Accounting Standards No. 129:**

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 129, "Disclosure of Information about Capital Structure" (SFAS No. 129). SFAS No. 129 provides required disclosures for the capital structure of companies and is effective for financial statements for periods ending after December 15, 1997. The required disclosures had been included in a number of separate statements and opinions. As such, the issuance of SFAS No. 129 is not expected to require significant revision of prior disclosures.

## **PART II**

### **ITEMS 1:**

This item has been omitted from this Form 10-Q since it is inapplicable or would contain a negative response.

### **ITEM 2: CHANGE IN SECURITIES**

#### **RECENT SALES OF UNREGISTERED SECURITIES.**

In January 1997, as a result of an exercise of stock options, the Company issued an aggregate of 16,411 shares of Common Stock of the Company in reliance on the exemption from registration pursuant to Section 4(2) of the Securities Act. An aggregate of \$95,200 was received as payment for the exercise price.

### **ITEMS 3:**

This item has been omitted from this Form 10-Q since it is inapplicable or would contain a negative response.

### **ITEM 4: MATTERS SUBMITTED TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5: OTHER INFORMATION**

None.

### **ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits Computation of Net Income Per Common Share - Exhibit 11 Financial Data Schedule - Exhibit 27

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the quarter ended March 31, 1997.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### WINTRUST FINANCIAL CORPORATION (Registrant)

*Date: May 14, 1997*

*/s/ Edward J. Wehmer  
President & Chief Operating Officer*

*Date: May 14, 1997*

*/s/ David A. Dykstra  
Executive Vice President  
& Chief Financial Officer  
(Principal Accounting Officer)*



## EXHIBIT INDEX

**Exhibit 11 Computation of Net Income Per Common Share**

**Exhibit 27 Financial Data Schedule**

## EXHIBIT 11

WINTRUST FINANCIAL CORPORATION  
COMPUTATION OF NET INCOME PER COMMON SHARE

(in thousands, except per share data)

|                                                                |       | THREE MONTHS ENDED MARCH 31 |           |
|----------------------------------------------------------------|-------|-----------------------------|-----------|
|                                                                |       | 1997                        | 1996      |
| Net income (loss)                                              | (A)   | \$ 729                      | \$ (356)  |
| Average common shares outstanding                              |       | 6,816                       | 5,862     |
| Average common share equivalents (1)                           |       | 477                         | -         |
| Weighted average common shares and<br>common share equivalents | (B)   | 7,293                       | 5,862     |
| Net income (loss) per average<br>common share                  | (A/B) | \$ 0.10                     | \$ (0.06) |

(1) Common share equivalents result from stock options, stock rights and stock warrants being treated as if they had been exercised and are computed by application of the treasury stock method. No common share equivalents were assumed to be outstanding for the three-months period ended March 31, 1996 because accounting standards require that the computation of earnings per share shall not give effect to common stock equivalents for any period in which their inclusion would have the effect decreasing the loss per share amount otherwise computed.

## ARTICLE 9

This schedule contains summary financial information extracted from the quarterly unaudited financial statements of Wintrust Financial Corporation for the quarter ended March 31, 1997, and is qualified in its entirety by reference to such financial statements

CIK: 0001015328

NAME: Wintrust Financial Corporation

MULTIPLIER: 1,000

|                              |             |
|------------------------------|-------------|
| PERIOD TYPE                  | 3 MOS       |
| FISCAL YEAR END              | DEC 31 1997 |
| PERIOD START                 | JAN 01 1997 |
| PERIOD END                   | MAR 31 1997 |
| CASH                         | 23,976      |
| INT BEARING DEPOSITS         | 15,001      |
| FED FUNDS SOLD               | 46,319      |
| TRADING ASSETS               | 0           |
| INVESTMENTS HELD FOR SALE    | 62,650      |
| INVESTMENTS CARRYING         | 5,001       |
| INVESTMENTS MARKET           | 4,881       |
| LOANS                        | 566,894     |
| ALLOWANCE                    | 4,073       |
| TOTAL ASSETS                 | 764,571     |
| DEPOSITS                     | 682,193     |
| SHORT TERM                   | 0           |
| LIABILITIES OTHER            | 12,344      |
| LONG TERM                    | 6,503       |
| PREFERRED MANDATORY          | 0           |
| PREFERRED                    | 0           |
| COMMON                       | 7,997       |
| OTHER SE                     | 55,534      |
| TOTAL LIABILITIES AND EQUITY | 764,571     |
| INTEREST LOAN                | 11,230      |
| INTEREST INVEST              | 1,848       |
| INTEREST OTHER               | 0           |
| INTEREST TOTAL               | 13,078      |
| INTEREST DEPOSIT             | 7,481       |
| INTEREST EXPENSE             | 7,826       |
| INTEREST INCOME NET          | 5,252       |
| LOAN LOSSES                  | 679         |
| SECURITIES GAINS             | 0           |
| EXPENSE OTHER                | 6,354       |
| INCOME PRETAX                | (189)       |
| INCOME PRE EXTRAORDINARY     | 729         |
| EXTRAORDINARY                | 0           |
| CHANGES                      | 0           |
| NET INCOME                   | 729         |
| EPS PRIMARY                  | 0.10        |
| EPS DILUTED                  | 0.10        |
| YIELD ACTUAL                 | 3.22        |
| LOANS NON                    | 977         |
| LOANS PAST                   | 1,956       |
| LOANS TROUBLED               | 0           |
| LOANS PROBLEM                | 1,338       |
| ALLOWANCE OPEN               | 3,636       |
| CHARGE OFFS                  | (265)       |
| RECOVERIES                   | 23          |
| ALLOWANCE CLOSE              | 4,073       |
| ALLOWANCE DOMESTIC           | 2,505       |
| ALLOWANCE FOREIGN            | 0           |
| ALLOWANCE UNALLOCATED        | 1,568       |

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