OLD SECOND BANCORP INC
Form 10-K
March 11, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

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 0-10537

Delaware	36-3143493
(State of Incorporation)	(IRS Employer Identification Number)

37 South River Street, Aurora, Illinois 60507

(Address of principal executive offices, including zip code)

(630) 892-0202

(Registrant's telephone number, including Area Code)

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

Title of Class	Name of each exchange on which registered
Common Stock, $1.00 par value	The Nasdaq Stock Market
Preferred Securities of Old Second Capital Trust I	The Nasdaq Stock Market

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

Preferred Share Purchase Rights

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes
No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes
No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes
No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes
No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by Reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, on June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $187.2 million. The number of shares outstanding of the registrant's common stock, par value $1.00 per share, was 29,483,429 at March 8, 2016.

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OLD SECOND BANCORP, INC.

Form 10-K

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Item 1. Business

General

Old Second Bancorp, Inc. (the "Company" or the "Registrant") was organized under the laws of Delaware on September 8, 1981. It is a registered bank holding company under the Bank Holding Company Act of 1956 (the "BHCA"). The Company's office is located at 37 South River Street, Aurora, Illinois 60507.

The Company conducts a full service community banking and trust business through the following wholly owned subsidiaries, which together with the Registrant are referred to as the "Company":

- Old Second National Bank (the "Bank").
- Old Second Capital Trust I, which was formed for the exclusive purpose of issuing trust preferred securities in an offering that was completed in July 2003.
- Old Second Capital Trust II, which was formed for the exclusive purpose of issuing trust preferred securities in an offering that was completed in April 2007.
- Old Second Affordable Housing Fund, L.L.C., which was formed for the purpose of providing down payment assistance for home ownership to qualified individuals.
- A series of limited liability companies wholly owned by the Bank and formed between 2008 and 2012 to hold property acquired by the Bank through foreclosure or in the ordinary course of collecting a debt previously contracted with borrowers.
- River Street Advisors, LLC, a wholly owned subsidiary of the Bank, which was formed in May 2010 to provide investment advisory/management services.

Inter-company transactions and balances are eliminated in consolidation.

The Company provides financial services through its 24 banking locations that are located primarily in Aurora, Illinois, and its surrounding communities and throughout the Chicago metropolitan area. These locations included retail offices located in Kane, Kendall, DeKalb, DuPage, LaSalle, Will and Cook counties in Illinois as of December 31, 2015.

Business of the Company and its Subsidiaries

The Bank’s full service banking businesses include the customary consumer and commercial products and services that banking institutions provide including demand, NOW, money market, savings, time deposit, individual retirement and Keogh deposit accounts; commercial, industrial, consumer and real estate lending, including installment loans, student loans, agricultural loans, lines of credit and overdraft checking; safe deposit operations; trust services; wealth management services; and an extensive variety of additional services tailored to the needs of individual customers, such as the acquisition of U.S. Treasury notes and bonds, the sale of traveler's checks, money orders, cashiers’ checks and foreign currency, direct deposit, discount brokerage, debit cards, credit cards, and other special services. The Bank also offers a full complement of electronic banking services such as online and mobile banking and corporate cash management products including remote deposit capture, mobile deposit capture, investment sweep accounts, zero balance accounts, automated tax payments, ATM access, telephone banking, lockbox accounts, automated clearing house transactions, account reconciliation, controlled disbursement, detail and general information reporting, wire transfers, vault services for currency and coin, and checking accounts. Commercial and consumer loans are made to corporations, partnerships and individuals, primarily on a secured basis. Commercial lending focuses on business, capital, construction, inventory and real estate lending. Installment lending includes direct and indirect loans to consumers and commercial customers. Additionally, the Bank provides a wide range of wealth management, investment, agency, and custodial services for individual, corporate, and not-for-profit clients. These services include the administration of estates and personal trusts, as well as the management of investment accounts for individuals, employee benefit plans, and charitable foundations. The Bank also originates residential mortgages, offering a wide range of mortgage products including conventional, government, and jumbo loans. Secondary marketing of those mortgages is also handled at the Bank.

Operating segments are components of a business about which separate financial information is available and that are evaluated regularly by the Company’s management in deciding how to allocate resources and assess performance. Public companies are required to report certain financial information about operating segments. The Company’s management evaluates the operations of the Company as one operating segment, i.e. community banking.

Market Area

The Company’s primary market area is Aurora, Illinois and its surrounding communities. The city of Aurora is located in northeastern Illinois, approximately 40 miles west of Chicago. The Bank operates primarily in Kane, Kendall, DeKalb, DuPage, LaSalle, Will and Cook counties in Illinois, and it has developed a strong presence in these counties. The Bank offers its services to retail, commercial, industrial, and public entity customers in the Aurora, North Aurora, Batavia, St. Charles, Burlington, Elburn, Elgin, Maple Park,

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Kaneville, Sugar Grove, Naperville, Lisle, Joliet, Yorkville, Plano, Wasco, Ottawa, Oswego, Sycamore, Frankfort, and Chicago Heights communities and surrounding areas. During 2015 the Company closed one of two branches in Batavia.

Lending Activities

The Bank provides a broad range of commercial and retail lending services to corporations, partnerships, individuals and government agencies. The Bank actively markets its services to qualified borrowers. Lending officers actively solicit the business of new borrowers entering our market areas as well as long-standing members of the local business community. The Bank has established lending policies that include a number of underwriting factors to be considered in making a loan, including location, amortization, loan to value ratio, cash flow, pricing, documentation and the credit history of the borrower. In 2015, the Bank originated approximately $430.8 million in loans. Also in 2015, residential mortgage loans of approximately $190.6 million (some of which were originated in 2014) were sold to third parties. The Bank's loan portfolios are comprised primarily of loans in the areas of commercial real estate, residential real estate, construction, general commercial and consumer lending. As of December 31, 2015, residential mortgages made up approximately 31% (32% at year-end 2014) of the Bank's loan portfolio, commercial real estate loans comprised approximately 53% (52% at year-end 2014), construction lending comprised approximately 2%, general commercial loans comprised approximately 12% (10% at year-end 2014), and consumer and other lending comprised less than 2%. It is the Bank's policy to comply at all times with the various consumer protection laws and regulations including, but not limited to, the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act, the Truth in Lending Act, and the Home Mortgage Disclosure Act.

Commercial Loans. The Bank continues to focus on growing commercial and industrial prospects in its new business pipeline with positive results in 2015. As noted above, the Bank is an active commercial lender, primarily located west and south of the Chicago metropolitan area and active in other parts of the Chicago and Aurora metropolitan areas. Commercial lending reflects revolving lines of credit for working capital, lending for capital expenditures on manufacturing equipment and lending to small business manufacturers, service companies, medical and dental entities as well as specialty contractors. The Bank also has commercial and industrial loans to customers in food product manufacturing, food process and packing, machinery tooling manufacturing as well as service and technology companies. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. In addition, the Bank may take personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower. Commercial term loans range principally from one to eight years with the majority falling in the one to five year range. Interest rates are primarily fixed although some have interest rates tied to the prime rate or LIBOR. In 2015, the Bank closed a meaningful amount of fixed rate loans with terms longer than four years. While management would like to continue to diversify the loan portfolio, overall demand for working capital and equipment financing continued to be muted in the Bank's primary market area in 2015.

Repayment of commercial loans is largely dependent upon the cash flows generated by the operations of the commercial enterprise. The Bank's underwriting procedures identify the sources of those cash flows and seek to match the repayment terms of the commercial loans to the sources. Secondary repayment sources are typically found in collateralization and guarantor support.

Commercial Real Estate Loans. While management has been actively working to reduce the Bank's concentration in real estate loans, including commercial real estate loans, a large portion of the loan portfolio continues to be comprised of commercial real estate loans. As of December 31, 2015, approximately $297.5 million, or 49.1% (50.3%, at year-end 2014) of the total commercial real estate loan portfolio of $605.7 million was to borrowers who secured the loan with owner occupied property. A primary repayment risk for a commercial real estate loan is interruption or discontinuance of cash flows from operations. Such cash flows are usually derived from rent in the case of nonowner occupied commercial properties. Repayment could also be influenced by economic events, which may or may not be under the control of the borrower, or changes in regulations that negatively impact the future cash flow and market values of the affected properties. Repayment risk can also arise from general downward shifts in the valuations of classes of properties over a given geographic area such as the ongoing but diminished price adjustments that have been observed by the Company beginning in 2008. Property valuations could continue to be affected by changes in demand and other economic factors, which could further influence cash flows associated with the borrower and/or the property. The Bank attempts to mitigate these risks by staying apprised of market conditions and by maintaining underwriting practices that provide for adequate cash flow margins and multiple repayment sources as well as remaining in regular contact with its borrowers. In most cases, the Bank has collateralized these loans and/or has taken personal guarantees to help assure repayment. Commercial real estate loans are primarily made based on the identified cash flow of the borrower and/or the property at origination and secondarily on the underlying real estate acting as collateral. Additional credit support is provided by the borrower for most of these loans and the probability of repayment is based on the liquidation value of the real estate and enforceability of personal and corporate guarantees if any exist.

Construction Loans. The Bank's construction and development lending and related risks have greatly diminished from prior periods as the construction and development portfolio no longer dominates the Bank's commercial real estate portfolio. Loans in this category decreased from $44.8 million at December 31, 2014, to $19.8 million at December 31, 2015. The Bank uses underwriting and construction loan guidelines to determine whether to issue loans on build-to-suit or build out of existing borrower properties.

Construction loans are structured most often to be converted to permanent loans at the end of the construction phase or, infrequently, to be paid off upon receiving financing from another financial institution. Construction loans are generally limited to our local market area. Lending decisions have been based on the appraised value of the property as determined by an independent appraiser, an analysis of the potential marketability and profitability of the project and identification of a cash flow source to service the permanent loan or verification of a refinancing source. Construction loans generally have terms of up to 12 months, with extensions as needed. The Bank disburses loan proceeds in increments as construction progresses and as inspections warrant.

Construction loans involve additional risks. Development lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of the borrower or guarantor to repay principal and interest. This generally involves more risk than other lending because it is based on future estimates of value and economic circumstances. While appraisals are required prior to funding, and loan advances are limited to the value determined by the appraisal, there is the possibility of an unforeseen event affecting the value and/or costs of the project. Development loans are primarily used for single-family developments, where the sale of lots and houses are tied to customer preferences and interest rates. If the borrower defaults prior to completion of the project, the Bank may be required to fund additional amounts so that another developer can complete the project. The Bank is located in an area where a large amount of development activity has occurred as rural and semi-rural areas are being suburbanized. This type of growth presents some economic risks should local demand for housing shift. The Bank addresses these risks by closely monitoring local real estate activity, adhering to proper underwriting procedures, closely monitoring construction projects, and limiting the amount of construction development lending.

Residential Real Estate Loans. Residential first mortgage loans, second mortgages, and home equity line of credit mortgages are included in this category. First mortgage loans may include fixed rate loans that are generally sold to investors. The Bank is a direct seller to the Federal National Mortgage Association (“FNMA”), Federal Home Loan Mortgage Corporation (“FHLMC”) and to several large financial institutions. The Bank typically retains servicing rights for sold mortgages. The retention of such servicing rights also allows the Bank an opportunity to have regular contact with mortgage customers and can help to solidify community involvement. Other loans that are not sold include adjustable rate mortgages, lot loans, and constructions loans that are held in the Bank’s portfolio. Residential mortgage purchase activity has reflected a moderate level of activity as the real estate market in our market area continues to stabilize. However, with continuing lower interest rates and increased stabilization in our market area, the Bank’s residential mortgage lending reflects a steady volume and mixture of both refinance and purchase financing opportunities. Home equity lending has continued to slow in the past year but is still a meaningful portion of the Bank’s business.

Consumer Loans. The Bank also provides many types of consumer loans including primarily motor vehicle, home improvement and signature loans. Consumer loans typically have shorter terms and lower balances with higher yields as compared to other loans but generally carry higher risks of default. Consumer loan collections are dependent on the borrower’s continuing financial stability and thus are more likely to be affected by adverse personal circumstances.

Competition

The Company’s market area is highly competitive and the Bank’s business activities require it to compete with many other financial institutions. A number of these financial institutions are affiliated with large bank holding companies headquartered outside of our principal market area as well as other institutions that are based in Aurora's surrounding communities and in Chicago, Illinois. All of these financial institutions operate banking offices in the greater Aurora area or actively compete for customers within the Company's market area. The Bank also faces competition from finance companies, insurance companies, credit unions, mortgage companies, securities brokerage firms, money market funds, loan production offices and other providers of financial services. Many of our nonbank competitors are not subject to the same extensive federal regulations that govern bank holding companies and banks, such as the Company, may have certain competitive advantages.

The Bank competes for loans principally through the quality of its client service and its responsiveness to client needs in addition to competing on interest rates and loan fees. Management believes that its long-standing presence in the community and personal one-on-one service philosophy enhances its ability to compete favorably in attracting and retaining individual and business customers. The Bank actively solicits deposit-related clients and competes for deposits by offering personal attention, competitive interest rates, and professional services made available through experienced bankers and multiple delivery channels that fit the needs of its market.

The Bank operated 24 branches in the seven counties of Kane, Kendall, LaSalle, Will, DeKalb, DuPage, and Cook County as of December 31, 2015. The financial services industry will continue to become more competitive as further technological advances enable more financial institutions to provide expanded financial services without having a physical presence in our market.

Employees

At December 31, 2015, 2014 and 2013, the Company employed 450, 485 and 492 full-time equivalent employees, respectively. Management implemented a staff reduction program in 2015 that reduced staffing levels with related severance costs and subsequent reductions in monthly compensation expenses. The Company places a high priority on staff development, which involves extensive training, including customer service training. New employees are selected on the basis of both technical skills and customer service capabilities. None of the Company's employees are covered by collective bargaining agreements.

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Internet

The Company maintains a corporate website at http://www.oldsecond.com. The Company makes available free of charge on or through its website the Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (the “SEC”). Many of the Company’s policies, committee charters and other investor information including our Code of Business Conduct and Ethics, are available on the Company’s website. The Company’s reports, proxy and informational statements and other information regarding the Company are available free of charge on the SEC’s website (). The Company will also provide copies of its filings free of charge upon written request to: J. Douglas Cheatham, Executive Vice President and Chief Financial Officer, Old Second Bancorp, Inc., 37 South River Street, Aurora, Illinois 60507.

Forward-Looking Statements: This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act, including with respect to management’s expectations regarding future plans, strategies and financial performance, regulatory developments, industry and economic trends, and other matters. Forward-looking statements are identifiable by the inclusion of such qualifications as “expects,” “intends,” “believes,” “may,” “will,” “would,” “could,” “should,” “plan,” “anticipate,” “estimate,” “possible,” “likely” or other indications that the particular are not historical facts. Actual events and results may differ significantly from those described in such forward-looking statements, due to numerous factors, including:

- negative economic conditions that adversely affect the economy, real estate values, the job market and other factors nationally and in our market area, in each case that may affect our liquidity and the performance of our loan portfolio;
- defaults and losses on our loan portfolio;
- the financial success and viability of the borrowers of our commercial loans;
- market conditions in the commercial and residential real estate markets in our market area;
- changes U.S. monetary policy, the level and volatility of interest rates, the capital markets and other market conditions that may affect, among other things, our liquidity and the value of our assets and liabilities;
- competitive pressures in the financial services business;
- any negative perception of our reputation or financial strength;
- ability to raise additional capital on acceptable terms when needed;
- ability to use technology to provide products and services that will satisfy customer demands and create efficiencies in operations;
- adverse effects on our information technology systems resulting from failures, human error or cyberattacks;
- adverse effects of failures by our vendors to provide agreed upon services in the manner and at the cost agreed, particularly our information technology vendors;
- the impact of any claims or legal actions, including any effect on our reputation;
- losses incurred in connection with repurchases and indemnification payments related to mortgages;
- the soundness of other financial institutions;
- changes in accounting standards, rules and interpretations and the impact on our financial statements;
- our ability to receive dividends from our subsidiaries;
- a decrease in our regulatory capital ratios;

- legislative or regulatory changes, particularly changes in regulation of financial services companies;
- increased costs of compliance, heightened regulatory capital requirements and other risks associated with changes in regulation and the current regulatory environment, including the Dodd-Frank Act;
- the impact of heightened capital requirements; and
- each of the factors and risks identified under the heading “Risk Factors.”

Therefore, there can be no assurances that future actual results will correspond to these forward-looking statements. Additionally, all statements in this Form 10-K, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

SUPERVISION AND REGULATION

General

FDIC-insured institutions, like the Bank, as well as their holding companies and their affiliates, are extensively regulated under federal and state law. As a result, the Company’s growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Office of the Comptroller of the Currency (the “OCC”), the Board of Governors of the Federal Reserve System (the “Federal Reserve”), the Federal Deposit Insurance Corporation (the “FDIC”) and the Bureau of Consumer Financial Protection (the “CFPB”). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board, securities laws administered by the Securities and Exchange Commission (the "SEC") and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury (the "Treasury") have an impact on the business of the Company and the Bank. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the operations and results of the Company and the Bank, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company's and the Bank's business, the kinds and amounts of investments they may make, Bank reserve requirements, capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, the Company's ability to merge, consolidate and acquire, dealings with insiders and affiliates and the Bank's payment of dividends. In the last several years, the Company and the Bank have experienced heightened regulatory requirements and scrutiny following the global financial crisis and as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time, and the reforms have caused the Company's compliance and risk management processes, and the costs thereof, to increase.

This supervisory and regulatory framework subjects FDIC-insured institutions and their holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Bank, beginning with a discussion of the continuing regulatory emphasis on capital levels. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

Regulatory Emphasis on Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects the Company's earnings capabilities. Although capital has historically been one of the key measures of the financial health of banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish strengthened capital standards for banking organizations, require more capital to be held in the form of common stock and disallow certain funds from being included in capital determinations. These standards represent regulatory capital requirements that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated that the Federal Reserve establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions. As a consequence, the components of holding company permanent capital known as “Tier 1 Capital” were restricted to those capital instruments that were considered Tier 1 Capital for FDIC-insured institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, are being excluded from Tier 1 Capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets, they may be retained, subject to certain restrictions. Because the Company has assets of less than $15 billion, the Company is able to maintain its trust preferred proceeds as Tier 1 Capital but the Company has to comply with new capital mandates in other respects and will not be able to raise Tier 1 Capital in the future through the issuance of trust preferred securities.

The capital standards for the Company and the Bank changed on January 1, 2015 to add the requirements of Basel III, discussed below. The minimum capital standards effective prior to and including December 31, 2014 are:

· A leverage requirement, consisting of a minimum ratio of Tier 1 Capital to total adjusted average quarterly assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others, and
· A risk-based capital requirement, consisting of a minimum ratio of Total Capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 Capital to total risk-weighted assets of 4%.

For these purposes, “Tier 1 Capital” consists primarily of common stock, noncumulative perpetual preferred stock and related surplus less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total Capital consists primarily of Tier 1 Capital plus “Tier 2 Capital,” which includes other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 Capital, and the Bank’s allowance for loan losses, subject to a limitation of 1.25% of

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risk-weighted assets. Further, risk-weighted assets for the purpose of the risk-weighted ratio calculations are balance sheet assets and off-balance sheet exposures to which required risk weightings of 0% to 100% are applied.

The Basel International Capital Accords. The risk-based capital guidelines described above are based upon the 1988 capital accord known as "Basel I" adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking regulators on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as "Basel II," for large or "core" international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more). On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis. Because of Dodd-Frank Act requirements, Basel III essentially layers a new set of capital standards on the previously existing Basel I standards.

The Basel III Rule. In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the "Basel III Rule"). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of regulations by each of the regulatory agencies. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1 billion which are not publically traded companies).

The Basel III Rule not only increased most of the required minimum capital ratios effective January 1, 2015, but it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also expanded the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that qualified as Tier 1 Capital do not qualify, or their qualifications will change. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking organization's Common Equity Tier 1 Capital.

The Basel III Rule requires minimum capital ratios beginning January 1, 2015, as follows:

- A new ratio of minimum Common Equity Tier 1 equal to 4.5% of risk-weighted assets;
- An increase in the minimum required amount of Tier 1 Capital to 6% of risk-weighted assets;
- A continuation of the current minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and
- A minimum leverage ratio of Tier 1 Capital to total adjusted average quarterly assets equal to 4% in all circumstances.

Not only did the capital requirements change but the risk weightings (or their methodologies) for bank assets that are used to determine the capital ratios changed as well. For nearly every class of assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings.

Banking organizations (except for large, internationally active banking organizations) became subject to the new rules on January 1, 2015. However, there are separate phase-in/phase-out periods for: (i) the capital conservation buffer; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; and (iv) changes to the prompt corrective action rules. The phase-in periods commenced on January 1, 2016 and extend until 2019.

Well-Capitalized Requirements. The ratios described above are minimum standards in order for banking organizations to be considered "adequately capitalized" under the Prompt Corrective Action rules discussed below. Bank regulatory agencies uniformly encourage banking organizations to hold more capital and be "well-capitalized" and, to that end, federal law and regulations provide various incentives for such organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. Moreover, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the OCC and Federal Reserve, in order to be well capitalized, a banking organization must maintain:

- A new Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
- A minimum ratio of Tier 1 Capital to total risk-weighted assets of 8% (6% under Basel I);

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- A minimum ratio of Total Capital to total risk-weighted assets of 10% (the same as Basel I); and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

In addition, banking organizations that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 attributable to a capital conservation buffer to be phased in over three years beginning in 2016. The purpose of the conservation buffer is to ensure that banking organizations maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the fully phased-in conservation buffer increases the minimum ratios depicted above to:

- 7% for Common Equity Tier 1,
- 8.5% for Tier 1 Capital and
- 10.5% for Total Capital.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer.

As of December 31, 2015: (i) the Bank was not subject to a directive from the OCC to increase its capital and (ii) the Bank was well-capitalized, as defined by OCC regulations. As of December 31, 2015, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Basel III Rule requirements to be well-capitalized.

Prompt Corrective Action. An FDIC-insured institution's capital plays an important role in connection with regulatory enforcement as well. This regime applies to FDIC-insured institutions, not holding companies, and provides escalating powers to bank regulatory agencies as a bank's capital diminishes. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring dismissal of senior executive officers or directors; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Regulation and Supervision of the Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). The Company is legally obligated to act as a source of financial and managerial strength to the Bank and to commit resources to support the Bank in circumstances where it might not otherwise do so. The Company is subject to periodic examination by the Federal Reserve and is required to file with the Federal Reserve periodic reports of its operations and such additional information regarding its operations as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see “Regulatory Emphasis on Capital” above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be “so closely related to banking ... as to be a proper incident thereto.” This authority would permit the Company to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. The Company has not elected to operate as a financial holding company.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements, as impacted by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see "—Regulatory Emphasis on Capital" above.

Dividend Payments.   The Company's ability to pay dividends to its shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies.   As a Delaware corporation, the Company is subject to the limitations of the Delaware General Corporation Law (the "DGCL"). The DGCL allows the Company to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if the Company has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with its capital needs and overall current and prospective financial condition; or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "—Regulatory Emphasis on Capital" above.

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation. The Company's common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance. The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorizing the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company's proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Regulation and Supervision of the Bank

General. The Bank is a national bank, chartered by the OCC under the National Bank Act. The deposit accounts of the Bank are insured by the FDIC's Deposit Insurance Fund (the "DIF") to the maximum extent provided under federal law and FDIC regulations, and the Bank is a member of the Federal Reserve System. As a national bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the OCC. The FDIC, as administrator of the DIF, also has regulatory authority over the Bank.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. For deposit insurance assessment purposes, an FDIC-insured institution is placed in one of four risk categories each quarter. An institution's assessment is determined by multiplying its assessment rate by its assessment base. In 2015 the total base assessment rates range from 2.5 basis points to 45 basis points. The assessment base is calculated using average consolidated total assets minus average tangible equity. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease the assessment rates, following notice and comment on proposed rulemaking.

Amendments to the Federal Deposit Insurance Act revised the assessment base against which an FDIC-insured institution's deposit insurance premiums paid to the DIF are calculated to be its average consolidated total assets less its average tangible equity. This change shifted the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act altered the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions. In lieu of dividends, the FDIC has adopted progressively lower assessment rate schedules that will take effect when the reserve ratio exceeds 1.15%, 2%, and 2.5%. As a consequence, premiums will decrease once the 1.15% threshold is exceeded. The FDIC has until September 3, 2020 to meet the 1.35% reserve ratio target. Several of these provisions could increase the Bank's FDIC deposit insurance premiums.

The Dodd-Frank Act also permanently established the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per insured depositor.

FICO Assessments. In addition to paying basic deposit insurance assessments, FDIC-insured institutions must pay Financing Corporation ("FICO") assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO's authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured institutions pay assessments to cover interest payments on FICO's outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2015 was 0.60 basis points (60 cents per $100 dollars of assessable deposits).

Supervisory Assessments. National banks are required to pay supervisory assessments to the OCC to fund the operations of the OCC. The amount of the assessment is calculated using a formula that takes into account the bank's size and its supervisory condition. During the year ended December 31, 2015, the Bank paid supervisory assessments to the OCC totaling $425,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "—Regulatory Emphasis on Capital" above.

Liquidity Requirements. Liquidity is a measure of the ability and ease with which assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the Liquidity Coverage Ratio ("LCR"), is designed to ensure that the institution has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the Net Stable Funding Ratio, is designed to promote more medium- and long-term funding of the assets and activities of institutions over a one-year horizon. These tests provide an incentive for institutions to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the U.S. bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil. While the LCR only applies to the largest banking organizations in the country, certain elements are expected to filter down to all FDIC-insured institutions. The Bank is reviewing its liquidity risk management policies in light of the LCR and NSFR.

Stress Testing. A stress test is an analysis or simulation designed to determine the ability of a given FDIC-insured institution to deal with an economic crisis. In October 2012, U.S. bank regulators unveiled new rules mandated by the Dodd-Frank Act that require the largest U.S. banks to undergo stress tests twice per year, once internally and once conducted by the regulators, and began recommending portfolio stress testing as a sound risk management practice for community banks. Although stress tests are not officially required for banks with less than $10 billion in assets, they have become part of annual regulatory exams even for banks small enough to be officially exempted from the process. The OCC now recommends stress testing as means to identify and quantify loan portfolio risk and the Bank has begun the process.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under the National Bank Act, a national bank may pay dividends out of its undivided profits in such amounts and at such times as the bank's board of directors deems prudent. Without prior OCC approval, however, a national bank may not pay dividends in any calendar year that, in the aggregate, exceed the bank's year-to-date net income plus the bank's retained net income for the two preceding years. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "Regulatory Emphasis on Capital" above.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on "covered transactions" between the Bank and its "affiliates." The Company is an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Bank. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal shareholders of the Company and to "related interests" of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person who is a

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director or officer of the Company or the Bank, or a principal shareholder of the Company, may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the FDIC-insured institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the FDIC-insured institution's rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that FDIC-insured institutions are expected to address in the current environment. The Bank is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

Branching Authority. National banks headquartered in Illinois, such as the Bank, have the same branching rights in Illinois as banks chartered under Illinois law, subject to OCC approval. Illinois law grants Illinois-chartered banks the authority to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) has historically been permitted only in those states the laws of which expressly authorize such expansion. However, the Dodd-Frank Act permits well-capitalized and well-managed banks to establish new branches across state lines without these impediments.

Financial Subsidiaries. Under federal law and OCC regulations, national banks are authorized to engage, through "financial subsidiaries," in any activity that is permissible for a financial holding company and any activity that the

Secretary of the Treasury, in consultation with the Federal Reserve, determines is financial in nature or incidental to any such financial activity, except (i) insurance underwriting, (ii) real estate development or real estate investment activities (unless otherwise permitted by law), (iii) insurance company portfolio investments and (iv) merchant banking. The authority of a national bank to invest in a financial subsidiary is subject to a number of conditions, including, among other things, requirements that the bank must be well-managed and well-capitalized (after deducting from capital the bank's outstanding investments in financial subsidiaries). The Bank has not applied for approval to establish any financial subsidiaries.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Chicago (the "FHLB"), which serves as a central credit facility for its members. The FHLB is funded primarily from proceeds from the sale of obligations of the FHLB system. It makes loans to member banks in the form of FHLB advances. All advances from the FHLB are required to be fully collateralized as determined by the FHLB.

Transaction Account Reserves. Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2016: the first $15.2 million of otherwise reservable balances are exempt from reserves and have a zero percent reserve requirement; for transaction accounts aggregating more than $15.2 million to $110.2 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $110.2 million, the reserve requirement is 3% up to $110.2 million plus 10% of the aggregate amount of total transaction accounts in excess of $110.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

Community Reinvestment Act Requirements. The Community Reinvestment Act requires the Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Bank's record of meeting the credit needs of its communities.

Applications for additional acquisitions would be affected by the evaluation of the Bank's effectiveness in meeting its Community Reinvestment Act requirements.

Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act"), along with anti-money laundering and bank secrecy laws ("AML-BSA"), are designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The laws mandate financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification and ongoing due diligence programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation among FDIC-insured institutions and law enforcement authorities.

Concentrations in Commercial Real Estate. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance ("CRE Guidance") provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk based on the Bank's loan portfolio as of December 31, 2015.

Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like the Bank, continue to be examined by their applicable bank regulators.

Because abuses in connection with residential mortgages were a significant factor contributing to the global financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd Frank Act imposed new standards for mortgage loan originations on all lenders, including all FDIC-insured institutions, in an effort to strongly encourage lenders to verify a borrower's "ability to repay," while also establishing a presumption of compliance for certain "qualified mortgages." In addition, the Dodd-Frank Act generally required lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset backed securities that the securitizer issues, if the loans have not complied with the ability-to-repay standards. The Bank does not currently expect the CFPB's rules to have a significant impact on the Company's operations, except for higher compliance costs.

GUIDE 3 STATISTICAL DATA REQUIREMENTS

The statistical data required by Guide 3 of the Guides for Preparation and Filing of Reports and Registration Statements under the Securities Exchange Act of 1934 is set forth in the following pages. This data should be read in conjunction with the consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set forth in Part II Items 7 and 8. All dollars in the tables are expressed in thousands.

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I.Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rate and Interest Differential.

The following table sets forth certain information relating to the Company's average consolidated balance sheets and reflects the yield on average earning assets and cost of average liabilities for the years indicated. Dividing the related interest by the average balance of assets or liabilities derives rates. Average balances are derived from daily balances.

ANALYSIS OF AVERAGE BALANCES,

TAX EQUIVALENT INTEREST AND RATES

Years ended December 31, 2015, 2014 and 2013

	2015 Average Balance	Interest	Rate %	2014 Average Balance	Interest	Rate %	2013 Average Balance	Interest	Rate %
Assets									
Interest bearing deposits with financial institutions	$ 20,066	$ 55	0.27	$ 28,106	$ 73	0.26	$ 43,801	$ 108	0.24
Securities:									
Taxable	642,132	14,037	2.19	616,187	14,131	2.29	586,188	11,692	1.99
Non-taxable (TE)	22,311	834	3.74	16,425	727	4.43	14,616	904	6.19
Total securities	664,443	14,871	2.24	632,612	14,858	2.35	600,804	12,596	2.10
Dividends from Reserve Bank and FHLBC stock	8,545	306	3.58	9,677	309	3.19	10,629	304	2.86
Loans and loans held-for-sale1	1,149,590	53,327	4.58	1,127,590	53,170	4.65	1,106,447	56,417	5.03
Total interest earning assets	1,842,644	68,559	3.68	1,797,985	68,410	3.76	1,761,681	69,425	3.90
Cash and due from banks	29,659	-	-	32,628	-	-	26,871	-	-
Allowance for loan losses	(19,323)	-	-	(24,981)	-	-	(35,504)	-	-
Other noninterest	213,000	-	-	231,767	-	-	209,640	-	-

bearing assets									
Total assets	$ 2,065,980			$ 2,037,399			$ 1,962,688		
Liabilities and Stockholders' Equity									
NOW accounts	$ 345,472	$ 300	0.09	$ 314,212	$ 266	0.08	$ 290,998	$ 255	0.09
Money market accounts	292,725	282	0.10	305,595	317	0.10	318,343	443	0.14
Savings accounts	249,570	152	0.06	238,326	155	0.07	226,404	161	0.07
Time deposits	410,691	3,201	0.78	446,133	4,500	1.01	493,855	6,774	1.37
Interest bearing deposits	1,298,458	3,935	0.30	1,304,266	5,238	0.40	1,329,600	7,633	0.57
Securities sold under repurchase agreements	28,194	3	0.01	26,093	3	0.01	23,313	3	0.01
Other short-term borrowings	21,945	30	0.13	12,534	16	0.13	15,849	25	0.16
Junior subordinated debentures	58,378	4,287	7.34	58,378	4,919	8.43	58,378	5,298	9.08
Subordinated debt	45,000	814	1.78	45,000	792	1.74	45,000	811	1.78
Notes payable and other borrowings	500	7	1.38	500	16	3.16	500	16	3.16
Total interest bearing liabilities	1,452,475	9,076	0.62	1,446,771	10,984	0.76	1,472,640	13,786	0.94
Noninterest bearing deposits	429,403	-	-	388,295	-	-	362,871	-	-
Other liabilities	10,712	-	-	20,218	-	-	36,063	-	-
Stockholders' equity	173,390	-	-	182,115	-	-	91,114	-	-
Total liabilities and stockholders' equity	$ 2,065,980			$ 2,037,399			$ 1,962,688		
Net interest income (TE)		$ 59,483			$ 57,426			$ 55,639	
Net interest income (TE) to total earning assets			3.23			3.19			3.16

Interest bearing liabilities to earning assets	78.83	%	80.47	%	83.59	%

1. Interest income from loans is shown tax equivalent as discussed below and includes fees of $1.8 million, $2.3 million and $2.5 million for 2015, 2014 and 2013, respectively. Nonaccrual loans are included in the above stated average balances.

Notes: For purposes of discussion, net interest income and net interest income to earning assets have been adjusted to a non-GAAP tax equivalent ("TE") basis using a marginal rate of 35% to more appropriately compare returns on tax-exempt loans and securities to other earning assets. The table below provides a reconciliation of each non-GAAP TE measure to the GAAP equivalent:

	Effect of Tax Equivalent Adjustment		
	2015	2014	2013
Interest income (GAAP)	$ 68,164	$ 68,044	$ 69,040
Taxable equivalent adjustment - loans	103	111	68
Taxable equivalent adjustment - securities	292	255	317
Interest income (TE)	68,559	68,410	69,425
Less: interest expense (GAAP)	9,076	10,984	13,786
Net interest income (TE)	$ 59,483	$ 57,426	$ 55,639
Net interest income (GAAP)	$ 59,088	$ 57,060	$ 55,254
Average interest earning assets	1,842,644	1,797,985	1,761,681
Net interest income to total interest earning assets	3.21 %	3.17 %	3.14 %
Net interest income to total interest earning assets (TE)	3.23 %	3.19 %	3.16 %

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The following table allocates the changes in net interest income to changes in either average balances or average rates for earnings assets and interest bearing liabilities. Interest income is measured on a tax-equivalent basis using a 35% rate as per the note to the analysis of average balance table on the preceding page.

Analysis of Year-to-Year Changes in Net Interest Income

	2015 Compared to 2014			2014 Compared to 2013		
	Change Due to			Change Due to		
	Average Balance	Average Rate	Total Change	Average Balance	Average Rate	Total Change
EARNING ASSETS/INTEREST INCOME						
Interest bearing deposits	$ (22)	$ 4	$ (18)	$ (41)	$ 6	$ (35)
Securities:						
Taxable	845	(939)	(94)	621	1,818	2,439
Tax-exempt	189	(82)	107	136	(313)	(177)
Dividends from Reserve Bank and FHLBC stock	78	(81)	(3)	(17)	22	5
Loans and loans held-for-sale	937	(780)	157	1,106	(4,353)	(3,247)
TOTAL EARNING ASSETS	2,027	(1,878)	149	1,805	(2,820)	(1,015)
INTEREST BEARING LIABILITIES/ INTEREST EXPENSE						
NOW accounts	27	7	34	19	(8)	11
Money market accounts	(13)	(22)	(35)	(17)	(109)	(126)
Savings accounts	9	(12)	(3)	10	(16)	(6)
Time deposits	(336)	(963)	(1,299)	(608)	(1,666)	(2,274)
Other short-term borrowings	13	1	14	(5)	(4)	(9)
Junior subordinated debentures	-	(632)	(632)	-	(379)	(379)
Subordinated debt	-	22	22	-	(19)	(19)
Notes payable and other borrowings	-	(9)	(9)	-	-	-
INTEREST BEARING LIABILITIES	(300)	(1,608)	(1,908)	(601)	(2,201)	(2,802)
NET INTEREST INCOME	$ 2,327	$ (270)	$ 2,057	$ 2,406	$ (619)	$ 1,787

II.Investment Portfolio

The following table presents the composition of the securities portfolio by major category as of December 31 of each year indicated:

Securities Portfolio Composition

	2015 Amortized Cost	2015 Fair Value	2014 Amortized Cost	2014 Fair Value	2013 Amortized Cost	2013 Fair Value
Securities Available-For-Sale						
U.S. Treasury	$ 1,509	$ 1,509	$ 1,529	$ 1,527	$ 1,549	$ 1,544
U.S. government agencies	1,683	1,556	1,711	1,624	1,738	1,672
U.S. government agency mortgage-backed	2,040	1,996	-	-	-	-
States and political subdivisions	30,341	30,526	21,682	22,018	16,382	16,794
Corporate bonds	30,157	29,400	31,243	30,985	15,733	15,102
Collateralized mortgage obligations	68,743	66,920	65,728	63,627	66,766	63,876
Asset-backed securities	241,872	231,908	175,565	173,496	274,118	273,203
Collateralized loan obligations	94,374	92,251	94,236	92,209	-	-
Total Securities Available-For-Sale	$ 470,719	$ 456,066	$ 391,694	$ 385,486	$ 376,286	$ 372,191
Held-To-Maturity						
U.S. government agency mortgage-backed	$ 36,505	$ 38,097	$ 37,125	$ 39,155	$ 35,268	$ 35,240
Collateralized mortgage obligations	211,241	213,578	222,545	224,111	221,303	219,088
Total Held-To-Maturity	$ 247,746	$ 251,675	$ 259,670	$ 263,266	$ 256,571	$ 254,328

The Company’s holdings of U.S. government agency and U.S. government agency mortgage-backed securities are comprised of government-sponsored enterprises, such as Fannie Mae, Freddie Mac and the FHLB, which are not backed by the full faith and credit of the U.S. government.

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Securities Portfolio Maturity and Yields

The following table presents the expected maturities or call dates and weighted average yield (nontax equivalent) of securities by major category as of December 31, 2015. Securities not due at a single maturity date are shown only in the total column.

	Within One Year			After One But Within Five Years			After Five But Within Ten Years			After Ten Years			Total		
	Amount	Yield		Amount	Yield		Amount	Yield		Amount	Yield		Amount	Yield	
Securities Available-For-Sale															
U.S. Treasury	$ 1,509	0.40	%	$ -	-	%	$ -	-	%	$ -	-	%	$ 1,509	0.40	%
U.S. government agencies	-	-		-	-		1,556	3.13		-	-		1,556	3.13	
States and political subdivisions	15,629	1.87		4,932	3.28		5,242	3.09		4,723	3.21		30,526	2.51	
Corporate bonds	-	-		2,027	2.06		27,373	2.22		-	-		29,400	2.21	
	17,138	1.74		6,959	2.92		34,171	2.39		4,723	3.21		62,991	2.33	
Mortgage-backed securities and collateralized mortgage obligations													68,916	2.29	
Asset-backed securities													231,908	1.47	
Collateralized loan obligations													92,251	3.06	
Total Securities Available-For-Sale	$ 17,138	1.74	%	$ 6,959	2.92	%	$ 34,171	2.39	%	$ 4,723	3.21	%	$ 456,066	2.03	%
Held-To-Maturity															
Mortgage-backed securities and collateralized mortgage obligations													$ 247,746	2.78	%
Total Held-To-Maturity	$ -	-	%	$ -	-	%	$ -	-	%	$ -	-	%	$ 247,746	2.78	%

As of December 31, 2015, net unrealized losses on available-for-sale securities and net losses not accreted on securities transferred from available-for-sale to held-to-maturity was $20.6 million, which offset by deferred income taxes resulted in an overall reduction to equity capital of $12.3 million. As of December 31, 2014, net unrealized losses on available-for-sale securities and net losses not accreted on securities transferred from available-for-sale to held-to-maturity was $13.1 million, which offset by deferred income taxes resulted in an overall reduction to equity capital of $7.7 million.

At December 31, 2015, there were three issuers of securities where the book value of the Company's holdings were greater than 10% of stockholders' equity. Issuers of Securities with an aggregate book value greater than 10% of stockholders equity at December 31, 2015, were as follows;

	December 31, 2015	
	Amortized	Fair
Issuer	Cost	Value
College Loan Corporation	$ 73,293	$ 70,254
Nelnet Student Loan	23,359	23,291
GCO Education Loan Funding Corp	37,508	35,263

III.Loan Portfolio

Types of Loans

The following table presents the composition of the loan portfolio at December 31 for the years indicated:

	2015	2014	2013	2012	2011
Commercial	$ 131,102	$ 119,717	$ 95,211	$ 87,136	$ 98,241
Real estate - commercial	605,721	600,629	560,233	579,687	704,415
Real estate - construction	19,806	44,795	29,351	42,167	70,919
Real estate - residential	350,557	369,870	389,931	414,141	477,196
Consumer	4,963	4,004	3,040	3,414	4,172
Overdraft	483	649	628	994	457
Lease Financing Receivables	10,953	8,038	10,069	6,060	2,087
Other	10,130	11,630	12,793	16,451	11,498
Gross loans	1,133,715	1,159,332	1,101,256	1,150,050	1,368,985
Allowance for loan losses	(16,223)	(21,637)	(27,281)	(38,597)	(51,997)
Loans, net	$ 1,117,492	$ 1,137,695	$ 1,073,975	$ 1,111,453	$ 1,316,988

The above loan totals include deferred loan fees and costs.

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Maturity and Rate Sensitivity of Loans to Changes in Interest Rates

The following table sets forth the remaining contractual maturities for certain loan categories at December 31, 2015:

		Over 1 Year Through 5 Years		Over 5 Years		
	One Year or Less	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Total
Commercial	$ 45,692	$ 39,676	$ 30,387	$ 12,793	$ 2,554	$ 131,102
Real estate - commercial	33,246	392,302	42,731	73,219	64,223	605,721
Real estate - construction	6,056	9,107	637	1,754	2,252	19,806
Real estate - residential	22,933	66,450	52,591	34,489	174,094	350,557
Consumer	714	3,374	764	111	-	4,963
Overdraft	483	-	-	-	-	483
Lease financing receivables	73	7,208	-	3,672	-	10,953
Other	2,576	416	6,249	189	700	10,130
Total	$ 111,773	$ 518,533	$ 133,359	$ 126,227	$ 243,823	$ 1,133,715

The above loan total includes deferred loan fees and costs; column one includes demand notes.

While there are no significant concentrations of loans where the customers' ability to honor loan terms is dependent upon a single economic sector, the real estate related categories represented 86.1% and 87.6% of the portfolio at December 31, 2015 and 2014, respectively. The Company had no concentration of loans exceeding 10% of total loans that were not otherwise disclosed as a category of loans at December 31, 2015.

Risk Elements

The following table sets forth the amounts of nonperforming assets at December 31 of the years indicated:

	2015	2014	2013	2012	2011
Nonaccrual loans	$ 14,389	$ 26,926	$ 38,911	$ 77,519	$ 126,786
	165	154	796	4,987	11,839

Nonperforming Troubled debt restructured loans accruing interest					
Loans past due 90 days or more and still accruing interest	65	-	87	89	318
Total nonperforming loans	14,619	27,080	39,794	82,595	138,943
Other real estate owned	19,141	31,982	41,537	72,423	93,290
Total nonperforming assets	$ 33,760	$ 59,062	$ 81,331	$ 155,018	$ 232,233
Other real estate owned ("OREO") as % of nonperforming assets	56.7 %	54.1 %	51.1 %	46.7 %	40.2 %

Accrual of interest is discontinued on a loan when principal or interest is ninety days or more past due, unless the loan is well secured and in the process of collection. When a loan is placed on nonaccrual status, interest previously accrued but not collected in the current period is reversed against current period interest income. Interest income of approximately $116,000, $511,000 and $333,000 was recorded and collected during 2015, 2014 and 2013, respectively, on loans that subsequently went to nonaccrual status by year-end. Interest income, which would have been recognized during 2015, 2014 and 2013, had these loans been on an accrual basis throughout the year, was approximately $815,000, $1.8 million and $3.0 million respectively. There were approximately $4.4 million and $4.8 million in restructured residential mortgage loans that were still accruing interest based upon their prior performance history at December 31, 2015 and 2014, respectively. Additionally, the nonaccrual loans above include $2.9 million and $5.1 million in restructured loans for the period ending December 31, 2015 and 2014, respectively.

Potential Problem Loans

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem assets. At the scheduled board of directors meetings of the Bank, loan listings are presented, which show significant loan relationships listed as “Special Mention,” “Substandard,” and “Doubtful.” Loans classified as Substandard include those that have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent as those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets that do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management’s close attention, are deemed to be Special Mention.

Management defines potential problem loans as performing loans rated Substandard that do not meet the definition of a nonperforming loan. These potential problem loans carry a higher probability of default and require additional attention by management. A more detailed description of these loans can be found in Note 4 to the Financial Statements.

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IV.Summary of Loan Loss Experience

Analysis of Allowance for Loan Losses

The following table summarizes, for the years indicated, activity in the allowance for loan losses, including amounts charged-off, amounts of recoveries, additions to the allowance charged to operating expense, and the ratio of net charge-offs to average loans outstanding:

	2015	2014	2013	2012	2011
Average total loans (exclusive of loans held-for-sale)	$ 1,144,618	$ 1,124,335	$ 1,102,197	$ 1,263,172	$ 1,527,311
Allowance at beginning of year	21,637	27,281	38,597	51,997	76,308
Charge-offs:					
Commercial	993	578	316	344	366
Real estate - commercial	1,653	1,972	2,985	13,508	19,576
Real estate - construction	2	174	1,014	4,969	10,430
Real estate - residential	1,639	3,393	6,293	8,406	10,229
Consumer and other loans	483	526	597	638	568
Total charge-offs	4,770	6,643	11,205	27,865	41,169
Recoveries:					
Commercial	451	58	119	115	173
Real estate - commercial	1,595	1,346	5,325	3,576	3,947
Real estate - construction	276	633	1,266	3,420	1,262
Real estate - residential	1,075	1,842	1,221	583	1,807
Consumer and other loans	359	420	508	487	782
Total recoveries	3,756	4,299	8,439	8,181	7,971
Net charge-offs	1,014	2,344	2,766	19,684	33,198
Provision for loan losses	(4,400)	(3,300)	(8,550)	6,284	8,887
Allowance at end of year	$ 16,223	$ 21,637	$ 27,281	$ 38,597	$ 51,997
Net charge-offs to average loans	0.09 %	0.21 %	0.25 %	1.56 %	2.17 %
Allowance at year-end to average loans	1.42 %	1.92 %	2.48 %	3.06 %	3.40 %

The provision for loan losses is based upon management’s estimate of losses inherent in the portfolio and its evaluation of the adequacy of the allowance for loan losses. Factors which influence management’s judgment in estimating loan losses are the composition of the portfolio, past loss experience, loan delinquencies, nonperforming loans and other credit risk considerations that, in management’s judgment, deserve evaluation in estimating loan losses. The Company has consistently followed GAAP and regulatory guidance in all calculation methodologies with no significant criticism of those methodologies from outside third party evaluations.

Allocation of the Allowance for Loan Losses

The following table shows the Company’s allocation of the allowance for loan losses by types of loans and the amount of unallocated allowance at December 31 of the years indicated:

	2015			2014			2013			2012		
	Amount	Loan Type to Total Loans		Amount	Loan Type to Total Loans		Amount	Loan Type to Total Loans		Amount	Loan Type to Total Loans	
Commercial	$ 2,096	12.5	%	$ 1,644	11.0	%	$ 2,250	9.5	%	$ 4,517	7.7	%
Real estate - commercial	9,013	53.4	%	12,577	51.8	%	16,763	50.9	%	20,100	50.4	%
Real estate - construction	265	1.7	%	1,475	3.9	%	1,980	2.7	%	3,837	3.7	%
Real estate - residential	1,694	31.0	%	1,981	31.9	%	2,837	35.4	%	4,535	36.0	%
Consumer	1,190	0.4	%	1,454	0.3	%	1,439	0.3	%	1,178	0.3	%
Unallocated	1,965	1.0	%	2,506	1.1	%	2,012	1.2	%	4,430	1.9	%
Total	$ 16,223	100.0	%	$ 21,637	100.0	%	$ 27,281	100.0	%	$ 38,597	100.0	%

The allowance for loan losses is a valuation allowance for loan losses, increased by the provision for loan losses and decreased by both loan loss reserve releases ($4.4 million loan loss reserve release in 2015, $3.3 million loan loss reserve release in 2014 and $8.6 million loan loss reserve release in 2013) and charge-offs less recoveries. Allocations of the allowance may be made for specific loans, but the entire allowance is available for losses inherent in the loan portfolio. In addition, the OCC, as part of their examination process, periodically reviews the allowance for loan losses. Regulators can require management to record adjustments to the allowance level based upon their assessment of the information available to them at the time of examination. The OCC, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that (1) institutions have effective systems and controls to identify, monitor and address asset quality problems; (2) management has analyzed all significant factors that affect the collectability of the portfolio in a reasonable manner; and (3) management has established acceptable allowance evaluation processes that meet the objectives set forth in the policy statement and that the Company is in full compliance with the policy statement. Management believes it has established an adequate estimated

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allowance for probable loan losses. Management reviews its process quarterly as evidenced by an extensive and detailed loan review process, makes changes as needed, and reports those results at meetings of the Company's Board of Directors Audit Committee. Although management believes the allowance for loan losses is sufficient to cover probable losses inherent in the loan portfolio, there can be no assurance that the allowance will prove sufficient to cover actual loan losses or that regulators, in reviewing the loan portfolio, would not request us to materially adjust our allowance for loan losses at the time of their examination.

V.Deposits

The following table sets forth the amount and maturities of deposits of $100,000 or more at December 31 of the years indicated:

	2015	2014
3 months or less	$ 30,085	$ 30,580
Over 3 months through 6 months	10,464	19,353
Over 6 months through 12 months	29,295	38,877
Over 12 months	102,669	79,587
	$ 172,513	$ 168,397

YTD Average Balances and Interest Rates

	2015		2014		2013	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Noninterest bearing demand	$ 429,403	- %	$ 388,295	- %	$ 362,871	- %
Interest bearing:						
NOW and money market	638,197	0.09	619,807	0.09	609,341	0.11
Savings	249,570	0.06	238,326	0.07	226,404	0.07
Time	410,691	0.78	446,133	1.01	493,855	1.37
Total deposits	$ 1,727,861		$ 1,692,561		$ 1,692,471	

VI.Return on Equity and Assets

The following table presents selected financial ratios as of December 31 for the years indicated:

	2015	2014	2013
Return on average total assets	0.74 %	0.50 %	4.18 %
Return on average equity	8.87 %	5.57 %	90.09 %
Average equity to average assets	8.39 %	8.94 %	4.64 %
Dividend payout ratio	-	-	-

VII.Short-Term Borrowings

There were no categories of short-term borrowings having an average balance greater than 30% of the Company's stockholders' equity as of December 31, 2015, 2014 and 2013.

Item 1.A. Risk Factors

RISK FACTORS

The material risks that management believes affect the Company are described below. Before making an investment decision with respect to any of the Company's securities, you should carefully consider the risks as described below, together with all of the information included herein. The risks described below are not the only risks the Company faces. Additional risks not presently known also may have a material adverse effect on the Company's results of operations and financial condition. The risks discussed below also include forward-looking statements, and actual results may differ substantially from those discussed or implied in these forward-looking statements.

Risks Relating to the Company's Business

A return of recessionary conditions could result in increases in the Company's level of nonperforming loans and/or reduced demand for the Company's products and services, which could lead to lower revenue, higher loan losses and lower earnings.

A return of recessionary conditions and/or negative developments in the domestic and international credit markets may significantly affect the markets in which the Company does business, the value of its loans and investments and its ongoing operations, costs and

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profitability. Declines in real estate values and sales volumes and increased unemployment or underemployment levels may result in higher than expected loan delinquencies, increases in the Company's levels of nonperforming and classified assets and a decline in demand for its products and services. These negative events may cause the Company to incur losses and may adversely affect its capital, liquidity and financial condition.

The size of the Company's loan portfolio has not grown in recent years, and, if the Company is unable to return to loan growth, its profitability may be adversely affected.

Since December 31, 2010, the Company's gross loans held for investment have declined from $1.69 billion to $1.13 billion at December 31, 2015. During some years in this period, the Company was managing its balance sheet composition to manage its capital levels and position the Bank to meet and exceed its targeted capital levels. The Company's ability to increase profitability will depend on a variety of factors, including its ability to originate attractive new lending relationships. While the Company believes it has the management resources and lending staff in place to continue the successful implementation of its strategic plan, if the Company is unable to increase the size of its loan portfolio, its strategic plan may not be successful and its profitability may be adversely affected.

The Company has incurred net losses in the past and cannot ensure that the Company will not incur further net losses in the future.

Although the Company reported net income of $15.4 million in 2015, $10.1 million in 2014 and $82.1 million in 2013, the Company has incurred losses in the past, including a net loss of $72,000 in 2012 and $6.5 million in 2011. Despite a general improvement in the overall economy and the real estate market, the economic environment remains challenging, particularly in our market area, and the Company cannot ensure it will not incur future losses. Any future losses may affect its ability to meet its expenses or raise additional capital and may delay the time in which the Company can resume dividend payments on its common stock. In addition, future losses may cause the Company to re-establish a valuation allowance against its deferred tax assets. Furthermore, any future losses would likely cause a decline in its holding company regulatory capital ratios, which could materially and adversely affect its financial condition, liquidity and results of operations.

Nonperforming assets take significant time to resolve, adversely affect the Company's results of operations and financial condition and could result in further losses in the future.

At December 31, 2015, the Company's nonperforming loans (which consist of nonaccrual loans and loans past due 90 days or more, still accruing interest and restructured loans still accruing interest) and its nonperforming assets (which include nonperforming loans plus OREO) are reflected in the table below (in millions):

	12/31/2015	12/31/2014	% Change
Nonperforming loans	$ 14.6	$ 27.1	(46.0)
OREO	19.1	32.0	(40.2)
Nonperforming assets	$ 33.8	$ 59.1	(42.8)

The Company's nonperforming assets adversely affect its net income in various ways. For example, the Company does not accrue interest income on nonaccrual loans and OREO may have expenses in excess of lease revenues collected, thereby adversely affecting the Company's net income, return on assets and return on equity. The Company's loan administration costs also increase because of its nonperforming assets. The resolution of nonperforming assets requires significant time commitments from management, which can be detrimental to the performance of their other responsibilities. While the Company has made significant progress in reducing its nonperforming assets, there is no assurance that it will not experience increases in nonperforming assets in the future, or that its nonperforming assets will not result in further losses in the future.

The Company's loan portfolio is concentrated heavily in commercial and residential real estate loans, including exposure to construction loans, which involve risks specific to real estate values and the real estate markets in general, all of which have experienced significant weakness.

The Company's loan portfolio generally reflects the profile of the communities in which the Company operates. Because the Company operates in areas that saw rapid historical growth, real estate lending of all types is a significant portion of its loan portfolio. Total real estate lending, excluding deferred fees, remains at $976.5 million, or approximately 86.1% of the Company's December 31, 2015 loan portfolio compared to $1.02 billion or approximately 87.6% at December 31, 2014. Given that the primary (if not only) source of collateral on these loans is real estate, additional adverse developments affecting real estate values in the Company's market area could increase the credit risk associated with the Company's real estate loan portfolio.

The effects of ongoing real estate challenges, combined with the ongoing correction in commercial and residential real estate market prices and reduced levels of home sales, have adversely affected the Company's real estate loan portfolio and have the potential to

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further adversely affect such portfolio in several ways, each of which could further adversely impact its financial condition and results of operations.

Real estate market volatility and future changes in disposition strategies could result in net proceeds that differ significantly from fair value appraisals of loan collateral and OREO and could negatively impact the Company's operating performance.

Many of the Company's nonperforming real estate loans are collateral-dependent, meaning the repayment of the loan is largely dependent upon the successful operation of the property securing the loan. For collateral-dependent loans, the Company estimates the value of the loan based on appraised value of the underlying collateral less costs to sell. The Company's OREO portfolio essentially consists of properties acquired through foreclosure or deed in lieu of foreclosure in partial or total satisfaction of certain loans as a result of borrower defaults. Some property in OREO reflects property formerly utilized as a bank premise or land that was acquired with the expectation that a bank premise would be established at the location.

OREO is recorded at the lower of the recorded investment in the loans for which property served as collateral or estimated fair value, less estimated selling costs. In determining the value of OREO properties and loan collateral, an orderly disposition of the property is generally assumed. Significant judgment is required in estimating the fair value of property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility.

The Company's allowance for loan losses may be insufficient to absorb potential losses in the Company's loan portfolio.

The Company maintains an allowance for loan losses at a level the Company believes adequate to absorb estimated losses inherent in its existing loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; credit loss experience; current loan portfolio quality; present economic, political, and regulatory conditions; and unidentified losses inherent in the current loan portfolio.

Determination of the allowance is inherently subjective since it requires significant estimates and management judgment of credit risks and future trends, all of which may undergo material changes. For example, the final allowance for December 31, 2015, December 31, 2014, and December 31, 2013, included an amount reserved for other not specifically identified risk factors. New information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company's allowance and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different from those of management. Finally, if charge-offs in future periods exceed the allowance for loan losses, the Company will need additional provisions to increase the allowance. Any increases in the allowance will result in a decrease in net income and capital and may have a material adverse effect on the Company's financial condition and results of operations.

While the Company had loan loss reserve releases in 2013, 2014 and 2015, its provision for loan losses was elevated in several prior years and the Bank may be required to make increases in the provision for loan losses and to charge-off additional loans in the future.

For the years ended December 31, 2015, 2014 and 2013, the Company recorded a loan loss reserve release of $4.4 million, $3.3 million and $8.6 million, respectively. While levels of net loan charge – offs, nonperforming assets and classified assets have all improved over that period, events in the Company's markets or in the national economy could impact those key metrics. If the economy and/or the real estate market do not continue to improve, more of the Company's classified assets may become nonperforming and the Company may be required to take additional provisions to increase its allowance for loan losses for these assets as the value of the collateral may be insufficient to pay any remaining net loan balance, which could have a negative effect on the Company's results of operations. The Company maintains an allowance for loan losses to provide for loans in its portfolio that may not be repaid in their entirety. The Company believes that its allowance for loan losses is maintained at a level adequate to absorb probable losses inherent in its loan portfolio as of the corresponding balance sheet date. However, the Company's allowance for loan losses may not be sufficient to cover actual loan losses and future provisions for loan losses could materially adversely affect its operating results.

The Company's business is concentrated in and dependent upon the welfare of several counties in Illinois specifically and the State of Illinois generally.

The Company's primary market area is Aurora, Illinois, and surrounding communities as well as Cook County. The city of Aurora is located in northeastern Illinois, approximately 40 miles west of Chicago. The Bank operates primarily in Kane, Kendall, DeKalb, DuPage, LaSalle, Will and Cook counties in Illinois, and, as a result, the Company's financial condition, results of operations and cash flows are subject to changes and fluctuations in the economic conditions in those areas.

The communities that the Company serves grew rapidly during the early 21st century, and despite the economic downturn that hit the Company's markets, the Company intends to continue concentrating its business efforts in these communities. The Company's future success is largely dependent upon the overall economic health of these communities and the ability of the communities to continue to rebound from the difficulties that began in 2007. While the economies in our market have stabilized, difficult economic conditions remain, and the State of Illinois' continues to experience severe budget shortfalls with elected representatives unable to reach an

agreement on a state budget. Payment lapses by the State of Illinois to its vendors and government sponsored entities may have negative effects on our primary market area. To the extent that these issues, or any future state tax increases, impact the economic vitality of the businesses operating in Illinois, encourage businesses to leave the state or discourage new employers to start or move businesses to Illinois, they could have a material adverse effect on the Company's financial condition and results of operations.

If the overall economic conditions do not continue to improve or decline further, particularly within the Company's primary market areas, the Company could experience a lack of demand for its products and services, an increase in loan delinquencies and defaults and high or increased levels of problem assets and foreclosures with little prospect of state governmental issue resolution or assistance, even contractual assistance. Moreover, because of the Company's geographic concentration, it is less able than other regional or national financial institutions to diversify its credit risks across multiple markets.

Credit downgrades, partial charge-offs and specific reserves could develop in selected exposures with resulting impact on the Company's financial condition if the State of Illinois encounters more severe financial difficulties. Management continues to closely monitor the impact of developments on our markets and customers.

The Company operates in a highly competitive industry and market area and may face severe competitive disadvantages.

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and have more financial resources. The Company's competitors primarily include national and regional banks as well as community banks within the markets the Company serves. Recently, local competitors have expanded their presence in the western suburbs of Chicago, including the communities that surround Aurora, Illinois, and these competitors may be better positioned than the Company to compete for loans, acquisitions and personnel. The Company also faces competition from savings and loan associations, credit unions, personal loan and finance companies, retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative and regulatory changes. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer a wide spectrum of financial services to many customer segments. Many large scale competitors can leverage economies of scale and be able to offer better pricing for products and services compared to what the Company can offer.

The Company's ability to compete successfully depends on developing and maintaining long-term customer relationships, offering community banking services with features and pricing in line with customer interests and expectations, consistently achieving outstanding levels of customer service and adapting to many and frequent changes in banking as well as local or regional economies. Failure to excel in these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability. These weaknesses could have a significant negative impact on the Company's business, financial condition, and results of operations.

The Company is a community bank and its ability to maintain its reputation is critical to the success of its business and the failure to do so may materially adversely affect its performance.

The Company is a community bank, and its reputation is one of the most valuable components of its business. As such, the Company strives to conduct its business in a manner that enhances its reputation. This is done, in part, by recruiting, hiring and retaining employees who share the Company’s core values: being an integral part of the communities the Company serves; delivering superior service to the Company’s customers; and caring about the Company’s customers and associates. If the Company’s reputation is negatively affected, by the actions of its employees or otherwise, its business and operating results may be adversely affected.

The Company is subject to interest rate risk, and a change in interest rates could have a negative effect on its net income.

The Company’s earnings and cash flows are largely dependent upon the Company’s net interest income. Interest rates are highly sensitive to many factors that are beyond the Company’s control, including general economic conditions, the Company’s competition and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Changes in monetary policy could influence Company earnings. Such changes could also affect the Company’s ability to originate loans and obtain deposits as well as the average duration of the Company’s securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company’s net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company’s results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company’s financial condition and results of operations.

If the Company fails to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, its financial condition, liquidity and results of operations, as well as its ability to maintain regulatory compliance, would be adversely affected.

The Company and the Bank must meet minimum regulatory capital requirements and maintain sufficient liquidity. Bank capital is impacted by dividends paid by the Bank to the Company. The Company also faces significant capital and other regulatory requirements as a financial institution. The Company's ability to raise additional capital, when and if needed, will depend on conditions in the economy and capital markets, and a number of other factors – including investor perceptions regarding the Company, banking industry and market condition, and governmental activities – many of which are outside the Company's control, and on the Company's financial condition and performance. If the Company fails to meet these capital and other regulatory requirements, its financial condition, liquidity and results of operations could be materially and adversely affected.

The Company could experience an unexpected inability to obtain needed liquidity.

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities and is essential to a financial institution's business. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets and its access to alternative sources of funds. The Company seeks to ensure that its funding needs are met by maintaining an appropriate level of liquidity through asset and liability management. In 2015, the Bank also secured liquidity under the advance program provided under terms offered by the Federal Home Loan Bank of Chicago. If the Company or the Bank becomes unable to obtain funds when needed, it could have a material adverse effect on its business, financial condition and results of operations.

Loss of customer deposits due to increased competition could increase the Company's funding costs.

The Company relies on bank deposits to be a low cost and stable source of funding. All federal prohibitions on the ability of financial institutions to pay interest on business demand deposit accounts were repealed as part of the Dodd-Frank Act, and, as a result, some financial institutions offer demand deposits to compete for customers. The Company competes with banks and other financial services companies for deposits. If the Company's competitors raise the rates they pay on deposits in response to interest rate changes initiated by the Federal Reserve Bank Open Market Committee or for other reasons of their choice, the Company's funding costs may increase, either because the Company raises its rates to avoid losing deposits or because the Company loses deposits and must rely on more expensive sources of funding. Higher funding costs could reduce the Company's net interest margin and net interest income and could have a material adverse effect on the Company's financial condition and results of operations.

The Company’s estimate of fair values for its investments may not be realizable if it were to sell these securities today.

The Company’s available-for-sale securities are carried at fair value. The Company’s held-to-maturity securities are carried at amortized cost.

The determination of fair value for securities categorized in Level 3 involves significant judgment due to the complexity of the factors contributing to the valuation, many of which are not readily observable in the market. Recent market disruptions and the resulting fluctuations in fair value have made the valuation process even more difficult and subjective. If the valuations are incorrect, it could harm the Company’s financial results and financial condition.

The Company may be materially and adversely affected by the highly regulated environment in which the Company operates.

The Company is subject to extensive federal and state regulation, supervision and examination. Banking regulations are primarily intended to protect depositors’ funds, FDIC funds, customers and the banking system as a whole, rather than the Company’s stockholders. These regulations affect the Company’s lending practices, capital structure, investment practices, dividend policy, and growth, among other things.

As a bank holding company, the Company and the Bank are subject to extensive regulation and supervision, and undergo periodic examinations by its regulators, who have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law by banks and bank holding companies. Failure to comply with applicable laws, regulations or policies could result in sanctions by regulatory agencies, civil monetary penalties, and/or damage to the Company’s reputation, which could have a material adverse effect on the Company. Although the Company has policies and procedures designed to mitigate the risk of any such violations, there can be no assurance that such violations will not occur.

A more detailed description of the primary federal and state banking laws and regulations that affect the Company and the Bank is included in this Form 10-K under the section captioned “Supervision and Regulation” in Item 1. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. For example, on July 21, 2010, the Dodd-Frank Act was signed into law, which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act, together with the regulations to be developed thereunder, includes provisions affecting large and small

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financial institutions alike, including several provisions that affect how community banks, thrifts and small bank and thrift holding companies will be regulated. In addition, the Federal Reserve, in recent years, has adopted numerous new regulations addressing banks' overdraft and mortgage lending practices. Further, the CFPB was established, with broad powers to supervise and enforce consumer protection laws, and additional consumer protection legislation and regulatory activity is anticipated in the future. Any rules or regulations promulgated by the CFPB may increase our compliance costs and could limit our revenue from certain consumer products and services.

The Company and its subsidiaries could become subject to claims and litigation pertaining to the Company's or the Bank's fiduciary responsibility.

Customers make claims and on occasion take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal action are not resolved in a manner favorable to the Company, they may result in significant financial liability and/or adversely affect the market perception of the Company and its products and services as well as impact customer demand for those products and services. Any financial liability or reputational damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse impact on its financial condition and results of operations.

Loss of key employees may disrupt relationships with certain customers.

The Company's business is primarily relationship-driven in that many of its key employees have extensive customer or asset management relationships. Loss of key employees with such relationships may lead to the loss of business if the customers were to follow that employee to a competitor or if asset management expertise was not timely replaced. While the Company believes its relationships with its key personnel are strong, it cannot guarantee that all of its key personnel will remain with the organization. Loss of such key personnel could have a negative impact on the company's business, financial condition, and results of operations.

The Company's information systems may experience an interruption or breach in security and cyber-attacks, all if which could have a material adverse effect on the Company's business.

The Company relies heavily on internal and outsourced technologies, communications, and information systems to conduct its business. Additionally, in the normal course of business, the Company collects, processes and retains sensitive and confidential information regarding our customers. As the Company's reliance on technology has increased, so have the potential risks of a technology-related operation interruption (such as disruptions in the Company's customer relationship management, general ledger, deposit, loan, or other systems) or the occurrence of a cyber-attack (such as unauthorized access to the Company's systems). These risks have increased for all financial institutions as new technologies emerge, including the use of the Internet and the expansion of telecommunications technologies (including mobile devices) to conduct financial and other business transactions, as well as the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others have combined to increase overall risk.

In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions, particularly denial of service attacks, that are designed to disrupt key business services, such as customer-facing web sites. The Company operates in an industry where otherwise effective preventive measures against security breaches become vulnerable as breach strategies change frequently and cyber-attacks can originate from a wide variety of sources. It is possible that a cyber incident, such as a security breach, may be undetected for a period of time. However, applying guidance from FFIEC, the Company has identified security risks and employs risk mitigation controls. Following a layered security approach, the Company has analyzed and will continue to analyze security related to device specific considerations, user access topics, transaction-processing and network integrity. The Company expects that it will spend additional time and will incur additional cost going forward to modify and enhance protective measures. Further effort and spending will be required to investigate and remediate any information security vulnerabilities.

The Company also faces risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding the Company's customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and its processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that the Company does not directly control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact the Company and in some cases the Company may have exposure and suffer losses for breaches or attacks. Despite third-party security risks that are beyond our control, the Company offers its customers protection against fraud and attendant losses for unauthorized use of debit cards in order to stay competitive in the market place. Offering such protection exposes the Company to potential losses which, in the event of a data breach at one or more retailers of considerable magnitude, may adversely affect its business, financial condition, and results of operation. Further cyber-attacks or other breaches in the future, whether affecting the Company or others, could intensify consumer concern and regulatory focus and result in reduced use of payment cards and increased costs, all of which could have a material adverse effect on the Company's business. To the extent we are involved in any future cyber-attacks or other breaches, the Company's reputation could be affected with a potentially material adverse effect on the Company's business, financial condition or results of operations.

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The Company is dependent upon outside third parties for the processing and handling of Company records and data.

The Company relies on software developed by third party vendors to process various Company transactions. In some cases, the Company has contracted with third parties to run their proprietary software on behalf of the Company at a location under the control of the third party. These systems include, but are not limited to, payroll, wealth management record keeping, and securities portfolio management. While the Company performs a review of controls instituted by the vendor over these programs in accordance with industry standards and institutes its own user controls, the Company must rely on the continued maintenance of the performance controls by the outside party, including safeguards over the security of customer data. In addition, the Company creates backup copies of key processing output daily in the event of a failure on the part of any of these systems. Nonetheless, the Company may incur a temporary disruption in its ability to conduct its business or process its transactions, or incur damage to its reputation if the third party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such disruption or breach of security may have a material adverse effect on the Company's financial condition and results of operations.

The Company and its subsidiaries are defendants in a variety of litigation and other actions.

Currently, there are certain other legal proceedings pending against the Company and its subsidiaries in the ordinary course of business. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management believes that any liabilities arising from pending legal matters would not have a material adverse effect on the Bank or on the consolidated financial statements of the Company. However, if actual results differ from management's expectations, it could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

Risks Associated with the Company's Common Stock

The Company has not established a minimum dividend payment level, and it cannot ensure its ability to pay dividends in the future.

For several years prior to January 2014, the Company was under a Written Agreement with the Federal Reserve which included among other things restrictions on the Company's payment of dividends on its common stock. Although the Written Agreement was terminated in January 2014, the Company has not yet paid dividends or its common stock and has not determined when it will be in a position to resume paying dividends or at what level it will be able to pay.

Despite the termination of the Written Agreement, the Company is still subject to various restrictions on its ability to pay dividends imposed by the Federal Reserve. The Company is also subject to the limitations of the Delaware General Corporation Law (the "DGCL"). The DGCL allows the Company to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or, if the Company has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

Holders of the Company's common stock are also only entitled to receive such dividends as the Company's board of directors may declare out of funds legally available for such payments.

The holders of the Company's debt have rights that are senior to those of its stockholders.

The Company currently has a $45.5 million credit facility with a correspondent lender, which includes $45.0 million of subordinated debt and $500,000 in term debt. As of December 31, 2014, and December 31, 2015, the $45.0 million in principal of subordinated debt and the $500,000 in principal of term debt were outstanding. The term debt and subordinated debt mature on March 31, 2018. The term debt portion of the senior debt is secured by all of the capital stock of the Bank.

The rights of the holders of the Company's senior debt, subordinated debt and junior subordinated debentures are senior to the shares of its common stock and preferred stock. As a result, the Company must make payments on its senior debt, subordinated debt and junior subordinated debentures (and the related Trust Preferred Securities) before any dividends can be paid on its common stock or preferred stock and, in the event of its bankruptcy, dissolution or liquidation, the holders of the Company's senior debt, subordinated debt and junior subordinated debentures must be satisfied before any distributions can be made to its common stockholders.

The trading volumes in the Company's common stock may not provide adequate liquidity for investors.

Shares of the Company's common stock are listed on the Nasdaq Global Select Market; however, the average daily trading volume in its common stock is less than that of most larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the current daily average trading volume of the Company's common stock, significant sales of the Company's common stock in a brief period of time, or the expectation of these sales, could cause a significant decline in the price of the Company's stock.

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The trading price of the Company’s common stock may be subject to continued significant fluctuations and volatility.

The market price of the Company’s common stock could be subject to significant fluctuations due to, among other things:

- actual or anticipated quarterly fluctuations in its operating and financial results, particularly if such results vary from the expectations of management, securities analysts and investors, including with respect to further loan losses the Company may incur;
- announcements regarding significant transactions in which the Company may engage;
  - market assessments regarding such transactions;
- changes or perceived changes in its operations or business prospects;
- legislative or regulatory changes affecting its industry generally or its businesses and operations;
- the failure of general market and economic conditions to stabilize and recover, particularly with respect to economic conditions in Illinois, and the pace of any such stabilization and recovery;
- the operating and share price performance of companies that investors consider to be comparable to the Company;
- future offerings by the Company of debt, preferred stock or trust preferred securities, each of which would be senior to its common stock upon liquidation and for purposes of dividend distributions;
- actions of its current shareholders, including future sales of common stock by existing shareholders and its directors and executive officers; and
- other changes in U.S. or global financial markets, economies and market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Stock markets in general, and the Company’s common stock in particular, have experienced significant volatility since 2007 and continue to experience significant price and volume volatility. As a result, the market price of the Company’s common stock may continue to be subject to similar market fluctuations that may or may not be related to its operating performance or prospects. Increased volatility could result in a decline in the market price of the Company’s common stock.

Certain banking laws and the Company’s Rights Plan may have an anti-takeover effect.

Certain federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the Company, even if doing so would be perceived to be beneficial to the Company’s shareholders. In addition, the Company’s Amended and Restated Rights Plan and Tax Benefits Preservation Plan (the “Rights Plan”) is intended to discourage any person from acquiring 5% or more of the Company’s outstanding stock (with certain limited exceptions). The Company amended the Rights Plan in connection with the public offering of 15,525,000 shares of its common stock, which closed on April 3, 2014, to allow two investors in the offering to acquire more than 5% of the Company’s common stock. The Company cannot guarantee that it will allow any other holders of its common stock to acquire shares in access of the limits set forth in the Rights Plan. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's common stock.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The principal business office of the Company is located at 37 South River Street, Aurora, Illinois. We conduct our business at 24 retail banking center locations in various communities throughout the greater western and southern Chicago metropolitan area. . We own 23 locations and lease the other location. The Company's leased location is under lease through March 2018. We believe that all of our properties and equipment are well maintained, in good operating condition and adequate for all of our present and anticipated needs.

The total net book value of our premises and equipment (including land and land improvements, buildings, furniture and equipment, and buildings and leasehold improvements) at December 31, 2015, was $39.6 million.

Item 3. Legal Proceedings

The Company and its subsidiaries have, from time to time, collection suits and other actions that arise in the ordinary course of business against its borrowers and are defendants in legal actions arising from normal business activities. Management, after consultation with legal counsel, believes that the ultimate liabilities, if any, resulting from these actions will not have a material adverse effect on the financial position of the Bank or on the consolidated financial position of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for the Company's Common Stock

The Company's common stock trades on The Nasdaq Global Select Market under the symbol "OSBC". As of December 31, 2015, the Company had 938 stockholders of record of its common stock. The following table sets forth the range of prices during each quarter for 2015 and 2014.

	2015			2014		
	High	Low	Dividend	High	Low	Dividend
First quarter	$ 5.85	$ 5.06	$ -	$ 5.27	$ 4.33	$ -
Second quarter	6.96	5.42	-	5.02	4.53	-
Third quarter	6.79	5.93	-	5.25	4.60	-
Fourth quarter	8.14	5.98	-	5.45	4.47	-

The Company incorporates by reference the information contained Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Capital".

The Company also incorporates by reference the information contained under the "Notes to Consolidated Financial Statements Note 15: Regulatory & Capital Matters".

The Company did not pay any dividends in 2015 or 2014 as set forth in the table above. The Company's shareholders are entitled to receive dividends when, as and if declared by the board of directors out of funds legally available therefor. The Company's ability to pay dividends to shareholders is largely dependent upon the dividends it receives from the Bank; however, certain regulatory restrictions and the terms of its debt and equity securities, limit the amount of cash dividends it may pay.

Form 10-K and Other Information

Transfer Agent/Stockholder Services

Inquiries related to stockholders records, stock transfers, changes of ownership, change of address and dividend payments should be sent to the transfer agent at the following address:

Old Second Bancorp, Inc.

c/o Shirley Cantrell,

Executive Administrative Department

37 River Street

Aurora, Illinois 60506-4172

(630) 906-2303

scantrell@oldsecond.com

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Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2010 and ending December 31, 2015, a comparison of cumulative total returns for the Company, the Nasdaq Bank Index and the S&P 500. The information assumes that $100 was invested at the closing price at December 31, 2010 in the common stock of the Company and each index and that all dividends were reinvested.

	Period Ending					
Index	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Old Second Bancorp, Inc.	100.00	76.47	71.76	271.76	315.88	461.18
NASDAQ Bank	100.00	89.50	106.23	150.55	157.95	171.92
S&P 500	100.00	102.11	118.45	156.82	178.28	180.75

Purchases of Equity Securities By the Issuer and Affiliated Purchasers

There were purchases of 21,579 shares made by or on behalf of the Company of shares of its common stock during the year ended December 31, 2015, primarily for the payment of taxes relating to the vesting of stock awards.

The following table shows certain information relating to purchases or recapture of common stock for the twelve months ended December 31, 2015:

Period	Total number of shares acquired	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Remaining number of shares authorized for purchase under the plan
January 1 - January 31, 2015	21,579	$ 5.39	-	-
Total	21,579	$ 5.39	-	-

Item 6. Selected Financial Data

Old Second Bancorp, Inc. and Subsidiaries

Financial Highlights

(In thousands, except share data)

	2015	2014	2013	2012	2011
Balance sheet items at year-end					
Total assets	$ 2,077,863	$ 2,061,787	$ 2,004,034	$ 2,045,799	$ 1,941,418
Total earning assets	1,862,257	1,832,714	1,758,582	1,834,995	1,751,662
Average assets	2,065,980	2,037,399	1,962,688	1,950,625	2,015,464
Loans, gross	1,133,715	1,159,332	1,101,256	1,150,050	1,368,985
Allowance for loan losses	16,223	21,637	27,281	38,597	51,997
Deposits	1,759,086	1,685,055	1,682,128	1,717,219	1,740,781
Securities sold under agreement to repurchase	34,070	21,036	22,560	17,875	901
Other short-term borrowings	15,000	45,000	5,000	100,000	-
Junior subordinated debentures	58,378	58,378	58,378	58,378	58,378
Subordinated debt	45,000	45,000	45,000	45,000	45,000
Note payable	500	500	500	500	500
Stockholders' equity	155,929	194,163	147,692	72,552	74,002
Results of operations for the year ended					
Interest and dividend income	68,164	68,044	69,040	75,081	85,423
Interest expense	9,076	10,984	13,786	15,735	21,473
Net interest and dividend income	59,088	57,060	55,254	59,346	63,950
(Release) provision for loan losses	(4,400)	(3,300)	(8,550)	6,284	8,887
Noninterest income	29,294	29,216	31,183	37,219	31,062
Noninterest expense	68,421	73,679	83,144	90,353	92,623
Income (loss) before taxes	24,361	15,897	11,843	(72)	(6,498)
Provision (benefit) for income taxes	8,976	5,761	(70,242)	-	-
Net income (loss)	15,385	10,136	82,085	(72)	(6,498)
Preferred stock dividends and accretion	1,873	(1,719)	5,258	4,987	4,730
Net income (loss) available to common stockholders	$ 13,512	$ 11,855	$ 76,827	$ (5,059)	$ (11,228)
Loan quality ratios					
	1.43 %	1.87 %	2.48 %	3.36 %	3.80 %

Allowance for loan losses to total loans at end of year										
Provision for loan losses to total loans	(0.39)	%	(0.28)	%	(0.78)	%	0.55	%	0.65	%
Net loans charged-off to average total loans	0.09	%	0.21	%	0.25	%	1.56	%	2.17	%
Nonaccrual loans to total loans at end of year	1.27	%	2.32	%	3.53	%	6.74	%	9.26	%
Nonperforming assets to total assets at end of year	1.62	%	2.86	%	4.06	%	7.58	%	11.96	%
Allowance for loan losses to nonaccrual loans	112.75	%	80.36	%	70.11	%	49.79	%	41.01	%

Per share data

Basic earnings (loss)