OLD SECOND BANCORP INC
Form 10-K
March 12, 2015
Table of Contents

I

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, 2014

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, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $140.9 million. The number of shares outstanding of the registrant's common stock, par value $1.00 per share, was 29,470,929 at March 10, 2015.

Table of Contents

OLD SECOND BANCORP, INC.

Form 10-K

INDEX

Table of Contents

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 25 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, 2014.

Business of the Company and its Subsidiaries

The Bank's full service banking businesses include the customary consumer and commercial products and services that banks 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. As a result, disclosure of separate segment information is not required. The Company offers the products and services described above to its external customers as part of its customary banking business.

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,

Table of Contents

Kaneville, Sugar Grove, Naperville, Lisle, Joliet, Yorkville, Plano, Wasco, Ottawa, Oswego, Sycamore, Frankfort, and Chicago Heights communities and surrounding areas. During 2014 the Company closed one of two branches in Elgin and a branch in New Lenox.

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 2014, the Bank originated approximately $383.5 million in loans. Also in 2014, residential mortgage loans of just over $120.9 million (some of which were originated in 2013) 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, 2014, residential mortgages made up approximately 32% of the Bank's loan portfolio, commercial real estate loans comprised approximately 52%, construction lending comprised approximately 4%, general commercial loans comprised approximately 10%, 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. The Bank does not discriminate in application procedures, loan availability, pricing, structure, or terms on the basis of race, color, religion, national origin, sex, marital status, familial status, handicap, age (provided the applicant has the legal capacity to enter into a binding contract), whether income is derived from public assistance, whether a borrower resides, or has property located, in a low- or moderate-income area, or whether a right was exercised under the Consumer Credit Protection Act. The Bank strives to offer all of its credit services throughout its market area, including low- and moderate-income areas.

Commercial Loans. The Bank continues to focus on growing commercial and industrial prospects in its new business pipeline with positive results in 2014. 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. 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 2014.

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 concentrations 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, 2014, approximately $302.0 million, or 50.3%, of the total commercial real estate loan portfolio of $600.6 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 governmental 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 of the real estate and enforcement of a personal and corporate guarantees if any exists.

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 increased from $29.4 million at December 31, 2013, to $44.8 million at December 31, 2014. 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.

Table of Contents

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 practiced bankers and multiple delivery channels that fit the needs of its market.

The Bank operated 25 branches in the seven counties of Kane, Kendall, LaSalle, Will, DeKalb, DuPage, and Cook County as of December 31, 2014. 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, 2014, the Company employed 485 full-time equivalent employees. 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.

Table of Contents

The Company also announced in September 2014 that James L. Eccher would be appointed the Chief Executive Officer and President of the Company, effective as of January 1, 2015, and that William B. Skoglund would retire from that position on the same date. On January 1, 2015, Mr. Skoglund retired as the Chief Executive Officer and President of the Company, and Mr. Eccher was appointed to that position. Mr. Eccher remains the Chief Executive Officer and President of the Bank, and Mr. Skoglund remains the Chairman of the boards of directors of both the Company and the Bank.

Capital Raise

In April 2014, the Company concluded a successful capital raise, issuing 15,525,000 of common shares with net proceeds in excess of $64.0 million. The proceeds were used to pay $19.7 million in accrued but previously unpaid interest on the Company’s trust preferred securities, to pay $10.3 million accumulated but unpaid dividends on the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the “Series B Stock”) and to repurchase certain of the Series B Stock for an aggregate repurchase price of $24.3 million. The remaining proceeds were used for general corporate purposes.

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 (www.sec.gov). 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 may contain forward-looking statements. Forward-looking statements are identifiable by the inclusion of such qualifications as expects, intends, believes, may, likely or other indications that the particular statements are not based upon facts but are rather based upon the Company’s beliefs as of the date of this release. Actual events and results may differ significantly from those described in such forward-looking statements, due to changes in the economy, interest rates or other factors. 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

Financial institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company may be affected not only by management decisions and general economic conditions, but also by 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 Consumer Financial Protection Bureau (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 ("Treasury") have an impact on the business of the Company. 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 financial 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 business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends. Moreover, turmoil in the credit markets as a result of the global financial crisis prompted the enactment of unprecedented legislation that allowed the Treasury to make equity capital available to qualifying financial institutions to help restore confidence and stability in the U.S. financial markets, imposing continuing requirements on institutions in which the Treasury has a remaining investment.

This supervisory and regulatory framework subjects banks and bank 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

Table of Contents

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. 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.

Financial Regulatory Reform

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") into law. The Dodd-Frank Act represented a sweeping reform of the U.S. supervisory and regulatory framework applicable to financial institutions and capital markets in the wake of the global financial crisis, certain aspects of which are described below in more detail. In particular, and among other things, the Dodd-Frank Act: (i) created a Financial Stability Oversight Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; (ii) created the CFPB, which is authorized to regulate providers of consumer credit, savings, payment and other consumer financial products and services; (iii) narrowed the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expanded the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; (iv) imposed more stringent capital requirements on bank holding companies and subjected certain activities, including interstate mergers and acquisitions, to heightened capital conditions; (v) with respect to mortgage lending, (a) significantly expanded requirements applicable to loans secured by 1-4 family residential real property, (b) imposed strict rules on mortgage servicing, and (c) required the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5% of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards; (vi) repealed the prohibition on the payment of interest on business checking accounts; (vii) restricted the interchange fees payable on debit card transactions for issuers with $10 billion in assets or greater; (viii) in the so-called "Volcker Rule", subject to numerous exceptions, prohibited depository institutions and affiliates from certain investments in, and sponsorship of, hedge funds and private equity funds and from engaging in proprietary trading; (ix) provided for enhanced regulation of advisers to private funds and of the derivatives markets; enhanced oversight of credit rating agencies; and (x) prohibited banking agency requirements tied to credit ratings. These statutory changes shifted the regulatory framework for financial institutions, impacted the way in which they do business and have the potential to constrain revenues.

Numerous provisions of the Dodd-Frank Act were required to be implemented through rulemaking by the appropriate federal regulatory agencies. Many of the required regulations have been issued and others have been released for public comment, but are not yet final. Although the reforms primarily targeted systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time. Management of the Company and the Bank will continue to evaluate the effect of the Dodd-Frank Act changes; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of the Company and the Bank.

The Increasing Regulatory Emphasis on Capital

Regulatory capital represents the net assets of a financial institution available to absorb losses. Because of the risks attendant to their business, depository institutions are generally required to hold more capital than other businesses, which directly affects earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and 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 banks and bank holding companies, require more capital to be held in the form of common stock and disallow certain funds from being included in capital determinations. Once fully implemented, these standards will represent regulatory capital requirements that are meaningfully more stringent than those in place historically.

The Company and Bank Required Capital Levels. Bank holding companies have 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 the Federal Reserve to establish minimum capital levels for bank holding companies on a consolidated basis as stringent as those required for insured depository institutions. As a consequence, the components of holding company permanent capital known as “Tier 1 Capital” were restricted to those capital instruments that are considered to be Tier 1 Capital for insured depository 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 as of December 31, 2009, they may be retained as Tier I Capital subject to certain restrictions. Because the Company had assets of less than $15 billion, it was able to meet the requirements and maintain its trust preferred proceeds as Tier 1 Capital but will have to comply with the revised 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 minimum capital standards effective for the year ended December 31, 2014 were:

- A leverage requirement, consisting of a minimum ratio of Tier 1 Capital to total adjusted book 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" consisted 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" consisted primarily of Tier 1 Capital plus "Tier 2 Capital," which included other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 Capital, and a portion of the Bank's allowance for loan and lease losses. Further, risk-weighted assets for the purpose of the risk-weighted ratio calculations were balance sheet assets and off-balance sheet exposures to which required risk weightings of 0% to 100% were applied.

The capital standards described above are minimum requirements and were increased beginning January 1, 2015 under Basel III, as discussed below. Bank regulatory agencies uniformly encourage banks and bank holding companies to be "well-capitalized" and, to that end, federal law and regulations provide various incentives for banking 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. Under the capital regulations of the OCC and Federal Reserve, in order to be "well capitalized," a banking organization, for the year ended December 31, 2014, must have maintained:

- A leverage ratio of Tier 1 Capital to total assets of 5% or greater,
- A ratio of Tier 1 Capital to total risk-weighted assets of 6% or greater, and
- A ratio of Total Capital to total risk-weighted assets of 10% or greater.

The OCC and Federal Reserve guidelines also provide that banks and bank holding companies experiencing internal growth or making acquisitions would be expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the agencies will continue to consider a "tangible Tier 1 leverage ratio" (deducting all intangibles) in evaluating proposals for expansion or to engage in new activities.

Higher capital levels could also be required if warranted by the particular circumstances or risk profile of individual banking organizations. For example, 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.

Prompt Corrective Action. A banking organization's capital plays an important role in connection with regulatory enforcement as well. 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 that senior executive officers or directors be dismissed; (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.

As of December 31, 2014: (i) the Bank was not subject to a directive from its regulatory agencies to increase its capital and (ii) the Bank was "well-capitalized," as defined by OCC regulations.

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). Basel II emphasized internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements.

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. Basel III was intended to be effective globally on January 1, 2013, with phase-in of certain elements continuing until January 1, 2019, and it is currently effective in many countries.

U.S. Implementation of Basel III. In July of 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 previously, which were in the form of guidelines, Basel III was released in the form of regulations by each of the federal regulatory agencies. The Basel III Rule is applicable to all financial

Table of Contents

institutions 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).

The Basel III Rule not only increased most of the required minimum capital ratios as of 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 established more stringent criteria for instruments 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 will not qualify, or their qualifications will change. For example, cumulative preferred stock and certain hybrid capital instruments, including trust preferred securities, will no longer qualify as Tier 1 Capital of any kind, with the exception, subject to certain restrictions, of such instruments issued before May 10, 2010, by bank holding companies with total consolidated assets of less than $15 billion as of December 31, 2009. For those institutions, trust preferred securities and other nonqualifying capital instruments currently included in consolidated Tier 1 Capital were permanently grandfathered under the Basel III Rule, subject to certain restrictions. Noncumulative perpetual preferred stock, which formerly qualified as simple Tier 1 Capital, will not qualify as Common Equity Tier 1 Capital, but will instead qualify 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 institution's Common Equity Tier 1 Capital.

As of January 1, 2015, the Basel III Rule requires:

- A new minimum ratio of Common Equity Tier 1 Capital to risk-weighted assets of 4.5%;
- 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 assets equal to 4% in all circumstances.

The Basel III Rule maintained the general structure of the prompt corrective action framework, while incorporating the increased requirements and adding the Common Equity Tier 1 Capital ratio. In order to be "well-capitalized" under the new regime, a depository institution must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more; a Tier 1 Capital ratio of 8% or more; a Total Capital ratio of 10% or more; and a leverage ratio of 5% or more

In addition, institutions 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% of risk-weighted assets 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 institutions 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. The leverage ratio is not impacted by the conservation buffer, and a banking institution may be considered well-capitalized while remaining out of compliance with the capital conservation buffer.

As discussed above, most of the capital requirements are based on a ratio of specific types of capital to "risk-weighted assets." Not only did Basel III change the components and requirements of capital, but, for nearly every class of financial assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings. While Basel III would have changed the risk weighting for residential mortgage loans based on loan-to-value ratios and certain product and underwriting characteristics, there was concern in the United States that the proposed methodology for risk weighting residential mortgage exposures and the higher risk weightings for certain types of mortgage products would increase costs to consumers and reduce their access to mortgage credit. As a result, the Basel III Rule did not effect this change, and banking institutions will continue to apply a risk weight of 50% or 100% to their exposure from residential mortgages.

Furthermore, there was significant concern noted by the financial industry in connection with the Basel III rulemaking as to the proposed treatment of accumulated other comprehensive income (“AOCI”). Basel III requires unrealized gains and losses on available-for-sale securities to flow through to regulatory capital as opposed to the previous treatment, which neutralized such effects. Recognizing the problem for community banks, the U.S. bank regulatory agencies adopted the Basel III Rule with a one-time election for smaller institutions like the Company and the Bank to opt out of including most elements of AOCI in regulatory capital. This opt-out, which must be made in the first quarter of 2015, would exclude from regulatory capital both unrealized gains and losses on available-for-sale debt securities and accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit post-retirement plans. The Company and the Bank expect to make this election to avoid variations in the level of their capital depending on fluctuations in the fair value of their securities portfolio.

Banking institutions (except for large, internationally active financial institutions) became subject to the Basel III Rule on January 1, 2015. Although management continues to assess the impact of the new Basel III capital regulations, management believes that both the Company and the Bank will qualify as “well capitalized” under Basel III during 2015. Management will continue to assess the impact of Basel III as it is phased-in through 2019. There are separate phase-in/phase-out periods for: (i) the capital

Table of Contents

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 commence on January 1, 2015 and extend until 2019.

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 is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). In accordance with Federal Reserve policy, and as now codified by the Dodd-Frank Act, the Company is legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

Enforcement Action. On July 22, 2011, the Company entered into a Written Agreement with the Federal Reserve Bank of Chicago (the "Reserve Bank") that was terminated on January 17, 2014 (the "Written Agreement"). Under the terms of the Written Agreement, the Company was required to, among other things: (i) fully utilize its financial and managerial resources to serve as a source of strength to the Bank; (ii) obtain the written approval of the Reserve Bank (and in certain cases, the Federal Reserve) prior to the declaration or payment of any dividends, the acceptance of dividends or any other form of capital distribution from the Bank, and the payment of principal, interest, or other sums on subordinated debentures or trust preferred securities; (iii) obtain the written approval of the Reserve Bank prior to incurring, increasing, or guaranteeing any debt, or repurchasing or redeeming any stock; (iv) develop, submit to the Reserve Bank, and implement a capital plan, and notify the Reserve Bank if any of the Company's quarterly capital ratios fell below the minimum ratios set forth in the approved capital plan, along with a written plan to increase any applicable capital ratio to or above the approved minimum level; and (v) for each calendar year that the Written Agreement was in effect, submit to the Reserve Bank annual cash flow projections. The Company was also required to submit certain reports to the Reserve Bank with respect to the foregoing requirements. Because the Written Agreement was terminated, the Company is no longer required to comply in the restrictions set forth above.

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 and the Dodd-Frank Act), 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 insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository 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 "The Increasing 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. The BHCA generally 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 depository institutions or the financial system generally. The Company does not currently 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 affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see "—The Increasing Regulatory Emphasis on Capital" above.

U.S. Government Investment in Bank Holding Companies. Events in the United States and global financial markets leading up to the global financial crisis, including deterioration of the worldwide credit markets, created significant challenges for financial institutions throughout the country. In response to this crisis affecting the U.S. banking system and financial markets, on October 3, 2008, the U.S. Congress passed, and the President signed into law, the Emergency Economic Stabilization Act of 2008 (the "EESA"). The EESA authorized the Secretary of the Treasury to implement various temporary emergency programs designed to strengthen the capital positions of financial institutions and stimulate the availability of credit within the U.S. financial system.

On October 14, 2008, the Treasury announced that it would provide Tier 1 capital (in the form of perpetual preferred stock and common stock warrants) to eligible financial institutions. This program, known as the TARP Capital Purchase Program (the "CPP"), allocated $250 billion from the $700 billion authorized by the EESA to the Treasury for the purchase of senior preferred shares from qualifying financial institutions (the "CPP Preferred Stock"). Under the program, eligible institutions were able to sell equity interests to the Treasury in amounts equal to between 1% and 3% of the institution's risk-weighted assets. The CPP Preferred Stock is non-voting and paid dividends at the rate of 5% per annum for the first five years and thereafter at a rate of 9% per annum. In conjunction with the purchase of the CPP Preferred Stock, the Treasury received warrants to purchase common stock from the participating public institutions with an aggregate market price equal to 15% of the preferred stock investment.

Pursuant to the CPP, on January 16, 2009, the Company entered into a Letter Agreement with the Treasury, pursuant to which the Company issued (i) 73,000 shares of the Series B Stock and (ii) a warrant to purchase 815,339 shares of the Company's common stock for an aggregate purchase price of $73.0 million in cash. During the fourth quarter of 2012, the Treasury announced the continuation of individual auctions of the CPP Preferred Stock and informed the Company that its Series B Stock would be auctioned. Auctions for the Company's Series B Stock were held in the first quarter of 2013. As a result of the auctions, all of the shares of the Company's Series B Stock were sold to third parties, including certain of the Company's directors. The warrant to purchase 815,339 shares of the Company's common stock was also sold to a third party in a separate auction.

In April, 2014 the Company concluded a successful capital raise issuing 15,525,000 common shares with net proceeds in excess of $64.0 million. Proceeds were used to pay $19.7 million accrued but previously unpaid interest on trust preferred securities and to repurchase certain shares of Series B Stock. In May 2014 the Company applied proceeds to pay the accumulated but unpaid dividends on Series B Stock. Remaining proceeds were used for general corporate purposes including payment for various services required during the offering.

On April 28, 2014, the Company repurchased Series B Stock at an agreed upon price reached in private negotiations. Payments of $22.9 million were made to a large private investor with other payments totaling $1.4 million made to directors of the Company. In January of 2015, the Company completed a redemption of a third of the remaining 47,331 shares of Series B Stock sold to third parties by the Treasury, paying approximately $16.1 million.

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. 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 four years beginning in 2016. See “—The Increasing Regulatory Emphasis on Capital” above.

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) the company’s 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 the company’s capital needs and overall current and prospective financial condition; or (iii) the company 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. Although the Written Agreement has been terminated, the Company expects that it will continue to seek approval from the Reserve Bank prior to paying any dividends on its capital stock and incurring any additional indebtedness.

Furthermore, the Company’s ability to pay dividends on its common stock is restricted by the terms of certain of its other securities. For example, under the terms of certain of the Company’s junior subordinated debentures, it may not pay dividends on its capital stock unless all accrued and unpaid interest payments on the subordinated debentures have been fully paid. On August 31, 2010, the Company announced that it had elected to begin deferring the interest payments due on the junior subordinated debentures described above, as well as the dividend payments due on the CPP Preferred Stock, and therefore may not pay common stock dividends until such time as these deferred payments have been made in full. The CPP Preferred Stock was auctioned by Treasury. Subsequently, the Company brought all deferred payments to current status and has maintained current dividend payment status.

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.

Table of Contents

Corporate Governance. The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act increased shareholder influence over boards of directors by requiring companies to give shareholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorizing the SEC to promulgate rules that would allow shareholders 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.

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.

Enforcement Action. On May 16, 2011, the Bank entered into a Consent Order with the OCC that was terminated on October 17, 2013 (the "Consent Order").

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 depository 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 insured depository 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. The total base assessment rates range from 2.5 basis points to 45 basis points. While in the past an insured depository institution's assessment base was determined by its deposit base, amendments to the Federal Deposit Insurance Act revised the assessment base so that it is calculated using average consolidated total assets minus 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.

The FDIC has authority to raise or lower assessment rates on insured deposits in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments. In light of the significant increase in depository institution failures in 2008-2010 and the increase of deposit insurance limits, the DIF incurred substantial losses during recent years. To bolster reserves in the DIF, the Dodd-Frank Act increased the minimum reserve ratio of the DIF to 1.35% of insured deposits and deleted the statutory cap for the reserve ratio. In December 2010, the FDIC set the designated reserve ratio at 2%, 65 basis points above the statutory minimum. 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. As a result, the Bank's FDIC deposit insurance premiums could increase.

FICO Assessments. In addition to paying basic deposit insurance assessments, insured depository 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 depository 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 2014 was approximately 0.600 basis points (60 cents per $100 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, 2014, the Bank paid supervisory assessments to the OCC totaling $620,000.

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

Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank 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, financial 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 included a liquidity framework that requires financial 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 banking entity 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 ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of financial institutions over a one-year horizon. These tests provide an incentive for banks and holding companies 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 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 insured depository institutions. The Company and the Bank are reviewing their liquidity risk management policies in light of the LCR and NSFR.

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.

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. Notwithstanding the availability of funds for dividends, however, the OCC may prohibit the payment of dividends by the Bank if it determines such payment would constitute an unsafe or unsound practice. 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 "—The Increasing Regulatory Emphasis on Capital" above.

Insider Transactions. The Bank is subject to 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 as of July 21, 2011, 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.

Certain 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 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 federally insured depository 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 financial institution is responsible for establishing its own procedures to achieve those goals. If a financial institution fails to comply with any of the standards set forth in the guidelines, the financial institution's primary federal regulator may require the financial institution to submit a plan for achieving and maintaining compliance. If an 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 financial institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the financial institution's rate of growth, require the financial institution to increase its capital, restrict the rates the financial institution pays on deposits or require the financial 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 financial 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 financial 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.

Transaction Account Reserves. Federal Reserve regulations require insured depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2015: the first $14.5 million of otherwise reservable balances are exempt from the reserve requirements; for transaction accounts aggregating more than $14.5 million to $103.6 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $103.6 million, the reserve requirement is $2,673,000 plus 10% of the aggregate amount of total transaction accounts in excess of $103.6 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

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

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 "Patriot Act") is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act mandates 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 programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between financial institutions and law enforcement authorities.

Concentrations in Commercial Real Estate. Concentration risk exists when financial institutions deploy too many assets to any one industry or segment. Concentration stemming from commercial real estate is one area 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.

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. Banks and savings institutions with $10 billion or less in assets, like the Bank, will continue to be examined by their applicable bank regulators.

Because abuses in connection with residential mortgages were a significant factor contributing to the 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 banks and savings associations, 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 do not comply with the ability-to-repay standards described below. The risk retention requirement generally is 5%, but could be increased or decreased by regulation. The Bank currently expects that CFPB rules announced through January 2015 will not significantly impact operations. However, the CFPB rules are expected to result in higher compliance costs.

Table of Contents

Ability-to-Repay Requirement and Qualified Mortgage Rule. On January 10, 2013, the CFPB issued a final rule implementing the Dodd-Frank Act's ability-to-repay requirements. Under the final rule, lenders, in assessing a borrower's ability to repay a mortgage-related obligation, must consider eight underwriting factors: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) monthly payment on the subject transaction; (iv) monthly payment on any simultaneous loan; (v) monthly payment for all mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) monthly debt-to-income ratio or residual income; and (viii) credit history. The final rule also includes guidance regarding the application of, and methodology for evaluating, these factors.

Further, the final rule clarified that qualified mortgages do not include "no-doc" loans and loans with negative amortization, interest-only payments, balloon payments, terms in excess of 30 years, or points and fees paid by the borrower that exceed 3% of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the rule mandated that the monthly payment be calculated on the highest payment that will occur in the first five years of the loan, and required that the borrower's total debt-to-income ratio generally may not be more than 43%. The final rule also provided that certain mortgages that satisfy the general product feature requirements for qualified mortgages and that also satisfy the underwriting requirements of Fannie Mae and Freddie Mac (while they operate under federal conservatorship or receivership), or the U.S. Department of Housing and Urban Development, Department of Veterans Affairs, or Department of Agriculture or Rural Housing Service, are also considered to be qualified mortgages. This second category of qualified mortgages will phase out as the aforementioned federal agencies issue their own rules regarding qualified mortgages, the conservatorship of Fannie Mae and Freddie Mac ends, and, in any event, after seven years.

As set forth in the Dodd-Frank Act, subprime (or higher-priced) mortgage loans are subject to the ability-to-repay requirement, and the final rule provided for a rebuttable presumption of lender compliance for those loans. The final rule also applied the ability-to-repay requirement to prime loans, while also providing a conclusive presumption of compliance (i.e., a safe harbor) for prime loans that are also qualified mortgages. Additionally, the final rule generally prohibited prepayment penalties (subject to certain exceptions) and set forth a 3-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

Mortgage Loan Originator Compensation. As a part of the overhaul of mortgage origination practices, mortgage loan originators' compensation was limited such that they may no longer receive compensation based on a mortgage transaction's terms or conditions other than the amount of credit extended under the mortgage loan. Further, the total points and fees that a bank and/or a broker may charge on conforming and jumbo loans was limited to 3.0% of the total loan amount. Mortgage loan originators may receive compensation from a consumer or from a lender, but not both. These rules contain requirements designed to prohibit mortgage loan originators from "steering" consumers to loans that provide mortgage loan originators with greater compensation. In addition, the rules contain other requirements concerning recordkeeping.

Servicing. The CFPB was also required to implement certain provisions of the Dodd-Frank Act relating to mortgage servicing through rulemaking. The servicing rules require servicers to meet certain benchmarks for loan servicing and customer service in general. Servicers must provide periodic billing statements and certain required notices and acknowledgments, promptly credit borrowers' accounts for payments received and promptly investigate complaints by borrowers and are required to take additional steps before purchasing insurance to protect the lender's interest in the property. The servicing rules also called for additional notice, review and timing requirements with respect to delinquent borrowers, including early intervention, ongoing access to servicer personnel and specific loss mitigation and foreclosure procedures. The rules provided for an exemption from most of these requirements for "small servicers." A small servicer is defined as a loan servicer that services 5,000 or fewer mortgage loans and services only mortgage loans that they or an affiliate originated or own.

Additional Constraints on the Company and Bank

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 member bank borrowings and changes in reserve requirements against member 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.

The Volcker Rule. In addition to other implications of the Dodd-Frank Act discussed above, the Act amended the BHCA to require the federal regulatory agencies to adopt rules that prohibit banking entities and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This statutory provision is commonly called the “Volcker Rule.” On December 10, 2013, the federal regulatory agencies issued final rules to implement the prohibitions required by the Volcker Rule. Thereafter, in reaction to industry concern over the adverse impact to community banks of the treatment of certain collateralized debt instruments in the final rule, the federal regulatory agencies approved an interim final rule to permit financial institutions to retain interests in collateralized debt obligations backed primarily by trust preferred securities (“TruPS CDOs”) from the investment prohibitions contained in the final rule. Under the interim final rule, the regulatory agencies permitted the retention of an interest in or sponsorship of covered funds by banking entities if the following qualifications were met: (i) the TruPS CDO was established, and the interest was issued, before May 19, 2010; (ii) the banking entity reasonably believes that the offering proceeds received by the TruPS CDO were invested primarily in qualifying TruPS collateral; and (iii) the banking entity's interest in the TruPS CDO was acquired on or before December 10, 2013.

Table of Contents

Although the Volcker Rule has significant implications for many large financial institutions, the Company does not currently anticipate that it will have a material effect on the operations of the Company or the Bank. The Company may incur costs if it is required to adopt additional policies and systems to ensure compliance with certain provisions of the Volcker Rule.

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.

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, 2014, 2013 and 2012

	2014 Average Balance	Interest	Rate	2013 Average Balance	Interest	Rate	2012 Average Balance	Interest	Rate
Assets									
Interest bearing deposits	$ 28,106	$ 73	0.26 %	$ 43,801	$ 108	0.24 %	$ 48,820	$ 119	0.24
Securities:									
Taxable	616,187	14,131	2.29	586,188	11,692	1.99	395,225	7,212	1.82

Non-taxable (TE)		16,425		727	4.43		14,616		904	6.19		10,350		640	6.18
Total securities		632,612		14,858	2.35		600,804		12,596	2.10		405,575		7,852	1.94
Dividends from Reserve Bank and FHLBC stock		9,677		309	3.19		10,629		304	2.86		12,294		305	2.48
Loans and loans held-for-sale1		1,127,590		53,170	4.65		1,106,447		56,417	5.03		1,270,162		67,110	5.20
Total interest earning assets		1,797,985		68,410	3.76		1,761,681		69,425	3.90		1,736,851		75,386	4.28
Cash and due from banks		32,628		-	-		26,871		-	-		26,197		-	-
Allowance for loan losses		(24,981)		-	-		(35,504)		-	-		(45,047)		-	-
Other noninterest bearing assets		231,767		-	-		209,640		-	-		232,624		-	-
Total assets	$	2,037,399				$	1,962,688				$	1,950,625			
Liabilities and Stockholders' Equity															
NOW accounts	$	314,212	$	266	0.08 %	$	290,998	$	255	0.09 %	$	274,299	$	270	0.10
Money market accounts		305,595		317	0.10		318,343		443	0.14		314,363		576	0.18
Savings accounts		238,326		155	0.07		226,404		161	0.07		211,632		216	0.10
Time deposits		446,133		4,500	1.01		493,855		6,774	1.37		552,489		8,809	1.59
Interest bearing deposits		1,304,266		5,238	0.40		1,329,600		7,633	0.57		1,352,783		9,871	0.73
Securities sold under repurchase agreements		26,093		3	0.01		23,313		3	0.01		4,826		2	0.04
Other short-term borrowings		12,534		16	0.13		15,849		25	0.16		12,268		17	0.14
Junior subordinated debentures		58,378		4,919	8.43		58,378		5,298	9.08		58,378		4,925	8.44
Subordinated debt		45,000		792	1.74		45,000		811	1.78		45,000		903	1.97
Notes payable and other borrowings		500		16	3.16		500		16	3.16		500		17	3.34
		1,446,771		10,984	0.76		1,472,640		13,786	0.94		1,473,755		15,735	1.07

Total interest bearing liabilities									
Noninterest bearing deposits	388,295	-	-	362,871	-	-	377,624	-	-
Other liabilities	20,218	-	-	36,063	-	-	27,285	-	-
Stockholders' equity	182,115	-	-	91,114	-	-	71,961	-	-
Total liabilities and stockholders' equity	$ 2,037,399			$ 1,962,688			$ 1,950,625		
Net interest income (TE)		$ 57,426			$ 55,639			$ 59,651	
Net interest income (TE) to total earning assets			3.19 %			3.16 %			3.43
Interest bearing liabilities to earning assets	80.47 %			83.59 %			84.85 %		

1. Interest income from loans is shown tax equivalent as discussed below and includes fees of $2,285, $2,547 and $2,111 for 2014, 2013 and 2012, respectively. Nonaccrual loans are included in the above stated average balances.

16

Table of Contents

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		
	2014	2013	2012
Interest income (GAAP)	$ 68,044	$ 69,040	$ 75,081
Taxable equivalent adjustment - loans	111	68	81
Taxable equivalent adjustment - securities	255	317	224
Interest income (TE)	68,410	69,425	75,386
Less: interest expense (GAAP)	10,984	13,786	15,735
Net interest income (TE)	$ 57,426	$ 55,639	$ 59,651
Net interest income (GAAP)	$ 57,060	$ 55,254	$ 59,346
Average interest earning assets	1,797,985	1,761,681	1,736,851
Net interest income to total interest earning assets	3.17 %	3.14 %	3.42 %
Net interest income to total interest earning assets (TE)	3.19 %	3.16 %	3.43 %

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

	2014 Compared to 2013			2013 Compared to 2012		
	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	$ (41)	$ 6	$ (35)	$ (13)	$ 2	$ (11)
Securities:						
Taxable	621	1,818	2,439	3,756	724	4,480
Tax-exempt	136	(313)	(177)	264	-	264
	(17)	22	5	8	(9)	(1)

Dividends from Reserve Bank and FHLBC stock						
Loans and loans held-for-sale	1,106	(4,353)	(3,247)	(8,550)	(2,143)	(10,693)
TOTAL EARNING ASSETS	1,805	(2,820)	(1,015)	(4,535)	(1,426)	(5,961)
INTEREST BEARING LIABILITIES/ INTEREST EXPENSE						
NOW accounts	19	(8)	11	19	(34)	(15)
Money market accounts	(17)	(109)	(126)	7	(140)	(133)
Savings accounts	10	(16)	(6)	16	(71)	(55)
Time deposits	(608)	(1,666)	(2,274)	(878)	(1,157)	(2,035)
Securities sold under repurchase agreements	-	-	-	1	-	1
Other short-term borrowings	(5)	(4)	(9)	5	3	8
Junior subordinated debentures	-	(379)	(379)	-	373	373
Subordinated debt	-	(19)	(19)	-	(92)	(92)
Notes payable and other borrowings	-	-	-	-	(1)	(1)
INTEREST BEARING LIABILITIES	(601)	(2,201)	(2,802)	(830)	(1,119)	(1,949)
NET INTEREST INCOME	$ 2,406	$ (619)	$ 1,787	$ (3,705)	$ (307)	$ (4,012)

Table of Contents

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

	2014 Amortized Cost	Fair Value	2013 Amortized Cost	Fair Value	2012 Amortized Cost	Fair Value
Securities Available-For-Sale						
U.S. Treasury	$ 1,529	$ 1,527	$ 1,549	$ 1,544	$ 1,500	$ 1,507
U.S. government agencies	1,711	1,624	1,738	1,672	49,848	49,850
U.S. government agency mortgage-backed	-	-	-	-	127,716	128,738
States and political subdivisions	21,682	22,018	16,382	16,794	14,639	15,855
Corporate bonds	31,243	30,985	15,733	15,102	36,355	36,886
Collateralized mortgage obligations	65,728	63,627	66,766	63,876	168,795	169,600
Asset-backed securities	175,565	173,496	274,118	273,203	165,347	167,493
Collateralized loan obligations	94,236	92,209	-	-	-	-
Collateralized debt obligations	-	-	-	-	17,941	9,957
Total Securities Available-For-Sale	$ 391,694	$ 385,486	$ 376,286	$ 372,191	$ 582,141	$ 579,886
Held-To-Maturity						
U.S. government agency mortgage-backed	$ 37,125	$ 39,155	$ 35,268	$ 35,240	$ -	$ -
Collateralized mortgage obligations	222,545	224,111	221,303	219,088	-	-
Total Held-To-Maturity	$ 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.

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, 2014:

	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
Securities Available-For-Sale									
U.S. Treasury	$ -	-	$ 1,527	0.40 %	$ -	-	$ -	-	$ 1,527
U.S. government agencies	-	-	-	-	1,624	3.14 %	-	-	1,624
States and political subdivisions	8,417	1.65 %	4,515	3.76 %	5,179	2.95 %	3,907	2.92 %	22,018
Corporate bonds	-	-	-	-	29,733	2.30 %	1,252	4.41 %	30,985
	8,417	1.65 %	6,042	2.87 %	36,536	2.43 %	5,159	3.27 %	56,154
Mortgage-backed securities and collateralized mortgage obligations									63,627
Asset-backed securities									173,496
Collateralized loan obligations									92,209
Total Securities Available-For-Sale	$ 8,417	1.65 %	$ 6,042	2.87 %	$ 36,536	2.43 %	$ 5,159	3.27 %	$ 385,486
Held-To-Maturity									
Mortgage-backed securities and collateralized mortgage obligations									259,670
Total Held-To-Maturity	$ -	0.00 %	$ -	0.00 %	$ -	0.00 %	$ -	0.00 %	$ 259,670

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 $13,110,000, offset by deferred income taxes resulted in an overall reduction to equity capital of $7,713,000. As of December 31, 2013, 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 $11,965,000, offset by deferred income taxes resulted in an overall reduction to equity capital of $7,038,000.

Table of Contents

At December 31, 2014, 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, 2014, were as follows;

	December 31, 2014	
	Amortized	Fair
Issuer	Cost	Value
College Loan Corporation	$ 64,634	$ 64,155
Student Loan Consolidation Center Student Loan Trust	27,486	27,526
GCO Education Loan Funding Corp	38,469	37,315

III.Loan Portfolio

Types of Loans

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

	2014	2013	2012	2011	2010
Commercial	$ 119,717	$ 95,211	$ 87,136	$ 98,241	$ 173,718
Real estate - commercial	600,629	560,233	579,687	704,415	821,101
Real estate - construction	44,795	29,351	42,167	70,919	129,601
Real estate - residential	369,870	389,931	414,141	477,196	556,609
Consumer	4,004	3,040	3,414	4,172	5,587
Overdraft	649	628	994	457	739
Lease Financing Receivables	8,038	10,069	6,060	2,087	2,774
Other	11,630	12,793	16,451	11,498	N/A
Gross loans	1,159,332	1,101,256	1,150,050	1,368,985	1,690,129
Allowance for loan losses	(21,637)	(27,281)	(38,597)	(51,997)	(76,308)
Loans, net	$ 1,137,695	$ 1,073,975	$ 1,111,453	$ 1,316,988	$ 1,613,821

The above loan totals include deferred loan fees and costs.

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, 2014:

		Over 1 Year Through 5 Years		Over 5 Years		
	One Year or Less	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Total
Commercial	$ 50,276	$ 27,261	$ 29,466	$ 9,529	$ 3,185	$ 119,717
Real estate - commercial	44,540	394,686	32,362	76,328	52,713	600,629
Real estate - construction	13,839	16,528	480	10,025	3,923	44,795
Real estate - residential	13,360	83,581	67,658	39,322	165,949	369,870
Consumer	545	1,961	1,376	122	-	4,004
Overdraft	649	-	-	-	-	649
Lease financing receivables	1,691	5,549	-	798	-	8,038
Other	4,784	5,386	1,226	234	-	11,630
Total	$ 129,684	$ 534,952	$ 132,568	$ 136,358	$ 225,770	$ 1,159,332

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 87.6% and 89.0% of the portfolio at December 31, 2014 and 2013, respectively. The Company had no concentration of loans exceeding 10% of total loans, which were not otherwise disclosed as a category of loans at December 31, 2014.

Table of Contents

Risk Elements

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

	2014	2013	2012	2011	2010
Nonaccrual loans	$ 26,926	$ 38,911	$ 77,519	$ 126,786	$ 212,225
Nonperforming Troubled debt restructured loans accruing interest	154	796	4,987	11,839	15,637
Loans past due 90 days or more and still accruing interest	-	87	89	318	1,013
Total nonperforming loans	27,080	39,794	82,595	138,943	228,875
Other real estate owned	31,982	41,537	72,423	93,290	75,613
Receivable from swap terminations	-	-	-	-	3,520
Total nonperforming assets	$ 59,062	$ 81,331	$ 155,018	$ 232,233	$ 308,008
Other real estate owned ("OREO") as % of nonperforming assets	54.1 %	51.1 %	46.7 %	40.2 %	24.5 %

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 $511,000, $333,000 and $813,000 was recorded and collected during 2014, 2013 and 2012, respectively, on loans that subsequently went to nonaccrual status by year-end. Interest income, which would have been recognized during 2014, 2013 and 2012, had these loans been on an accrual basis throughout the year, was approximately $1,792,000, $2,953,000 and $6,488,000 respectively. As of both December 31, 2014 and 2013, there were approximately $4.8 million in restructured residential mortgage loans that were still accruing interest based upon their prior performance history. Additionally, the nonaccrual loans above include $5,138,000 and $5,567,000 in restructured loans for the period ending December 31, 2014 and 2013, 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.

Table of Contents

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:

	2014	2013	2012	2011	2010
Average total loans (exclusive of loans held-for-sale)	$ 1,124,335	$ 1,102,197	$ 1,263,172	$ 1,527,311	$ 1,900,604
Allowance at beginning of year	27,281	38,597	51,997	76,308	64,540
Charge-offs:					
Commercial	578	316	344	366	2,247
Real estate - commercial	1,972	2,985	13,508	19,576	29,665
Real estate - construction	174	1,014	4,969	10,430	39,321
Real estate - residential	3,393	6,293	8,406	10,229	13,216
Consumer and other loans	526	597	638	568	560
Total charge-offs	6,643	11,205	27,865	41,169	85,009
Recoveries:					
Commercial	58	119	115	173	320
Real estate - commercial	1,346	5,325	3,576	3,947	900
Real estate - construction	633	1,266	3,420	1,262	3,674
Real estate - residential	1,842	1,221	583	1,807	1,799
Consumer and other loans	420	508	487	782	416
Total recoveries	4,299	8,439	8,181	7,971	7,109
Net charge-offs	2,344	2,766	19,684	33,198	77,900
Provision for loan losses	(3,300)	(8,550)	6,284	8,887	89,668
Allowance at end of year	$ 21,637	$ 27,281	$ 38,597	$ 51,997	$ 76,308
Net charge-offs to average loans	0.21 %	0.25 %	1.56 %	2.17 %	4.10 %
Allowance at year end to average loans	1.92 %	2.48 %	3.06 %	3.40 %	4.01 %

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:

	2014			2013			2012			2011	
	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	$ 1,644	10.3	%	$ 2,250	8.6	%	$ 4,517	7.6	%	$ 5,070	7.2
Real estate - commercial	12,577	51.8	%	16,763	50.9	%	20,100	50.4	%	30,770	51.5
Real estate - construction	1,475	3.9	%	1,980	2.7	%	3,837	3.7	%	7,937	5.2
Real estate - residential	1,981	31.9	%	2,837	35.4	%	4,535	36.0	%	6,335	34.9
Consumer	1,454	0.3	%	1,439	0.3	%	1,178	0.3	%	884	0.3
Lease financing receivables	-	0.7	%	-	0.9	%	-	0.1	%	-	0.1
Unallocated	2,506	1.1	%	2,012	1.2	%	4,430	1.9	%	1,001	0.8
Total	$ 21,637	100.0	%	$ 27,281	100.0	%	$ 38,597	100.0	%	$ 51,997	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 ($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 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:

	2014	2013
3 months or less	$ 30,580	$ 24,415
Over 3 months through 6 months	19,353	21,137
Over 6 months through 12 months	38,877	77,718
Over 12 months	79,587	60,824
	$ 168,397	$ 184,094

YTD Average Balances and Interest Rates

	2014		2013		2012	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Noninterest bearing demand	$ 388,295	-	$ 362,871	-	$ 377,624	-
Interest bearing:						
NOW and money market	619,807	0.09 %	609,341	0.12 %	588,662	0.14 %
Savings	238,326	0.07 %	226,404	0.07 %	211,632	0.10 %

Time	446,133	1.01	%	493,855	1.37	%	552,489	1.59	%
Total deposits	$ 1,692,561			$ 1,692,471			$ 1,730,407		

VI.Return on Equity and Assets

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

	2014		2013		2012	
Return on average total assets	0.50	%	4.18	%	-	
Return on average equity	5.57	%	90.09	%	(0.10)	%
Average equity to average assets	8.94	%	4.64	%	3.69	%
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, 2014, 2013 and 2012.

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 or currently deemed immaterial also may have a material adverse effect on the Company's results of operations and financial condition. If any of the following risks actually occur, the Company's results of operations and financial condition could suffer, possibly materially. 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.

22

Table of Contents

Risks Relating to the Company's Business

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 $10.1 million for 2014 and $82.1 million for 2013, the Company incurred a net loss of $72,000 for 2012 and $6.5 million for 2011 as well as a net loss of $108.6 million for 2010. Despite a general improvement in the overall economy and the real estate market, the economic environment remains challenging, 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, 2014, 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):

	12/31/2014	12/31/2013	% Change
Nonperforming loans	$ 27.1	$ 39.8	(31.9) %
OREO	32.0	41.5	(22.9) %
Nonperforming assets	$ 59.1	$ 81.3	(27.3) %

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 income and returns on assets and 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 $1.02 billion, or approximately 87.6% of the Company’s December 31, 2014, loan portfolio. 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 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 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. 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.

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 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 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, 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. In addition, 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 both 2013 and 2014, its provision for loan losses has been elevated in several recent 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, 2014, and 2013, the Company recorded a loan loss reserve release of $3.3 million and $8.6 million, respectively. The Company also recorded net loan charge-offs of $2.3 million and $2.8 million for the years ended December 31, 2014, and 2013, respectively. The Company's nonperforming assets totaled $59.1 million, or 2.9% of total assets, at December 31, 2014. Additionally, classified assets were $72.9 million at December 31, 2014. 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.

Except for 2014, the size of the Company's loan portfolio has declined in recent years, and, if the Company is unable to maintain the return to loan growth, its profitability may be adversely affected.

Since December 31, 2010, the Company's gross loans held for investment have declined by 31.4% while its total assets have declined by 2.9%. During 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. Management's efforts have reduced the Company's nonperforming assets by 80.8% over this same period. Among other things, the Company's current strategic plan calls for continued reductions in the amount of its nonperforming assets and returning to growth in its loan portfolio to improve its net interest margin and profitability. The Company's ability to increase profitability in accordance with this plan 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'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

Table of Contents

flows are subject to changes and fluctuations in the economic conditions in those areas. The Company has developed a strong presence in the communities it serves, with a particular concentration in Aurora, Illinois, and surrounding communities.

The communities that the Company serves grew rapidly during the early 2000s, 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' financial condition continues to be among the most troubled of any state in the United States. 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. 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.

Similarly, the Company has credit exposure to entities or in industries that could be impacted by the continued financial difficulties at the state level. Exposure exists to health care, construction and social services organizations. Credit downgrades, partial charge-offs and specific reserves could develop in this exposure with resulting impact on the Company's financial condition if the State of Illinois encounters more severe payment issuance capabilities.

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 may 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. 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 the 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.

Table of Contents

Monetary policies and regulations of the Federal Reserve could adversely affect the Company's business, financial condition and results of operations.

The policies of the Federal Reserve also have a significant impact on the Company. Among other things, the Federal Reserve's monetary policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits, and can also affect the value of financial instruments the Company holds and the ability of borrowers to repay their loans, which could have a material adverse effect on the Company.

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. 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. If the Company 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 have commenced offering interest on these 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, 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. Accounting standards require the Company to categorize these securities according to a fair value hierarchy. 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. The market disruptions since 2007 and the resulting fluctuations in fair value have made the valuation process even more difficult and subjective.

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 is 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.

Table of Contents

A more detailed description of the primary federal and state banking laws and regulations that affect the Company 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 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 recently established, with broad powers to supervise and enforce consumer protection laws, and additional consumer protection legislation and regulatory activity is anticipated in the near 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.

In addition, in July 2013, the U.S. federal banking authorities approved the implementation of the Basel III Rules. The Basel III Rules are applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1 billion). The Basel III Rules became effective on January 1, 2015, with a phase-in period through 2019 for many of the changes.

The Basel III Rules not only increase most of the required minimum regulatory capital ratios, they introduce a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Rules also expand the current definition of capital by establishing additional criteria that capital instruments must meet to be considered Additional Tier 1 Capital (i.e., Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that now generally qualify as Tier 1 Capital will not qualify or their qualifications will change when the Basel III Rules are fully implemented. However, the Basel III Rules permit banking organizations with less than $15 billion in assets to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. The Basel III Rules have maintained the general structure of the current prompt corrective action thresholds while incorporating the increased requirements, including the Common Equity Tier 1 Capital ratio. In order to be a "well-capitalized" depository institution under the new regime, an institution must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more; a Tier 1 Capital ratio of 8% or more; a Total Capital ratio of 10% or more; and a leverage ratio of 5% or more. Institutions must also maintain a capital conservation buffer consisting of Common Equity Tier 1 Capital.

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

From time to time, customers make claims and 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 relationships. Loss of key employees with such customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor. 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, should they enter into an employment relationship with one of the Company's competitors, could result in the loss of some of its customers, which 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 used change frequently and cyber-attacks can originate from a wide variety of sources. 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 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. 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.

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. 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, 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.

Table of Contents

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 holders of the Company's preferred stock have rights that are senior to those of its common stockholders.

In January 2009, the Company issued and sold 73,000 shares of Series B Stock, which ranks senior to its common stock in the payment of dividends and on liquidation, to the Treasury along with a warrant to acquire 815,339 shares of the Company's common stock) for $73.0 million. During the first quarter of 2013, Treasury sold all Series B Stock to third party investors, including certain of the Company's directors, in a public auction. Although the Company redeemed a significant portion of the Series B Stock in the second quarter of 2014 and in the first quarter of 2015, the Company still has Series B Stock outstanding. In the event of the Company's bankruptcy, dissolution, or liquidation, the holders of the Series B Stock will receive distributions of its available assets prior to the holders of its common stock but after the holders of its senior debt, subordinated debt and junior subordinated debentures.

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.

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

Table of Contents

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

We conduct our business at 25 retail banking center locations. We own 24 and lease 1 of our banking center locations. The one leased location is leased 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.

Set forth below is information relating to each of our offices as of December 31, 2014. 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, 2014, was $42.3 million.

Principal Business Office:

37 South River Street, Aurora, Illinois

Banking Office Locations:

Cook County

195 West Joe Orr Road, Chicago Heights, Illinois

DeKalb County

1810 DeKalb Avenue, Sycamore, Illinois

1100 South County Line Road, Maple Park, Illinois

DuPage County

4080 Fox Valley Center Drive, Aurora, Illinois

3101 Ogden Road, Lisle, Illinois

Kane County

1991 West Wilson Street, Batavia, Illinois

555 Redwood Drive, Aurora, Illinois

200 West John Street, North Aurora, Illinois

1350 North Farnsworth Avenue, Aurora, Illinois

Cross Street and State Route 47, Sugar Grove, Illinois

801 South Kirk Road, Saint Charles, Illinois

1230 North Orchard Road, Aurora, Illinois

1078 East Wilson Street, Batavia, Illinois

3290 U.S. Highway 20 and Nesler Road, Elgin, Illinois

749 North Main Street, Elburn, Illinois

40W422 IL Route 64, Wasco, Illinois

194 South Main Street, Burlington, Illinois

2S101 Harter Road, Kaneville, Illinois Leased facility.

Kendall County

1200 Douglas Road, Oswego, Illinois

26 West Countryside Parkway, Yorkville, Illinois

7050 Burroughs Avenue, Plano, Illinois

La Salle County

323 East Norris Drive, Ottawa, Illinois

Will County

850 Essington Road, Joliet, Illinois

20201 South Lagrange Road, Frankfort, Illinois

Table of Contents

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, 2014, the Company had 981 stockholders of record of its common stock. The following table sets forth the range of prices during each quarter for 2014 and 2013.

	2014			2013		
	High	Low	Dividend	High	Low	Dividend
First quarter	$ 5.27	$ 4.33	$ -	$ 3.75	$ 1.20	$ -
Second quarter	5.02	4.53	-	6.07	3.13	-
Third quarter	5.25	4.60	-	6.92	5.32	-
Fourth quarter	5.45	4.47	-	5.94	4.16	-

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 2014 or 2013 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.

As of December 31, 2014, we had $58.4 million of junior subordinated debentures held by two statutory business trusts that we control. We have the right to defer interest payments on the junior subordinated debentures for a period of up to 20 consecutive quarters, and we elected to begin such a deferral period in August 2010. All deferred interest must be paid before we may pay dividends on our capital stock. In the second quarter of 2014 the Company paid $19.7 million to pay all outstanding interest on the junior subordinated debentures. As of December 31, 2014 the Company was current on the payments due on these securities.

Furthermore, as with the debentures discussed above, the Company is prohibited from paying dividends on its common stock unless it has fully paid all accrued dividends on its Series B Stock. In August 2010, the Company also announced the deferral of payment of dividends on such preferred stock, which must also be fully paid before it may reinstate the payment of dividends on the common stock. In the second quarter of 2014 the Company paid $10.3 million to pay all accumulated and outstanding Series B Stock dividends. As of December 31, 2014 the Company is current on the payments due on this Series B Stock.

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

31

Table of Contents

(630) 906-2303

scantrell@oldsecond.com

Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2009 and ending December 31, 2014, 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, 2009 in the common stock of the Company and each index and that all dividends were reinvested.

	Period Ending					
Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Old Second Bancorp, Inc.	100.00	24.79	18.96	17.79	67.37	78.30
NASDAQ Bank	100.00	114.16	102.17	121.26	171.86	180.31
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14

Purchases of Equity Securities By the Issuer and Affiliated Purchasers

There were purchases of 9,600 shares made by or on behalf of the Company of shares of its common stock during the year ended December 31, 2014, 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, 2014:

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, 2014	3,265	$ 4.64	-	-
February 1 - February 28, 2014	6,335	5.03	-	-

Total	9,600	$ 4.90	-	-

32

Item 6. Selected Financial Data

Old Second Bancorp, Inc. and Subsidiaries

Financial Highlights

(In thousands, except share data)

	2014	2013	2012	2011	2010
Balance sheet items at year-end					
Total assets	$ 2,061,787	$ 2,004,034	$ 2,045,799	$ 1,941,418	$ 2,123,921
Total earning assets	1,832,714	1,758,582	1,834,995	1,751,662	1,933,296
Average assets	2,037,399	1,962,688	1,950,625	2,015,464	2,426,356
Loans, gross	1,159,332	1,101,256	1,150,050	1,368,985	1,690,129
Allowance for loan losses	21,637	27,281	38,597	51,997	76,308
Deposits	1,685,055	1,682,128	1,717,219	1,740,781	1,908,528
Securities sold under agreement to repurchase	21,036	22,560	17,875	901	2,018
Other short-term borrowings	45,000	5,000	100,000	-	4,141
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	194,163	147,692	72,552	74,002	83,958
Results of operations for the year ended					
Interest and dividend income	68,044	69,040	75,081	85,423	106,681
Interest expense	10,984	13,786	15,735	21,473	28,068
Net interest and dividend income	57,060	55,254	59,346	63,950	78,613
(Release) provision for loan losses	(3,300)	(8,550)	6,284	8,887	89,668
Noninterest income	29,216	31,183	37,219	31,062	42,536
Noninterest expense	73,679	83,144	90,353	92,623	98,262
Income (loss) before taxes	15,897	11,843	(72)	(6,498)	(66,781)
Provision (benefit) for income taxes	5,761	(70,242)	-	-	41,868
Net income (loss)	10,136	82,085	(72)	(6,498)	(108,649)

Preferred stock dividends and accretion		(1,719)			5,258			4,987			4,730			4,538	
Net income (loss) available to common stockholders	$	11,855		$	76,827		$	(5,059)		$	(11,228)		$	(113,187)	
Loan quality ratios															
Allowance for loan losses to total loans at end of year		1.87	%		2.48	%		3.36	%		3.80	%		4.51	%
Provision for loan losses to total loans		(0.28)	%		(0.78)	%		0.55	%		0.65	%		5.31	%
Net loans charged-off to average total loans		0.21	%		0.25	%		1.56	%		2.17	%		4.10	%
Nonaccrual loans to total loans at end of year		2.32	%		3.53	%		6.74	%		9.26	%		12.56	%
Nonperforming assets to total assets at end of year		2.86	%		4.06	%		7.58	%		11.96	%		14.50	%
Allowance for loan losses to nonaccrual loans		80.36	%		70.11	%		49.79	%		41.01	%		35.96	%
Per share data															
Basic earnings (loss)	$	0.46		$	5.45		$	(0.36)		$	(0.79)		$	(8.03)	
Diluted earnings (loss)		0.46			5.45			(0.36)			(0.79)			(8.03)	
Dividends declared		-			-			-			-			0.02	
Common book value per share		4.99			5.37			0.05			0.22			1.01	
Weighted average diluted shares outstanding		25,549,193			14,106,033			14,207,252			14,220,822			14,104,228	
Weighted average basic shares outstanding		25,300,909			13,939,919			14,074,188			14,019,920			13,918,309	
Shares outstanding at year-end		29,442,508			13,917,108			14,084,328			14,034,991			13,911,475	

The following represents unaudited quarterly financial information for the periods indicated:

	2014				2013			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Interest income	$ 17,498	$ 17,199	$ 16,643	$ 16,704	$ 16,894	$ 17,724	$ 16,932	$ 17,490
Interest expense	2,356	2,528	2,991	3,109	3,219	3,435	3,544	3,588

Net interest income	15,142	14,671	13,652	13,595	13,675	14,289	13,388	13,902
Release for loan losses	(1,300)	—	(1,000)	(1,000)	(2,500)	(1,750)	(1,800)	(2,500)
Securities gains (losses), net	262	1,231	295	(69)	(4,103)	(7)	745	1,453
Income (loss) before taxes	4,766	4,650	3,081	3,400	(32)	2,927	3,477	5,471
Net income	2,989	2,924	2,021	2,202	213	72,924	3,477	