OLD SECOND BANCORP INC
Form 10-K
March 13, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2017

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, smaller reporting company, or an emerging growth company. See the definitions of ''large accelerated filer,'' ''accelerated filer,'' ''smaller reporting company,'' and ''emerging growth 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	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $336.7 million. The number of shares outstanding of the registrant's common stock, par value $1.00 per share, was 29,693,150 at March 10, 2018.

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DOCUMENTS INCORPORATED BY REFERENCE:

Certain information required by Part III of this Annual Report on Form 10-K is incorporated by reference from the registrant's definitive proxy statement relating to the 2018 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report and other publicly available documents of the Company, including the documents incorporated herein by reference, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act, including with respect to management's expectations regarding future plans, strategies and financial performance, including the anticipated timing of the closing of the merger transaction with Greater Chicago Financial Corp., regulatory developments, industry and economic trends, and other matters. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, can be identified by the inclusion of such qualifications as "expects," "intends," "believes," "may," "will," "would," "could," "should," "plan," "anticipate," "estimate," "possible," "likely" or other indications that the particular are not historical facts and refer to future periods. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and may be outside of the Company's control. Actual events and results may differ significantly from those described in such forward-looking statements, due to numerous factors, including:

- negative economic conditions that adversely affect the economy, real estate values, the job market and other factors nationally and in our market area, in each case that may affect our liquidity and the performance of our loan portfolio;
- defaults and losses on our loan portfolio;
- completion of the merger transaction is dependent on, among other things, receipt of regulatory approvals, the timing of which cannot be predicted with precision at this point and which may not be received at all;
- the impact of the completion of the merger transaction on the Company's and Greater Chicago Financial Corp.'s financial statements will be affected by the timing of the transaction;
- the merger transaction may be more expensive to complete and the anticipated benefits, including estimated cost savings and anticipated strategic gains, may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events;
- the integration of Great Chicago Financial Corp.'s business and operations into the Company, which will include conversion of Great Chicago Financial Corp.'s operating systems and procedures, may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to Great Chicago Financial Corp.'s or the Company's existing businesses;
- the Company's ability to achieve anticipated results from the transaction is dependent on the state of the economic and financial markets going forward. Specifically, the Company may incur more credit losses than expected, cost savings may be less than expected and customer attrition may be greater than expected;
- the financial success and viability of the borrowers of our commercial loans;
- market conditions in the commercial and residential real estate markets in our market area;
- changes in U.S. monetary policy, the level and volatility of interest rates, the capital markets and other market conditions that may affect, among other things, our liquidity and the value of our assets and liabilities;
- competitive pressures in the financial services business;
- any negative perception of our reputation or financial strength;
- ability to raise additional capital on acceptable terms when needed;
-

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

- adverse effects on our information technology systems resulting from failures, human error or cyberattacks;
- adverse effects of failures by our vendors to provide agreed upon services in the manner and at the cost agreed, particularly our information technology vendors;
- the impact of any claims or legal actions, including any effect on our reputation;
- losses incurred in connection with repurchases and indemnification payments related to mortgages;
- the soundness of other financial institutions;
- changes in accounting standards, rules and interpretations and the impact on our financial statements;
- our ability to receive dividends from our subsidiaries;
- a decrease in our regulatory capital ratios;
- legislative or regulatory changes, particularly changes in regulation of financial services companies;
- increased costs of compliance, heightened regulatory capital requirements and other risks associated with changes in regulation and the current regulatory environment, including the Dodd-Frank Act;
- the impact of heightened capital requirements; and
- each of the factors and risks under the heading "Risk Factors."

Because the Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain, there can be no assurances that future actual results will correspond to any forward-looking statements and you should not rely on any forward-looking statements. Additionally, all statements in this Form 10-K, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

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PART I

Item 1. Business

General

Old Second Bancorp, Inc. (the "Company" or the "Registrant") was organized under the laws of the State of Delaware on September 8, 1981, and is a registered bank holding company under the Bank Holding Company Act of 1956 (the "BHCA").

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.
- Station I, LLC, which is wholly owned by the Bank 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.
- Old Second Bancorp Merger Subsidiary, Inc., which was formed in December 2017 in connection with the Company's proposed merger with Greater Chicago Financial Corp.

Intercompany transactions and balances are eliminated in consolidation.

The Bank's full service banking businesses include the customary consumer and commercial products and services that banking institutions typically provide including demand, NOW, money market, savings, time deposit and individual retirement accounts; commercial, industrial, consumer and real estate lending, including installment 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, money orders, cashiers' checks and foreign currency, direct deposit, discount brokerage, debit cards, credit cards, and other special services. The Bank's lending activities include making commercial and consumer loans, 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.

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. 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.

The Company's management evaluates the operations of the Company as one operating segment, which is community banking. Financial information concerning the Company's operations can be found in the financial statements in this annual report.

Proposed Merger with Greater Chicago Financial Corp.

On December 26, 2017, the Company announced the signing of a definitive agreement and plan of merger (the "Merger Agreement") to acquire Greater Chicago Financial Corp. and its wholly-owned bank subsidiary, ABC Bank, in an all-cash transaction. Under the terms of the Merger Agreement, the Company will acquire all of the outstanding common stock of Greater Chicago Financial Corp. in a transaction valued at approximately $41.1 million. The Company will acquire and simultaneously retire $6.3 million of outstanding subordinated debentures of Greater Chicago Financial Corp. The ultimate per share consideration for shareholders of Greater Chicago Financial Corp. will depend upon the conversion election of holders of approximately $2.0 million of subordinated debentures that are convertible to common stock. The Merger Agreement requires the purchase price to be increased by an amount equal to the aggregate amount of outstanding principal and accrued but unpaid interest of such converted indebtedness actually converted into Greater

Chicago Financial Corp. common stock. ABC Bank had total assets of $342.6 million as of December 31, 2017, including $234.4 million of net loans. The boards of the Company and Greater Chicago Financial Corp. unanimously approved the transaction which is subject to regulatory approval and customary closing conditions. Greater Chicago Financial Corp.'s shareholders have approved the transaction, which is expected to close in the second quarter of 2018.

Market Area

The Company's main office is located at 37 South River Street, Aurora, Illinois 60507. 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, Kaneville, Sugar Grove, Naperville, Lisle, Joliet, Yorkville, Plano, Wasco, Ottawa, Oswego, Sycamore, Frankfort, Chicago and Chicago Heights communities and surrounding areas through its 25 banking locations that are located primarily west and south of the Chicago metropolitan area. The Bank is continually assessing its market presence to ensure it meets the needs of these communities and the Company's stockholders. The Bank closed its Maple Park Branch in February 2017. The pending acquisition of ABC Bank, as discussed above, will result in four additional operating branches within our network in the Chicago and Bensenville markets following the closing.

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 2017, the Bank originated approximately $656.1 million in loans. The Bank's total loan portfolio grew $138.8 million in 2017 due to originations and select portfolio purchases of leases and home equity loans from third parties. In addition, residential mortgage loans of approximately $197.0 million were originated in 2017, which includes originations of loans held for sale of $146.9 million. Proceeds from the sales of residential mortgage loans to third parties were $151.3 million.

The Bank's loan portfolios are comprised primarily of loans in the areas of commercial real estate, residential real estate, general commercial, construction real estate, leases, and consumer lending. As of December 31, 2017, commercial real estate loans represented approximately 46.4% (49.8% at year-end 2016) of the Bank's loan portfolio, residential mortgages represented approximately 26.3% (25.6% at year-end 2016), general commercial loans represented approximately 16.9% (15.4% at year-end 2016), construction lending represented approximately 5.3% (4.4% at year-end 2016), leases represented approximately 4.2% (3.8% at year-end 2016), and consumer and other lending represented less than 1.0% (1.0% at year-end 2016). It is the Bank's policy to comply at all times with the

various consumer protection laws and regulations including, but not limited to, the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act, the Truth in Lending Act, and the Home Mortgage Disclosure Act.

Commercial Loans. The Bank continues to focus on identifying commercial and industrial prospects in its new business pipeline with favorable results in 2017. As noted above, the Bank is an active commercial lender in the Chicago metropolitan area, with primary markets in the city of Chicago, as well as west and south of Chicago. 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 often secures 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 seven years with the majority falling in the one to five year range. Interest rates on commercial loans are a mixture of fixed and variable rates, with these rates often tied to the prime rate, a spread over the FHLB Chicago index rate, or LIBOR.

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.

Lease Financing Receivables. The Bank continued growth of the lease portfolio in 2017 with the acquisition of leases originated by other equipment financing companies, as well as organic growth by the Bank. The collateral for lease financing receivables primarily includes manufacturing and transportation equipment, and lease terms typically range from one to seven years, with the majority falling in the one to five year range. Growth in this portfolio reflects management's efforts to diversify lending product offerings, and improve loan concentration metrics.

Commercial Real Estate Loans. While management has been actively working to reduce the Bank's concentration in real estate loans, including commercial real estate loans, a large portion of the loan portfolio continues to be comprised of commercial real estate loans.

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As of December 31, 2017, approximately $317.0 million, or 42.2% (42.8%, at year-end 2016) of the total commercial real estate loan portfolio of $751.0 million consisted of loans to borrowers secured by owner occupied property. A primary repayment risk for a commercial real estate loan is interruption or discontinuance of cash flows from operations, which are usually derived from rent in the case of nonowner occupied commercial properties. Repayment could also be influenced by economic events, which may or may not be under the control of the borrower, or changes in regulations that negatively impact the future cash flow and market values of the affected properties. Repayment risk can also arise from general downward shifts in the valuations of classes of properties over a given geographic area such as the significant price adjustments that were observed by the Company in 2008 through 2011. Property valuations could continue to be affected by changes in demand and other economic factors, which could further influence cash flows associated with the borrower and/or the property. The Bank attempts to mitigate these risks by staying apprised of market conditions and by maintaining underwriting practices that provide for adequate cash flow margins and multiple repayment sources as well as remaining in regular contact with its borrowers. In most cases, the Bank has collateralized these loans and/or has taken personal guarantees to help assure repayment. Commercial real estate loans are primarily made based on the identified cash flow of the borrower and/or the property at origination and secondarily on the underlying real estate acting as collateral. Additional credit support is provided by the borrower for most of these loans and the probability of repayment is based on the liquidation value of the real estate and enforceability of personal and corporate guarantees if any exist.

Construction Loans. The Bank's construction and development portfolio increased from $64.7 million at December 31, 2016, to $85.2 million at December 31, 2017, due primarily to organic loan originations in strengthening markets. The Bank uses underwriting and construction loan guidelines to determine whether to issue loans on build-to-suit or build out arrangements of existing borrower properties.

Construction loans are structured most often to be converted to permanent loans at the end of the construction phase or, infrequently, to be paid off upon receiving financing from another financial institution. Construction loans are generally limited to our local market area. Lending decisions have been based on the appraised value of the property as determined by an independent appraiser, an analysis of the potential marketability and profitability of the project and identification of a cash flow source to service the permanent loan or verification of a refinancing source. Construction loans generally have terms of 12 to 18 months, with extensions as needed. The Bank disburses loan proceeds in increments as construction progresses and as inspections warrant.

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. Therefore, construction lending 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 construction 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 interest rates rising in 2017 in our market area, the Bank's residential mortgage lending reflected a reduction in volume and mixture of both refinance and purchase financing opportunities. Home equity lending reflected growth in 2017 due to a portfolio purchase of high-quality home equity lines of credit ("HELOCs") from a third party of $16.7 million; this HELOC purchase was made at a 4.25% premium, and the average annualized yield on the portfolio in 2017 was 4.43%, net of the premium accretion.

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

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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 which are not subject to the same extensive federal regulations that govern bank holding companies and banks, such as the Company and the Bank, may have certain competitive advantages.

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

We believe the financial services industry will likely 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, 2017, the Company employed 450 full-time equivalent employees.

Available Information

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. No information contained on our website is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10-K. The Company’s reports, proxy and informational statements and other information regarding the Company are also 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: Investor Relations, Old Second Bancorp, Inc., 37 South River Street, Aurora, Illinois 60507.

SUPERVISION AND REGULATION

General

FDIC-insured institutions, their holding companies and their affiliates, are extensively regulated under federal and state law. As a result, the Company's growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Office of the Comptroller of the Currency (the "OCC"), the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC") and the 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 Company's business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the Company's operations and results.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than stockholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company's business, the kinds and amounts of investments the Company and the Bank may make, reserve requirements, required capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, the Company's ability to merge, consolidate and acquire, dealings with the Company's and the Bank's insiders and affiliates and the Company's payment of dividends. In the last several years, the Company has experienced heightened regulatory requirements and scrutiny following the global financial crisis and as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time, and the reforms have caused the Company's compliance and risk management processes, and the costs thereof, to increase. While it is anticipated that the Trump administration will not increase the regulatory burden on community banks and may reduce some of the burdens associated with implementation of the Dodd-Frank Act, the true impact of the new administration is impossible to predict with any certainty.

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This supervisory and regulatory framework subjects banks and their 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 determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

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

Regulatory Emphasis on Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects the Company’s earnings capabilities. 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 that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels. Banks have been required to hold minimum levels of capital based on guidelines established by the bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of capital divided by total assets. As discussed below, bank capital measures have become more sophisticated over the years and have focused more on the quality of capital and the risk of assets. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, are being excluded from capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets, they may be retained, subject to certain restrictions. Because the Company has assets of less than $15 billion, the Company is able to maintain its trust preferred proceeds as capital but the Company has to comply with new capital mandates in other respects and will not be able to raise capital in the future through the issuance of trust preferred securities.

The Basel International Capital Accords. The risk-based capital guidelines for U.S. banks since 1989 were 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 that acts as the primary global standard-setter for prudential

regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accord recognized that bank assets for the purpose of the capital ratio calculations needed to be risk weighted (the theory being that riskier assets should require more capital) and that off-balance sheet exposures needed to be factored in the calculations. Basel I had a very simple formula for assigning risk weights to bank assets from 0% to 100% based on four categories. 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) known as “advanced approaches” banks. The primary focus of Basel II was on the calculation of risk weights based on complex models developed by each advanced approaches bank. Because most banks were not subject to Basel II, the U.S. bank regulators worked to improve the risk sensitivity of Basel I standards without imposing the complexities of Basel II. This “standardized approach” increased the number of risk-weight categories and recognized risks well above the original 100% risk weighting. The standardized approach is institutionalized by the Dodd-Frank Act for all banking organizations as a floor.

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.

The Basel III Rule. 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 historically, which were in the form of guidelines, Basel III was released in the form of enforceable regulations by each of the regulatory agencies. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than “small bank holding companies” (generally holding companies with consolidated assets of less than $1 billion that do not have securities registered with the SEC).

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The Basel III Rule required higher capital levels, increased the required quality of capital, and required more detailed categories of risk weighting of riskier, more opaque assets. For nearly every class of assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings.

Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to 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 changed the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). A number of instruments that qualified as Tier 1 Capital under Basel I do not qualify, or their qualifications changed. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital under Basel I, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking institution's Common Equity Tier 1 Capital.

The Basel III Rule required minimum capital ratios as of January 1, 2015, as follows:

- A ratio of minimum Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;
- An increase in the minimum required amount of Tier 1 Capital from 4% to 6% of risk-weighted assets;
- A continuation of the 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 quarterly average assets equal to 4% in all circumstances.

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% in Common Equity Tier 1 Capital attributable to a capital conservation buffer being phased in over three years beginning in 2016 (which, as of January 1, 2017, was phased in half-way to 1.25%). 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 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital.

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

Well-Capitalized Requirements. The ratios described above are minimum standards in order for banking organizations to be considered "adequately capitalized." Bank regulatory agencies uniformly encourage banks to hold more capital and 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. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles 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.

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

- A Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
- A ratio of Tier 1 Capital to total risk-weighted assets of 8% (6% under Basel I);
- A ratio of Total Capital to total risk-weighted assets of 10% (the same as Basel I); and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

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

As of December 31, 2017: (i) the Bank was not subject to a directive from the OCC to increase its capital and (ii) the Bank was well-capitalized, as defined by OCC regulations. As of December 31, 2017, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Basel III Rule requirements to be well-capitalized.

Prompt Corrective Action. An FDIC-insured institution's capital plays an important role in connection with regulatory enforcement as well. 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

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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.

Regulation and Supervision of the Company

General. The Company, as the sole stockholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and subject to regulation, supervision and enforcement by, the Federal Reserve under the BHCA. The Company is legally obligated to act as a source of financial and managerial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve and is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and the Bank as the Federal Reserve may require.

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

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

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

holding company.

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

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements. For a discussion of capital requirements, see “Regulatory Emphasis on Capital” above.

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

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to stockholders if: (i) the company's net income available to stockholders 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. In addition, under the Basel III Rule, institutions that seek the freedom to pay

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dividends will have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "Regulatory Emphasis on Capital" above.

Incentive Compensation. There have been a number of developments in recent years focused on incentive compensation plans sponsored by bank holding companies and banks, reflecting recognition by the bank regulatory agencies and Congress that flawed incentive compensation practices in the financial industry were one of many factors contributing to the global financial crisis. Layered on top of that are the abuses in the headlines dealing with product cross-selling incentive plans. The result is interagency guidance on sound incentive compensation practices and proposed rulemaking by the agencies required under Section 956 of the Dodd-Frank Act.

The interagency guidance recognized three core principles; effective incentive plans are required to: (i) provide employees incentives that appropriately balance risk and reward; (ii) be compatible with effective controls and risk-management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Much of the guidance addresses large banking organizations and, because of the size and complexity of their operations, the regulators expect those organizations to maintain systematic and formalized policies, procedures, and systems for ensuring that the incentive compensation arrangements for all executive and non-executive employees covered by this guidance are identified and reviewed, and appropriately balance risks and rewards. Smaller banking organizations like the Company that use incentive compensation arrangements are expected to be less extensive, formalized, and detailed than those of the larger banks.

Section 956 of the Dodd-Frank Act required the banking agencies, the National Credit Union Administration, the SEC and the Federal Housing Finance Agency to jointly prescribe regulations that prohibit types of incentive-based compensation that encourage inappropriate risk taking and to disclose certain information regarding such plans. On June 10, 2016, the agencies released an updated proposed rule for comment. Section 956 will only apply to banking organizations with assets of greater than $1 billion. The Company has consolidated assets greater than $1 billion and less than $50 billion and the Company is considered a Level 3 banking organization under the proposed rules. The proposed rules contain mostly general principles and reporting requirements for Level 3 institutions so there are no specific prescriptions or limits, deferral requirements or claw-back mandates. Risk management and controls are required, as is board or committee level approval and oversight. Management expects to review its incentive plans in light of the proposed rulemaking and guidance and implement policies and procedures that mitigate unreasonable risk. No final rule has been issued yet.

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

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

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

executives of bank holding companies, regardless of whether such companies are publicly traded.

Regulation and Supervision of the Bank

General. The Bank is a national bank, chartered by the OCC under the National Bank Act. The deposit accounts of the Bank are insured by the FDIC's Deposit Insurance Fund (the "DIF") to the maximum extent provided under federal law and FDIC regulations, currently $250,000 per insured depositor category, 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 chartering authority for national banks. The FDIC, as administrator of the DIF, also has regulatory authority over the Bank.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. Effective July 1, 2016, the FDIC changed its pricing system for banks under $10 billion, so that minimum and maximum initial base assessment rates are based on supervisory ratings. The initial base assessment rates currently range from three basis points to 30 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking.

The assessment base against which an FDIC-insured institution's deposit insurance premiums paid to the DIF are calculated based on its average consolidated total assets less its average tangible equity. This method shifts the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits.

The reserve ratio is the DIF balance divided by estimated insured deposits. The Dodd-Frank Act altered the minimum reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions when the reserve ratio exceeds certain thresholds. The reserve ratio reached 1.15% on June 30, 2016, when revised factors were put in place for calculating the assessment. If the reserve ratio does not reach 1.35% by December 31, 2018, (provided it is at least 1.15%), the FDIC will impose a shortfall assessment on March 31,

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2019, on insured depository institutions with total consolidated assets of $10 billion or more. The FDIC will provide assessment credits to insured depository institutions, like the Bank, with total consolidated assets of less than $10 billion for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15% and 1.35%. The FDIC will apply the credits each quarter that the reserve ratio is at least 1.38% to offset the regular deposit insurance assessments of institutions with credits.

FICO Assessments. In addition to paying basic deposit insurance assessments, FDIC-insured institutions must pay Financing Corporation (“FICO”) assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO’s authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured institutions pay assessments to cover interest payments on FICO’s outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2017 was 0.46 basis points (46 cents per $100 dollars of assessable deposits).

Supervisory Assessments. National banks are required to pay supervisory assessments to the OCC to fund the operations of the OCC. The amount of the assessment is calculated using a formula that takes into account the bank’s size and its supervisory condition. During the year ended December 31, 2017, the Bank paid supervisory assessments to the OCC totaling $467,000.

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

Liquidity Requirements. Liquidity is a measure of the ability and ease with which 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, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the Liquidity Coverage Ratio (“LCR”), is designed to ensure that the 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 FDIC-insured 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 federal bank regulatory agencies implemented the Basel III LCR in 2014 and have proposed the NSFR. While the LCR only applies to the largest banking organizations in the country, as will the NSFR, certain elements are expected to filter down to all FDIC-insured institutions. The Company has adopted a modified version of the LCR as a part of measuring the liquidity at the Bank. The Company has no plans to adopt the NSFR and has not received regulatory guidance indicating a requirement to do so.

Stress Testing. A stress test is an analysis or simulation designed to determine the ability of a given FDIC-insured institution to deal with an economic crisis, In October 2012, U.S. bank regulators unveiled new rules mandated by the Dodd-Frank Act that require the largest U.S. banks to undergo stress tests twice per year, once internally and once conducted by the regulators. Stress tests are not required for banks with less than $10 billion in assets; however, the FDIC now recommends stress testing as means to identify and quantify loan portfolio risk and the Bank is engaged in the process.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under the National Bank Act, a national bank may pay dividends out of its undivided profits in such amounts and at such times as the bank's board of directors deems prudent. Without prior OCC approval, however, a national bank may not pay dividends in any calendar year that, in the aggregate, exceed the bank's year-to-date net income plus the bank's retained net income for the two preceding years. The payment of dividends by any FDIC-insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and an FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its capital requirements under applicable guidelines as of December 31, 2017. 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 Capital attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "Regulatory Emphasis on Capital" above.

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

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 stockholders of the Company and to "related interests" of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who

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

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

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

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

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

The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or acquire individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments.

Financial Subsidiaries. Under federal law and OCC regulations, national banks are authorized to engage, through "financial subsidiaries," in any activity that is permissible for a financial holding company and any activity that the Secretary of the Treasury, in consultation with the Federal Reserve, determines is financial in nature or incidental to any such financial activity, except (i) insurance underwriting, (ii) real estate development or real estate investment activities (unless otherwise permitted by law), (iii) insurance company portfolio investments and (iv) merchant banking. The authority of a national bank to invest in a financial subsidiary is subject to a number of conditions, including, among other things, requirements that the bank must be well-managed and well-capitalized (after deducting

from capital the bank's outstanding investments in financial subsidiaries). The Bank has not applied for approval to establish any financial subsidiaries.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Chicago (the "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.

Transaction Account Reserves. Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2017 the first $15.5 million of otherwise reservable balances are exempt from reserves and have a zero percent reserve requirement; for transaction accounts aggregating more than $15.5 million to $115.1 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $115.1 million, the reserve requirement is 3% up to $115.1 million plus 10% of the aggregate amount of total transaction accounts in excess of $115.1 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

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

Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "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 FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of

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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 FDIC-insured institutions and law enforcement authorities.

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

Based on the Bank's loan portfolio as of December 31, 2017, concentrations in commercial real estate did not exceed the 300% guideline for non-owner occupied commercial real estate loans, or the 100% guideline for construction and development loans.

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

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

GUIDE 3 STATISTICAL DATA REQUIREMENTS

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

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

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

Analysis of Average Balances,

Tax Equivalent Interest and Rates

Years ended December 31, 2017, 2016 and 2015

	2017 Average Balance	Interest	Rate %	2016 Average Balance	Interest	Rate %	2015 Average Balance	Interest	Rate %
Assets									
Interest bearing deposits with financial institutions	$ 12,224	$ 134	1.08	$ 33,226	$ 169	0.50	$ 20,066	$ 55	0.27
Securities:									
Taxable	347,712	10,202	2.93	635,914	15,865	2.49	642,132	14,037	2.19
Non-taxable (TE)	208,142	9,137	4.39	36,643	1,295	3.53	22,311	834	3.74
Total securities	555,854	19,339	3.48	672,557	17,160	2.55	664,443	14,871	2.24
Dividends from FHLBC and FRBC	8,127	370	4.55	7,944	333	4.19	8,545	306	3.58
Loans and loans held-for-sale1	1,537,742	70,950	4.55	1,218,931	56,263	4.54	1,149,590	53,327	4.58
Total interest earning assets	2,113,947	90,793	4.25	1,932,658	73,925	3.78	1,842,644	68,559	3.68
Cash and due from banks	33,738	-	-	31,689	-	-	29,659	-	-
Allowance for loan and lease	(16,390)	-	-	(15,955)	-	-	(19,323)	-	-

losses									
Other noninterest bearing assets	187,503	-	-	194,356	-	-	212,142	-	-
Total assets	$ 2,318,798			$ 2,142,748			$ 2,065,122		
Liabilities and Stockholders' Equity									
NOW accounts	$ 425,435	$ 424	0.10	$ 389,266	$ 358	0.09	$ 345,472	$ 300	0.09
Money market accounts	278,826	349	0.13	273,101	274	0.10	292,725	282	0.10
Savings accounts	261,974	177	0.07	256,905	157	0.06	249,570	152	0.06
Time deposits	389,771	4,227	1.08	404,285	3,640	0.90	410,691	3,201	0.78
Interest bearing deposits	1,356,006	5,177	0.38	1,323,557	4,429	0.33	1,298,458	3,935	0.30
Securities sold under repurchase agreements	31,478	17	0.05	34,016	4	0.01	28,194	3	0.01
Other short-term borrowings	67,959	741	1.08	26,518	102	0.38	21,945	30	0.13
Junior subordinated debentures	57,615	4,002	6.95	57,567	4,334	7.53	57,520	4,287	7.45
Senior notes	44,010	2,689	6.11	2,050	112	5.46	-	-	-
Subordinated debt	-	-	-	42,910	949	2.18	45,000	814	1.78
Notes payable and other borrowings	-	-	-	477	8	1.65	500	7	1.38
Total interest bearing liabilities	1,557,068	12,626	0.81	1,487,095	9,938	0.67	1,451,617	9,076	0.62
Noninterest bearing deposits	547,719	-	-	476,422	-	-	429,403	-	-
Other liabilities	22,131	-	-	12,929	-	-	10,712	-	-
Stockholders' equity	191,880	-	-	166,302	-	-	173,390	-	-
Total liabilities and stockholders' equity	$ 2,318,798			$ 2,142,748			$ 2,065,122		
Net interest income (TE)		$ 78,167			$ 63,987			$ 59,483	

Net interest income (TE) to total earning assets	3.70	3.31	3.23
Interest bearing liabilities to earning assets	73.66 %	76.95 %	78.78 %

1 Interest income from loans is shown tax equivalent as discussed below and includes fees of $2.4 million, $2.5 million and $1.8 million for 2017, 2016 and 2015, respectively. Nonaccrual loans are included in the above stated average balances.

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For purposes of discussion, net interest income and net interest income to interest 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		
	2017	2016	2015
Interest income (GAAP)	$ 87,505	$ 73,379	$ 68,164
Taxable equivalent adjustment - loans	90	93	103
Taxable equivalent adjustment - securities	3,198	453	292
Interest income (TE)	90,793	73,925	68,559
Less: interest expense (GAAP)	12,626	9,938	9,076
Net interest income (TE)	$ 78,167	$ 63,987	$ 59,483
Net interest income (GAAP)	$ 74,879	$ 63,441	$ 59,088
Average interest earning assets	$ 2,113,947	$ 1,932,658	$ 1,842,644
Net interest income to total interest earning assets	3.54 %	3.28 %	3.21 %
Net interest income to total interest earning assets (TE)	3.70 %	3.31 %	3.23 %

The following table allocates the changes in net interest income to changes in either average balances or average rates for interest earning assets and interest bearing liabilities. Interest income is measured on a tax-equivalent basis using a 35% marginal rate. Interest income not yet received on nonaccrual loans is reversed upon transfer to nonaccrual status; future receipt of interest income is a reduction to principal while in nonaccrual status.

Analysis of Year-to-Year Changes in Net Interest Income1

	2017 Compared to 2016			2016 Compared to 2015		
	Change Due to			Change Due to		
	Average Balance	Average Rate	Total Change	Average Balance	Average Rate	Total Change
Interest and dividend income						
Interest bearing deposits	$ 42	$ (77)	$ (35)	$ 50	$ 64	$ 114
Securities:						
Taxable	(9,260)	3,597	(5,663)	(135)	1,963	1,828
Tax-exempt	7,456	386	7,842	504	(43)	461
Dividends from FHLBC and FRBC	8	29	37	(19)	46	27
Loans and loans held-for-sale	14,557	130	14,687	3,364	(428)	2,936
Total interest and dividend income	12,803	4,065	16,868	3,764	1,602	5,366
Interest expense						

NOW accounts	35	31	66	40	18	58
Money market accounts	6	69	75	(21)	13	(8)
Savings accounts	3	17	20	4	1	5
Time deposits	(125)	712	587	(49)	488	439
Securities sold under repurchase agreements	-	13	13	1	-	1
Other short-term borrowings	293	346	639	7	65	72
Junior subordinated debentures	4	(336)	(332)	4	43	47
Senior notes	2,562	15	2,577	112	-	112
Subordinated debt	(475)	(474)	(949)	(36)	171	135
Notes payable and other borrowings	(4)	(4)	(8)	-	1	1
Total interest expense	2,299	389	2,688	62	800	862
Net interest and dividend income	$ 10,504	$ 3,676	$ 14,180	$ 3,702	$ 802	$ 4,504

1 The changes in net interest income are created by changes in both interest rates and volumes. In the table above, volume variances are computed using the change in volume multiplied by previous year’s rate. Rate variances are computed using the change in rate multiplied by the previous year’s volume. The change in interest due to both rate and volume has been allocated between factors in proportion to the relationship of absolute dollar amounts of the change in each.

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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

	2017		2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale						
U.S. Treasury	$ 4,002	$ 3,947	$ -	$ -	$ 1,509	$ 1,509
U.S. government agencies	13,062	13,061	-	-	1,683	1,556
U.S. government agency mortgage-backed	12,372	12,214	42,511	41,534	2,040	1,996
States and political subdivisions	272,240	278,092	68,718	68,703	30,341	30,526
Corporate bonds	823	833	10,957	10,630	30,157	29,400
Collateralized mortgage obligations	66,892	65,939	174,352	170,927	68,743	66,920
Asset-backed securities	113,983	112,932	146,391	138,407	241,872	231,908
Collateralized loan obligations	54,271	54,421	102,504	101,637	94,374	92,251
Total securities available-for-sale	$ 537,645	$ 541,439	$ 545,433	$ 531,838	$ 470,719	$ 456,066
Held-to-maturity						
U.S. government agency mortgage-backed	$ -	$ -	$ -	$ -	$ 36,505	$ 38,097
Collateralized mortgage obligations	-	-	-	-	211,241	213,578
Total held-to-maturity	$ -	$ -	$ -	$ -	$ 247,746	$ 251,675

Some of the Company’s holdings of U.S. government agency mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMOs”) are issuances of government-sponsored enterprises, such as Fannie Mae and Freddie Mac, which are not backed by the full faith and credit of the U.S. government. Some holdings of MBS and CMOs are issued by Ginnie Mae, which does carry the full faith and credit of the U.S. government. The Company also holds

some MBS and CMOs that were not issued by U.S. government agencies and are typically credit-enhanced via over-collateralization and/or subordination. Holdings of asset-backed securities (“ABS”) were largely comprised of securities backed by student loans issued under the U.S. Department of Education’s (“DOE”) FFEL program, which generally provides a minimum 97% U.S. DOE guarantee of principal. These ABS securities also have added credit enhancement through over-collateralization and/or subordination. The majority of holdings issued by states and political subdivisions are general obligation bonds that have S&P or Moody’s ratings of AA- or higher. Other state and political subdivision issuances are unrated and generally consist of smaller investment amounts that involve issuers in the Company’s markets. The credit quality of these issuers is monitored and none have been identified as posing a material risk of loss. The Company also holds collateralized loan obligation (“CLOs”) securities that are generally backed by a pool of debt issued by multiple middle-sized and large businesses. The Company’s CLOs are roughly split between tranches that have S&P or Moody’s ratings of A and those that are rated AA. CLO credit enhancement is achieved through over-collateralization and/or subordination.

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, 2017. Securities not due at a single maturity date are shown only in the total column.

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale										
U.S. Treasury	$ -	-	$ 3,947	1.85 %	$ -	-	$ -	-	$ 3,947	1.85 %
U.S. government agencies	-	-	-	-	-	-	13,061	1.93 %	13,061	1.93
States and political subdivisions	6,185	2.41 %	-	-	5,733	3.27 %	266,174	3.00	278,092	2.99
Corporate bonds	-	-	332	4.10	501	3.60	-	-	833	3.81
	6,185	2.41	4,279	2.03	6,234	3.29	279,235	2.95	295,933	2.93
Mortgage-backed securities and collateralized mortgage obligations	-	-	-	-	-	-	-	-	78,153	2.94
Asset-backed securities	-	-	-	-	-	-	-	-	112,932	2.56
Collateralized loan obligations									54,421	4.32
	$ 6,185	2.41 %	$ 4,279	2.03 %	$ 6,234	3.29 %	$ 279,235	2.95 %	$ 541,439	2.99 %

Total securities
available-for-sale

As of December 31, 2017, net unrealized gains on available-for-sale securities was $3.8 million, which offset by deferred income taxes resulted in an overall increase to equity capital of $2.2 million. As of December 31, 2016, net unrealized losses on available-for-sale securities was $13.6 million, which offset by deferred income taxes resulted in an overall reduction to equity capital of $8.2 million.

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At December 31, 2017, there were three issuers of ABS and CMOs where the book value of the Company's holdings were greater than 10% of stockholders' equity, as follows:

	December 31, 2017	
Issuer	Amortized Cost	Fair Value
GCO Education Loan Funding Corp	$ 27,625	$ 26,588
Towd Point Mortgage Trust	29,312	29,210
Student Loan Marketing Association	25,696	25,917

III.Loan Portfolio

Types of Loans

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

	2017	2016	2015	2014	2013
Commercial	$ 273,234	$ 229,030	$ 116,343	$ 119,717	$ 95,211
Leases	68,325	55,451	25,712	8,038	10,069
Real estate - commercial	750,991	736,247	605,721	600,629	560,233
Real estate - construction	85,162	64,720	19,806	44,795	29,351
Real estate - residential	425,330	377,197	350,557	369,870	389,931
Consumer	3,971	4,191	4,963	4,004	3,040
Other1	10,609	11,973	10,613	12,279	13,421
Gross loans	1,617,622	1,478,809	1,133,715	1,159,332	1,101,256
Allowance for loan and lease losses	(17,461)	(16,158)	(16,223)	(21,637)	(27,281)
Loans, net	$ 1,600,161	$ 1,462,651	$ 1,117,492	$ 1,137,695	$ 1,073,975

1 The "Other" class includes overdrafts.

The above gross loan totals include net 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 loan categories at December 31, 2017:

		Over 1 Year Through 5 Years		Over 5 Years		
	One Year or Less	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Total
Commercial	$ 92,902	$ 67,371	$ 90,506	$ 19,906	$ 2,549	$ 273,234
Leases	203	59,785	-	7,914	423	68,325
Real estate - commercial	169,745	314,527	90,787	49,987	125,945	750,991
Real estate - construction	20,660	2,525	51,007	2,902	8,068	85,162
Real estate - residential	36,133	85,196	40,097	36,682	227,222	425,330
Consumer	765	3,139	-	67	-	3,971
Other1	2,592	1,840	5,683	158	336	10,609
Total	$ 323,000	$ 534,383	$ 278,080	$ 117,616	$ 364,543	$ 1,617,622

1 The “Other” class includes overdrafts.

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 78.0% and 79.7% of the portfolio at December 31, 2017 and 2016, respectively. The Company had no concentration of loans exceeding 10% of total loans that were not otherwise disclosed as a category of loans at December 31, 2017.

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Risk Elements

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

	2017	2016	2015	2014	2013
Nonaccrual loans	$ 14,388	$ 15,283	$ 14,389	$ 26,926	$ 38,911
Performing troubled debt restructured loans accruing interest	988	718	165	154	796
Loans past due 90 days or more and still accruing interest	248	-	65	-	87
Total nonperforming loans	15,624	16,001	14,619	27,080	39,794
Other real estate owned	8,371	11,916	19,141	31,982	41,537
Total nonperforming assets	$ 23,995	$ 27,917	$ 33,760	$ 59,062	$ 81,331
Other real estate owned ("OREO") as % of nonperforming assets	34.9 %	42.7 %	56.7 %	54.1 %	51.1 %

Accrual of interest is discontinued on a loan when principal or interest is 90 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 $47,000, $230,000 and $116,000 was recorded and collected during 2017, 2016 and 2015, respectively, on loans that subsequently went to nonaccrual status by year-end. Interest income, which would have been recognized during 2017, 2016 and 2015, had these loans been on an accrual basis throughout the year, was approximately $781,000, $918,000 and $815,000, respectively. There were approximately $5.7 million and $5.0 million in restructured residential mortgage loans that were still accruing interest based upon their prior performance history at December 31, 2017 and 2016, respectively. Additionally, the nonaccrual loans above include $2.5 million and $2.9 million in restructured loans for the years ending December 31, 2017 and 2016.

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 Company 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 5 to the Consolidated Financial Statements.

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IV.Summary of Loan Loss Experience

Analysis of Allowance for Loan and Lease Losses

The following table summarizes, for the years indicated, activity in the allowance for loan and lease losses (“ALLL”), 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:

	2017	2016	2015	2014	2013
Average total loans (exclusive of loans held-for-sale)	$ 1,534,673	$ 1,214,804	$ 1,144,618	$ 1,124,335	$ 1,102,197
Allowance at beginning of year	16,158	16,223	21,637	27,281	38,597
Charge-offs:					
Commercial	25	95	993	578	316
Leases	215	23	-	-	-
Real estate - commercial	309	1,633	1,653	1,972	2,985
Real estate - construction	23	23	2	174	1,014
Real estate - residential	1,347	1,072	1,639	3,393	6,293
Consumer and other loans	387	344	483	526	597
Total charge-offs	2,306	3,190	4,770	6,643	11,205
Recoveries:					
Commercial	30	32	451	58	119
Leases	-	5	-	-	-
Real estate - commercial	161	640	1,595	1,346	5,325
Real estate - construction	377	96	276	633	1,266
Real estate - residential	980	1,331	1,075	1,842	1,221
Consumer and other loans	261	271	359	420	508
Total recoveries	1,809	2,375	3,756	4,299	8,439
Net charge-offs	497	815	1,014	2,344	2,766
Provision (release) for loan and lease losses	1,800	750	(4,400)	(3,300)	(8,550)
Allowance at end of year	$ 17,461	$ 16,158	$ 16,223	$ 21,637	$ 27,281
Net charge-offs to average loans	0.03 %	0.07 %	0.09 %	0.21 %	0.25 %
Allowance at year end to average loans	1.14 %	1.33 %	1.42 %	1.92 %	2.48 %

The provision for loan and lease losses is based upon management’s estimate of losses inherent in the loan and lease portfolio and its evaluation of the adequacy of the ALLL. Factors which influence management’s judgment in estimating loan and lease 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 and lease losses.

Allocation of the Allowance for Loan and Lease Losses

The following table shows the Company's allocation of the ALLL by type of loans and the amount of unallocated allowance at December 31 of the years indicated, and, for each category of loans, the percent of total loans represented by that category:

	2017			2016			2015			2014	
	Amount	Loan Type to Total Loans		Amount	Loan Type to Total Loans		Amount	Loan Type to Total Loans		Amount	Loan Type to Total Loans
Commercial	$ 2,453	16.9	%	$ 2,225	15.4	%	$ 2,096	12.5	%	$ 1,644	11.0
Leases	692	4.2		37	3.8		-	-		-	-
Real estate - commercial	9,522	46.4		9,547	49.8		9,013	53.4		12,577	51.8
Real estate - construction	923	5.3		389	4.4		265	1.7		1,475	3.9
Real estate - residential	1,805	26.3		2,692	25.6		1,694	31.0		1,981	31.9
Consumer	1,524	0.6		833	0.2		1,190	0.4		1,454	0.3
Unallocated	542	0.3		435	0.8		1,965	1.0		2,506	1.1
Total	$ 17,461	100.0	%	$ 16,158	100.0	%	$ 16,223	100.0	%	$ 21,637	100.0

The ALLL is a valuation allowance, which increased by the provision for loan and lease losses of $1.8 million in 2017 and $750,000 in 2016, and decreased by loan loss reserve releases of $4.4 million in 2015, adjusted for 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 ALLL. 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 ALLL. 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

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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 and lease 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 and Audit Committee. Although management believes the ALLL 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 and lease losses or that regulators, in reviewing the loan portfolio, would not request us to materially adjust our ALLL 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:

	2017	2016
3 months or less	$ 25,233	$ 41,462
Over 3 months through 6 months	16,875	16,651
Over 6 months through 12 months	37,086	37,727
Over 12 months	87,084	77,415
	$ 166,278	$ 173,255

YTD Average Balances and Interest Rates

	2017		2016		2015	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Noninterest bearing demand	$ 547,719	- %	$ 476,422	- %	$ 429,403	- %
Interest bearing:						
NOW and money market	704,261	0.11	662,367	0.10	638,197	0.09
Savings	261,974	0.07	256,905	0.06	249,570	0.06
Time	389,771	1.08	404,285	0.90	410,691	0.78
Total deposits	$ 1,903,725		$ 1,799,979		$ 1,727,861	

VI.Return on Equity and Assets

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

	2017		2016		2015	
Return on average total assets	0.65	%	0.73	%	0.74	%
Return on average equity	7.89		9.43		8.87	
Average equity to average assets	8.28		7.76		8.40	
Dividend payout ratio	7.84		5.66		-	

VII.Short-Term Borrowings

Other short-term borrowings, which consisted of FHLBC advances, totaled $115.0 million as of December 31, 2017, and reflected a weighted average rate of 1.42%. Average other short-term borrowings totaled $68.0 million, and reflected a weighted average rate of 1.08%, for the year ended December 31, 2017; this average borrowing balance was 33.9% of total equity as of the year ended December 31, 2017. The maximum amount of FHLBC advances outstanding at any month end in 2017 was $125.0 million as of September 30, 2017. FHLBC advances are short-term, usually overnight, and amounts borrowed are dependent upon the daily cash flow needs of the Company.

There were no other categories of short-term borrowings that had an average balance greater than 30% of the Company's stockholders' equity as of December 31, 2017, and no categories of short-term borrowings had an average balance greater than 30% of the Company's stockholders' equity as of December 31, 2016 and 2015.

Item 1A. 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

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known also may have a material adverse effect on the Company’s results of operations and financial condition. The risks discussed below also include forward-looking statements, and actual results may differ substantially from those discussed or implied in these forward-looking statements.

Risks Relating to the Company’s Business

A return of recessionary conditions could result in increases in the Company’s level of nonperforming loans and/or reduced demand for the Company’s products and services, which could lead to lower revenue, higher loan and lease 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. Despite a general improvement in the overall economy and the real estate market, the economic environment remains challenging, particularly in the Company’s market area. Declines in real estate values and sales volumes and increased unemployment or underemployment levels may result in higher than expected loan delinquencies, increases in the Company’s levels of nonperforming and classified assets and a decline in demand for its products and services. These negative events may cause the Company to incur losses and may adversely affect its capital, liquidity and financial condition.

The size of the Company’s loan portfolio has grown in recent years, but, if the Company is unable to sustain loan growth, its profitability may be adversely affected.

Since December 31, 2011, the Company’s gross loans held for investment have increased from $1.37 billion to $1.62 billion at December 31, 2017. The Talmer acquisition in 2016 resulted in $221.0 million of additional loans, primarily classified as commercial and commercial real estate. During some years in this period, the Company was managing its balance sheet composition to manage its capital levels and position the Bank to meet and exceed its targeted capital levels. The Company’s ability to increase profitability will depend on a variety of factors, including its ability to originate attractive new lending relationships. While the Company believes it has the management resources and lending staff in place to continue the successful implementation of its strategic plan, if the Company is unable to increase the size of its loan portfolio, its strategic plan may not be successful and its profitability may be adversely affected.

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.

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 at December 31 (in millions):

	2017	2016	% Change
Nonperforming loans	$ 15.6	$ 16.0	(2.5)
OREO	8.4	11.9	(29.4)
Total nonperforming assets	$ 24.0	$ 27.9	(14.0)

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 any lease revenues collected, thereby adversely affecting the Company's net income, return on assets and return on equity. The Company's loan administration costs also increase because of its nonperforming assets. The resolution of nonperforming assets requires significant time commitments from management, which can be detrimental to the performance of their other responsibilities. There is no assurance that the Company will not experience increases in nonperforming assets in the future, or that its nonperforming assets will not result in 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, was $1.26 billion, or approximately 78.0%, of the Company's loan portfolio at December 31, 2017, compared to $1.18 billion, or approximately 79.7%, at December 31, 2016. 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.

In addition, with respect to commercial real estate loans, the banking regulators are examining commercial real estate lending activity with greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and

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capital levels as a result of commercial real estate lending growth and exposures. At December 31, 2017, the Company's outstanding commercial real estate loans, including owner occupied real estate, were equal to 298.7% of its total risk-based capital. If the Company's regulators require us to maintain higher levels of capital than we would otherwise be expected to maintain, this could limit the Company's ability to leverage its capital and have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

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 cash flows from the operation of the property securing the loan, or the sale of the property. For collateral-dependent loans, the Company estimates the value of the loan based on appraised value of the underlying collateral less costs to sell. The Company's OREO portfolio essentially consists of properties acquired through foreclosure or deed in lieu of foreclosure in partial or total satisfaction of certain loans as a result of borrower defaults. Some property in OREO reflects property formerly utilized as a bank premise or land that was acquired with the expectation that a bank premise would be established at the location. In some cases, the market for such properties has been significantly depressed, and we have been unable to sell them at prices or within timeframes that we deem acceptable

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.

If the Company fails to effectively manage credit risk, its business and financial condition will suffer.

The Company must effectively manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers, including the risk that a borrower may not provide information to the Company about its business in a timely manner, and/or may present inaccurate or incomplete information to the Company, and risks relating to the value of collateral. In order to manage credit risk successfully, the Company must, among other things, maintain disciplined and prudent underwriting standards and ensure that its lenders follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by the Company's employees in underwriting and monitoring loans, the inability of the Company's employees to adequately adapt policies and procedures to changes in economic or any other conditions

affecting borrowers and the quality of the Company's loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase the Company's ALLL, each of which could adversely affect the Company's net income. As a result, the Company's inability to successfully manage credit risk could have a material adverse effect on the Company's business, financial condition or results of operations.

The Company's Allowance for Loan and Lease Losses may be insufficient to absorb potential losses in the Company's loan portfolio.

The Company's success depends significantly on the quality of our assets, particularly loans. Like other financial institutions, the Company is exposed to the risk that our borrowers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to fully compensate the Company for the outstanding balance of the loan plus the costs to dispose of the collateral. As a result, the Company may experience significant loan and lease losses that may have a material adverse effect on the Company's operating results and financial condition.

The Company maintains an ALLL 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.

While the Company had loan loss reserve releases in 2014 and 2015, its provision for loan and lease losses was increased in 2016 and 2017, which is commensurate with the loan and lease portfolio growth experienced in those years. The Bank may be required to make significant increases in the provision for loan and lease losses and to charge-off additional loans in the future.

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, 2017, December 31, 2016 and December 31, 2015, 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 ALLL. In addition, bank regulatory agencies periodically review the Company's allowance and may require an increase in the provision for loan and lease losses or the recognition of additional loan charge-offs, based

on judgments different from those of management. If charge-offs in future periods exceed the ALLL, 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.

Finally, the measure of the Company's ALLL is dependent on the adoption and interpretation of accounting standards. The Financial Accounting Standards Board, or FASB, recently issued a new credit impairment model, the Current Expected Credit Loss, or CECL model, which will become applicable to the Company in 2020. Under the CECL model, the Company will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model currently required under GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, the Company expects that the adoption of the CECL model will materially affect how we determine our ALLL and could require the Company to significantly increase its allowance. Moreover, the CECL model may create more volatility in the level of the Company's ALLL. If the Company is required to materially increase its level of ALLL for any reason, such increase could adversely affect the Company's business, financial condition and results of operations.

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

The communities that the Company serves grew rapidly during the early 21st century, and despite the relative severity of the economic downturn that hit the Company's key markets, the Company intends to continue concentrating its business efforts in these communities. The Company's future success is largely dependent upon the overall economic health of these communities and the ability of the communities to continue to rebound from the difficulties that began in 2007. While the economies in our market have stabilized, difficult economic conditions remain, and the State of Illinois continues to experience severe fiscal challenges. Payment lapses by the State of Illinois to its vendors and government sponsored entities may have negative effects on our primary market area. To the extent that these issues, or any future state tax increases, impact the economic vitality of the businesses operating in Illinois, encourage businesses to leave the state or discourage new employers to start or move businesses to Illinois, they could have a material adverse effect on the Company's financial condition and results of operations.

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

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

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

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and have more financial resources. The Company's competitors primarily include national and regional banks as well as community banks within the markets the Company serves. Recently, local competitors have expanded their presence in the western suburbs of Chicago, including the communities that surround Aurora, Illinois, and these competitors may be better positioned than the Company to compete for loans, acquisitions and personnel. The Company also faces competition from savings and loan associations, credit unions, personal loan and finance companies, retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial intermediaries. As customers' preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for banks to expand their geographic reach by providing services over the Internet and for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Because of this rapidly changing technology, the Company's future success will depend in part on its ability to address its customers' needs by using technology. Customer loyalty can be easily influenced by a competitor's new products, especially offerings that could provide cost savings or a higher return to the customer. Moreover, the financial services industry could become even more competitive as a result of legislative and regulatory changes, and many large scale competitors can leverage economies of scale to offer better pricing for products and services compared to what the Company can offer.

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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 faces a risk of noncompliance with the Bank Secrecy Act and other anti-money laundering statutes and regulations and corresponding enforcement proceedings.

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the "PATRIOT Act," and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and to file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. Federal and state bank regulators also have begun to focus on compliance with Bank Secrecy Act and anti-money laundering regulations. If the Company's policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that the Company has already acquired or may acquire in the future are deficient, the Company would be subject to liability, including fines and regulatory actions such as restrictions on its ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of the Company's business plan, including its acquisition plans, which would negatively impact the Company's business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for the Company.

The Company's strategic growth plans contemplate additional organic growth and potential growth through additional acquisitions, which exposes us to additional risks.

The Company's strategic growth plans contemplate additional organic growth and potential growth through additional acquisitions. To the extent that the Company is unable to increase loans through organic loan growth, or to identify and consummate attractive acquisitions, the Company may be unable to successfully implement its growth strategy, which could materially and adversely affect the Company's financial condition and earnings.

The Company routinely evaluates opportunities to acquire additional financial institutions or branches or to open new branches. As a result, the Company regularly engages in discussions or negotiations that, if they were to result in a transaction, could have a material effect on the Company's operating results and financial condition, including short- and long-term liquidity. The Company's acquisition activities could require it to use a substantial amount of common stock, cash, other liquid assets, and/or incur debt. Moreover, these types of expansions involve various risks, including:

Management of Growth. The Company may be unable to successfully:

- maintain loan quality in the context of significant loan growth;

- identify and expand into suitable markets;
- obtain regulatory and other approvals necessary to consummate acquisitions or other expansion activities;
- retain customers of businesses that it acquires;
- attract sufficient deposits and capital to fund anticipated loan growth;
- maintain adequate common equity and regulatory capital;
- avoid diversion or disruption of its management and existing operations as well as those of the acquired institution;
- maintain adequate management personnel and systems to oversee such growth;
- maintain adequate internal audit, loan review and compliance functions; and
- implement additional policies, procedures and operating systems required to support such growth.

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Operating Results. There is no assurance that existing branches or future branches will maintain or achieve deposit levels, loan balances or other operating results necessary to avoid losses or produce profits. The Company's growth may entail growth in overhead expenses as it adds new branches and staff. There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, any new branches the Company establishes can be expected to negatively impact the Company's earnings for some period of time until they reach certain economies of scale. The Company's historical results may not be indicative of future results or results that may be achieved, particularly if the Company continues to expand.

Failure to successfully address these and other issues related to the Company's expansion could have a material adverse effect on the Company's financial condition and results of operations, and could adversely affect the Company's ability to successfully implement its business strategy.

The Bank 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 Bank 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. When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income. Additionally, an increase in the general level of interest rates may also, among other things, adversely affect our current borrower's ability to repay variable rate loans, the demand for loans and the Company's ability to originate loans and decrease loan prepayment rates. Conversely, a decrease in the general level of interest rates, among other things, may lead to prepayments on the Company's loan and mortgage-backed securities portfolios and increased competition for deposits. Accordingly, changes in the general level of market interest rates may adversely affect the Company's net yield on interest-earning assets, loan origination volume and the Company's overall results.

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.

The Company's business needs and future growth may require the Company to raise additional capital, but that capital may not be available or may be dilutive.

The Company may need to raise additional capital, in the form of debt or equity securities, in the future to have sufficient capital resources to meet its commitments and fund its business needs and future growth, particularly if the quality of the Company's assets or earnings were to deteriorate significantly. In addition, the Company and the Bank are each required by federal regulatory authorities to maintain adequate levels of capital to support their operations.

The Company's ability to raise capital will depend on, among other things, conditions in the capital markets, which are outside of the Company's control, and its financial performance. Accordingly, the Company cannot provide assurance that such capital will be available on terms acceptable to the Company or at all. Any occurrence that limits the Company's access to capital, may adversely affect the Company's capital costs and the Company's ability to raise capital and, in turn, its liquidity. Further, if the Company needs to raise capital in the future, the Company may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. Any inability to raise capital on acceptable terms when needed could have a material adverse effect on the Company's business, financial condition and results of operations and could be dilutive to both tangible book value and the Company's share price.

In addition, an inability to raise capital when needed may subject the Company to increased regulatory supervision and the imposition of restrictions on the Company's growth and business. These restrictions could negatively affect the Company's ability to operate or further expand its operations through loan growth, acquisitions or the establishment of additional branches. These restrictions may also result in increases in operating expenses and reductions in revenues that could have a material adverse effect on the Company's financial condition, results of operations and share price.

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

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities and is essential to a financial institution’s business. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets and its access to alternative sources of funds. The Company seeks to ensure that its funding needs are met by maintaining an appropriate level of liquidity through asset and liability management. In 2016, the Bank also secured liquidity under the advance program provided under terms offered by the FHLBC. If the Company or the Bank becomes unable to obtain funds when needed, it could have a material adverse effect on its business, financial condition and results of operations.

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

The Company relies on bank deposits to be a low cost and stable source of funding. In addition, the Company’s future growth will largely depend on its ability to maintain and grow a strong deposit base. If the Company is unable to continue to attract and retain core deposits, to obtain third party financing on favorable terms, or to have access to interbank or other liquidity sources, the Company may not be able to grow its assets as quickly. The Company competes with banks and other financial services companies for deposits. If the Company’s competitors raise the rates they pay on deposits in response to interest rate changes initiated by the FRBC Open Market Committee or for other reasons of their choice, the Company’s funding costs may increase, either because the Company raises its rates to avoid losing deposits or because the Company loses deposits and must rely on more expensive sources of funding. Higher funding costs could reduce the Company’s net interest margin and net interest income. Any decline in available funding could adversely affect the Company’s ability to continue to implement its business strategy which could have a material adverse effect on the Company’s liquidity, business, financial condition and results of operations.

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

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

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

The Company may be materially and adversely affected by the highly regulated environment in which it 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. Compliance with banking regulations is costly and these regulations affect the Company's lending practices, capital structure, investment practices, mergers and acquisitions, dividend policy, and growth, among other things.

The Company and the Bank also undergo periodic examinations by their regulators, who have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law. 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's business, financial condition or results of operations.

A more detailed description of the primary federal and state banking laws and regulations that affect the Company and the Bank is included in this Form 10-K under the section captioned "Supervision and Regulation" in Item 1. Since the economic recession, federal and state banking laws and regulations, as well as interpretations and implementations of these laws and regulations, have undergone substantial review and change. In particular, the Dodd-Frank Act drastically revised the laws and regulations under which the Company operates. The burden of regulatory compliance has increased under the Dodd-Frank Act and has increased the Company's costs of doing business and, as a result, may create an advantage for the Company's competitors who may not be subject to similar legislative and regulatory requirements. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect the Company or our subsidiaries. Any future changes in federal and state laws and regulations, as well as the interpretation and implementation of such laws and regulations, could affect the Company in substantial and unpredictable ways, including those listed above or other ways that could have a material adverse effect on the Company's business, financial condition or results of operations.

The Company's deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on the Company's future earnings.

The FDIC insures deposits at FDIC-insured depository institutions, such as the Bank, up to $250,000 per account. The amount of a particular institution's deposit insurance assessment is based on that institution's risk classification under an FDIC risk-based

assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. As a result of recent FDIC assessment charges, banks are now assessed deposit insurance premiums based on the bank's average consolidated total assets less the sum of its average tangible equity, and the FDIC has modified certain risk-based adjustments, which increase or decrease a bank's overall assessment rate. This has resulted in increases to the deposit insurance assessment rates and thus raised deposit premiums for many insured depository institutions. If these increases are insufficient for the Deposit Insurance Fund to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required. The Company is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures, the Company may be required to pay higher FDIC premiums than the recent levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce the Company's profitability, may limit its ability to pursue certain business opportunities or otherwise negatively impact its operations.

The Company is subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, the Consumer Financial Protection Bureau and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to the Company's performance under the fair lending laws and regulations could adversely impact the Company's rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact the Company's reputation, business, financial condition and results of operations.

The financial services industry, as well as the broader economy, may be subject to new legislation, regulation, and government policy.

At this time, it is difficult to predict the legislative and regulatory changes that will result from the current Presidential administration. However, both the President and senior members of the House of Representatives have advocated for significant reduction of financial services regulation, to include amendments to the Dodd-Frank Act and structural changes to the CFPB. The current administration and Congress also may cause broader economic changes due to changes in governing ideology and governing style. New appointments to the Board of Governors of the Federal Reserve could affect monetary policy and interest rates, and changes in fiscal policy could affect broader patterns of trade and economic growth. Future legislation, regulation, and government policy could affect the banking industry as a whole, including the Company's business and results of operations, in ways that are difficult to predict. In addition, the Company's results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

The Company's ability to realize its deferred tax asset may be reduced, which may adversely impact its results of operations.

Deferred tax assets are reported as assets on the Company's balance sheet and represent the decrease in taxes expected to be paid in the future because of net operating losses ("NOLs") and tax credit carryforwards and because of future reversals of temporary differences in the bases of assets and liabilities as measured by enacted tax laws and their bases as reported in the financial statements. As of December 31, 2017, the Company had net deferred tax assets of $25.4

million, which included deferred tax assets for a federal net operating loss carryforward of $7.2 million that is expected to expire in 2031 thru 2033. Realization of deferred tax assets is dependent upon the generation of sufficient future taxable income during the periods in which existing deferred tax assets are expected to become deductible for income tax purposes. Based on projections of future taxable income in periods in which deferred tax assets are expected to become deductible, management determined that the realization of the Company's net deferred tax asset was more likely than not. As a result, the Company did not recognize a valuation allowance on its net deferred tax asset as of December 31, 2017 or December 31, 2016. If it becomes more likely than not that some portion or the entire deferred tax asset will not be realized, a valuation allowance must be recognized. In July 2017, the State of Illinois enacted an income tax rate increase which resulted in the Company recording an additional income tax benefit and increase to the deferred tax asset of $1.6 million. In December 2017, the President signed the Tax Cuts and Jobs Act into law, which reduced the corporate federal income tax rate to 21% and resulted in a $9.5 million write-down of the Company's deferred tax asset in the fourth quarter of 2017, through income tax expense. These tax rate changes, in conjunction with the Company's net income in 2017, have resulted in a significant reduction of the deferred tax asset over the last year. The Company's deferred tax asset may be further reduced in the future if estimates of future income or our tax planning strategies do not support the amount of the deferred tax assets. Charges to establish a valuation allowance with respect to our deferred tax asset could have a material adverse effect on the Company's financial condition and results of operations.

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

Customers make claims and on occasion take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal action are not resolved in a manner favorable to the Company, they may result in significant

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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.

The Company depends on its executive officers and other key employees, and its ability to attract additional key personnel, to continue the implementation of the Company's long-term business strategy, and the Company could be harmed by the unexpected loss of their services.

The Company believes that its continued growth and future success will depend in large part on the skills of its executive officers and other key employees and its ability to motivate and retain these individuals, as well as its ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees. The Company's business is primarily relationship-driven in that many of its key personnel have extensive customer or asset management relationships. Loss of key personnel with such relationships may lead to the loss of business if the customers were to follow that employee to a competitor or if asset management expertise was not timely replaced. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute the Company's business strategy may be lengthy. We may not be successful in retaining key personnel, and the unexpected loss of services of one or more of the Company's key personnel could have a material adverse effect on the Company's business because of their skill, knowledge of the Company's primary markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. If the services of any of the Company's key personnel should become unavailable for any reason, the Company may not be able to identify and hire qualified persons on terms acceptable to the Company, or at all, which could have a material adverse effect on the Company's business, financial condition, results of operation and future prospects.

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 have emerged, including the use of the Internet and the expansion of telecommunications technologies (including mobile devices) to conduct financial and other business transactions, and as the sophistication of organized criminals, perpetrators of fraud, hackers, terrorists and others have increased.

In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions, particularly denial of service attacks, that

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

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

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

The Company relies on software developed by third party vendors to process various Company transactions. In some cases, the Company has contracted with third parties to run their proprietary software on behalf of the Company at a location under the control of

the third party. These systems include, but are not limited to, core data processing, 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 these outside parties, 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 a third party vendor fails to adequately maintain internal controls or institute necessary changes to systems. A disruption or breach of security may ultimately 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 Related to the Company's Proposed Merger with Greater Chicago Financial Corp. ("Greater Chicago Financial")

Combining with Greater Chicago Financial may be more difficult, costly or time consuming than expected, and the anticipated benefits and cost savings of the merger may not be realized.

The Company and Greater Chicago Financial have operated and, until the completion of the merger, will continue to operate, independently. The success of the merger, including anticipated benefits and cost savings, will depend, in part, on the Company's and Greater Chicago Financial's ability to successfully combine and integrate the businesses of the Company and Greater Chicago Financial in a manner that permits growth opportunities and does not materially disrupt the existing customer relations or result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with customers, depositors, clients and employees or to achieve the anticipated benefits and cost savings of the merger. If the combined companies experience difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. There also may be business disruptions that cause the Company and/or Greater Chicago Financial to lose customers or cause customers to remove their accounts from the Company and/or Greater Chicago Financial and move their business to competing financial institutions. Integration efforts will also divert management attention and resources. These integration matters could have an adverse effect on each of the Company and Greater Chicago Financial during

this transition period and for an undetermined period after completion of the merger on the combined company.

Additionally, the combined company may not be able to successfully achieve the level of cost savings, revenue enhancements and other synergies that it expects, and may not be able to capitalize upon the existing customer relationships of each party to the extent anticipated, or it may take longer, or be more difficult or expensive than expected, to achieve these goals. These circumstances could have an adverse effect on the combined company's business, results of operation and stock price.

The merger may distract the Company’s management from their other responsibilities.

The merger could cause the Company’s management to focus their time and energies on matters related to the merger that otherwise would be directed to the Company’s business and operations. Any such distraction on the part of the Company’s management, if significant, could affect the Company’s ability to service existing business and develop new business and adversely affect its business and earnings before the merger, or the business and earnings of the combined company after the merger.

Regulatory approvals may not be received, may take longer than expected, or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the merger.

Before the merger may be completed, the Company must obtain approvals (or waivers of such approvals) from the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System. Other approvals, waivers or consents from regulators may also be required. These regulators may impose conditions on the completion of the merger or require changes to the terms of the merger. Although the Company does not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying or preventing completion of the merger or imposing additional costs on or limiting the revenues of the combined company following the merger, any of which might have an adverse effect on the combined company following the merger.

If the merger with Greater Chicago Financial is not completed, the Company will have incurred substantial expenses without realizing the expected benefits of the merger.

The Company has incurred and will continue to incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the Merger Agreement with Greater Chicago Financial. If the merger is not completed, we would have to recognize these expenses without realizing the expected benefits of the merger.

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 that included among other requirements and restrictions, limitations on the Company's payment of dividends on its common stock. Although the Written Agreement was terminated in January 2014, the Company only resumed paying dividends during the second quarter of 2016 on its common stock.

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 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, the Company is a legal entity separate and distinct from our bank subsidiary. The Company's principal source of cash flow, including cash flow to pay dividends to our stockholders and principal and interest on our outstanding debt, is dividends from the Bank. There are statutory and regulatory limitations on the payment of dividends by the Bank to the Company, as well as by us to our stockholders. If the Bank is unable to make dividend payments to the Company and sufficient cash or liquidity is not otherwise available, the Company may not be able to make dividend payments to its stockholders.

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 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 common stock.

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

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

- actual or anticipated quarterly fluctuations in its operating and financial results, particularly if such results vary from the expectations of management, securities analysts and investors, including with respect to further loan and lease 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 stockholders, including future sales of common stock by existing stockholders 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.

Shares of the Company’s common stock are subject to dilution, which could cause the Company’s common stock price to decline.

The Company is generally not restricted from issuing additional shares of its common stock up to the number of shares authorized in its Certificate of Incorporation. The Company may issue additional shares of its common stock (or securities convertible into common stock) in the future for a number of reasons, including to finance the Company’s operations and business strategy (including mergers and acquisitions), to adjust its ratio of debt to equity, to address regulatory capital concerns, or to satisfy the Company’s obligations upon the exercise of outstanding options or warrants. The Company may issue equity securities in transactions that generate cash proceeds, transactions that free up regulatory capital but do not immediately generate or preserve substantial amounts of cash, and transactions that generate regulatory or balance sheet capital only and do not generate or preserve cash. If the Company chooses to raise capital by selling shares of its common stock or securities convertible into common stock for any reason, the issuance would have a dilutive effect on the holders of the Company’s common stock and could have a material negative effect on the market price of the Company’s common stock.

Certain banking laws and the Company's governing documents 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 stockholders. In addition, the Company has a classified board of directors and has adopted an Amended and Restated Rights Plan and Tax Benefits Preservation Plan as amended (the "Rights Plan"), which expires on September 12, 2018, and is intended to discourage any person from acquiring 5% or more of the Company's outstanding stock (with certain limited exceptions), in order to help preserve the value of its deferred tax asset. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We conduct our business primarily at 25 banking locations in various communities throughout the greater western and southern Chicago metropolitan area. The principal business office of the Company is located at 37 South River Street, Aurora, Illinois. We own 23 of our properties and lease two of our locations. The Company's two leased locations are under agreement through March 2018 and December 31, 2018, with the December 2018 lease expiration under an option to extend through December 31, 2021. We believe that

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all of our properties and equipment are well maintained, in good operating condition and adequate for all of our present and anticipated needs.

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, 2017, the Company had 891 stockholders of record of its common stock. The following table sets forth the high and low trading prices of the Company's common stock on the NASDAQ Global Select Market, and information about declared dividends during each quarter for 2017 and 2016.

	2017	2016

	High	Low	Dividend	High	Low	Dividend
First quarter	$ 11.50	$ 9.65	$ 0.01	$ 7.78	$ 6.22	$ -
Second quarter	12.75	10.95	0.01	7.55	6.37	0.01
Third quarter	13.50	10.75	0.01	8.65	6.67	0.01
Fourth quarter	14.90	12.15	0.01	11.64	7.45	0.01

The Company resumed paying dividends in 2016 as set forth in the table above. The Company's stockholders 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 stockholders is largely dependent upon the dividends it receives from the Bank; however, certain regulatory restrictions and the terms of its debt and equity securities, limit the amount of cash dividends it may pay.

Form 10-K and Other Information

Transfer Agent/Stockholder Services

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

Old Second Bancorp, Inc.

c/o Shirley Cantrell,

Shareholder Relations Department

37 South River Street

Aurora, Illinois 60507

(630) 906-2303

scantrell@oldsecond.com

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Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2012, and ending December 31, 2017, a comparison of cumulative total returns for the Company, S&P 500 and the SNL U.S. Bank Nasdaq. The information assumes that $100 was invested at the closing price at December 31, 2012, in the common stock of the Company and each index and that all dividends were reinvested.

	Period Ending					
Index	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Old Second Bancorp, Inc.	100.00	378.69	440.16	642.62	909.35	1,127.10
S&P 500	100.00	132.39	150.51	152.59	170.84	208.14
SNL U.S. Bank NASDAQ	100.00	143.73	148.86	160.70	222.81	234.58

Purchases of Equity Securities By the Issuer and Affiliated Purchasers

None.

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Item 6. Selected Financial Data

Old Second Bancorp, Inc. and Subsidiaries

Financial Highlights

(In thousands, except share data)

	2017	2016	2015	2014	2013
Balance sheet items at year-end					
Total assets	$ 2,383,429	$ 2,251,188	$ 2,077,028	$ 2,060,905	$ 2,003,104
Total earning assets	2,191,685	2,037,012	1,862,257	1,832,714	1,758,582
Average assets	2,318,798	2,142,748	2,065,122	2,036,493	1,961,734
Loans, gross	1,617,622	1,478,809	1,133,715	1,159,332	1,101,256
Allowance for loan and lease losses	17,461	16,158	16,223	21,637	27,281
Deposits	1,922,925	1,866,785	1,759,086	1,685,055	1,682,128
Securities sold under agreement to repurchase	29,918	25,715	34,070	21,036	22,560
Other short-term borrowings	115,000	70,000	15,000	45,000	5,000
Junior subordinated debentures	57,639	57,591	57,543	57,496	57,448
Senior notes	44,058	43,998	-	-	-
Subordinated debt	-	-	45,000	45,000	45,000
Note payable	-	-	500	500	500
Stockholders’ equity	200,350	175,210	155,929	194,163	147,692
Results of operations for the year ended					
Interest and dividend income	87,505	73,379	68,164	68,044	69,040
Interest expense	12,626	9,938	9,076	10,984	13,786
Net interest and dividend income	74,879	63,441	59,088	57,060	55,254
Provision (release) for loan and lease losses	1,800	750	(4,400)	(3,300)	(8,550)
Noninterest income	30,372	28,574	29,294	29,216	31,183
Noninterest expense	69,149	66,761	68,421	73,679	83,144
Income before taxes	34,302	24,504	24,361	15,897	11,843
	19,164	8,820	8,976	5,761	(70,242)

Provision (benefit) for income taxes					
Net income	15,138	15,684	15,385	10,136	82,085
Preferred stock dividends and accretion	-	-	1,873	(1,719)	5,258
Net income available to common stockholders	$ 15,138	$ 15,684	$ 13,512	$ 11,855	$ 76,827
Loan quality ratios					
Allowance for loan and lease losses to total loans at end of year	1.08 %	1.09 %	1.43 %	1.87 %	2.48 %
Provision for loan and lease losses to total loans	0.11 %	0.05 %	(0.39) %	(0.28) %	(0.78) %
Net loans charged-off to average total loans	0.03 %	0.07 %	0.09 %	0.21 %	0.25 %
Nonaccrual loans to total loans at end of year	0.89 %	1.03 %	1.27 %	2.32 %	3.53 %
Nonperforming assets to total assets at end of year	1.01 %	1.24 %	1.63 %	2.87 %	4.06 %
Allowance for loan and lease losses to nonaccrual loans	121.36 %	105.73 %	112.75 %	80.36 %	70.11 %
Per share data					
Basic earnings	$ 0.51	$ 0.53	$ 0.46	$ 0.46	$ 5.45
Diluted earnings	0.50	0.53	0.46	0.46	5.45
Common book value per share	6.76	5.93	5.29	4.99	5.37
Weighted average diluted shares outstanding	30,038,417	29,838,931	29,730,074	25,549,193	14,106,033
Weighted average basic shares outstanding	29,600,702	29,532,510	29,476,821	25,300,909	13,939,919
Shares outstanding at year-end	29,627,086	29,556,216	29,483,429	29,442,508	13,917,108

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

	2017				2016			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Interest income	$ 22,664	$ 22,425	$ 21,800	$ 20,616	$ 20,196	$ 17,825	$ 17,779	$ 17,579
Interest expense	3,278	3,142	3,139	3,067	2,686	2,478	2,416	2,358

Net interest income	19,386	19,283	18,661	17,549	17,510	15,347	15,363	15,221
Loan loss reserve	750	300	750	-	750	-	-	-
Securities gains (losses), net	639	102	(131)	(136)	(193)	(1,959)	-	(61)
Income before taxes	10,629	9,908	7,242	6,523	7,973	5,359	5,940	5,232
Net (loss) income	(2,512)	8,077	5,146	4,427	5,018	3,499	3,845	3,322
Basic (losses) earnings per share	(0.08)	0.27	0.17	0.15	0.17	0.12	0.13	0.11
Diluted (losses) earnings per share	(0.08)	0.27	0.17	0.15	0.17	0.12	0.13	0.11

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information regarding the Company's operations for the twelve-month periods ending December 31, 2017, 2016 and 2015, and financial condition at December 31, 2017 and 2016. This discussion should be read in conjunction with "Selected Financial Data" and the Company's consolidated financial statements and the accompanying notes thereto included elsewhere in this document. We have made, and will continue to make, various forward-looking statements with respect to financial and business matters. Comments regarding our business that are not historical facts are considered forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in these forward-looking statements. For additional information regarding our cautionary disclosures, see the "Cautionary Note Regarding Forward-Looking Statements" at the beginning of this annual report.

Business overview

The Company provides a wide range of financial services through its 25 banking locations located in Kane, Kendall, DeKalb, DuPage, LaSalle, Will and Cook counties in Illinois. These banking centers offer access to a full range of traditional retail and commercial banking services including treasury management operations as well as fiduciary and wealth management services. The Company focuses its business upon establishing and maintaining relationships with its clients while maintaining a commitment to providing for the financial services needs of the communities in which it operates through its retail branch network. The Company emphasizes relationships with individual customers as well as small to medium-sized businesses throughout our market area. The Company's market area includes a mix of commercial and industrial, real estate, and consumer related lending opportunities, and provides a stable, loyal core deposit base. The Company also has extensive wealth management services, which includes a registered investment advisory platform in addition to trust administration and trust services related to personal and corporate trusts, including employee benefit plan administration services.

The Company's primary deposit products are checking, NOW, money market, savings, and certificate of deposit accounts, and the Company's primary lending products are commercial mortgages, construction lending, commercial loans, residential mortgages, leases and consumer loans. Major portions of the Company's loans are secured by various forms of collateral including real estate, business assets, and consumer property although borrower cash flow is the primary source of repayment at the time of loan origination.

The health of the overall real estate industry in the Company's markets continued to improve in 2017. While the precipitous decline in the value of certain real estate assets slowed in the latter part of 2010, continued difficult market conditions through 2015 generated smaller declines in values of real estate and associated asset types. Overall stable market conditions over the past two years are reflected in the financials presented for the reporting period that ended December 31, 2017. The availability of ready local markets for real estate, while improved, remained limited and continued to affect the ability of many borrowers to pay on their obligations.

On October 28, 2016, the Company closed on its acquisition of the Chicago branch of Talmer Bank and Trust, the banking subsidiary of Talmer Bancorp, Inc. (“Talmer”). As a result of this transaction, the Company acquired $223.8 million of loans, prior to fair value adjustment, and $48.9 million of deposits. The purchase resulted in the Company establishing a metropolitan Chicago office presence with a strong commercial client focus, and retention of an experienced lending team.

Financial overview

In 2017, the Company recorded net income of $15.1 million, or $0.50 per fully diluted share, which compares with a net income of $15.7 million, or $0.53 per fully diluted share in 2016, and $15.4 million, or $0.46 per fully diluted share in 2015. The basic earnings per share for the periods presented was $0.51 in 2017, $0.53 in 2016 and $0.46 in 2015. The Company’s 2017 net income was negatively impacted by a nonrecurring income tax expense of $9.5 million recorded in the fourth quarter of 2017 due to the “Tax Cuts and Jobs Act,” which was signed into law in late 2017. The federal income tax rate reduction approved under this law decreased the Company’s deferred tax asset. The Company’s net income was favorably impacted by a nonrecurring income tax credit of $1.6 million recorded in July 2017 due to a State of Illinois tax rate increase, which increased the deferred tax asset by a like amount. In addition, the Company recorded an additional provision for loan and lease losses in 2017 of $1.8 million compared to a $750,000 provision for loan and lease losses in 2016, and a $4.4 million release of reserves for loan and lease losses in 2015. Net charge-offs were $497,000 in 2017, $815,000 in 2016, and $1.0 million in 2015.

Net interest and dividend income increased $11.4 million, or 18.0%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. Average loans, including loans held-for-sale, increased $318.8 million, or 26.2%, in 2017 compared to 2016. The Talmer branch acquisition in the fourth quarter of 2016 contributed to the full year 2017 average loan growth, with additional growth realized primarily in the commercial and commercial real estate-owner occupied loan portfolios. Average interest bearing deposits increased $32.4 million, or 2.5%, while average rates increased five basis points. This increase was primarily due to rising rates offered on time or certificates of deposit. Average noninterest bearing deposits increased by $71.3 million, or 15.0%, from 2016 to 2017, a result of commercial demand deposit growth which correlated with the increase in commercial loan growth.

Net interest and dividend income increased $4.4 million, or 7.4%, for the year ended December 31, 2016 compared to the year ended December 31, 2015. Average loans, including loans held-for-sale, increased $69.3 million, or 6.0%, in 2016 compared to 2015. The

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Talmer branch acquisition contributed approximately $38.6 million of the average loan growth, with additional growth realized primarily in the commercial loan portfolio. Average interest bearing deposits increased $25.1 million, or 1.9%, while average rates increased three basis points. This increase was primarily due to rising rates offered on time or certificates of deposit. Average noninterest bearing deposits increased by $47.0 million, primarily due to the Talmer branch acquisition in late 2016 of $48.9 million of deposits, of which $28.9 million were noninterest bearing.

In 2016 and 2017, the Company continued to reposition its balance sheet to ensure appropriate funding was available for loan growth and branch acquisition needs, to further reduce asset quality risk, and grow deposits organically as a less expensive funding source. In the second quarter of 2016, the securities held-to-maturity portfolio was reclassified to available-for sale to allow portfolio restructuring and to fund loan growth. This transfer of $244.8 million was approved by the Board of Directors, and will preclude any holdings of securities held-to-maturity for a two-year period from that date. Average interest bearing liabilities increased to $1.56 billion in 2017 from $1.49 billion in 2016, as the need for funding began to rise with the balance sheet growth experienced.

Management also continued to emphasize credit quality and maintain its capital ratios with continued strong liquidity. In 2017, the Company experienced loan growth of $138.8 million, or 9.4% over 2016 year end loans. The growth was driven by an active commercial lending team in new and existing markets, as well as a select portfolio purchase of home equity lines of credit of $16.7 million from a third party and $17.1 million of lease purchases. Asset quality levels have improved steadily over the last few years, with nonperforming assets decreasing to $24.0 million as of year end 2017, as compared to $27.9 million for year end 2016 and $33.8 million for December 31, 2015. Corresponding to the reduction in problem loans and nonperforming assets, the Company also continued to take steps to reduce operating expenses and increase net income. Reduced other real estate owned holdings resulted in lower net other real estate owned expenses each year for 2017, 2016 and 2015. As the Company focused on reducing all noninterest expenses, it was able to maintain its profitable wealth management business and secondary residential real estate originations and sales as important sources of noninterest income.

Recent developments

On December 26, 2017, the Company announced the signing of a definitive agreement and plan of merger (the “Merger Agreement”) to acquire Greater Chicago Financial Corp. and its wholly-owned bank subsidiary, ABC Bank, in an all-cash transaction. Under the terms of the Merger Agreement, the Company will acquire all of the outstanding common stock of Greater Chicago Financial Corp. in a transaction valued at approximately $41.1 million. The Company will acquire and simultaneously retire $6.3 million of outstanding subordinated debentures of Greater Chicago Financial Corp. ABC Bank had total assets of $342.6 million as of December 31, 2017, including $234.4 million of net loans. The merger is expected to close in the second quarter of 2018.

Critical accounting policies

The Company's consolidated financial statements are prepared based on the application of accounting policies in accordance with generally accepted accounting principles ("GAAP") and follow general practices within the banking industry. These policies require the reliance on estimates and assumptions, which may prove inaccurate or are subject to variations. Changes in underlying factors, assumptions, or estimates could have a material impact on the Company's future financial condition and results of operations. The most critical of these significant accounting policies are the policies related to the allowance for loan and lease losses, fair valuation methodologies and income taxes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements. Future changes in information may affect these estimates, assumptions, and judgments, which, in turn, may affect amounts reported in the consolidated financial statements.

Significant accounting policies are presented in Note 1 of the financial statements included in this annual report. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Recent accounting pronouncements and standards that have impacted or could potentially affect the Company are also discussed in Note 1 of the consolidated financial statements.

Allowance for loan and lease losses

The allowance for loan and lease losses ("ALLL") represents management's estimate of probable credit losses inherent in the loan and lease portfolio. Determination of the ALLL is inherently subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on a migration analysis that uses historical loss experience, consideration of current economic trends, portfolio growth and concentration risk, management and staffing changes, and other credit market factors.

The ALLL methodology consists of (i) specific reserves established for probable losses on individual loans or leases for which the recorded investment in the loan or lease exceeds the present value of expected future cash flows or the net realizable value of the underlying collateral, if collateral dependent, (ii) an allowance based on an analysis that uses historical credit loss experience for each loan or lease category, and (iii) the impact of other internal and external qualitative and credit market factors as assessed by management through detailed loan review, allowance analysis and credit discussions.

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The ALLL is a valuation allowance for losses, increased by the provision for loan and lease losses and decreased by both loan loss reserve releases and charge-offs less recoveries. Management estimates the allowance balance required using an assessment of various risk factors including, but not limited to, past loan loss experience, known and inherent risks in the portfolio, information about specific borrower situations, estimated collateral values, volume trends in delinquencies, nonaccruals, economic conditions, and other credit market considerations. Allocations of the allowance may be made for specific loans or leases, but the entire allowance is available for losses inherent in the loan and lease portfolio.

Management incorporated methodology changes in the ALLL calculation in both 2016 and 2017 to further refine the process. These methodology changes are described in the "Allowance for Loan and Lease Losses" section of this "Management Discussion and Analysis of Financial Condition and Results of Operations." As a result of management's analysis of the adequacy of the ALLL, a loan and lease loss provision was recorded in 2017 and 2016, and loan loss reserve releases were recorded for the year ended December 31, 2015.

A loan is considered impaired when it is probable that not all contractual principal or interest due will be received according to the original terms of the loan agreement. Management defines the measured value of an impaired loan based upon the present value of the future cash flows, discounted at the loan's original effective interest rate, or the fair value reflecting costs to sell the underlying collateral, if the loan is collateral dependent. Impaired loans were $20.1 million at December 31, 2017. This total compares to $22.3 million and $20.9 million December 31, 2016 and 2015, respectively. In addition, a discussion of the factors driving changes in the amount of the ALLL is included in the "Allowances for Loan and Lease Losses" section that follows.

Income Taxes

The Company recognizes expense for federal and state income taxes currently payable as well as deferred federal and state taxes, estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the consolidated balance sheets, as well as loss carryforwards and tax credit carryforwards. Federal deferred tax assets related to net operating losses totaled $34.5 million as of December 31, 2017. The Company maintains deferred tax assets for deductible temporary differences, the largest of which related to the goodwill amortization/impairment. For income tax return purposes this relates to Section 197 goodwill amortization and goodwill impairment charges. Realization of deferred tax assets is dependent upon generating sufficient taxable income in either the carryforward or carryback periods to cover net operating losses generated by the reversal of temporary differences. Any change in tax rate will be recorded in the period enacted, which was evidenced by the $1.6 million income tax credit recorded in the third quarter of 2017 due to the State of Illinois tax rate change in July 2017, as well as the $9.5 million income tax expense recorded in the fourth quarter of 2017 for the enactment of the "Tax Cuts and Jobs Act."

Future issuances or sales of common stock or other equity securities could also result in an "ownership change" as defined for U.S. federal income tax purposes. If an ownership change were to occur, the Company could realize a loss

of a portion of its U.S. federal and state deferred tax assets, including certain built-in losses that have not been recognized for tax purposes, as a result of the operation of Section 382 of the Internal Revenue Code of 1986, as amended. The amount of the permanent loss would be determined by the annual limitation period and the carryforward period (generally up to 20 years for federal net operating losses) and any resulting loss could have a material adverse effect on the results of operations and financial condition. On September 12, 2012, the Company and the Bank, as rights agent, entered into a Rights Plan which was designed to protect the Company's deferred tax assets against an unsolicited ownership change.

On September 2, 2015, the Company and the Bank, as Rights Agent, entered into a Second Amendment to the Amended and Restated Rights Agreement and Tax Benefits Preservation Plan (the "Amendment"). The Amendment, which was approved by the Company's shareholders at the Company's 2016 annual meeting, extended the final expiration date of the Company's Amended and Restated Rights Agreement and Tax Benefits Preservation Plan from September 12, 2015 to September 12, 2018. The purpose of the Rights Plan is to protect the Company's deferred tax asset against an unsolicited ownership change, which could significantly limit the Company's ability to utilize its deferred tax assets. For a description of the Rights Plan, please refer to the Company's Form 8-A, filed September 2, 2015.

Income tax returns are also subject to audit by the Internal Revenue Service (the "IRS") and state taxing authorities. Income tax expense for current and prior periods is subject to adjustment based upon the outcome of such audits. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service from 2014 to 2016, the state of Illinois from 2014 to 2016, and the states of Wisconsin and Indiana from 2009 to 2016. The Company believes it has adequately accrued for all probable income taxes payable.

Fair Value

The use of fair values is required in determining the carrying values of certain assets and liabilities, as well as for specific disclosures. Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date and is based on the assumptions market participants would use when pricing an asset or liability.

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In determining the fair value of financial instruments, market prices of the same or similar instruments are used whenever such prices are available. If observable market prices are unavailable or impracticable to obtain, we are required to make judgments about assumptions market participants would use in estimating the fair value of the financial instrument. Fair value is estimated using modeling techniques and incorporates assumptions about interest rates, duration, prepayment speeds, risks inherent in a particular valuation technique and the risk of nonperformance. These assumptions are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

Note 18, "Fair Value Measurements," to the consolidated financial statements includes information about the extent to which fair value is used to measure assets and liabilities and the valuation methodologies and key inputs used.

Non-GAAP Financial Measures

This annual report contains references to financial measures that are not defined in GAAP. Such non-GAAP financial measures include the presentation of net interest income and net interest income to interest earning assets on a tax equivalent ("TE") basis and our tangible common equity to tangible assets ratio. Management believes that the presentation of these non-GAAP financial measures (a) provides important supplemental information that contributes to a proper understanding of our operating performance, (b) enables a more complete understanding of factor and trends affecting our business, and (c) allows investors to evaluate our performance in a manner similar to management, the financial services industry, bank stock analysts, and bank regulators. Management uses non-GAAP measures as follows: in the preparation of our operating budgets, monthly financial performance reporting, and in our presentation to investors of our performance. However, we acknowledge that these non-GAAP financial measures have a number of limitations. Limitations associated with non-GAAP financial measures include the risk that persons might disagree as to the appropriateness of items comprising these measures and that different companies might calculate these measures differently. These disclosures should not be considered an alternative to our GAAP results. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is presented below or alongside the first instance where each non-GAAP financial measure is used.

Results of operations

Net interest income

Net interest income, which is our primary source of earnings, is the difference between interest income earned on interest-earning assets, such as loans and investment securities, as well as accretion income on purchased loans, and interest incurred on interest-bearing liabilities, such as deposits and borrowings. Net interest income depends upon the relative mix of interest-earning assets and interest-bearing liabilities, the ratio of interest-earning assets to total assets and of interest-bearing liabilities to total funding sources, and movements in market interest rates. The

Company's net interest income can be significantly influenced by a variety of factors, including overall loan demand, economic conditions, credit risk, the amount of nonearning assets including nonperforming loans and OREO, the amounts of and rates at which assets and liabilities reprice, variances in prepayment of loans and securities, early withdrawal of deposits, exercise of call options on borrowings or securities, a general rise or decline in interest rates, changes in the slope of the yield-curve, and balance sheet growth or contraction. The Company's asset and liability committee ("ALCO") seeks to manage interest rate risk under a variety of rate environments by structuring the Company's balance sheet and off-balance sheet positions. This process is discussed in more detail in the section entitled "Interest rate risk" in "Quantitative and Qualitative Disclosures about Market Rate Risk."

Net interest income increased $11.4 million, or 18.0%, from the year ended December 31, 2016, to $74.9 million for the year ended December 31, 2017. The increase in interest and dividend income in 2017 was partially offset by increases in interest expense. The Company's net interest margin on a taxable equivalent basis, which is net interest income divided by total interest-earning assets, was 3.70% for the year ended 2017, compared to 3.31% for the year ended 2016, an increase of 39 basis points. The growth in the Company's net interest margin was due primarily to higher loan volumes in 2017, coupled with $1.3 million of discount accretion on purchase loans as a result of our Talmer branch acquisition in late 2016. The increase in interest expense in 2017 compared to 2016 was due primarily to higher rates paid on time deposits, as well as a full year of interest expense on senior notes issued in December 2016, which were issued at a higher rate than the subordinated notes simultaneously retired in December 2016.

Net interest income increased $4.4 million, or 7.4%, from the year ended December 31, 2015, to $63.4 million for the year ended December 31, 2016. The increase in net interest income in 2016 was partially offset by increases in interest expense. The Company's net interest margin on a taxable equivalent basis was 3.31% for the year ended 2016, compared to 3.23% for the year ended 2015, an increase of eight basis points. The growth in the Company's net interest margin was due primarily to higher loan volumes in 2016, coupled with $604,000 of discount accretion on purchased loans as a result of our Talmer branch acquisition in late 2016.

Average earning assets increased $181.3 million, or 9.4%, to $2.11 billion in 2017, from $1.93 billion in 2016. The increase was primarily the result of a $318.8 million increase in average loans and loans held-for-sale, partially offset by a $116.7 million decrease in average total securities. The increase in average loans in 2017 reflects growth due to our Talmer branch acquisition, as well as organic commercial, real estate and lease financing growth. Average earning assets increased $90.0 million, or 4.9%, to $1.93 billion in 2016, from $1.84 billion in 2015. The increase was primarily the result of growth in average loans and loans held-for-sale and average total

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securities. The increase in average loans in 2016 reflect growths due to our Talmer branch acquisition, as well as organic commercial, real estate and lease financing growth.

Average interest bearing liabilities increased $70.0 million to $1.56 billion in 2017, from $1.49 billion in 2016, due primarily to growth in NOW accounts, an increase in other short-term borrowings and the restructuring of the Company's debt. The debt structure of the Company was revised in late 2016, with the retirement of $45.5 million of subordinated and senior debt due in 2018, and simultaneous public offering of $45.0 million of senior notes, which pay at a higher rate. The impact of this debt offering will be seen in future years as interest expense is projected to increase going forward. The interest rate on the retired subordinated debt reset quarterly at three-month LIBOR plus 150 basis points. The $45.0 million in new senior notes have a fixed rate at 5.75% for five years, which converts to a floating rate tied to three month LIBOR plus 385 basis points in 2021. Average interest bearing liabilities increased $35.5 million to $1.49 billion in 2016, from $1.45 billion in 2015, due primarily to growth in NOW accounts.

Analysis of Average Balances

Tax Equivalent Interest and Rates

Years ended December 31, 2017, 2016 and 2015

(In thousands – unaudited)

	2017 Average Balance	Interest	Rate %	2016 Average Balance	Interest	Rate %	2015 Average Balance	Interest	Rate %
Assets									
Interest bearing deposits with financial institutions	$ 12,224	$ 134	1.08	$ 33,226	$ 169	0.50	$ 20,066	$ 55	0.27
Securities:									
Taxable	347,712	10,202	2.93	635,914	15,865	2.49	642,132	14,037	2.19
Non-taxable (TE)	208,142	9,137	4.39	36,643	1,295	3.53	22,311	834	3.74
Total securities	555,854	19,339	3.48	672,557	17,160	2.55	664,443	14,871	2.24
Dividends from FHLBC and FRBC	8,127	370	4.55	7,944	333	4.19	8,545	306	3.58
	1,537,742	70,950	4.55	1,218,931	56,263	4.54	1,149,590	53,327	4.58

Loans and loans held-for-sale1									
Total interest earning assets	2,113,947	90,793	4.25	1,932,658	73,925	3.78	1,842,644	68,559	3.68
Cash and due from banks	33,738	-	-	31,689	-	-	29,659	-	-
Allowance for loan and lease losses	(16,390)	-	-	(15,955)	-	-	(19,323)	-	-
Other noninterest bearing assets	187,503	-	-	194,356	-	-	212,142	-	-
Total assets	$ 2,318,798			$ 2,142,748			$ 2,065,122		
Liabilities and Stockholders' Equity									
NOW accounts	$ 425,435	$ 424	0.10	$ 389,266	$ 358	0.09	$ 345,472	$ 300	0.09
Money market accounts	278,826	349	0.13	273,101	274	0.10	292,725	282	0.10
Savings accounts	261,974	177	0.07	256,905	157	0.06	249,570	152	0.06
Time deposits	389,771	4,227	1.08	404,285	3,640	0.90	410,691	3,201	0.78
Interest bearing deposits	1,356,006	5,177	0.38	1,323,557	4,429	0.33	1,298,458	3,935	0.30
Securities sold under repurchase agreements	31,478	17	0.05	34,016	4	0.01	28,194	3	0.01
Other short-term borrowings	67,959	741	1.08	26,518	102	0.38	21,945	30	0.13
Junior subordinated debentures	57,615	4,002	6.95	57,567	4,334	7.53	57,520	4,287	7.45
Senior notes	44,010	2,689	6.11	2,050	112	5.46	-	-	-
Subordinated debt	-	-	-	42,910	949	2.18	45,000	814	1.78
Notes payable and other borrowings	-	-	-	477	8	1.65	500	7	1.38
Total interest bearing liabilities	1,557,068	12,626	0.81	1,487,095	9,938	0.67	1,451,617	9,076	0.62
Noninterest bearing deposits	547,719	-	-	476,422	-	-	429,403	-	-
	22,131	-	-	12,929	-	-	10,712	-	-

Other liabilities									
Stockholders' equity	191,880	-	-	166,302	-	-	173,390	-	-
Total liabilities and stockholders' equity	$ 2,318,798			$ 2,142,748			$ 2,065,122		
Net interest income (TE)		$ 78,167			$ 63,987			$ 59,483	
Net interest income (TE) to total earning assets			3.70			3.31			3.23
Interest bearing liabilities to earning assets	73.66 %			76.95 %			78.78 %		

1 Interest income from loans is shown tax equivalent as discussed below and includes fees of $2.4 million, $2.5 million and $1.8 million for 2017, 2016 and 2015, respectively. Nonaccrual loans are included in the above stated average balances. See Guide 3"Statistical Data Requirements", Item I for further details in tax equivalent adjustment.

Provision for loan and lease losses

The Company recorded a provision for loan and lease losses in 2017 of $1.8 million as compared to $750,000 of loan and lease losses provision in 2016, and a $4.4 million release of reserves for loan and lease losses in 2015. For additional discussion of the loan and lease loss provision and allowance, see the section below "Allowance for Loan and Lease Losses" in Item 7. Management's Discussion and Analysis of Financial Condition.

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Noninterest income

(in thousands)	Noninterest Income for the Twelve Months ending December 31,			Percent Change From	
	2017	2016	2015	2017-2016	2016-2015
Trust income	$ 6,203	$ 5,670	$ 5,953	9.4	(4.8)
Service charges on deposits	6,720	6,684	6,820	0.5	(2.0)
Residential mortgage banking revenue:					
Secondary mortgage fees	776	1,038	907	(25.2)	14.4
Mortgage servicing rights mark to market loss	(802)	(919)	(1,141)	12.7	19.5
Mortgage servicing income	1,778	1,724	1,628	3.1	5.9
Net gain on sales of mortgage loans	4,803	6,343	5,775	(24.3)	9.8
Total residential mortgage banking revenue	6,555	8,186	7,169	(19.9)	14.2
Securities gains (losses), net	474	(2,213)	(178)	N/M	N/M
Increase in cash surrender value of BOLI	1,432	1,283	1,396	11.6	(8.1)
Debit card interchange income	4,200	4,027	4,028	4.3	(0.0)
Gains (losses) on disposal and transfer of fixed assets	10	(1)	(1,119)	N/M	N/M
Other income	4,778	4,938	5,225	(3.2)	(5.5)
Total noninterest income	$ 30,372	$ 28,574	$ 29,294	6.3	(2.5)

N/M - Not meaningful

Total noninterest income increased $1.8 million to $30.4 million in 2017, as compared to $28.6 million in 2016. The Company continues to develop strategic plans to grow its trust income and service charges on deposits, subject to the banking industry's regulatory environment. Trust income increased $533,000 in 2017 from 2016, due primarily to growth in estates fees and management emphasis on advisory fee growth. Service charges on deposits increased $36,000 in 2017 from 2016 due primarily to growth in commercial demand related account fees, as a result of increases in commercial demand deposit balances commensurate with management's focus on growing commercial loans. Residential mortgage banking revenue declined $1.6 million in 2017 from 2016, due primarily to a rising interest rate environment. Mortgage originations decreased $47.0 million in 2017 from 2016, and proceeds from mortgage sales declined $45.4 million in 2017 compared to 2016. However, mortgage servicing rights showed a slight improvement of $117,000 for 2017, compared to 2016. Securities gains were $474,000 for 2017, compared to net losses on securities of $2.2 million in 2016, primarily due to security sales in 2016 stemming from funding needs related to the Talmer branch acquisition. The cash surrender value of bank owned life insurance ("BOLI") increased $149,000 in 2017, compared to 2016, due to the rising interest rate environment.

Total noninterest income decreased $720,000 to $28.6 million in 2016, as compared to $29.3 million in 2015. Trust income decreased $283,000 in 2016 from 2015, due primarily to declines in personal trust and estate fees in 2016. Residential mortgage banking revenue increased $1.0 million in 2016, compared to 2015, despite the rising rate environment. Valuations in the mortgage business also improved in 2016, compared to 2015. Net losses on securities

were $2.2 million for 2016, compared to net losses of $178,000 in 2015, with the increase in net losses primarily due to security sales in 2016 stemming from funding needs related to the Talmer branch acquisition. The cash surrender value of BOLI decreased $113,000 in 2016, compared to 2015, primarily due to minimal rising interest rates and modest increases in the cash surrender value of the policies. Noninterest income in 2015 included a noncash impairment charge of approximately $1.1 million on the now closed branch in Batavia, Illinois and revenue of approximately $917,000 related to a one-time payment from a long term service provider, which is included in “other income.”

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Noninterest expense

(in thousands)	Noninterest Expense for the Twelve Months ending December 31,			Percent Change From	
	2017	2016	2015	2017-2016	2016-2015
Salaries	$ 31,096	$ 28,823	$ 28,173	7.9	2.3
Officers incentive	2,637	1,988	1,320	32.6	50.6
Benefits and other	6,347	5,423	5,568	17.0	(2.6)
Total salaries and employee benefits	40,080	36,234	35,061	10.6	3.3
Occupancy, furniture and equipment	5,951	6,063	6,260	(1.8)	(3.1)
Computer and data processing	4,387	4,349	4,357	0.9	(0.2)
FDIC insurance	658	865	1,334	(23.9)	(35.2)
General bank insurance	1,031	1,109	1,273	(7.0)	(12.9)
Amortization of core deposit intangible	96	16	-	N/M	N/M
Advertising expense	1,505	1,633	1,340	(7.8)	21.9
Debit card interchange expense	1,329	1,455	1,514	(8.7)	(3.9)
Legal fees	650	800	1,175	(18.8)	(31.9)
Other real estate owned expense, net	2,165	2,743	5,191	(21.1)	(47.2)
Other expense	11,297	11,494	10,916	(1.7)	5.3
Total noninterest expense	$ 69,149	$ 66,761	$ 68,421	3.6	(2.4)

N/M - Not meaningful

Total noninterest expense increased by $2.4 million, or 3.6%, in 2017 compared to 2016. Total salaries and employee benefits increased 10.6% in 2017 compared to 2016, primarily as a result of growth in salaries, insurance and other benefits costs, and increased officer incentives due to improved corporate performance. Other real estate owned expenses, net, decreased $578,000 in 2017 compared to 2016, reflecting the declining balances held in other real estate owned.

Total noninterest expense decreased by $1.7 million , or 2.4%, in 2016 compared to 2015. The reduction was primarily due to a decrease in other real estate owned expenses, net, of $2.4 million in 2016 compared to 2015, reflecting the declining balances held in other real estate owned. This decrease was partially offset by an increase in total salaries and employee benefits driven by the addition of 17 full-time equivalent employees.

The Company's number of full-time equivalent employees declined by 17 in 2017. Management continues to be diligent in controlling the hiring of replacements as positions become open, as the Company looks to efficiently utilize its current staff.

Income taxes

The Company's provision for income taxes includes both federal and state income tax expense (benefit). An analysis of the provision for income taxes for the three years ended December 31, 2017, is detailed in Note 12 of the consolidated financial statements and the Company's income tax accounting policies are described in Note 1 to the consolidated financial statements.

Income tax expense totaled $19.2 million for the year ended December 31, 2017 compared to an income tax expense of $8.8 million in 2016 and $9.0 million in 2015. Income tax expense reflected all relevant statutory tax rates and GAAP accounting. The Company's effective tax rate was 55.8%, 36.0% and 36.8% in 2017, 2016 and 2015, respectively. Any changes in tax rates will be recorded in the period enacted.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law, which resulted in a reduction in the Federal income tax rate from 35% to 21%, thereby decreasing the Company's deferred tax asset by $9.5 million and increasing the Company's income tax expense. In addition, in July 2017, the State of Illinois enacted a tax rate change which resulted in the Company recording a $1.6 million increase to the deferred tax asset and an income tax credit.

On September 2, 2015, the Company and the Bank, as rights agent (the "Rights Agent"), entered into a Second Amendment to Amended and Restated Rights Agreement and Tax Benefits Preservation Plan (the "Amendment"), which amended the Amended and Restated Rights Agreement and Tax Benefits Preservation Plan, dated as of September 12, 2012, between the Company and the Rights Agent (as amended, the "Tax Benefits Plan"). This amendment was submitted and approved by the Company's stockholders at the

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Company's 2016 annual meeting, which extended the final expiration date of the Tax Benefits Plan from September 12, 2015 to September 12, 2018. The Company's board has determined not to renew the Tax Benefits Plan beyond the September 12, 2018 expiration date.

The determination of whether the Company will be able to realize the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, including forecasts of future income, available tax planning strategies, and assessments of the current and future economic and business conditions. Management considered both positive and negative evidence regarding the Company's ability to ultimately realize the deferred tax assets, which is largely dependent upon the ability to derive benefits based upon future taxable income. For all periods presented, management determined that the realization of the deferred tax asset was "more likely than not" as required by GAAP.

There have been no significant changes in the Company's ability to utilize the deferred tax assets through December 31, 2017. The Company has no valuation reserve on the deferred tax assets as of December 31, 2017.

Financial condition

General

Total assets were $2.38 billion at December 31, 2017, an increase of $132.2 million, or 5.9%, from December 31, 2016. Loans increased by 9.4%, to $1.62 billion for the year ended December 31, 2017, compared to 2016. For the year ended December 31, 2017, the largest changes by loan type included increases in commercial, real estate–commercial, and real estate-residential, while all loan types, excluding consumer and overdrafts, grew due to organic loan originations and select portfolio purchases. Total securities increased by $9.6 million, or 1.8%, for the year ended December 31, 2017, while the total portfolio mix was moved into states and political subdivision issuances and out of collateralized mortgage obligations and asset back securities. In 2017, management continued to emphasize balance sheet stabilization and credit quality in all lending deliberations and continued to encounter high levels of competition for loans in the Company's target markets. Balance sheet stabilization was reflected in reduced other real estate balances, which decreased $3.5 million, or 29.8%, for the year ended December 31, 2017, compared to December 31, 2016, as sale activity and valuation write-downs exceeded new properties added.

Total liabilities were $2.18 billion at December 31, 2017, an increase of $107.1 million, or 5.2%, from December 31, 2016. Total deposits increased by 3.0%, to $1.92 billion for the year ended December 31, 2017, compared to the year ended December 31, 2016. Management continued to fund new lending with deposit growth, short term borrowings from the Federal Home Loan Bank of Chicago (the "FHLBC"), and modest levels of security sales.

At December 31, 2017, total stockholders' equity was $200.4 million, compared to $175.2 million at December 31, 2016.

Investments

As shown below, net investment sales during 2017 changed the composition of the Company's securities portfolio.

(in thousands)	Securities Portfolio as of December 31,			Percent Change From	
	2017	2016	2015	2017-2016	2016-2015
Securities available-for-sale, at fair value					
U.S. Treasury	$ 3,947	$ -	$ 1,509	N/M	N/M
U.S. government agencies	13,061	-	1,556	N/M	N/M
U.S. government agency mortgage-backed	12,214	41,534	1,996	(70.6)	N/M
States and political subdivisions	278,092	68,703	30,526	304.8	125.1
Corporate bonds	833	10,630	29,400	(92.2)	(63.8)
Collateralized mortgage obligations	65,939	170,927	66,920	(61.4)	155.4
Asset-backed securities	112,932	138,407	231,908	(18.4)	(40.3)
Collateralized loan obligations	54,421	101,637	92,251	(46.5)	10.2
Total securities available-for-sale	$ 541,439	$ 531,838	$ 456,066	1.8	16.6
Securities held-to-maturity, at amortized cost					
U.S. government agency mortgage-backed	$ -	$ -	$ 36,505	N/M	N/M
Collateralized mortgage obligations	-	-	211,241	N/M	N/M
Total securities held-to-maturity	$ -	$ -	$ 247,746	N/M	N/M
Total securities	$ 541,439	$ 531,838	$ 703,812	1.8	(24.4)

N/M - Not meaningful

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Our investment portfolio serves as both an important source of liquidity and as a source of income for the Company. Accordingly, the size and composition of the portfolio reflects liquidity needs, loan demand and interest income objectives.

Portfolio size and composition will be adjusted from time to time. While a significant portion of the portfolio consists of readily marketable securities to address liquidity, other parts of the portfolio may reflect funds invested pending future loan demand or to maximize interest income without undue interest rate risk.

The Company's total securities as of December 31, 2017, reflected a net increase of $9.6 million, or 1.8%, since December 31, 2016. While the size of the portfolio did not change significantly, the portfolio composition underwent a material restructuring. Market conditions made mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs") issued by federal agencies less attractive, while issuances of states and political subdivisions became more attractive. These conditions prompted the sales of a significant portion of our MBS and CMO portfolio, which were reinvested into issuances of states and political subdivisions. Market conditions also increased the value of the Company's collateralized loan obligations ("CLOs"), which led many holdings to be called during 2017. Some reinvestment into newer issue CLOs occurred, but the overall CLO portfolio size was reduced significantly. Net securities gains of $474,000 were recorded in 2017 related to sales and calls during the year.

The Company's total securities as of December 31, 2016 declined from the year end 2015 total securities balance by $172.0 million, or 24.4%. This reduction stemmed from funding needs related to the Talmer branch acquisition and loan growth. Primarily asset backed securities and CMOs were sold to complete the Company's plans, which resulted in net security losses of $2.2 million in 2016. Certain portfolios did increase in the year over year period, such as states and political subdivisions and CLOs. Purchases totaling $92.3 million were executed in these portfolios during 2016 due to favorable pricing in the rising interest rate environment. These portfolio increases were more than offset by reductions in holdings of asset-backed securities and CMOs; these reductions were comprised of sales of $287.7 million and paydowns of $31.8 million.

Securities held-to-maturity were held in 2015 and early 2016; in the second quarter of 2016, the portfolio was transferred to available-for-sale to allow for portfolio restructuring and to fund loan growth. Securities held-to-maturity presented above were carried at amortized cost and the discount or premium was accreted or amortized to the maturity or expected payoff date but not an earlier call. Due to the transfer to available-for-sale in 2016, the Company is precluded from holding any securities as held-to-maturity for a two year period after the date of transfer.

Loans

(in thousands)	Major Classification of Loans as of December 31,			Percent Change From	
	2017	2016	2015	2017-2016	2016-2015
Commercial	$ 272,851	$ 228,113	$ 115,603	19.6	97.3
Leases	68,325	55,451	25,712	23.2	115.7
Real estate - commercial	750,991	736,247	605,721	2.0	21.5
Real estate - construction	85,162	64,720	19,806	31.6	226.8
Real estate - residential	426,230	377,851	351,007	12.8	7.6
Consumer	2,774	3,237	4,216	(14.3)	(23.2)
Other	10,609	11,973	10,613	(11.4)	12.8
	1,616,942	1,477,592	1,132,678	9.4	30.5
Net deferred loan costs	680	1,217	1,037	(44.1)	17.4
Total loans	$ 1,617,622	$ 1,478,809	$ 1,133,715	9.4	30.4

Total loans were $1.62 billion as of December 31, 2017, an increase of $138.8 million from $1.48 billion as of December 31, 2016. The company's loan growth in 2017 compared to 2016 was driven by our continued efforts to build business origination pipelines, as well as select portfolio purchases. In 2017, the Company purchased a select portfolio of home equity lines of credit totaling $16.7 million, included within the $48.4 million growth in real estate-residential, above, at year end 2017 compared to 2016. The Company also purchased $17.1 million in leases from a third party originator in 2017. The Company continued its focus in 2017 on identifying commercial and industrial loan prospects that conform to the Company's loan policies and increased commercial loans by $44.7 million at year end 2017, compared to 2016. We strive to serve customers in and around our geographic locations and continue to seek opportunities in our primary lending markets; however, our markets remain very competitive for new loan business.

Total loans were $1.48 billion as of December 31, 2016, an increase of $345.1 million from $1.13 billion as of December 31, 2015. The Company's loan growth in 2016, compared to 2015, included $221.0 million of loans purchased in our Talmer branch acquisition and organic loan growth of $124.1 million. We experienced organic growth largely in the multi-family, commercial real estate (both owner occupied and nonowner occupied) and commercial & industrial classifications in 2016, compared to 2015. Other commercial real estate credits were realized with relationships in our targeted customer and geographic markets, and additional lease financing

receivables were recorded in 2016, with numerous purchases of equipment financing contracts originated by a larger Illinois based financial institution.

The Company worked diligently to build loan origination pipelines during 2016 and 2017, as evidenced by the loan growth of 9.4% in 2017 and 30.4% in 2016. As discussed in the "Asset Quality" section below, management continued to emphasize loan portfolio quality in 2017 and 2016 and, as a result, $497,000 of net loan charge-offs were recorded in 2017, and $815,000 of net loan charge-offs were recorded in 2016, compared to $1.0 million of net loan charge-offs recorded in 2015.

The quality of the loan portfolio is in large part a reflection of the economic health of the communities in which the Company operates. The local economies have displayed improved economic conditions in the past few years, as reflected in the Company's loan growth and declines in classified assets, as discussed in the "Asset Quality" section below. Real estate lending categories comprised the largest group in the portfolio for all years presented. In addition, the commercial loan portfolio increased $44.7 million to $272.9 million at December 31, 2017, from $228.1 million at December 31, 2016. The Company remains committed to overseeing and managing its loan portfolio to avoid unnecessarily high credit concentrations in accordance with the general interagency guidance on risk management. Consistent with those commitments, management updated its asset diversification plan and policy and anticipates that the percentage of real estate lending to the overall portfolio will decrease in the future.

The ALLL was $17.5 million at year-end 2017, as compared to $16.2 million at year-end 2016 and 2015. One measure of the adequacy of the ALLL is the ratio of the allowance to total loans. The ALLL as a percentage of total loans was 1.1% as of December 31, 2017 and 2016 and 1.4% at year-end 2015. In management's judgment, an adequate allowance for estimated losses has been established; however, there can be no assurance that losses will not exceed the estimated amounts in the future. Excluding the balances of the loans acquired from the Talmer branch purchase, the ratio of allowance to total loans as of year-end 2017 was 1.13%. The loans acquired in the Talmer branch purchase are carried at contractual loan values less a fair market value adjustment as of date of acquisition. As of December 31, 2017, this acquisition adjustment totaled $835,000.

Management remains cautious about the continued recovery in the local and overall economic environment. Furthermore, the sustained difficulties in the commercial and investor real estate sector, while showing signs of improvement, could continue to adversely affect collateral values. These events may adversely affect cash flows generally for both commercial and individual borrowers. While we believe portfolio stability has taken hold, the Company could experience undesirable levels of problem assets, delinquencies, and losses on loans in future periods if economic recession or politically triggered economic instability develops.

Asset Quality

Nonperforming loans consist of nonaccrual loans, performing restructured accruing loans and loans 90 days or more past due but still accruing. Management believes recovery in the overall commercial real estate segment is evident but could be stifled by macroeconomic events. Negative changes in the economy could increase the Company's nonperforming loans. Total nonperforming loans were $15.6 million at December 31, 2017, a modest decrease from $16.0 million at December 31, 2016. In addition, total classified assets experienced significant reductions in the last few years, reflecting the improved economy and the Company's continued diligent remediation efforts.

The Company had net charge-offs of $497,000 in 2017, $815,000 in 2016 and $1,014,000 in 2015.

The following table shows classified assets by segment for the following periods.

(in thousands)	Classified assets as of December 31,			Percent Change From	
	2017	2016	2015	2017-2016	2016-2015
Commercial	$ -	$ 2,527	$ 2,029	N/M	24.5
Leases	825	1,109	-	(25.6)	N/M
Real estate - commercial, nonfarm	7,262	9,946	10,568	(27.0)	(5.9)
Real estate - commercial, farm	2,486	1,782	1,272	39.5	40.1
Real estate - construction	376	458	83	(17.9)	451.8
Real estate - residential:					
Investor	448	1,096	1,136	(59.1)	(3.5)
Multifamily	4,723	-	-	N/M	N/M
Owner occupied	5,266	7,225	7,079	(27.1)	2.1
Revolving and junior liens	1,899	2,340	3,055	(18.8)	(23.4)
Other	20	1	1	N/M	-
Total classified loans	23,305	26,484	25,223	(12.0)	5.0
Other real estate owned	8,371	11,916	19,141	(29.7)	(37.7)
Total classified assets	$ 31,676	$ 38,400	$ 44,364	(17.5)	(13.4)

N/M - Not meaningful

Classified loans include nonaccrual, performing troubled debt restructurings and all other loans considered substandard. Classified assets include both classified loans and OREO. Total classified loans and total classified assets both declined in 2017 from 2016. Classified loans decreased primarily due to reductions in our commercial and real estate – commercial, nonfarm portfolios, while classified assets, which includes classified loans and OREO, decreased as our OREO portfolio decreased $3.5 million in 2017 from 2016. Management monitors a ratio of classified assets to the sum of Bank Tier 1 capital and the allowance for loan and lease losses, which is referred to as the "classified assets ratio." Our classified assets ratio decreased to 11.87% at December 31, 2017, from 16.18% at December 31, 2016, and 20.31% at December 31, 2015, reflecting overall improvement in loan related asset quality.

Other positive trends included continued stability within nonaccrual loan levels and total past due loans in 2017, compared to 2016. Nonaccrual loans totaled $14.4 million at December 31, 2017, a decrease of $900,000 from year end 2016. Nonaccrual loans totaled $15.3 million at December 31, 2016, an increase of $900,000 from year end 2015. Total past due loans, including accruing and nonaccrual loans, totaled $15.5 million at year end 2017, a $900,000 decrease from year end 2016; the rate of past dues to total loans decreased to 0.96% at year-end 2017 from 1.11% at both year-end 2016 and 2015.

Allowance for Loan and Lease Losses

The Company's ALLL methodology is designed to produce reasonable estimates of loan and lease losses as of the financial statement date(s) and incorporates management's judgments about the credit quality of the loan portfolio through a disciplined and consistently applied methodology. The methodology follows GAAP including, but not limited to, guidance included in Accounting Standards Codification ("ASC") 310 and ASC 450. Analysis is prepared in accordance with guidelines established by the SEC, the Federal Financial Institutions Examination Council, the American Institute of Certified Public Accountants Audit and Accounting Guide for Depository and Lending Institutions, and banking industry practices. The total ALLL was $17.5 million as of December 31, 2017.

In accordance with accounting guidance for business combinations, there was no allowance for loan or lease losses brought forward on any purchased non-credit impaired loans in our Talmer branch acquisition, as we adjusted the unpaid principal balance of such loans to reflect credit discounts representing the principal losses expected over the life of the loans which was a component of the initial fair value. All of the loans we acquired in our Talmer branch acquisition were purchased non-credit impaired loans, and these loans totaled $145.6 million at December 31, 2017. After the acquisition date, the method used to evaluate the sufficiency of the credit discount is similar to the method the Company uses for originated loans, and if necessary, the Company recognizes additional reserves in the ALLL. The total ALLL as of December 31, 2017, includes a $750,000 reserve for loans recorded in our 2016 Talmer branch acquisition. Of the $2.8 million purchase accounting valuation discount recorded in our 2016 Talmer branch acquisition, the remaining total discount is $835,000, $527,000 of which is attributable to the remaining Day One credit mark on this portfolio. Any future charge-offs will be taken first against this credit mark discount. As of December 31, 2017, no charge-offs have been recorded on this acquired portfolio.

The ALLL consists of three components: (i) specific allocations established for losses resulting from an analysis developed through reviews of individual impaired loans for which the recorded investment in the loan exceeds the measured value of the loan; (ii) reserves based on historical loss experience for each loan category; and (iii) reserves based on general current economic conditions as well as specific economic and other factors believed to be relevant to the Company's loan portfolio. The components of the ALLL represent an estimation performed pursuant to ASC Topic 450, "Contingencies", and ASC Topic 310, "Receivables" including "Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures." See Note 1 of the consolidated financial statements, "Summary of Significant Accounting Policies" for further detail.

The historical loss experience component is based on actual loss experience for a rolling 20-quarter period and the related internal risk rating and category of loans charged-off, including any charge-offs on TDRs. The loss migration analysis is performed quarterly, and the loss factors are updated based on actual experience.

Management takes into consideration many internal and external qualitative factors when estimating the additional adjustment for management factors, including:

- Changes in the composition of the loan portfolio, trends in the volume and terms of loans, and trends in delinquent and nonaccrual loans that could indicate that historical trends do not reflect current conditions.
- Changes in credit policies and procedures, such as underwriting standards and collection, charge-off, and recovery practices.
- Changes in the experience, ability, and depth of credit management and other relevant staff.
- Changes in the quality of the Company's loan review system and board of directors' oversight.
- Changes in the value of the underlying collateral for collateral-dependent loans.
- Changes in the national and local economy that affect the collectability of various segments of the portfolio.
- Changes in other external factors, such as competition and legal or regulatory requirements are considered when determining the level of estimated loss in various segments of the portfolio.

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Management conducts an annual review of all Home Equity Lines of Credit (“HELOC”) by looking at credit scores. When the Company is notified of a foreclosure on a first mortgage, the HELOC loan is moved to nonaccrual and a decision is made if the loan is collectible. Loan balances are actively charged-off in the absence of sufficient equity unless the borrower reaffirms or notifies us of an intention to reaffirm.

The analysis of these factors involves a high degree of judgment by management. Because of the imprecision surrounding these factors, the Company estimates a range of inherent losses and maintains a general allowance that is not allocated to a specific category. As of December 31, 2017, the unallocated allowance increased to $542,000, from the unallocated balance of $435,000 as of December 31, 2016. Changes in the ALLL are detailed in Note 6 on the consolidated financial statements of this annual report.

The ALLL methodology is periodically reviewed by the Company’s independent accountants and banking regulators, and select methodology changes were made in 2017 and 2016.

In 2016, the Company significantly refined its ALLL methodology to further stratify the loan portfolio and apply unique factors to each segment. The changes implemented in 2016 segregate the total loan portfolio into further detail, moving from seven loan classifications to nine when applying management risk factors, and from four loan classifications to nine when applying historical loss rates. The Company also enhanced the prior process of applying management risk factors for changes in loans portfolio trends, such as factors for changes in the trend or volume of past due and classified loans, changes in the nature and volume of the portfolio and concentrations, changes in lending policy, procedures, management and staffing, and other external factors. These factors were historically analyzed in the aggregate to arrive at one risk factor per loan classification; under the revised methodology, the Company assigns each of these components its own risk factor, as well as encompasses an additional risk rating for loans rated as pass/watch.

The Company continued to refine its ALLL methodology in 2017, with implementation of additional management factor classifications for new loan types offered, such as the Company’s recent purchase of home equity lines of credit (“HELOCs”) and the recently expanded business development company loan portfolio, as these new offerings have not been outstanding long enough to be sufficiently seasoned and may pose more risk. In addition, the Company revised the risk weightings for the historical loss factors to reflect a five basis point increase to the loss factor applied in the earliest quarter, and a reduction of five basis points in the most recent quarter, as management believes the lower charge-off levels experienced in the more recent quarters will likely not continue long-term.

These modifications to the Company’s ALLL methodology are intended to more accurately reflect all portfolio risk, and resulted in a decrease to the overall unallocated component of the allowance over the past two years. The unallocated component of the allowance was $542,000 as of December 31, 2017, compared to $435,000 as of December 31, 2016, and $2.0 million as of December 31, 2015.

The coverage ratio of the ALLL to nonperforming loans was 111.8% as of December 31, 2017, which reflects an increase from 101.0% as of December 31, 2016. A modest decrease of $400,000, or 2.4%, in nonperforming loans in 2017 was more than offset by the increase in the ALLL, which drove the overall coverage ratio change. Following established methodology, management updated the estimated specific allocations each quarter after receiving more recent appraisal valuations or information on cash flow trends related to the impaired credits. Allocations for general risk and management factors increased by $2.6 million from December 31, 2017 while the overall loan balances subject to allowance increased by approximately $139.3 million at December 31, 2017. Management determined the estimated amount to include in the ALLL based upon a number of factors, including an evaluation of credit market circumstances, loan growth or contraction, the quality and composition of the loan portfolio and loan loss experience,
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Management reviews the performance of the management risk factors including higher risk loan pools rated as special mention and problem loans, and adjusts the population and the related loss factors taking into account adverse market trends including collateral valuation as well as its assessments of the credits in that pool. Changes are identified in the Company's comprehensive loan review process and made in the related risk factors when needed with a formal affirmation at each quarter end. Those assessments capture management's estimate of the potential for adverse migration to an impaired status as well as its estimation of what potential valuation impact would result from that migration. Management has also observed that many stresses in those credits were generally attributable to cyclical economic events that continued to show some signs of stabilization in 2017.

The above changes in estimates were made by management to be consistent with observable trends on asset quality within loan portfolio segments (as discussed in the "Asset Quality" section above) and in conjunction with market conditions and credit review administration activities. Several environmental factors are also evaluated monthly, when appropriate, with formal affirmation each quarter end and are included in the assessment of the adequacy of the ALLL. Further, significant improvement was seen in net charge-offs from year-end 2015 through 2017. Net charge-offs of $815,000 in 2016 declined by 39.0% to $497,000 in 2017. Nonperforming loans of $16.0 million at year-end 2016 decreased 2.4% to $15.6 million at December 31, 2017. Based on these assessments, management determined that a provision for loan and lease losses of $1.8 million and $750,000 were required for 2017 and 2016, respectively. When measured as a percentage of loans outstanding, the total ALLL decreased from 1.3% of total loans as of December 31, 2016, to 1.1% of total loans at December 31, 2017. In management's judgment, an adequate allowance for estimated losses has been established for potential incurred losses at December 31, 2017; however, there can be no assurance that actual losses will not exceed the estimated amounts in the future.

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Other Real Estate Owned

Other real estate owned ("OREO") decreased to $8.4 million as of December 31, 2017, reflecting a $3.5 million decline from $11.9 million at year end 2016. Of the 35 properties held as of year-end 2017, the largest net book value property was a vacant commercial property carried at $1.8 million. Reductions in the OREO balance during 2017 include the sale of three commercial properties which were transferred into OREO from premises totaling $1.1 million. Net gains on the sale of 29 OREO properties during 2017 totaled $474,000. The trend of year over year reductions in valuation adjustments continued but at decreasing levels in 2015 through 2017.

(in thousands)	OREO Properties by Type as of December 31,			Percent Change From	
	2017	2016	2015	2017-2016	2016-2015
Single family residence	$ 900	$ 225	$ 2,334	300.0	(90.4)
Lots (single family and commercial)	5,329	7,322	10,042	(27.2)	(27.1)
Vacant land	479	636	2,104	(24.7)	(69.8)
Multi-family	-	264	314	(100.0)	(15.9)
Commercial property	1,663	3,469	4,347	(52.1)	(20.2)
Total OREO properties	$ 8,371	$ 11,916	$ 19,141	(29.7)	(37.7)

Real estate assets acquired in settlement of loans are recorded at the fair value of property when acquired, less estimated costs to sell, establishing a new cost basis. The OREO valuation reserve ended 2017 at $8.2 million, which was 49.5% of gross OREO at year-end 2017. This compares to $10.0 million, or 45.6%, of gross OREO at year-end 2016.

Deposits & Borrowings

The Company grew total deposits by $56.1 million, or 3.0%, to a total of $1.92 billion at year end 2017 compared to year end 2016. A reduced level of time or certificates of deposits was reflected in 2017 as higher yielding certificates matured in the current lower rate environment. This reduction was offset by larger increases in transactional commercial demand, money market and savings account balances. Growth in the commercial loan portfolio stimulated growth in commercial deposit accounts due to the treasury management services offered. Deposits also increased in 2016 compared to 2015; one catalyst for this increase was the $48.9 million of deposits acquired with the Talmer branch acquisition in late 2016. Excluding this acquisition, deposit growth was $58.8 million, or 3.3% year over year.

Other liquidity sources were utilized for funding needs of the Company, such as other short-term borrowings with the FHLBC. The Company's borrowings at the FHLBC require the Bank to be a member and invest in the stock of the FHLBC and total borrowings are generally limited to the lower of 35% of total assets or 60% of the book value of certain mortgage loans. The Company primarily uses these borrowings as a source of short-term funding, and borrowing levels with the FHLBC increased by $45.0 million in 2017 compared to 2016, to end at $115.0 million outstanding as of December 31, 2017.

In December 2016, the Company completed a subordinated debt retirement and simultaneous senior debt offering. Subordinated debt of $45.0 million and $500,000 of senior debt outstanding were paid off with the proceeds of a $45.0 million senior notes issuance and cash on hand. The senior notes mature in ten years, and terms include interest payable semiannually at 5.75% for five years. Beginning December 2021, the senior debt will pay interest at a floating rate, with interest payable quarterly at three month LIBOR plus 385 basis points. As of December 31, 2017, the company had $44.1 million of senior debt outstanding, net of deferred issuance costs.

At December 31, 2017, the Company was in compliance with all of the financial covenants contained within the credit agreement.

Capital

As of December 31, 2017, total stockholders' equity was $200.4 million, which was an increase of $25.1 million, or 14.3%, from the $175.2 million as of December 31, 2016. This increase was largely attributable to net income of $15.1 million in 2017, and a more favorable fair value adjustment on securities available for sale, within accumulated other comprehensive income. At December 31, 2017, accumulated other comprehensive income, net of deferred taxes, was $1.5 million, compared to an $8.8 million accumulated other comprehensive loss, net of tax, as of year end 2016. Equity in 2017 was reduced for the payment of dividends to common stockholders, which totaled $1.2 million for the year. Total stockholders' equity increased in 2016, ending at $175.2 million as compared to $155.9 million at year end 2015, due primarily to net income of $15.7 million and declines in unrealized losses on securities available for sale in 2016.

The Company completed the sale of $32.6 million of cumulative trust preferred securities by its subsidiary, Old Second Capital Trust I in July 2003. These trust preferred securities remain outstanding for a 30-year term, but subject to regulatory approval, they can be called in whole or in part at the Company's discretion after an initial five-year period, which has since passed. The Company does not currently intend to seek regulatory approval to call these securities. Dividends are payable quarterly at an annual rate of 7.80% and are included in interest expense in the consolidated financial statements even when deferred.

The Company issued an additional $25.8 million of cumulative trust preferred securities through a private placement completed by a second unconsolidated subsidiary, Old Second Capital Trust II, in April 2007. These trust preferred securities also mature in 30 years, but subject to regulatory approval, can also be called in whole or in part beginning in 2017. The quarterly cash distributions on the securities were fixed at 6.77% through June 15, 2017, and converted to a floating rate at 150 basis points over the three-month LIBOR rate thereafter. The Company entered into a forward starting interest rate swap on August 18, 2015, with an effective date of June 15, 2017. This transaction had a notional amount totaling $25.8 million as of December 31, 2015, and was designated as a cash flow hedge of certain junior subordinated debentures and continues to be fully effective during the period presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swap is recorded in other liabilities with changes in fair value recorded in other comprehensive income, net of tax. The amount included in other comprehensive income would be reclassified to current earnings should all or a portion of the hedge no longer be considered effective. The Company expects the hedge to remain fully effective during the remaining term of the swap. The Company will pay the counterparty a fixed rate and receive a floating rate based on three month LIBOR. Management concluded that it would be advantageous to enter into this transaction given that the Company's trust preferred securities issued in 2007 changed from a fixed to floating rate on June 15, 2017. The cash flow hedge has a maturity date of June 15, 2037.

The Company is currently paying interest on all trust preferred securities as that interest comes due. As of December 31, 2017, total trust preferred proceeds of $56.6 million qualified as Tier 1 regulatory capital. As of December 31, 2016, trust preferred proceeds of $48.0 million qualified as Tier 1 regulatory capital and $8.6 million qualified as Tier 2 regulatory capital.

In January 2009, the Company issued and sold (i) 73,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the "Series B Stock") and (ii) a warrant to purchase 815,339 shares of its common stock at an exercise price of $13.43 per share to the U.S. Treasury. The total liquidation value of the Series B Stock and the warrant was $73.0 million at issuance. All of the Series B Stock held by the U.S. Treasury was sold to third parties, including certain of the Company's directors, in public auctions that were completed in the first quarter of 2013. The warrant was also sold at a subsequent auction to a third party. During 2015, the Company redeemed $15.8 million of Series B Stock in the first quarter of 2015, and redeemed the remaining shares in the third quarter of 2015. As of December 31, 2015 the Series B Stock was fully redeemed. The warrant has a carrying value of $4.8 million, expires in January 2019, and is included within additional paid-in capital as of December 31, 2017 and 2016.

Federal regulations impose minimum regulatory capital requirements on all institutions with deposits insured by the FDIC. On January 1, 2015, the U.S. Basel III final rule replaced the existing Basel I-based approach for calculating

risk-weighted assets. Basel III introduced a new minimum ratio of common equity Tier 1 capital ("CET1") and raised the minimum ratios for Tier 1 capital, total capital, and Tier 1 leverage. The final rule emphasizes common equity Tier 1 capital and implements strict eligibility criteria for regulatory capital instruments and changed the methodology for calculating risk-weighted assets to enhance risk sensitivity. The methods for calculating the risk-based capital ratios have changed and will change as the provisions of the Basel III final rule related to the numerator (capital) and denominator (risk-weighted assets) are fully phased in by January 1, 2019. The ongoing methodological changes will result in differences in the reported capital ratios from one reporting period to the next that are independent of applicable changes in the capital base, asset composition, off-balance sheet exposures or risk profile. In addition, in order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a "capital conservation buffer" on top of its minimum risk-based capital requirements. This buffer must consist solely of CET1, but the buffer applies to all three measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, becoming fully effective on January 1, 2019, and will consist of an additional amount of common equity equal to 2.5% of risk-weighted asset.

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The following table shows the regulatory capital ratios and the current well capitalized regulatory requirements for the Company and the Bank at the dates indicated:

	Well-Capitalized (1)		December 31, 2017		December 31, 2016	
The Company						
Common equity tier 1 capital ratio	N/A		9.25	%	8.76	%
Total risk-based capital ratio	N/A		12.93	%	12.29	%
Tier 1 risk-based capital ratio	N/A		12.03	%	10.88	%
Tier 1 leverage ratio	N/A		10.08	%	8.90	%
The Bank						
Common equity tier 1 capital ratio	6.50	%	12.88	%	12.53	%
Total risk-based capital ratio	10.00	%	13.78	%	13.45	%
Tier 1 risk-based capital ratio	8.00	%	12.88	%	12.53	%
Tier 1 leverage ratio	5.00	%	10.79	%	10.24	%

(1) Prompt corrective action provisions are only applicable at the Bank level.

The Company, on a consolidated basis, exceeded the minimum capital ratios to be deemed “well capitalized” at December 31, 2017, pursuant to the capital requirements in effect at that time. All ratios conform to the regulatory calculation requirements in effect as of the date noted. In addition to the above regulatory ratios, the Company’s non-GAAP tangible common equity to tangible assets ratio, which management considers a valuable performance measurement for capital analysis, increased from 7.42% at December 31, 2016 to 8.07% at December 31, 2017.

The following table provides a reconciliation of GAAP tangible common equity to tangible assets ratio to the non-GAAP ratio for the periods indicated.

	As of December 31, 2017		As of December 31, 2016	
(in thousands)	GAAP	Non-GAAP	GAAP	Non-GAAP
Tangible common equity				
Total Equity	$ 200,350	$ 200,350	$ 175,210	$ 175,210
Less: Intangible assets	8,922	8,813	9,018	8,761
Tangible common equity	$ 191,428	$ 191,537	$ 166,192	$ 166,449
Tangible assets				
Total assets	$ 2,383,429	$ 2,383,429	$ 2,251,188	$ 2,251,188

Less: Goodwill and intangible assets	8,922		8,813		9,018		8,761	
Tangible assets	$ 2,374,507		$ 2,374,616		$ 2,242,170		$ 2,242,427	
Common equity to total assets	8.41	%	8.41	%	7.78	%	7.78	%
Tangible common equity to tangible assets	8.06	%	8.07	%	7.41	%	7.42	%