Marquette National Corporation and Subsidiary
Consolidated Financial Statements
December 31, 2014

MARQUETTE NATIONAL CORPORATION

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Marquette National Corporation and Subsidiary
Financial Highlights
(in thousands, except share and per share data)

Balance Sheet

	12/31/14	12/31/13	Percent Change
Total assets	$1,528,869	$1,535,550	0%
Total loans, net	926,347	925,805	0%
Total deposits	1,280,748	1,301,033	-2%
Preferred stock	-	14,189	-100%
Common stockholders' equity	128,877	117,713	9%
Common shares outstanding	1,025,109	1,024,272	0%
Common equity per share	$125.72	$114.92	9%
Tangible common equity per share	$91.17	$80.19	14%

Operating Results

	Year Ended December 31,		Percent
	2014	2013	Change
Net interest income	$47,775	$48,588	-2%
(Credit) provision for loan losses	(2,228)	482	*
Net impairment loss on securities recognized in earnings	(35)	(865)	*
Net (loss) gain on sales of securities	(343)	2,823	*
Other income	15,734	17,804	-12%
Other expense	54,907	56,256	-2%
Net income	7,439	8,039	-7%
Net income applicable to common shares	6,230	6,616	-6%
Basic income per common share	$6.08	$6.47	-6%
Weighted average common shares outstanding	1,025,353	1,022,028	0%
Cash dividends declared per common share	$1.00	-	*
Comprehensive income	$13,316	$8,313	60%

* *Not meaningful*

McGladrey

Independent Auditor's Report

To the Board of Directors
Marquette National Corporation and Subsidiary
Orland Park, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Marquette National Corporation and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marquette National Corporation and Subsidiary as of December 31, 2014 and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, the internal control over financial reporting of Marquette Bank, a wholly-owned subsidiary of Marquette National Corporation, as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 and our report dated March 6, 2015, expressed an unmodified opinion.

The consolidated financial statements of Marquette National Corporation and Subsidiary as of and for the year ended December 31, 2013, were audited by other auditors whose report, dated February 26, 2014, expressed an unmodified opinion on those consolidated statements.

McGladrey LLP

Chicago, Illinois
March 6, 2015

Marquette National Corporation and Subsidiary
Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2014	2013
Assets		
Cash and due from banks	$ 35,153	$ 27,571
Interest-bearing deposits with banks	54,319	134,867
Total cash and cash equivalents	89,472	162,438
Securities available for sale, at fair value	336,455	262,819
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	9,445	11,051
Loans held for sale	7,525	4,185
Loans	940,482	944,674
Less: Allowance for loan losses	(14,135)	(18,869)
Loans, net	926,347	925,805
Premises and equipment, net	56,314	58,440
Bank owned life insurance	39,023	37,602
Goodwill	35,348	35,348
Other intangible assets, net	72	233
Other real estate owned	8,017	8,219
Accrued interest receivable and other assets	20,851	29,410
Total assets	$ 1,528,869	$ 1,535,550
Liabilities		
Deposits		
Noninterest-bearing	$ 213,689	$ 196,381
Interest-bearing	1,067,059	1,104,652
Total deposits	1,280,748	1,301,033
Securities sold under agreements to repurchase	46,784	29,931
Borrowed funds	3,200	3,200
Junior subordinated notes issued to capital trusts	56,702	56,702
Accrued interest payable and other liabilities	12,558	12,782
Total liabilities	1,399,992	1,403,648
Stockholders' Equity		
Preferred stock - $.01 par value; shares authorized: 150,000;		
Series A - shares issued: 12,514 in 2013; aggregate liquidation preference $12,514 in 2013	-	12,514
Series B - shares issued: 1,675 in 2013; aggregate liquidation preference $1,675 in 2013	-	1,675
Common stock - $.01 par value in 2014 and $20.00 in 2013; shares authorized: 2,000,000 in 2014 and 450,000 in 2013; shares issued: 1,025,109 in 2014 and 1,024,272 in 2013	10	5,121
Surplus	25,530	20,059
Retained earnings	101,045	96,118
Deferred compensation	1,606	1,989
Accumulated other comprehensive income (loss), net of tax	2,292	(3,585)
Less: Treasury stock, at cost, 11,309 shares in 2014 and 17,592 shares in 2013	(1,606)	(1,989)
Total stockholders' equity	128,877	131,902
Total liabilities and stockholders' equity	$ 1,528,869	$ 1,535,550

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiary
Consolidated Statements of Income

(in thousands, except share and per share data)

	Year Ended December 31,	
Interest and Dividend Income	**2014**	**2013**
Loans, including fees:		
Taxable	$ 41,731	$ 43,095
Exempt from federal income tax	864	1,197
Securities available for sale:		
Taxable	7,760	7,329
Exempt from federal income tax	252	125
Dividends	355	331
Federal Home Loan Bank and Federal Reserve Bank stock	236	243
Federal funds sold and interest-bearing deposits with banks	89	95
Total interest income and dividends	51,287	52,415
Interest Expense		
Deposits	2,390	2,710
Federal funds purchased	1	-
Securities sold under agreements to repurchase	96	55
Borrowed funds	91	104
Subordinated notes issued to capital trusts	934	958
Total interest expense	3,512	3,827
Net interest income	47,775	48,588
(Credit) provision for loan losses	(2,228)	482
Net interest income after (credit) provision for loan losses	50,003	48,106
Other Income		
Service charges on deposit accounts	5,884	6,210
Income from trust services	1,724	1,654
Mortgage banking revenue, net	2,227	3,422
Wealth management product fees	1,519	1,678
Income from bank owned life insurance	1,420	1,403
Other operating income	2,960	3,437
Net (loss) gain on sales of securities	(343)	2,823
Impairment losses on other-than-temporary-impairment securities, net	(35)	(908)
Portion of loss recognized in other comprehensive income (before taxes)	-	43
Net impairment loss on securities recognized in earnings	(35)	(865)
Total other income	15,356	19,762
Other Expense		
Salaries and employee benefits	27,372	27,235
Net occupancy expense	7,118	7,734
Equipment expense	1,543	1,868
Other real estate owned expense, net	998	2,479
Credit for unfunded loan commitments	(174)	(274)
Data processing expense	3,598	3,478
Professional and legal services	2,618	2,915
Advertising and promotion expenses	1,328	1,123
FDIC insurance premiums	2,032	2,030
Amortization of intangible assets	161	256
Other operating expenses	8,313	7,412
Total other expense	54,907	56,256
Income before income taxes	10,452	11,612
Income tax expense	3,013	3,573
Net income	7,439	8,039
Preferred stock dividends and discount accretion	(1,209)	(1,423)
Net income applicable to common shares	$ 6,230	$ 6,616
Basic income per common share	$ 6.08	$ 6.47
Weighted average common shares outstanding	1,025,353	1,022,028

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiary
Consolidated Statements of Comprehensive Income

(in thousands)

	Year Ended December 31,	
	2014	**2013**
Net income	$ 7,439	$ 8,039
Other comprehensive income:		
Unrealized holding gains on available for sale securities arising during the year:		
Increase in net unrealized securities gains	9,463	2,416
Related income tax expense	(3,811)	(972)
Unrealized gains on available for sale securities, net of tax	5,652	1,444
Less: reclassification adjustment for net securities (losses) gains realized during the year:		
Change in unrealized losses on securities available-for-sale for which a portion of an other-than-temporary-impairment has been recognized in earnings (amounts are included in net impairment loss on securities recognized in earnings in the Consolidated Statements of Income in total other income)	(35)	(865)
Net realized securities (losses) gains (amounts are included in net (loss) gain on sales of securities in the Consolidated Statements of Income in total other income)	(343)	2,823
Related income tax expense (benefit) (amounts are included in income tax expense in the Consolidated Statements of Income)	153	(788)
Net after tax reclassification adjustment	(225)	1,170
Other comprehensive income, net of tax	5,877	274
Comprehensive income	$ 13,316	$ 8,313

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity

(in thousands, except share data)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2013	**$25,967**	**$5,064**	**$17,661**	**$89,592**	**$1,826**	**($3,859)**	**($1,826)**	**$134,425**
Net income	-	-	-	8,039	-	-	-	8,039
Other comprehensive income, net of tax	-	-	-	-	-	274	-	274
Repurchase 11,952 shares of Series A preferred stock	(11,952)	-	1,815	-	-	-	-	(10,137)
Repurchase 100 shares of Series B preferred stock	(100)	-	6	-	-	-	-	(94)
Series B preferred stock discount accretion	274	-	-	(274)	-	-	-	-
Cash dividends declared on preferred stock	-	-	-	(1,149)	-	-	-	(1,149)
Issuance of 15,416 shares of common stock	-	77	645	-	-	-	-	722
Cost of common shares repurchased (3,916 shares of common stock reverting to authorized unissued status)	-	(20)	(68)	(90)	-	-	-	(178)
Deferred compensation	-	-	-	-	163	-	(163)	-
Balance, December 31, 2013	**14,189**	**5,121**	**20,059**	**96,118**	**1,989**	**(3,585)**	**(1,989)**	**131,902**
Net income	-	-	-	7,439	-	-	-	7,439
Other comprehensive income, net of tax	-	-	-	-	-	5,877	-	5,877
Repurchase 12,514 shares of Series A preferred stock	(12,514)	-	-	-	-	-	-	(12,514)
Repurchase 1,675 shares of Series B preferred stock	(1,675)	-	-	-	-	-	-	(1,675)
Adjustment for reduction in par value	-	(5,128)	5,128	-	-	-	-	-
4-for-1 common stock split, in the form of a stock dividend	-	8	(8)	-	-	-	-	-
Cash dividends declared on common stock	-	-	-	(1,026)	-	-	-	(1,026)
Cash dividends declared on preferred stock	-	-	-	(1,209)	-	-	-	(1,209)
Issuance of 1,644 shares of common stock	-	25	447	-	-	-	-	472
Cost of common shares repurchased (1,635 shares of common stock reverting to authorized unissued status)	-	(16)	(96)	(277)	-	-	-	(389)
Deferred compensation	-	-	-	-	(383)	-	383	-
Balance, December 31, 2014	**$ -**	**$10**	**$25,530**	**$101,045**	**$1,606**	**$2,292**	**($1,606)**	**$128,877**

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiary
Consolidated Statements of Cash Flows

(in thousands)

	Years Ended December 31, 2014	2013
Operating Activities		
Net income	$ 7,439	$ 8,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred loan fees and costs, net	433	470
Premium amortization on securities, net	4,127	6,295
(Credit) provision for loan losses	(2,228)	482
Origination of loans for sale	(120,336)	(171,874)
Proceeds from sale of loans originated for sale	119,223	184,841
Gain on sale of loans originated for sale	(2,227)	(3,422)
Earnings on bank owned life insurance	(1,421)	(1,403)
Net impairment loss on securities recognized in earnings	35	865
Net loss (gain) on sale of securities	343	(2,823)
Write down of banking premises	552	-
Depreciation and amortization	3,088	3,793
Amortization of intangible assets	161	256
Loss (gain) on sales of other real estate owned	170	(72)
Write down of other real estate owned	313	1,569
Deferred income tax expense	4,620	2,237
Decrease in accrued interest receivable and other assets	3,939	2,217
Decrease in accrued interest payable and other liabilities	(4,241)	(252)
Net cash provided by operating activities	13,990	31,218
Investing Activities		
Securities available for sale:		
Proceeds from maturities, pay downs and calls	61,001	99,906
Proceeds from sales	31,737	94,066
Purchases	(161,039)	(54,076)
Redemption of Federal Home Loan Bank stock	1,300	-
Redemption of Federal Reserve Bank stock	306	239
Net decrease in loans	(3,679)	(209)
Purchases of premises and equipment	(3,590)	(9,799)
Proceeds from sales of other real estate owned	6,622	9,585
Net cash (used in) provided by investing activities	(67,342)	139,712
Financing Activities		
Net (decrease) increase in deposits	(20,285)	2,423
Net increase in securities sold under agreements to repurchase	16,853	6,603
Repayment of borrowed funds	-	(40,000)
Dividends paid on common stock	(769)	-
Dividends paid on preferred stock	(1,307)	(1,226)
Issuance of common stock	472	722
Repurchase of preferred stock	(14,189)	(10,231)
Repurchase of common stock	(389)	(178)
Net cash used in financing activities	(19,614)	(41,887)
Net (decrease) increase in cash and cash equivalents	(72,966)	129,043
Cash and cash equivalents at beginning of year	162,438	33,395
Cash and cash equivalents at end of year	$ 89,472	$ 162,438
Supplemental disclosures:		
Interest paid	$ 3,536	$ 3,924
Income taxes (refunded) paid	(960)	1,470
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other real estate owned	4,932	5,989
Premises transferred to other real estate owned	2,002	-
Common stock dividends declared and unpaid	257	-
Preferred stock dividends accrued and unpaid	-	99

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Marquette National Corporation and Subsidiary (the "Company") conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. A summary of the significant accounting and reporting policies of Marquette National Corporation and Subsidiary is as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of Marquette National Corporation and its wholly-owned subsidiary, Marquette Bank (the "Bank"). Also included are the accounts of Marquette Wealth Management, Inc., and Vision Investments, Inc., wholly-owned subsidiaries of the Bank. Significant intercompany accounts and transactions are eliminated in consolidation.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 6, 2015, which is the date the financial statements were available to be issued.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of income and expenses during the reported periods. Actual results could differ significantly from those estimates. Estimates that are particularly susceptible to significant changes are the determination of the allowance for loan losses, the judgment regarding securities impairment, valuation of other real estate owned, the carrying value of goodwill and other intangibles and deferred tax assets, and the fair value of financial instruments.

Cash Flows

Cash and cash equivalents includes cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Securities

Debt and equity securities are classified as available for sale and are carried at fair value. Unrealized holding gains and losses on securities available for sale, net of related taxes, are excluded from earnings and reported as a separate component of stockholders' equity until realized. During 2014 and 2013, the Company did not have any held to maturity or trading securities. Dividend and interest income is recognized when earned. Premiums and discounts on debt securities are amortized in a manner that approximates the level yield method. Gains or losses on security sales are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

Management evaluates securities for other-than-temporary-impairment ("OTTI") on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The review for OTTI takes into account the severity and duration of the impairment, recent events specific to the issuer, creditworthiness of the issuer including external credit ratings and recent downgrades, the financial condition and the forecasted performance of the issuer. Management also assesses whether it has the intent to sell a security or more likely than not will be required to sell the security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Federal Home Loan Bank and Federal Reserve Bank Stock

The Company owns investments in the stock of the Federal Reserve Bank ("FRB") and the Federal Home Loan Bank of Chicago ("FHLBC"). No ready market exists for these stocks and they have no quoted market values. FRB and FHLBC stock is carried at cost, classified as restricted securities and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Held for Sale
Mortgage loans originated and intended for sale are classified as held for sale in the Consolidated Balance Sheets and are recorded at the lower of aggregate cost or fair value as determined by outstanding commitments with investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains or losses on the sale of loans, net of commission expense, are classified with Mortgage Banking Revenue in the Consolidated Statements of Income.

Mortgage loans held for sale are generally sold with servicing rights released. For those loans sold where servicing rights are retained, the carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans
Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are recorded at the amount of unpaid principal, reduced by unearned income, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level yield method. When a loan is paid in full prior to maturity, any unamortized fees or costs are recorded in interest income at payoff. Fees, such as prepayment penalties, are recorded in interest income when received.

Nonaccrual Loans – The accrual of interest income is discontinued when management believes, after considering the borrower's financial condition and other relevant factors, that future collection of principal or interest in accordance with contractual terms of the loan may be doubtful. All loans 90 days or more past due are transferred to nonaccrual status unless they are well secured and in the process of collection. When a loan is placed on nonaccrual status, unpaid accrued interest is reversed and charged against current year income. A nonaccrual loan is returned to accrual status when the financial position of the borrower and other relevant factors indicate there is no longer doubt that the Company will collect all principal and interest due.

Restructured Loans – In cases where a borrower experiences financial difficulties and the Company makes certain concessions or modifications to contractual terms it would not otherwise consider, the loan is classified as a troubled debt restructuring ("TDR"). By granting the concession, the Company expects to obtain more cash or other value from the debtor or to increase the probability of receipt than would be expected by not granting the concession. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. All TDR loans are individually evaluated for impairment at the time of restructuring and at each quarter end.

Impaired Loans – A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all contractual principal and interest due according to the terms of the loan agreement. Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans experiencing insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay and the borrower's prior payment record.

With the exception of loans that were restructured and still accruing interest, any subsequent principal and interest payments received are applied to the principal on the loan. A nonaccrual, impaired loan is returned to accrual status when the financial position of the borrower and other relevant factors indicate there is no longer reason to believe the Company will not collect all principal and interest due.

Allowance for Loan Losses
The allowance for loan losses is a valuation allowance for probable incurred credit losses. A provision or credit for loan losses is recorded to income to adjust the allowance to a level deemed to be adequate based on management's evaluation. When a loan or a part thereof is considered by management to be uncollectible, a charge is made against the allowance. Recoveries of loans previously charged off are credited to the allowance. Management assesses the adequacy of the allowance for loan losses on a quarterly basis. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance is comprised of both specific and general valuation allowances and is maintained at a level management believes to be adequate to provide for known and potential risks inherent in the Company's loan portfolio. The specific valuation component relates to loans that are individually classified as impaired. Impairment is measured by determining the fair value of the loan based on the present value of expected cash flows or the fair value of the underlying collateral. If the fair value of an impaired loan is less than its recorded book value, a specific valuation allowance is established as a component of the allowance for loan losses.

The general valuation component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for qualitative and environmental factors. The historical loss rate for each portfolio segment is based on the average of actual loss history over the most recent two years (weighted 65% for the most recent twelve month period and 35% the for the prior twelve month period). The historical loss rate is supplemented with other qualitative factors based on the risks present for each portfolio segment. These factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; local economic trends and conditions; industry conditions; and effects of changes in credit concentrations, if any.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination, periodically review the Company's allowance for loan losses and may require the Company to make an addition to the allowance based on their judgment about information available to them at the time of their examinations.

The following briefly describes the underwriting, collateral and inherent risks of the Company's principal loan portfolios by class. For purposes of footnote presentation, all information is presented at the class level. For additional information on loan and the allowance for loan losses, see Note 4 "Loans and Allowance for Loan Losses."

Real Estate – Commercial

Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is largely dependent upon the successful operation of the property securing the loan or the business conducted on the property securing the loan. As part of the underwriting process, we examine current and projected cash flows to determine the ability of the borrower to repay his obligation as agreed. The Company generally lends up to the lower of 75% of the property's appraised value or cost. Decisions to lend are based on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we emphasize the ratio of the property's projected net cash flow to the loan's debt service requirement computed after deduction for appropriate vacancy factors and property expenses. Personal guarantees are usually required when the borrower is not a natural person. The Company's commercial real estate loans are generally written as three- or five-year adjustable-rate mortgages or mortgages with balloon maturities of three or five years. Amortization on these loans is generally based on 20- to 25-year schedules. The Company also originates 15-year fixed-rate, fully amortizing loans.

Properties securing commercial real estate portfolio are diverse in terms of type and geographic location. They are generally located within the greater Chicago metropolitan area and contiguous markets and are secured by owner-occupied or investor owned real estate. Properties securing commercial real estate loans include office buildings, light industrial buildings, retail shopping centers and mixed-use developments and, to a lesser extent, more specialized properties such as hotel, religious and educational facilities. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography, and risk grade criteria. Economic events, interest rates and governmental regulations outside of the control of the borrower or the Company may negatively impact the future cash flow and market values of the affected properties.

Real Estate – Construction & Development

Construction and development loans generally consist of loans to developers to finance the purchase of and improvements to real estate. Improvements include utilities, roads, sewers and other development costs. Construction and development loans also include loans to developers for the construction of single-family homes, town-homes and condominium conversions and commercial properties. Construction and development loans are underwritten utilizing feasibility studies, independent appraisals, sensitivity analyses of absorption and lease rates and financial analyses of the creditworthiness of the developers and property owners. The Company currently lends up to the lower of 80% of the property's appraised value or cost. Personal guarantees are usually required when the borrower is not a natural person. Construction and development loans are generally based upon estimates of costs and value associated with the completed projects. Construction and development loans often involve the disbursement of substantial funds with repayment primarily dependent upon the sale of improved lots, finished residences or commercial properties. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment until permanent financing is obtained. These loans are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, demand and supply of alternative real estate, the availability of long-term financing, and changes in general economic conditions. On a limited basis, the Company is currently originating construction and development loans.

Real Estate – Multifamily Housing

Multifamily housing loans generally are secured by multifamily rental properties such as apartment buildings, including subsidized apartment units. The Company considers a number of factors in underwriting multifamily housing loans including projected cash flow available for the loan's required debt service, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Multifamily housing loans are originated in amounts up to 75% of the appraised value of the property securing the loan. The Company's multifamily loans are generally written as five- or seven-year adjustable-rate mortgages and amortization on these loans is generally up to 30 years. Personal guarantees are usually required when the borrower is not a natural person. Substantially all of the properties securing these loans are located in Chicago and suburban markets in which the Company operates. Loans secured by multifamily mortgages generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, rising interest rates and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multifamily housing mortgages typically depends upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may become impaired. Finally, the apartment sector has recovered quickly from the last recession and rents and prices for properties have increased substantially. If the economy weakens materially, multifamily vacancies could increase and property values decline.

Real Estate – Residential

The Company offers conforming and non-conforming, fixed-rate and adjustable-rate residential mortgage loans with maturities up to thirty years. The Company currently offers fixed-rate conventional mortgage loans with terms of ten to thirty years that are fully amortized with monthly payments and adjustable-rate conventional mortgage loans with initial terms between one and five years that amortize up to thirty years. Residential mortgage loans are generally underwritten according to Fannie Mae guidelines which are referred to as "conforming loans." The Company originates both fixed- and adjustable-rate loans in amounts up to the maximum conforming loan limits as established by Fannie Mae; currently $417,000 for single-family homes. Private mortgage insurance is required for first mortgage loans with loan-to-value ratios in excess of 80%. The Company originates loans above conforming limits, sometimes referred to as "jumbo loans," that have been underwritten consistent with the credit standards of Fannie Mae. The Company also originates loans at higher rates that do not fully meet the credit standards of Fannie Mae but are deemed to be acceptable risks. Substantially all properties securing these loans are located in Chicago and suburban markets in which the Company operates.

Effective January 10, 2014, the Ability to Repay (ATR) and Qualified Mortgage (QM) rules issued by the Consumer Financial Protection Bureau went into effect. The new rules require the Bank to assess the borrower's "ability-to-repay" for virtually all closed-end residential loans and home equity loans. ATR standards require the Bank to consider, among other things, the borrower's mortgage-related obligations, income or assets, employment status, debt obligations, payments required for taxes and insurance related to the property and credit history. As a long-time residential real estate lender, the Bank's business model has always focused on the customer's ability to repay. As result, the implementation of the ATR and QM rules is not anticipated to have a significant impact to our overall operations or book of business.

Real Estate – Home Equity

Home equity loans primarily consist of lines of credit secured by first or second mortgage liens on residential property. To a lesser extent, this segment includes amortizing home equity loans with terms up to thirty years. Home equity lines and loans are made for, among other purposes, the improvement of residential properties, debt consolidation and education expenses. The current maximum loan-to-value ratio is 80%, when taking into account both the balance of the home equity and the first mortgage loans. Home equity lines of credit allow for a ten-year, revolving draw period with an interest rate tied to the prime rate as published in The Wall Street Journal. Home equity lines and loans have greater credit risk than one-to-four family residential mortgage loans because they may be secured by mortgages subordinated to an existing first mortgage on the property which we may or may not hold. Substantially all of the properties securing home equity lines and loans are located in Chicago and suburban markets in which the Company operates.

Commercial and Industrial

Commercial and industrial loans include lines of credit and term loans and are typically secured by collateral and used for general business purposes, including working capital financing, equipment financing, capital investment and general investment. Commercial business loans typically have shorter maturities than real estate loans but generally involve more credit risk because of the type and nature of the collateral. The underwriting process for commercial and industrial loans includes an analysis of current and projected cash flows to determine the ability of the borrower to repay his obligation as

agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Personal guarantees are usually required when the borrower is not a natural person. Most commercial and industrial loans are secured by the assets. The Company focuses on small- to medium-sized companies that operate in its market area.

Municipal Leases

The Company provides funding to local municipalities and schools districts for equipment financing leases. Generally, the leases are secured from an originating leasing company by the assignment of the lease payment stream and a security interest in the equipment being leased. The lessee acknowledges our security interest in the leased equipment and sends lease payments directly to us. The Company's municipal leases are secured primarily by fire trucks, fire stations, ambulances and other capital equipment. Municipal leases are fully amortizing and generally have final maturities of five to ten years. Presently the Company is not originating municipal leases.

Reserve for Unfunded Commitments

In addition to the allowance for loan losses, the Company also estimates probable losses related to binding unfunded letters of credit. The methodology to determine such losses is similar to the methodology used in calculating the specific valuation allowance. The reserve for unfunded commitments is included in Accrued Interest Payable and Other Liabilities in the Consolidated Balance Sheet at December 31, 2014 and 2013. Net adjustments to the reserve for unfunded commitments are included in Other Expense in the Consolidated Statements of Income.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization have been computed using both accelerated and the straight-line methods over the estimated useful lives of the assets. Leasehold improvements are amortized over a period not exceeding the term of the lease, including renewal option periods. Rates of depreciation are generally based on the following useful lives: building – 40 years; building and leasehold improvements, furniture and equipment – 3 to 15 years.

Other Real Estate Owned

Other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure. These properties are recorded at fair value, less estimated costs to sell when acquired, establishing a new cost basis. The excess, if any, of the loan amount over fair value is charged to the allowance for loan losses. Subsequent declines in the fair value of other real estate owned, along with related operating expenses, are included in Other Expense in the Consolidated Statements of Income.

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain directors and key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations represents the excess of the purchase price over the fair value of the net assets of the business acquired. Goodwill has an indefinite useful life and is not amortized, but is tested for impairment at least annually. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Other intangible assets consisting of core deposit intangible and acquisition premiums related to mortgage origination and land trust businesses. The core deposit intangible asset is amortized over 10 years, using an accelerated method. The acquisition premiums are amortized on a straight-line basis over periods of 10 to 15 years. Management reviews intangible assets at least annually for impairment and any such impairment will be recognized in the period identified.

Mortgage Servicing Rights

Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into other operating income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is

less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income.

The amortization of mortgage servicing rights and the income earned from the servicing of the mortgage loans are classified with Other Operating Income in the Consolidated Statements of Income. Mortgage servicing rights are included in Accrued Interest Receivable and Other Assets in the Consolidated Balance Sheets. At December 31, 2014 and 2013, the balance of mortgage servicing rights was $836,000 and $896,000, respectively.

Transfers of Financial Assets
Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Long-Term Assets
Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Income Taxes
The Company files consolidated federal and state income tax returns. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Net deferred tax assets are included in accrued interest receivable and other assets in the Consolidated Balance Sheets.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Retirement Plans
Employee 401(k) is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Trust Assets
Assets held in fiduciary or agency capacities are not included in the Consolidated Balance Sheets, since such items are not assets of the Company.

Earnings per Share
Basic earnings per share, is computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding for the year. The Company has no dilutive common stock equivalents. Earnings per share have been restated to reflect the Company’s four for one stock split effected as a stock dividend as disclosed in Note 12.

Comprehensive Income
Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Loan Commitments and Related Financial Instruments
Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Fair Value of Financial Instruments
Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Loss Contingencies
Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Reclassifications
Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation. All share amounts have been revised to reflect the Company's four-for-one stock split effected as a stock dividend as disclosed in Note 12.

Recently Issued Accounting Guidance
In January 2014, the FASB issued ASU 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the standard requires the annual disclosure of both (a) the amount of foreclosed residential real estate property held by the creditor and (b) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for annual periods beginning after December 15, 2014. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2017. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

NOTE 2 – SECURITIES AVAILABLE FOR SALE

The fair value of securities available for sale and the related unrealized gains and losses recognized in other comprehensive income were as follows *(in thousands)*:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2014				
Agency residential mortgage-backed securities	$ 292,624	$ 3,423	$ (586)	$ 295,461
Non-agency residential mortgage-backed securities	2,610	193	-	2,803
State and municipal obligations	6,268	425	-	6,693
Trust preferred collateralized debt obligations	15,216	163	(4,103)	11,276
Corporate and other	1,000	-	-	1,000
Total debt securities	317,718	4,204	(4,689)	317,233
Equity securities	14,900	4,394	(72)	19,222
Total securities	$ 332,618	$ 8,598	$ (4,761)	$ 336,455

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2013				
Agency residential mortgage-backed securities	$ 213,634	$ 1,975	$ (1,283)	$ 214,326
Non-agency residential mortgage-backed securities	4,112	317	-	4,429
State and municipal obligations	6,476	86	(56)	6,506
Trust preferred collateralized debt obligations	28,995	-	(11,197)	17,798
Corporate and other	1,000	-	-	1,000
Total debt securities	254,217	2,378	(12,536)	244,059
Equity securities	14,606	4,216	(62)	18,760
Total securities	$ 268,823	$ 6,594	$ (12,598)	$ 262,819

At December 31, 2014, the fair value of equity securities include $14,057,000 of individual equity holdings, $5,155,000 in mutual fund holdings of agency and non-agency adjustable rate mortgage securities and $10,000 in a low income housing limited partnership. At December 31, 2013, the fair value of equity securities include $13,478,000 of individual equity holdings, $5,155,000 in mutual fund holdings of agency and non-agency adjustable rate mortgage securities and $127,000 in a low income housing limited partnership.

At year-end 2014 and 2013, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Debt securities with carrying values of $100,203.000 and $86,186,000 at December 31, 2014 and 2013, respectively, were pledged principally to secure Federal Reserve Discount Window borrowings, public fund deposits and securities sold under agreements to repurchase. Equity securities with a carrying value of $11,268,000 and of $12,811,000 at December 31, 2014 and 2013, respectively, were held as collateral to secure margin loan borrowings.

Proceeds from sales of securities during 2014 and 2013 were $31,737,000 and $94,066,000, respectively. Gross gains of $1,835,000 and gross losses of $2,178,000 were realized on those sales during 2014. Gross gains of $2,823,000 and no losses were realized on those sales during 2013.

Management evaluates securities for OTTI quarterly, and more frequently when economic or market concerns warrant such evaluation. In determining OTTI for securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

In 2014, the Company recognized credit losses of $35,000 for one equity security that was deemed to be other-than-temporarily impaired. In 2013, the Company recognized OTTI credit losses of $865,000 for securities that were deemed to be other-than-temporarily impaired. The credit losses in 2013 included $740,000 for one trust preferred collateralized debt obligation (“CDOs”) and $125,000 for one equity security. In December 2013, banking regulators published the final rules under Section 619 of the Dodd-Frank Act (commonly referred to as the "Volcker Rule"). Under the Volcker Rule, regulators said that CDOs, including pooled trust preferred securities, are no longer a permissible investment and would have to be divested prior to July 15, 2015. On January 14, 2014, banking regulators released their interim final rule ("IFR") regarding the Volcker Rule and its impact on trust preferred CDOs. Under the IFR, regulators clarified the final rule and said that CDOs primarily backed by trust preferred securities issued by depository institutions could continue to be held by banks. All but one of the Company’s trust preferred collateralized CDO was considered a permissible holding. The impermissible holdings were to be divested prior to July 15, 2015. As a result, the Company no longer had the ability to hold the security to its anticipated recovery date and recognized the entire unrealized loss through income as of December 31, 2013. In January 2014, the security was sold at its December 31, 2013 carrying value of $3,260,000. Since the Volcker Rule was announced, the banking regulators have extended the divesture date to July 21, 2016.

Changes in the amount of credit losses recognized in earnings for the years ended December 31, 2014 and 2013 is as follows *(in thousands)*:

	2014	2013
Balance, beginning of year	$ 20,799	$ 20,622
Additions for credit losses on securities for which OTTI was not previously recognized	-	740
Additions for additional credit losses on securities for which OTTI was previously recognized	35	125
Reductions for current credit losses realized on securities sold or deemed worthless during the period	(14,142)	(688)
Balance, end of year	$ 6,692	$ 20,799

The following table presents the year-end fair values and unrealized gross losses for each investment category, by length of time that individual securities in each category have been in a continuous loss position *(in thousands):*

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014						
Agency residential mortgage-backed securities	$ 38,260	$ (333)	$ 12,772	$ (253)	$ 51,032	$ (586)
Trust preferred collateralized debt obligations	-	-	10,996	(4,103)	10,996	(4,103)
Total debt securities	38,260	(333)	23,768	(4,356)	62,028	(4,689)
Equity securities	788	(44)	272	(28)	1,060	(72)
Total securities	$ 39,048	$ (377)	$ 24,040	$ (4,384)	$ 63,088	$ (4,761)
December 31, 2013						
Agency residential mortgage-backed securities	$ 89,910	$ (1,282)	$ -	$ (1)	$ 89,910	$ (1,283)
State and municipal obligations	4,144	(56)	-	-	4,144	(56)
Trust preferred collateralized debt obligations	38	(46)	14,500	(11,151)	14,538	(11,197)
Total debt securities	94,092	(1,384)	14,500	(11,152)	108,592	(12,536)
Equity securities	-	-	272	(62)	272	(62)
Total securities	$ 94,092	$ (1,384)	$ 14,772	$ (11,214)	$ 108,864	$ (12,598)

At December 31, 2014, securities that have been in a continuous unrealized loss position for 12 or more months consisted of five agency residential mortgage-backed securities, seven trust preferred CDOs and one equity security. As indicated in the table above, trust preferred CDOs have the largest unrealized loss position at December 31, 2014 and 2013. Trust preferred CDOs are asset backed securities supported by diverse pools of debt issued by financial institutions and insurance companies. The unrealized loss for trust preferred CDOs is primarily attributable to illiquidity and the financial crisis affecting these markets and not the expected cash flows of the individual securities. The Company's estimation of cash flows for these securities is determined by an independent structured credit valuation firm using a discounted cash flow model. Individual security cash flows derived from their model incorporate inputs such as historical and current financial performance of the underlying issuers, deferral and default rates, loss and recovery rates, collateral coverage ratios, and break in yield calculations. Their model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. Their estimate of expected cash flows also incorporates the most recent CDO trustee reports and any other relevant market information including the announcement of interest payment deferrals or defaults by the underlying issuers. The Company's estimation of fair values at December 31, 2014, were evaluated and priced by an independent structured credit valuation firm using a discounted cash flow model. In 2013, these securities were based on independent broker indications for each individual security. At December 31, 2014, the Company believes there is no additional OTTI and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

The unrealized loss position of agency residential mortgage-backed securities is primarily the result of changes in market interest rates and not the result of credit deterioration. The unrealized loss position of the equity security reflects the estimated value of an investment in privately held banking companies. The Company believes there is no OTTI and it will not be required to sell the securities before their anticipated recovery.

The following table summarizes the contractual maturities of debt securities available for sale at December 31, 2014. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary *(in thousands)*:

	Amortized Cost	Fair Value
Due in one year or less	$ 575	$ 578
Due after one year through five years	1,825	1,873
Due after five years through ten years	700	722
Due after ten years	19,384	15,796
Agency residential mortgage-backed securities	292,624	295,461
Non-agency residential mortgage-backed securities	2,610	2,803
Total securities	$ 317,718	$ 317,233

NOTE 3 – FEDERAL HOME LOAN BANK AND FEDERAL RESERVE BANK STOCK

The Bank owns the stock of the Federal Reserve Bank of Chicago ("FRB") and the Federal Home Loan Bank of Chicago ("FHLBC"). Both of these entities require the Bank to invest in their nonmarketable stock as a condition of membership. The value of stock held in the FRB was $3.3 million at December 31, 2014 and $3.6 million at December 31, 2013. The value of stock held in the FHLBC was $6.1 million at December 31, 2014 and $7.4 million at December 31, 2013. FHLBC members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLBC stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes loan balances by class as of December 31, 2014 and 2013 *(in thousands)*:

	2014	2013
Real Estate:		
Commercial	$ 299,628	$ 289,309
Construction and development	37,248	37,090
Multifamily housing	272,398	253,635
Residential	194,563	208,988
Home equity	80,295	91,653
Commercial and industrial	37,697	37,355
Municipal leases	18,008	25,756
Other consumer	645	888
Total loans	$ 940,482	$ 944,674

Certain directors and executive officers of the Company and companies with whom they are affiliated have obtained loans from the Bank on various occasions. These loans were made in the ordinary course of business and were made on substantially the same terms, including rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability or present other unfavorable features. The aggregate balance of these loans was $14,900,000 and $19,794,000 at December 31, 2014 and 2013, respectively.

The Company primarily lends to privately owned, small and mid-sized businesses, commercial real estate owners and developers, owners of multifamily housing units and consumers in the markets in which the Company operates. Within these areas, the Company diversifies its loan portfolio by loan type, industry, and borrower. A majority of the Company's loans are secured by commercial and residential real estate.

Past Due & Nonperforming Loans

The following table presents an aging of the recorded investment in past due loans by class as of December 31, 2014 and 2013. The aging is determined without regard to accrual status. The table also presents the recorded investment in nonperforming loans, consisting of loans 90 days or more past due and still accruing interest and nonaccrual loans (most of which are past due) *(in thousands)*:

	Aging Analysis (Accruing and Nonaccrual Loans)					Nonperforming Loans	
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due Loans	Loans Not Past Due	90 Days Past Due Loans Still Accruing Interest	Nonaccrual Loans
December 31, 2014							
Real Estate:							
Commercial	$ 8,824	$ 276	$ 7,157	$16,257	$ 283,371	$ 101	$ 16,764
Construction and development	-	-	204	204	37,044	-	1,295
Multifamily housing	-	-	1,998	1,998	270,400	-	1,998
Residential	459	282	5,253	5,994	188,569	1,411	4,409
Home equity	828	46	963	1,837	78,458	66	931
Commercial and industrial	-	-	14	14	37,683	-	206
Municipal leases	55	-	-	55	17,953	-	-
Other consumer	-	-	-	-	645	-	113
Total	$ 10,166	$ 604	$15,589	$26,359	$ 914,123	$ 1,579	$ 25,716
December 31, 2013							
Real Estate:							
Commercial	$ 2,580	$ 1,234	$ 7,030	$10,844	$ 278,465	$ 317	$ 10,161
Construction and development	-	381	249	630	36,460	-	2,153
Multifamily housing	432	-	311	743	252,892	311	-
Residential	1,360	536	6,715	8,611	200,377	816	6,976
Home equity	106	133	1,457	1,696	89,957	92	1,586
Commercial and industrial	48	-	145	193	37,162	135	259
Municipal leases	-	-	-	-	25,756	-	-
Other consumer	1	-	-	1	887	-	77
Total	$ 4,527	$ 2,284	$15,907	$22,718	$ 921,956	$ 1,671	$ 21,212

Credit Quality Indicators

The Company categorizes loans into risk categories based on various characteristics, such as the borrower's cash flow, leverage, collateral coverage, historical payment experience, performance trends and other factors. Risk ratings are continuously updated on an "as warranted" basis. The Company also utilizes its internal asset classification system as a means of reporting problem and potential problem loans. Under the risk rating system, the Company classifies problem and potential problem loans "Special Mention," "Substandard," and "Doubtful." The Company uses the following definitions for these risk classification ratings:

Special Mention: Loans identified by this risk classification warrant increased levels of management oversight as they have potential weaknesses that deserve management's close attention. Borrowers of this type may have experienced a significant reduction to sales, an erosion of profit margin or experienced a loss. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Debt service coverage, based upon recent performance is not adequate to service debt. Companies in this category are highly leveraged having debt to equity ratios well in excess of the average for the industry in which they operate. Frequent overdrafts, payment delinquencies, slow or missing financial reporting also characterizes loans in this category.

Substandard: Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Although legal initiatives may have been undertaken by the Bank, the borrower generally continues to cooperate with the Bank in pursuing a satisfactory resolution to the loan obligation. The borrower may be providing additional collateral, pursuing additional equity, attempting to refinance, etc.

Doubtful: A loan classified "doubtful" has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values. The likelihood of a loss on an asset or portion of an asset classified Doubtful is high.

Non homogenous loans not covered by the definitions above are considered "Pass "credits. Homogeneous loans not covered by the definitions above are considered "Pass" credits and are evaluated based on past due status, which was previously presented.

The following table presents the risk categories of loans by class as of December 31, 2014 and 2013 *(in thousands)*:

	Pass	Special Mention	Substandard	Doubtful	Total Loans
December 31, 2014					
Real Estate:					
Commercial	$ 264,642	$ 18,152	$ 16,834	$ -	$ 299,628
Construction and development	33,167	856	3,225	-	37,248
Multifamily housing	269,465	447	2,486	-	272,398
Residential	185,586	4,568	4,409	-	194,563
Home equity	79,105	181	1,009	-	80,295
Commercial and industrial	36,672	152	873	-	37,697
Municipal leases	17,457	551	-	-	18,008
Other consumer	532	-	113	-	645
Total	$ 886,626	$ 24,907	$ 28,949	$ -	$ 940,482
December 31, 2013					
Real Estate:					
Commercial	$ 238,009	$ 38,884	$ 12,416	$ -	$ 289,309
Construction and development	27,234	4,725	5,131	-	37,090
Multifamily housing	253,138	-	497	-	253,635
Residential	198,365	3,648	6,975	-	208,988
Home equity	89,975	92	1,586	-	91,653
Commercial and industrial	36,100	291	964	-	37,355
Municipal leases	24,438	199	1,119	-	25,756
Other consumer	811	-	77	-	888
Total	$ 868,070	$ 47,839	$ 28,765	$ -	$ 944,674

Impaired Loans

The following table presents loans individually evaluated for impairment by class as of December 31, 2014 and 2013. For purposes of this disclosure, the unpaid contractual principal balance is not reduced for net charge-offs *(in thousands)*:

	With No Related Allowance Recorded		With a Related Allowance Recorded		
	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Allowance for Loan Losses
December 31, 2014					
Real Estate:					
Commercial	$ 28,465	$ 24,073	$ 9,887	$ 9,390	$ 1,544
Construction and development	4,610	2,995	256	230	131
Multifamily housing	765	765	3,919	3,831	972
Residential	5,476	5,323	19,904	19,679	3,144
Home equity	619	459	1,109	857	173
Commercial and industrial	1,317	989	19	19	1
Other consumer	-	-	115	113	113
Total	$ 41,252	$ 34,604	$ 35,209	$ 34,119	$ 6,078
December 31, 2013					
Real Estate:					
Commercial	$ 27,867	$ 22,222	$ 18,467	$ 14,494	$ 2,219
Construction and development	6,733	5,118	721	695	157
Multifamily housing	-	-	2,327	2,308	650
Residential	5,055	4,950	21,722	21,545	3,410
Home equity	1,302	1,155	790	623	187
Commercial and industrial	772	640	598	506	203
Other consumer	-	-	78	77	77
Total	$ 41,729	$ 34,085	$ 44,703	$ 40,248	$ 6,903

The following table sets forth average recorded investment and interest income recognized on impaired loans for the year ended December 31, 2014 and 2013 *(in thousands)*:

	2014		2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Real Estate:				
Commercial	$ 35,548	$ 1,901	$ 42,181	$ 1,839
Construction and development	5,991	149	4,699	157
Multifamily housing	3,441	68	2,871	78
Residential	24,633	941	29,926	822
Home equity	1,433	34	2,418	17
Commercial and industrial	1,145	40	807	37
Municipal leases	-	32	403	-
Other consumer	110	-	81	-
Total	$ 72,301	$ 3,165	$ 83,386	$ 2,950

TDR Loans

The following table presents loans by classes that were modified as TDRs that occurred during the year ending December 31, 2014 and 2013. The Pre-Modification Outstanding Recorded Investment is equal to the outstanding balance immediately prior to modification. The Post-Modification Outstanding Recorded Investment is equal to the outstanding balance immediately after modification *(in thousands)*:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2014			
Real Estate:			
Commercial	15	$ 9,288	$ 9,265
Construction and development	10	5,266	5,487
Multifamily housing	1	334	333
Residential	22	2,549	2,545
Home equity	3	176	176
Commercial and industrial	3	289	287
Other consumer	1	48	48
Total	55	$ 17,950	$ 18,141
2013			
Real Estate:			
Commercial	39	$ 25,905	$ 25,494
Construction and development	9	5,596	5,549
Multifamily housing	1	501	500
Residential	48	6,067	6,066
Commercial and industrial	5	952	950
Total	102	$ 39,021	$ 38,559

For the year ending December 31, 2014, the modification of the terms of TDR loans included, but were not limited to, the deferral of past due interest or principal, implementing A/B note structure, redemption of past due taxes associated with real estate collateral, reduction of interest rates, extending maturities and modification of amortization schedules. Typically principal balances or past due interest prior to pay off or surrender of the property is not forgiven. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from three months to less than two years. Modifications involving an extension of the maturity date were for periods generally ranging from three months to one year. During the year ending December 31, 2014, the TDR loans described above increased the allowance for loan losses by $2,448,000 and resulted in charge offs of $712,000. During the year ending December 31, 2013, the TDR loans described above increased the allowance for loan losses by $4,242,000 and resulted in charge offs of $1,500,000.

The following table presents TDR loans by class for which there was a payment default within twelve months following the modification during the year ending December 31, 2014 and 2013. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms *(in thousands)*:

	2014		2013	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Real Estate:				
Commercial	4	$ 1,390	4	$ 977
Construction and development	1	50	-	-
Residential	1	90	2	249
Commercial and industrial	2	48	-	-
Total	8	$ 1,579	6	$ 1,225

During the year ending December 31, 2014, TDR loans that subsequently defaulted as described above increased the allowance for loan losses by $195,000 and resulted in charge offs of $195,000. During the year ending December 31, 2013, TDR loans that subsequently defaulted as described above increased the allowance for loan losses by $43,000 and resulted in charge offs of $43,000.

The following table presents a summary of the recorded balance of TDR loans outstanding as of December 31, 2014 and 2013 *(in thousands)*:

	2014	2013
In compliance with modified terms	$41,496	$56,024
Not in compliance with modified terms	3,935	3,905
Total restructured loans	$45,431	$59,929
Related allowance for loan losses	$ 3,754	$ 5,508

The Company has outstanding commitments to lend additional funds to borrowers whose loan terms have been modified as TDRs totaling $962,000 at December 31, 2014 and $3,337,000 at December 31, 2013. All TDR loans are considered impaired loans and are included in the impaired loan tables above. TDR loans on nonaccrual status at December 31, 2014 and 2013 were $5,228,000 and $7,257,000, respectively.

Allowance for Loan Losses

The following table presents by loan class the changes in the allowance for loan losses for the years ended December 31, 2014 and 2013 are as follows *(in thousands)*:

	Beginning Balance	(Credit) Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
2014					
Real Estate:					
Commercial	$ 8,474	$ (2,760)	$ (929)	$ 296	$ 5,081
Construction and development	648	136	(246)	103	641
Multifamily housing	1,270	745	(12)	4	2,007
Residential	5,677	(350)	(866)	89	4,550
Home equity	1,895	(198)	(542)	30	1,185
Commercial and industrial	596	(32)	(213)	15	366
Municipal leases	129	(39)	-	-	90
Other consumer	180	270	(344)	109	215
Total	$18,869	$ (2,228)	$ (3,152)	$ 646	$14,135
2013					
Real Estate:					
Commercial	$10,398	$ 851	$ (3,208)	$ 433	$ 8,474
Construction and development	2,626	(1,654)	(716)	392	648
Multifamily housing	1,600	(208)	(122)	-	1,270
Residential	7,183	576	(2,115)	33	5,677
Home equity	2,518	260	(915)	32	1,895
Commercial and industrial	705	179	(374)	86	596
Municipal leases	76	256	(203)	-	129
Other consumer	214	222	(438)	182	180
Total	$25,320	$ 482	$ (8,091)	$ 1,158	$18,869

The following table sets forth by loan class the balance in the allowance for loan losses and the recorded investment in loans as of December 31, 2014 and 2013 *(in thousands)*:

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
December 31, 2014						
Real Estate:						
Commercial	$ 1,544	$ 3,537	$ 5,081	$ 33,463	$ 266,165	$ 299,628
Construction and development	131	510	641	3,225	34,023	37,248
Multifamily housing	972	1,035	2,007	4,596	267,802	272,398
Residential	3,144	1,406	4,550	25,002	169,561	194,563
Home equity	173	1,012	1,185	1,316	78,979	80,295
Commercial and industrial	1	365	366	1,008	36,689	37,697
Municipal leases	-	90	90	-	18,008	18,008
Other consumer	113	102	215	113	532	645
Total	$ 6,078	$ 8,057	$ 14,135	$ 68,723	$ 871,759	$ 940,482
December 31, 2013						
Real Estate:						
Commercial	$ 2,219	$ 6,255	$ 8,474	$ 36,716	$ 252,593	$ 289,309
Construction and development	157	491	648	5,813	31,277	37,090
Multifamily housing	650	620	1,270	2,308	251,327	253,635
Residential	3,410	2,267	5,677	26,495	182,493	208,988
Home equity	187	1,708	1,895	1,778	89,875	91,653
Commercial and industrial	203	393	596	1,146	36,209	37,355
Municipal leases	-	129	129	-	25,756	25,756
Other consumer	77	103	180	77	811	888
Total	$ 6,903	$ 11,966	$ 18,869	$ 74,333	$ 870,341	$ 944,674

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31, 2014 and 2013 *(in thousands)*:

	2014	2013
Land	$ 14,544	$ 16,880
Buildings and improvements	57,571	58,108
Furniture and equipment	36,772	35,571
Construction-in-progress	950	745
Total cost	109,837	111,304
Less: accumulated depreciation and amortization	(53,523)	(52,864)
Premises and equipment, net	$ 56,314	$ 58,440

The Company leases certain banking facilities under noncancelable operating leases that expire on various dates from 2015 through 2019. The leases contain renewal options for varying terms expiring between 2015 through 2029 and require the payment of property taxes, insurance and related expenses. The Company also leases certain equipment under cancelable and noncancelable leases with terms of up to three years. Total rent expense under operating leases amounted to $486,000 in 2014 and $582,000 in 2013. Aggregate amounts of minimum rental commitments under noncancelable operating leases, excluding renewal options, are $1,284,000 and for each of the five years subsequent to December 31, 2014, are $434,000 (2015), $429,000 (2016), $257,000 (2017), $113,000 (2018), and $51,000 (2019).

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill was $35,348,000 at December 31, 2014 and 2013, respectively. Goodwill has an indefinite useful life and is not amortized, but is tested for impairment at least annually. Impairment exists when the carrying value of goodwill exceeds its fair value. At December 31, 2014, the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment. In 2013, the Company used an independent valuation firm to test for goodwill impairment. The test involved estimating the fair value of the Company using financial data and market prices as of the respective annual impairment date and utilized four valuation methodologies including the comparable transactions approach, the control premium approach, the public market peers approach, and the discounted cash flow approach. The results of the analysis indicated that goodwill was not impaired as the fair value of the balances supported the recorded amount of goodwill as of December 31, 2013.

The following tables present the changes in the carrying amount of other intangible assets and the gross carrying amount, accumulated amortization, and net book value as of December 31, 2014 and December 31, 2013 *(in thousands):*

	2014	2013
Net balance, beginning of year	$ 233	$ 489
Amortization expense	(161)	(256)
Net balance, end of year	$ 72	$ 233
Gross carrying amount	$ 4,736	$ 4,736
Accumulated amortization	(4,664)	(4,503)
Net book value	$ 72	$ 233

The following presents the estimated annual amortization expense of other intangible assets at December 31, 2014 *(in thousands)*:

2015	$ 69
2016	3
Total	$ 72

NOTE 7 – DEPOSITS

The following table summarizes major categories of deposits at December 31, 2014 and 2013 *(in thousands)*:

	2014	2013
Demand deposits	$ 213,689	$ 196,381
NOW accounts	164,673	159,780
Money market accounts	240,423	266,910
Savings deposits	453,435	446,971
Time deposits	208,528	230,991
Total deposits	$1,280,748	$1,301,033

Deposits of executive officers, directors and affiliated companies totaled $2,838,000 at December 31, 2014 and $3,741,000 at December 31, 2013.

Interest expense on deposits for the years ended December 31, 2014 and 2013 by major deposit categories are as follows *(in thousands)*:

	2014	2013
NOW accounts	$ 39	$ 37
Money market accounts	409	451
Savings deposits	481	427
Time deposits	1,461	1,795
Total interest expense	$ 2,390	$ 2,710

The following table summarizes the scheduled maturities of time deposits at December 31, 2014 *(in thousands)*:

2015	$ 150,727
2016	35,154
2017	9,486
2018	4,654
2019	8,508
Total time deposits	$ 208,528

The aggregate amount of time deposits with balances that exceed the FDIC insurance limit of $250,000 were $24,895,000 and $18,774,000, at December 31, 2014 and 2013 respectively. At December 31, 2013 the Bank had brokered deposits of $5,752,000. The Bank had no brokered deposits at December 31, 2014..

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase primarily represent borrowings originated as part of cash management services offered to corporate customers. Substantially all of the borrowings mature in one business day. The securities underlying the agreements are maintained and controlled by the Bank. Information relating to these borrowings for 2014 and 2013 is presented below *(in thousands)*:

	2014	2013
Balance at December 31	$ 46,784	$ 29,931
Average balance during the year	38,838	27,049
Maximum month-end balance during the year	50,980	32,356
Weighted average interest rate	.25%	.20%

NOTE 9 - BORROWED FUNDS

At December 31, 2014, borrowed funds consist of borrowings under a margin loan facility with a brokerage firm. The margin loan facility is collateralized with the Company's marketable equity securities and the amount of borrowings is limited to 50% of the fair value of such securities. At December 31, 2014, the maximum amount of borrowings under the facility was $5.6 million. The interest rate charged on margin loan borrowings is the Fed Fund rate plus 250 basis points. At December 31, 2014 and 2013 the balance of the margin loan was $3,200,000. At December 31, 2014, the interest rate on the margin loan was 2.75%.

The Bank maintains a credit facility with the FHLBC which allows the Bank to access term funding and other credit. To secure credit with the FHLBC, the Bank has executed a collateral pledge agreement with the FHLB, whereby the Bank has agreed to keep on hand at all times, free of all pledges, liens and encumbrances, first mortgages with unpaid principal balances aggregating no less than 167% of the outstanding secured advances from the FHLB. At December 31, 2014, the FHLBC has issued a $269,000 standby letter of credit to the Bank with a maturity date of February 4, 2018 and a rate of 0.126%. At December 31, 2014, the Bank's remaining borrowing capacity with the FHLBC was approximately $123 million.

NOTE 10 - JUNIOR SUBORDINATED NOTES ISSUED TO CAPITAL TRUSTS

The Company has established Delaware statutory trusts for the sole purpose of issuing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trusts to purchase junior subordinated notes of the Company, which are the sole assets of each trust. Concurrently with the issuance of the trust preferred securities, the Company issued guarantees for the benefit of the holders of the trust preferred securities. The trust preferred securities are issues that qualify, and are treated by the Company, as either Tier 1 or Tier 2 regulatory capital. The Company wholly owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment. The trusts are not consolidated in the Company's financial statements, but rather the junior subordinated debentures are shown as a liability. The Company's investments in the common stock of the trusts are included in other assets.

The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of December 31, 2014 *(in thousands)*:

	Marquette Capital Trust I	**Marquette Capital Trust I-A**
Junior Subordinated Notes:		
Principal balance	$25,774	$30,928
Annual interest rate	3-mo LIBOR + 1.39%	3-mo LIBOR + 1.39%
Stated maturity date	March 15, 2036	June 15, 2036
Call date	Quarterly after March 15, 2012	Quarterly after June 15, 2012
Trust Preferred Securities:		
Face value	$25,000	$30,000
Annual distribution rate	3-mo LIBOR + 1.39%	3-mo LIBOR + 1.39%
Issuance date	January, 2006	March, 2006
Distribution dates (1)	Quarterly	Quarterly

(1) All cash distributions are cumulative.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment or redemptions of the junior subordinated notes at or prior to the stated maturity date or quarterly at the option of the Company. Prior to these respective redemption dates, the junior subordinated notes may be redeemed by the Company (in which case the trust preferred securities would also be redeemed) after the occurrence of certain events that would have a negative tax effect on the Company or the trusts, would cause the trust preferred securities to no longer qualify as regulatory capital, or would result in a trust being treated as an investment company. Any redemption is subject to prior regulatory approval. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated notes.

The Company's obligation under the junior subordinated notes and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each trust's obligations under the trust preferred securities issued by each trust. The Company has the right to defer payment of interest on the notes and, therefore, distributions on the trust preferred securities, for up to five years, but not beyond the stated maturity date in the table above. During any such deferral period the Company may not pay cash dividends on its common stock and generally may not repurchase its common stock. At December 31, 2014 and 2013, the Company was current on all interest payments due to the junior subordinated notes and the related trust preferred securities.

NOTE 11 - PREFERRED STOCK

On December 19, 2008, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement with the United States Department of the Treasury ("U.S. Treasury"), pursuant to which the Company sold 35,500 shares of newly authorized Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $0.01 per share and liquidation value $1,000 per share (the "Series A Preferred Stock") and also issued warrants (the "Warrants") to the U.S. Treasury to acquire an additional $1,775,000 of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value $0.01 per share and liquidation value $1,000 per share (the "Series B Preferred Stock") for an aggregate purchase price of $35,500,000 in cash. Subsequent to the closing, the U.S. Treasury exercised the Warrants and the Company issued 1,775 shares of the Series B Preferred Stock. The proceeds of $35,500,000 from the Preferred Stock offering were invested by the

Company into the Bank. The Series A Preferred Stock qualifies as Tier 1 capital and paid cumulative dividends at a rate of 5% per year until February 14, 2014, and 9% per year thereafter. The Series B Preferred Stock qualifies as Tier 1 capital and pays cumulative dividends at a rate of 9% per annum.

On August 10, 2012, the U.S. Treasury sold its entire interest in the Company's Series A Preferred Stock and Series B Preferred Stock using a modified Dutch auction process. The U.S. Treasury agreed to sell all of the Company's 35,500 Series A Preferred Shares at price of $720.25 per share and all of its 1,775 Series B Preferred Shares at price of $825.25 per share. The Company was allowed to participate in the auction and successfully bid to repurchase 11,034 shares of the 35,500 shares of the Company's Series A Preferred Shares. The Company sought and obtained regulatory approval to participate in the auction. The repurchase of $11,034,000 in stated value of Series A Preferred Stock at a discount of 28.0% (or an actual cost of $7,948,000) resulted in an increase in capital totaling $3,086,000 partially offset by the additional amortization of $163,000 in the Series B Preferred Stock discount. Neither the Series A nor the Series B Preferred Stock is subject to any contractual restrictions on transfer.

As a result of participation in the TARP Capital Purchase Program, the Company, among other things, was subject to the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury held the Company's Preferred Stock. When the Treasury sold all of the Preferred Stock in the auction, these executive compensation and corporate governance standards were no longer applicable to the Company.

On August 12, 2013, the Company repurchased 11,952 shares of the Company's Series A Preferred Shares and 100 shares of the Company's Series B Preferred Shares in a transaction negotiated with a preferred stockholder. The Company sought and obtained regulatory approval to repurchase these shares. Collectively, the total cost to repurchase $11,952,000 in stated value of Series A Preferred Stock was $11,952,000 and $1,000,000 in stated value of Series B Preferred Stock was $10,231,000 (or a discount of 15.1%) resulted in an increase in capital totaling $1,821,000 partially offset by the additional amortization of $45,000 in the Series B Preferred Stock discount.

On December 29, 2014, the Company repurchased the remaining 12,514 shares of the Company's Series A Preferred Shares and 1,675 shares of the Company's Series B Preferred Shares, each with a liquidation value of $1,000 per share. The Company sought and obtained regulatory approval to repurchase these shares. The total redemption amount was $14,189,000 plus accrued and unpaid dividends.

NOTE 12 - COMMON STOCK

On July 8, 2014, the Company's Board of Directors declared a four-for-one stock split of its common stock payable in the form of a stock dividend. The four-for-one stock split was paid on August 1, 2014 to shareholders of record on July 18, 2014. Except where specifically indicated otherwise, all reported amounts in these financial statements are adjusted to give effect to this stock split.

On April 24, 2014, the Company's shareholders approved an increase in the authorized common shares to 2,000,000 from 450,000. Shareholders also approved an amendment to the Company's Certificate of Incorporation to reduce the par value of common stock to $0.01 from $20.00. The change in par value resulted in a reduction to Common Stock and an increase to Surplus of $5,128,000.

NOTE 13 - EMPLOYEE BENEFITS

The Bank has a non-contributory employee stock ownership plan ("ESOP") and a savings incentive plan under section 401(k) of the Internal Revenue Code. These plans cover substantially all full-time employees who have completed age and service requirements. Contributions to the ESOP are made by the Bank in accordance with resolutions passed by its board of directors. ESOP contribution expense was $391,000 in 2014 and $378,000 in 2013. Under the savings incentive plan, the employee contributions are partially matched by the Bank. Total expense associated with the savings plan amounted to $276,000 in 2014 and $279,000 in 2013.

As of December 31, 2014 and 2013, the ESOP held 45,833 and 43,200 shares, all of which were allocated to participants. The fair value of the shares was approximately $4,767,000 and $3,780,000 at December 31, 2014 and 2013, respectively. At retirement or separation, a participant may elect to receive a distribution of ESOP benefits in cash or shares of the Company common stock. If a participant receives a distribution of shares of the Company common stock, they have two options to put back the shares to the Company at fair value. The first put option period begins on the date the stock is distributed and extends for a period of 60 days. The second put option is for a period of 60 days after an ESOP valuation is completed in the following plan year. If either option is exercised, the Company may repay this obligation over a five-year period.

NOTE 14 - DEFERRED COMPENSATION PLANS

The Marquette Bank Directors' and Employees' Deferred Compensation Plan (the "DCP") was established to enable directors and certain officers the opportunity to defer a portion of their fees and cash compensation paid by the Bank as a means of maximizing the effectiveness and flexibility of compensation arrangements. Under the DCP, participants invest their deferred compensation in shares of the Company's common stock. The purchase price per share is based on the fair market value as determined by an independent third-party valuation firm. Pursuant to the DCP, the Company issued 596 and 884 common shares in 2014 and 2013, respectively.

In 2011, the Marquette National Corporation 2010 Equity Incentive Plan (the "EIP") was established to promote the long-term financial success of the Company by providing a means to retain and reward individuals who contribute to such success. In 2013 and 2012, the Company's Board of Directors approved equity grants in the form of restricted stock units ("RSU") of 4,364 and 1,144, respectively. Each RSU vests over a two-year period and each participant is distributed one share of the Company's common stock for each RSU vested. In 2014, there were no equity grants made under the EIP. Pursuant to the EIP, the Company issued 5,508 common shares in 2013 at a price per share based on the fair market value as determined by an independent third-party valuation firm.

The Company classifies the cost basis of its common stock issued and held in trust in connection with the DCP and EIP as treasury stock. The Company also classifies the cost basis of its related deferred compensation obligations, in the same amounts, as equity instruments (deferred compensation).

The Company and the Bank have deferred compensation agreements with certain directors and officers. The deferred compensation is to be paid to the individuals or their heirs over a period of ten or fifteen years commencing at various dates as designated in the agreements. The Company and the Bank record a liability for these obligations in an amount sufficient to provide for the value of annuities that will fund required payments under deferred compensation agreements. Expense for 2014 and 2013 amounted to $623,000 and $608,000, respectively. As of December 31, 2014 and 2013, the accrued liability relating to these agreements totaled $6,142,000 and $5,730,000, respectively.

NOTE 15 - INCOME TAXES

The components of income tax benefits for the years ended December 31, 2014 and 2013 are as follows *(in thousands)*:

	2014	2013
Current:		
Federal	$ (1,146)	$ 990
State	(461)	346
Total current	(1,607)	1,336
Deferred:		
Federal	3,423	1,590
State	1,197	647
Total deferred tax	4,620	2,237
Total income tax expense	$ 3,013	$ 3,573

A reconciliation of the federal statutory income tax to the Company's income tax benefit for the years ended December 31, 2014 and 2013 is as follows *(in thousands)*:

	2014	2013
Federal income tax	$ 3,554	$ 3,948
Increase (decrease) in taxes due from:		
Tax-exempt interest income	(394)	(471)
Nondeductible interest expense	3	4
Income from Bank owned life insurance	(483)	(477)
ESOP dividends paid	12	-
State income taxes, net	486	656
Investment tax credits	(147)	(147)
Other, net	(18)	60
Total income tax expense	$ 3,013	$ 3,573

Differences between the amounts reported in the consolidated financial statements and the tax bases of assets and liabilities result in temporary differences for which deferred tax assets and liabilities have been recorded. The tax effects of temporary differences which comprise the significant portions of the Company's deferred tax assets and deferred tax liabilities as of December 31, 2014 and 2013 are as follows *(in thousands)*:

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 5,692	$ 7,599
Reserve for unfunded commitments	123	165
Net unrealized losses on securities	-	2,417
Investment securities impairment losses	3,008	7,789
Other real estate owned	492	755
Interest on nonaccrual loans	317	216
Charitable contributions carryforward	161	-
Deferred compensation	2,768	2,725
Accrued expenses	224	366
Federal net operating loss carryforwards	1,895	-
State net operating loss carryforwards	484	45
AMT credit carryforward	3,387	3,573
Investment tax credits	1,277	1,131
Total deferred tax assets	19,828	26,781
Deferred tax liabilities:		
Net unrealized gains on securities	(1,545)	-
FHLB stock	(701)	(849)
Partnership investments	(2)	(8)
Deferred loan origination costs	(507)	(496)
Depreciation	(3,183)	(2,848)
Mortgage servicing rights	(337)	(361)
Prepaid expenses	(94)	(89)
Goodwill	(103)	(103)
Purchase accounting adjustments	(537)	(626)
Total deferred tax liabilities	(7,009)	(5,380)
Net deferred tax assets	$12,819	$21,401

Under GAAP, a deferred tax asset valuation allowance is required to be recognized if it is “more likely than not” that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management’s evaluation of both positive and negative evidence, forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. The Company has had a history of positive federal and state taxable income and has positive expectations regarding future taxable income. In making decisions regarding any valuation allowance, the Company considered both positive and negative evidence and analyzes other factors which

may impact future operating results. At December 31, 2014, the Company reviewed its deferred tax assets and determined that no valuation allowance was necessary.

The Company is subject to U.S. federal income tax as well as income tax for the State of Illinois. The Company is no longer subject to examinations by taxing authorities for years prior to 2011.

NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES

Credit

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include lines of credit, letters of credit and other commitments to extend credit. Each of these instruments involves, to varying degrees, elements of credit, interest rate and liquidity risk in excess of the amounts recognized in the Consolidated Balance Sheets. The Company uses the same credit policies and requires similar collateral in approving lines of credit and commitments and issuing letters of credit as it does in making loans. The exposure to credit losses on financial instruments is represented by the contractual amount of these instruments.

The off-balance-sheet financial instruments whose contract amounts represent credit risk and the related reserve for unfunded commitments at December 31, 2014 and 2013 are as follows *(in thousands)*:

	2014	2013
Commitments to extend credit:		
Real Estate:		
Commercial	$ 43,393	$ 9,309
Residential	7,840	6,916
Home equity	10,416	3,888
Total	$ 61,649	$ 20,113
Unused lines of credit:		
Real Estate:		
Commercial	$ 7,905	$ 6,458
Construction and development	13,754	6,507
Multifamily housing	1,645	400
Home equity	50,390	57,115
Commercial and industrial	12,163	8,861
Total	$ 85,857	$ 79,341
Standby letters of credit	$ 6,064	$ 7,929
Reserve for unfunded commitments	$ 306	$ 486

Commitments to originate credit represent approved commercial, residential real estate and home equity loans that generally are expected to be funded within 90 days. Lines of credit are agreements by which the Company agrees to provide a borrowing accommodation up to a stated amount as long as there is no violation of any condition established in the loan agreement. The borrower may periodically reduce or retire amounts drawn under a line and subsequently redraw these amounts. Both commitments to originate credit and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the lines and some commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the financial performance of customers to third parties. Standby letters of credit are primarily issued to facilitate trade or support borrowing arrangements and generally expire in one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit facilities to customers. The maximum amount of credit that would be extended under letters of credit is equal to the total off-balance-sheet contract amount of such instruments.

In 2014, the activity in the reserve for unfunded commitments consisted of a credit of $174,000 recognized in the Statement of Income and payments of $6,000. In 2013, the activity in the reserve for unfunded commitments consisted of a credit of $274,000 recognized in the Statement of Income and payments of $433,000.

Concentrations of Credit Risks
In addition to financial instruments with off-balance-sheet risk, the Company, to a certain extent, is exposed to varying risks associated with concentrations of credit. Concentrations of credit risk generally exist if an individual or number of counterparties is engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by economic or other conditions. Credit risk is affected by a variety of factors including the credit-worthiness of the borrower or other party, the sufficiency of underlying collateral, the enforceability of third party guarantees, changing economic and industry conditions and concentrations of credit by loan type, terms or geographic area, changes in the financial condition of the borrower or other party, and by credit and underwriting policies.

The Company conducts substantially all of its lending activities in the southwest suburbs of Chicago and, to a lesser extent, the Chicago metropolitan area. A major portion of loans are secured by various forms of collateral including real estate, business assets, and consumer property, while borrower cash flow is the primary source of repayment. It is the policy of the Company to review each prospective credit in order to determine an adequate level of security or collateral to obtain prior to making a loan. There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans. Since the Company's borrowers and its loan collateral have geographic concentration in the Chicago metropolitan area, the Company has exposure to a decline in the local economy and real estate market.

Litigation
The Company is a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial condition or results of operations.

NOTE 17 – MORTGAGE BANKING

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company’s practice to enter into non-mandatory forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes interest rates resulting from its commitments to fund the loans. The notional amount of interest rate locks as of December 31, 2014 and 2013 was $25,589,000 and $27,613,000. The fair values of these interest rate locks were not material to these consolidated financial statements.

The Company sells mortgage loans on a non-recourse basis. In connection with the loan sales, the Company makes representations and warranties customary in the industry relating to, among other things, compliance with laws, regulations and program standards, and to accuracy of information. If there is a breach of the representations and warranties by the Company, typically the Company corrects these flaws. If the flaws cannot be corrected, the Company may be required to repurchase these loans. As of December 31, 2014 and 2013, no amounts have been recorded as liabilities for the Company’s potential obligations under these recourse agreements.

NOTE 18 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability. These unobservable inputs are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. If the inputs used to provide the evaluation are unobservable and/or there is very little, if any, market activity for the security or similar securities, the securities would be considered Level 3 securities. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Assets and Liabilities Measured at Fair Value

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities Available For Sale: The fair values of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). If the securities could not be priced using quoted market prices, observable market activity or comparable trades and the financial market was considered not active, the securities were classified as Level 3.

The securities included in Level 3 are the Company's trust preferred CDOs. On a quarterly basis, management monitors the underlying collateral and credit rating of each security. At December 31, 2014, the fair value of trust preferred CDOs is based on an independent structured credit valuation firm using a discounted cash flow model. Prior to that, these securities were priced using non-binding independent broker indications. Due to current market conditions, as well as the limited trading activity of these securities, the fair value of trust preferred CDOs is highly sensitive to assumption changes and market volatility.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on the fair value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. A majority of the collateral securing impaired loans is real estate for which updated appraisals or broker evaluations are received at least annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized. Fair value is commonly based on recent real estate appraisals or broker evaluations which are updated no less frequently than annually. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral dependent loans and real estate owned are performed by certified appraisers whose qualifications and licenses have been reviewed by the Company. Once received a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal as well as the overall fair value in comparison with independent data sources such as recent market data of industry wide statistics. Typically appraised values are not adjusted by management and are deemed to be fair value unless other information suggests that the value of the collateral is less than the appraised value. Adjustments made by management would result in a Level 3 classification of the inputs for determining fair value.

The following table sets forth the Company's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2014 and 2013 *(in thousands)*:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
2014				
Securities available for sale:				
Agency residential mortgage-backed securities	$ -	$295,461	$ -	$295,461
Non-agency residential mortgage-backed securities	-	2,803	-	2,803
State and municipal obligations	-	6,693	-	6,693
Trust preferred collateralized debt obligations	-	-	11,276	11,276
Corporate and other	-	1,000	-	1,000
Equity securities	18,418	804	-	19,222
Total securities available for sale	$ 18,418	$306,761	$ 11,276	$336,455
2013				
Securities available for sale:				
Agency residential mortgage-backed securities	$ -	$214,326	$ -	$214,326
Non-agency residential mortgage-backed securities	-	4,429	-	4,429
State and municipal obligations	-	6,506	-	6,506
Trust preferred collateralized debt obligations	-	-	17,798	17,798
Corporate and other	-	1,000	-	1,000
Equity securities	17,995	765	-	18,760
Total securities available for sale	$ 17,995	$227,026	$ 17,798	$262,819

There were no transfers between Level 1 and Level 2 during 2014 and 2013. Changes in Level 3 assets (trust preferred CDOs) measured at fair value on a recurring basis for the years ended December 31, 2014 and 2013 are as follows *(in thousands)*:

	2014	2013
Balance, beginning of year	$ 17,798	$ 14,788
Principal paydowns	(832)	(1,290)
Sales	(13,226)	(2,182)
Total gains or losses (realized/unrealized)		
Included in earnings:		
Interest income on securities	278	346
Securities other than temporary impairment losses	-	740
Included in other comprehensive income	7,258	5,396
Balance, end of year	$ 11,276	$ 17,798

The following table presents quantitative information about the Level 3 fair value measurements at December 31, 2014 *(in thousands)*:

	Fair Value	Valuation Techniques	Observable Inputs	Range of Qualitative Information (Weighted Average)
Trust preferred CDOs (1)	$ 11,276	Discounted cash flow	Cumulative defaults	1% - 100% (15%)
			Loss given defaults	85% - 100% (92%)
			Recoveries	0% - 15% (8%)
			Cure given deferrals	0% - 90% (10%)

(1) The significant unobservable inputs used in the fair value measurement of the Company's CDOs are probabilities of specific-issuer defaults and specific-issuer recovery assumptions. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a significantly lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a higher fair value measurement.

Assets measured at fair value on a nonrecurring basis as of December 31, 2014 and 2013 are included in the table below *(in thousands)*:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
2014				
Impaired loans:				
Real Estate:				
Commercial	$ -	$ 7,846	$ -	$ 7,846
Construction and development	-	99	-	99
Multifamily housing	-	2,859	-	2,859
Residential	-	2,654	-	2,654
Home equity	-	684	-	684
Commercial and industrial	-	18	-	18
	$ -	$ 14,160	$ -	$ 14,160
Other real estate owned:				
Commercial real estate	$ -	$ 1,326	$ -	$ 1,326
Residential real estate	-	1,046	-	1,046
Land	-	888	-	888
Total other real estate owned	$ -	$ 3,260	$ -	$ 3,260
2013				
Impaired loans:				
Real Estate:				
Commercial	$ -	$ 12,275	$ -	$ 12,275
Construction and development	-	538	-	538
Multifamily housing	-	1,658	-	1,658
Residential	-	4,254	-	4,254
Home equity	-	436	-	436
Commercial and industrial	-	303	-	303
Total impaired loans	$ -	$ 19,464	$ -	$ 19,464
Other real estate owned:				
Commercial real estate	$ -	$ 915	$ -	$ 915
Residential real estate	-	240	-	240
Land	-	3,134	-	3,134
Total other real estate owned	$ -	$ 4,289	$ -	$ 4,289

At December 31, 2014, impaired loans subject to nonrecurring fair value measurement had a principal balance of $19,344,000, with a valuation allowance of $5,184,000, resulting in an additional provision for loan losses of $674,000 for the year ended December 31, 2014. At December 31, 2013, impaired loans subject to nonrecurring fair value measurement had a principal balance of $25,473,000, with a valuation allowance of $6,009,000, resulting in an additional provision for loan losses of $1,593,000 for the year ended December 31, 2013.

At December 31, 2014, other real estate owned subject to nonrecurring fair value measurement had a gross carrying amount of $4,482,000, with a related valuation allowance of $1,222,000, resulting in a write-down of $256,000 for the year ended December 31, 2014. At December 31, 2013, other real estate owned subject to nonrecurring fair value measurement had a gross carrying amount of $6,165,000, with a related valuation allowance of $1,876,000, resulting in a write-down of $1,047,000 for the year ended December 31, 2013.

Fair Value Disclosure of Financial Instruments

As a financial institution, most of the Company's assets and liabilities are considered financial instruments. However, many of the Company's financial instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment was used by the Company in interpreting market data to develop the estimates of fair value. In addition, significant estimations and present value calculations were used by the Company for purposes of this disclosure. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. Furthermore, the aggregate fair value amounts presented do not represent the underlying value of the Company. The methods and assumptions to estimate the fair value disclosures for other financial instruments are described below.

The carrying values of cash and cash equivalents, accrued interest receivable, demand deposits, NOW accounts, money market accounts, savings deposits, federal funds purchased, securities sold under agreements to repurchase, FHLB floating rate advances, notes payable and interest payable are assumed to approximate fair value since these assets and liabilities have no stated maturity or are relatively short-term financial instruments. It was not practicable to determine the fair value of FRB or FHLBC stock due to restrictions placed on its transferability.

Net loans with stated maturities have been valued using present value discounted cash flow techniques. The discount rates used to calculate the fair values of loans were the applicable risk-adjusted spreads to the U.S. Treasury curve to approximate current entry-value interest rates applicable to each loan category. No adjustment was made to the entry-value interest rates for changes in credit of performing loans for which there are no known credit concerns. The Company believes that the risk factor embedded in the entry-value interest rates results in a fair valuation of such loans on an entry-value basis. It is assumed that the fair value of floating rate loans approximates the recorded book value. For real estate loans, contractual cash flows were adjusted for anticipated prepayments. For loans delinquent 90 days or more and nonaccrual loans, fair value is assumed to equal the recorded book value less any specific reserves that have been allocated to such loans. As previously described above, impaired loans are valued at the lower of cost or fair value.

Time deposits with stated maturities have been valued using present value discounted cash flow techniques. The discount rates used to calculate the fair value of time deposits were the market rates currently offered for deposits of similar remaining maturities. Fixed-rate FHLB advances have been valued using present value discounted cash flow techniques. The discount rates used to calculate the fair value of fixed-rate FHLB advances were the market rates currently offered for advances of similar remaining maturities.

The fair value of junior subordinated notes issued to capital trusts were valued based on present value discounted cash flow techniques. The discount rates used to calculate fair values were new issue market rates for trust preferred with similar maturities.

The following table sets forth the carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2014 and 2013 *(in thousands)*:

	2014		2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$ 89,472	$ 89,472	$162,438	$162,438
Loans held for sale	7,525	7,669	4,185	4,264
Securities available for sale	336,455	336,455	262,819	262,819
FHLBC and FRB stock	9,445	*	11,051	*
Loans, net	926,347	935,872	925,805	937,217
Accrued interest receivable	3,800	3,800	3,888	3,888
Financial Liabilities:				
Demand deposits	213,689	213,689	196,381	196,381
NOW, money market and savings deposits	858,531	858,531	873,661	873,661
Time deposits	208,528	209,301	230,991	232,348
Securities sold under agreements to repurchas	46,784	46,784	29,931	29,931
Borrowed funds	3,200	3,200	3,200	3,200
Subordinated notes issued to capital trusts	56,702	51,977	56,702	51,340
Accrued interest payable	225	225	249	249

** Not available*

NOTE 19 - REGULATORY CAPITAL

The Company and the Bank are subject to regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

For banks, prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

Management believes that the Company and the Bank meet all capital adequacy requirements at December 31, 2014 and 2013. The most recent notifications from the federal banking agencies categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum Tier I and total risk-based capital ratios and Tier I leverage ratios as set forth in the table below. As of December 31, 2014, there are no conditions or events that management believes have changed the capital category of the Company or Bank.

The following table sets forth the actual and required regulatory capital amounts and ratios of the Company and Bank as of December 31, 2014 and 2013 *(in thousands)*:

	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Tier I Capital to Average Assets:						
Consolidated	$112,256	7.55%	$ 59,508	4.00%	*	*
Bank	$130,674	8.83%	$ 59,227	4.00%	$ 74,034	5.00%
Tier I Capital to Risk Weighted Assets:						
Consolidated	$112,256	12.24%	$ 36,674	4.00%	*	*
Bank	$130,674	14.24%	$ 36,713	4.00%	$ 55,069	6.00%
Total Capital to Risk Weighted Assets:						
Consolidated	$149,521	16.31%	$ 73,348	8.00%	*	*
Bank	$142,290	15.50%	$ 73,426	8.00%	$ 91,782	10.00%
December 31, 2013						
Tier I Capital to Average Assets:						
Consolidated	$117,750	7.97%	$ 59,076	4.00%	*	*
Bank	$134,371	9.15%	$ 58,763	4.00%	$ 73,454	5.00%
Tier I Capital to Risk Weighted Assets:						
Consolidated	$117,750	11.58%	$ 40,672	4.00%	*	*
Bank	$134,371	13.21%	$ 40,697	4.00%	$ 61,045	6.00%
Total Capital to Risk Weighted Assets:						
Consolidated	$155,227	15.27%	$ 81,343	8.00%	*	*
Bank	$147,278	14.48%	$ 81,393	8.00%	$ 101,742	10.00%

** Not applicable*

Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2015, the Bank could declare dividends of $11,390,000 plus any 2015 net profits retained to the date of the dividend declaration.

In July 2013, the federal banking agencies issued a final rule revising the regulatory capital rules applicable to the Company and the Bank. The rule implements the Basel Committee's December 2010 framework known as "Basel III" for strengthening the international capital standards as well as certain provisions of the Dodd-Frank Act. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement of 4.50%, a higher minimum Tier 1 capital requirement of 6.00% (which is an increase from 4.00%). Under the final rule, the total capital ratio remains at 8.00% and the minimum leverage ratio at 4.00%. The final rule also makes selected changes to the calculation of risk-weighted assets and adjusts the prompt corrective action thresholds.

Additionally, under the final rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a 2.5% capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measure relative to risk-weighted assets.

The new minimum capital requirements will be effective for the Company on January 1, 2015, whereas the capital conservation buffer and deductions from common equity Tier 1 capital phase in over time, beginning on January 1, 2016.