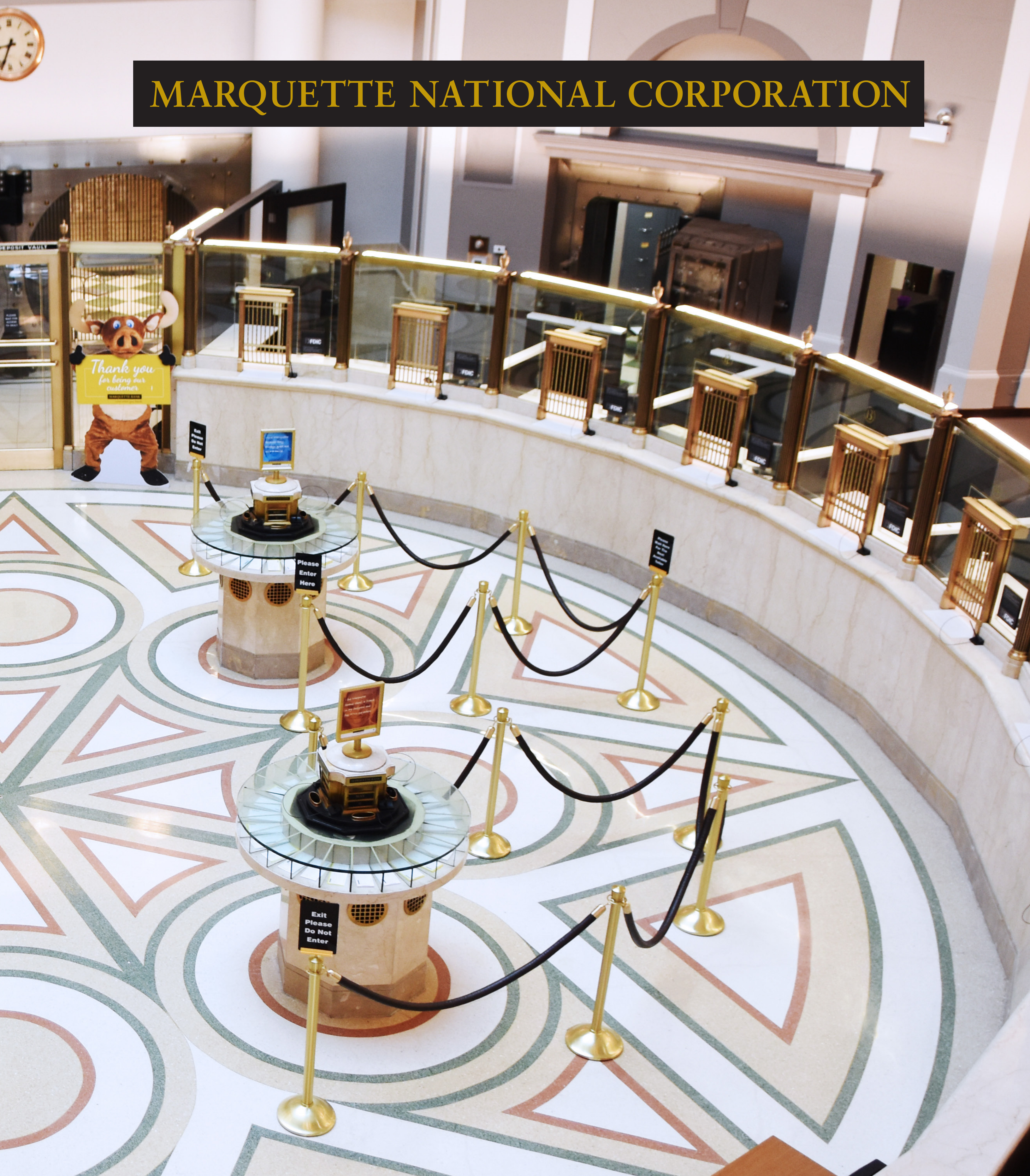
MARQUETTE NATIONAL CORPORATION



2016 ANNUAL REPORT

MARQUETTE NATIONAL CORPORATION

Letter to Our Shareholders

We are pleased to announce that 2016 was a productive year for Marquette National Corporation (the "Company") and Marquette Bank (the "Bank"). We kept our focus on growing our loan portfolio, improving asset quality and managing our capital. The Company also remediated some larger problem loans, settled long standing litigation, closed our Aurora branch and relocated our leased Oak Lawn Branch on Cicero Avenue to a modern Bank owned building across the street.

Net income in 2016 was up 13% to $6,062,000 from $5,371,000 in 2015. While the numbers appear to represent a measured improvement, upon closer look there are changes from the previous year that deserve mention. Net interest income was up $1.7 million, primarily due to an increase in the loan portfolio of $108 million. This allowed the Bank to maintain its net interest margin in excess of our strategic target of 3.50%, finishing the year at 3.55%. With the increase in loans, our provision for loan losses rose by $3.4 million from the previous year. To minimize the higher capital charge associated with holding equity securities of financial institutions, the Company reduced its holdings of these securities, realizing a gain of $4.3 million. The Bank wrote down bank property by $2 million related to the closing of our Aurora Branch and Oak Lawn property which had been intended for future expansion, both of which were transferred to OREO. The Bank also recognized a charge of $1.8 million for litigation settlement expense. Management believes, after consultation with legal counsel, that it was in the best interest of the Bank to settle the lawsuit.

The Company's total assets increased to $1.584 billion at year end, up $33 million or 2% compared to 2015. Loan demand was strong during the year as commercial real estate loans grew by $122 million. In total, the loan portfolio grew by 10% to approximately $1.150 billion. The loan to deposit ratio rose to 85% from 78% the previous year which is in line with the Bank's strategic goal of 90% loan-to-deposit ratio. Asset quality continued to improve as nonperforming loans declined by 45% to $9.6 million from a year earlier. Funding sources, which include total deposits and securities sold under agreement to repurchase, increased to $1.376 billion, up $25 million compared to 2015. Core funding accounts (demand deposits, NOW accounts and savings deposits) represent 66% of funding sources. The Company's stockholders equity rose by 3% to $134.3 million compared to $130.4 million at December 31, 2015. The Company and the Bank are considered to be "Well Capitalized" under the Basel III regulatory capital rules.

During 2016 the Company paid a 10% stock dividend and continued to pay a quarterly dividend of $0.375 per share which equates to an increase of 10% in the cash dividend.

Our focus was to continue to build relationships with both new and existing customers. We serve almost 80,000 customers who use over 203,000 services. Digital delivery channels continued to expand with the Bank experiencing a 47% increase in online banking and mobile banking sessions. In addition, the Bank rolled out the new and more secure EMV "Chip" Debit MasterCard to over 33,000 customers.

In 2016, the Bank maintained market share and deepened relationships with existing customers with core deposit growth of $39 million and an increase in both services and accounts per household. In 2016, the Bank had an overall satisfaction score of 95.6% for customers surveyed, and a Net Promoter Score (NPS) of 50 which is higher than the overall banking industry, as well as other community banks in the Midwest.

We relaunched our "Love Where You Bank" brand campaign in response to the recent merger and acquisition activity in our footprint. We will continue to promote our brand as we remain one of the largest neighborhood independent banks in our footprint.

In 2016, Thomas Burgin retired as the Bank's Executive Vice President and Chief Credit Officer after a 20 year career at the Bank and a 40+ year career in banking. We are grateful for Mr. Burgin's dedication and are happy to share he was named to the Bank's Board of Directors in 2016.

On behalf of the Board of Directors and Management, we wish to thank our outside shareholders and our employee-shareholders for their continued goodwill and support.

PAUL M. McCARTHY
Chairman of the Board & CEO

GEORGE S. MONCADA
President

Marquette National Corporation and Subsidiaries
Consolidated Financial Statements
December 31, 2016

Table of Contents

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

Balance Sheet

	12/31/16	12/31/15	Percent Change
Total assets	$1,584,053	$1,550,561	2%
Total loans, net	1,134,180	1,027,897	10%
Total deposits	1,333,549	1,309,638	2%
Total stockholders' equity	134,335	130,432	3%
Book value per share	$120.31	$116.10	4%
Tangible book value per share	$88.65	$84.64	5%

Operating Results

	Years Ended December 31,		Percent
	2016	2015	Change
Net interest income	$47,576	$45,905	4%
Provision for loan losses	3,616	240	*
Net gain on sales of securities	3,626	431	*
Other income	16,793	16,564	1%
Other expense	56,444	55,098	2%
Net income	6,062	5,371	13%
Basic income per share	$5.41	$4.77	13%
Weighted average shares outstanding	1,120,742	1,125,025	0%
Cash dividends declared per share	$1.50	$1.50	0%
Comprehensive income	$6,239	$3,467	80%

* *Not meaningful*

RSM

Independent Auditor's Report

RSM US LLP

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

Report on the Financial Statements

We have audited the accompanying financial statements of Marquette National Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years 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 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 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 financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have also audited, in accordance with auditing standards generally accepted in the United States of America, Marquette Bank's (the Bank, a wholly-owned subsidiary of Marquette National Corporation) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2017, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

RSM US LLP

Chicago, Illinois
March 15, 2017

Marquette National Corporation and Subsidiaries
Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 34,091	$ 28,412
Interest-bearing deposits with banks	10,254	53,866
Total cash and cash equivalents	44,345	82,278
Securities available for sale, at fair value	235,010	262,380
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	9,018	9,018
Loans held for sale	5,664	5,632
Loans	1,146,454	1,038,789
Less: Allowance for loan losses	(12,274)	(10,892)
Loans, net	1,134,180	1,027,897
Premises and equipment, net	51,814	54,929
Bank owned life insurance	41,187	40,438
Goodwill	35,348	35,348
Other real estate owned	7,157	11,356
Accrued interest receivable and other assets	20,330	21,285
Total assets	$ 1,584,053	$ 1,550,561
Liabilities		
Deposits		
Noninterest-bearing	$ 247,542	$ 231,299
Interest-bearing	1,086,007	1,078,339
Total deposits	1,333,549	1,309,638
Securities sold under agreements to repurchase	42,940	41,655
Junior subordinated notes issued to capital trusts	56,702	56,702
Accrued interest payable and other liabilities	16,527	12,134
Total liabilities	1,449,718	1,420,129
Stockholders' Equity		
Preferred stock: $.01 par value; shares authorized: 150,000 at December 31, 2016 and 2015; shares issued: none at December 31, 2016 and 2015	-	-
Common stock: $.01 par value; shares authorized: 2,000,000 at December 31, 2016 and 2015; shares issued: 1,116,592 at December 31, 2016 and 1,021,321 at December 31, 2015	11	10
Surplus	36,610	25,776
Retained earnings	97,149	104,258
Deferred compensation	1,379	1,512
Accumulated other comprehensive income, net of tax	565	388
Less: Treasury stock, at cost, 9,617 shares in 2016 and 9,417 shares in 2015	(1,379)	(1,512)
Total stockholders' equity	134,335	130,432
Total liabilities and stockholders' equity	$ 1,584,053	$ 1,550,561

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiaries
Consolidated Statements of Income

(in thousands, except share and per share data)

	Years Ended December 31, 2016	2015
Interest and Dividend Income		
Loans, including fees:		
Taxable	$ 44,481	$ 42,051
Exempt from federal income tax	420	615
Securities available for sale:		
Taxable	4,886	5,416
Exempt from Federal income tax	211	244
Dividends	451	416
Federal Home Loan Bank and Federal Reserve Bank stock	210	210
Federal funds sold and interest-bearing deposits with banks	192	173
Total interest income and dividends	50,851	49,125
Interest Expense		
Deposits	1,940	2,094
Securities sold under agreements to repurchase	140	125
Borrowed funds	-	32
Subordinated notes issued to capital trusts	1,195	969
Total interest expense	3,275	3,220
Net interest income	47,576	45,905
Provision for loan losses	3,616	240
Net interest income after provision for loan losses	43,960	45,665
Other Income		
Service charges on deposit accounts	6,075	5,903
Income from trust services	1,857	1,837
Mortgage banking revenue, net	2,398	2,628
Wealth management product fees	1,206	1,439
Income from bank owned life insurance	2,005	1,416
Other operating income	3,252	3,341
Net gain on sales of securities	3,626	431
Total other income	20,419	16,995
Other Expense		
Salaries and employee benefits	26,635	27,221
Net occupancy expense	6,895	7,448
Equipment expense	1,332	1,273
Write down of premises transferred to other real estate owned	2,032	-
Other real estate owned expense, net	226	334
Credit for unfunded loan commitments	-	(271)
Data processing expense	4,253	3,837
Professional and legal services	2,402	2,997
Advertising and promotion expenses	1,105	1,297
FDIC insurance premiums	1,102	1,938
Litigation settlement expense	1,830	-
Other operating expenses	8,632	9,024
Total other expense	56,444	55,098
Income before income taxes	7,935	7,562
Income tax expense	1,873	2,191
Net income	$ 6,062	$ 5,371
Basic income per share	$ 5.41	$ 4.77
Weighted average shares outstanding	1,120,742	1,125,025

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

(in thousands)

	Years Ended December 31,	
	2016	**2015**
Net income	$ 6,062	$ 5,371
Other comprehensive income:		
Unrealized holding gains (losses) on available for sale securities arising during the year:		
Increase (decrease) in net unrealized securities gains (losses)	3,917	(2,768)
Related income tax (expense) benefit	(1,532)	1,127
Unrealized gains (losses) on available for sale securities, net of tax	2,385	(1,641)
Less: reclassification adjustment for net securities gains (losses) realized during the year:		
Net realized securities gains	3,626	431
Related income tax expense	(1,418)	(168)
Net after tax reclassification adjustment	2,208	263
Other comprehensive income (loss), net of tax	177	(1,904)
Comprehensive income	$ 6,239	$ 3,467

See accompanying notes to consolidated financial statements.

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

(in thousands, except share data)

	Common Stock	Surplus	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2015	**$10**	**$25,530**	**$101,045**	**$1,606**	**$2,292**	**($1,606)**	**$128,877**
Net income	-	-	5,371	-	-	-	5,371
Other comprehensive loss, net of tax	-	-	-	-	(1,904)	-	(1,904)
Cash dividends declared on common stock	-	-	(1,534)	-	-	-	(1,534)
Issuance of 4,309 shares of common stock	-	449	-	-	-	-	449
Cost of common shares repurchased (8,097 shares of common stock reverting to authorized unissued status)	-	(203)	(624)	-	-	-	(827)
Deferred compensation	-	-	-	(94)	-	94	-
Balance, December 31, 2015	**10**	**25,776**	**104,258**	**1,512**	**388**	**(1,512)**	**130,432**
Net income	-	-	6,062	-	-	-	6,062
Other comprehensive income, net of tax	-	-	-	-	177	-	177
Cash dividends declared on common stock	-	-	(1,681)	-	-	-	(1,681)
10 percent stock dividend (101,755 shares issued, net of fractional shares repurchased)	1	10,593	(10,630)	-	-	-	(36)
Issuance of 5,044 shares of common stock	-	487	-	-	-	-	487
Cost of common shares repurchased (11,528 shares of common stock reverting to authorized unissued status)	-	(246)	(860)	-	-	-	(1,106)
Deferred compensation	-	-	-	(133)	-	133	-
Balance, December 31, 2016	**$11**	**$36,610**	**$97,149**	**$1,379**	**$565**	**($1,379)**	**$134,335**

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiaries
Consolidated Statements of Cash Flows

(in thousands)

	Years Ended December 31, 2016	2015
Operating Activities		
Net income	$ 6,062	$ 5,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred loan fees and costs, net	445	337
Premium amortization on securities, net	2,510	3,790
Provision for loan losses	3,616	240
Origination of loans for sale	(111,256)	(140,755)
Proceeds from sale of loans originated for sale	113,622	145,276
Gain on sale of loans originated for sale	(2,398)	(2,628)
Earnings on bank owned life insurance	(2,002)	(1,416)
Net gain on sale of securities	(3,626)	(431)
Write down of premises transferred to other real estate owned	2,032	-
Depreciation and amortization	3,232	3,109
Gain on sale of equipment	-	(2)
Net gain on sales of other real estate owned	(915)	(335)
Write down of other real estate owned	1,030	358
Deferred income tax expense	112	1,755
Decrease (increase) in accrued interest receivable and other assets	450	(1,207)
Increase in accrued interest payable and other liabilities	4,487	114
Net cash provided by operating activities	17,401	13,576
Investing Activities		
Securities available for sale:		
Proceeds from maturities, pay downs and calls	50,161	64,283
Proceeds from sales	26,295	22,312
Purchases	(47,680)	(19,078)
Redemption of Federal Reserve Bank stock	-	427
Net increase in loans	(112,401)	(111,979)
Purchases of premises and equipment	(3,425)	(2,036)
Proceeds from death benefit on bank owned life insurance	1,253	-
Proceeds from sales of other real estate owned	7,565	6,525
Net cash used in investing activities	(78,232)	(39,546)
Financing Activities		
Net increase in deposits	23,911	28,890
Net increase (decrease) in securities sold under agreements to repurchase	1,285	(5,129)
Repayment of borrowed funds	-	(3,200)
Cash dividends paid on common stock	(1,643)	(1,407)
Issuance of common stock	487	449
Cash paid for fractional shares	(36)	-
Repurchase of common stock	(1,106)	(827)
Net cash provided by financing activities	22,898	18,776
Net decrease in cash and cash equivalents	(37,933)	(7,194)
Cash and cash equivalents at beginning of year	82,278	89,472
Cash and cash equivalents at end of year	$ 44,345	$ 82,278
Supplemental disclosures:		
Interest paid	$ 3,251	$ 3,258
Income taxes refunded (paid)	71	(610)
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other real estate owned	$ 2,057	$ 9,852
Premises transferred to other real estate owned	1,432	-
Common stock cash dividends declared and unpaid	419	381

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Marquette National Corporation and Subsidiaries (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 Subsidiaries is as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of Marquette National Corporation and its wholly-owned subsidiaries, Marquette Bank (the "Bank") and Marquette Risk Management, Inc., a captive insurance subsidiary headquartered in Nevada. 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 15, 2017, 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 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 securities sold under agreements to repurchase.

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 2016 and 2015, 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 was based on the average of actual loss history over the most recent three years (weighted 50% for the most recent twelve month period, 34% for the year earlier twelve month period and 16% for the second prior year earlier 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 loans 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, the Company examines 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 ranging from three to ten 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 lesser of 80% of cost or 80% of the as-completed appraised value of the property. Personal guarantees are usually required when the borrower is a corporation or partnership. 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 selective basis, the Company is currently originating construction and development loans.

<u>Real Estate – Multifamily Housing</u>
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 thirty years. Personal guarantees are usually required when the borrower is a corporation or partnership. 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.

<u>Real Estate – Residential</u>
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 $424,100 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 generally 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.

<u>Real Estate – Home Equity</u>
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.

<u>Commercial and Industrial</u>
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 their 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 of the borrower. The Company focuses on small- to medium-sized companies that operate in its market area.

<u>Municipal Leases</u>
The Company provides funding to 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, 2016 and 2015. 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 as well as buildings and land that the Company intends to sell where the held-for-sale criteria have been met. Properties acquired through foreclosure or deed in lieu of foreclosure 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.

Buildings and land that the Company intends to sell where the held-for-sale criteria have been met are transferred from Premises and Equipment to Other Real Estate Owned at the lower of their fair value less costs to sell or their recorded investment. In 2016, there were three properties transferred from Premises and Equipment to Other Real Estate Owned. Upon the transfer of two of the properties, the Company recorded write-downs of $2,032,000 in the Consolidated Statement of Income. At December 31, 2016, the recorded investment of these properties included Other Real Estate Owned was $1,432,000. At December 31, 2015, there were no such properties included Other Real Estate Owned.

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.

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, 2016 and 2015, the balance of mortgage servicing rights was $635,000 and $767,000, 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 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) expense is the amount of the Company’s 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.

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 a separate component 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 when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Reclassifications
Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. These reclassifications did not result in any changes to previously reported net income or stockholders' equity.

Recently Issued Accounting Guidance
ASC Topic 606 "Revenue from Contracts with Customers" - New authoritative accounting guidance under ASC Topic 606, "Revenue from Contracts with Customers" amended prior guidance to require an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new authoritative guidance was initially effective for reporting periods after January 1, 2017 but was deferred to January 1, 2018. The Company is evaluating the new guidance but does not expect it to have a significant impact on the Company's results of operations or financial condition.

ASC Topic 825 "Financial Instruments" - New authoritative accounting guidance under ASC Topic 825 "Financial Instruments" amended prior guidance to require equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The new guidance simplifies the impairment assessment of equity investments without readily determinable fair values, requires public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from changes in the instrument-specific credit risk when the entity has selected the fair value option for financial instruments and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset. The new guidance will be effective for fiscal years beginning after Dec. 15, 2017. The Company is currently evaluating the new guidance which will impact its accounting for investments in equity securities and mutual funds and the Company's results of operations and financial condition.

ASC Topic 842 "Leases." - New authoritative accounting guidance under ASC Topic 842 "Leases" amended prior guidance to require lessees to recognize the assets and liabilities arising from substantially all leases on the balance sheet. The new authoritative guidance defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. The new authoritative guidance is effective for annual reporting periods beginning after December 15, 2018. The Company is evaluating the new guidance and its impact on the Company's statements of operations and financial condition.

ASC Topic 326 "Financial Instruments - Credit Losses" - New authoritative accounting guidance under ASC Topic 326 "Financial Instruments - Credit Losses" amended the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new authoritative guidance also requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected (net of the allowance for credit losses). In addition, the credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses rather than a write-down. The new authoritative guidance is effective for annual reporting periods beginning after December 15, 2020. The Company is evaluating the new guidance and its impact on the Company's statements of operations and financial condition.

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, 2016				
U.S. Treasury	$ 9,905	$ -	$ (246)	$ 9,659
Agency residential mortgage-backed securities	185,479	1,802	(870)	186,411
Non-agency residential mortgage-backed securities	348	16	-	364
State and municipal obligations	4,100	270	-	4,370
Trust preferred collateralized debt obligations	14,495	145	(4,312)	10,328
Corporate and other	1,275	-	-	1,275
Total debt securities	215,602	2,233	(5,428)	212,407
Equity securities and mutual funds	18,479	4,469	(345)	22,603
Total securities	$ 234,081	$ 6,702	$ (5,773)	$ 235,010
December 31, 2015				
Agency residential mortgage-backed securities	$ 225,379	$ 1,529	$ (909)	$ 225,999
Non-agency residential mortgage-backed securities	1,116	56	-	1,172
State and municipal obligations	6,060	460	-	6,520
Trust preferred collateralized debt obligations	14,707	129	(4,648)	10,188
Corporate and other	1,000	-	-	1,000
Total debt securities	248,262	2,174	(5,557)	244,879
Equity securities and mutual funds	13,479	4,843	(821)	17,501
Total securities	$ 261,741	$ 7,017	$ (6,378)	$ 262,380

At December 31, 2016, the fair value of equity securities and mutual funds includes $14,231,000 of individual equity holdings, $3,385,000 in equity mutual fund holdings and $4,987,000 in mutual fund holdings of agency and non-agency adjustable rate mortgage securities. At December 31, 2015, the fair value of equity securities and mutual funds includes $12,431,000 of individual equity holdings and $5,070,000 in mutual fund holdings of agency and non-agency adjustable rate mortgage securities.

At year-end 2016 and 2015, 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 $65,195,000 and $63,165,000 at December 31, 2016 and 2015, respectively, were pledged principally to secure Federal Reserve Discount Window borrowings, public fund deposits and securities sold under agreements to repurchase.

Proceeds from sales of securities during 2016 and 2015 were $26,295,000 and $22,312,000, respectively. Gross gains of $4,814,000 and gross losses of $1,188,000 were realized on those sales during 2016. Gross gains of $714,000 and gross losses of $283,000 were realized on those sales during 2015.

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 2016 and 2015, the Company did not recognize OTTI credit losses.

Changes in the amount of credit losses recognized in earnings for the years ended December 31, 2016 and 2015 is as follows *(in thousands)*:

	2016	2015
Balance, beginning of year	$ 6,692	$ 6,692
Additions for additional credit losses on securities for which OTTI was previously recognized	-	-
Reductions for current credit losses realized on securities sold or deemed worthless during the period	(545)	-
Balance, end of year	$ 6,147	$ 6,692

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, 2016						
U.S. Treasury	$ 9,659	$ (246)	$ -	$ -	$ 9,659	$ (246)
Agency residential mortgage-backed securities	60,529	(746)	4,969	(124)	65,498	(870)
Trust preferred collateralized debt obligations	-	-	9,902	(4,312)	9,902	(4,312)
Total debt securities	70,188	(992)	14,871	(4,436)	85,059	(5,428)
Equity securities and mutual funds	1,476	(102)	971	(243)	2,447	(345)
Total securities	$ 71,664	$ (1,094)	$ 15,842	$ (4,679)	$ 87,506	$ (5,773)
December 31, 2015						
Agency residential mortgage-backed securities	$ 92,020	$ (706)	$ 13,201	$ (203)	$ 105,221	$ (909)
Trust preferred collateralized debt obligations	-	-	9,848	(4,648)	9,848	(4,648)
Total debt securities	92,020	(706)	23,049	(4,851)	115,069	(5,557)
Equity securities and mutual funds	1,440	(811)	290	(10)	1,730	(821)
Total securities	$ 93,460	$ (1,517)	$ 23,339	$ (4,861)	$ 116,799	$ (6,378)

At December 31, 2016, securities that have been in a continuous unrealized loss position for 12 or more months consisted of one 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, 2016 and 2015. 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. At December 31, 2016 and 2015, the Company's estimation of fair values were evaluated and priced 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. At December 31, 2016, 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 an energy infrastructure company. 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, 2016. 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	$ 800	$ 800
Due after one year through five years	5,419	5,323
Due after five years through ten years	4,961	4,811
Due after ten years	18,595	14,698
Agency residential mortgage-backed securities	185,479	186,411
Non-agency residential mortgage-backed securities	348	364
Total securities	$ 215,602	$ 212,407

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 $2.9 million at December 31, 2016 and 2015. The value of stock held in the FHLBC was $6.1 million at December 31, 2016 and 2015, respectively. 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, 2016 and 2015 *(in thousands)*:

	2016	2015
Real Estate:		
Commercial	$ 342,719	$ 310,586
Construction and development	67,242	46,378
Multifamily housing	379,466	310,790
Residential	233,516	233,392
Home equity	72,221	76,095
Commercial and industrial	43,578	48,443
Municipal leases	6,991	12,413
Other consumer	721	692
Total loans	$ 1,146,454	$ 1,038,789

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 $16,453,000 and $16,169,000 at December 31, 2016 and 2015, 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, multifamily 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, 2016 and 2015. 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, 2016							
Real Estate:							
Commercial	$ 1,338	$ 456	$ 4,801	$ 6,595	$ 336,124	$ 174	$ 5,499
Construction and development	-	-	517	517	66,725	451	667
Multifamily housing	457	-	363	820	378,646	-	363
Residential	721	660	1,774	3,155	230,361	-	2,088
Home equity	419	167	225	811	71,410	17	253
Commercial and industrial	21	-	-	21	43,557	-	-
Municipal leases	-	-	-	-	6,991	-	-
Other consumer	-	-	-	-	721	-	88
Total	$ 2,956	$ 1,283	$ 7,680	$11,919	$ 1,134,535	$ 642	$ 8,958
December 31, 2015							
Real Estate:							
Commercial	$ 1,478	$ 1,788	$11,069	$14,335	$ 296,251	$ -	$ 11,747
Construction and development	-	-	-	-	46,378	-	1,646
Multifamily housing	703	-	-	703	310,087	-	-
Residential	1,024	447	2,498	3,969	229,423	481	2,083
Home equity	84	407	1,103	1,594	74,501	23	1,151
Commercial and industrial	-	-	73	73	48,370	-	192
Municipal leases	-	-	-	-	12,413	-	-
Other consumer	-	-	-	-	692	-	97
Total	$ 3,289	$ 2,642	$14,743	$20,674	$ 1,018,115	$ 505	$ 16,916

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:

<u>Special Mention:</u> 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 Company’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.

<u>Substandard:</u> 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 Company will sustain some loss if the deficiencies are not corrected. Although legal initiatives may have been undertaken by the Company, the borrower generally continues to cooperate with the Company in pursuing a satisfactory resolution to the loan obligation. The borrower may be providing additional collateral, pursuing additional equity, attempting to refinance, etc.

<u>Doubtful:</u> 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 rated 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, 2016 and 2015 *(in thousands)*:

	Pass	Special Mention	Substandard	Doubtful	Total Loans
December 31, 2016					
Real Estate:					
Commercial	$ 326,130	$ 9,295	$ 7,294	$ -	$ 342,719
Construction and development	65,813	762	667	-	67,242
Multifamily housing	374,593	4,034	839	-	379,466
Residential	229,373	1,708	2,435	-	233,516
Home equity	70,956	865	400	-	72,221
Commercial and industrial	35,492	7,687	399	-	43,578
Municipal leases	6,991	-	-	-	6,991
Other consumer	633	-	88	-	721
Total	$ 1,109,981	$ 24,351	$ 12,122	$ -	$ 1,146,454
December 31, 2015					
Real Estate:					
Commercial	$ 289,528	$ 8,473	$ 12,585	$ -	$ 310,586
Construction and development	41,966	2,766	1,646	-	46,378
Multifamily housing	306,196	4,116	478	-	310,790
Residential	230,010	1,299	2,083	-	233,392
Home equity	74,816	128	1,151	-	76,095
Commercial and industrial	47,660	162	621	-	48,443
Municipal leases	12,267	146	-	-	12,413
Other consumer	595	-	97	-	692
Total	$ 1,003,038	$ 17,090	$ 18,661	$ -	$ 1,038,789

Impaired Loans

The following table presents loans individually evaluated for impairment by class as of December 31, 2016 and 2015. 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, 2016					
Real Estate:					
Commercial	$ 15,352	$ 12,250	$ 3,098	$ 2,706	$ 645
Construction and development	2,322	667	-	-	-
Multifamily housing	3,105	3,006	2,111	2,092	1,569
Residential	6,334	6,056	10,668	10,401	1,098
Home equity	816	700	80	80	41
Commercial and industrial	687	389	14	14	-
Other consumer	2	-	88	88	88
Total	$ 28,618	$ 23,068	$ 16,059	$ 15,381	$ 3,441
December 31, 2015					
Real Estate:					
Commercial	$ 23,005	$ 19,951	$ 1,159	$ 889	$ 66
Construction and development	5,239	3,360	29	28	28
Multifamily housing	1,980	1,980	2,855	2,836	935
Residential	4,867	4,733	14,738	14,509	1,906
Home equity	612	495	1,171	1,041	168
Commercial and industrial	943	608	17	16	-
Other consumer	-	-	99	97	97
Total	$ 36,646	$ 31,127	$ 20,068	$ 19,416	$ 3,200

The following table sets forth average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2016 and 2015 *(in thousands)*:

	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Real Estate:				
Commercial	$ 18,132	$ 460	$ 27,011	$ 517
Construction and development	2,407	-	3,620	103
Multifamily housing	4,848	179	5,130	79
Residential	17,937	704	22,177	803
Home equity	1,267	31	1,353	34
Commercial and industrial	502	20	847	27
Other consumer	93	-	106	-
Total	$ 45,186	$ 1,394	$ 60,244	$ 1,563

TDR Loans

The following table presents loans by classes that were modified as TDRs that occurred during the year ending December 31, 2016 and 2015. 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
2016			
Real Estate:			
Commercial	12	$ 4,605	$ 4,589
Construction and development	8	1,270	1,311
Residential	4	422	422
Home equity	5	206	206
Commercial and industrial	3	110	108
Other consumer	1	4	4
Total	33	$ 6,617	$ 6,640
2015			
Real Estate:			
Commercial	7	$ 6,319	$ 6,048
Construction and development	9	3,338	3,400
Multifamily housing	2	2,370	2,370
Residential	4	676	675
Home equity	4	137	137
Commercial and industrial	4	150	148
Other consumer	1	38	37
Total	31	$ 13,028	$ 12,815

For the year ending December 31, 2016, 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, 2016, the TDR loans described above increased the allowance for loan losses by $203,000 but resulted in no charge offs. During the year ending December 31, 2015, the TDR loans described above increased the allowance for loan losses by $471,000 and resulted in charge offs of $95,000.

The following table presents by class, loans modified as a TDR during the years ended December 31, 2016 and 2015, for which there was a payment default within 12 months following the modification *(in thousands)*:

	2016		2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Real Estate:				
Commercial	1	$ 235	3	$ 518
Construction and development	4	658	2	181
Home equity	1	15	-	-
Commercial and industrial	1	3	1	14
Total	7	$ 911	6	$ 713

During the year ending December 31, 2016, TDR loans that subsequently defaulted as described above did not impact the allowance for loan losses. During the year ending December 31, 2015, TDR loans that subsequently defaulted as described above decreased the allowance for loan losses by $35,000 and resulted in charge offs of $95,000.

The following table presents a summary of the recorded balance of TDR loans outstanding as of December 31, 2016 and 2015 *(in thousands)*:

	2016	2015
In compliance with modified terms	$ 30,460	$ 35,622
Not in compliance with modified terms	3,439	10,311
Total restructured loans	$ 33,899	$ 45,933
Related allowance for loan losses	$ 3,415	$ 2,611

The Company has outstanding commitments to lend additional funds to borrowers whose loan terms have been modified as TDRs totaling $464,000 at December 31, 2016 and $327,000 at December 31, 2015. All TDR loans are considered impaired loans and are included in the impaired loan tables above. TDR loans on nonaccrual status at December 31, 2016 and 2015 were $4,408,000 and $12,550,000, 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, 2016 and 2015 are as follows *(in thousands)*:

	Beginning Balance	(Credit) Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
2016					
Real Estate:					
Commercial	$ 3,644	$ 736	$ (475)	$ 210	$ 4,115
Construction and development	673	128	(1)	199	999
Multifamily housing	2,111	1,395	(100)	5	3,411
Residential	2,945	459	(984)	36	2,456
Home equity	781	802	(871)	25	737
Commercial and industrial	477	(69)	-	23	431
Municipal leases	62	(28)	-	1	35
Other consumer	199	193	(672)	370	90
Total	$ 10,892	$ 3,616	$ (3,103)	$ 869	$ 12,274
2015					
Real Estate:					
Commercial	$ 5,081	$ (578)	$ (1,694)	$ 835	$ 3,644
Construction and development	641	39	(115)	108	673
Multifamily housing	2,007	423	(325)	6	2,111
Residential	4,550	(242)	(1,435)	72	2,945
Home equity	1,185	165	(644)	75	781
Commercial and industrial	366	122	(76)	65	477
Municipal leases	90	(30)	-	2	62
Other consumer	215	341	(537)	180	199
Total	$ 14,135	$ 240	$ (4,826)	$ 1,343	$ 10,892

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, 2016 and 2015 *(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, 2016						
Real Estate:						
Commercial	$ 645	$ 3,470	$ 4,115	$ 14,956	$ 327,763	$ 342,719
Construction and development	-	999	999	667	66,575	67,242
Multifamily housing	1,569	1,842	3,411	5,098	374,368	379,466
Residential	1,098	1,358	2,456	16,457	217,059	233,516
Home equity	41	696	737	780	71,441	72,221
Commercial and industrial	-	431	431	403	43,175	43,578
Municipal leases	-	35	35	-	6,991	6,991
Other consumer	88	2	90	88	633	721
Total	$ 3,441	$ 8,833	$ 12,274	$ 38,449	$ 1,108,005	$ 1,146,454
December 31, 2015						
Real Estate:						
Commercial	$ 66	$ 3,578	$ 3,644	$ 20,840	$ 289,746	$ 310,586
Construction and development	28	645	673	3,388	42,990	46,378
Multifamily housing	935	1,176	2,111	4,816	305,974	310,790
Residential	1,906	1,039	2,945	19,242	214,150	233,392
Home equity	168	613	781	1,536	74,559	76,095
Commercial and industrial	-	477	477	624	47,819	48,443
Municipal leases	-	62	62	-	12,413	12,413
Other consumer	97	102	199	97	595	692
Total	$ 3,200	$ 7,692	$ 10,892	$ 50,543	$ 988,246	$ 1,038,789

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31, 2016 and 2015 *(in thousands)*:

	2016	2015
Land	$ 12,895	$ 14,512
Buildings and improvements	58,503	58,559
Furniture and equipment	34,524	34,631
Construction-in-progress	227	1,002
Total cost	106,149	108,704
Less: accumulated depreciation		
and amortization	(54,335)	(53,775)
Premises and equipment, net	$ 51,814	$ 54,929

The Company leases certain banking facilities under noncancelable operating leases that expire on various dates from 2017 through 2019. The leases contain renewal options for varying terms expiring between 2017 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 $572,000 in 2016 and $534,000 in 2015. Aggregate amounts of minimum rental commitments under noncancelable operating leases, excluding renewal options, are $434,000 and for each of the five years subsequent to December 31, 2016, are $262,000 (2017), $118,000 (2018), and $54,000 (2019).

NOTE 6 – GOODWILL

The carrying amount of goodwill was $35,348,000 at December 31, 2016 and 2015, 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, 2016 and 2015, 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 assessments indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

NOTE 7 – DEPOSITS

The following table summarizes major categories of deposits at December 31, 2016 and 2015 *(in thousands)*:

	2016	2015
Demand deposits	$ 247,542	$ 231,299
NOW accounts	180,435	175,282
Money market accounts	224,931	234,150
Savings deposits	486,177	468,673
Time deposits	194,464	200,234
Total deposits	$ 1,333,549	$ 1,309,638

Deposits of executive officers, directors and affiliated companies totaled $6,335,000 at December 31, 2016 and $3,459,000 at December 31, 2015.

Interest expense on deposits for the years ended December 31, 2016 and 2015 by major deposit categories are as follows *(in thousands)*:

	2016	2015
NOW accounts	$ 43	$ 42
Money market accounts	344	366
Savings deposits	461	529
Time deposits	1,092	1,157
Total interest expense	$ 1,940	$ 2,094

The following table summarizes the scheduled maturities of time deposits at December 31, 2016 *(in thousands)*:

2017	$ 137,007
2018	22,224
2019	10,175
2020	13,840
2021	10,550
Thereafter	668
Total time deposits	$ 194,464

The aggregate amount of time deposits with balances that exceed the FDIC insurance limit of $250,000 were $31,129,000 and $28,339,000, at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015 the Bank had brokered deposits of $8,000,000.

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 2016 and 2015 is presented below *(in thousands)*:

	2016	2015
Balance at December 31	$ 42,940	$ 41,655
Average balance during the year	44,437	38,838
Maximum month-end balance during the year	48,750	48,678
Weighted average interest rate for the year	.31%	.32%

NOTE 9 - BORROWED FUNDS

The Bank is a member of the FHLBC and has access to term financing from the FHLBC. Any borrowings from the FHLB are secured by qualifying residential mortgages. At December 31, 2016, the FHLB has issued an irrevocable letter of credit in the amount of $269,000 to the Bank at a rate of 0.126%. At December 31, 2016, the Bank's remaining borrowing capacity with the FHLBC was approximately $149 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, 2016 *(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, 2016 and 2015, the Company was current on all interest payments due to the junior subordinated notes and the related trust preferred securities.

NOTE 11 - COMMON STOCK

On January 27, 2016, the Company’s Board of Directors declared a ten percent stock dividend. The record date of the dividend was February 10, 2016 and the distribution date was February 26, 2016. Earnings per share and average shares outstanding have been adjusted to reflect the stock dividend in the consolidated financial statements.

On January 27, 2016, the Company’s Board of Directors authorized the repurchase of up to $750,000 of its outstanding common stock at prevailing market prices through open market or negotiated transactions. During 2016, the Company repurchased 5,526 shares of common stock for $525,800, or an average price of $95.15 per share.

On February 13, 2015, the Company’s Board of Directors authorized the repurchase of up to $500,000 of its outstanding common stock at prevailing market prices through open market or negotiated transactions. During 2015, the Company repurchased 5,464 shares (adjusted for stock dividend) of common stock for $500,000, or an average price of $91.51 per share.

NOTE 12 - 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 $349,000 in 2016 and $420,000 in 2015. Under the savings incentive plan, the employee contributions are partially matched by the Bank. Total expense associated with the savings plan amounted to $278,000 in 2016 and $297,000 in 2015.

As of December 31, 2016 and 2015, the ESOP held 48,872 and 51,513 shares, all of which were allocated to participants. The fair value of the shares was approximately $5,278,000 and $4,964,000 at December 31, 2016 and 2015, 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 13 - 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 1,167 and 479 common shares in 2016 and 2015, respectively.

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. There were no equity grants made under the EIP in 2016 and 2015.

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 2016 and 2015 amounted to $967,000 and $611,000, respectively. As of December 31, 2016 and 2015, the accrued liability relating to these agreements totaled $6,937,000 and $6,427,000, respectively.

NOTE 14 - INCOME TAXES

The components of income tax expense for the years ended December 31, 2016 and 2015 are as follows *(in thousands)*:

	2016	2015
Current:		
Federal	$ 1,623	$ 53
State	138	383
Total current	1,761	436
Deferred:		
Federal	(120)	1,352
State	232	403
Total deferred tax	112	1,755
Total income tax expense	$ 1,873	$ 2,191

A reconciliation of the federal statutory income tax to the Company's income tax benefit for the years ended December 31, 2016 and 2015 is as follows *(in thousands)*:

	2016	2015
Federal income tax	$ 2,698	$ 2,571
Increase (decrease) in taxes due from:		
Tax-exempt interest income	(220)	(302)
Tax-exempt dividend income	(89)	(92)
Nondeductible interest expense	3	4
Premium income not subject to tax	(352)	(4)
Income from Bank owned life insurance	(682)	(481)
ESOP dividends paid	(26)	(46)
State income taxes, net	244	519
Investment tax credits	-	(12)
Other, net	297	34
Total income tax expense	$ 1,873	$ 2,191

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, 2016 and 2015 are as follows *(in thousands)*:

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 4,801	$ 4,261
Reserve for unfunded commitments	14	14
Investment securities impairment losses	2,635	2,880
Property valuation adjustments	795	208
Other real estate owned	498	426
Interest on nonaccrual loans	384	374
Charitable contributions carryforward	75	215
Deferred compensation	2,850	2,681
Accrued expenses	426	354
Federal net operating loss carryforwards	78	1,709
State net operating loss carryforwards	-	270
AMT credit carryforward	5,268	3,716
Investment tax credits	1,308	1,289
Total deferred tax assets	19,132	18,397
Deferred tax liabilities:		
Net unrealized gains on securities	(363)	(251)
FHLB stock	(680)	(680)
Equity securities	(442)	-
Deferred loan origination costs	(923)	(603)
Depreciation	(3,498)	(3,425)
Mortgage servicing rights	(249)	(300)
Prepaid expenses	(608)	(512)
Goodwill	(100)	(100)
Purchase accounting adjustments	(451)	(481)
Total deferred tax liabilities	(7,314)	(6,352)
Net deferred tax assets	$11,818	$12,045

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, 2016, 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's federal net operating loss carryforward totaled $228,000 at December 31, 2016 and expires in 2034. The Company is no longer subject to examinations by taxing authorities for years prior to 2013.

NOTE 15 - 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, 2016 and 2015 are as follows *(in thousands)*:

	2016	2015
Commitments to extend credit:		
Real Estate:		
Commercial	$ 1,780	$ 28,417
Construction and development	2,833	1,688
Multifamily housing	-	11,971
Residential	10,349	10,522
Home equity	2,410	3,368
Commercial and industrial	10	594
Total	$ 17,382	$ 56,560
Unused lines of credit:		
Real Estate:		
Commercial	$ 9,601	$ 9,544
Construction and development	82,974	62,801
Multifamily housing	503	2,411
Residential	11	-
Home equity	42,052	43,579
Commercial and industrial	9,192	14,122
Total	$144,333	$132,457
Letters of credit	$ 8,807	$ 11,266
Reserve for unfunded commitments	$ 35	$ 35

Commitments to originate credit represent approved commercial, construction and development, 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 2016, there was no activity in the reserve for unfunded commitments. In 2015, the activity in the reserve for unfunded commitments consisted of a credit of $271,000 recognized in the Statement of Income.

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 with customers located in 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. During 2016, the Company recognized $1,830,000 of Litigation Settlement Expense in the Consolidated Statements of Income in order to resolve a lawsuit. In the opinion of management, after consultation with legal counsel, there are currently no other matters expected to have a material adverse effect on the consolidated financial condition or results of operations.

NOTE 16 – 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 in interest rates resulting from its commitments to fund the loans. The notional amount of interest rate locks as of December 31, 2016 and 2015 was $7,832,000 and $12,197,000. 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, 2016 and 2015, no amounts have been recorded as liabilities for the Company’s potential obligations under these recourse agreements.

NOTE 17 - 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, 2016 and 2015, the fair value of trust preferred CDOs is based on an independent structured credit valuation firm using a discounted cash flow model. 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.

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, 2016 and 2015 *(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
December 31, 2016				
Securities available for sale:				
U.S. Treasury	$ 9,659	$ -	$ -	$ 9,659
Agency residential mortgage-backed securities	-	186,411	-	186,411
Non-agency residential mortgage-backed securities	-	364	-	364
State and municipal obligations	-	4,370	-	4,370
Trust preferred collateralized debt obligations	-	-	10,328	10,328
Corporate and other	-	1,275	-	1,275
Equity securities and mutual funds	21,435	1,168	-	22,603
Total securities available for sale	$ 31,094	$193,588	$ 10,328	$235,010
December 31, 2015				
Securities available for sale:				
Agency residential mortgage-backed securities	$ -	$225,999	$ -	$225,999
Non-agency residential mortgage-backed securities	-	1,172	-	1,172
State and municipal obligations	-	4,565	1,955	6,520
Trust preferred collateralized debt obligations	-	-	10,188	10,188
Corporate and other	-	1,000	-	1,000
Equity securities and mutual funds	16,621	880	-	17,501
Total securities available for sale	$ 16,621	$233,616	$ 12,143	$262,380

There were no transfers between Level 1 and Level 2 during 2016 and 2015. Changes in Level 3 assets (trust preferred CDOs) measured at fair value on a recurring basis for the years ended December 31, 2016 and 2015 are as follows *(in thousands)*:

	2016	2015
Balance, beginning of year	$ 10,188	$ 11,276
Principal paydowns	(333)	(665)
Total gains or losses (realized/unrealized)		
Included in earnings:		
Interest income on securities	121	155
Included in other comprehensive income	352	(578)
Balance, end of year	$ 10,328	$ 10,188

The following table presents quantitative information about the Level 3 fair value measurements at December 31, 2016 *(in thousands)*:

	Fair Value	Valuation Techniques	Observable Inputs	Range of Qualitative Information (Weighted Average)
Trust preferred CDOs (1)	$ 10,328	Discounted cash flow	Cumulative defaults	3% - 100% (10%)
			Loss given defaults	85% - 100% (91%)
			Recoveries	0% - 15% (9%)
			Cure given deferrals	0% - 90% (22%)

(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, 2016 and 2015 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
December 31, 2016				
Impaired loans:				
Real Estate:				
Commercial	$ -	$ -	$ 2,061	$ 2,061
Multifamily housing	-	-	523	523
Residential	-	-	1,610	1,610
Home equity	-	-	39	39
Commercial and industrial	-	-	14	14
	$ -	$ -	$ 4,247	$ 4,247
Other real estate owned:				
Commercial real estate	$ -	$ -	$ 2,220	$ 2,220
Residential real estate	-	-	1,345	1,345
Land	-	-	831	831
Total other real estate owned	$ -	$ -	$ 4,396	$ 4,396
December 31, 2015				
Impaired loans:				
Real Estate:				
Commercial	$ -	$ -	$ 824	$ 824
Multifamily housing	-	-	1,901	1,901
Residential	-	-	1,109	1,109
Home equity	-	-	873	873
Commercial and industrial	-	-	16	16
	$ -	$ -	$ 4,723	$ 4,723
Other real estate owned:				
Commercial real estate	$ -	$ -	$ 2,351	$ 2,351
Residential real estate	-	-	976	976
Land	-	-	868	868
Total other real estate owned	$ -	$ -	$ 4,195	$ 4,195

At December 31, 2016, impaired loans subject to nonrecurring fair value measurement had a principal balance of $6,960,000, with a valuation allowance of $2,713,000, resulting in an additional provision for loan losses of $1,681,000 for the year ended December 31, 2016. At December 31, 2015, impaired loans subject to nonrecurring fair value measurement had a principal balance of $7,923,000, with a valuation allowance of $3,200,000, resulting in an additional provision for loan losses of $247,000 for the year ended December 31, 2015.

At December 31, 2016, other real estate owned subject to nonrecurring fair value measurement had a gross carrying amount of $5,670,000, with a related valuation allowance of $1,274,000, resulting in a write-down of $475,000 for the year ended December 31, 2016. At December 31, 2015, other real estate owned subject to nonrecurring fair value measurement had a gross carrying amount of $5,283,000, with a related valuation allowance of $1,088,000, resulting in a write-down of $302,000 for the year ended December 31, 2015.

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 valuation allowances 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, 2016 and 2015 *(in thousands)*:

	2016		2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$ 44,345	$ 44,345	$ 82,278	$ 82,278
Loans held for sale	5,664	5,786	5,632	5,736
Securities available for sale	235,010	235,010	262,380	262,380
FHLBC and FRB stock	9,018	*	9,018	*
Loans, net	1,134,180	1,128,522	1,027,897	1,038,826
Accrued interest receivable	3,491	3,491	3,666	3,666
Financial Liabilities:				
Demand deposits	247,542	247,542	231,299	231,299
NOW, money market and savings deposits	891,543	891,543	878,105	878,105
Time deposits	194,464	193,257	200,234	200,339
Securities sold under agreements to repurchas	42,940	42,940	41,655	41,655
Subordinated notes issued to capital trusts	56,702	48,246	56,702	47,413
Accrued interest payable	211	211	187	187

* *Not available*

NOTE 18 - REGULATORY CAPITAL

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements, or overall financial performance deemed by the regulators to be inadequate, 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. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Federal Reserve Board and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital elements, add a new common equity Tier I capital ratio, increase the minimum Tier 1 capital ratio requirements and implement a new capital conservation buffer. The final rules became effective for the Company and Bank on January 1, 2015, with full compliance with all of the requirements being phased-in over a multi-year schedule, and fully phased-in by January 1, 2019.

The table below includes the new regulatory capital ratio requirements that became effective on January 1, 2015. Beginning in 2016, an additional capital conservation buffer was added to the minimum requirements for capital adequacy purposes, subject to a three year phase-in period. The capital conservation buffer will be fully phased-in on January 1, 2019 at 2.5 percent. A banking organization with a conservation buffer of less than 2.5 percent (or the required phase-in amount in years prior to 2019) will be subject to limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. At the present time, the ratios for the Company and the Bank are sufficient to meet the fully phased-in conservation buffer.

The following table sets forth the actual and required capital amounts and ratios of the Company and Bank as of December 31, 2016 and 2015 *(in thousands)*:

	Actual		Minimum for Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016								
Tier I Capital to Average Assets:								
Consolidated	$110,746	7.24%	$61,173	4.000%	*	*	*	*
Bank	126,436	8.40%	60,180	4.000%	*	*	$75,225	5.000%
CET1 Capital to Risk Weighted Assets:								
Consolidated	93,795	8.28%	50,982	4.500%	58,063	5.125%	*	*
Bank	126,436	11.63%	48,906	4.500%	55,698	5.125%	70,641	6.500%
Tier I Capital to Risk Weighted Assets:								
Consolidated	110,746	9.78%	67,976	6.000%	75,057	6.625%	*	*
Bank	126,436	11.63%	65,208	6.000%	72,000	6.625%	86,943	8.000%
Total Capital to Risk Weighted Assets:								
Consolidated	156,462	13.81%	90,635	8.000%	97,715	8.625%	*	*
Bank	138,777	12.77%	86,943	8.000%	93,736	8.625%	108,679	10.000%
December 31, 2015								
Tier I Capital to Average Assets:								
Consolidated	$107,350	7.14%	$60,103	4.000%	*	*	*	*
Bank	128,690	8.67%	59,365	4.000%	*	*	$74,206	5.000%
CET1 Capital to Risk Weighted Assets:								
Consolidated	91,430	8.70%	47,287	4.500%	*	*	*	*
Bank	128,690	12.63%	45,860	4.500%	*	*	66,242	6.500%
Tier I Capital to Risk Weighted Assets:								
Consolidated	107,350	10.22%	63,050	6.000%	*	*	*	*
Bank	128,690	12.63%	61,146	6.000%	*	*	81,528	8.000%
Total Capital to Risk Weighted Assets:								
Consolidated	152,230	14.49%	84,066	8.000%	*	*	*	*
Bank	139,686	13.71%	81,528	8.000%	*	*	101,910	10.000%

* *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 2017, the Bank could declare dividends of 2017 net profits in excess of $1,490,000 at the date of the dividend declaration.

Management believes that the Company and the Bank meet all capital adequacy requirements at December 31, 2016 and 2015. 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 above. As of December 31, 2016, there are no conditions or events that management believes have changed the capital category of the Company or Bank.

MARQUETTE NATIONAL CORPORATION

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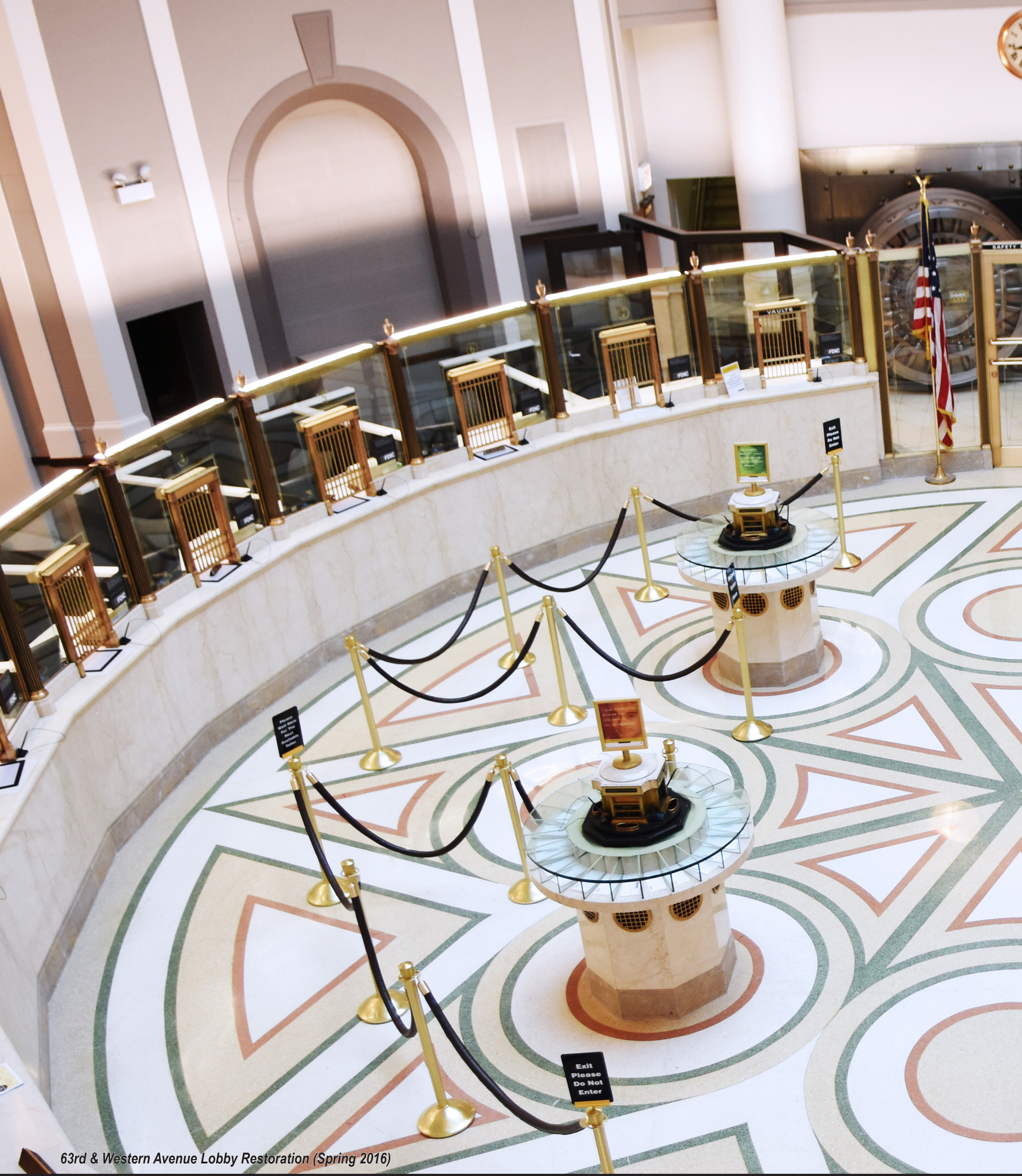

63rd & Western Avenue Lobby Restoration (Spring 2016)

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