SEAWAY

A solid past

A NEW ERA

SEAWAY BANCSHARES, INC.

2011 ANNUAL REPORT

Seaway Bancshares, Inc.

FINANCIAL HIGHLIGHTS YEAR ENDED:	DECEMBER 31, 2011	DECEMBER 31, 2010	% CHANGE
Stockholders' Equity	$ 38,777,110	$ 29,964,758	29.41%
Return on Average Equity	11.96%	18.56%	-35.56%
Total Assets	$ 597,460,722	$ 516,311,954	15.72%

Seaway Bank and Trust Company

FINANCIAL HIGHLIGHTS YEAR ENDED:	DECEMBER 31, 2011	DECEMBER 31, 2010	% CHANGE
Net Income	$ 4,344,060	$ 5,749,823	-24.45%
Total Deposits	$ 526,136,333	$ 464,520,851	13.26%
Total Loans	$ 293,194,175	$ 262,663,191	11.62%

Quality Service Statement

Seaway Bank and Trust Company will develop and deliver products and services that satisfy the financial needs of our customers. Our goal is to be recognized as the premier quality bank in the community we serve. All marketing, products, systems, processes and training will be designed to prevent errors and to provide customers with consistently high levels of quality service, which will be monitored continuously.

If service problems develop, emphasis will be placed on timely and courteous resolution, including responsive communication with the customer. Success will be measured in terms of our ability to meet customers' requirements, and employees will be rewarded for quality performance.

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Letter to Our Shareholders

Jacoby Dickens, Chairman of the Board (left) and
Walter E. Grady, President and Chief Executive Officer (right).

Our 46-year history in community banking served us well in meeting the challenges of 2011.

On March 11, 2011 we acquired the minority-owned Legacy Bank in Milwaukee through a purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC). This new opportunity expands Seaway's reach north across state lines to Wisconsin making a new total of eleven branches to serve our loyal customers.

With assets of over $500 million and 312 employees, we are strategically poised to ensure Legacy Bank customers become loyal Seaway followers. We are optimistic about partnering with homeowners, churches, business leaders, investors, appraisers and the City of Milwaukee to bring vitality back to the heart of the community.

In July, we completed the integration of banking operations for our Illinois West Division branches in Maywood, Broadview and Crestwood, acquired in 2010. By the fourth quarter, loan officers were seeking new business in these communities — door to door, person to person, business to business — the same way Seaway founders raised capital to start our bank in 1965.

This year, our assets were $596 million, our loan portfolio was $293 million and return on average stockholder's equity was 10.11%. Earnings totaled $4.0 million.

Expanding our reach has not changed our core mission. We are just as committed to serving the needs of our community as we were the day we opened our doors. We are prepared to respond to the dramatic change in the economic landscape. Creating a strategic plan for sustaining our growth and stability was a major goal for 2011. Our preparations ensure we will continue to be the best community-based, family-oriented bank in Chicago and beyond.

We have a sound management succession plan in place. Our executive and senior management are well-seasoned and strong, and goals in our strategic plan are being met. We are optimistic that we will continue to weather a challenged economy and face the new year with enthusiasm.

Successful banking is about building trusted relationships. Everyday we are forming connections with chambers of commerce, churches, schools, community leaders and service organizations in the communities we service in our West and North Divisions. In 2011, we continued our second annual "KidsFest"; we presented a "Money Makeover" financial education workshop; we helped many deserving families through our "Trim-a-Tree" program; and we assisted community residents in other programs.

The challenges of 2011 have become opportunities for a new era. We are grateful to our loyal customers who have kept our bank one of the nation's largest minority-owned banks for 46 years. The heart of our mission is to better the lives of the people in our community and we look forward to that task each and every day we open our doors.

Jacoby Dickens
CHAIRMAN OF THE BOARD

Walter E. Grady
PRESIDENT AND CEO

Our new locations —
strategy for future growth

Our new locations in Milwaukee, Maywood, Broadview and Crestwood make our mission of accessible customer service and a commitment to local initiatives ever more pertinent.

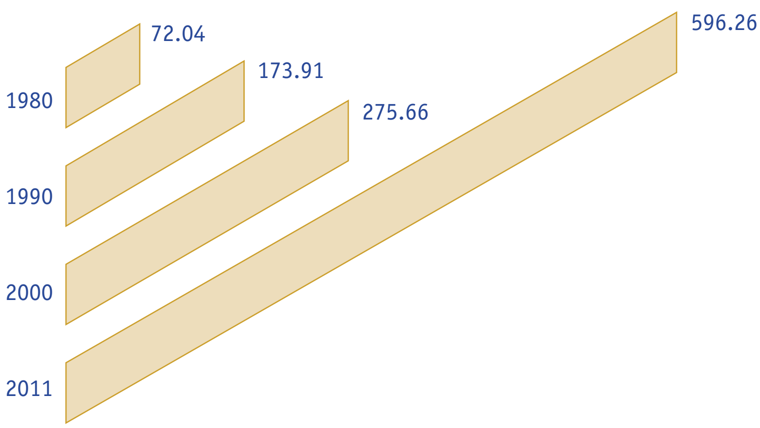
— WALTER E. GRADY, PRESIDENT AND CEO

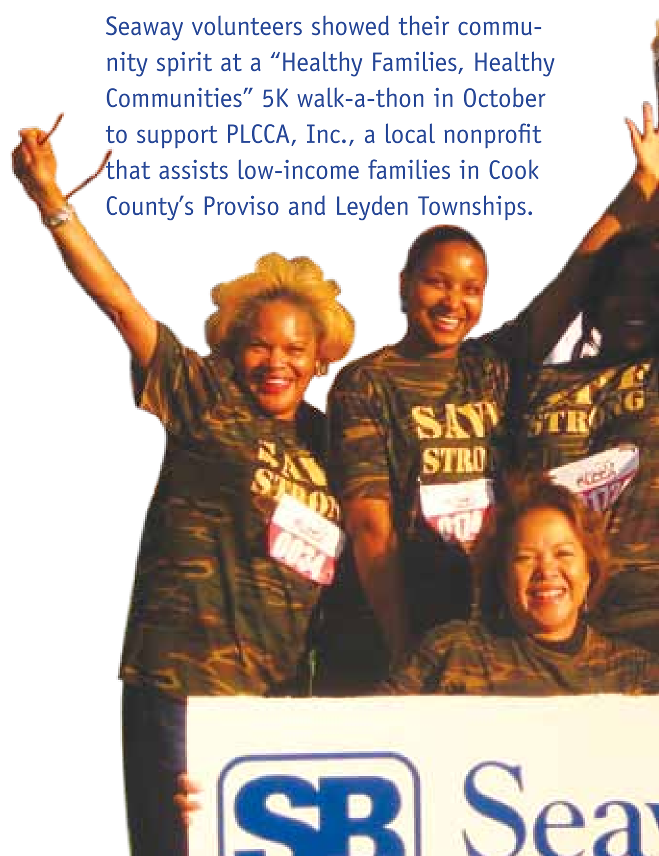
A New Branch in Wisconsin

Seaway acquired Milwaukee's Legacy Bank in 2011 under a purchase and assumption agreement with the FDIC and took over servicing customers on March 12. Customers walking into the new Seaway branch in Milwaukee that day saw the same friendly faces ready to serve them. We look forward to the new opportunities to serve the needs of the community.

The real estate market has stayed at the forefront of economic concerns for 2011 across our country, and Milwaukee has been no exception. Seaway staff and officers are working hard to ensure acquired loans will perform to Seaway's standards. At the same time, we seek out new business relationships that will benefit those who want to bring vitality back to the the Milwaukee communities we

Growth in Total Assets from 1980 to 2011 (in millions of dollars)





Seaway volunteers showed their community spirit at a "Healthy Families, Healthy Communities" 5K walk-a-thon in October to support PLCCA, Inc., a local nonprofit that assists low-income families in Cook County's Proviso and Leyden Townships.

On March 12, 2011, Legacy Bank opened its doors in Milwaukee as Seaway Bank and Trust Company's North Division.

serve. One thing is certain—Seaway is doing what it does best by bringing the best banking services to the heart of a community where they are needed.

Our West Division

The Illinois branches acquired in 2010 in Maywood, Broadview and Crestwood were completely integrated into Seaway's banking operations in 2011. These branches have been named our West Division and they bring a healthy mix of consumer and commercial deposits and loans. We have seen deposit and land trust accounts opened and we are getting to know the communities in our West Division. In the fourth quarter, our loan officers began to network with local business people. We are connecting with forward thinking organizations like the Proviso Leyden Council for Community Action (PLCCA) who provide a litany of social services to the community under the leadership of Bishop Doctor Claude Porter.

A Strategic Plan

New branches and new customers—that was part of our strategic plan in 2011 to ensure our future growth and stability. Our plan includes benchmarks for meeting goals that our management will monitor in the coming years. In the short term, we will make sure our loan portfolio is viable and healthy. In the long term, we look to new opportunities to serve communities that have been underserved in the past. Our mission to be a good community bank remains unchanged. We continue to meet the deposit and credit needs of those in our communities with passion and integrity. This has always been

Chris Gardner, Wall Street legend and inspiration behind *The Pursuit of Happyness* movie, enjoyed meeting with Seaway President Walter E. Grady about new account relationships.

Seaway officers meet with Milwaukee's city officials. From left to right: Rueben Hopkins, President & CEO, Wisconsin Black Chamber of Commerce; Robin Talbott, Vice President/Commercial Loan Officer; Arlene Williams, Senior Executive Vice President/Lending; Mayor Tom Barrett, City of Milwaukee; Adrienne Hooker, President, Great Lakes School of Etiquette and Tracy Meeks, Senior Vice President/Manager, North Division.

Photo provided courtesy of The Milwaukee Courier Newspaper

core to our mission and it continues to be the heart of our strategic plan for the coming era.

A Solid Team

Seaway has a reputation for loyalty not only to our customers, but to our 312 employees as well. Our well-seasoned senior management team understands that banking is about creating trust. Our reputation is built on quality service that builds trust and bank management will continue to earn our customer's loyalty. We have a solid frontline team who meets our customers face to face and knows their names. Our behind-the-scene team keeps banking operations running smoothly. Our trust department continues to keep the Seaway brand front and center with state, local and city officials who seek a trusted name in administration of bonds. In short, we are well fortified for the challenges ahead.

Unwavering Commitment to Community

We have always been grateful to our loyal customers who stepped up to the plate to bring Seaway to life in 1965 when our founders obtained our first charter. That's why we continue to give back to the community every chance we get. Our second annual "KidsFest" on July 30 brought a day of music, arts and family entertainment to our main branch on 87th Street. Our Young Savers accounts introduced children to the importance of saving by allowing youth to open a new account for just $5. In October, we presented a "Money Makeover" financial education workshop, helping community residents make their money work harder and smarter.

Seaway's "Trim-a-Tree" program helped 19 local families in need by providing holiday gifts of food, clothing, and toys.

As always, we support our youth with our Bank-At-School program, and student internships provided opportunities for young people to learn money management and banking practices in a professional setting.

We are grateful for our solid past—46 years of trustworthy service to our community. We are enthusiastic about the new opportunities in our midst with new service areas and new relationships to cultivate. Our passion for customer service has always been the driving force for our bank and it is that passion that will continue to guide Seaway as we move into a new era with optimism and hope.

The landmark building at 2102 West Fond du Lac Avenue in Milwaukee now proudly wears the Seaway signature signage.

Seaway Bancshares, Inc. and Subsidiary

Consolidated Statements of Condition

For Years Ended December 31, 2011 and 2010

	2011	2010
Assets		
Cash and due from banks	$ 11,480,010	$ 9,475,376
Interest bearing balances	1,925,936	4,717,288
Total Cash and Cash Equivalents	13,405,946	14,192,664
Securities available-for-sale (Note 5)	219,110,803	195,119,247
Securities held-to-maturity (Note 5)	1,128,793	989,265
Loans, excluding covered loans (Note 6)	172,004,070	182,699,831
Covered loans	121,190,105	79,963,360
Less-Allowance for possible loan losses (Note 7)	(7,361,397)	(4,377,659)
Loans, net	285,832,778	258,285,532
Premises and equipment, net (Note 8)	10,045,426	4,176,052
Other real estate owned	785,085	3,187,900
Other real estate owned related to FDIC transaction	2,386,716	3,578,239
FDIC indemnification asset	51,158,012	24,244,800
Investment in unconsolidated subsidiaries	186,000	186,000
Other assets	13,421,163	12,352,255
Total Assets	$ 597,460,722	$ 516,311,954
Liabilities and Stockholders' Equity		
Deposits (Note 9)		
Non-interest-bearing deposits	$ 61,582,738	$ 55,321,679
Interest-bearing deposits	464,493,792	409,051,581
Total Deposits	526,076,530	464,373,260
Federal funds purchased and other borrowed funds	20,000,000	10,063,649
Long-term Debt Subordinated Debentures (Note 11)	6,186,000	6,186,000
Deposit premium related to FDIC transaction	1,778,270	1,193,054
Other liabilities	4,642,812	4,531,233
Total Liabilities	$ 558,683,612	$ 486,347,196
Commitments and Contingencies (Note 9, 15 and 17)		
Stockholders' Equity		
Common stock (Note 12)	301,513	301,513
Surplus	3,915,994	3,915,994
Undivided profits (Note 13)	33,048,301	29,842,197
Accumulated other comprehensive income	1,511,302	(4,094,946)
Total Stockholders' Equity	38,777,110	29,964,758
Total Liabilities and Stockholders' Equity	$ 597,260,722	$ 516,311,954

The accompanying Notes to Financial Statements are an integral part of these statements.

Seaway Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

For Years Ended December 31, 2011 and 2010

	2011	2010
Interest Income		
Interest and fees on loans	$ 17,294,798	$ 11,583,304
Interest on investment securities		
US Government Obligations & Treasury Securities		
Agency obligations	4,768,974	5,396,025
Mortgage-backed securities	765,565	693,234
Other securities	87,306	85,321
Interest on federal funds sold and other interest-bearing balances	83,095	63,618
Total Interest Income	$ 22,999,738	$ 17,821,502
Interest Expense		
Interest on time deposits $100,000 or more	2,796,384	2,512,827
Interest on other deposits	2,434,114	1,795,726
Interest on long-term debentures	178,100	397,760
Interest on federal funds purchased and other borrowed funds	285,450	324,345
Total Interest Expense	5,694,048	5,030,658
Net interest income	17,305,690	12,790,844
Provision for possible loan losses (Note 7)	(4,850,000)	(3,650,000)
Net Interest Income After Provision for Possible Loan Losses	$ 12,455,690	$ 9,140,844
Other Income		
Service charges on deposit accounts	2,715,784	2,468,870
Other operating income	8,214,128	6,372,000
Acquisition related gains	11,460,223	5,447,041
Gain on sale of investment securities	18,965	445,645
Total Other Income	$ 22,409,100	$ 14,733,556
Other Expenses		
Salaries and employee benefits (Note 15 & 16)	13,963,745	10,199,618
Occupancy expense of Bank premises (Note 8)	3,492,281	2,677,600
Acquisition related expenses	5,740,455	0
Other operating expenses	7,544,666	5,660,040
Total Other Expenses	30,741,147	18,537,258
Income before income taxes	4,123,643	5,337,142
Applicable income taxes (Note 10)	(13,000)	(9,848)
Net Income	$ 4,110,643	$ 5,327,294
Net Income Per Share (Note 12)	$ 13.63	$ 17.67

The accompanying Notes to Financial Statements are an integral part of these statements.

Seaway Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Net Income	$ 4,110,643	$ 5,327,294
Adjustments to reconcile net income to net cash provided from (used by) operating activities:		
Provision for loan losses	4,850,000	3,650,000
Provision for depreciation and amortization	664,830	649,304
Loss on sale of assets	655,030	99,592
Loss on impairment of assets	7,705,315	67,500
Amortization of investment security premiums	458,992	636,017
Accretion of investment security discounts	(194,432)	(104,049)
Net gains on acquisitions	(11,460,223)	(5,447,041)
Net change in deferred income taxes	—	(20,176)
Net (increase) in interest receivable	(144,339)	(255,393)
Net (decrease) increase in interest payable	(82,764)	69,988
Net increase in deposit premium related to FDIC transaction	585,216	1,193,054
Net increase in FDIC indemnification asset	(26,913,212)	(24,244,800)
Net decrease in other assets	9,732,051	3,250,973
Net increase in other liabilities	194,343	1,357,736
Net Cash (Used By) Operating Activities	$ (9,838,550)	$ (13,770,001)
Investing Activities		
Proceeds from sales and maturities of investment securities available for sale	140,671,762	208,215,491
Principal collected on investment securities available for sale	11,284,939	9,904,383
Principal collected on investment securities held for maturity	89,202	71,182
Purchases of investment securities available for sale	(171,068,798)	(246,375,997)
Purchases of investment securities held to maturity	(228,731)	(249,956)
Net (increase) in long-term loans	(40,156,589)	(72,078,029)
Purchases of premises and equipment (net)	(5,869,374)	(93,016)
Net decrease (increase) in other real estate	3,594,339	(6,505,439)
Net Cash (Used By) Investing Activities	$ (61,683,250)	$ (107,111,381)
Financing Activities		
Net increase in non-interest-bearing deposits	6,261,059	18,369,941
Net increase in interest-bearing deposits	55,442,211	107,292,323
Net increase in federal funds purchased and other borrowed funds	9,936,351	55,565
Cash dividends paid	(904,539)	(904,539)
Net Cash Provided From Financing Activities	70,735,082	124,813,290
Net (Decrease) Increase in Cash and Cash Equivalents	(786,718)	3,931,908
Cash And Cash Equivalents At Beginning of Year	14,192,664	10,260,756
Cash And Cash Equivalents At Year-End	$ 13,405,946	$ 14,192,664
Interest Paid	$ 4,904,461	$ 4,960,670
Income Taxes Paid	$ 13,000	$ 9,996

The accompanying Notes to Financial Statements are an integral part of these statements.

Seaway Bancshares, Inc. and Subsidiary

Consolidated Statements of Change in Stockholders' Equity

For Years Ended December 31, 2011 and 2010

	Stockholders' Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income	Total Equity
Balance December 31, 2009	$ 301,513	$ 3,915,994	$ 25,419,442	$ (2,186,682)	$ 27,450,267
Dividends - $ 3.00/Share	—	—	(904,539)	—	(904,539)
Comprehensive Income					
Net Income	—	—	5,327,294	—	5,327,294
Other Comprehensive Income	—	—	—	—	—
Unrealized Gain on Available					
for Sale Securities, Net of Tax	—	—	—	(1,908,264)	(1,908,264)
Balance December 31, 2010	$ 301,513	$ 3,915,994	$ 29,842,197	$ (4,094,946)	$ 29,964,758
Dividends - $ 3.00/Share	—	—	(904,539)	—	(904,539)
Comprehensive Income					
Net Income			4,110,643		4,110,643
Other Comprehensive Income:	—	—	—	—	—
Unrealized Gain on Available					
for Sale Securities, Net of Tax				5,606,248	5,606,248
Balance December 31, 2011	$ 301,513	$ 3,915,994	$ 33,048,301	$ 1,511,302	$ 38,777,110

The accompanying Notes to Financial Statements are an integral part of these statements.

Seaway Bank and Trust Company

Statements of Condition

For Years Ended December 31, 2011 and 2010

	2011	2010
Assets		
Cash and due from banks	$ 11,480,010	$ 9,475,376
Interest bearing balances	1,925,936	4,717,288
Total Cash and Cash Equivalents	13,405,946	14,192,664
Securities available for sale (Note 5)	219,110,803	195,119,247
Securities held-to-maturity (Note 5)	1,128,793	989,265
Loans, excluding covered loans (Note 6)	172,004,070	182,699,831
Covered loans (Note 6)	121,190,105	79,963,360
Less-Allowance for possible loan losses (Note 7)	(7,361,397)	(4,377,659)
Loans, net	285,832,778	258,285,532
Premises and equipment, net (Note 8)	10,187,283	4,317,909
Other real estate owned	785,085	3,187,900
Other real estate owned related to FDIC transaction	2,386,716	3,578,239
FDIC indemnification asset	51,158,012	24,244,800
Other assets	13,421,109	12,352,202
Total Assets	$ 597,416,525	$ 516,267,758
Liabilities and Stockholders' Equity		
Deposits (Note 9)		
Non-interest-bearing deposits	$ 61,642,542	$ 55,469,270
Interest-bearing deposits	464,493,792	409,051,581
Total Deposits	526,136,334	464,520,851
Federal funds purchased and other borrowed funds	20,000,000	10,063,649
Deposit premium related to FDIC transaction	1,778,270	1,193,054
Other liabilities	4,581,020	4,460,078
Total Liabilities	$ 552,495,624	$ 480,237,632
Commitments & Contingencies (Note 9, 15 & 17)		
Stockholders' Equity		
Common stock (Note 12)	851,010	851,010
Surplus	7,053,958	7,053,958
Undivided profits (Note 13)	35,504,631	32,220,104
Accumulated other comprehensive income	1,511,302	(4,094,946)
Total Stockholders' Equity	44,920,901	36,030,126
Total Liabilities and Stockholders' Equity	$ 597,216,525	$ 516,267,758

The accompanying Notes to Financial Statements are an integral part of these statements.

Seaway Bank and Trust Company

Statements of Income

For Years Ended December 31, 2011 and 2010

	2011	2010
Interest Income		
Interest and fees on loans	$ 17,294,798	$ 11,583,304
Interest on investment securities		
United States Government Obligations:		
US Government & Treasuries	4,768,974	5,396,025
Mortgage-backed securities	765,565	693,234
Other securities	81,629	73,361
Interest on federal funds sold and on other interest-bearing balances	83,095	63,618
Total Interest Income	$ 22,994,061	$ 17,809,542
Interest Expense		
Interest on time deposits $100,000 or more	2,796,384	2,512,827
Interest on other deposits	2,434,114	1,795,726
Interest on federal funds purchased and other borrowed funds	285,450	324,345
Total Interest Expense	5,515,948	4,632,898
Net interest income	17,478,113	13,176,644
Provision for possible loan losses (Note 7)	(4,850,000)	(3,650,000)
Net Interest Income After Provision for Possible Loan Losses	$ 12,628,113	$ 9,526,644
Other Income		
Service charges on deposit accounts	2,715,784	2,468,870
Other operating income	8,214,128	6,372,000
Acquisition related gains	11,460,223	5,447,041
Gain on sale of investment securities	18,965	445,645
Total Other Income	$ 22,409,100	$ 14,733,556
Other Expenses		
Salaries and employee benefits (Notes 15 & 16)	13,959,639	10,194,998
Occupancy expense of Bank premises (Note 8)	3,491,731	2,677,400
Acquisition related expenses	5,740,456	0
Other operating expenses	7,488,327	5,628,131
Total Other Expenses	30,680,153	18,500,529
Income before income taxes	4,357,060	5,759,671
Applicable income taxes (Note 10)	(13,000)	(9,848)
Net Income	$ 4,344,060	$ 5,749,823
Net Income Per Share (Note 12)	$ 51.05	$ 67.56

The accompanying Notes to Financial Statements are an integral part of these statements.

Seaway Bank and Trust Company

Statements of Cash Flows

For Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Net Income	$ 4,344,060	$ 5,749,823
Adjustments to reconcile net income to net cash provided from (used by) operating activities:		
Provision for loan losses	4,850,000	3,650,000
Provision for depreciation and amortization	664,830	649,304
Loss on the sale of assets	655,030	99,592
Loss on impairment of assets	7,705,315	67,500
Amortization of investment security premiums	458,992	636,017
Accretion of investment security discounts	(194,432)	(104,049)
Net gains on acquisitions	(11,460,223)	(5,447,041)
Net change in deferred income taxes	—	(20,176)
Net (increase) in interest receivable	(144,339)	(255,393)
Net (decrease) increase in interest payable	(82,764)	69,988
Net increase in deposit premium related to FDIC transaction	585,216	1,193,054
Net increase in FDIC indemnification asset	(26,913,212)	(24,244,800)
Net decrease in other assets	10,396,878	3,556,434
Net increase in other liabilities	203,707	935,207
Net Cash (Used By) Operating Activities	$ (8,930,942)	$ (13,464,540)
Investing Activities		
Proceeds from sales and maturities of investment securities available for sale	140,671,762	208,215,491
Principal collected on investment securities available for sale	11,284,939	9,904,383
Principal collected on investment securities held for maturity	89,202	71,182
Purchases of investment securities available for sale	(171,068,798)	(246,375,997)
Purchases of investment securities held to maturity	(228,731)	(249,956)
Net (increase) in long-term loans	(40,156,589)	(72,078,029)
Purchases of premises and equipment (net)	(6,534,201)	(93,016)
Net decrease (increase) in other real estate	3,594,339	(6,505,439)
Net Cash (Used By) Investing Activities	$ (62,348,077)	$ (107,111,381)
Financing Activities		
Net increase in non-interest-bearing deposits	6,173,272	18,369,941
Net increase in interest-bearing deposits	55,442,211	107,292,323
Net increase in federal funds purchased and other borrowed funds	9,936,351	55,565
Cash dividends paid	(1,059,533)	(1,210,000)
Net Cash Provided From Financing Activities	70,492,301	124,507,829
Net (Decrease) Increase in Cash and Cash Equivalents	(786,718)	3,931,908
Cash And Cash Equivalents At Beginning of Year	14,192,664	10,260,756
Cash And Cash Equivalents At Year-End	$ 13,405,946	$ 14,192,664
Interest Paid	$ 4,715,662	$ 4,562,910

The accompanying Notes to Financial Statements are an integral part of these statements.

Seaway Bank and Trust Company

Statements of Change in Stockholders' Equity

For Years Ended December 31, 2011 and 2010

		Stockholders' Common Stock		Surplus		Undivided Profits		Accumulated Other Comprehensive Income		Total Equity
Balance December 31, 2009	$	851,010	$	7,053,958	$	27,680,281	$	(2,186,682)	$	33,398,567
Dividends - $14.22/Share		—		—		(1,210,000)		—		(1,210,000)
Comprehensive Income										
Net Income		—		—		5,749,823		—		5,749,823
Other Comprehensive Income		—		—		—		—		—
Unrealized Loss on Available										
for Sale Securities, Net of Tax		—		—		—		(1,908,264)		(1,908,264)
Balance December 31, 2010	$	851,010		7,053,958		32,220,104		(4,094,946)	$	36,030,126
Dividends - $12.45/Share						(1,059,533)				(1,059,533)
Comprehensive Income										
Net Income		—		—		4,344,060		—		4,344,060
Other Comprehensive Income										
Unrealized Loss on Available										
for Sale Securities, Net of Tax		—		—		—		5,606,248		5,606,248
Balance December 31, 2011	$	851,010		7,053,958		35,504,631		1,511,302	$	44,920,901

The accompanying Notes to Financial Statements are an integral part of these statements.

Note 1 - Summary of Significant Accounting and Reporting Policies

The financial reporting and accounting policies of Seaway Bancshares, Inc. (the "Corporation") and its subsidiary, Seaway Bank and Trust Company (the "Bank"), conform to accounting principles generally accepted in the United States and to general practices within the banking industry. The following is a summary of the significant accounting policies.

NATURE OF OPERATIONS

Seaway Bancshares, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary Seaway Bank and Trust Company. The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in and around Chicago, Illinois and Milwaukee, Wisconsin. On December 30, 2007, the Illinois Department of Financial and Professional Regulation (IDFPR) approved the conversion of Seaway National Bank of Chicago to a bank chartered by the State of Illinois. IDFPR issued a charter to the converting bank under the name of Seaway Bank and Trust Company. On March 11, 2011 Seaway Bank and Trust Company acquired the banking operations of Legacy Bank of Milwaukee, Wisconsin in a Federal Deposit Insurance Corporation ("FDIC") assisted transaction. The Milwaukee branch is supervised by the Wisconsin Department of Financial Institutions. The Bank is subject to regulation by the FDIC.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Corporation and the Bank. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

In accordance with the "Consolidation" topic of FASB ASC, the accompanying consolidated financial statements do not include the accounts of a wholly-owned financed subsidiary (the "Trust"). The Trust was formed for the sole purpose of issuing Trust Preferred securities and, in turn, purchasing subordinated debentures from the Corporation.

Under the provisions of the "Consolidation" topic, the Trust is considered a "Variable Interest Entity" ("VIE"). In June 2009, the FASB issued new guidance requiring a company to determine whether its variable interest or interests gives it a controlling financial interest in a VIE. The guidance also amends existing consolidation guidance that required ongoing reassessments of whether a company is the primary beneficiary of a VIE. The design of the Trust, which is very common in the banking industry, is such that the Corporation is neither subject to the majority of risk of loss nor entitled to receive the majority of any residual returns. As a result, the Trust is not consolidated.

The Corporation does, however, report the subordinated debentures sold to the Trust as a liability in the Consolidated Balance Sheets and associated interest expense in the Consolidated Statements of Income.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

INVESTMENT SECURITIES

Debt securities are classified as held-to-maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time.

The decision to purchase securities is based on a current assessment of expected economic conditions including the interest rate environment. The determination to sell such securities is based on management's assessment of changes in economic or financial market conditions, interest rate risk and balance sheet and liquidity positions. The adjusted cost of the specific security sold is the basis for determining gains and losses.

The Bank owns investments in the stock of the Federal Home Loan Bank of Chicago ("FHLBC"). There is no ready market for these stocks, and they have no quoted market value. The Bank as a member of the FHLBC, is required to maintain an investment in the capital stock of the FHLBC. The stock is redeemable at par by the FHLBC, and is carried at cost and periodically evaluated for impairment. Any dividends are recorded in income on the ex-dividend date.

LOANS

The Corporation's loan portfolio includes residential and commercial mortgages, commercial and consumer loan products. Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees and unearned discounts. Unearned discount is recognized as income over the terms of the loan by the sum-of-the-months digit method, the result of which is not materially different from that obtained by using the interest method. Interest on other loans is reported on the accrual basis throughout the terms of the loans.

Loans are placed on a non-accrual (cash) basis for recognition of interest income when interest earned in excess of ninety days is delinquent or principal is delinquent in excess of ninety days and the loan is either not well collateralized or is in the process of collection. The non-recognition of interest does not constitute forgiveness of the interest.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Corporation to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible this cannot be estimated.

IMPAIRMENT OF LOANS

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience 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 of the circumstances surrounding the loan and the borrower, including the length of the delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

COVERED LOANS

Loans acquired in Federal Deposit Insurance Corporation (FDIC)-assisted transactions are covered under loss sharing agreements and are referred to as covered loans. Under the terms of the loss-sharing agreement, covered loans are subject to stated loss thresholds whereby the FDIC will reimburse the Bank for 80% of losses of up to the stated loss thresholds. The Bank will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC paid the Bank a reimbursement under the loss-sharing agreement. The FDIC's obligation to reimburse the Bank for losses with respect to covered loans begins with the first dollar of loss incurred.

Covered loans were recorded at fair value at the time of acquisition. Fair values for covered loans are derived from a discounted cash flow methodology that considered various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Bank's assessment of risk inherent in the cash flow estimates. Covered loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. Losses on covered loans are not charged to the allowance for loan and lease losses.

TROUBLED DEBT RESTRUCTURINGS

A loan is classified as troubled when a borrower is unable to meet the current terms of the loan and the Bank grants concessions to the borrower that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, maturity date extensions and any other actions intended to minimize potential losses.

The factors determining whether the Bank will consider a restructuring are if the debtor is in payment default or would be without the modifications, if the debtor is or in the process of declaring bankruptcy, if there is serious doubt that the debtor can continue as a going concern, if the debtor's projected cash flows will not be sufficient to service any of its debt, or the debtor cannot obtain funds from other sources.

The Bank's grant of a concession will center on whether the Bank expects to collect all amounts due, whether the current value of the collateral is sufficient to satisfy the amounts owed, whether additional collateral or guarantees from the debtor will serve as sufficient compensation for other terms of the restructuring, and whether the debtor has access to funds at a market rate for debt with similar risk characteristics.

FEES RELATED TO LENDING ACTIVITIES

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccural status.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 40 years. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

INCOME TAXES

Prior to 2001 the Corporation filed a consolidated federal income tax return. Amounts provided for income taxes were based on income reported for financial statement purposes. Provisions for deferred income taxes were made as a result of timing differences between the period in which certain income and expenses are recognized for financial reporting purposes and the period in which they affect taxable income. The principal items causing these timing differences were the provision for possible loan losses and depreciation.

Effective January 1, 2001, the Corporation and the Bank jointly elected to be treated as an S Corporation for federal income tax purposes. As an S Corporation, both the Corporation and the Bank are liable for federal corporate level income taxes on certain "built-in gains" existing at December 31, 2000, which are recognized after that date and any applicable state corporate level income taxes, (including the Illinois Replacement Tax). As a further consequence of the S Corporation election, both the Corporation and the Bank were required to revalue deferred tax assets and liabilities at the lower statutory tax rates applicable to S Corporations.

The Bank follows the guidance under FASB ASC Topic 740, Income Taxes, which address financial accounting and reporting for the effects of income taxes-federal, state and local. ASC-740 includes FASB Interpretation No. 48 (FIN 48)- Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement (FAS) No. 109. ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of ASC 740 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in the interim period, disclosures and transition.

No income tax liability for uncertain tax positions has been recognized in the accompanying financial statement. With the exception of the Illinois Replacement Tax noted above, each shareholder is individually responsible for reporting his share of taxable income or loss to the extent required by the federal and state tax law and regulations.

EARNINGS PER SHARE

Earnings per share is computed by dividing income by the weighted average number of shares outstanding during the period.

CASH FLOW REPORTING

The Corporation uses the indirect method to report cash flows from operating activities. Under this method, net income is adjusted to reconcile to net cash flow from operating activities. Net reporting cash transactions is used when the balance sheet items consist predominantly of maturities of three months or less, or where otherwise permitted. Other items are reported gross. Cash and cash equivalents consist of cash and due from banks.

DERIVATIVES

The "Derivatives and Hedging" topic of FASB ASC, established accounting and reporting standards for derivatives. These standards require that all derivatives be recognized at their fair value as either assets or liabilities on the balance sheet and specify the accounting for changes in fair value depending upon the intended use of the derivative. The Corporation's utilization of derivative instruments for trading or non-trading is minimal, and the provisions of these standards are not applied because the impact on the Corporation's financial statements is not material.

FDIC INDEMNIFICATION ASSET

The Bank recognizes an indemnification asset in accordance with Financial Accounting Standards Board (FASB) Subtopic 805-20. The Bank entered into loss-sharing agreements with the FDIC as a result of the First Suburban National Bank and Legacy Bank acquisitions (see Note 4 for further information reguarding this transaction). The agreements cover realized losses on loans and foreclosed real estate. These loss-share assets are not contractually embedded in the loans and are not transferable with the loan portfolio should the Bank choose to dispose of them. Therefore, the loss-sharing assets are measured seperately from the loan portfolio. The fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and loss-share percentages. The loss-share assets are also seperately measured from the related loans and foreclosed real estate and recorded seperately on the balance sheet.

As a result of a government-assisted acquisition of a financial institution, any subsequent change in the cash flows expected to be received from the indemnification asset would require a change in the measurement of the indemnification asset on the same basis as the change in the asset subject to indemnification. Any amortization of a decrease in value of the indemnification asset determined after the reforecast of the associated cash flows will be realized on a straight-line basis over the remaining term of the loss share agreement.

BUSINESS COMBINATIONS

The following business combinations were performed under the purchase method of accounting. The results of the operations of the acquired companies have been included in the Bank's results of operation since the date of acquisition. This method of accounting requires that assets and liabilities are recorded at their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired is recorded as goodwill. If the fair value of the net assets acquired exceeds the cost, the Company will record a gain on the acquisition.

On October 22, 2010 Seaway Bank and Trust Company assumed certain deposits of the First Suburban National Bank of Maywood, Illinois and acquired certain assets of First Suburban through a loss-sharing transaction facilitated by the FDIC. On March 11, 2011, Seaway Bank and Trust Company assumed certain deposits of Legacy Bank of Milwaukee, Wisconsin and acquired certain assets of Legacy Bank through a loss-sharing transaction facilitated by the FDIC. Seaway Bank and Trust Company will share in the losses on assets (loans and other real estate) covered under the agreement (referred to as "covered loans" and "covered real estate owned"). The agreement states that the FDIC will reimburse Seaway Bank and Trust Company for 80% of losses. The loss-sharing agreement requires that Seaway follow certain servicing procedures and other conditions as specified in the agreement or risk losing FDIC reimbursement of covered loans losses. The loss-share agreement with the FDIC is accounted for as an indemnification asset. The loss-share agreement includes a clawback mechanism where if credit performance exceeds certain pre-established thresholds, then a portion of the monetary benefit is shared with the FDIC. Purchase accounting for all FDIC assisted transactions is complete (See Note 4).

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, FASB issued authoritative guidance intended to improve disclosures about fair value measurements. The guidance required entities to disclose significant transfers in and out of fair value hierarchy levels and reasons for the transfers and to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant unobservable inputs (Level 3). Additionally, the guidance clarified that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). This guidance was effective for annual periods beginning after December 15, 2009 except for disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which is effective for annual periods beginning after December 15, 2010. As this guidance provided only disclosure requirements, the adoption of this standard did not impact the Corporation's financial results.

In July 2010, the FASB issued new guidance impacting the topic, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses", as an update to the topic, "Receivables." The updated guidance provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluate the adequacy of its allowance for credit losses. This guidance was effective for public entities for interim and annual reporting periods ending on or after December 15, 2010. For nonpublic entities, the disclosures were effective for annual reporting periods ending on or after December 15, 2011. This guidance was subsequently updated in January 2011 to defer the effective date of disclosures about troubled debt restructurings indefinitely, for public entities only. The effective date for nonpublic entities remained unchanged. The adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements or results of operations.

In April 2011, FASB issued another update to the topic, "Receivables." This guidance revolved around "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." This guidance was created to provide more consistent comparability of information for users about restructurings of receivables. This guidance is effective for public entities for the first interim and annual reporting period beginning on or after June 15, 2011. For nonpublic entities, the disclosures will be effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance is not expected to affect the Corporation's consolidated financial statements or results of operations.

In May 2011, the FASB issued authoritative guidance amending existing guidance for measuring fair value and for disclosing information about fair value measurements. The FASB indicated that it generally does not intend the amendments to result in a change to current accounting. Required disclosures are expanded under the new guidance, especially for fair value measurements that are categorized within Level 3 of the fair value hierarchy, for which quantitative information about the unobservable inputs, the valuation processes used by the entity, and the sensitivity of the measurement to the unobservable inputs will be required. Entities will also be required to disclose the categorization by level of the fair value hierarchy for items that are not measured at fair value in statement of financial position but for which the fair value is required to be disclosed. Management is currently assessing the effects this guidance may have on the Corporation's financial statements. The guidance is effective for periods beginning after December 15, 2011 and is required to be applied prospectively.

In June 2011, the FASB issued new guidance impacting the topic, "Presentation of Comprehensive Income" as an update to the topic, "Comprehensive Income." The update guidance improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. For public entities,the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Management is currently assessing the impact on the Corporation's consolidated financial statements.

Note 2 - Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and Short-Term Investments
For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities
Fair value equals the quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities.

Loans
The fair value is estimated by discounting future cash flows using the appropriate rate from the treasury yield curve, adjusted for credit risk and allocated expense.

Deposit Liabilities and Short-term Borrowings
The fair value of demand deposits, savings accounts, NOW and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting future cash flows using the appropriate rate from the treasury yield curve adjusted for allocated expense. For short-term borrowings the carrying amount is a reasonable estimate of fair value.

Long-Term Debt and Securities Sold Not Owned
The fair value of long-term debt and securities sold not owned are estimated by discounting future cash flows using an appropriate rate from the treasury yield curve adjusted for allocated expenses.

Core Deposit Intangibles
The fair value of core deposit intangibles is the present value of the projected cash flow of core deposits discounted at the appropriate rate from the treasury yield curve adjusted for allocated expenses and service charge income.

DECEMBER 31, 2011:	CONSOLIDATED		BANK ONLY	
	Estimated Fair Value	Approximate Carrying Value	Estimated Fair Value	Approximate Carrying Value
Financial Assets				
Cash and Short-term Investments	$ 13,406,000	$ 13,406,000	$ 13,406,000	$ 13,406,000
Investment Securities	220,240,000	220,240,000	220,240,000	220,240,000
Loans	288,161,000	293,194,000	288,161,000	293,194,000
Unallocated Reserves for loan losses	—	(7,361,000)	—	(7,361,000)
Loans, Net	288,161,000	285,833,000	288,161,000	285,833,000
Total Financial Assets	521,807,000	519,479,000	521,807,000	519,479,000
Financial Liabilities				
Deposits	503,620,000	526,076,530	503,675,000	526,136,000
Short-Term Borrowings	11,000,000	11,000,000	11,000,000	11,000,000
Long-Term Debt	13,683,000	15,186,000	9,324,000	9,000,000
Total Financial Liabilities	528,303,000	552,262,000	523,999,000	546,136,000
Core Deposit Intangibles	(1,778,270)	(1,778,270)	(1,778,270)	(1,778,270)
Fixed Assets & Net Other Assets and Liabilities	73,340,000	73,340,000	73,356,000	73,356,000
Net Total Asset Value	$ 65,066,000	$ 38,779,000	$ 69,386,000	$ 44,921,000

DECEMBER 31, 2010:	CONSOLIDATED		BANK ONLY	
	Estimated Fair Value	Approximate Carrying Value	Estimated Fair Value	Approximate Carrying Value
Financial Assets				
Cash and Short-term	$ 14,193,000	$ 14,193,000	$ 14,193,000	$ 14,193,000
Investment Securities	194,119,000	194,119,000	194,119,000	194,119,000
Loans	288,560,000	262,664,000	288,560,000	262,664,000
Unallocated Reserves for loan losses	—	(4,378,000)	—	(4,378,000)
Loan, Net	288,560,000	258,286,000	288,560,000	258,286,000
Total Financial Assets	$ 496,872,000	$ 466,598,000	$ 496,872,000	$ 466,598,000
Financial Liabilities				
Deposits	481,039,000	464,373,000	481,187,000	464,521,000
Short-Term Borrowings	7,064,000	7,064,000	7,064,000	7,064,000
Long-Term Debt	8,737,000	9,186,000	3,492,000	3,000,000
Total Financial Liabilities	496,840,000	480,623,000	491,743,000	474,585,000
Core Deposit Intangibles	(1,193,000)	(1,193,000)	(1,193,000)	(1,193,000)
Fixed Assets & Net Other Assets and Liabilities	45,183,000	45,183,000	45,210,000	45,210,000
Net Total Asset Value	$ 44,022,000	$ 29,965,000	$ 49,146,000	$ 36,030,000

Note 3 - Fair Value Measurements

The Corporation follows the guidance issued under The "Fair Value Measurements and Disclosures" Topic of FASB ASC, which defines fair value, establishes a framework for measuring fair value under GAAP, and identifies required disclosures on fair value measurements. "Fair Value Measurements And Disclosures" topic establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, (Level 1 measurements) and the lowest priority to unobservable inputs, (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An assets or liabilities level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as, the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Assets And Liabilities Recorded As Fair Value On A Recurring Basis

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31. 2011, segregated by the level of the valuation\inputs within the fair value hierarchy utilized to measure fair value.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2011 USING:

	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant Observable inputs (Level 3)
Securities available-for-sale	$ 219,110,803	—	$ 217,120,791	$ 1,990,012

Level 3 available-for-sale securities experienced net purchases, issuances and settlements of $0 during 2011.

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2010 USING:

	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant Observable inputs (Level 3)
Securities available-for-sale	$ 195,119,247	$ —	$ 193,129,234	$ 1,990,012

Level 3 available-for-sale securities experienced net purchases, issuances and settlements of $971,714 during 2010.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Corporation may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below:

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2011 USING:

	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant Observable inputs (Level 3)
Impaired loans	$ 11,128,666	$ —	$ —	$ 11,128,666
Loans held for sale	61,209	—	61,209	—
Other Real Estate Owned	785,086	—	—	785,086
Other Real Estate Owned Related to FDIC	2,386,716	—	—	2,386,716

At December 31, 2011, the Corporation and Bank has impaired loans of $15,225,594 and a fair value of $11,128,666 resulting in a valuation allowance of $4,096,928 which is included in the allowance for loan losses.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2010 USING:

	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant Observable inputs (Level 3)
Impaired loans	$ 8,050,299	$ —	$ —	$ 8,050,299
Loans held for sale	98,036	—	98,036	—
Other Real Estate Owned	3,187,900	—	—	3,187,900
Other Real Estate Owned Related to FDIC	3,578,239	—	—	3,578,239

Impaired loans with a carrying amount of $10,204,431 were written down to the fair value of $8,050,299 less cost to sell, resulting in a valuation allowance of $2,154,132 which is included in the allowance for loan losses.

SECURITIES AVAILABLE-FOR-SALE

When available, quoted market prices are used to determine the fair value of investment securities and such items are classified within Level 1 of the fair value hierarchy. An example is U.S. Treasury securities. For other securities, the Corporation determines fair value based on various sources and may apply matrix pricing with observable prices for similar bonds where a price for the identical bond is not observable. Securities measured at fair value by such methods are classified as Level 2. Certain securities are not valued based on observable transactions and are, therefore, classified as Level 3. The fair value of these securities is based on management's best estimates.

IMPAIRED LOANS

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower cost of fair value. Fair value is measured based on the value of the collateral securing these loans and classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Corporation. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and the client's business.

LOANS HELD FOR SALE

Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies loans subjected to nonrecurring fair adjustments as Level 2.

OTHER REAL ESTATE OWNED (OREO)

Foreclosed assets are adjusted to fair value upon transfer of the loans to OREO. Subsequently, OREO is carried at the lower of carrying value or fair market value less selling cost. Fair value is based upon appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on a current appraised value, the Corporation records the OREO as non-recurring Level 2. When the appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the OREO as non-recurring Level 3.

Note 4 - Business Combinations

The following business combinations were performed under the purchase method of accounting. The results of operations have been included in the Bank's results of operation since the date of acquisition. On October 22, 2010 Seaway Bank and Trust Company assumed certain deposits of the First Surburban National Bank of Maywood, Illinois and acquired certain assets of First Surburban through a loss-sharing transaction facilitated by the FDIC. On March 11, 2011 Seaway Bank and Trust assumed certain deposits of the Legacy Bank in Milwaukee, Wisconsin and acquired certain assets of Legacy Bank through a loss sharing transaction facilitated by the FDIC.

The table below summarizes the estimated fair values of the assets acquired and liabilities assumed in the First Surburban and Legacy Bank transactions. Fair values of certain assets are preliminary and subject to refinement for up to one year after the closing date of the transaction as information relative to closing date fair values becomes available.

Estimated fair value of the assets acquired and liabilities assumed in the First Suburban National Bank and Legacy Bank transactions as of the closing dates were as follows (in thousands).

ASSETS ACQUIRED AND LIABILITIES ASSUMED (IN THOUSANDS)

		First Suburban October 22, 2010		Legacy Bank March, 112011
Assets				
Cash and cash equivalents	$	12,525	$	34,201
Investment securities available for sale		12,522		16,844
Loans, net of discount		82,360		81,781
Premises and equipment		42		—
Other real estate owned		3,578		—
FDIC indemnification asset		24,245		28,881
Other assets		660		1,001
Total Assets	$	135,932	$	162,708
Liabilities				
Deposits	$	119,281	$	147,836
Other borrowings		3,187		4,001
Deposit intangibles		1,193		2,079
Accrued expense and other liabilities		851		169
Total Liabilities		124,512		154,085
Cash paid on acquisition		5,973		(2,837)
Net gain recorded		5,447		11,460
Total Liabilities, Cash and Gain	$	135,932	$	162,708

Note 5 - Investment Securities

The following is a summary of investment securities classified as available-for-sale at December 31, 2011:

		Amortized Cost		Gross Unrealized Holding Gains		Gross Unrealized Holding Losses		Fair Value
Equity Securities	$	1,990,012	$	—	$	—	$	1,990,012
United States Government Agencies and Treasuries		163,863,445		463,464		—		164,326,909
Obligations of State & Political Subdivisions		2,059,554		22,286		—		2,081,840
Mortgage-Backed Securities		49,636,490		1,025,552		—		50,662,042
Other Investment Securities		50,000		—		—		50,000
Total Other Investment Securities	$	217,599,501	$	1,511,302	$	—	$	219,110,803

The following is a summary of investment securities classified as held-to-maturity at December 31, 2011:

		Amortized		Gross Unrealized Holding Gains		Gross Unrealized Holding Losses		Fair Value
Other Investment Securities		1,128,793		—		—	$	1,128,793
Total	$	1,128,793	$	—	$	—	$	1,128,793

At December 31, 2011, investments in debt securities with a fixed maturity, classified as available-for-sale, are scheduled to mature as follows (based on amortized cost):

		MATURITY						
		Within One Year		One Through Five Years		Five Through Ten Years		After Ten Years
United States Government Agencies and Treasuries	$	723,343	$	1,393,451	$	42,172,921	$	119,573,730
Obligations of State & Political Subdivisions		1,212,666		464,664		382,244		—
Mortgage-Backed Securities		—		521,835		2,740,846		46,373,809
Other Investment Securities		—		50,000		—		—
Total	$	1,936,009	$	2,429,950	$	45,296,011	$	165,947,539

At December 31, 2011, investments in debt securities classified as held-to-maturity are scheduled to mature as follows:

		MATURITY						
		Within One Year		One Through Five Years		Five Through Ten Years		After Ten Years
Other Investment Securities		—		1,230		22,074		1,105,489
Total	$	—	$	1,230	$	22,074	$	1,105,489

The following is a summary of investment securities classified as available for sale at December 31, 2010:

		Amortized Cost		Gross Unrealized Holding Losses		Gross Unrealized Holding Losses		Fair Value
Equity Securities	$	1,990,012	$	—	$	—	$	1,990,012
United States Government Agencies		150,691,100		—		(4,546,005)		146,145,095
Mortgage-Backed Securities		46,433,081		451,059		—		46,884,140
Other Investment Securities		100,000		—		—		100,000
Total Other Investment Securities	$	199,214,193	$	451,059	$	(4,546,005)	$	195,119,247

The following is a summary of investment securities classified as held-to-maturity as of December 31, 2010:

		Amortized Cost		Gross Unrealized Holding Gains		Gross Unrealized Holding Losses		Fair Value
Other Investment Securities		989,265		—		—		989,265
Total	$	989,265	$	—	$	—	$	989,265

At December 31, 2010, investments in debt securities with a fixed maturity, classified as available-for-sale are scheduled to mature as follows (based on amortized cost):

		MATURITY						
		Within One Year		One Through Five Years		Five Through Ten Years		AfterTen Years
United States Government Agencies	$	2,008,920	$	1,221,291	$	33,982,335	$	113,478,555
Mortgage-Backed Securities		129,063		21,008,146		11,428,630		13,867,242
Other investment Securities		—		100,000		—		—
Total	$	2,137,983	$	22,329,437	$	45,410,965	$	127,345,797

At December 31, 2010, investments in debt securities classified as held-to-maturity are scheduled to mature as follows:

		MATURITY						
		Within One Year		One Through Five Years		Five Through Ten Years		After Ten Years
Other Investment Securities		—		1,200		17,433		970,632
Total	$	—	$	1,200	$	17,433	$	970,632

During 2011, sales proceeds and gross realized gains and losses on investment securities classified as available-for-sale and held to maturity were:

		Available for Sale		Held to Maturity
Sale Proceeds	$	3,145,200	$	—
Gross Realized (Losses)		—		—
Realized Gains	$	18,965	$	—

During 2010, sales proceeds and gross realized gains and losses on investment securities classified as available-for-sale and held to maturity were:

		Available for Sale		Held to Maturity
Sale Proceeds	$	22,811,068	$	—
Gross Realized (Losses)		—		—
Realized Gains	$	445,764	$	—

Investment securities carried at approximately $121,462,224 and $127,267,671 at December 31, 2011 and 2010, respectively, were pledged to secure public deposits and for other purposes required by law.

Note 6 - Investment Loans

Major classifications of loans included in the accompanying Statements of Condition at December 2011 and 2010 are as follows:

		2011		2010
Consumer Loans	$	3,356,705	$	2,617,796
Commercial and Industrial loans		22,221,008		31,832,080
Real Estate Loans		140,174,948		136,686,666
Real Estate Construction Loans		6,251,409		11,563,289
Gross Loans, excluding covered loans		172,004,070		182,699,831
Covered loans		121,190,105		79,963,360
Total Loans	$	293,194,175	$	262,663,191

At December 31, 2011 and 2010, loans aggregating $2,857,021 and $3,264,032 respectively, were outstanding to officers, directors and principal shareholders of the Bank or to corporations in which such officers or directors had a beneficial interest. These loans were all made with substantially the same interest rates and collateral requirements as comparable loans to non-related borrowers. During 2011, and 2010, new loans to such related parties amounted to $167,559 and $273,753, respectively. Loan repayments during the year amounted to $317,900 and $455,287, respectively. Non-accrual loans at December 31, 2011 and 2010 approximated $57,311,614 and $22,752,532, respectively. The amount of interest income, which would have been recorded if the loans were on an accrual basis, would have approximated $733,406 during 2011, and $787,602 during 2010. Commercial and multi-family real estate loans aggregated approximately $44,597,000 and $57,046,902 at December 31,2011 and December 31, 2010, respectively.

A majority of these properties are located in the Chicago metropolitan area. These loans are collateralized by the related properties and the loan-to-value ratios generally do not exceed 75 percent.

Originated loans are reported at the principle amount outstanding, net of unearned interest and deferred fees and costs. All purchased loans and related indemnification assets are recorded at fair value at the date of purchase. The Bank evaluates purchased loans for impairment at the purchase date in accordance with applicable authoritative accounting guidance. Purchased loans with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are considered "purchased impaired loans". All other purchased loans are considered "purchased nonimpaired loans".

On the acquisition date, the estimate of the contractually required payments receivable for all purchased impaired loans acquired in the First Suburban and Legacy Bank transactions were $231 million, and the estimated fair values of the loans were $164 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which includes the effects of estimated payments.

Note 7 - Allowance for Possible Loan Losses and Impaired Loans

The Allowance for Loan Losses and Impaired Loans in the Bank's loan and lease portfolio includes certain amounts that are not loss exposure to the Bank because those losses are recoverable under loss sharing agreements with the FDIC. The allowance for credit losses is increased through provisions charged to operating earnings and reduced by net charge-offs. Management evaluates the allowance each month to ensure it appropriately reserves for incurred losses.

The allowance recorded for purchased impaired and Troubled Debt Restructuring ("TDR") loans is determined on a homogenous pool basis incorporating expected cash flows discounted using the effective interest rate of the pool. The allowance recorded for all other consumer lending segment loans is determined on a homogenous pool basis and includes consideration of product mix, risk characteristics of the portfolio, bankruptcy experience, and historical losses, adjusted for current trends. The Bank also considers any modifications made to loans including the impacts of any subsequent payment defaults since modification in determining the allowance for credit losses, such as borrower's ability to pay under the restructured terms, and the timing and amount of payments.

The allowance for covered loans is evaluated in a manner similar to that described for non-covered loans and represents any decrease in expected cash flows of those loans after the acquisition date. The provision for credit losses for covered loans considers the indemnification provided by the FDIC.

Any subsequent payment defaults on loan modifications considered TDR's are considered in the underlying factors used to determine the appropriate allowance for credit losses. The Bank estimates future loan charge-offs through analysis, trends, and underlying assumptions.

The Bank's methodology for determining the appropriate allowance for credit losses for all loans also considers the imprecision inherent in the methodologies used. Management also considers the potential impact of other qualitative factors which include, but not limited to, economic factors; geographic and other concentration risks; delinquency and nonaccrual trends; current business conditions; changes in lending policy, underwriting standards, internal review and other relevant business practices; and the regulatory environment. The consideration of these items results in adjustment to allowance amounts included in the Bank's allowance for credit losses for each loan segment.

The Bank assesses the credit risk associated with off-balance sheet loan commitments, and letters of credit. The liability for off-balance sheet credit exposure related to loan commitments and other credit guarantees is included in other liabilities. The Bank uses similar processes to estimate its liability for unfunded credit commitments because the business processes and credit risks are essentially the same as for loans.

The quality of the Bank's loan portfolios is assessed as a function of net credit losses, level of non-performing assets and delinquencies, and credit quality ratings as defined by the Bank. For all loan classes, loans are considered past due based on the number of days delinquent.

Interest payments received on nonaccrual loans are generally recorded as a reduction to the loan carrying amount. Interest payments recorded as reductions to a loan's carrying amount while a loan is on nonaccrual are recognized as interest income only upon payoff of the loan. A situation may arise where a loan may be restored to accrual status, such as when none of the principal and interest is past due and prospects for future payment are no longer in doubt; or the loan becomes well secured and is in the process of collection. Loans where there has been a partial charge-off may be returned to accrual status if all principal and interest (including amounts previously charged-off) is expected to be collected and the loan is current.

The Bank classifies its loan portfolios using internal credit quality ratings. These ratings are an important part of the Bank's credit risk management process and evaluation of the allowance for credit losses. Loans which earn a pass rating represent those not classified on the Bank's rating scale for problem credits, as minimal credit risk has been identified. Loans which require a special mention have a potential weakness deserving management's attention. Classified loans are those where a well defined weakness has been identified that may put full collection of contractual cash flows at risk. There is a possibility that others privy to the same information, may reach a different reasonable conclusion regarding the credit quality rating classification of specific loans.

For all loan classes, a loan is considered to be impaired once it is determined that it is highly probable the Bank will be unable to collect all amounts due per the contractual terms of the loan agreement. Impaired loans include all nonaccrual and TDR loans. For all loan classes, interest income on TDR loans is recognized under modified terms and conditions if the borrower has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. Interest income is not recognized on other impaired loans until the loan is paid off.

Factors used in determining if a loan is impaired included but are not limited to, the financial condition of the borrower, collateral and/or guarantees on the loan, and the borrower's estimated ability to pay based on external and internal factors. Individual covered loans, whose future losses are covered by loss sharing agreements with the FDIC that substantially reduce the risk of credit losses to the Bank, are evaluated for impairment and accounted for in a manner consistent with the class of loan they would have been included in had the loss sharing coverage not been in place.

As of December 31, 2011 and December 31, 2010, the total recorded investment in impaired loans was $15,225,594 and $14,671,519, respectively. Of these amounts, in 2011 and 2010, $11,128,666 and $10,204,431 were subject to an allowance for possible loan losses of $3,540,513 and $2,154,132 respectively. During 2011, the average recorded investment in impaired loans was $15,326,162 and $14,952,913 in 2010. Interest income recognized in 2011 and 2010 during the period in which the loans were impaired was $358,927 and $364,102, respectively. The amount of income that would have been recorded on a cash basis during 2011 and 2010 would have been $369,955 and $374,905, respectively.

Following is a summary of the activity in the Allowance for Possible Loan Losses:

	2011	2010
Balance at Beginning of Year	$ 4,377,659	$ 4,224,988
Recoveries credited to the allowance	54,028	11,264
Provision for possible loan losses	4,850,000	3,650,000
Loans charged-off	(1,920,290)	(3,508,593)
Balance at End of Year	$ 7,361,397	$ 4,377,659

Note 8 - Premises and Equipment

A summary of premises and equipment at December 31, 2011 and 2010 is a follows:

	CONSOLIDATED		BANK ONLY	
	2011	2010	2011	2010
Premises	$ 12,972,124	$ 7,249,404	$ 13,113,981	$ 7,391,261
Equipment	6,531,238	5,709,757	6,521,238	5,709,757
Total	$ 19,493,362	$ 12,959,161	$ 19,635,219	$ 13,101,018
Less-Accumulated Depreciation	(9,447,936)	(8,783,109)	(9,447,936)	(8,783,109)
Net Book Value	$ 10,045,426	$ 4,176,052	$ 10,187,283	$ 4,317,909

Depreciation charged to consolidated operating expenses amounted to $664,830 and $649,304 for 2011 and 2010 respectively. Equipment rental expense for 2011 and 2010 was $ 15,282 and $8,612 respectively.

Note 9 - Deposits

	CONSOLIDATED		BANK ONLY	
	2011	2010	2011	2010
Non-Interest-Bearing Deposits				
Deposits of individuals, partnerships and corporations	$ 41,430,618	$ 53,237,220	$ 41,490,422	$ 53,384,811
Deposits of the United States Government	204,556	6,290	204,556	6,290
Deposits of state and political subdivisions	15,139,863	115,332	15,139,863	115,332
Certified and official checks	4,807,701	1,962,837	4,807,701	1,962,837
Total non-interest-bearing deposits	$ 61,582,738	$ 55,321,679	$ 61,642,542	$ 55,469,270
Interest-Bearing Deposits:				
Deposits of individuals, partnerships and corporations	$ 282,889,984	$ 264,307,750	$ 282,889,984	$ 264,307,750
Deposits of the United States Government	6,099,647	6,098,616	6,099,647	6,098,616
Deposits of state and political subdivisions	88,614,066	135,150,088	88,614,066	135,150,088
Other Depository Institutions in US	86,890,095	3,495,127	86,890,095	3,495,127
Total Interest-Bearing Subdivisions	464,493,792	409,051,581	464,493,792	409,051,581
Total Deposits	$ 526,076,530	$ 464,373,260	$ 526,136,334	$ 464,520,851

Certificates of deposit of $100,000 or more included in the balance of interest-bearing deposits amounted to $ 197,106,028 and $181,710,823 at December 31, 2011 and 2010, respectively.

Certificates of deposits maturing in years ending December 31, at December 31, 2011:

2012	201,325,601
2013	29,301,978
2014	13,109,096
2015	8,484,061
2016 and thereafter	264,589
	$ 252,485,325

At December 31, 2011, deposits of executive officers, directors, and principal shareholders of the Bank and corporations in which such officers or directors had a beneficial interest total approximately $5,309,185.50.

Note 10 - Income Taxes

Effective January 1, 2001, the Corporation and the Bank jointly elected to be treated as an S Corporation for federal income tax purposes. As an S Corporation, the Corporation and the Bank are generally only currently liable for federal corporate level income taxes on certain "built-in gains" existing at December 31, 2000 which are recognized after that date and any applicable state corporate level income taxes (including the Illinois Replacement Tax). In February 2009, the American Recovery and Reinvestment Act temporarily reduced the built in gains recognition period from ten to seven years for taxable years 2009 and 2010. Since the Bank elected S Corp Status in 2001, it is outside of this recognition period and is no longer subject to the federal built in gains tax as a result of this Act.

The current and deferred components of income tax expenses are as follows:

	CONSOLIDATED		BANK ONLY	
	2011	2010	2011	2010
Current Federal	$ —	$ —	$ —	$ —
State	143,319	37,834	143,319	37,834
Deferred	(130,319)	(27,838)	(130,319)	(27,838)
Total	$ 13,000	$ 9,996	$ 13,000	$ 9,996

The sources of timing differences resulting in deferred income taxes and the tax effects for the years ended December 31, 2011 and 2010, on a consolidated and bank basis are as follows:

	CONSOLIDATED		BANK ONLY	
	2011	2010	2011	2010
Loan loss deduction charged to operating expenses less than (in excess of) that for income tax purposes	$ (1,155)	$ (17,870)	$ (1,155)	$ (17,870)
Depreciation expense for income tax purposes in excess of the amount charged to operating expense	4,350	(2,416)	4,350	(2,416)
Book and tax differences on other real estate owned	7,261	(6,177)	7,261	(6,177)
State Income Tax	—	—	—	—
Accretion of bond discount, Net	—	(59)	—	(59)
Basis Difference in FDIC Covered Loans	(55,241)	—	(55,241)	—
Tax Goodwill	(24,925)	—	(24,925)	—
Other	(60,609)	(1,316)	(60,609)	(1,316)
	$ (130,319)	$ (27,838)	$ (130,319)	$ (27,838)

As a result of the FASB ASC topic 320 "Debit and Equity Securities", which relates to the recording of unrealized security gains and losses, the following deferred items are not included in the above tables and are charged or credited directly to shareholders' equity at December 31, 2011, and 2010, $9,745 tax $70,787 of tax asset respectively, were recorded for unrealized security gains relating to securities classified as available for sale.

The effective tax rates for both the Corporation and the Bank are less than the statutory Federal Income Tax rates. The reasons for the difference between such rates and the Federal Income Tax statutory rates for 2011 and 2010 are as follows:

	DECEMBER 31, 2011			
	CONSOLIDATED		BANK ONLY	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Tax expense at statutory rate	$ 1,402,039	34.0%	$ 1,481,401	34.0%
Increase (reduction) in taxes resulting from:				
S Corporation Election	2,471,165	59.9%	2,402,258	55.1%
Tax Exempt Interest	(9,933)	(0.2%)	(9,933)	(0.2%)
Bargain Purchase Gain	(3,896,476)	(94.5%)	(3,896,476)	(89.4%)
Built-In Gains Tax	—	—	—	—
State Replacement Tax	143,319	3.5%	143,319	3.3%
Other	(97,114)	(2.4%)	(107,569)	(2.5%)
Net Reduction	(1,389,039)	(33.7%)	(1,468,401)	(33.7%)
	$ 13,000	0.3%	$ 13,000	0.3%

	DECEMBER 31, 2010			
	CONSOLIDATED		BANK ONLY	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Tax expense at statutory rate	$ 1,814,679	34.0%	$ 1,958,339	34.0%
Increase (reduction) in taxes resulting from:				
S Corporation Election	117,046	2.2%	(26,614)	(0.4%)
Tax Exempt Interest	—	—	—	—
Bargain Purchase Gain	(1,851,994)	(34.7%)	(1,851,994)	(32.2%)
Built-in Gains Tax	—	—	—	—
State Replacement Tax	37,834	0.7%	37,834	0.7%
Other	(107,569)	(2.0%)	(107,569)	(1.9%)
Net Reduction	(1,804,683)	(33.8%)	(1,948,343)	(33.9%)
	$ 9,996	0.2%	$ 9,996	0.1%

Included in Other Liabilities in 2011 and Other Asets in 2010 of the Consolidated and Bank-Only Statements of Condition are deferred tax assets and liabilities as follows:

	CONSOLIDATED		BANK ONLY	
	2011	2010	2011	2010
Deferred Tax Asset	$ 212,737	$ 429,757	$ 212,737	$ 429,757
Deferred Tax Liability	(151,695)	(368,715)	(151,695)	(368,715)
Net Deferred Tax Assets/(Liabilities)	$ 61,042	$ 61,042	$ 61,042	$ 61,042

Note 11 - Long-Term Debt-Subordinated Debentures

In 2006, the Corporation formed a wholly-owned unconsolidated finance subsidiary ("Trust"), for the sole purpose of issuing $6 million of Trust Preferred securities. The proceeds of the Trust Preferred securities, along with proceeds of $186,000 from the issuance of common securities by the Trust to the Corporation, were used to purchase $6,186 million of the Corporations fixed rate junior subordinated notes ("Debentures").

The Debentures mature 30 years from the issuance date, but are redeemable (at par) at the Corporations' option at any time commencing on the fifth anniversary of the issuance (or upon the occurrence of certain other prescribed events). Interest payments on the debentures are payable quarterly. So long as an event of default has not occurred (described further below), the Corporation may defer interest payments for up to 20 consecutive quarters. Events of default include failure to pay interest at maturity, or filing bankruptcy.

If the Corporation were to elect to defer interest on the Debentures, the Corporation would generally be restricted from declaring or paying any dividends to common shareholders or repurchasing its common stock.

Debentures outstanding totaled $6.186 million at December 31, 2011 and December 31, 2010, respectively. The scheduled maturity of the Debentures is March 15, 2036. Interest and fees included in interest expense totaled $178,100 and $397,760 at December 31, 2011 and December 31, 2010, respectively. The Debentures interest rate is fixed for 5 years at 6.43% and there after financing at the 6 month Libor rate, plus 159 basis points.

Note 12 - Common Stock

The following schedule summarizes the information concerning the common stock of the Corporation and the Bank at December 31, 2011 and 2010.

	CONSOLIDATED		BANK ONLY	
	2011	2010	2011	2010
Par Value	$ 1	$ 1	$ 10	$ 10
Shares Authorized	400,000	400,000	93,750	93,750
Shares Outstanding	301,513	301,513	85,101	85,101
Weighted average number shares outstanding	301,513	301,513	85,101	85,101

Note 13 - Regulatory Matters

The Corporation's principal source of income is the payment of dividends on the stock of the banks owned by the Corporation. Illinois law restricts the Bank's ability to pay these dividends. Under the Illinois Banking Act, no dividend may be declared by an Illinois state-chartered bank (i) except out of the bank's net profits and (ii) unless the bank has transferred to surplus at least one-tenth of its net profits since the date of the declaration of the last preceding dividend, until the amount of its surplus is at least equal to its capital. Net profits under the Illinois Banking Act must be adjusted for losses and bad debts (i.e. debts owing to the bank on which interest is past due and unpaid for a period of six months or more unless such debts are well secured and in the process of collection).

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), no insured depository institution may declare any dividend if, following the payment of such dividend, the institution would be undercapitalized.

The Bank is required to have minimum tier one and total risk based capital ratios of 6% and 10% respectively. The Bank is required to have minimum leverage, risk-based and total risk-based capital ratios of 5%, 6%, and 10%, respectively. The following schedule summarizes information concerning the Bank's capital ratios:

	2011	2010
Leverage	6.85%	7.72%
Risk-Based Capital	17.30%	18.44%
Total Risk-Based Capital	18.57%	19.07%

Note 14 - Acquisition of Seaway Bank and Trust Company Common Stock

On September 29, 1987, the Corporation consummated a transaction in which it acquired the remaining 1,130 shares of bank common stock. Under the terms of this transaction, the Bank was merged with an interim bank. The bank resulting from the merger continued to conduct the business of the Bank with the same officers and directors, and with all the same rights, duties, powers and obligations which the Bank held immediately prior to the merger. Upon consummation of the merger, the holders of the remaining 1,130 shares of Bank common-stock relinquished any ownership interest in the Bank and became entitled to receive $145.00 cash for each of their shares. At September 29, 1987, the Corporation owned 100% of outstanding common stock of the Bank. Payment to the holders of the 1,130 shares of Bank common stock is made by the Corporation upon delivery of the certificates representing such shares. As of December 31, 2011 and 2010, 315 shares respectively, had not been delivered to the Corporation. The amount due to these shareholders was $45,675 at December 31, 2011 and December 31, 2010, respectively.

Note 15 - Profit Sharing Trust

On January 1, 1977, the Board of Directors of the Bank adopted an Employee Profit Sharing Plan for those employees with a minimum of one year of service. Effective January 1, 1989, the Board of Directors adopted the Seaway National Bank Employee Savings Plan. The two plans were merged as of March 31, 1990 to form the Seaway National Bank Profit Sharing Trust (the "Trust"). The Trust qualifies under Internal Revenue Code sections 401 and 501.

The Bank makes contributions to the Trust from its current or accumulated profits, as well as, a matching contribution on behalf of each qualified employee equal to 25% of the employee's matchable salary reduction of up to 4%. Employees may elect to make a salary reduction contribution on an optional basis up to a maximum of 12% of their annual earnings. Contributions of the Bank and employees are subject to certain Internal Revenue Code limitations. Vesting in the Trust begins after two years of service, and employees are fully vested after seven years of service. The Bank's contributions to the Trust were $50,000 in 2011 and 2010, respectively.

Note 16 - Stock Option Plan

In December of 1998, the Seaway National Bank Incentive Stock Option Plan (ISO) was established. Participants in the Plan shall be selected by the Board of Directors from among the Bank's executive officers and any other key employees of the Bank who have the capability of making a substantial contribution to the Bank. The aggregate number of shares, which may be issued under the options granted pursuant to the Plan shall be 25,000 Common Shares. The grant of incentive stock options (ISO) will be considered annually at a regularly scheduled board meeting. The price per share of Common Stock payable upon exercise of an ISO shall be equal to 110% of the fair market value of a share of Common Stock on the date the ISO is granted. The Bank will engage the services of an independent business valuation company to determine the fair value of a share of Common Stock on the date the ISO is granted. Each ISO shall be fully exercisable upon issuance and may be exercised during a period of ten (10) years, commencing on the date of grant. The Plan was terminated effective October 1, 2003 by the Board of Directors in August 2003.

In August 2003, the Board of Directors approved the Executive Incentive Plan (Phantom) and the Supplemental Executive Retirement Plan, (SERP). These plans were designed to replace the ISO Plan. The expense recorded in 2011 and 2010 for the Phantom Plan $46,787 and $2,260, respectively. The SERP Plan provides an incentive for continuing significant performance by key executives and provides for additional retirement benefits. During 2003, the Bank purchased a $4.3 million bank-owned life insurance contract to fund the Plan. The contract has been reported in the financial statements in Other Assets. At December 31, 2011 and 2010 the cash surrender value was $6.551 and $5.664 million, respectively.

Note 17 - Commitments and Contingencies

The Bank's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. A summary of the Bank's commitments and contingent liabilities at December 31, 2011 and 2010 are as follows:

	APPROXIMATE AMOUNT			
		2011		2010
Commitments to Extend Credit	$	52,946,687	$	46,030,497
Home Equity Loans	$	4,290,414	$	5,065,207
Standby Letters of Credit	$	380,000	$	1,766,568

Commitments to extend credit, home equity lines of credit and standby letters of credit all include exposure to some credit loss in the event of non-performance by the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for the extension of credit that are recorded on the Statement of Condition. Because these instruments have fixed maturity dates and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank.

Generally, home equity lines are secured by real property and standby letters of credit are secured by deposits or other acceptable collateral. The Bank does not anticipate any losses as a result of these commitments.

The Bank is a defendant in legal actions arising from normal business activities. Management believes that those actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Bank's financial position.

Note 18 - Retirement of Certain Seaway Bancshares, Inc. Common Stock

On September 27, 2000, Seaway Bancshares, Inc. made an offer of $80.00 a share to any stockholder who owned 500 or fewer shares of common stock. This offer expired on October 27, 2000. Related to this offer 1,171 shares valued at $93,680 were tendered.

On October 19, 2000 the Board of Directors of Seaway Bancshares, Inc. approved a resolution to effectuate a reverse stock split on a 101 to 1 basis on all of the issued and outstanding shares of record on the close of business on November 14, 2000, and to retire fractional shares at a price of $77.00 per share. The Corporation retired 479 shares valued at $36,883 under this resolution. The Corporation upon completion of the stock split, acquired from shareholders who owned fewer than 100 shares of the common stock, 316 shares that were not tendered at December 31, 2000 under the November 14, 2000 offer. The value of these shares acquired, but not tendered, was $2,695 at December 31, 2011 and 2010, respectively, and is included on Other Liabilities on the Seaway Bancshares, Inc. financial statements.

Note 19 - Subsequent Events

Management has evaluated subsequent events through June 4, 2012, the date which the financial statements were available to be issued.

Independent Auditor's Report

To the Board of Directors and Stockholders of Seaway Bancshares, Inc. and Subsidiary

We have audited the accompanying consolidated statements of financial condition of Seaway Bancshares, Inc. (a Delaware Corporation) and Subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended and the accompanying statements of financial condition of Seaway Bank and Trust Company as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

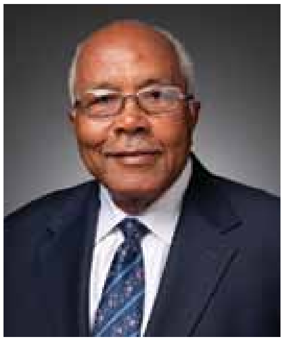
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seaway Bancshares, Inc. and Subsidiary and Seaway Bank and Trust Company, as of December 31, 2011 and 2010, and the results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

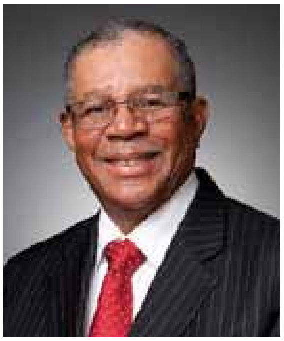
Washington, Pittman & McKeever, LLC
Chicago, Illinois

June 4, 2012

Board of Directors



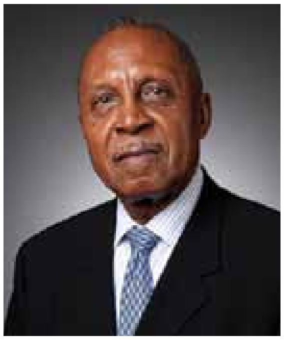
Jacoby Dickens
Chairman of the Board



Walter E. Grady
President &
Chief Executive Officer

Richard S. Abrams
Senior Executive VP/Chief
Operating Officer & Secretary

William Bates, Jr.
Executive VP/General
Counsel



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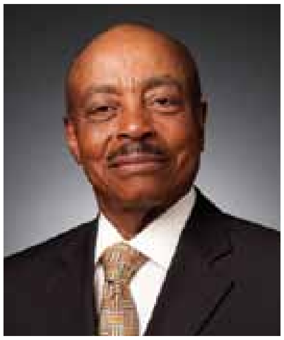
Tailo-Rite Clothing Care

James W. Compton
President & Chief Executive
Officer – Retired
Chicago Urban League

Phyllis Davis
President
Phyllis Davis Real Estate



David A. Kelly
Vice President – Retired
NiSource, Inc.

Jory Luster
President
Luster Products

Executive Management

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President and Chief Executive Officer

Richard S. Abrams
Senior Executive Vice President/ Chief Operating Officer and Secretary

Arlene Williams
Senior Executive Vice President/ Lending

William Bates, Jr.
Executive Vice President/General Counsel

Senior Management

Walter E. Grady
President & CEO

Richard S. Abrams
Senior Executive Vice President/ COO

Arlene Williams
Senior Executive Vice President/ Lending

William Bates, Jr.
Executive Vice President/General Counsel

Trina E. Phelps
Senior Vice President/Internal Audit/Loan Review

Denise Weaver
Senior Vice President/Operations Officer

Gail L. Bahar
Vice President/Human Resources Officer

Claudette Harris
Vice President/Marketing Officer

Lois B. Jenkins
Vice President/Trust Officer

Dwayne Shipp
Vice President/Comptroller

Branch Management

North Division
Tracy Meeks
Senior Vice President/Manager (Milwaukee)

Central Division
Musibau Oriola
Vice President Operations Officer (Chicago)

West Division
Carol Porter
Vice President Operations Officer (Maywood)

Airport Operations
Sandra Alfonso
Airport Operations Officer

Branch Locations

Main Bank
645 East 87th Street
Chicago, IL 60619

Broadview Branch
2100 West Roosevelt Road
Broadview, IL 60155

Bronzeville Branch
3501 South King Drive
Chicago, IL 60653

Crestwood Branch
5601 West 127th Street
Crestwood, IL 60445

East Branch
825 East 87th Street
Chicago, IL 60619

Maywood Branch
150 South 5th Avenue
Maywood, IL 60153

Milwaukee Branch
2102 West Fond du Lac Avenue
Milwaukee, WI 53206

South Branch
11116 South Michigan Avenue
Chicago, IL 60628

Waukegan Branch
1334 North Lewis Avenue
Waukegan, IL 60085

West Branch
Chatham Ridge Shopping Center
8652 South Lafayette Avenue
Chicago, IL 60620

Airport Operations

O'Hare International Airport
Foreign Currency Exchange
Terminals 1, 2, 3 and 5
Depository, Terminals 2 and 5
Chicago, IL 60666

Midway International Airport
Foreign Currency Exchange
Concourse A
5700 South Cicero Avenue
Chicago, IL 60638

Additional ATM Locations

Food4Less
112 West 87th Street
Chicago, IL 60620

McCormick Place
2301 South Lake Shore Drive
Chicago, IL 60615

Skyway Bowl
9915 South Torrence Avenue
Chicago, IL 60617

McDonald's Restaurant
600 East 115th Street
Chicago, IL 60628

Chicago State University
9501 South King Drive
Chicago, IL 60628

Lena's Grocery
4623 Burleigh
Milwaukee, WI 53206

3334 North Holton Street
Milwaukee, WI 53212

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Seaway Bancshares, Inc.
645 East 87th Street
Chicago, Illinois 60619

773. 487. 4800
www.seawaybank.us