



NEWS RELEASE

## Old Second Bancorp, Inc. Announces Second Quarter Net Income of \$1.3 Million

7/25/2012

Operating Earnings Return to Profitability

AURORA, Ill.--(BUSINESS WIRE)-- Old Second Bancorp, Inc. (the "Company" or "Old Second") (NASDAQ: OSBC), parent company of Old Second National Bank (the "Bank"), today announced results of operations for the second quarter of 2012. The Company reported a net income of \$1.3 million, compared to \$1.0 million in the second quarter of 2011. The Company's net income available to common shareholders of \$14,000, or \$0.00 per diluted share, for the quarter compared to a net loss available to common shareholders of \$162,000, or \$0.01 per diluted share, in the second quarter of 2011.

The Company's \$200,000 provision for loan losses for the second quarter of 2012 compared to a \$500,000 provision in the second quarter of 2011 and a \$6.1 million provision in the first quarter of 2012. The allowance for loan losses was 35.79% of nonperforming loans as of June 30, 2012 a decline from 37.95% as of March 31, 2012 and 36.81% a year earlier.

"Performance in second quarter reflects solid progress on a number of our corporate goals," said Bill Skoglund, Chairman and CEO. "Quarterly operating earnings returned to profitability on targeted management of our loan and investment asset portfolios combined with our noninterest expense management regimen. While total loans decreased in the quarter, we successfully worked with long term loan clients to maintain and improve relationships during this stressed economic environment of the past few years. Total noninterest expense increased only 1.1% in second quarter 2012 from the same period in 2011 and actually decreased 3.8% for the first half 2012 compared to first half 2011. We expect to improve earnings and shareholder value by continuing outstanding service to our customers as they look to expand their business and personal investments in our targeted markets."

"We are greatly encouraged to see nonperforming assets decrease to levels not seen at any quarter end since December 2009. Total nonperforming assets decreased to \$202.2 million from \$232.2 million at December 31, 2011 reflecting great work by our people, commitment to our organization from loyal customers and improved market conditions for distressed asset dispositions."

"Further, our strong liquidity position enabled us to realign our securities portfolio to reduce exposure to mortgage backed securities and to reduce related prepayment risk," continued Skoglund. "Investment securities continued to be a profitable and productive use of liquid funds as we rebuild our lending pipeline."

"Recognizing our need and obligation to maintain and grow capital, we are pleased to continue to exceed the Bank capital ratio objectives we established in our agreement with the Office of the Comptroller of the Currency. At June 30, 2012 the Bank's leverage ratio was 9.35% up 13 basis points from March 31, 2012 and 60 basis points above the established 8.75% objective. The Bank's total capital ratio was 13.25%, up 37 basis points from March 31, 2012 and 200 basis points above the 11.25% agreed objective."

## 2012 Financial Highlights/Overview

### Earnings

- Second quarter net income before taxes of \$1.3 million compared to a net income before taxes of \$1.0 million in the same quarter of 2011.
- Second quarter net income to common stockholders of \$14,000 compared to a net loss to common stockholders of \$162,000 in the same quarter of 2011.
- The tax-equivalent net interest margin was 3.65% during the second quarter of 2012 compared to 3.59% in the same quarter of 2011 reflecting an increase of 17 basis points compared to the first quarter of 2012.
- Noninterest income of \$20.9 million was \$2.5 million higher in the first half of 2012 than in the same period in 2011, reflecting higher mortgage loan and OREO lease revenues.
- Noninterest expenses of \$47.1 million were \$1.9 million or 3.8% lower in the first half of 2012 than in the same period in 2011, reflecting reduced expenses in many categories including, most notably FDIC insurance, legal fees and occupancy related expenses.

### Capital

- Bank leverage capital ratio increased to 9.35% from 9.34% at December 31, 2011.
- Bank total capital ratio increased to 13.25% from 12.97% at December 31, 2011.

- Company leverage ratio decreased to 4.81% from 4.98% at December 31, 2011.
- Company total capital ratio decreased to 12.33% from 12.38% at December 31, 2011.
- Company tangible common equity to tangible assets decreased from (0.08)% at December 31, 2011 to (0.27)% in the second quarter of 2012.

## Asset Quality/Balance Sheet Overview

- Nonperforming loans declined \$26.3 million or 19.0% during the first six months of 2012 to \$112.6 million as of June 30, 2012, from \$138.9 million as of December 31, 2011. Our June 30, 2012 lower level of nonperforming loans as measured at quarter end was the lowest since December 31, 2008.
- The provision for loan loss expense decreased to \$200,000 for the second quarter ended June 30, 2012, compared to \$500,000 in the same period in 2011 and \$6.1 million in the first quarter of 2012.
- Loans that were classified as performing but 30 to 89 days past due and still accruing interest decreased to \$6.4 million at June 30, 2012 from \$7.4 million at March 31, 2012, \$12.1 million at December 31, 2011.
- Securities available-for-sale increased \$91.3 million during 2012 to \$398.9 million at June 30, 2012 from \$307.6 million at December 31, 2011 under limits specified in our Investment Policy and with no significant impact on the current liquidity profile. At \$136.7 million or 34.3% of the total portfolio, asset-backed securities are the largest component of the total portfolio.

Non-GAAP Presentations: Management has traditionally disclosed certain non-GAAP ratios to evaluate and measure the Company's performance, including a net interest margin calculation. The net interest margin is calculated by dividing net interest income on a tax equivalent basis by average earning assets for the period. Management believes this measure provides investors with information regarding balance sheet profitability. Management also presents an efficiency ratio that is non-GAAP. The efficiency ratio is calculated by dividing adjusted noninterest expense by the sum of net interest income on a tax equivalent basis and adjusted noninterest income. Management believes this measure provides investors with information regarding the Company's operating efficiency and how management evaluates performance internally. Consistent with industry practice, management also disclosed the tangible common equity to tangible assets and the Tier 1 common equity to risk weighted assets in the discussion immediately above and in the following tables. The tables provide a reconciliation of each non-GAAP measure to the most comparable GAAP equivalent.

Forward Looking Statements: This report may contain forward-looking statements. Forward looking statements are identifiable by the inclusion of such qualifications as expects, intends, believes, may, likely or other indications that the particular statements are not based upon facts but are rather based upon the Company's beliefs as of the date of this release. Actual events and results may differ significantly from those described in such forward-looking

statements, due to changes in the economy, interest rates or other factors. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events. For additional information concerning the Company and its business, including other factors that could materially affect the Company's financial results, please review our filings with the Securities and Exchange Commission.

Financial Highlights (unaudited)  
In thousands, except share data

	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Summary Statements of Operations:</b>				
Net interest and dividend income	\$ 15,690	\$ 16,474	\$ 30,794	\$ 33,011
Provision for loan losses	200	500	6,284	4,500
Noninterest income	10,396	9,397	20,860	18,338
Noninterest expense	24,634	24,358	47,086	48,956
Provision for income taxes	-	-	-	-
Net income (loss)	1,252	1,013	(1,716)	(2,107)
Net income (loss) available to common stockholders	14	(162)	(4,177)	(4,441)
<b>Key Ratios (annualized):</b>				
Return on average assets	0.26%	0.20%	(0.18%)	(0.20%)
Return to common stockholders on average assets	0.00%	(0.03%)	(0.43%)	(0.43%)
Return on average equity	7.09%	5.13%	(4.71%)	(5.29%)
Return on average common equity	(23.08%)	(7.05%)	(392.52%)	(50.68%)
Net interest margin (non-GAAP tax equivalent) <sup>1</sup>	3.65%	3.59%	3.57%	3.54%
Efficiency ratio (non-GAAP tax equivalent) <sup>1</sup>	70.07%	72.67%	69.67%	74.15%
Tangible common equity to tangible assets <sup>2</sup>	(0.27%)	0.28%	(0.27%)	0.28%
Tier 1 common equity to risk weighted assets <sup>2</sup>	(0.12%)	0.36%	(0.12%)	0.36%
Company total capital to risk weighted assets <sup>3</sup>	12.33%	12.13%	12.33%	12.13%
Company tier 1 capital to risk weighted assets <sup>3</sup>	6.16%	6.35%	6.16%	6.35%
Company tier 1 capital to average assets	4.81%	5.10%	4.81%	5.10%
Bank total capital to risk weighted assets <sup>3</sup>	13.25%	12.61%	13.25%	12.61%
Bank tier 1 capital to risk weighted assets <sup>3</sup>	11.99%	11.33%	11.99%	11.33%
Bank tier 1 capital to average assets	9.35%	9.10%	9.35%	9.10%
<b>Per Share Data:</b>				
Basic loss per share	\$ 0.00	(\$0.01)	(\$0.29)	(\$0.31)
Diluted loss per share	\$ 0.00	(\$0.01)	(\$0.29)	(\$0.31)
Dividends declared per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Common book value per share	(\$0.09)	\$ 0.75	(\$0.09)	\$ 0.75
Tangible common book value per share	(\$0.39)	\$ 0.39	(\$0.39)	\$ 0.39
Ending number of shares outstanding	14,084,328	14,034,991	14,084,328	14,034,991
Average number of shares outstanding	14,084,328	14,034,991	14,063,936	14,004,599
Diluted average shares outstanding	14,210,928	14,236,220	14,203,535	14,225,022
<b>End of Period Balances:</b>				
Loans	\$ 1,238,134	\$ 1,530,406	\$ 1,238,134	\$ 1,530,406
Deposits	1,770,024	1,769,060	1,770,024	1,769,060
Stockholders' equity	70,147	80,974	70,147	80,974
Total earning assets	1,740,665	1,767,038	1,740,665	1,767,038
Total assets	1,985,678	1,981,409	1,985,678	1,981,409
<b>Average Balances:</b>				
Loans	\$ 1,287,815	\$ 1,575,062	\$ 1,318,629	\$ 1,613,294
Deposits	1,754,543	1,839,091	1,749,434	1,875,644
Stockholders' equity	70,992	79,254	73,252	80,393
Total earning assets	1,737,954	1,852,442	1,745,217	1,889,985
Total assets	1,963,955	2,048,779	1,960,735	2,085,324

1 Tabular disclosures of the tax equivalent calculation including the net interest margin and efficiency ratio for the quarters ending June 30, 2012, and 2011, respectively, are presented on page 20.

2 The information to reconcile GAAP measures and the ratios of Tier 1 capital, total capital, tangible common equity or Tier 1 common equity, as applicable, to average total assets, risk-weighted assets or tangible assets, as applicable, are presented on page 21.

3 The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Those agencies define the basis for these calculations including the prescribed methodology for the calculation of the amount of risk-weighted assets.

Financial Highlights, continued (unaudited)  
In thousands, except share data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Asset Quality</b>				
Charge-offs	\$ 9,130	\$ 10,992	\$ 21,252	\$ 20,079
Recoveries	1,606	3,382	3,257	5,289
Net charge-offs	\$ 7,524	\$ 7,610	\$ 17,995	\$ 14,790
Provision for loan losses	200	500	6,284	4,500
Allowance for loan losses to loans	3.25%	4.31%	3.25%	4.31%

	As of June 30,		(audited) December 31,
	2012	2011	2011
Nonaccrual loans <sup>1</sup>	\$ 100,508	\$ 160,425	\$ 126,786
Restructured loans	12,069	18,649	11,839
Loans past due 90 days	-	298	318
Nonperforming loans	112,577	179,372	138,943
Other real estate	89,671	82,611	93,290
Receivable from swap terminations	-	-	-
Nonperforming assets	\$ 202,248	\$ 261,983	\$ 232,233

<sup>1</sup> Includes \$11.3 million and \$30.4 million in nonaccrual restructured loans at June 30, 2012, and 2011, respectively.

Major Classifications of Loans

	As of June 30,		(audited) December 31,
	2012	2011	2011
Commercial and industrial	\$ 90,051	\$ 120,945	\$ 98,099
Real estate - commercial	625,056	765,599	704,492
Real estate - construction	57,064	94,529	71,436
Real estate - residential	447,151	519,907	477,200
Installment	3,321	4,361	3,789
Overdraft	520	1,462	457
Lease financing receivables	2,644	2,260	2,087
Other	12,235	21,733	11,498
	1,238,042	1,530,796	1,369,058
Net deferred loan costs and (fees)	92	(390)	(73)
	\$ 1,238,134	\$ 1,530,406	\$ 1,368,985

Major Classifications of Deposits

Noninterest bearing	\$ 412,635	\$ 343,789	\$ 361,963
Savings	213,634	194,623	196,870
NOW accounts	272,330	254,543	275,957
Money market accounts	314,236	288,861	288,508
Certificates of deposits of less than \$100,000	347,789	436,114	390,530
Certificates of deposits of \$100,000 or more	209,400	251,130	226,953
	\$ 1,770,024	\$ 1,769,060	\$ 1,740,781

Old Second Bancorp, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(In thousands)

	(unaudited) June 30, 2012	(audited) December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 45,015	\$ 2,692
Interest bearing deposits with financial institutions	85,014	48,257
Cash and cash equivalents	130,029	50,949
Securities available-for-sale	398,895	307,564
Federal Home Loan Bank and Federal Reserve Bank stock	12,177	14,050
Loans held-for-sale	6,445	12,806
Loans	1,238,134	1,368,985
Less: allowance for loan losses	40,286	51,997
Net loans	1,197,848	1,316,988
Premises and equipment, net	49,196	50,477
Other real estate owned, net	89,671	93,290
Mortgage servicing rights, net	3,531	3,487
Core deposit and other intangible asset, net	4,233	4,678
Bank-owned life insurance (BOLI)	53,416	52,595
Other assets	40,217	34,534
Total assets	<u>\$ 1,985,658</u>	<u>\$ 1,941,418</u>
<b>Liabilities</b>		
Deposits:		
Noninterest bearing demand	\$ 412,635	\$ 361,963
Interest bearing:		
Savings, NOW, and money market	800,200	761,335
Time	557,189	617,483
Total deposits	1,770,024	1,740,781
Securities sold under repurchase agreements	13,802	901
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
Other liabilities	27,807	21,856
Total liabilities	1,915,511	1,867,416
<b>Stockholders' Equity</b>		
Preferred stock	71,358	70,863
Common stock	18,729	18,628
Additional paid-in capital	66,051	65,999
Retained earnings	12,930	17,107
Accumulated other comprehensive loss	(3,965)	(3,702)
Treasury stock	(94,956)	(94,893)
Total stockholders' equity	70,147	74,002
Total liabilities and stockholders' equity	<u>\$ 1,985,658</u>	<u>\$ 1,941,418</u>

Old Second Bancorp, Inc. and Subsidiaries  
Consolidated Statements of Operations  
(In thousands, except share data)

	(unaudited) Three Months Ended June 30,		(unaudited) Year to Date June 30,	
	2012	2011	2012	2011
<b>Interest and Dividend Income</b>				
Loans, including fees	\$ 17,617	\$ 20,749	\$ 35,283	\$ 41,965
Loans held-for-sale	49	75	133	126
Securities, taxable	1,856	885	3,354	1,763
Securities, tax exempt	102	127	205	269
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	77	74	151	143

Federal funds sold	-	1	-	1
Interest bearing deposits with financial institutions	35	69	60	139
Total interest and dividend income	19,736	21,980	39,186	44,406
<b>Interest Expense</b>				
Savings, NOW, and money market deposits	254	372	554	948
Time deposits	2,342	3,791	4,947	7,784
Securities sold under repurchase agreements	1	-	1	-
Other short-term borrowings	1	-	4	-
Junior subordinated debentures	1,220	1,133	2,417	2,246
Subordinated debt	224	206	461	409
Notes payable and other borrowings	4	4	8	8
Total interest expense	4,046	5,506	8,392	11,395
Net interest and dividend income	15,690	16,474	30,794	33,011
Provision for loan losses	200	500	6,284	4,500
Net interest and dividend income after provision for loan losses	15,490	15,974	24,510	28,511
<b>Noninterest Income</b>				
Trust income	1,463	1,715	3,114	3,499
Service charges on deposits	1,893	2,047	3,724	3,864
Secondary mortgage fees	311	236	607	463
Mortgage servicing gain, net of changes in fair value	(397)	(263)	(210)	107
Net gain on sales of mortgage loans	2,358	1,117	5,005	2,353
Securities gains, net	692	512	793	651
Increase in cash surrender value of bank-owned life insurance	326	434	821	897
Debit card interchange income	1,113	784	1,873	1,484
Lease revenue from other real estate owned	911	957	2,090	1,477
Net gain on sales of other real estate owned	355	402	378	636
Litigation related income	3	-	119	-
Other income	1,368	1,456	2,546	2,907
Total noninterest income	10,396	9,397	20,860	18,338
<b>Noninterest Expense</b>				
Salaries and employee benefits	8,823	8,580	17,872	17,509
Occupancy expense, net	1,207	1,310	2,442	2,655
Furniture and equipment expense	1,183	1,475	2,338	2,935
FDIC insurance	1,029	1,113	2,029	2,852
General bank insurance	841	826	1,687	1,651
Amortization of core deposit and other intangible asset	250	206	445	435
Advertising expense	264	187	582	420
Debit card interchange expense	453	324	795	697
Legal fees	770	1,040	1,455	1,983
Other real estate expense	6,788	5,951	11,442	11,265
Other expense	3,026	3,346	5,999	6,554
Total noninterest expense	24,634	24,358	47,086	48,956
Income (loss) before income taxes	1,252	1,013	(1,716)	(2,107)
Income taxes	-	-	-	-
<b>Net Income (loss)</b>	1,252	1,013	\$ (1,716)	\$ (2,107)
Preferred stock dividends and accretion	1,238	1,175	2,461	2,334
<b>Net Income (loss) available to common stockholders</b>	\$ 14	\$ (162)	\$ (4,177)	\$ (4,441)
Basic loss per share	\$ -	\$ (0.01)	\$ (0.29)	\$ (0.31)
Diluted loss per share	-	(0.01)	(0.29)	(0.31)
Dividends declared per share	-	-	-	-

ANALYSIS OF AVERAGE BALANCES,  
TAX EQUIVALENT INTEREST AND RATES  
Three Months ended June 30, 2012, and 2011  
(Dollar amounts in thousands - unaudited)

	2012			2011		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
<b>Assets</b>						
Interest bearing deposits	\$ 56,486	\$ 35	0.25%	\$ 112,817	\$ 69	0.24%
Federal funds sold	-	-	-	689	1	0.57
Securities:						
Taxable	364,475	1,856	2.04	130,853	885	2.71
Non-taxable (tax equivalent)	11,165	157	5.62	12,974	195	6.01
Total securities	375,640	2,013	2.14	143,827	1,080	3.00
Dividends from FRB and FHLB stock	12,382	77	2.49	14,050	74	2.11
Loans and loans held-for-sale 1	1,293,446	17,688	5.41	1,581,059	20,845	5.22
Total interest earning assets	1,737,954	19,813	4.52	1,852,442	22,069	4.72
Cash and due from banks	34,279	-	-	34,953	-	-

Allowance for loan losses	(48,353)	-	-	(75,276)	-	-
Other noninterest bearing assets	240,075	-	-	236,660	-	-
Total assets	<u>\$ 1,963,955</u>			<u>\$ 2,048,779</u>		
<b>Liabilities and Stockholders' Equity</b>						
NOW accounts	\$ 279,205	\$ 67	0.10%	\$ 263,919	\$ 113	0.17%
Money market accounts	310,497	135	0.17	298,090	187	0.25
Savings accounts	214,873	52	0.10	195,547	72	0.15
Time deposits	576,099	2,342	1.64	724,453	3,791	2.10
Interest bearing deposits	1,380,674	2,596	0.76	1,482,009	4,163	1.13
Securities sold under repurchase agreements	4,636	1	0.09	2,046	-	-
Other short-term borrowings	3,132	1	0.13	2,802	-	-
Junior subordinated debentures	58,378	1,220	8.36	58,378	1,133	7.76
Subordinated debt	45,000	224	1.97	45,000	206	1.81
Notes payable and other borrowings	500	4	3.16	500	4	3.16
Total interest bearing liabilities	1,492,320	4,046	1.09	1,590,735	5,506	1.39
Noninterest bearing deposits	373,869	-	-	357,082	-	-
Other liabilities	26,774	-	-	21,708	-	-
Stockholders' equity	70,992	-	-	79,254	-	-
Total liabilities and stockholders' equity	<u>\$ 1,963,955</u>			<u>\$ 2,048,779</u>		
Net interest income (tax equivalent)		<u>\$ 15,767</u>			<u>\$ 16,563</u>	
Net interest income (tax equivalent) to total earning assets			<u>3.65%</u>			<u>3.59%</u>
Interest bearing liabilities to earning assets	<u>85.87%</u>			<u>85.87%</u>		

1. Interest income from loans is shown on a tax equivalent basis as discussed in the table on page 20 and includes fees of \$519,000 and \$705,000 for the second quarter of 2012 and 2011, respectively. Nonaccrual loans are included in the above stated average balances.

Note: Tax equivalent basis is calculated using a marginal tax rate of 35%.

ANALYSIS OF AVERAGE BALANCES,  
TAX EQUIVALENT INTEREST AND RATES  
Six Months ended June 30, 2012, and 2011  
(Dollar amounts in thousands - unaudited)

	2012			2011		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
<b>Assets</b>						
Interest bearing deposits	\$ 50,252	\$ 60	0.24%	\$ 112,958	\$ 139	0.24%
Federal funds sold	-	-	-	1,075	1	0.19
Securities:						
Taxable	345,681	3,354	1.94	129,521	1,763	2.72
Non-taxable (tax equivalent)	10,872	316	5.81	13,970	414	5.93
Total securities	356,553	3,670	2.06	143,491	2,177	3.03
Dividends from FRB and FHLB stock	12,854	151	2.35	13,875	143	2.06
Loans and loans held-for-sale 1	1,325,558	35,462	5.29	1,618,586	42,125	5.18
Total interest earning assets	1,745,217	39,343	4.46	1,889,985	44,585	4.69
Cash and due from banks	25,344	-	-	34,917	-	-
Allowance for loan losses	(49,857)	-	-	(77,034)	-	-
Other noninterest bearing assets	240,031	-	-	237,456	-	-
Total assets	<u>\$ 1,960,735</u>			<u>\$ 2,085,324</u>		
<b>Liabilities and Stockholders' Equity</b>						
NOW accounts	\$ 278,141	\$ 139	0.10%	\$ 267,983	\$ 252	0.19%
Money market accounts	305,629	301	0.20	303,647	506	0.34
Savings accounts	210,019	114	0.11	190,234	190	0.20
Time deposits	584,830	4,947	1.70	755,025	7,784	2.08
Interest bearing deposits	1,378,619	5,501	0.80	1,516,889	8,732	1.16
Securities sold under repurchase agreements	3,156	1	0.06	1,901	-	-
Other short-term borrowings	6,648	4	0.12	2,918	-	-
Junior subordinated debentures	58,378	2,417	8.28	58,378	2,246	7.69
Subordinated debt	45,000	461	2.03	45,000	409	1.81
Notes payable and other borrowings	500	8	3.16	500	8	3.18



Total interest bearing liabilities	1,492,301	8,392	1.13	1,625,586	11,395	1.41
Noninterest bearing deposits	370,815	-	-	358,755	-	-
Other liabilities	24,367	-	-	20,590	-	-
Stockholders' equity	73,252	-	-	80,393	-	-
Total liabilities and stockholders' equity	<u>\$ 1,960,735</u>			<u>\$ 2,085,324</u>		
Net interest income (tax equivalent)		<u>\$ 30,951</u>			<u>\$ 33,190</u>	
Net interest income (tax equivalent) to total earning assets			<u>3.57%</u>			<u>3.54%</u>
Interest bearing liabilities to earning assets	<u>85.51%</u>			<u>86.01%</u>		

1. Interest income from loans is shown on a tax equivalent basis as discussed in the table on page 20 and includes fees of \$936,000 and \$1.2 million for the first six months of 2012 and 2011, respectively. Nonaccrual loans are included in the above stated average balances.

Note: Tax equivalent basis is calculated using a marginal tax rate of 35%.

The following tables provide a reconciliation of each non-GAAP measure to the most comparable GAAP equivalent. (Dollar amounts in thousands- unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Net Interest Margin</b>				
Interest income (GAAP)	\$ 19,736	\$ 21,980	\$ 39,186	\$ 44,406
Taxable equivalent adjustment:				
Loans	22	21	46	34
Securities	55	68	111	145
Interest income (TE)	<u>19,813</u>	<u>22,069</u>	<u>39,343</u>	<u>44,585</u>
Interest expense (GAAP)	4,046	5,506	8,392	11,395
Net interest income (TE)	<u>\$ 15,767</u>	<u>\$ 16,563</u>	<u>\$ 30,951</u>	<u>\$ 33,190</u>
Net interest income (GAAP)	<u>\$ 15,690</u>	<u>\$ 16,474</u>	<u>\$ 30,794</u>	<u>\$ 33,011</u>
Average interest earning assets	\$ 1,737,954	\$ 1,852,442	\$ 1,745,217	\$ 1,889,985
Net interest margin (GAAP)	3.63%	3.57%	3.55%	3.52%
Net interest margin (TE)	3.65%	3.59%	3.57%	3.54%
<b>Efficiency Ratio</b>				
Noninterest expense	\$ 24,634	\$ 24,358	\$ 47,086	\$ 48,956
Less amortization of core deposit and other intangible asset	250	206	445	435
Less other real estate expense	6,788	5,951	11,442	11,265
Adjusted noninterest expense	<u>17,596</u>	<u>18,201</u>	<u>35,199</u>	<u>37,256</u>
Net interest income (GAAP)	15,690	16,474	30,794	33,011
Taxable-equivalent adjustment:				
Loans	22	21	46	34
Securities	55	68	111	145
Net interest income (TE)	<u>15,767</u>	<u>16,563</u>	<u>30,951</u>	<u>33,190</u>
Noninterest income	10,396	9,397	20,860	18,338
Less litigation related income	3	-	119	-
Less securities gain, net	692	512	793	651
Less gain on sale of OREO	355	402	378	636
Adjusted noninterest income, plus net interest income (TE)	<u>25,113</u>	<u>25,046</u>	<u>50,521</u>	<u>50,241</u>
Efficiency ratio	70.07%	72.67%	69.67%	74.15%

(unaudited)

(unaudited)

	As of June 30,		December 31,
	2012	2011	2011
	(dollars in thousands)		
<b>Tier 1 capital</b>			
Total stockholders' equity	\$ 70,147	\$ 80,974	\$ 74,002
Tier 1 adjustments:			
Trust preferred securities	24,704	27,851	25,901
Cumulative other comprehensive loss	3,965	2,579	3,702
Disallowed intangible assets	(4,233)	(5,090)	(4,678)
Disallowed deferred tax assets	-	(1,805)	(2,592)
Other	(353)	(402)	(349)
Tier 1 capital	\$ 94,230	\$ 104,107	\$ 95,986
<b>Total capital</b>			
Tier 1 capital	\$ 94,230	\$ 104,107	\$ 95,986
Tier 2 additions:			
Allowable portion of allowance for loan losses	19,370	21,059	19,736
Additional trust preferred securities disallowed for tier 1 capital	31,921	28,774	30,724
Subordinated debt	45,000	45,000	45,000
Tier 2 additions subtotal	96,291	94,833	95,460
Allowable Tier 2	94,230	94,833	95,460
Other Tier 2 capital components	(6)	(7)	(7)
Total capital	\$ 188,454	\$ 198,933	\$ 191,439
<b>Tangible common equity</b>			
Total stockholders' equity	\$ 70,147	\$ 80,974	\$ 74,002
Less: Preferred equity	71,358	70,385	70,863
Intangible assets	4,233	5,090	4,678
Tangible common equity	\$ (5,444)	\$ 5,499	\$ (1,539)
<b>Tier 1 common equity</b>			
Tangible common equity	\$ (5,444)	\$ 5,499	\$ (1,539)
Tier 1 adjustments:			
Cumulative other comprehensive loss	3,965	2,579	3,702
Other	(353)	(2,207)	(2,941)
Tier 1 common equity	\$ (1,832)	\$ 5,871	\$ (778)
<b>Tangible assets</b>			
Total assets	\$ 1,985,658	\$ 1,981,409	\$ 1,941,418
Less:			
Intangible assets	4,233	5,090	4,678
Tangible assets	\$ 1,981,425	\$ 1,976,319	\$ 1,936,740
<b>Total risk-weighted assets</b>			
On balance sheet	\$ 1,484,939	\$ 1,590,575	\$ 1,511,815
Off balance sheet	43,730	49,219	34,824
Total risk-weighted assets	\$ 1,528,669	\$ 1,639,794	\$ 1,546,639
<b>Average assets</b>			
Total average assets for leverage	\$ 1,959,369	\$ 2,041,482	\$ 1,925,953

Old Second Bancorp, Inc.

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Chief Financial Officer

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Source: Old Second Bancorp, Inc.