



NEWS RELEASE

# Old Second Bancorp, Inc. Announces Third Quarter Results

10/24/2012

Targeted Asset Quality Management & Asset Quality Improvement

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 third quarter of 2012. The Company reported a net income of \$120,000, compared to a net loss of \$1.4 million in the third quarter of 2011. The Company's net loss available to common shareholders of \$1.1 million, or \$0.08 per diluted share, for the quarter compared to a net loss available to common shareholders of \$2.6 million, or \$0.18 per diluted share, in the third quarter of 2011.

Old Second also announced that its principle banking subsidiary, Old Second National Bank, recorded net income of \$1.8 million in third quarter and a net income of \$3.4 million for the first nine months of 2012.

The Company did not record a provision for loan losses for the third quarter of 2012 compared to a \$3.0 million provision in the third quarter of 2011. The allowance for loan losses was 38.05% of nonperforming loans as of September 30, 2012 an increase from 35.79% as of June 30, 2012 and a decline from 42.95% a year earlier.

"Our third quarter results reflect continued payback on our diligent work to improve asset quality as we progress toward overall sustainable profitability," said Bill Skoglund, Chairman and CEO. "As total loans decreased 2.4% in third quarter, we successfully worked with problem loan situations so that loans classified as problem loans (nonaccrual and troubled debt restructurings) dropped by 25% since December 31, 2011 (down 7.4% since June 30, 2012)."

"We continue to also be greatly encouraged as our nonperforming assets decreased to levels not seen at any

quarter end since June 2009. Total nonperforming assets decreased 16.5% to \$193.9 million at September 30, 2012 from \$232.2 million at December 31, 2011 reflecting great work by our people, commitment to our organization from loyal customers, improved but still difficult market conditions for distressed asset dispositions and prudent property valuation writedowns in a better but still stressed overall market. We will continue to expand existing strategies and pursue new workout or remediation opportunities to reduce problem credit exposures.”

“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 September 30, 2012 the Bank’s leverage ratio was 9.66% up 31 basis points from June 30, 2012 and 91 basis points above the established 8.75% objective. The Bank’s total capital ratio was 14.06%, up 81 basis points from June 30, 2012 and 281 basis points above the 11.25% agreed objective.”

## 2012 Financial Highlights/Overview

### Earnings

- Third quarter net income before taxes of \$120,000 compared to a net loss before taxes of \$1.4 million in the same quarter of 2011.
- Third quarter net loss to common stockholders of \$1.1 million compared to a net loss to common stockholders of \$2.6 million in the same quarter of 2011.
- The tax-equivalent net interest margin was 3.44% during the third quarter of 2012 compared to 3.63% in the same quarter of 2011, and reflected a decrease of 21 basis points compared to the second quarter of 2012.
- Noninterest income of \$31.2 million was \$4.4 million higher in the first nine months of 2012 than in the same period in 2011 reflecting higher mortgage loan sales and securities gains.
- Noninterest expenses of \$71.9 million were \$173,000 or 0.2% higher in the first nine months of 2012 than in the same period in 2011 reflecting increased expenses in salaries and benefits, with some of the increase related to incentive based compensation and OREO while reduced expenses in many categories including, most notably FDIC insurance, legal fees and occupancy related expenses helped defray these increases.

### Capital

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	<u>September 30, 2011</u>	<u>December 31, 2011</u>	<u>September 30, 2012</u>
The Bank's leverage capital ratio	9.52%	9.34%	9.66%
The Bank's total capital ratio	12.98%	12.97%	14.06%
The Company's leverage capital ratio	5.18%	4.98%	4.88%

The Company's total capital ratio	12.37%	12.38%	12.90%
The Company's tangible common equity to tangible assets	0.15%	(0.08)%	(0.25)%

- Bank leverage capital ratio increased to 9.66% from 9.34% at December 31, 2011.
- Bank total capital ratio increased to 14.06% from 12.97% at December 31, 2011.
- Company leverage ratio decreased to 4.88% from 4.98% at December 31, 2011.
- Company total capital ratio increased to 12.90% from 12.38% at December 31, 2011.
- Company tangible common equity to tangible assets decreased from (0.08)% at December 31, 2011 to (0.25)% in the third quarter of 2012.

## Asset Quality/Balance Sheet Overview

- Nonperforming loans declined \$33.1 million or 23.8% during the first nine months of 2012 to \$105.8 million as of September 30, 2012 from \$138.9 million as of December 31, 2011. Our September 30, 2012 lower level of nonperforming loans as measured at quarter end was the lowest since December 31, 2008.
- There was no provision for loan loss expense for the quarter ended September 30, 2012, compared to \$3.0 million in the same period in 2011 and \$200,000 in the second quarter of 2012.
- Loans that were classified as performing but 30 to 89 days past due and still accruing interest decreased to \$5.4 million at September 30, 2012 from \$6.4 million at June 30, 2012 and \$12.1 million at December 31, 2011.
- Securities available-for-sale increased \$104.8 million during 2012 to \$412.3 million at September 30, 2012 from \$307.6 million at December 31, 2011 (all numbers rounded) with no significant impact on the current liquidity profile. At \$135.1 million or 32.8% of the total portfolio, asset-backed securities are the largest component of the 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 September 30,		As of and for the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Summary Statements of Operations:</b>				
Net interest and dividend income	\$ 14,635	\$ 15,922	\$ 45,429	\$ 48,933
Provision for loan losses	-	3,000	6,284	7,500
Noninterest income	10,348	8,508	31,208	26,846
Noninterest expense	24,863	22,820	71,949	71,776
Provision for income taxes	-	-	-	-
Net income (loss)	120	(1,390)	(1,596)	(3,497)
Net loss available to common stockholders	(1,135)	(2,580)	(5,312)	(7,021)
<b>Key Ratios (annualized):</b>				
Return on average assets	0.02%	(0.28%)	(0.11%)	(0.23%)
Return to common stockholders on average assets	(0.23%)	(0.52%)	(0.36%)	(0.46%)
Return on average equity	0.69%	(6.84%)	(2.96%)	(5.81%)
Return on average common equity	239.29%	(100.92%)	(900.46%)	(91.98%)
Net interest margin (non-GAAP tax equivalent) <sup>1</sup>	3.44%	3.63%	3.52%	3.57%
Efficiency ratio (non-GAAP tax equivalent) <sup>1</sup>	73.01%	70.79%	70.76%	73.06%
Tangible common equity to tangible assets <sup>2</sup>	(0.25%)	0.15%	(0.25%)	0.15%
Tier 1 common equity to risk weighted assets <sup>2</sup>	(0.17%)	0.22%	(0.17%)	0.22%
Company total capital to risk weighted assets <sup>3</sup>	12.90%	12.37%	12.90%	12.37%
Company tier 1 capital to risk weighted assets <sup>3</sup>	6.45%	6.39%	6.45%	6.39%
Company tier 1 capital to average assets	4.88%	5.18%	4.88%	5.18%
Bank total capital to risk weighted assets <sup>3</sup>	14.06%	12.98%	14.06%	12.98%
Bank tier 1 capital to risk weighted assets <sup>3</sup>	12.79%	11.70%	12.79%	11.70%
Bank tier 1 capital to average assets	9.66%	9.52%	9.66%	9.52%
<b>Per Share Data:</b>				
Basic loss per share	(\$0.08)	(\$0.18)	(\$0.37)	(\$0.49)
Diluted loss per share	(\$0.08)	(\$0.18)	(\$0.37)	(\$0.49)
Dividends declared per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Common book value per share	(\$0.06)	\$ 0.55	(\$0.06)	\$ 0.55
Tangible common book value per share	(\$0.33)	\$ 0.20	(\$0.33)	\$ 0.20
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	14,070,783	14,004,599
Diluted average shares outstanding	14,210,928	14,217,216	14,206,017	14,225,022
<b>End of Period Balances:</b>				
Loans	\$ 1,208,289	\$ 1,423,957	\$ 1,208,289	\$ 1,423,957
Deposits	1,696,934	1,728,034	1,696,934	1,728,034
Stockholders' equity	70,741	78,278	70,741	78,278
Total earning assets	1,671,523	1,714,809	1,671,523	1,714,809
Total assets	1,903,400	1,940,704	1,903,400	1,940,704
<b>Average Balances:</b>				

Loans	\$ 1,222,829	\$ 1,483,109	\$ 1,286,462	\$ 1,569,422
Deposits	1,713,137	1,746,854	1,737,247	1,832,242
Stockholders' equity	69,600	80,649	72,026	80,479
Total earning assets	1,702,675	1,751,347	1,730,932	1,843,264
Total assets	1,922,561	1,959,914	1,947,917	2,043,061

1 Tabular disclosures of the tax equivalent calculation including the net interest margin and efficiency ratio for the quarters ending September 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

In thousands, except share data

Asset Quality	(unaudited) Three Months Ended September 30,		(unaudited) Nine Months Ended September 30,	
	2012	2011	2012	2011
Charge-offs	\$ 2,682	\$ 10,898	\$ 23,934	\$ 30,977
Recoveries	2,653	1,732	5,910	7,021
Net charge-offs	\$ 29	\$ 9,166	\$ 18,024	\$ 23,956
Provision for loan losses	-	3,000	6,284	7,500
Allowance for loan losses to loans	3.33%	4.20%	3.33%	4.20%

	(unaudited) As of September 30,		(audited) As of December 31,
	2012	2011	2011
Nonaccrual loans <sup>1</sup>	\$ 92,722	\$ 122,111	\$ 126,786
Restructured loans	11,518	13,596	11,839
Loans past due 90 days	1,572	3,634	318
Nonperforming loans	105,812	139,341	138,943
Other real estate owned	88,093	100,554	93,290
Nonperforming assets	\$ 193,905	\$ 239,895	\$ 232,233

(1) Includes \$11.3 million, \$15.8 million and \$16.2 million in nonaccrual restructured loans at September 30, 2012, September 30, 2011, and December 31, 2011, respectively.

Major Classifications of Loans	(unaudited) As of September 30,		(audited) As of December 31,
	2012	2011	2011
Commercial	\$ 81,438	\$ 107,589	\$ 98,099
Real estate - commercial	621,715	730,554	704,492
Real estate - construction	48,606	77,958	71,436
Real estate - residential	436,837	489,985	477,200
Installment	3,167	4,187	3,789
Overdraft	613	409	457
Lease financing receivables	3,229	2,223	2,087
Other	12,677	11,242	11,498

Net deferred loan costs (fees)	1,208,282	1,424,147	1,369,058
	7	(190)	(73)
	<u>\$ 1,208,289</u>	<u>\$ 1,423,957</u>	<u>\$ 1,368,985</u>

### Major Classifications of Deposits

	(unaudited) As of September 30,		(audited) As of December 31,
	2012	2011	2011
Noninterest bearing	\$ 381,111	\$ 347,154	\$ 361,963
Savings	211,452	191,721	196,870
NOW accounts	265,215	258,216	275,957
Money market accounts	321,614	287,228	288,508
Certificates of deposits of less than \$100,000	323,464	408,236	390,530
Certificates of deposits of \$100,000 or more	194,078	235,479	226,953
	<u>\$ 1,696,934</u>	<u>\$ 1,728,034</u>	<u>\$ 1,740,781</u>

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

	(unaudited) September 30, 2012	(audited) December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 38,185	\$ 2,692
Interest bearing deposits with financial institutions	34,056	48,257
Cash and cash equivalents	72,241	50,949
Securities available-for-sale	412,346	307,564
Federal Home Loan Bank and Federal Reserve Bank stock	11,800	14,050
Loans held-for-sale	5,032	12,806
Loans	1,208,289	1,368,985
Less: allowance for loan losses	40,257	51,997
Net loans	1,168,032	1,316,988
Premises and equipment, net	48,509	50,477
Other real estate owned, net	88,093	93,290
Mortgage servicing rights, net	3,603	3,487
Core deposit and other intangible asset, net	3,813	4,678
Bank-owned life insurance (BOLI)	53,841	52,595
Other assets	36,090	34,534
Total assets	<u>\$ 1,903,400</u>	<u>\$ 1,941,418</u>
<b>Liabilities</b>		
Deposits:		
Noninterest bearing demand	\$ 381,111	\$ 361,963
Interest bearing:		
Savings, NOW, and money market	798,281	761,335
Time	517,542	617,483
Total deposits	1,696,934	1,740,781
Securities sold under repurchase agreements	1,738	901
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
Other liabilities	30,109	21,856
Total liabilities	1,832,659	1,867,416
<b>Stockholders' Equity</b>		
Preferred stock	71,611	70,863
Common stock	18,729	18,628
Additional paid-in capital	66,118	65,999
Retained earnings	11,795	17,107
Accumulated other comprehensive loss	(2,556)	(3,702)
Treasury stock	(94,956)	(94,893)
Total stockholders' equity	70,741	74,002
Total liabilities and stockholders' equity	<u>\$ 1,903,400</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 September 30,		(unaudited) Year to Date September 30,	
	2012	2011	2012	2011
<b>Interest and Dividend Income</b>				
Loans, including fees	\$ 16,193	\$ 19,800	\$ 51,476	\$ 61,765
Loans held-for-sale	68	72	201	198
Securities, taxable	1,868	928	5,222	2,691
Securities, tax exempt	98	114	303	383
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	77	73	228	216
Federal funds sold	-	-	-	1
Interest bearing deposits with financial institutions	29	58	89	197
Total interest and dividend income	<u>18,333</u>	<u>21,045</u>	<u>57,519</u>	<u>65,451</u>
<b>Interest Expense</b>				
Savings, NOW, and money market deposits	253	327	807	1,275
Time deposits	1,973	3,436	6,920	11,220
Securities sold under repurchase agreements	1	-	2	-
Other short-term borrowings	-	-	4	-
Junior subordinated debentures	1,243	1,155	3,660	3,401
Subordinated debt	223	201	684	610
Notes payable and other borrowings	5	4	13	12
Total interest expense	<u>3,698</u>	<u>5,123</u>	<u>12,090</u>	<u>16,518</u>
Net interest and dividend income	<u>14,635</u>	<u>15,922</u>	<u>45,429</u>	<u>48,933</u>
Provision for loan losses	-	3,000	6,284	7,500
Net interest and dividend income after provision for loan losses	<u>14,635</u>	<u>12,922</u>	<u>39,145</u>	<u>41,433</u>
<b>Noninterest Income</b>				
Trust income	1,489	1,657	4,603	5,156
Service charges on deposits	1,982	2,157	5,706	6,021
Secondary mortgage fees	350	269	957	732
Mortgage servicing loss, net of changes in fair value	(155)	(328)	(365)	(221)
Net gain on sales of mortgage loans	2,504	1,314	7,509	3,667
Securities gains, net	513	(63)	1,306	588
Increase in cash surrender value of bank-owned life insurance	425	233	1,246	1,130
Debit card interchange income	788	775	2,661	2,259
Lease revenue from other real estate owned	840	1,060	2,930	2,537
Net gain on sales of other real estate owned	20	297	398	933
Other income	1,592	1,137	4,257	4,044
Total noninterest income	<u>10,348</u>	<u>8,508</u>	<u>31,208</u>	<u>26,846</u>
<b>Noninterest Expense</b>				
Salaries and employee benefits	8,963	7,985	26,835	25,494
Occupancy expense, net	1,242	1,273	3,684	3,928
Furniture and equipment expense	1,078	1,405	3,416	4,340
FDIC insurance	1,029	1,032	3,058	3,884
General bank insurance	851	845	2,538	2,496
Amortization of core deposit and other intangible asset	420	276	865	711
Advertising expense	400	311	982	731
Debit card interchange expense	388	394	1,183	1,091
Legal fees	760	924	2,215	2,907
Other real estate expense	6,545	5,353	17,987	16,618
Other expense	3,187	3,022	9,186	9,576
Total noninterest expense	<u>24,863</u>	<u>22,820</u>	<u>71,949</u>	<u>71,776</u>
Income (loss) before income taxes	<u>120</u>	<u>(1,390)</u>	<u>(1,596)</u>	<u>(3,497)</u>
Income taxes	-	-	-	-
<b>Net Income (loss)</b>	<u>120</u>	<u>(1,390)</u>	<u>\$ (1,596)</u>	<u>\$ (3,497)</u>
Preferred stock dividends and accretion	1,255	1,190	3,716	3,524
<b>Net loss available to common stockholders</b>	<u>\$ (1,135)</u>	<u>\$ (2,580)</u>	<u>\$ (5,312)</u>	<u>\$ (7,021)</u>
Basic loss per share	\$ (0.08)	\$ (0.18)	\$ (0.37)	\$ (0.49)
Diluted loss per share	(0.08)	(0.18)	(0.37)	(0.49)
Dividends declared per share	-	-	-	-

ANALYSIS OF AVERAGE BALANCES,  
TAX EQUIVALENT INTEREST AND RATES  
Three Months ended September 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	\$ 46,138	\$ 29	0.25%	\$ 91,178	\$ 58	0.25%
Securities:						
Taxable	404,855	1,868	1.85	144,581	928	2.57
Non-taxable (tax equivalent)	9,518	151	6.35	12,172	176	5.78
Total securities	414,373	2,019	1.95	156,753	1,104	2.82
Dividends from FRB and FHLB stock	11,984	77	2.57	14,050	73	2.08
Loans and loans held-for-sale 1	1,230,180	16,279	5.18	1,489,366	19,899	5.23
Total interest earning assets	1,702,675	18,404	4.24	1,751,347	21,134	4.73
Cash and due from banks	31,850	-	-	32,264	-	-
Allowance for loan losses	(40,823)	-	-	(65,660)	-	-
Other noninterest bearing assets	228,859	-	-	241,963	-	-
Total assets	<u>\$ 1,922,561</u>			<u>\$ 1,959,914</u>		
<b>Liabilities and Stockholders' Equity</b>						
NOW accounts	\$ 270,908	\$ 65	0.10%	\$ 259,505	\$ 95	0.15%
Money market accounts	321,762	137	0.17	285,712	164	0.23
Savings accounts	213,927	51	0.09	193,267	68	0.14
Time deposits	526,314	1,973	1.49	663,613	3,436	2.05
Interest bearing deposits	1,332,911	2,226	0.66	1,402,097	3,763	1.06
Securities sold under repurchase agreements	7,164	1	0.06	1,930	-	-
Other short-term borrowings	652	-	-	2,865	-	-
Junior subordinated debentures	58,378	1,243	8.52	58,378	1,155	7.91
Subordinated debt	45,000	223	1.94	45,000	201	1.75
Notes payable and other borrowings	500	5	3.91	500	4	3.13
Total interest bearing liabilities	1,444,605	3,698	1.02	1,510,770	5,123	1.35
Noninterest bearing deposits	380,226	-	-	344,757	-	-
Other liabilities	28,130	-	-	23,738	-	-
Stockholders' equity	69,600	-	-	80,649	-	-
Total liabilities and stockholders' equity	<u>\$ 1,922,561</u>			<u>\$ 1,959,914</u>		
Net interest income (tax equivalent)		<u>\$ 14,706</u>			<u>\$ 16,011</u>	
Net interest income (tax equivalent) to total earning assets			<u>3.44%</u>			<u>3.63%</u>
Interest bearing liabilities to earning assets		<u>84.84%</u>			<u>86.26%</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 \$498,000 and \$448,000 for the third 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  
Nine Months ended September 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	\$ 48,871	\$ 89	0.24%	\$ 105,618	\$ 197	0.25%
Federal funds sold	-	-	-	713	1	0.18
Securities:						
Taxable	365,549	5,222	1.90	134,596	2,691	2.67



Non-taxable (tax equivalent)	10,417	467	5.98	13,364	590	5.89
Total securities	375,966	5,689	2.02	147,960	3,281	2.96
Dividends from FRB and FHLB stock	12,562	228	2.42	13,934	216	2.07
Loans and loans held-for-sale 1	1,293,533	51,741	5.26	1,575,039	62,024	5.19
Total interest earning assets	1,730,932	57,747	4.39	1,843,264	65,719	4.70
Cash and due from banks	27,528	-	-	34,023	-	-
Allowance for loan losses	(46,824)	-	-	(73,201)	-	-
Other noninterest bearing assets	236,281	-	-	238,975	-	-
Total assets	<u>\$ 1,947,917</u>			<u>\$ 2,043,061</u>		
<b>Liabilities and Stockholders' Equity</b>						
NOW accounts	\$ 275,712	\$ 204	0.10%	\$ 265,126	\$ 347	0.17%
Money market accounts	311,046	438	0.19	297,603	670	0.30
Savings accounts	211,331	165	0.10	191,256	258	0.18
Time deposits	565,183	6,920	1.64	724,219	11,220	2.07
Interest bearing deposits	1,363,272	7,727	0.76	1,478,204	12,495	1.13
Securities sold under repurchase agreements	4,502	2	0.06	1,911	-	-
Other short-term borrowings	4,635	4	0.11	2,900	-	-
Junior subordinated debentures	58,378	3,660	8.36	58,378	3,401	7.77
Subordinated debt	45,000	684	2.00	45,000	610	1.79
Notes payable and other borrowings	500	13	3.42	500	12	3.16
Total interest bearing liabilities	1,476,287	12,090	1.09	1,586,893	16,518	1.39
Noninterest bearing deposits	373,975	-	-	354,038	-	-
Other liabilities	25,629	-	-	21,651	-	-
Stockholders' equity	72,026	-	-	80,479	-	-
Total liabilities and stockholders' equity	<u>\$ 1,947,917</u>			<u>\$ 2,043,061</u>		
Net interest income (tax equivalent)		<u>\$ 45,657</u>			<u>\$ 49,201</u>	
Net interest income (tax equivalent) to total earning assets			<u>3.52%</u>			<u>3.57%</u>
Interest bearing liabilities to earning assets		<u>85.29%</u>			<u>86.09%</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 \$1.4 million and \$1.7 million for the first nine 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Net Interest Margin</b>				
Interest income (GAAP)	\$ 18,333	\$ 21,045	\$ 57,519	\$ 65,451
Taxable equivalent adjustment:				
Loans	18	27	64	61
Securities	53	62	164	207
Interest income (TE)	18,404	21,134	57,747	65,719
Interest expense (GAAP)	3,698	5,123	12,090	16,518
Net interest income (TE)	<u>\$ 14,706</u>	<u>\$ 16,011</u>	<u>\$ 45,657</u>	<u>\$ 49,201</u>
Net interest income (GAAP)	<u>\$ 14,635</u>	<u>\$ 15,922</u>	<u>\$ 45,429</u>	<u>\$ 48,933</u>
Average interest earning assets	\$ 1,702,675	\$ 1,751,347	\$ 1,730,932	\$ 1,843,264
Net interest margin (GAAP)	3.42%	3.61%	3.51%	3.55%
Net interest margin (TE)	3.44%	3.63%	3.52%	3.57%
<b>Efficiency Ratio</b>				
Noninterest expense	\$ 24,863	\$ 22,820	\$ 71,949	\$ 71,776
Less amortization of core deposit and				

other intangible asset	420	276	865	711
Less other real estate expense	6,545	5,353	17,987	16,618
Adjusted noninterest expense	17,898	17,191	53,097	54,447
Net interest income (GAAP)	14,635	15,922	45,429	48,933
Taxable-equivalent adjustment:				
Loans	18	27	64	61
Securities	53	62	164	207
Net interest income (TE)	14,706	16,011	45,657	49,201
Noninterest income	10,348	8,508	31,208	26,846
Less litigation related income	6	-	125	-
Less securities gain (loss) , net	513	(63)	1,306	588
Less gain on sale of OREO	20	297	398	933
Adjusted noninterest income, plus net interest income (TE)	24,515	24,285	75,036	74,526
Efficiency ratio	73.01%	70.79%	70.76%	73.06%

	(unaudited) As of September 30,		(unaudited) December 31,	
	2012	2011	2011	
	(dollars in thousands)			
<b>Tier 1 capital</b>				
Total stockholders' equity	\$ 70,741	\$ 78,278	\$	74,002
Tier 1 adjustments:				
Trust preferred securities	24,432	27,128		25,901
Cumulative other comprehensive loss	2,556	3,107		3,702
Disallowed intangible assets	(3,813)	(4,814)		(4,678)
Disallowed deferred tax assets	-	(2,175)		(2,592)
Other	(360)	(360)		(349)
Tier 1 capital	\$ 93,556	\$ 101,164	\$	95,986
<b>Total capital</b>				
Tier 1 capital	\$ 93,556	\$ 101,164	\$	95,986
Tier 2 additions:				
Allowable portion of allowance for loan losses	18,399	20,288		19,736
Additional trust preferred securities disallowed for tier 1 capital	32,193	29,497		30,724
Subordinated debt	45,000	45,000		45,000
Tier 2 additions subtotal	95,592	94,785		95,460
Allowable Tier 2	93,556	94,785		95,460
Other Tier 2 capital components	(6)	(7)		(7)
Total capital	\$ 187,106	\$ 195,942	\$	191,439
<b>Tangible common equity</b>				
Total stockholders' equity	\$ 70,741	\$ 78,278	\$	74,002
Less: Preferred equity	71,611	70,622		70,863
Intangible assets	3,813	4,814		4,678
Tangible common equity	\$ (4,683)	\$ 2,842	\$	(1,539)
<b>Tier 1 common equity</b>				
Tangible common equity	\$ (4,683)	\$ 2,842	\$	(1,539)
Tier 1 adjustments:				
Cumulative other comprehensive loss	2,556	3,107		3,702
Other	(360)	(2,535)		(2,941)
Tier 1 common equity	\$ (2,487)	\$ 3,414	\$	(778)
<b>Tangible assets</b>				
Total assets	\$ 1,903,400	\$ 1,940,704	\$	1,941,418
Less:				
Intangible assets	3,813	4,814		4,678
Tangible assets	\$ 1,899,587	\$ 1,935,890	\$	1,936,740
<b>Total risk-weighted assets</b>				
On balance sheet	\$ 1,409,071	\$ 1,533,543	\$	1,511,815
Off balance sheet	40,958	49,902		34,824
Total risk-weighted assets	\$ 1,450,029	\$ 1,583,445	\$	1,546,639
<b>Average assets</b>				
Total average assets for leverage	\$ 1,918,388	\$ 1,952,565	\$	1,925,953

Old Second Bancorp, Inc.

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Source: Old Second Bancorp, Inc.