Q4

NEWS RELEASE

Old Second Reports 2013 Net Income of $82.1 million or $5.45 per share

1/22/2014

AURORA, Ill., Jan. 22, 2014 /PRNewswire/ -- Old Second Bancorp, Inc. (the "Company" or "Old Second") (NASDAQ: OSBC), parent company of Old Second National Bank (the "Bank"), today announced financial results for the fourth quarter of 2013. The Company reported net income of $213,000 compared to net income of $1.5 million in the fourth quarter of 2012.

The Company reported net income of $82.1 million for the year ended December 31, 2013, compared to a net loss of $72,000 in the year of 2012. The Company's net income available to common stockholders of $76.8 million, or $5.45 per diluted share, for the year ended December 31, 2013, compared to a net loss available to common stockholders of $5.1 million, or $(0.36) per diluted share, for the year ended December 31, 2012.

Excluding the benefits received in 2013 from the reversal of a significant portion of the valuation allowance against deferred tax assets, the release of reserves for loan losses and the loss on the sale of the CDOs discussed below, the Company's 2013 net income was $7.4 million with a net income available to common stockholders of $2.2 million or $0.15 per share.

Chairman Bill Skoglund said "While we have more work to do, we made good progress in 2013 on our organizational goals. For example, our loan portfolio grew in the fourth quarter while problem loans and other real estate owned continued to decline. Year over year, OREO dropped sharply from $72.4 million at the end of 2012 to $41.5 million at the end of 2013. Our profitability has improved in a challenging and uneven economic environment and was helped by reduced credit costs reflected in our loan loss reserve release, sharply lower OREO expenses and efficient expense discipline. Capital ratios for Old Second National Bank remain strong with total equity enhanced by the third quarter reversal of substantially all of the valuation allowance against our deferred tax assets. While loans were down in 2013 from 2012 and deposits essentially flat, we're encouraged by our realization of new loan business and continuing to serve loyal deposit customers who respond well to our community banking business model."

The Company sold CDOs at a before tax loss of $4.1 million. The CDOs were originally purchased by the Bank in late 2007 and mid-2008.   Credit ratings on these securities issued by prominent rating agencies were upgraded between December 31, 2012, and September 30, 2013. The Company sold these securities following the December, 2013 regulations implementing Section 619 of the Dodd – Frank Wall Street Reform and Consumer Protection Act, commonly referred to as the Volcker Rule. As originally released, the Volcker Rule required banking entities to divest investments in these types of CDOs by July 2015. These securities were carried at an unrealized loss of $6.1 million as of September 30, 2013, and were sold in December, 2013 at a pre-tax loss of $4.1 million, contributing $1.2 million net of tax to tangible capital in the fourth quarter of 2013.

Financial Highlights/Overview

Earnings as measured in accordance with generally accepted accounting principles

- Fourth quarter loss before taxes of $32,000 compared to income before taxes of $1.5 million in the fourth quarter of 2012. The decline was primarily due to the loss incurred on the sale of the CDOs in December 2013.
- In 2013, income before taxes declined from $2.9 million in the third quarter to a loss of $32,000 in the fourth quarter. This decline primarily resulted from the loss incurred on the sale of the CDOs and reduced net interest income. These declines more than offset improved quarter to quarter results in several noninterest expense categories, notably a decrease in other real estate owned ("OREO") expenses down to $2.9 million in the fourth quarter of 2013 from $3.5 million in the third quarter of 2013.
- The tax-equivalent net interest margin was 3.13% during the fourth quarter of 2013 compared to 3.17% in the same quarter of 2012. The fourth quarter of 2013 margin was a decrease of 12 basis points compared to the third quarter of 2013.
- Noninterest income of $34.4 million was $8.5 million lower in the year ended December 31, 2013, compared to 2012, again reflecting the loss on the CDO sales but also reflecting reduced residential mortgage revenue, service charges on deposits, and lease revenue from OREO.
- Noninterest expenses of $86.4 million were 10.0% lower in the year ended December 31, 2013, compared to 2012, reflecting overall expense control and reduced expenses in most categories. Notable reductions are found in OREO expenses (including a year over year reduction of $8.1 million on improved valuation adjustment expense), general bank insurance and management of legal fees.

Capital

	December 31, 2013	September 30, 2013	December 31, 2012	Quarter Change	Year to Year Change
The Bank's leverage capital ratio	10.97%	11.08%	9.67%	-0.11%	1.30%
The Bank's total risk-based capital ratio	18.04%	17.08%	14.86%	0.96%	3.18%
The Company's leverage capital ratio	6.96%	7.11%	4.85%	-0.15%	2.11%
The Company's total risk-based capital ratio	15.88%	15.15%	13.62%	0.73%	2.26%
The Company's tangible common equity to tangible assets	3.67%	3.33%	(0.13)%	0.34%	3.80%

Asset Quality & Earning Assets

- Nonperforming loans declined $42.8 million, or 51.8%, during 2013 to $39.8 million at December 31, 2013, from $82.6 million at December 31, 2012. Nonperforming loans declined primarily because of successful negotiations with guarantors and movement of selected credits to OREO, as well as loans being upgraded to accruing status when the financial condition of borrowers improved.
- OREO declined from $72.4 million at December 31, 2012, to $41.5 million at December 31, 2013. OREO dispositions totaling $41.7 million in the year ended December 31, 2013, were somewhat offset by new OREO and improvements to existing OREO of $19.3 million. Valuation write-downs of properties held for sale reduced the reported total by $8.4 million.
- Securities available-for-sale decreased $207.7 million during 2013 to $372.2 million from $579.9 million at December 31, 2012, primarily as a result of the third quarter reclassification of $258.1 million in securities to the held-to-maturity category. In all periods prior to the third quarter of 2013, all securities were held as available-for-sale. At $273.2 million (73.4% of the December 31, 2013, available-for-sale portfolio), asset-backed securities were the largest component of the available-for-sale portfolio. The Company's asset-backed securities were heavily oriented to those backed by student loan debt guaranteed by the U.S. Department of Education.

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. Management has also chosen to disclose net income excluding net benefits from reversal of a significant portion of the deferred tax asset valuation allowance, the release of loan loss reserves and the loss on CDO sales because management believes this presentation allows investors to evaluate our results without the impact of these special items. 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 or cause actual results to differ substantially from those discussed or implied in forward looking statements contained in this release, please review our filings with the Securities and Exchange Commission.

SOURCE Old Second Bancorp, Inc.