Q4

NEWS RELEASE

Old Second Reports First Quarter Net Income of $275,000, or $0.01 per Diluted Share, Driven by Provision for Credit Losses of $8.0 million

4/22/2020

AURORA, IL / ACCESSWIRE / April 22, 2020 /Old Second Bancorp, Inc. (the "Company," "we," "us," and "our") (NASDAQ:OSBC), the parent company of Old Second National Bank (the "Bank"), today announced financial results for the first quarter of 2020. Our net income was $275,000, or $0.01 per diluted share, for the first quarter of 2020, compared to net income of $9.5 million, or $0.31 per diluted share, for the fourth quarter of 2019, and net income of $8.5 million, or $0.28 per diluted share, for the first quarter of 2019. Net income for the first quarter of 2020 includes a ($0.19) per diluted share impact of additional provisions for credit losses for loans and unfunded commitments, and a ($0.05) per diluted share impact stemming from mark to market losses on mortgage servicing rights ("MSRs"), both due to changes in economic conditions and market interest rates related to the COVID-19 pandemic.

Operating Results

- First quarter 2020 net income was $275,000, reflecting a decrease in earnings of $9.3 million from the fourth quarter of 2019, and a decrease in earnings of $8.2 million from the first quarter of 2019. First quarter 2020 financial results were negatively impacted primarily by provision for credit losses of $8.0 million, due to the allowances recorded upon our adoption of the new current expected credit losses accounting standard ("CECL"), effective January 1, 2020. Also contributing to the decrease in net income in the first quarter of 2020 was the recognition of $635,000 in deferred issuance costs due to the redemption of our 7.80% cumulative trust preferred securities issued by Old Second Capital Trust I and related junior subordinated debentures, resulting in $32.6 million of debt retirement, and $2.1 million of mark to market losses on MSRs.

- Net interest and dividend income was $22.7 million for the first quarter of 2020, a decrease of $531,000, or 2.3%, from $23.2 million for the fourth quarter of 2019, and a decrease of $1.4 million, or 5.7%, from the first quarter of 2019. Net interest and dividend income in the first quarter of 2020 was negatively impacted by interest rate reductions related to COVID-19, which more than offset increases in interest income due to loan growth in the year over year period. The recognition of $635,000 in deferred issuance costs due to the redemption of the Old Second Capital Trust I trust preferred securities and related debentures also reduced net interest and dividend income in the first quarter of 2020.
- Provision for credit losses was $8.0 million for the first quarter of 2020, consisting of $5.5 million related to loans and $2.5 million related to unfunded commitments, compared to a provision for loan losses of $150,000 in the fourth quarter of 2019, and $450,000 in the first quarter of 2019. We adopted the new CECL accounting standard effective January 1, 2020, which measures the allowance based on management's best estimate of lifetime expected credit losses inherent in our lending activities, resulting in a $5.9 million allowance related to loans and a $1.7 million allowance related to unfunded commitments for the first quarter of 2020. Provision expense in the first quarter of 2020 was impacted by both the adoption of the new CECL methodology and the expected impact, as of March 31, 2020, of the COVID-19 pandemic on future losses.
- Noninterest income was $6.3 million for the first quarter of 2020, a decrease of $2.9 million, or 31.6%, compared to $9.2 million for the fourth quarter of 2019, and a decrease of $160,000, or 2.5%, compared to $6.5 million for the first quarter of 2019. The decrease compared to the linked quarter and year over year quarter was primarily due to $2.1 million of mark to market losses on MSRs in the first quarter of 2020, compared to $240,000 of mark to market gains on MSRs in the fourth quarter of 2019, and $819,000 of mark to market losses on MSRs in the first quarter of 2019, related primarily to movements in interest rates.
- Noninterest expense was $21.0 million for the first quarter of 2020, an increase of $1.2 million, or 5.9%, compared to $19.8 million for the fourth quarter of 2019, and an increase of $1.8 million, or 9.4%, from $19.2 million for the first quarter of 2019. The increase compared to the linked quarter and the year over year quarter was primarily attributable to increases in salaries and employee benefits and occupancy, furniture and equipment expense, partially offset by decreases in advertising expense, as well as deferred director compensation related expense and consulting fees (both included within other expense).
- The provision for income taxes was a net benefit of $281,000 for the first quarter of 2020, compared to tax expense of $2.9 million for the fourth quarter of 2019, and $2.4 million for the first quarter of 2019. The decrease in tax expense was due to a decrease of $12.5 million and $10.9 million in pretax income compared to the fourth quarter of 2019, and first quarter of 2019, respectively.
- During the first quarter of 2020, we repurchased 312,723 shares of our common stock at a weighted average price of $7.06 per share pursuant to our stock repurchase program.

- On April 21, 2020, our Board of Directors declared a cash dividend of $0.01 per share payable on May 11, 2020, to stockholders of record as of May 1, 2020.

COVID-19 Operational Update

During this unprecedented time, the health and safety of our customers and employees remain our top priority.

- We have established client assistance programs, including offering commercial, consumer, and mortgage loan payment deferrals for certain clients. We have also suspended late fees for consumer loans through June 30, 2020.
- We have paused new foreclosure and repossession actions until June 30, 2020, and will continue to re-evaluate based on the ongoing COVID-19 pandemic.
- We are participating in the Coronavirus Aid, Relief and Economic Security Act ("CARES" Act). As of April 21, 2020, we had processed 129 loan applications for the SBA Paycheck Protection Program, representing a total of $78.7 million. We remain ready to continue to fund eligible client requests if Congress appropriates additional funds.

President and Chief Executive Officer Jim Eccher said "Old Second has taken a number of steps to protect our employees, customers and communities. For our customers, our branch drive-up services remain open and available, and our branch lobbies continue to be available by appointment. We are continuing to work with our customers who have been directly impacted by the pandemic by offering the ability to defer payments as appropriate. In addition, the vast majority of our staff has been working remotely for well over a month without issue. Old Second is proud to serve our communities and I couldn't be prouder of the efforts of our employees in supporting our customers and each other in what is proving to be difficult times."

Eccher continued, "We are fortunate that our core lending strengths have steered us clear of many of the industries most impacted by the pandemic. We currently have zero direct energy or aircraft exposures in our loan portfolio. Our hotel lending is limited to three mature credits at low loan to value ratios totaling approximately $14 million. Our direct restaurant exposure is less than $20 million across both our real estate and C&I portfolios and a significant percentage is focused in major fast food franchises. We realize the potential that these industries have to be significantly impacted in the short-term but we believe few sectors will be spared difficulty in the intermediate-term from the implications of rising unemployment and falling consumer and commercial demand. Our base economic forecast at March 31, 2020 contemplated a significant decrease in GDP and an unemployment rate percentage in the high-single to low double-digits both in 2020 and over the life of our loan portfolios.

"Results this quarter reflect continued strength across our business lines on a core, pre-provision basis with strong margin and loan growth trends. The provision for loan loss this quarter reflects the expected impact our economic assumptions could have on our customers. Old Second continues to maintain very strong liquidity and capital positions and we are committed to supporting our customers in this difficult time."

Capital Ratios

	Minimum Capital Adequacy with Capital Conservation Buffer, if applicable1	Well Capitalized Under Prompt Corrective Action Provisions2	March 31, 2020	December 31, 2019	March 31, 2019
The Company					
Common equity tier 1 capital ratio	7.00%	N/A	10.63%	11.14%	9.75%
Total risk-based capital ratio	10.50%	N/A	12.96%	14.53%	13.17%
Tier 1 risk-based capital ratio	8.50%	N/A	11.71%	13.65%	12.30%
Tier 1 leverage ratio	4.00%	N/A	10.39%	11.93%	10.44%
The Bank					
Common equity tier 1 capital ratio	7.00%	6.50%	12.67%	14.35%	13.60%
Total risk-based capital ratio	10.50%	10.00%	13.92%	15.23%	14.47%
Tier 1 risk-based capital ratio	8.50%	8.00%	12.67%	14.35%	13.60%
Tier 1 leverage ratio	4.00%	5.00%	11.18%	12.50%	11.54%

1Amounts are shown inclusive of a capital conservation buffer of 2.50%. Under the Federal Reserve's Small Bank Holding Company Policy Statement, the Company is not subject to the minimum capital adequacy and capital conservation buffer capital requirements at the holding company level, unless otherwise advised by the Federal Reserve (such capital requirements are applicable only at the Bank level). Although the minimum regulatory capital requirements are not applicable to the Company or the Tier 1 Leverage ratio, we calculate these ratios for our own planning and monitoring purposes.

2 The prompt corrective action provisions are only applicable at the Bank level.

- The ratios shown above exceed levels required to be considered "well capitalized."

Asset Quality & Earning Assets

- Nonperforming loans totaled $17.6 million at March 31, 2020, compared to $15.8 million at December 31, 2019, and $14.9 million at March 31, 2019. Credit metrics continue to be relatively stable regarding nonperforming loan levels, and management is carefully monitoring loans considered to be in a classified status. Nonperforming loans, as a percent of total loans were 0.9% at March 31, 2020 and 0.8% at December

31, 2019 and March 31, 2019. Our adoption of CECL on January 1, 2020, resulted in a change in the accounting for purchased credit impaired ("PCI") loans, which are now considered purchased credit deteriorated ("PCD") loans under CECL. Prior to January 1, 2020, past due and nonaccrual loan excluded PCI loans, even if contractually past due or if we did not expect to receive payment in full, as we were accreting interest income over the expected life of the loans. PCD loans acquired in our acquisition of ABC Bank totaled $11.0 million, net of purchase accounting adjustments, at March 31, 2020. Similar to PCI loans, we do not consider PCD loans, which showed evidence of deteriorated credit quality at acquisition, to be nonperforming assets.

- OREO assets totaled $5.0 million at both March 31, 2020, and December 31, 2019, and $6.4 million at March 31, 2019. We recorded writedowns of $158,000 in the first quarter of 2020, compared to $120,000 in the fourth quarter of 2019. We had, no writedowns in the first quarter of 2019. Nonperforming assets, as a percent of total loans plus OREO, were 1.2% at March 31, 2020, and 1.1% at December 31, 2019 and March 31, 2019.
- Total loans were $1.96 billion at March 31, 2020, reflecting an increase of $26.4 million compared to December 31, 2019, and an increase of $54.1 million compared to March 31, 2019. Growth in the year over year period was due primarily to organic growth in our commercial, leases, and real estate-commercial portfolios. Average loans (including loans held-for-sale) for the first quarter of 2020 were $1.95 billion, reflecting an increase of $42.1 million from the fourth quarter of 2019 and an increase of $49.9 million from the first quarter of 2019.
- Available-for-sale securities totaled $449.7 million at March 31, 2020, compared to $484.6 million at December 31, 2019, and $509.1 million at March 31, 2019. Total securities available-for-sale decreased $35.0 million from the linked quarter due to sales and paydowns of $34.0 million. A decline of $59.4 million was realized in the year over year quarter due primarily to security sales recorded in the third quarter of 2019 and first quarter of 2020, and unrealized losses on mark to market valuation.

Non-GAAP Presentations: Management has disclosed in this earnings release certain non-GAAP financial measures to evaluate and measure our performance, including the presentation of net interest income and net interest margin on a fully taxable equivalent basis and our efficiency ratio calculations. 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.

Forward-Looking Statements: This earnings release and statements by our management may contain forward-looking statements within the Private Securities Litigation Reform Act of 1995. Forward looking statements can be identified by words such as "anticipated," "expects," "intends," "believes," "may," "likely," "will" or other statements that indicate future periods. Such forward-looking statements are subject to risks, uncertainties, and other factors, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements, (1) the strength of the United States economy in general and the strength of the local economies in which we conduct our operations may be different than expected, including, but not limited to, due to the negative impacts and disruptions resulting from the recent outbreak of the novel coronavirus, or COVID-19, on the economies and communities we serve, which may have an adverse impact on the our business, operations and performance, and could have a negative impact on our credit portfolio, share price, borrowers, and on the economy as a whole, both domestically and globally; (2) the rate of delinquencies and amounts of charge-offs, the level of allowance for credit loss, the rates of loan growth, or adverse changes in asset quality in our loan portfolio, which may result in increased credit risk-related losses and expenses; (3) changes in legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action, including, but not limited to, the Coronavirus Aid, Relief, and Economic Security Act, or the "CARES Act"; (4) adverse conditions in the stock market, the public debt market and other capital markets (including changes in interest rate conditions) could have a negative impact on us; and (5) changes in interest rates, which may affect our net income, prepayment penalty income, mortgage banking income, and other future cash flows, or the market value of our assets, including our investment securities. Additional risks and uncertainties are contained in the "Risk Factors" and forward-looking statements disclosure in our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. The inclusion of this forward-looking information should not be construed as a representation by us or any person that future events, plans, or expectations contemplated by us will be achieved. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

Conference Call

We will host an earnings call on Thursday, April 23, 2020, at 11:00 a.m. Eastern Time (10:00 a.m. Central Time). Investors may listen to our earnings call via telephone by dialing 844-602-0380. Investors should call into the dial-in number set forth above at least 10 minutes prior to the scheduled start of the call.

A replay of the earnings call will be available until 11:00 a.m. Eastern Time (10:00 a.m. Central Time) on May 7, 2020, by dialing 877-481-4010, using Conference ID: 33876.

Contact:

Bradley S. Adams
Chief Financial Officer
(630) 906-5484

SOURCE:Old Second Bancorp, Inc.

View source version on **accesswire.com**:

https://www.accesswire.com/586398/Old-Second-Reports-First-Quarter-Net-Income-of-275000-or-001-per-Diluted-Share-Driven-by-Provision-for-Credit-Losses-of-80-million