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NEWS RELEASE

# Old Second Reports Fourth Quarter 2018 Net Income of $8.6 million

1/23/2019

AURORA, IL / ACCESSWIRE / January 23, 2019 /Old Second Bancorp, Inc. (the "Company" or "Old Second") (NASDAQ: OSBC), the parent company of Old Second National Bank (the "Bank"), today announced financial results for the fourth quarter of 2018. The Company's net income was $8.6 million, or $0.28 per diluted share, for the fourth quarter of 2018, compared to net income of $9.6 million, or $0.32 per diluted share, in the third quarter of 2018, and net loss of $2.5 million, or $0.08 per diluted share, for the fourth quarter of 2017.

Operating Results

- Fourth quarter 2018 net income was $8.6 million, reflecting a decrease in earnings of $1.0 million from the third quarter of 2018, and an increase in earnings of $11.1 million from the fourth quarter of 2017. Fourth quarter 2018 financial results were negatively impacted by $683,000 pretax of mortgage servicing rights valuation adjustment related solely to movements in interest rates, as well as $119,000 pretax of merger related expenses.
- Adjusted net income, a non-GAAP financial measure, was $8.7 million, or $0.29 per diluted share, compared to net income of $9.6 million, or $0.32 per diluted share, for the third quarter of 2018, and net income of $7.0 million, or $0.23 per diluted share, for the fourth quarter of 2017.
    - Fourth quarter 2017 adjusted net income excluded a $9.5 million tax expense stemming from the late December 2017 enactment of the "Tax Cuts and Jobs Act," which lowered the Federal corporate income tax rate and caused the company to record a valuation allowance with respect to its deferred tax asset.
- Net interest and dividend income was $24.3 million for the fourth quarter of 2018, an increase of $600,000, or 2.5%, from the $23.7 million recorded for the third quarter of 2018, and an increase of $5.0 million, or 25.6%,

over the fourth quarter of 2017. Net interest income in the fourth quarter of 2018 was favorably impacted by the rising interest rate environment, as well as $662,000 of purchase accounting accretion, compared to $722,000 of purchase accounting accretion in the third quarter of 2018, and $213,000 in the fourth quarter of 2017. Purchase accounting accretion income realized prior to the second quarter of 2018 was due to the Company's purchase of the Chicago branch of Talmer Bank and Trust in late 2016. Beginning in the second quarter of 2018, purchase accounting accretion income also included the impact of the ABC Bank purchase on April 20, 2018.

- Noninterest income was $6.5 million for the fourth quarter of 2018, compared to $7.8 million for the third quarter of 2018 and $8.2 million for the fourth quarter of 2017. The decrease in noninterest income in the fourth quarter of 2018 compared to the third quarter of 2018 was driven primarily by reductions in total residential mortgage banking revenue of $1.3 million. The decrease in noninterest income for the fourth quarter of 2018 compared to the fourth quarter of 2017 was driven primarily by reductions in total residential mortgage banking revenue of $1.4 million, as well as a $639,000 reduction in security gains, net. These reductions were partially offset by increases in service charges on deposits of $279,000 and other income of $332,000 in the fourth quarter of 2018 over the fourth quarter of 2017.
- Noninterest expense was $18.8 million for the fourth quarter of 2018, reflecting an increase of $66,000, or 0.4%, compared to the third quarter of 2018, and an increase of $2.6 million, or 16.0%, from the fourth quarter of 2017. The increase in noninterest expense in the fourth quarter of 2018 compared to the fourth quarter of 2017 was primarily attributable to the acquisition of ABC Bank, which increased salaries and employee benefits expense, occupancy, furniture and equipment expenses, computer and data processing expense, and amortization of core deposit intangibles.
- On January 15, 2019 the Company's Board of Directors declared a cash dividend of $0.01 per share payable on February 4, 2019, to stockholders of record as of January 25, 2019.

## Capital Ratios

| | Well-Capitalized 1 | December 31, 2018 | September 30, 2018 | December 31, 2017 |
|---|---|---|---|---|
| The Company | | | | |
| Common equity tier 1 capital ratio | N/A | 9.29 % | 9.12 % | 9.25 % |
| Total risk-based capital ratio | N/A | 12.63 % | 12.57 % | 12.93 % |

| | | | | |
|---|---|---|---|---|
| Tier 1 risk-based capital ratio | N/A | 11.78 % | 11.67 % | 12.03 % |
| Tier 1 leverage ratio | N/A | 10.11 % | 9.72 % | 10.08 % |
| The Bank | | | | |
| Common equity tier 1 capital ratio | 6.50 % | 13.29 % | 13.26 % | 12.88 % |
| Total risk-based capital ratio | 10.00 % | 14.14 % | 14.16 % | 13.78 % |
| Tier 1 risk-based capital ratio | 8.00 % | 13.29 % | 13.26 % | 12.88 % |
| Tier 1 leverage ratio | 5.00 % | 11.40 % | 11.05 % | 10.79 % |

1Represents ratios required to be considered well capitalized under prompt corrective action provisions. 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 $16.3 million at December 31, 2018, compared to $11.8 million at September 30, 2018, and $15.6 million at December 31, 2017. 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 December 31, 2018, 0.6% at September 30, 2018, and 1.0% at December 31, 2017. Purchase credit impaired ("PCI") loans from the Company's acquisition of ABC Bank totaled $11.0 million, net of purchase accounting adjustments, at December 31, 2018.
- OREO assets totaled $7.2 million at December 31, 2018, compared to $7.0 million at September 30, 2018, and $8.4 million at December 31, 2017. Valuation writedowns totaled $96,000 for the fourth quarter of 2018, compared to $119,000 for the third quarter of 2018 and $78,000 for the fourth quarter of 2017. Nonperforming assets as a percent of total loans plus OREO, was 1.2% at December 31, 2018, 1.0% at September 30, 2018, and 1.5% at December 31, 2017.
- Total loans were $1.90 billion at December 31, 2018, reflecting an increase of $279.4 million compared to December 31, 2017, primarily due to the Company's acquisition of ABC Bank, which included $227.6 million of loans recorded, net of purchase accounting adjustments. Average loans (including loans held-for-sale) for the fourth quarter of 2018 were $1.86 billion, reflecting an increase of $15.3 million from quarterly average loans for the third quarter of 2018, and an increase of $258.2 million from quarterly average loans for the fourth

quarter of 2017.

- Available-for-sale securities totaled $541.2 million at December 31, 2018, compared to $542.3 million at September 30, 2018, and $541.4 million at December 31, 2017. No security gains or losses were recorded in the fourth quarter of 2018, compared to pretax net security gains of $13,000 in the third quarter of 2018 and pretax net security gains of $639,000 in the fourth quarter of 2017.

Non-GAAP Presentations: Management has disclosed in this earnings release certain non-GAAP financial measures to evaluate and measure the Company's performance, including adjusted net income, adjusted earnings per share, the presentation of net interest income and net interest margin on a fully taxable equivalent basis, and efficiency ratio calculations. Management believes the adjusted earnings per share data is more informative for the user if the per share impact of certain activity is excluded for quarterly comparative purposes. 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 contains forward-looking statements. Forward looking statements can be identified by words such as "anticipated," "expects," "intends," "believes," "may," "likely," "will" or other that indicate future periods. Such forward-looking statements are subject to risks, uncertainties, and other factors, including a downturn in the economy, particularly in the Company's markets, volatile credit and financial markets both domestic and foreign, potential deterioration in real estate values, regulatory changes and excessive loan losses, as well as additional risks and uncertainties contained in the "Risk Factors" and forward-looking statements disclosure contained in the Company's most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, any or all of which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. The inclusion of this forward-looking information should not be construed as a representation by the Company or any person that future events, plans, or expectations contemplated by the Company will be achieved. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Conference Call

The Company will host an earnings call on Thursday, January 24, 2018, at 11:00 a.m. Eastern Time (10:00 a.m. Central Time). Investors may listen to the Company's earnings call via telephone by dialing 877-407-8035. 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 January 31, 2019, by dialing 877-481-4010, using Conference ID: 41677.

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SOURCE:Old Second Bancorp, Inc.