



NEWS RELEASE

Old Second Reports Fourth Quarter Net Income of \$3.0 million.

1/21/2015

AURORA, Ill., Jan. 21, 2015 /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 2014 and the year ended December 31, 2014. The Company reported net income of \$3.0 million for the fourth quarter of 2014, compared to net income of \$213,000 in the fourth quarter of 2013. The Company's net income available to common stockholders of \$1.9 million, or \$0.06 per diluted share, for the quarter, compared to a net loss available to common stockholders of \$1.1 million, or \$0.08 per diluted share, in the fourth quarter of 2013. The full year 2014 net income available to common stockholders of \$11.9 million is down from \$76.8 million in 2013. The full year 2013 included a tax benefit of \$70.0 million in the third quarter primarily from the reversal of a significant portion of the valuation allowance against deferred tax assets.

Financial Highlights/Overview

- Fourth quarter 2014 net income before taxes increased by \$4.8 million from the fourth quarter of 2013 and \$116,000 from the third quarter of 2014. The increase from the fourth quarter of 2013 was driven by sharply higher gains on securities sales (a loss item in 2013), improved debit card interchange income reflecting an improving trend seen over recent quarters, and lower noninterest expense, notably legal fees and amortization expense on the core deposit intangible asset which was fully amortized in the third quarter. The small linked quarter increase reflects improved net interest income and the 4th quarter 2014 loan loss reserve release offset by reduced levels in many noninterest income categories most notably net gains on securities sales.
- Fourth quarter 2014 net income available to common stockholders was \$1.9 million compared to a net loss of \$1.1 million for the fourth quarter 2013. On a linked quarter basis, fourth quarter net income available to

common stockholders is essentially unchanged from the 2014 third quarter of 2014.

- The tax-equivalent net interest margin was 3.35% during the fourth quarter of 2014 compared to 3.13% in the same quarter of 2013.
- Fourth quarter 2014 noninterest income of \$7.1 million was \$3.2 million higher than the fourth quarter of 2013 and \$1.2 million lower than the third quarter of 2014. The year over year quarterly comparison reflects \$262,000 in net gains on securities sales compared to a \$4.1 million net loss on securities sales in the 2013 period and debit card interchange income of \$1.0 million, or \$142,000 greater than in 2013. On a linked quarter basis, reductions in service charges, residential mortgage banking, and a large decrease in securities gains lead to the reductions in noninterest income.
- Noninterest expenses of \$18.8 million were 6.5% lower in the fourth quarter compared to the fourth quarter 2013. Expenses declined across several expense lines, notably FDIC insurance expense, amortization of core deposit expense, and legal fees. Fourth quarter expenses were up 2.3% compared to the third quarter 2014 as increases in other real estate owned ("OREO") expenses and salaries and benefits outweigh decreased core deposit amortization expense.
- On December 30, 2014, the Company provided notice that it was redeeming approximately one-third of the issued and outstanding shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Stock"). The effective date for the redemption is January 31, 2015, and the redemption price will be the stated liquidation value of \$1,000 per share, together with any accrued and unpaid dividends accumulated to, but excluding, the redemption date. As of December 30, 2014, there were 47,331 shares of the Series B Preferred Stock outstanding, and redeeming one-third of the Series B Preferred Stock will result in the redemption of approximately 15,778 shares of Series B Preferred Stock. Following the redemption, approximately 31,553 shares of the Series B Preferred Stock will remain outstanding.

Capital Ratios

	December 31, 2014		September 30, 2014		December 31, 2013	
	12.02		11.67		10.97	
The Bank's leverage capital ratio	18.72	%	18.47	%	18.04	%
The Bank's total risk-based capital ratio	9.93	%	9.68	%	6.96	%
The Company's leverage capital ratio	17.67	%	17.56	%	15.16	%
The Company's total risk-based capital ratio	7.12	%	7.15	%	3.67	%
The Company's tangible common equity to tangible assets		%		%		%

- The 2014 ratios shown above reflect the capital raise completed in 2014. Repeating information found in previous 2014 releases or reports, the Company's total risk-based capital ratio has been adjusted for December 31, 2013, to correctly account for the Company's subordinated debt, a portion of which was excluded from Tier 2 capital because the subordinated debt is within five years of maturity. This change resulted in an immaterial reduction in the Company's total risk-based capital ratio as of December 31, 2013. The reduction in regulatory capital amounts and ratios has no impact on the Company's historical consolidated financial statements or stockholders' equity, which were stated in accordance with generally accepted accounting principles.
- All ratios presented are based on the regulatory capital rules in effect in 2014 and do not reflect the new capital requirements of Basel III, which took effect on January 1, 2015.

Asset Quality & Earning Assets

- Nonperforming loans declined by \$12.7 million to \$27.1 million at December 31, 2014, from \$39.8 million at December 31, 2013. This same metric decreased in the fourth quarter from \$31.7 million at September 30, 2014.
- OREO assets declined from \$41.5 million at December 31, 2013 and \$40.9 million at September 30, 2014, to \$32.0 million at December 31, 2014. A lower quarterly level of new properties added in the quarter was offset by a strong quarter in property dispositions and an elevated level of valuation writedowns.
- Loans increased \$58.1 million since year end 2013 and \$18.5 million in the fourth quarter of 2014. Fourth quarter 2014 average loans increased by \$7.9 million from the third quarter and \$69.0 million compared to the fourth quarter 2013.
- Securities held-to-maturity at amortized cost of \$259.7 million at December 31, 2014 reflect a decrease from \$263.0 million at September 30, 2014. The end of the fourth quarter of 2014 total compares to \$256.6 million held-to-maturity at year end 2013. December 31, 2014, available-for-sale securities at fair value totaled \$385.5 million, which is an increase from \$362.2 million at end of the third quarter of 2014.
- Management review of the loan portfolio concluded that improvements in asset quality were sufficient to justify a loan loss reserve release of \$1.3 million in the fourth quarter.

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. 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 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.

To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/old-second-reports-fourth-quarter-net-income-of-30-million-300023887.html>

SOURCE Old Second Bancorp, Inc.