



NEWS RELEASE

Old Second Reports Second Quarter Net Income of \$2.0 million

7/23/2014

AURORA, Ill., July 23, 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 second quarter of 2014. The Company reported net income of \$2.0 million for the second quarter of 2014, compared to a net income of \$3.5 million in the second quarter of 2013. The Company's net income available to common stockholders of \$7.5 million or \$0.26 per diluted share, for the quarter, compared to a net income available to common stockholders of \$2.2 million, or \$0.15 per diluted share, in the second quarter of 2013. Second quarter 2014 net income to common stockholders reflects benefits to the Company from the redemption of Series B Preferred Stock further discussed below. Absent these benefits, the Company realized \$0.02 per diluted share in the quarter.

"We continued to build on past progress and return to consistent profitability," said Chairman Bill Skoglund. "Our experienced team of community banking professionals served established and new customers with an extensive collection of loan, deposit and wealth management products. Our talented team of support professionals provided exciting and innovative services to customers and staff. Unfortunately, our local economies continue to experience slow and even stalled growth. I would like to express my thanks to customers who choose Old Second as their financial partner and my admiration as well as respect for the excellent team of people who work at Old Second to provide wonderful services to Old Second customers and communities."

The Company completed the redemption of certain of its Series B Fixed Rate Cumulative Preferred Stock (the "Series B Stock") in the quarter. As previously disclosed, the Company completed a public offering of common stock in April. Net proceeds of over \$64.0 million were used to pay the accrued but unpaid interest on trust preferred securities, the accumulated but unpaid dividends on the Series B Stock and to complete this redemption.

The redemption price for such Series B Stock was 94.75% of the liquidation value of the Series B Stock provided that the holders of shares entered into agreements to forbear payment of dividends due and to waive any rights to such dividend upon redemption. The Company also redeemed all shares of Series B Stock held by directors of the Company on the same terms.

These redemptions at below liquidation value resulted in a benefit of \$1.3 million to net income available to common stockholders in the quarter. An additional benefit of \$5.4 million reflecting both reversal of dividends previously accrued as well as dividends accumulated but not accrued by the Company and waived by holders upon redemption, is reflected in net income available to common stockholders. Absent these benefits, the Company realized \$0.02 per diluted share in the quarter.

Further, the Bank announced plans to close two branches later this year. Customers have been notified by letter about plans to continue to provide Bank services from other existing locations as well as via online banking and remote banking capabilities.

Financial Highlights/Overview

- Second quarter net income before tax declined by \$396,000 from second quarter 2013 and \$319,000 from first quarter 2014. The decrease from second quarter 2013 was driven by lower residential banking income (down 55.4%) and lower loan loss reserve release. The linked quarter decline reflects increased expense related to Other Real Estate Owned ("OREO") and infrequent other expenses.
- Second quarter net income available to common stockholders of \$7.5 million includes benefits from the Preferred Stock redemption and compares to \$2.2 million in second quarter 2013 and \$630,000 in first quarter of this year.
- The tax-equivalent net interest margin was 3.04% during the second quarter of 2014 compared to 3.07% in the same quarter of 2013 and 3.13% in first quarter of 2014.
- Noninterest income of \$7.5 million was \$2.4 million lower than in the second quarter 2013 and \$1.2 million greater than results in first quarter 2014. The year over year comparison reflects lower residential banking income in 2014. Second quarter 2013 further included a nonrecurring death benefit on bank owned life insurance. On a linked quarter basis, trust income and residential banking income strengthened while gains on securities sales also were higher.
- Noninterest expenses of \$19.1 million were 11.6% lower in second quarter compared to second quarter 2013. Expenses declined across several expense lines notably expense on OREO. Second quarter expenses were up 8.8% compared to first quarter 2014. Expense increased in second quarter on higher OREO expense and higher consulting, web site development, printing costs and franchise tax expense and a debit card fraud loss.

Capital Ratios

	June 30, 2014		March 31, 2014		June 30, 2013
	11.28		11.12		10.40
The Bank's leverage capital ratio	18.29	%	17.83	%	16.30
The Bank's total risk-based capital ratio	9.51	%	7.29	%	5.46
The Company's leverage capital ratio	17.66	%	15.19	%	14.03
The Company's total risk-based capital ratio	7.09	%	3.68	%	
The Company's tangible common equity to tangible assets		%		%	(0.18) %

The Company's total risk-based capital ratio has been adjusted this quarter 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 has also been made in prior quarters and has resulted in an immaterial reduction in the Company's total risk-based capital ratio for those periods. 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 accounting principles generally accepted in the United States of America.

Asset Quality & Earning Assets

- Nonperforming loans declined by \$10.9 million during the six months of 2014 to \$28.9 million at June 30, 2014, from \$39.8 million at December 31, 2013.
- OREO declined from \$41.5 million at December 31, 2013, and \$40.2 million at March 31, 2014, to \$39.2 million at June 30, 2014. OREO dispositions totaling \$4.9 million in the second quarter 2014 were largely offset by new OREO of \$4.7 million. The remaining decline in the quarter reflects valuation reserve changes on the portfolio offset by a nominal amount of management authorized improvement work on a property in severe disrepair.
- Loans increased \$31.5 million since year end and \$21.5 million in second quarter. Period end commercial loans grew 8.6% in the quarter.
- Securities held-to-maturity at amortized cost of \$264.7 million at June 30, 2014, were essentially unchanged from March 31, 2014. The end of second quarter total compares to \$256.6 million held-to-maturity at year end 2013. Quarter end June 30, 2014, available-for-sale securities at fair value total \$329.8 million and were down from \$400.2 million at end of first quarter 2014.

- Continued improvements in asset quality justified a \$1.0 million loan loss reserve release in the quarter marking the sixth consecutive quarter with a reserve release.

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.

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