Q4

NEWS RELEASE

Old Second Reports Second Quarter Net Income of $9.2 million, or $0.31 per Diluted Share

7/22/2020

AURORA, IL / ACCESSWIRE / July 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 second quarter of 2020. Our net income was $9.2 million, or $0.31 per diluted share, for the second quarter of 2020, compared to net income of $275,000, or $0.01 per diluted share, for the first quarter of 2020, and net income of $9.3 million, or $0.31 per diluted share, for the second quarter of 2019. Net income for the second quarter of 2020 includes a ($0.05) per diluted share impact of additional provisions for credit losses for loans and unfunded commitments due to changes in economic conditions and market interest rates related to the COVID-19 pandemic.

Operating Results

- Second quarter 2020 net income was $9.2 million, reflecting an increase in earnings of $9.0 million from the first quarter of 2020, and a decrease in earnings of $40,000 from the second quarter of 2019. We recorded a provision for credit losses of $2.1 million in the second quarter of 2020, compared to $8.0 million in the first quarter of 2020, both due to the assessment of potential credit losses related to the COVID-19 pandemic under the new current expected credit losses accounting standard ("CECL"). Also contributing to the increase in net income in the second quarter of 2020 compared to the prior quarter was growth in net gain on sales of mortgage loans of $2.4 million due to the reduction of interest rates, a reduction of $1.7 million of mark to market losses on MSRs, and 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, in the first quarter of 2020.
- Net interest and dividend income was $22.7 million for the second quarter of 2020, a decrease of $49,000, or

0.2%, from the first quarter of 2020, and a decrease of $2.0 million, or 8.3%, from the second quarter of 2019. Net interest and dividend income in the year over year period 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 same period. The recognition of $635,000 in deferred issuance costs due to the redemption of trust preferred securities issued by Old Second Capital Trust I and related junior subordinated debentures also reduced net interest and dividend income in the first quarter of 2020.

- Provision for credit losses was $2.1 million for the second quarter of 2020, consisting of $1.4 million related to loans and $734,000 related to unfunded commitments, compared to a provision for credit losses of $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, and a provision for loan losses of $450,000 in the second 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 in the first quarter of 2020. Provision expense in 2020 was impacted by both the adoption of the new CECL methodology and the expected impact, as of June 30, 2020, of the COVID-19 pandemic on future losses.
- Noninterest income was $10.7 million for the second quarter of 2020, an increase of $4.4 million, or 69.2%, compared to $6.3 million for the first quarter of 2020, and an increase of $2.6 million, or 31.3%, compared to $8.1 million for the second quarter of 2019. The increase compared to the linked quarter and year over year quarter was primarily due to growth in net gains on sales of mortgage loans, due to an increase in volumes of originations and renewals in the lower interest rate environment. In addition, mark to market losses on MSRs totaled $445,000 in the second quarter of 2020, compared to losses of $2.1 million in the first quarter of 2020, and losses of $1.1 million in the second quarter of 2019.
- Noninterest expense was $18.9 million for the second quarter of 2020, a decrease of $2.1 million, or 10.0%, compared to $21.0 million for the first quarter of 2020, and a decrease of $1.2 million, or 6.1%, from $20.1 million for the second quarter of 2019. The decrease compared to the linked quarter and the year over year quarter was primarily attributable to decreases in salaries and employee benefits, computer and data processing, advertising, and other real estate owned expenses.
- The provision for income taxes expense was $3.1 million for the second quarter of 2020, compared to a net benefit of $281,000 for the first quarter of 2020, and $3.0 million of provision expense for the second quarter of 2019. The increase in tax expense for the linked quarter was due to an increase of $12.4 million in pretax income compared to the first quarter of 2020.
- During the second quarter of 2020, we repurchased 145,932 shares of our common stock at a weighted average price of $6.97 per share pursuant to our stock repurchase program.

- On July 21, 2020, our Board of Directors declared a cash dividend of $0.01 per share payable on August 10, 2020, to stockholders of record as of July 31, 2020.

COVID-19 Operational Update

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

- We established client assistance programs, including offering commercial, consumer, and mortgage loan payment deferrals for certain clients. We also suspended late fees for consumer loans through June 30, 2020, and, although consumer late fees have been reinstated, we will continue to re-evaluate late fee assessments based on the ongoing COVID-19 pandemic.
- We paused new foreclosure and repossession actions through June 30, 2020, and will continue to re-evaluate based on the borrower's financial status and capability of repayment.
- We are participating in the Coronavirus Aid, Relief and Economic Security Act ("CARES" Act). As of June 30, 2020, we had processed 669 loan applications for the SBA Paycheck Protection Program ("PPP loans"), representing a total of $133.9 million. We remain ready to continue to fund eligible client requests through the remaining time period approved by Congress.

President and Chief Executive Officer Jim Eccher said "I want to thank our employees for their dedication and hard work under extremely difficult circumstances over the past several months. Their efforts to promote the safe operation of the Bank while continuing to meet the financial needs of our communities has been nothing short of extraordinary. Old Second remains committed to providing the resources to allow for the safest experience possible for our customers and employees while we continue to work with our customers who have been directly impacted by the pandemic."

Eccher continued, "The credit environment remains uncertain given the economic damage resulting from the pandemic. Recent economic data and decisive government action provide some basis for optimism but significant uncertainty remains regarding the ultimate impact of the pandemic on the local, national and global economies. I believe Old Second is well positioned to capitalize upon opportunities with substantial capital flexibility and strong liquidity. Bottom line results this quarter were strong in the context of the economy and significantly lower interest rates across all maturities. Old Second earned $9.2 million despite adding an additional $2.1 million to the loss reserve for loans and unfunded commitments during the quarter. Deposit growth was excellent and spread income trends held up well despite a decline in the margin resulting from our participation in the Paycheck Protection Program and a large increase in liquidity."

Capital Ratios

	Minimum Capital Adequacy with Capital Conservation Buffer, if applicable1	Well Capitalized Under Prompt Corrective Action Provisions2	June 30, 2020	March 31, 2020	June 30, 2019
The Company					
Common equity tier 1 capital ratio	7.00%	N/A	11.31%	10.85%	10.26%
Total risk-based capital ratio	10.50%	N/A	13.63%	13.09%	13.70%
Tier 1 risk-based capital ratio	8.50%	N/A	12.39%	11.93%	12.83%
Tier 1 leverage ratio	4.00%	N/A	10.06%	10.57%	10.85%
The Bank					
Common equity tier 1 capital ratio	7.00%	6.50%	13.46%	12.89%	13.96%
Total risk-based capital ratio	10.50%	10.00%	14.71%	14.07%	14.83%
Tier 1 risk-based capital ratio	8.50%	8.00%	13.46%	12.89%	13.96%
Tier 1 leverage ratio	4.00%	5.00%	10.86%	11.36%	11.96%

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, 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 $20.2 million at June 30, 2020, compared to $21.8 million at March 31, 2020, and $12.7 million at June 30, 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 1.0% at June 30, 2020, compared to 1.1% at March 31, 2020, and 0.7% at June 30, 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 $11.1 million, net of purchase accounting adjustments, at June 30, 2020. PCD loans that meet the definition of nonperforming are now included in nonperforming disclosures.

- OREO assets totaled $5.1 million at June 30, 2020, compared to $5.0 million at March 31, 2020, and $5.7 million at June 30, 2019. We recorded write-downs of $60,000 in the second quarter of 2020, compared to $158,000 in the first quarter of 2020 and $196,000 in the second quarter of 2019. Nonperforming assets, as a percent of total loans plus OREO, were 1.2% at June 30, 2020, 1.4% at March 31, 2020, and 1.0% June 30, 2019.
- Total loans were $2.05 billion at June 30, 2020, reflecting an increase of $95.1 million compared to March 31, 2020, and an increase of $149.4 million compared to June 30, 2019. Growth in the year over year period was due primarily to an increase in our commercial portfolio stemming from PPP loan originations of $133.9 million, as well as organic growth in our leases and real estate-commercial portfolios. Average loans (including loans held-for-sale) for the second quarter of 2020 were $2.05 billion, reflecting an increase of $106.8 million from the first quarter of 2020 and an increase of $154.8 million from the second quarter of 2019.
- Available-for-sale securities totaled $447.4 million at June 30, 2020, compared to $449.7 million at March 31, 2020, and $492.1 million at June 30, 2019. Total securities available-for-sale decreased $2.3 million from the linked quarter due to maturities and paydowns of $19.4 million, purchases of $6.7 million and unrealized mark to market gains of $11.0 million. A decline of $44.6 million was realized in the year over year quarter due primarily to security maturities and paydowns recorded in the third quarter of 2019 and first quarter of 2020.

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, our efficiency ratio calculations and core net interest margin on a taxable equivalent basis. The net interest margin fully taxable equivalent 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. Examples of forward-looking statements include, but are not limited to, statements regarding the economic outlook and our belief that we are well-positioned to capitalize on opportunities with substantial capital flexibility and strong liquidity. 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, July 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 844-369-8770. 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 July 30, 2020, by dialing 877-481-4010, using Conference ID: 35557.

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/598493/Old-Second-Reports-Second-Quarter-Net-Income-of-92-million-or-031-per-Diluted-Share