NEWS RELEASE

Old Second Reports Third Quarter Net Income of $10.3 million, or $0.34 per Diluted Share

10/21/2020

AURORA, IL / ACCESSWIRE / October 21, 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 third quarter of 2020. Our net income was $10.3 million, or $0.34 per diluted share, for the third quarter of 2020, compared to net income of $9.2 million, or $0.31 per diluted share, for the second quarter of 2020, and net income of $12.2 million, or $0.40 per diluted share, for the third quarter of 2019. Net income for the third quarter of 2020 reflects a reduction in net interest income year over year due to changes in economic conditions and market interest rates related to the COVID-19 pandemic, and a reduction in service charges on deposits due to a decline in customer spending. Partially offsetting this reduction to third quarter net income year over year was a $0.10 per diluted share impact of growth in mortgage banking income due to an increase in mortgage originations and refinances stemming from the low interest rate environment.

Operating Results

- Third quarter 2020 net income was $10.3 million, reflecting an increase in earnings of $1.0 million from the second quarter of 2020, and a decrease in earnings of $1.9 million from the third quarter of 2019. We recorded a provision for credit losses of $300,000 in the third quarter of 2020, compared to $2.1 million in the second quarter of 2020, each under the current expected credit losses accounting standard ("CECL"), which considers potential credit losses related to the ongoing COVID-19 pandemic, compared to $550,000 in the third quarter of 2019, under the incurred loss model. Contributing to the increase in net income in the third quarter of 2020 compared to the prior quarter was growth in net gain on sales of mortgage loans of $615,000 due to the reduction of interest rates, and growth in service charges on deposits, as customer spending increased in the third quarter.

- Net interest and dividend income was $22.5 million for the third quarter of 2020, a decrease of $198,000, or 0.9%, from the second quarter of 2020, and a decrease of $2.3 million, or 9.2%, from third 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, as loan growth was more than offset by decreases in yields.
- Provision for credit losses was $300,000 for the third quarter of 2020, consisting of $1.3 million related to loans and a $980,000 reversal related to unfunded commitments, compared to a provision for credit losses of $2.1 million for the second quarter of 2020, consisting of $1.4 million related to loans and $734,000 related to unfunded commitments, and a provision for loan losses of $550,000 in the third 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 September 30, 2020, of the COVID-19 pandemic on future losses.
- Noninterest income was $11.7 million for the third quarter of 2020, an increase of $990,000, or 9.3%, compared to $10.7 million for the second quarter of 2020, but a decrease of $248,000, or 2.1%, compared to $11.9 million for the third quarter of 2019. The increase compared to the linked quarter was primarily due to growth in net gains on sales of mortgage loans, due to an increase in volumes of originations and refinances in the lower interest rate environment. The reduction in the year over year period was primarily due to decreases of $698,000 in service charges on deposits and $3.5 million on securities gains, net, which was partially offset by the $3.2 million of growth in net gains on sales of mortgages in the third quarter of 2020. In addition, mark to market losses on mortgage servicing rights, or MSRs, totaled $160,000 in the third quarter of 2020, compared to losses of $445,000 in the second quarter of 2020, and losses of $946,000 in the third quarter of 2019.
- Noninterest expense was $20.3 million for the third quarter of 2020, an increase of $1.4 million, or 7.3%, compared to $18.9 million for the second quarter of 2020, and an increase of $312,000, or 1.6%, from $20.0 million for the third quarter of 2019. The increase compared to the linked quarter was primarily attributable to growth in salaries and employee benefits related to deferrals recorded in the second quarter of 2020 on the SBA Paycheck Protection Program ("PPP") loan origination costs. The increase compared to the year over year period was also primarily attributable to salaries and employee benefits largely resulting from growth in full time equivalent employees, increases in employee insurance costs, and annual employee merit increases in early 2020.
- The provision for income taxes expense was $3.4 million for the third quarter of 2020, compared to provision expense of $3.1 million for the second quarter of 2020, and $4.0 million of provision expense for the third

quarter of 2019. The increase in tax expense for the linked quarter was due to an increase of $1.3 million in pretax income compared to the second quarter of 2020, and the decrease in tax expense for the year over year period was due to the reduction in pretax income of $2.6 million.

- During the third quarter of 2020, we repurchased 137,756 shares of our common stock at a weighted average price of $8.34 per share pursuant to our stock repurchase program.
- On October 19, 2020, our Board of Directors declared a cash dividend of $0.01 per share payable on November 9, 2020, to stockholders of record as of October 30, 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.
- Late in the first quarter of 2020, we began granting loan payment deferrals to certain borrowers affected by the pandemic. As of September 30, 2020, our clients had requested loan payment deferrals on 468 loans totaling $226.2 million. As of September 30, 2020, 372 loans, representing $172.1 million outstanding, or 76.1% of the original loan balances deferred, have resumed payments.
- We are participating in the Coronavirus Aid, Relief and Economic Security Act ("CARES" Act). As of September 30, 2020, we had processed 746 loan applications for the PPP loans, representing a total of $136.7 million. Early in the fourth quarter of 2020, we started to submit applications for PPP loan forgiveness to the SBA, and will continue to submit applications throughout the remainder of 2020. We anticipate receiving funds for PPP loan forgiveness from the SBA well into the first quarter of 2021.

President and Chief Executive Officer Jim Eccher said "Our results this quarter are a testament to the strength of our balance sheet, the diversity of our business mix and a consistent focus on quality underwriting. Expenses are well controlled, capital levels are extremely strong and we believe we are well positioned to navigate the challenges that lie ahead for credit quality in our industry. I would like to thank our employees for their continued hard work in meeting the needs of our customers and communities during these challenging times. Our balance sheet positioning remains somewhat conservative with substantial excess liquidity given the difficulty in forecasting the ultimate path of the national and local economies. As a result, our efforts are focused first on helping our customers navigate uncertain times, and second, on looking for opportunities to invest and grow the Old Second franchise."

Capital Ratios

	Minimum Capital Adequacy with Capital Conservation Buffer, if applicable1	Well Capitalized Under Prompt Corrective Action Provisions2	September 30, 2020	June 30, 2020	September 30, 2019
The Company					
Common equity tier 1 capital ratio	7.00%	N/A	11.97%	11.31%	10.89%
Total risk-based capital ratio	10.50%	N/A	14.33%	13.63%	14.34%
Tier 1 risk-based capital ratio	8.50%	N/A	13.08%	12.39%	13.45%
Tier 1 leverage ratio	4.00%	N/A	10.07%	10.06%	11.54%
The Bank					
Common equity tier 1 capital ratio	7.00%	6.50%	14.24%	13.46%	14.83%
Total risk-based capital ratio	10.50%	10.00%	15.49%	14.71%	15.72%
Tier 1 risk-based capital ratio	8.50%	8.00%	14.24%	13.46%	14.83%
Tier 1 leverage ratio	4.00%	5.00%	10.90%	10.86%	12.68%

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 $19.5 million at September 30, 2020, compared to $20.2 million at June 30, 2020, and $13.4 million at September 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 both September 30, 2020 and June 30, 2020, and 0.7% at September 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 loans 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 $10.6 million, net of purchase accounting adjustments, at September 30, 2020. PCD loans that meet the definition of nonperforming are now included in our nonperforming disclosures.

- OREO assets totaled $2.7 million at September 30, 2020, compared to $5.1 million at June 30, 2020, and $4.7 million at September 30, 2019. We recorded write-downs of $46,000 in the third quarter of 2020, compared to $60,000 in the second quarter of 2020 and $203,000 in the third quarter of 2020. Nonperforming assets, as a percent of total loans plus OREO, were 1.2% at both September 30, 2020 and June 30, 2020, and 0.9% at September 30, 2019.
- Total loans were $2.03 billion at September 30, 2020, reflecting a decrease of $22.0 million compared to June 30, 2020, but an increase of $130.5 million compared to September 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 $136.7 million, as well as organic growth primarily in our leases and commercial real estate--investor portfolios. Average loans (including loans held-for-sale) for the third quarter of 2020 totaled $2.05 billion, reflecting a decrease of $3.1 million from the second quarter of 2020 and an increase of $153.5 million from the third quarter of 2019.
- Available-for-sale securities totaled $448.4 million at September 30, 2020, compared to $447.4 million at June 30, 2020, and $488.4 million at September 30, 2019. Total securities available-for-sale increased a net $1.0 million from the linked quarter due to a purchase of $1.8 million of agency mortgage backed securities and unrealized mark to market gains of $5.8 million, offset by $6.1 million of calls, maturities and paydowns. A decline of $40.0 million was realized in the year over year period due primarily to security maturities and paydowns recorded in the 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 "anticipate," "expect," "intend," "believe," "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, October 22, 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 October 30, 2020, by dialing 877-481-4010, using Conference ID: 37797.

SOURCE:Old Second Bancorp Inc.

https://www.accesswire.com/611556/Old-Second-Reports-Third-Quarter-Net-Income-of-103-million-or-034-per-Diluted-Share