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NEWS RELEASE

Old Second Reports Third Quarter Net Income of $2.9 million

10/22/2014

AURORA, Ill., Oct. 22, 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 third quarter of 2014. The Company reported net income of $2.9 million for the third quarter of 2014, compared to a net income of $72.9 million in the third 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 income available to common stockholders of $71.6 million, or $5.08 per diluted share, in the third quarter of 2013. The net income available to common stockholders in the third quarter 2013 reflected an income tax benefit of $70.0 million largely related to the reversal of a deferred tax asset valuation allowance.

"Old Second's business model, based on exceptional community banking service, continued to show resilience in an unchanged and fitful economic growth environment," said Chairman Bill Skoglund. "While some indications are that economic activity shows improvement, other indicators show little change including important labor market and housing market measures. Despite the economic conditions, Old Second continued to add loans and controlled operating expenses while maintaining our commitment to personal contact with our valued customers."

Mr. Skoglund announced his retirement as Chief Executive Officer and President of the Company effective January 1, 2015. James Eccher will assume new responsibilities as Chief Executive Officer and President of the Company also effective as of that date. Mr. Skoglund will continue to serve as Chairman of the Board of both the Company and the Bank after his retirement.

Financial Highlights/Overview

- Third quarter net income before taxes increased by $1.7 million from the third quarter 2013 and $1.6 million from the second quarter 2014. The increase from third quarter 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 Other Real Estate Owned ("OREO") expenses were down because of lower valuation expenses. The linked quarter increase reflects improved net interest income, markedly higher gains on securities sales (up $936,000) and reduced noninterest expense as the core deposit intangible asset reached full amortization and compensation costs moderated.
- Third quarter net income available to common stockholders was $1.9 million compared to $1.6 million, after excluding the $70.0 million tax benefit mainly from the reversal of a valuation allowance related to deferred tax assets, in the third quarter 2013. On a linked quarter basis, third quarter net income available to common stockholders is compared to $673,000 in the second quarter of this year, upon excluding the second quarter $6.8 million benefit from the Company's redemption of a large amount of Series B fixed Rate Cumulative Preferred Stock.
- The tax-equivalent net interest margin was 3.26% during the third quarter of 2014 compared to 3.25% in the same quarter of 2013.
- Third quarter 2014 noninterest income of $8.3 million was $853,000 higher than the third quarter of 2013 and $842,000 higher than the second quarter 2014. The year over year quarterly comparison reflects $1.2 million in net gains on securities sales compared to a $7,000 net loss of sales in the 2013 period and debit card interchange income of $1.0 million or $138,000 greater than in the 2013 period. On a linked quarter basis, improved results in these same two areas offset a reduction in trust income as trust results returned to normal quarterly levels.
- Noninterest expenses of $18.3 million were 10.9% lower in the third quarter compared to the third quarter 2013. Expenses declined across several expense lines, notably compensation expense and OREO related expense before gains on OREO sales. Third quarter expenses were down 3.7% compared to the second quarter 2014 as decreases across several expense categories offset higher OREO related expenses, especially higher OREO valuation adjustment expense.

Capital Ratios

	September 30, 2014	June 30, 2014	September 30, 2013
	11.67	11.28	11.08
The Bank's leverage capital ratio	% 18.47	% 18.29	% 17.08
The Bank's total risk-based capital ratio	% 9.68	% 9.51	% 7.11

The Company's leverage capital ratio	17.56 %	17.66 %	14.47 %
The Company's total risk-based capital ratio	7.15 %	7.09 %	3.33 %
The Company's tangible common equity to tangible assets	%	%	%

- 2014 ratios shown above reflect the capital raise completed earlier this year.
- The Company's total risk-based capital ratio has been adjusted for September 30, 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 September 30, 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 incorporate currently effective requirements and not the final Basel III capital rules issued in July 2013. The Company will be subject to the new capital rules beginning January 1, 2015. The Company continues to evaluate the impact of the new capital rules on its regulatory ratios.

Asset Quality & Earning Assets

- Nonperforming loans declined by $8.1 million during the nine months of 2014 to $31.7 million at September 30, 2014, from $39.8 million at December 31, 2013. This same metric increased in the third quarter by 9.5% from $28.9 million at June 30, 2014.
- OREO declined from $41.5 million at December 31, 2013, but increased from $39.2 million at June 30, 2014, to $40.9 million at September 30, 2014. Additions to OREO, including the New Lenox branch property scheduled for closing October 24, 2014, and $506,000 of improvements to a property in severe disrepair, outpaced a slower level of dispositions and increased valuation writedowns in the third quarter.
- Loans increased $39.6 million since year end and $8.1 million in the third quarter. Third quarter growth included approximately $10.0 million in loans purchased in late September. Third quarter 2014 average loans increased by $15.3 million from the second quarter and $47.9 million compared to the third quarter 2013.
- Securities held-to-maturity at amortized cost of $263.0 million at September 30, 2014, were essentially unchanged from June 30, 2014. The end of the third quarter total compared to $256.6 million held-to-maturity at year end 2013. September 30, 2014, available-for-sale securities at fair value totaled $362.2 million, which is an increase from $329.8 million at end of second quarter 2014.
- Management review of the loan portfolio concluded that the reserve for loan and lease loss was adequate at September 30, 2014. No loan loss reserve release or provision was recorded in the 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.