

OLD SECOND BANCORP INC

Form 10-Q

November 06, 2015

Table of Contents

I

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For transition period from to

Commission File Number 0 -10537

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction)

36-3143493
(I.R.S. Employer Identification Number)

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

of incorporation or organization)

37 South River Street, Aurora, Illinois 60507

(Address of principal executive offices) (Zip Code)

(630) 892-0202

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Act). (check one):

Large accelerated filer Accelerated filer Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of November 4, 2015, the Registrant had outstanding 29,483,429 shares of common stock, \$1.00 par value per share.



Table of Contents

OLD SECOND BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

	Page Number
<u>PART I</u>	
<u>Item 1.</u> <u>Financial Statements</u>	3
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	46
<u>Item 4.</u> <u>Controls and Procedures</u>	47
<u>PART II</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	48
<u>Item 1.A.</u> <u>Risk Factors</u>	48
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	48
<u>Item 4.</u> <u>Mine Safety Disclosure</u>	48
<u>Item 5.</u> <u>Other Information</u>	48
<u>Item 6.</u> <u>Exhibits</u>	48
<u>Signatures</u>	49

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	(Unaudited) September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$ 35,443	\$ 30,101
Interest bearing deposits with financial institutions	18,329	14,096
Cash and cash equivalents	53,772	44,197
Securities available-for-sale, at fair value	408,836	385,486
Securities held-to-maturity, at amortized cost	250,044	259,670
Federal Home Loan Bank and Federal Reserve Bank stock	8,271	9,058
Loans held-for-sale	3,899	5,072
Loans	1,132,912	1,159,332
Less: allowance for loan losses	16,613	21,637
Net loans	1,116,299	1,137,695
Premises and equipment, net	39,701	42,335
Other real estate owned	24,451	31,982
Mortgage servicing rights, net	5,470	5,462
Bank-owned life insurance (BOLI)	57,647	56,807
Deferred tax assets, net	65,150	70,141
Other assets	16,054	13,882
Total assets	\$ 2,049,594	\$ 2,061,787
Liabilities		
Deposits:		
Noninterest bearing demand	\$ 430,810	\$ 400,447
Interest bearing:		
Savings, NOW, and money market	878,226	865,103
Time	411,443	419,505
Total deposits	1,720,479	1,685,055
Securities sold under repurchase agreements	27,074	21,036
Other short-term borrowings	35,000	45,000
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
Other liabilities	9,520	12,655
Total liabilities	1,895,951	1,867,624

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

Stockholders' Equity		
Preferred stock	-	47,331
Common stock	34,423	34,365
Additional paid-in capital	115,773	115,332
Retained earnings	110,376	100,697
Accumulated other comprehensive loss	(10,963)	(7,713)
Treasury stock	(95,966)	(95,849)
Total stockholders' equity	153,643	194,163
Total liabilities and stockholders' equity	\$ 2,049,594	\$ 2,061,787

	September 30, 2015		December 31, 2014	
	Preferred Stock	Common Stock	Preferred Stock	Common Stock
Par value	\$ 1	\$ 1	\$ 1	\$ 1
Liquidation value	-	n/a	1,000	n/a
Shares authorized	300,000	60,000,000	300,000	60,000,000
Shares issued	-	34,422,234	47,331	34,364,734
Shares outstanding	-	29,478,429	47,331	29,442,508
Treasury shares	-	4,943,805	-	4,922,226

See accompanying notes to consolidated financial statements.

Table of Contents

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income

(In thousands, except per share data)

	(unaudited) Three Months Ended September 30,		(unaudited) Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest and dividend income				
Loans, including fees	\$ 13,353	\$ 13,362	\$ 40,038	\$ 39,346
Loans held-for-sale	38	38	153	92
Securities:				
Taxable	3,471	3,586	10,218	10,440
Tax exempt	122	110	426	376
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	76	78	230	232
Interest bearing deposits with financial institutions	12	25	43	60
Total interest and dividend income	17,072	17,199	51,108	50,546
Interest expense				
Savings, NOW, and money market deposits	185	175	547	562
Time deposits	799	1,073	2,377	3,604
Other short-term borrowings	6	5	22	10
Junior subordinated debentures	1,072	1,072	3,215	3,847
Subordinated debt	205	199	604	593
Notes payable and other borrowings	1	4	5	12
Total interest expense	2,268	2,528	6,770	8,628
Net interest and dividend income	14,804	14,671	44,338	41,918
Loan loss reserve release	(2,100)	-	(4,400)	(2,000)
Net interest and dividend income after provision for loan losses	16,904	14,671	48,738	43,918
Noninterest income				
Trust income	1,444	1,483	4,526	4,619
Service charges on deposits	1,766	1,838	5,086	5,354
Secondary mortgage fees	190	174	715	441
Mortgage servicing (loss) gain, net of changes in fair value	(274)	252	18	269
Net gain on sales of mortgage loans	1,359	914	4,677	2,614
Securities (loss) gain, net	(57)	1,231	(178)	1,457
Increase in cash surrender value of bank-owned life insurance	203	304	840	1,028
Debit card interchange income	1,004	1,011	3,013	2,771
Loss on disposal and transfer of fixed assets	(1,143)	(121)	(1,143)	(121)
Other income	1,156	1,237	4,331	3,693
Total noninterest income	5,648	8,323	21,885	22,125
Noninterest expense				
Salaries and employee benefits	8,260	8,856	26,664	27,140
Occupancy expense, net	1,156	1,143	3,521	3,809

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

Furniture and equipment expense	1,110	989	3,176	2,956
FDIC insurance	373	649	1,023	1,555
General bank insurance	308	371	975	1,203
Amortization of core deposit	-	154	-	1,177
Advertising expense	434	291	992	1,053
Debit card interchange expense	379	418	1,131	1,208
Legal fees	279	332	922	998
Other real estate expense, net	977	2,007	4,717	4,665
Other expense	2,968	3,134	9,203	9,148
Total noninterest expense	16,244	18,344	52,324	54,912
Income before income taxes	6,308	4,650	18,299	11,131
Provision for income taxes	2,384	1,726	6,747	3,984
Net income	\$ 3,924	\$ 2,924	\$ 11,552	\$ 7,147
Preferred stock dividends and accretion of discount	339	1,065	1,873	3,985
Dividends waived upon preferred stock redemption	-	-	-	(5,433)
Gain on preferred stock redemption	-	-	-	(1,348)
Net income available to common stockholders	\$ 3,585	\$ 1,859	\$ 9,679	\$ 9,943
Basic earnings per share	\$ 0.12	\$ 0.06	\$ 0.33	\$ 0.41
Diluted earnings per share	0.12	0.06	0.33	0.41

See accompanying notes to consolidated financial statements.

Table of Contents

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(In thousands)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Income	\$ 3,924	\$ 2,924	\$ 11,552	\$ 7,147
Unrealized holding (losses) gains on available-for-sale securities arising during the period	(5,191)	(2,224)	(4,845)	397
Related tax benefit (expense)	2,079	918	1,869	(161)
Holding (losses) gains after tax on available-for-sale securities	(3,112)	(1,306)	(2,976)	236
Less: Reclassification adjustment for the net (losses) gains realized during the period				
Net realized (losses) gains	(57)	1,231	(178)	1,457
Income tax benefit (expense) on net realized (losses) gains	23	(504)	71	(597)
Net realized (losses) gains after tax	(34)	727	(107)	860
Other comprehensive loss on available-for-sale securities	(3,078)	(2,033)	(2,869)	(624)
Accretion of net unrealized holding gains on held-to-maturity securities transferred from available-for-sale securities	242	237	739	731
Related tax expense	(100)	(97)	(304)	(301)
Other comprehensive income on held-to-maturity securities	142	140	435	430
Changes in fair value of derivatives used for cashflow hedges	(816)	-	(816)	-
Total other comprehensive loss	(3,752)	(1,893)	(3,250)	(194)
Total comprehensive income	\$ 172	\$ 1,031	\$ 8,302	\$ 6,953

See accompanying notes to consolidated financial statements.

Table of Contents

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 11,552	\$ 7,147
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of leasehold improvement	1,816	1,887
Change in fair value of mortgage servicing rights	1,201	761
Loan loss reserve release	(4,400)	(2,000)
Provision for deferred tax expense	6,485	4,063
Originations of loans held-for-sale	(153,990)	(85,172)
Proceeds from sales of loans held-for-sale	158,621	87,569
Net gain on sales of mortgage loans	(4,677)	(2,614)
Change in current income taxes receivable (payable)	11	(79)
Increase in cash surrender value of bank-owned life insurance	(840)	(1,028)
Change in accrued interest receivable and other assets	(2,161)	(3,633)
Change in accrued interest payable and other liabilities	(3,386)	(22,108)
Net premium amortization/discount (accretion) on securities	226	(1,408)
Securities losses (gains), net	178	(1,457)
Amortization of core deposit	-	1,177
Stock based compensation	466	189
Net gain on sale of other real estate owned	(769)	(610)
Provision for other real estate owned losses	3,825	2,781
Net loss on disposal of fixed assets	4	-
Loss on transfer of premises to other real estate owned	1,139	121
Net cash provided by (used in) operating activities	15,301	(14,414)
Cash flows from investing activities		
Proceeds from maturities and calls including pay down of securities available-for-sale	33,035	15,430
Proceeds from sales of securities available-for-sale	70,176	264,502
Purchases of securities available-for-sale	(131,956)	(268,639)
Proceeds from maturities and calls including pay down of securities held-to-maturity	10,689	5,934
Purchases of securities held-to-maturity	-	(11,212)
Proceeds from sales of Federal Home Loan Bank stock	787	1,234
Net change in loans	18,403	(53,037)
Improvements in other real estate owned	-	(637)
Proceeds from sales of other real estate owned	12,336	12,746
Proceeds from disposition of premises and equipment	-	1
Net purchases of premises and equipment	(793)	(721)

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

Net cash provided by (used in) investing activities	12,677	(34,399)
Cash flows from financing activities		
Net change in deposits	35,424	(25,373)
Net change in securities sold under repurchase agreements	6,038	6,878
Net change in other short-term borrowings	(10,000)	35,000
Redemption of preferred stock	(47,331)	(24,321)
Proceeds from the issuance of common stock	-	64,395
Dividends paid on preferred stock	(2,417)	(11,323)
Purchase of treasury stock	(117)	(46)
Net cash (used in) provided by financing activities	(18,403)	45,210
Net change in cash and cash equivalents	9,575	(3,603)
Cash and cash equivalents at beginning of period	44,197	47,660
Cash and cash equivalents at end of period	\$ 53,772	\$ 44,057

6

Table of Contents

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows - Continued

(In thousands)

	(Unaudited)	
	Nine Months Ended	
	September 30,	
Supplemental cash flow information	2015	2014
Income taxes paid	\$ 250	\$ -
Interest paid for deposits	2,964	4,412
Interest paid for borrowings	3,848	21,425
Non-cash transfer of loans to other real estate owned	7,393	11,460
Non-cash transfer of premises to other real estate owned	468	2,160
Change in dividends accrued	(544)	(9,123)
Accretion on preferred stock discount	-	58

See accompanying notes to consolidated financial statements.

Table of Contents

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in

Stockholders' Equity

(In thousands)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2013	\$ 18,830	\$ 72,942	\$ 66,212	\$ 92,549	\$ (7,038)	\$ (95,803)	\$ 147,692
Net income				7,147			7,147
Other comprehensive loss, net of tax					(194)		(194)
Change in restricted stock	10		(10)				-
Tax effect from vesting of restricted stock			29				29
Stock based compensation			189				189
Purchase of treasury stock						(46)	(46)
Redemption of preferred stock		(25,669)		1,348			(24,321)
Common stock offering	15,525		48,870				64,395
Preferred stock accretion and declared dividends		58		(2,258)			(2,200)
Balance, September 30, 2014	\$ 34,365	\$ 47,331	\$ 115,290	\$ 98,786	\$ (7,232)	\$ (95,849)	\$ 192,691
Balance, December 31, 2014	\$ 34,365	\$ 47,331	\$ 115,332	\$ 100,697	\$ (7,713)	\$ (95,849)	\$ 194,163
Net income				11,552			11,552
Other comprehensive loss, net of tax					(3,250)		(3,250)
Change in restricted stock	58		(58)				-
			33				33

Tax effect from vesting of restricted stock							
Stock based compensation			466				466
Purchase of treasury stock					(117)		(117)
Redemption of preferred stock	(47,331)						(47,331)
Preferred stock accretion and declared dividends				(1,873)			(1,873)
Balance, September 30, 2015	\$ 34,423	\$ -	\$ 115,773	\$ 110,376	\$ (10,963)	\$ (95,966)	\$ 153,643

See accompanying notes to consolidated financial statements.

Table of Contents

Old Second Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Table amounts in thousands, except per share data, unaudited)

Note 1 – Summary of Significant Accounting Policies

The accounting policies followed in the preparation of the interim consolidated financial statements are consistent with those used in the preparation of the annual financial information. The interim consolidated financial statements reflect all normal and recurring adjustments that are necessary, in the opinion of management, for a fair statement of results for the interim period presented. Results for the period ended September 30, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These interim consolidated financial statements are unaudited and should be read in conjunction with the audited financial statements and notes included in Old Second Bancorp, Inc.'s (the "Company") annual report on Form 10-K for the year ended December 31, 2014. Unless otherwise indicated, amounts in the tables contained in the notes to the consolidated financial statements are in thousands. Certain items in prior periods have been reclassified to conform to the current presentation.

The Company's consolidated financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP") and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements. Future changes in information may affect these estimates, assumptions, and judgments, which, in turn, may affect amounts reported in the consolidated financial statements.

All significant accounting policies are presented in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2014-09 was to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. Early application is not permitted. The Company is assessing the impact of ASU 2014-09 on its accounting and disclosures. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date." This accounting standards update defers the effective date for an additional year. ASU 2015-14 will be effective for annual reporting periods beginning after December 15, 2017.

In April 2015, the FASB issued ASU No. 2015-03 "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 amended prior guidance to simplify the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years. The adoption of this standard will not have a material effect to the Company's operating results or financial condition.

Note 2 – Securities

Investment Portfolio Management

Our investment portfolio serves the liquidity needs and income objectives of the Company. While the portfolio serves as an important component of the overall liquidity management at the Bank, portions of the portfolio will also serve as income producing assets. The size and composition of the portfolio reflects liquidity needs, loan demand and interest income objectives.

Portfolio size and composition will be adjusted from time to time. While a significant portion of the portfolio consists of readily marketable securities to address liquidity, other parts of the portfolio may reflect funds invested pending future loan demand or to maximize interest income without undue interest rate risk.

Table of Contents

Investments are comprised of debt securities and non-marketable equity investments. Securities available-for-sale are carried at fair value. Unrealized gains and losses, net of tax, on securities available-for-sale are reported as a separate component of equity. This balance sheet component changes as interest rates and market conditions change. Unrealized gains and losses are not included in the calculation of regulatory capital.

Securities held-to-maturity are carried at amortized cost and the discount or premium created in the 2013 transfer from available-for-sale securities or at the time of purchase thereafter is accreted or amortized to the maturity or expected payoff date but not an earlier call. In accordance with GAAP, the Company has the positive intent and ability to hold the securities to maturity.

Nonmarketable equity investments include Federal Home Loan Bank of Chicago (“FHLBC”) stock and Federal Reserve Bank of Chicago (“Reserve Bank”) stock. FHLBC stock was recorded at \$3.5 million at September 30, 2015, and \$4.3 million at December 31, 2014. Reserve Bank stock was recorded at \$4.8 million at September 30, 2015, and December 31, 2014. Our FHLBC stock is necessary to maintain access to FHLBC advances.

The following table summarizes the amortized cost and fair value of the securities portfolio at September 30, 2015, and December 31, 2014, and the corresponding amounts of gross unrealized gains and losses (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015:				
Securities Available-for-Sale				
U.S. Treasury	\$ 1,514	\$ 1	\$ -	\$ 1,515
U.S. government agencies	1,690	-	(113)	1,577
U.S. government agencies mortgage-backed States and political subdivisions	2,049	-	(15)	2,034
Corporate bonds	22,918	401	(149)	23,170
Collateralized mortgage obligations	30,160	-	(580)	29,580
Asset-backed securities	72,015	53	(1,191)	70,877
Collateralized loan obligations	195,100	49	(8,053)	187,096
Total Securities Available-for-Sale	94,265	-	(1,278)	92,987
Securities Held-to-Maturity	\$ 419,711	\$ 504	\$ (11,379)	\$ 408,836
U.S. government agency mortgage-backed	\$ 36,746	\$ 2,442	\$ -	\$ 39,188
Collateralized mortgage obligations	213,298	5,746	(24)	219,020
Total Securities Held-to-Maturity	\$ 250,044	\$ 8,188	\$ (24)	\$ 258,208

	Amortized	Gross Unrealized	Gross Unrealized	Fair
--	-----------	---------------------	---------------------	------

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

December 31, 2014:	Cost	Gains	Losses	Value
Securities Available-for-Sale				
U.S. Treasury	\$ 1,529	\$ -	\$ (2)	\$ 1,527
U.S. government agencies	1,711	-	(87)	1,624
States and political subdivisions	21,682	432	(96)	22,018
Corporate bonds	31,243	309	(567)	30,985
Collateralized mortgage obligations	65,728	31	(2,132)	63,627
Asset-backed securities	175,565	199	(2,268)	173,496
Collateralized loan obligations	94,236	176	(2,203)	92,209
Total Securities Available-for-Sale	\$ 391,694	\$ 1,147	\$ (7,355)	\$ 385,486
Securities Held-to-Maturity				
U.S. government agency mortgage-backed	\$ 37,125	\$ 2,030	\$ -	\$ 39,155
Collateralized mortgage obligations	222,545	3,005	(1,439)	224,111
Total Securities Held-to-Maturity	\$ 259,670	\$ 5,035	\$ (1,439)	\$ 263,266

Table of Contents

The fair value, amortized cost and weighted average yield of debt securities at September 30, 2015, by contractual maturity, were as follows in the table below. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Weighted Average Yield		Fair Value
Securities Available-for-Sale				
Due in one year or less	\$ 12,136	1.52	%	\$ 12,159
Due after one year through five years	6,898	2.90	%	7,092
Due after five years through ten years	33,586	2.39	%	33,077
Due after ten years	3,662	2.82	%	3,514
	56,282	2.29	%	55,842
Mortgage-backed and collateralized mortgage obligations	74,064	1.30	%	72,911
Asset-backed securities	195,100	1.26	%	187,096
Collateralized loan obligations	94,265	2.87	%	92,987
	\$ 419,711	1.77	%	\$ 408,836
Securities Held-to-Maturity				
Mortgage-backed and collateralized mortgage obligations	\$ 250,044	2.98	%	\$ 258,208

Securities with unrealized losses at September 30, 2015, and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows (in thousands except for number of securities):

September 30, 2015	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total		
	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value
Securities									
Available-for-Sale									
U.S. government securities	-	\$ -	\$ -	1	\$ 113	\$ 1,577	1	\$ 113	\$ 1,577
U.S. government securities									
Mortgage-backed securities and political divisions	1	15	2,034	-	-	-	1	15	2,034
Corporate bonds	1	28	1,490	1	121	1,703	2	149	3,193
Collateralized mortgage obligations	5	160	15,000	3	420	14,580	8	580	29,580
Asset-backed securities	7	386	43,651	4	805	19,211	11	1,191	62,862
Collateralized loan obligations	9	2,499	74,269	6	5,554	93,838	15	8,053	168,107
	5	212	29,684	9	1,066	63,303	14	1,278	92,987

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

Securities held-to-Maturity collateralized mortgage obligations	28	\$ 3,300	\$ 166,128	24	\$ 8,079	\$ 194,212	52	\$ 11,379	\$ 360,3
	-	\$ -	\$ -	2	\$ 24	\$ 34,550	2	\$ 24	\$ 34,55
	-	\$ -	\$ -	2	\$ 24	\$ 34,550	2	\$ 24	\$ 34,55

	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total Number of	Unrealized	Fair
	Number of	Unrealized	Fair	Number of	Unrealized	Fair			
December 31, 2014									
Securities available-for-Sale	Securities	Losses	Value	Securities	Losses	Value	Securities	Losses	Value
U.S. Treasury	1	\$ 2	\$ 1,527	-	\$ -	\$ -	1	\$ 2	\$ 1,527
U.S. government agencies	-	-	-	1	87	1,624	1	87	1,624
States and political divisions	4	96	4,896	-	-	-	4	96	4,896
Corporate bonds	4	486	15,246	1	81	1,921	5	567	17,167
Collateralized mortgage obligations	5	900	38,284	3	1,232	21,604	8	2,132	59,888
Asset-backed securities	9	1,077	99,286	3	1,191	43,662	12	2,268	142,94
Collateralized loan obligations	12	2,203	82,387	-	-	-	12	2,203	82,387
	35	\$ 4,764	\$ 241,626	8	\$ 2,591	\$ 68,811	43	\$ 7,355	\$ 310,43
Securities held-to-Maturity collateralized mortgage obligations	7	\$ 457	\$ 49,302	4	\$ 982	\$ 46,283	11	\$ 1,439	\$ 95,585
	7	\$ 457	\$ 49,302	4	\$ 982	\$ 46,283	11	\$ 1,439	\$ 95,585

Recognition of other-than-temporary impairment was not necessary in the three and nine months ending September 30, 2015, or the year ended December 31, 2014. The changes in fair value related primarily to interest rate fluctuations. Our review of other-than-temporary impairment determined that there was no credit quality deterioration.

Table of Contents

Note 3 – Loans

Major classifications of loans were as follows:

	September 30, 2015	December 31, 2014
Commercial	\$ 120,036	\$ 119,158
Real estate - commercial	609,937	600,629
Real estate - construction	23,461	44,795
Real estate - residential	354,106	370,191
Consumer	4,005	3,504
Overdraft	423	649
Lease financing receivables	9,697	8,038
Other	10,345	11,630
	1,132,010	1,158,594
Net deferred loan fees	902	738
	\$ 1,132,912	\$ 1,159,332

It is the policy of the Company to review each prospective credit in order to determine if an adequate level of security or collateral was obtained prior to making a loan. The type of collateral, when required, will vary from liquid assets to real estate. The Company's access to collateral, in the event of borrower default, is assured through adherence to lending laws, the Company's lending standards and credit monitoring procedures. With selected exceptions, the Bank makes loans solely within its market area. There are no significant concentrations of loans where the customers' ability to honor loan terms is dependent upon a single economic sector, although the real estate related categories listed above represent 87.2% and 87.6% of the portfolio at September 30, 2015, and December 31, 2014, respectively.

Aged analysis of past due loans by class of loans was as follows:

September 30, 2015	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due		Current	Nonaccrual	Total Loans	Recorded Investment 90 days or Greater Past Due and Accruing
			Past Due	Past Due				
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 129,201	\$ 532	\$ 129,733	\$ -

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

Real estate - commercial								
Owner occupied general purpose	132	126	-	258	123,857	1,441	125,556	-
Owner occupied special purpose	136	-	-	136	172,906	778	173,820	-
Non-owner occupied general purpose	-	697	-	697	163,842	335	164,874	-
Non-owner occupied special purpose	-	-	-	-	92,623	-	92,623	-
Retail properties	-	-	-	-	39,219	-	39,219	-
Farm	1,398	-	-	1,398	11,175	1,272	13,845	-
Real estate - construction								
Homebuilder	-	-	-	-	2,567	-	2,567	-
Land	-	-	-	-	1,164	-	1,164	-
Commercial speculative	-	-	-	-	2,047	3,561	5,608	-
All other	-	-	-	-	13,880	242	14,122	-
Real estate - residential								
Investor	-	4	-	4	126,279	624	126,907	-
Owner occupied	-	156	-	156	111,933	6,465	118,554	-
Revolving and junior liens	588	120	-	708	104,963	2,974	108,645	-
Consumer	1	-	-	1	4,004	-	4,005	-
All other1	-	-	-	-	11,670	-	11,670	-
	\$ 2,255	\$ 1,103	\$ -	\$ 3,358	\$ 1,111,330	\$ 18,224	\$ 1,132,912	\$ -

Table of Contents

December 31, 2014	90 Days or Greater Past				Current	Nonaccrual	Total Loans	Recorded Investment 90 days or Greater Past Due and Accruing
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due				
Commercial	\$ 38	\$ -	\$ -	\$ 38	\$ 125,658	\$ 1,500	\$ 127,196	\$ -
Real estate - commercial								
Owner occupied general purpose	699	-	-	699	126,029	5,937	132,665	-
Owner occupied special purpose	-	-	-	-	167,874	1,441	169,315	-
Non-owner occupied general purpose	-	-	-	-	153,328	4,907	158,235	-
Non-owner occupied special purpose	-	-	-	-	87,054	1,423	88,477	-
Retail properties	-	-	-	-	37,780	-	37,780	-
Farm	-	-	-	-	14,157	-	14,157	-
Real estate - construction								
Homebuilder	-	-	-	-	3,204	-	3,204	-
Land	-	-	-	-	1,658	-	1,658	-
Commercial speculative	-	-	-	-	13,431	-	13,431	-
All other	71	29	-	100	25,841	561	26,502	-
Real estate - residential								
Investor	-	-	-	-	135,273	1,942	137,215	-
Owner occupied	1,076	914	-	1,990	107,727	6,711	116,428	-
Revolving and junior liens	94	44	-	138	113,906	2,504	116,548	-
Consumer	-	-	-	-	3,504	-	3,504	-
All other ¹	-	-	-	-	13,017	-	13,017	-
	\$ 1,978	\$ 987	\$ -	\$ 2,965	\$ 1,129,441	\$ 26,926	\$ 1,159,332	\$ -

1. The "All other" class includes overdrafts and net deferred costs.

Credit Quality Indicators:

The Company categorizes loans into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, historical payment experience, and current economic trends. This analysis includes loans with outstanding balances or commitments greater than \$50,000 and excludes homogeneous loans such as home equity lines of credit and residential mortgages. Loans with a classified risk rating are reviewed quarterly regardless of size or loan type. The Company uses the following definitions for classified risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Credits that are not covered by the definitions above are pass credits, which are not considered to be adversely rated.

Table of Contents

Credit Quality Indicators by class of loans were as follows:

September 30, 2015	Pass	Special Mention	Substandard 1	Doubtful	Total
Commercial	\$ 119,222	\$ 9,895	\$ 616	\$ -	\$ 129,733
Real estate - commercial					
Owner occupied general purpose	123,674	441	1,441	-	125,556
Owner occupied special purpose	172,835	207	778	-	173,820
Non-owner occupied general purpose	161,384	2,313	1,177	-	164,874
Non-owner occupied special purpose	88,665	-	3,958	-	92,623
Retail Properties	35,809	3,410	-	-	39,219
Farm	12,573	-	1,272	-	13,845
Real estate - construction					
Homebuilder	2,567	-	-	-	2,567
Land	1,164	-	-	-	1,164
Commercial speculative	2,047	-	3,561	-	5,608
All other	13,880	-	242	-	14,122
Real estate - residential					
Investor	126,101	-	806	-	126,907
Owner occupied	111,375	-	7,179	-	118,554
Revolving and junior liens	104,858	188	3,599	-	108,645
Consumer	4,004	-	1	-	4,005
All other	11,670	-	-	-	11,670
Total	\$ 1,091,828	\$ 16,454	\$ 24,630	\$ -	\$ 1,132,912

December 31, 2014	Pass	Special Mention	Substandard 1	Doubtful	Total
Commercial	\$ 118,845	\$ 3,948	\$ 4,403	\$ -	\$ 127,196
Real estate - commercial					
Owner occupied general purpose	124,936	253	7,476	-	132,665
Owner occupied special purpose	154,225	11,607	3,483	-	169,315
Non-owner occupied general purpose	148,212	3,235	6,788	-	158,235
Non-owner occupied special purpose	78,957	8,097	1,423	-	88,477
Retail Properties	36,779	1,001	-	-	37,780
Farm	14,157	-	-	-	14,157
Real estate - construction					
Homebuilder	3,204	-	-	-	3,204
Land	1,658	-	-	-	1,658
Commercial speculative	9,947	-	3,484	-	13,431
All other	25,941	-	561	-	26,502
Real estate - residential					
Investor	134,952	-	2,263	-	137,215
Owner occupied	109,085	-	7,343	-	116,428
Revolving and junior liens	112,647	188	3,713	-	116,548

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

Consumer	3,503	-	1	-	3,504
All other	13,017	-	-	-	13,017
Total	\$ 1,090,065	\$ 28,329	\$ 40,938	\$ -	\$ 1,159,332

1 The substandard credit quality indicator includes both potential problem loans that are currently performing and nonperforming loans.

The Company did not have any repossessed assets reported in other assets as of September 30, 2015, and December 31, 2014. The Company had \$3.3 million and \$3.5 million residential assets in the process of foreclosure as of September 30, 2015, and December 31, 2014, respectively.

14

Table of Contents

Impaired loans by class of loans were as follows:

	As of September 30, 2015			Nine Months Ended September 30, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	\$ 528	\$ 609	\$ -	\$ 1,014	\$ -
Commercial real estate					
Owner occupied general purpose	2,589	3,483	-	4,857	62
Owner occupied special purpose	778	875	-	1,288	-
Non-owner occupied general purpose	335	566	-	2,583	-
Non-owner occupied special purpose	-	-	-	712	-
Retail properties	-	-	-	-	-
Farm	1,272	1,338	-	636	-
Construction					
Homebuilder	-	-	-	896	-
Land	-	-	-	-	-
Commercial speculative	3,561	3,561	-	1,780	-
All other	242	288	-	266	-
Residential					
Investor	1,504	1,820	-	2,050	33
Owner occupied	11,199	12,729	-	11,309	128
Revolving and junior liens	2,762	4,068	-	2,500	4
Consumer	-	-	-	-	-
Total impaired loans with no recorded allowance	24,770	29,337	-	29,891	227
With an allowance recorded					
Commercial	4	9	5	2	-
Commercial real estate					
Owner occupied general purpose	-	-	-	-	-
Owner occupied special purpose	-	-	-	-	-
Non-owner occupied general purpose	-	-	-	38	-
Non-owner occupied special purpose	-	-	-	-	-
Retail properties	-	-	-	-	-
Farm	-	-	-	-	-
Construction					
Homebuilder	-	-	-	-	-
Land	-	-	-	-	-
Commercial speculative	-	-	-	-	-
All other	-	-	-	135	-
Residential					
Investor	-	-	-	67	-
Owner occupied	-	-	-	12	-
Revolving and junior liens	358	405	20	364	2

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

Consumer	-	-	-	-	-
Total impaired loans with a recorded allowance	362	414	25	618	2
Total impaired loans	\$ 25,132	\$ 29,751	\$ 25	\$ 30,509	\$ 229

15

Table of Contents

Impaired loans by class of loans were as follows:

	As of December 31, 2014			Nine Months Ended September 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	\$ 1,500	\$ 2,114	\$ -	\$ 836	\$ -
Commercial real estate					
Owner occupied general purpose	7,125	7,870	-	4,860	81
Owner occupied special purpose	1,798	1,941	-	3,294	-
Non-owner occupied general purpose	4,831	5,653	-	6,246	45
Non-owner occupied special purpose	1,423	1,930	-	1,067	-
Retail properties	-	-	-	1,572	-
Farm	-	-	-	-	-
Construction					
Homebuilder	1,791	1,791	-	1,903	69
Land	-	-	-	209	-
Commercial speculative	-	-	-	369	-
All other	291	323	-	155	-
Residential					
Investor	2,595	3,024	-	4,269	32
Owner occupied	11,419	12,816	-	10,457	128
Revolving and junior liens	2,238	3,541	-	1,899	4
Consumer	-	-	-	-	-
Total impaired loans with no recorded allowance	35,011	41,003	-	37,136	359
With an allowance recorded					
Commercial	-	-	-	-	-
Commercial real estate					
Owner occupied general purpose	-	-	-	365	-
Owner occupied special purpose	-	-	-	2,443	-
Non-owner occupied general purpose	76	76	21	469	-
Non-owner occupied special purpose	-	-	-	-	-
Retail properties	-	-	-	-	-
Farm	-	-	-	-	-
Construction					
Homebuilder	-	-	-	84	-
Land	-	-	-	-	-
Commercial speculative	-	-	-	588	-
All other	270	306	98	357	-
Residential					
Investor	135	145	24	412	-
Owner occupied	23	65	38	912	15
Revolving and junior liens	371	405	97	912	-

Consumer	-	-	-	-	-
Total impaired loans with a recorded allowance	875	997	278	6,542	15
Total impaired loans	\$ 35,886	\$ 42,000	\$ 278	\$ 43,678	\$ 374

Troubled debt restructurings (“TDRs”) are loans for which the contractual terms have been modified and both of these conditions exist: (1) there is a concession to the borrower and (2) the borrower is experiencing financial difficulties. Loans are restructured on a case-by-case basis during the loan collection process with modifications generally initiated at the request of the borrower. These modifications may include reduction in interest rates, extension of term, deferrals of principal, and other modifications. The Bank participates in the U.S. Department of the Treasury’s (the “Treasury”) Home Affordable Modification Program (“HAMP”) which gives qualifying homeowners an opportunity to refinance into more affordable monthly payments.

The specific allocation of the allowance for loan losses on a TDR is determined by either discounting the modified cash flows at the original effective rate of the loan before modification or is based on the underlying collateral value less costs to sell, if repayment of the loan is collateral-dependent. If the resulting amount is less than the recorded book value, the Bank either establishes a valuation allowance (i.e. specific reserve) as a component of the allowance for loan losses or charges off the impaired balance if it determines

Table of Contents

that such amount is a confirmed loss. This method is used consistently for all segments of the portfolio. The allowance for loan losses also includes an allowance based on a loss migration analysis for each loan category on loans that are not individually evaluated for specific impairment. All loans charged-off, including TDRs charged-off, are factored into this calculation by portfolio segment.

TDRs that were modified during the period are as follows:

	TDR Modifications Three Months Ended September 30, 2015			TDR Modifications Nine Months Ended September 30, 2015		
	# of contracts	Pre-modification recorded investment	Post-modification recorded investment	# of contracts	Pre-modification recorded investment	Post-modification recorded investment
Troubled debt restructurings						
Real estate - residential						
Owner occupied						
Other1	-	\$ -	\$ -	3	\$ 404	\$ 412
Revolving and junior liens						
HAMP2	1	45	11	4	178	142
Other1	3	378	349	3	378	349
	4	\$ 423	\$ 360	10	\$ 960	\$ 903

	TDR Modifications Three Months Ended September 30, 2014			TDR Modifications Nine Months Ended September 30, 2014		
	# of contracts	Pre-modification recorded investment	Post-modification recorded investment	# of contracts	Pre-modification recorded investment	Post-modification recorded investment
Troubled debt restructurings						
Real estate - commercial						
Other1	-	\$ -	\$ -	2	\$ 1,320	\$ 1,118
Real estate - residential						
Investor						
Other1	1	155	153	1	155	153
Owner occupied						
HAMP2	-	-	-	1	102	74

Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

Deferral3	-	-	-	2	344	226
Revolving and junior liens						
Other1	1	62	59	3	222	218
	2	\$ 217	\$ 212	9	\$ 2,143	\$ 1,789

1. Other: Change of terms from bankruptcy court

2 HAMP: Home Affordable Modification Program

3 Deferral: Refers to the deferral of principal

TDRs are classified as being in default on a case-by-case basis when they fail to be in compliance with the modified terms. There was no TDR default activity for three and nine months ending September 30, 2015, and September 30, 2014, that was restructured within the 12 month period prior to default.

Table of Contents

Note 4 – Allowance for Loan Losses

For the September 30, 2015, allowance for loan loss determination, management implemented changes in the process used to determine the required loan loss reserve to update the Bank's reserve methodology. The estimated impact of this methodology change in the required reserve was approximately \$1.4 million. These changes, and a \$2.1 million loan loss reserve release for the third quarter of 2015, are more fully discussed in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Changes in the allowance for loan losses by segment of loans based on method of impairment for three and nine months ending September 30, 2015, were as follows:

Allowance for loan losses:	Commercial	Real Estate Commercial	Real Estate Construction	Real Estate Residential	Consumer	Unallocated	Total
Three months ended September 30, 2015							
Beginning balance	\$ 1,632	\$ 10,201	\$ 662	\$ 1,860	\$ 1,249	\$ 2,717	\$ 18,321
Charge-offs	101	21	-	342	112	-	576
Recoveries	213	275	204	192	84	-	968
Provision (Release)	340	(1,296)	(421)	(42)	(68)	(613)	(2,100)
Ending balance	\$ 2,084	\$ 9,159	\$ 445	\$ 1,668	\$ 1,153	\$ 2,104	\$ 16,613
Nine months ended September 30, 2015							
Beginning balance	\$ 1,644	\$ 12,577	\$ 1,475	\$ 1,981	\$ 1,454	\$ 2,506	\$ 21,637
Charge-offs	991	1,547	2	1,119	323	-	3,982
Recoveries	437	1,570	270	819	262	-	3,358
Provision (Release)	994	(3,441)	(1,298)	(13)	(240)	(402)	(4,400)
Ending balance	\$ 2,084	\$ 9,159	\$ 445	\$ 1,668	\$ 1,153	\$ 2,104	\$ 16,613
Ending balance:							
Individually evaluated for impairment	\$ 5	\$ -	\$ -	\$ 20	\$ -	\$ -	\$ 25
Ending balance:							
Collectively evaluated for impairment	\$ 2,079	\$ 9,159	\$ 445	\$ 1,648	\$ 1,153	\$ 2,104	\$ 16,588
Loans:							
Ending balance	\$ 129,733	\$ 609,937	\$ 23,461	\$ 354,106	\$ 4,005	\$ 11,670	\$ 1,132,912
Ending balance:							
Individually evaluated for impairment	\$ 532	\$ 4,974	\$ 3,803	\$ 15,823	\$ -	\$ -	\$ 25,132
	\$ 129,201	\$ 604,963	\$ 19,658	\$ 338,283	\$ 4,005	\$ 11,670	\$ 1,107,780

Ending balance:
Collectively
evaluated for
impairment

Changes in the allowance for loan losses by segment of loans based on method of impairment for three and nine months ending September 30, 2014, were as follows:

Allowance for loan losses:	Real Estate		Real Estate	Real Estate	Consumer	Unallocated	Total
	Commercial	Commercial	Construction	Residential			
Three months ended September 30, 2014							
Beginning balance	\$ 1,991	\$ 13,228	\$ 1,754	\$ 2,373	\$ 1,464	\$ 3,046	\$ 23,856
Charge-offs	512	545	1	925	174	-	2,157
Recoveries	6	878	3	646	98	-	1,631
Provision (Release)	41	(744)	141	7	16	539	-
Ending balance	\$ 1,526	\$ 12,817	\$ 1,897	\$ 2,101	\$ 1,404	\$ 3,585	\$ 23,330
Nine months ended September 30, 2014							
Beginning balance	\$ 2,250	\$ 16,763	\$ 1,980	\$ 2,837	\$ 1,439	\$ 2,012	\$ 27,281
Charge-offs	519	1,634	174	2,752	423	-	5,502
Recoveries	56	1,106	507	1,585	297	-	3,551
(Release) provision	(261)	(3,418)	(416)	431	91	1,573	(2,000)
Ending balance	\$ 1,526	\$ 12,817	\$ 1,897	\$ 2,101	\$ 1,404	\$ 3,585	\$ 23,330
Ending balance: Individually evaluated for impairment							
	\$ -	\$ 167	\$ 107	\$ 267	\$ -		