REFINITIV

# DELTA REPORT

## 10-Q

OSBC - OLD SECOND BANCORP INC

10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

| TOTAL DELTAS | 1572 |
| --- | --- |
| CHANGES | 710 |
| DELETIONS | 361 |
| ADDITIONS | 501 |

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 June 30, 2024 September 30, 2024

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 000-10537

Graphic

(Exact name of Registrant as specified in its charter)

| **Delaware** | **36-3143493** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

**37 South River Street, Aurora, Illinois 60507**
(Address of principal executive offices) (Zip Code)

**(630) 892-0202**
(Registrant's telephone number, including area code)

**Not applicable**
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock | OSBC | The Nasdaq Stock Market |

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b–2 of the Exchange Act.

| | | | | | |
|---|---|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ | | |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☒

As of August 6, 2024 November 5, 2024, the Registrant has 44,849,591 44,853,487 shares of common stock outstanding at $1.00 par value per share.

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**OLD SECOND BANCORP, INC.**

Form 10-Q Quarterly Report

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report and other publicly available documents of the Company contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act, including, but not limited to, management's expectations regarding future plans, strategies and financial performance, including regulatory developments, industry and economic trends and estimates and assumptions underlying accounting policies. Forward-looking statements are based on our current beliefs, expectations and assumptions and on information currently available and, can be identified by the use of words such as "expects," "intends," "believes," "may," "will," "would," "could," "should," "plan," "anticipate," "estimate," "possible," "likely" or the negative thereof as well as other similar words and expressions of the future. Forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict as to timing, extent, likelihood and degree of occurrence, which could cause our actual results to differ materially from those anticipated in or by such statements. Potential risks and uncertainties include, but are not limited to, the following:

- our ability to execute our growth strategy;
- negative economic conditions that adversely affect the economy, real estate values, the job market and other factors nationally and in our market area, in each case that may affect our liquidity and the performance of our loan portfolio;
- risks with respect to our ability to successfully expand and integrate businesses and operations that we acquire, as well our ability to identify and complete future mergers or acquisitions;
- the financial success and viability of the borrowers of our commercial loans;
- changes in U.S. monetary policy, the level and volatility of interest rates, the capital markets and other market conditions that may affect, among other things, our liquidity and the value of our assets and liabilities;
- competitive pressures from other financial service businesses and from nontraditional financial technology ("FinTech") companies;
- any negative perception of our reputation or financial strength;
- our ability to raise additional capital on acceptable terms when needed;
- our ability to raise cost-effective funding to support business plans when needed: needed;
- our ability to use technology to provide products and services that will satisfy customer demands and create efficiencies in operations;
- adverse effects on our information technology systems resulting from system failures, human error or cyberattacks;
- adverse effects of failures by our vendors to provide agreed upon services in the manner and at the cost agreed, particularly our information technology vendors and those vendors performing a service on the Company's behalf;
- the impact of any claims or legal actions, including any effect on our reputation;
- losses incurred in connection with repurchases and indemnification payments related to mortgages;
- the soundness of other financial institutions and other counter-party risk;
- changes in accounting standards, rules and interpretations and the related impact on our financial statements;
- our ability to receive dividends from our subsidiaries;
- a decrease in our regulatory capital ratios or negative changes in our capital position;
- adverse federal or state tax assessments, or changes in tax laws or policies;
- risks associated with actual or potential litigation or investigations by customers, regulatory agencies or others;
- economic, legislative or regulatory changes, including the impact of changes to Congress and the Office of the President, particularly changes in regulation of financial services companies;
- increased costs of compliance, heightened regulatory capital requirements and other risks associated with changes in regulation and the current regulatory environment;



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- risks associated with complex and changing regulatory environments, including, among others, with respect to data privacy, artificial intelligence, information security, climate change or other environmental, social and governance matters, and labor matters, relating to our operations;
- the adverse effects of events beyond our control that may have a destabilizing effect on financial markets and the economy, such as epidemics and pandemics, war or terrorist activities, such as the war in Ukraine, the Middle East conflict, and the conflict between China and Taiwan, essential utility outages, deterioration in the global economy, instability in the credit markets, disruptions in our customers' supply chains or disruption in transportation and disruptions caused from widespread cybersecurity incidents;

- changes in trade policy and any related tariffs; and
- each of the factors and risks under the heading “Risk Factors” in our 2023 Annual Report on Form 10-K and in subsequent filings we make with the SEC.



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Because the Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain, there can be no assurances that future actual results will correspond to any forward-looking statements and you should not rely on any forward-looking statements. Additionally, all statements in this Form 10-Q, 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, except as required by applicable law.



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## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

**Old Second Bancorp, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
*(In thousands, except share data)*

| | (unaudited) June 30, 2024 | December 31, 2023 | (unaudited) September 30, 2024 | December 31, 2023 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and due from banks | $ 54,888 | $ 55,534 | $ 63,298 | $ 55,534 |
| Interest earning deposits with financial institutions | 66,004 | 44,611 | 52,469 | 44,611 |
| Cash and cash equivalents | 120,892 | 100,145 | 115,767 | 100,145 |
| Securities available-for-sale, at fair value | 1,173,661 | 1,192,829 | 1,190,854 | 1,192,829 |
| Federal Home Loan Bank Chicago (“FHLBC”) and Federal Reserve Bank Chicago (“FRBC”) stock | 32,005 | 33,355 | 30,205 | 33,355 |
| Loans held-for-sale | 2,291 | 1,322 | 2,447 | 1,322 |
| Loans | 3,976,595 | 4,042,953 | 3,991,078 | 4,042,953 |
| Less: allowance for credit losses on loans | 42,269 | 44,264 | 44,422 | 44,264 |
| Net loans | 3,934,326 | 3,998,689 | 3,946,656 | 3,998,689 |
| Premises and equipment, net | 82,871 | 79,310 | 82,768 | 79,310 |
| Other real estate owned | 6,920 | 5,123 | 8,202 | 5,123 |
| Mortgage servicing rights, at fair value | 10,488 | 10,344 | 9,726 | 10,344 |
| Goodwill | 86,478 | 86,478 | 86,478 | 86,478 |
| Core deposit intangible | 10,063 | 11,217 | 9,493 | 11,217 |
| Bank-owned life insurance (“BOLI”) | 110,535 | 109,318 | 111,394 | 109,318 |
| Deferred tax assets, net | 28,710 | 31,077 | 22,032 | 31,077 |
| Other assets | 63,460 | 63,592 | 55,738 | 63,592 |

| | | | | |
|---|---|---|---|---|
| Total assets | $ 5,662,700 | $ 5,722,799 | $ 5,671,760 | $ 5,722,799 |
| **Liabilities** | | | | |
| Deposits: | | | | |
| Noninterest bearing demand | $ 1,728,487 | $ 1,834,891 | $ 1,669,000 | $ 1,834,891 |
| Interest bearing: | | | | |
| Savings, NOW, and money market | 2,161,426 | 2,207,949 | 2,125,696 | 2,207,949 |
| Time | 631,815 | 527,906 | 670,728 | 527,906 |
| Total deposits | 4,521,728 | 4,570,746 | 4,465,424 | 4,570,746 |
| Securities sold under repurchase agreements | 46,542 | 26,470 | 53,866 | 26,470 |
| Other short-term borrowings | 330,000 | 405,000 | 335,000 | 405,000 |
| Junior subordinated debentures | 25,773 | 25,773 | 25,773 | 25,773 |
| Subordinated debentures | 59,425 | 59,382 | 59,446 | 59,382 |
| Other liabilities | 59,897 | 58,147 | 70,861 | 58,147 |
| Total liabilities | 5,043,365 | 5,145,518 | 5,010,370 | 5,145,518 |
| **Stockholders' Equity** | | | | |
| Common stock | 44,908 | 44,705 | 44,908 | 44,705 |
| Additional paid-in capital | 204,012 | 202,223 | 204,969 | 202,223 |
| Retained earnings | 432,037 | 393,311 | 452,745 | 393,311 |
| Accumulated other comprehensive loss | (60,769) | (62,781) | (40,400) | (62,781) |
| Treasury stock | (853) | (177) | (832) | (177) |
| Total stockholders' equity | 619,335 | 577,281 | 661,390 | 577,281 |
| Total liabilities and stockholders' equity | $ 5,662,700 | $ 5,722,799 | $ 5,671,760 | $ 5,722,799 |

| | June 30, 2024 | December 31, 2023 | September 30, 2024 | December 31, 2023 |
|---|---|---|---|---|
| | Common Stock | Common Stock | Common Stock | Common Stock |
| Par value | $ 1.00 | $ 1.00 | $ 1.00 | $ 1.00 |
| Shares authorized | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 |
| Shares issued | 44,907,619 | 44,705,150 | 44,907,619 | 44,705,150 |
| Shares outstanding | 44,849,591 | 44,697,917 | 44,851,091 | 44,697,917 |
| Treasury shares | 58,028 | 7,233 | 56,528 | 7,233 |

*See accompanying notes to consolidated financial statements.*



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**Old Second Bancorp, Inc. and Subsidiaries**

**Consolidated Statements of Income**

*(In thousands, except per share data)*

| | (unaudited) Three Months Ended June 30, | | (unaudited) Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **Interest and dividend income** | | | | |

| | | | | |
|---|---|---|---|---|
| Loans, including fees | $ 62,151 | $ 61,561 | $ 124,824 | $ 118,771 |
| Loans held-for-sale | 19 | 19 | 33 | 31 |
| Securities: | | | | |
| Taxable | 8,552 | 9,930 | 16,644 | 20,665 |
| Tax exempt | 1,292 | 1,337 | 2,598 | 2,674 |
| Dividends from FHLBC and FRBC stock | 584 | 396 | 1,219 | 676 |
| Interest bearing deposits with financial institutions | 625 | 643 | 1,235 | 1,228 |
| Total interest and dividend income | 73,223 | 73,886 | 146,553 | 144,045 |
| **Interest expense** | | | | |
| Savings, NOW, and money market deposits | 4,317 | 1,742 | 8,354 | 2,891 |
| Time deposits | 4,961 | 1,156 | 9,002 | 1,820 |
| Securities sold under repurchase agreements | 83 | 7 | 169 | 16 |
| Other short-term borrowings | 3,338 | 5,160 | 7,895 | 7,505 |
| Junior subordinated debentures | 288 | 281 | 568 | 560 |
| Subordinated debentures | 546 | 546 | 1,092 | 1,092 |
| Senior notes | - | 1,414 | - | 2,408 |
| Notes payable and other borrowings | - | - | - | 87 |
| Total interest expense | 13,533 | 10,306 | 27,080 | 16,379 |
| Net interest and dividend income | 59,690 | 63,580 | 119,473 | 127,666 |
| Provision for credit losses | 3,750 | 2,000 | 7,250 | 5,501 |
| Net interest and dividend income after provision for credit losses | 55,940 | 61,580 | 112,223 | 122,165 |
| **Noninterest income** | | | | |
| Wealth management | 2,779 | 2,458 | 5,340 | 4,728 |
| Service charges on deposits | 2,508 | 2,362 | 4,923 | 4,786 |
| Secondary mortgage fees | 65 | 76 | 115 | 135 |
| Mortgage servicing rights mark to market (loss) gain | (238) | 96 | (144) | (429) |
| Mortgage servicing income | 513 | 499 | 1,001 | 1,015 |
| Net gain on sales of mortgage loans | 468 | 398 | 782 | 704 |
| Securities (losses) gains, net | - | (1,547) | 1 | (3,222) |
| Change in cash surrender value of BOLI | 820 | 418 | 1,992 | 660 |
| Death benefit realized on BOLI | 893 | - | 893 | - |
| Card related income | 2,577 | 2,690 | 4,953 | 4,934 |
| Other income | 742 | 773 | 1,772 | 2,262 |
| Total noninterest income | 11,127 | 8,223 | 21,628 | 15,573 |
| **Noninterest expense** | | | | |
| Salaries and employee benefits | 23,424 | 21,798 | 47,736 | 44,046 |
| Occupancy, furniture and equipment | 3,899 | 3,639 | 7,826 | 7,114 |
| Computer and data processing | 2,184 | 1,290 | 4,439 | 3,064 |
| FDIC insurance | 616 | 794 | 1,283 | 1,378 |
| Net teller & bill paying | 578 | 515 | 1,099 | 1,017 |
| General bank insurance | 312 | 306 | 621 | 611 |
| Amortization of core deposit intangible | 574 | 618 | 1,154 | 1,242 |
| Advertising expense | 472 | 103 | 664 | 245 |
| Card related expense | 1,323 | 1,222 | 2,600 | 2,438 |
| Legal fees | 238 | 283 | 464 | 602 |
| Consulting & management fees | 797 | 520 | 1,133 | 1,310 |
| Other real estate expense, net | (87) | (98) | (41) | 208 |
| Other expense | 3,547 | 3,840 | 7,140 | 7,477 |
| Total noninterest expense | 37,877 | 34,830 | 76,118 | 70,752 |
| Income before income taxes | 29,190 | 34,973 | 57,733 | 66,986 |
| Provision for income taxes | 7,299 | 9,411 | 14,530 | 17,817 |
| **Net income** | $ 21,891 | $ 25,562 | $ 43,203 | $ 49,169 |

| | | | | |
|---|---|---|---|---|
| Basic earnings per share | $ 0.48 | $ 0.57 | $ 0.96 | $ 1.10 |
| Diluted earnings per share | 0.48 | 0.56 | 0.95 | 1.08 |
| Dividends declared per share | 0.05 | 0.05 | 0.10 | 0.10 |

| | (unaudited) | | (unaudited) | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| **Interest and dividend income** | | | | |
| Loans, including fees | $ 64,528 | $ 62,665 | $ 189,352 | $ 181,436 |
| Loans held-for-sale | 27 | 29 | 60 | 60 |
| Securities: | | | | |
| Taxable | 9,113 | 8,946 | 25,757 | 29,611 |
| Tax exempt | 1,291 | 1,333 | 3,889 | 4,007 |
| Dividends from FHLBC and FRBC stock | 497 | 597 | 1,716 | 1,273 |
| Interest bearing deposits with financial institutions | 616 | 659 | 1,851 | 1,887 |
| Total interest and dividend income | 76,072 | 74,229 | 222,625 | 218,274 |
| **Interest expense** | | | | |
| Savings, NOW, and money market deposits | 4,860 | 2,558 | 13,214 | 5,449 |
| Time deposits | 5,539 | 1,982 | 14,541 | 3,802 |
| Securities sold under repurchase agreements | 93 | 27 | 262 | 43 |
| Other short-term borrowings | 4,185 | 5,840 | 12,080 | 13,345 |
| Junior subordinated debentures | 270 | 245 | 838 | 805 |
| Subordinated debentures | 547 | 547 | 1,639 | 1,639 |
| Senior notes | - | - | - | 2,408 |
| Notes payable and other borrowings | - | - | - | 87 |
| Total interest expense | 15,494 | 11,199 | 42,574 | 27,578 |
| Net interest and dividend income | 60,578 | 63,030 | 180,051 | 190,696 |
| Provision for credit losses | 2,000 | 3,000 | 9,250 | 8,501 |
| Net interest and dividend income after provision for credit losses | 58,578 | 60,030 | 170,801 | 182,195 |
| **Noninterest income** | | | | |
| Wealth management | 2,787 | 2,475 | 8,127 | 7,203 |
| Service charges on deposits | 2,646 | 2,504 | 7,569 | 7,290 |
| Secondary mortgage fees | 84 | 66 | 199 | 201 |
| Mortgage servicing rights mark to market (loss) gain | (964) | 281 | (1,108) | (148) |
| Mortgage servicing income | 466 | 519 | 1,467 | 1,534 |
| Net gain on sales of mortgage loans | 507 | 407 | 1,289 | 1,111 |
| Securities losses, net | (1) | (924) | - | (4,146) |
| Change in cash surrender value of BOLI | 860 | 919 | 2,852 | 1,579 |
| Death benefit realized on BOLI | 12 | - | 905 | - |
| Card related income | 2,589 | 2,606 | 7,542 | 7,540 |
| Other income | 1,595 | 1,024 | 3,367 | 3,286 |
| Total noninterest income | 10,581 | 9,877 | 32,209 | 25,450 |
| **Noninterest expense** | | | | |
| Salaries and employee benefits | 24,676 | 23,115 | 72,412 | 67,161 |
| Occupancy, furniture and equipment | 3,876 | 3,506 | 11,702 | 10,620 |
| Computer and data processing | 2,375 | 1,922 | 6,814 | 4,986 |
| FDIC insurance | 632 | 744 | 1,915 | 2,122 |
| Net teller & bill paying | 570 | 534 | 1,669 | 1,551 |
| General bank insurance | 320 | 300 | 941 | 911 |
| Amortization of core deposit intangible | 570 | 616 | 1,724 | 1,858 |
| Advertising expense | 299 | 93 | 963 | 338 |
| Card related expense | 1,458 | 1,347 | 4,058 | 3,785 |
| Legal fees | 202 | 97 | 666 | 699 |
| Consulting & management fees | 480 | 549 | 1,613 | 1,859 |

| | | | | |
|---|---|---|---|---|
| Other real estate expense, net | 242 | (27) | 201 | 181 |
| Other expense | 3,608 | 4,627 | 10,748 | 12,104 |
| Total noninterest expense | 39,308 | 37,423 | 115,426 | 108,175 |
| Income before income taxes | 29,851 | 32,484 | 87,584 | 99,470 |
| Provision for income taxes | 6,900 | 8,149 | 21,430 | 25,966 |
| **Net income** | $ 22,951 | $ 24,335 | $ 66,154 | $ 73,504 |
| | | | | |
| Basic earnings per share | $ 0.52 | $ 0.55 | $ 1.48 | $ 1.65 |
| Diluted earnings per share | 0.50 | 0.54 | 1.45 | 1.62 |
| Dividends declared per share | 0.05 | 0.05 | 0.15 | 0.15 |

*See accompanying notes to consolidated financial statements.*



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**Old Second Bancorp, Inc. and Subsidiaries**

**Consolidated Statements of Comprehensive Income (Loss)**

*(In thousands)*

| | (unaudited) Three Months Ended June 30, | | (unaudited) Six Months Ended June 30, | | (unaudited) Three Months Ended September 30, | | (unaudited) Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** | **2024** | **2023** | **2024** | **2023** |
| Net Income | $ 21,891 | $ 25,562 | $ 43,203 | $ 49,169 | $ 22,951 | $ 24,335 | $ 66,154 | $ 73,504 |
| Unrealized holding gains (losses) on available-for-sale securities arising during the period | 2,405 | (8,360) | 1,529 | 7,850 | 26,390 | (9,062) | 27,919 | (1,212) |
| Related tax (expense) benefit | (673) | 2,342 | (428) | (2,194) | (7,389) | 2,538 | (7,817) | 344 |
| Holding gains (losses), after tax, on available-for-sale securities | 1,732 | (6,018) | 1,101 | 5,656 | 19,001 | (6,524) | 20,102 | (868) |
| Less: Reclassification adjustment for the net gains (losses) realized during the period | | | | | | | | |
| Net realized (losses) gains | - | (1,547) | 1 | (3,222) | | | | |
| Net realized losses | | | | | (1) | (924) | - | (4,146) |
| Related tax benefit | - | 434 | - | 905 | - | 260 | - | 1,165 |
| Net realized (losses) gains, after tax | - | (1,113) | 1 | (2,317) | (1) | (664) | - | (2,981) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other comprehensive income (loss) on available-for-sale securities | 1,732 | (4,905) | 1,100 | 7,973 | 19,002 | (5,860) | 20,102 | 2,113 |
| Changes in fair value of derivatives used for cash flow hedges | 1,194 | (3,017) | 1,246 | (1,415) | 1,899 | 1,975 | 3,145 | 560 |
| Related tax (expense) benefit | (334) | 836 | (334) | 380 | | | | |
| Other comprehensive income (loss) on cash flow hedges | 860 | (2,181) | 912 | (1,035) | | | | |
| Related tax expense | | | | | (532) | (548) | (866) | (168) |
| Other comprehensive income on cash flow hedges | | | | | 1,367 | 1,427 | 2,279 | 392 |
| Total other comprehensive income (loss) | 2,592 | (7,086) | 2,012 | 6,938 | 20,369 | (4,433) | 22,381 | 2,505 |
| Total comprehensive income | $ 24,483 | $ 18,476 | $ 45,215 | $ 56,107 | $ 43,320 | $ 19,902 | $ 88,535 | $ 76,009 |

| **(unaudited)** | **Accumulated Unrealized Gain (Loss) on Securities Available-for -Sale** | **Accumulated Unrealized Gain (Loss) on Derivative Instruments** | **Total Accumulated Other Comprehensive Income/(Loss)** | **Accumulated Unrealized Gain (Loss) on Securities Available-for -Sale** | **Accumulated Unrealized Gain (Loss) on Derivative Instruments** | **Total Accumulated Other Comprehensive Income/(Loss)** |
|---|---|---|---|---|---|---|
| **For the Three Months Ended** | | | | | | |
| Balance, April 1, 2023 | $ (76,014) | $ (3,086) | $ (79,100) | | | |
| Other comprehensive loss, net of tax | (4,905) | (2,181) | (7,086) | | | |
| Balance, June 30, 2023 | $ (80,919) | $ (5,267) | $ (86,186) | | | |
| Balance, July 1, 2023 | | | | $ (80,919) | $ (5,267) | $ (86,186) |
| Other comprehensive (loss) income, net of tax | | | | (5,860) | 1,427 | (4,433) |
| Balance, September 30, 2023 | | | | $ (86,779) | $ (3,840) | $ (90,619) |
| | | | | | | |
| Balance, April 1, 2024 | $ (61,222) | $ (2,139) | $ (63,361) | | | |
| Balance, July 1, 2024 | | | | $ (59,490) | $ (1,279) | $ (60,769) |
| Other comprehensive income, net of tax | 1,732 | 860 | 2,592 | 19,002 | 1,367 | 20,369 |
| Balance, June 30, 2024 | $ (59,490) | $ (1,279) | $ (60,769) | | | |
| Balance, September 30, 2024 | | | | $ (40,488) | $ 88 | $ (40,400) |

**For the Six Months Ended**

**For the Nine Months Ended**

| | | | | | | |
|---|---|---|---|---|---|---|
| Balance, January 1, 2023 | $ (88,892) | $ (4,232) | $ (93,124) | $ (88,892) | $ (4,232) | $ (93,124) |
| Other comprehensive income (loss), net of tax | 7,973 | (1,035) | 6,938 | | | |
| Balance, June 30, 2023 | $ (80,919) | $ (5,267) | $ (86,186) | | | |
| Other comprehensive income, net of tax | | | | 2,113 | 392 | 2,505 |
| Balance, September 30, 2023 | | | | $ (86,779) | $ (3,840) | $ (90,619) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Balance, January 1, 2024 | $ (60,590) | $ (2,191) | $ (62,781) | $ (60,590) | $ (2,191) | $ (62,781) |
| Other comprehensive income, net of tax | 1,100 | 912 | 2,012 | 20,102 | 2,279 | 22,381 |
| Balance, June 30, 2024 | $ (59,490) | $ (1,279) | $ (60,769) | | | |
| Balance, September 30, 2024 | | | | $ (40,488) | $ 88 | $ (40,400) |

*See accompanying notes to consolidated financial statements.*



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**Old Second Bancorp, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

*(In thousands)*

| | (unaudited) Six Months Ended June 30, | |
|---|---|---|
| | **2024** | **2023** |
| **Cash flows from operating activities** | | |
| Net income | $ 43,203 | $ 49,169 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net premium / discount amortization on securities | 1,544 | 1,626 |
| Securities (gains) losses, net | (1) | 3,222 |
| Provision for credit losses | 7,250 | 5,501 |
| Originations of loans held-for-sale | (22,114) | (24,570) |
| Proceeds from sales of loans held-for-sale | 21,650 | 24,271 |
| Net gains on sales of mortgage loans | (782) | (704) |
| Mortgage servicing rights mark to market loss | 144 | 429 |
| Net accretion of discount on loans and unfunded commitments | (258) | (2,093) |
| Net change in cash surrender value of BOLI | (1,992) | (660) |
| Net gains on sale of other real estate owned | (259) | (158) |
| Provision for other real estate owned valuation losses | - | 269 |
| Depreciation of fixed assets and amortization of leasehold improvements | 2,721 | 2,135 |
| Net gains on disposal and transfer of fixed assets | - | (635) |
| Amortization of core deposit intangibles | 1,154 | 1,242 |
| Change in current income taxes receivable | (17) | (456) |
| Deferred tax expense | 1,605 | 2,204 |
| Change in accrued interest receivable and other assets | 1,191 | (50,594) |

| | | |
|---|---|---|
| Accretion of purchase accounting adjustment on time deposits | (106) | (701) |
| Change in accrued interest payable and other liabilities | 1,998 | (5,709) |
| Stock based compensation | 2,107 | 1,774 |
| Net cash provided by operating activities | 59,038 | 5,562 |
| **Cash flows from investing activities** | | |
| Proceeds from maturities and calls, including pay down of securities available-for-sale | 171,708 | 73,981 |
| Proceeds from sales of securities available-for-sale | 5,331 | 140,166 |
| Purchases of securities available-for-sale | (157,886) | (4,186) |
| Net redemptions (purchases) of FHLBC/FRBC stock | 1,350 | (16,200) |
| Net change in loans | 53,983 | (143,966) |
| Purchases of BOLI policies | (460) | - |
| Proceeds from claims on BOLI, net of claims receivable | 1,235 | - |
| Proceeds from sales of other real estate owned, net of participations and improvements | 1,850 | 1,165 |
| Proceeds from disposition of premises and equipment | - | 1,105 |
| Net purchases of premises and equipment | (6,293) | (3,047) |
| Net cash provided by investing activities | 70,818 | 49,018 |
| **Cash flows from financing activities** | | |
| Net change in deposits | (48,912) | (392,440) |
| Net change in securities sold under repurchase agreements | 20,072 | (624) |
| Net change in other short-term borrowings | (75,000) | 395,000 |
| Repayment of term note | - | (9,000) |
| Repayment of senior notes | - | (45,000) |
| Dividends paid on common stock | (4,478) | (4,478) |
| Purchase of treasury stock | (791) | (605) |
| Net cash used in financing activities | (109,109) | (57,147) |
| Net change in cash and cash equivalents | 20,747 | (2,567) |
| Cash and cash equivalents at beginning of period | 100,145 | 115,177 |
| Cash and cash equivalents at end of period | $ 120,892 | $ 112,610 |

| | **(unaudited)** | |
|---|---|---|
| | **Nine Months Ended September 30,** | |
| | **2024** | **2023** |
| **Cash flows from operating activities** | | |
| Net income | $ 66,154 | $ 73,504 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net premium / discount amortization on securities | 2,113 | 2,506 |
| Securities losses, net | - | 4,146 |
| Provision for credit losses | 9,250 | 8,501 |
| Originations of loans held-for-sale | (38,773) | (39,068) |
| Proceeds from sales of loans held-for-sale | 38,468 | 37,962 |
| Net gains on sales of mortgage loans | (1,289) | (1,111) |
| Mortgage servicing rights mark to market loss | 1,108 | 148 |
| Net accretion of discount on loans and unfunded commitments | (365) | (2,620) |
| Net change in cash surrender value of BOLI | (2,852) | (1,579) |
| Net gains on sale of other real estate owned | (259) | (229) |
| Provision for other real estate owned valuation losses | - | 269 |
| Depreciation of fixed assets and amortization of leasehold improvements | 4,169 | 3,246 |
| Net gains on disposal and transfer of fixed assets | - | (636) |
| Amortization of core deposit intangibles | 1,724 | 1,858 |
| Change in current income taxes receivable | 5,137 | 1,070 |
| Deferred tax expense (benefit) | 362 | (289) |
| Change in accrued interest receivable and other assets | 4,927 | (10,053) |
| Accretion of purchase accounting adjustment on time deposits | (128) | (1,004) |

| | | |
|---|---|---|
| Change in accrued interest payable and other liabilities | 14,706 | 7,991 |
| Stock based compensation | 3,085 | 2,709 |
| Net cash provided by operating activities | 107,537 | 87,321 |
| **Cash flows from investing activities** | | |
| Proceeds from maturities and calls, including pay down of securities available-for-sale | 203,013 | 104,471 |
| Proceeds from sales of securities available-for-sale | 5,331 | 205,738 |
| Purchases of securities available-for-sale | (180,563) | (4,186) |
| Net redemptions (purchases) of FHLBC/FRBC stock | 3,150 | (15,300) |
| Net change in loans | 38,478 | (164,252) |
| Purchases of BOLI policies | (460) | - |
| Proceeds from claims on BOLI, net of claims receivable | 1,236 | - |
| Proceeds from sales of other real estate owned, net of participations and improvements | 1,850 | 1,800 |
| Proceeds from disposition of premises and equipment | - | 4,460 |
| Net purchases of premises and equipment | (8,638) | (8,217) |
| Net cash provided by investing activities | 63,397 | 124,514 |
| **Cash flows from financing activities** | | |
| Net change in deposits | (105,194) | (495,399) |
| Net change in securities sold under repurchase agreements | 27,396 | (6,262) |
| Net change in other short-term borrowings | (70,000) | 345,000 |
| Repayment of term note | - | (9,000) |
| Repayment of senior notes | - | (45,000) |
| Dividends paid on common stock | (6,723) | (6,713) |
| Purchase of treasury stock | (791) | (605) |
| Net cash used in financing activities | (155,312) | (217,979) |
| Net change in cash and cash equivalents | 15,622 | (6,144) |
| Cash and cash equivalents at beginning of period | 100,145 | 115,177 |
| Cash and cash equivalents at end of period | $ 115,767 | $ 109,033 |

*See accompanying notes to consolidated financial statements*.



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**Old Second Bancorp, Inc. and Subsidiaries**
**Consolidated Statements of Changes in**
**Stockholders' Equity**
*(In thousands)*

| (unaudited) | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **For the Three Months Ended** | | | | | | |
| **Balance, April 1, 2023** | $ 44,705 | $ 200,121 | $ 331,890 | $ (79,100) | $ (746) | $ 496,870 |
| Net income | | | 25,562 | | | 25,562 |

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Other comprehensive loss, net of tax | | | | (7,086) | | (7,086) |
| Dividends declared on common stock, ($0.05 per share) | | | (2,233) | | | (2,233) |
| Stock based compensation | | 842 | | | | 842 |
| **Balance, June 30, 2023** | $ 44,705 | $ 200,963 | $ 355,219 | $ (86,186) | $ (746) | $ 513,955 |
| | | | | | | |
| **Balance, April 1, 2024** | $ 44,908 | $ 203,129 | $ 412,388 | $ (63,361) | $ (905) | $ 596,159 |
| Net income | | | 21,891 | | | 21,891 |
| Other comprehensive income, net of tax | | | | 2,592 | | 2,592 |
| Dividends declared on common stock, ($0.05 per share) | | | (2,242) | | | (2,242) |
| Vesting of restricted stock | | (67) | | | 67 | - |
| Stock based compensation | | 950 | | | | 950 |
| Purchase of treasury stock from taxes withheld on stock awards | | | | | (15) | (15) |
| **Balance, June 30, 2024** | $ 44,908 | $ 204,012 | $ 432,037 | $ (60,769) | $ (853) | $ 619,335 |

| **(unaudited)** | **Common Stock** | **Additional Paid-In Capital** | **Retained Earnings** | **Accumulated Other Comprehensive (Loss) Income** | **Treasury Stock** | **Total Stockholders' Equity** |
|---|---|---|---|---|---|---|
| **For the Three Months Ended** | | | | | | |
| **Balance, July 1, 2023** | $ 44,705 | $ 200,963 | $ 355,219 | $ (86,186) | $ (746) | $ 513,955 |
| Net income | | | 24,335 | | | 24,335 |
| Other comprehensive loss, net of tax | | | | (4,433) | | (4,433) |
| Dividends declared on common stock, ($0.05 per share) | | | (2,234) | | | (2,234) |
| Vesting of restricted stock | | (345) | | | 345 | - |
| Stock based compensation | | 935 | | | | 935 |
| **Balance, September 30, 2023** | $ 44,705 | $ 201,553 | $ 377,320 | $ (90,619) | $ (401) | $ 532,558 |
| | | | | | | |
| **Balance, July 1, 2024** | $ 44,908 | $ 204,012 | $ 432,037 | $ (60,769) | $ (853) | $ 619,335 |
| Net income | | | 22,951 | | | 22,951 |
| Other comprehensive income, net of tax | | | | 20,369 | | 20,369 |
| Dividends declared on common stock, ($0.05 per share) | | | (2,243) | | | (2,243) |
| Vesting of restricted stock | | (21) | | | 21 | - |
| Stock based compensation | | 978 | | | | 978 |
| **Balance, September 30, 2024** | $ 44,908 | $ 204,969 | $ 452,745 | $ (40,400) | $ (832) | $ 661,390 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **For the Six Months Ended** | | | | | | | | | | | | |
| **For the Nine Months Ended** | | | | | | | | | | | | |
| **Balance, January 1, 2023** | $ 44,705 | $ 202,276 | $ 310,512 | $ (93,124) | $ (3,228) | $ 461,141 | $44,705 | $202,276 | $310,512 | $(93,124) | $(3,228) | $461,141 |
| Net income | | | 49,169 | | | 49,169 | | | 73,504 | | | 73,504 |
| Other comprehensive income, net of tax | | | | 6,938 | | 6,938 | | | | 2,505 | | 2,505 |
| Dividends declared on common stock, ($0.10 per share) | | | (4,462) | | | (4,462) | | | | | | |
| Dividends declared on common stock, ($0.15 per share) | | | | | | | | | (6,696) | | | (6,696) |
| Vesting of restricted stock | | (3,087) | | | 3,087 | - | | (3,432) | | | 3,432 | - |
| Stock based compensation | | 1,774 | | | | 1,774 | | 2,709 | | | | 2,709 |
| Purchase of treasury stock from taxes withheld on stock awards | | | | | (605) | (605) | | | | | (605) | (605) |
| **Balance, June 30, 2023** | $ 44,705 | $ 200,963 | $ 355,219 | $ (86,186) | $ (746) | $ 513,955 | | | | | | |
| **Balance, September 30, 2023** | | | | | | | $44,705 | $201,553 | $377,320 | $(90,619) | $ (401) | $532,558 |
| | | | | | | | | | | | | |
| **Balance, January 1, 2024** | $ 44,705 | $ 202,223 | $ 393,311 | $ (62,781) | $ (177) | $ 577,281 | $44,705 | $202,223 | $393,311 | $(62,781) | $ (177) | $577,281 |
| Net income | | | 43,203 | | | 43,203 | | | 66,154 | | | 66,154 |
| Other comprehensive income, net of tax | | | | 2,012 | | 2,012 | | | | 22,381 | | 22,381 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dividends declared on common stock, ($0.10 per share) | | | (4,477) | | | (4,477) | | | | | | |
| Dividends declared on common stock, ($0.15 per share) | | | | | | | | | (6,720) | | | (6,720) |
| Vesting of restricted stock | 203 | (318) | | | 115 | - | 203 | (339) | | | 136 | - |
| Stock based compensation | | 2,107 | | | | 2,107 | | 3,085 | | | | 3,085 |
| Purchase of treasury stock from taxes withheld on stock awards | | | | | (791) | (791) | | | | | (791) | (791) |
| **Balance, June 30, 2024** | $ 44,908 | $ 204,012 | $ 432,037 | $ (60,769) | $ (853) | $ 619,335 | | | | | | |
| **Balance, September 30, 2024** | | | | | | | $44,908 | $204,969 | $452,745 | $(40,400) | $(832) | $661,390 |



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**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

**Note 1 – Basis of Presentation and Changes in 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 June 30, 2024 September 30, 2024, are not necessarily indicative of the results that may be expected for the year ending December 31, 2024. These interim consolidated financial statements and accompanying notes 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, 2023. Unless otherwise indicated, dollar 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.

**Recent Accounting Pronouncements**

The following is a summary of recent accounting pronouncements that have impacted or could potentially affect the Company**:**

***ASU 2023-06*** – On October 9, 2023, the FASB issued ASU 2023-06 "*Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative Initiative".*" The amendments in the ASU modify the disclosure or presentation requirements of a variety of topics in the codification. Certain of the amendments represent clarifications to, or technical corrections of, the current requirements. Each amendment in the ASU will only become effective if the SEC removes the related disclosure or presentation requirement from its existing regulations by June 30, 2027. The amendments in this ASU are not expected to have a material impact on the financial statements of the Company.

***ASU 2023-07*** – On November 27, 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): “Improvements to Reportable Segment Disclosures”*. The amendments are intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. A public entity should apply the amendments retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. This ASU is effective for the Company for the fiscal period beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.



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**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

***ASU 2023-09*** – On December 14, 2023, the FASB issued ASU 2023-09 “*Income Taxes (Topic 740): Improvements to Income Tax Disclosures Disclosures”*.” The amendments require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation, and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income (or loss) by the applicable statutory income tax rate). The amendments require that all entities disclose on an annual basis the following information about income taxes paid: (1) The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes, and (2) The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). The amendments also require that all entities disclose the following information: (1) Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, and (2) Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign. The ASU is effective for public business entities for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments should be applied on a prospective basis. Retrospective application is permitted. The Company will adopt this ASU for the reporting period beginning January 1, 2025, and does not expect the amendments to have a material impact to the financial statements of the Company.

***ASU 2024-01 –*** On March 21, 2024, the FASB issued ASU 2024-01 “*Compensation - Stock Compensation (Topic 718) - Scope Application of Profits Interest and Similar Awards Awards”*,” which clarifies how an entity determines whether a profits interest or similar award is within the scope of Topic 718 or is not a share-based payment arrangement and, therefore is within the scope of other guidance. ASU 2024-01 provides an illustrative example with multiple fact patterns and also amends certain language in the “Scope” and “Scope Exceptions” sections of Topic 718 to improve its clarity and operability without changing the guidance. Entities can apply the amendments either retrospectively to all prior periods presented in the financial statements or prospectively to profits interest and similar awards granted or modified on or after the date of adoption. If prospective application is elected, an entity must disclose the nature of and reason for the change in accounting principle. ASU 2024-01 is effective January 1, 2025, including interim periods, and is not expected to have a material impact on the financial statements of the Company.



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***ASU 2024-02 –*** On March 29, 2024, the FASB issued ASU 2024-02 "*Codification Improvements – Amendments to Remove References to the Concepts Statements*", which amends the codification to remove references to various concept statements and impacts a variety of topics in the codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance, but in most instances the references removed are extraneous and not required to understand or apply the guidance. Generally, the amendments in ASU 2024-02 are not intended to result in significant accounting changes for most entities. ASU 2024-02 is effective January 1, 2025, and is not expected to have a material impact the financial statements of the Company.

**Change in Significant Accounting Policies**

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, 2023. 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. During the second third quarter of 2024, the Company had no changes to significant accounting policies or estimates.

**Subsequent Events**

On July 16, 2024 October 15, 2024, our Board of Directors declared a cash dividend of $0.05 $0.06 per share of common stock payable on August 5, 2024 November 4, 2024, to stockholders of record as of July 26, 2024 October 25, 2024; dividends of $2.2 million $2.7 million were paid to stockholders on August 5, 2024 November 4, 2024.



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**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 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.

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.

Federal Home Loan Bank of Chicago ("FHLBC") and Federal Reserve Bank of Chicago ("FRBC") stock are considered nonmarketable equity investments. FHLBC stock was recorded at $17.1 million $15.3 million at June 30, 2024 September 30, 2024, and $18.5 million at December 31, 2023. FRBC stock was recorded at $14.9 million at June 30, 2024 September 30, 2024, and December 31, 2023.

*(Dollar amounts in thousands, except per share data, unaudited)*

The following tables summarize the amortized cost and fair value of the securities portfolio at June 30, 2024 September 30, 2024, and December 31, 2023, and the corresponding amounts of gross unrealized gains and losses:

| | Amortized Cost[1] | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost[1] | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|---|---|---|---|
| **June 30, 2024** | | | | | | | | |
| **September 30, 2024** | | | | | | | | |
| **Securities available-for-sale** | | | | | | | | |
| U.S. Treasury | $ 193,615 | $ 146 | $ (2,487) | $ 191,274 | $ 193,825 | $ 1,559 | $ (1,196) | $ 194,188 |
| U.S. government agencies | 39,653 | - | (2,355) | 37,298 | 39,401 | - | (1,425) | 37,976 |
| U.S. government agencies mortgage-backed | 109,490 | - | (12,618) | 96,872 | 105,262 | - | (8,849) | 96,413 |
| States and political subdivisions | 232,373 | 470 | (12,578) | 220,265 | 231,506 | 1,237 | (7,948) | 224,795 |
| Collateralized mortgage obligations | 436,623 | 321 | (50,889) | 386,055 | 422,234 | 1,027 | (38,990) | 384,271 |
| Asset-backed securities | 67,634 | 6 | (2,763) | 64,877 | 65,716 | 142 | (1,911) | 63,947 |
| Collateralized loan obligations | 176,897 | 195 | (72) | 177,020 | 189,143 | 181 | (60) | 189,264 |
| **Total securities available-for-sale** | $ 1,256,285 | $ 1,138 | $ (83,762) | $ 1,173,661 | $1,247,087 | $ 4,146 | $ (60,379) | $1,190,854 |

| December 31, 2023 | Amortized Cost[1] | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Securities available-for-sale** | | | | |
| U.S. Treasury | $ 174,602 | $ - | $ (5,028) | $ 169,574 |
| U.S. government agencies | 60,011 | - | (3,052) | 56,959 |
| U.S. government agencies mortgage-backed | 118,492 | - | (12,122) | 106,370 |
| States and political subdivisions | 236,072 | 1,325 | (10,332) | 227,065 |
| Collateralized mortgage obligations | 442,987 | 421 | (50,864) | 392,544 |
| Asset-backed securities | 71,616 | 42 | (3,222) | 68,436 |
| Collateralized loan obligations | 173,201 | 30 | (1,350) | 171,881 |
| **Total securities available-for-sale** | $ 1,276,981 | $ 1,818 | $ (85,970) | $ 1,192,829 |

[1] *Excludes accrued interest receivable of $6.7 7.3 million and $6.6 million at June 30, 2024 September 30, 2024 and December 31, 2023, respectively, that is recorded in other assets on the consolidated balance sheets.*



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The fair value, amortized cost and weighted average yield of debt securities at June 30, 2024 September 30, 2024, by contractual maturity, are listed in the table below. Securities not due at a single maturity date are shown separately.

| Weighted | Weighted |
|---|---|

| Securities available-for-sale | Amortized Cost | Average Yield | Fair Value | Amortized Cost | Average Yield | Fair Value |
|---|---|---|---|---|---|---|
| Due in one year or less | $ 122,815 | 1.69 % | $ 120,302 | $ 122,883 | 1.69 % | $ 121,809 |
| Due after one year through five years | 127,580 | 3.63 | 125,243 | 127,710 | 3.70 | 127,947 |
| Due after five years through ten years | 58,374 | 2.77 | 53,383 | 90,188 | 2.89 | 86,075 |
| Due after ten years | 156,872 | 3.11 | 149,909 | 123,951 | 3.11 | 121,128 |
| | 465,641 | 2.84 | 448,837 | 464,732 | 2.85 | 456,959 |
| Mortgage-backed and collateralized mortgage obligations | 546,113 | 2.52 | 482,927 | 527,496 | 2.53 | 480,684 |
| Asset-backed securities | 67,634 | 4.08 | 64,877 | 65,716 | 3.89 | 63,947 |
| Collateralized loan obligations | 176,897 | 6.98 | 177,020 | 189,143 | 6.29 | 189,264 |
| **Total securities available-for-sale** | $ 1,256,285 | 3.35 % | $ 1,173,661 | $1,247,087 | 3.29 % | $1,190,854 |

At June 30, 2024 September 30, 2024, the Company had no securities issued from any one originator, other than the U.S. Government and its agencies, which individually amounted to over 10% of the Company's stockholders' equity.

Securities with unrealized losses with no corresponding allowance for credit losses at June 30, 2024 September 30, 2024, and December 31, 2023, 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):

| **June 30, 2024** **September 30, 2024** | **Less than 12 months in an unrealized loss position** | | | **12 months or more in an unrealized loss position** | | | **Total** | | | **Less than 12 months in an unrealized loss position** | | | **12 months or more in an unrealized loss position** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Securities available-for-sale** | Number of Securities | Unrealized Losses | Fair Value | Number of Securities | Unrealized Losses | Fair Value | Number of Securities | Unrealized Losses | Fair Value | Number of Securities | Unrealized Losses | Fair Value | Number of Securities | Unrealized Losses | Fair Value | Numb Secu |
| U.S. Treasuries | 2 | $ 12 | $ 29,806 | 2 | $ 2,475 | $ 97,328 | 4 | $ 2,487 | $127,134 | - | $ - | $ - | 2 | $ 1,196 | $ 98,672 | |
| U.S. government agencies | - | - | - | 8 | 2,355 | 37,298 | 8 | 2,355 | 37,298 | - | - | - | 8 | 1,425 | 37,976 | |
| U.S. government agencies mortgage-backed | - | - | - | 128 | 12,618 | 96,872 | 128 | 12,618 | 96,872 | - | - | - | 128 | 8,849 | 96,413 | |
| States and political subdivisions | 33 | 763 | 86,106 | 35 | 11,815 | 125,519 | 68 | 12,578 | 211,625 | 2 | 20 | 12,697 | 30 | 7,928 | 113,587 | |
| Collateralized mortgage obligations | - | - | - | 142 | 50,889 | 349,308 | 142 | 50,889 | 349,308 | 2 | 19 | 1,506 | 141 | 38,971 | 346,056 | |
| Asset-backed securities | 2 | 10 | 5,064 | 18 | 2,753 | 59,306 | 20 | 2,763 | 64,370 | - | - | - | 13 | 1,911 | 51,435 | |
| Collateralized loan obligations | 3 | 59 | 32,944 | 4 | 13 | 28,279 | 7 | 72 | 61,223 | 7 | 56 | 62,219 | 2 | 4 | 12,848 | |
| **Total securities available-for-sale** | 40 | $ 844 | $153,920 | 337 | $ 82,918 | $793,910 | 377 | $ 83,762 | $947,830 | 11 | $ 95 | $76,422 | 324 | $ 60,284 | $756,987 | |

| **December 31, 2023** | **Less than 12 months in an unrealized loss position** | | | **12 months or more in an unrealized loss position** | | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|
| **Securities available-for-sale** | Number of Securities | Unrealized Losses | Fair Value | Number of Securities | Unrealized Losses | Fair Value | Number of Securities | Unrealized Losses | Fair Value |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| U.S. Treasuries | - | $ - | $ - | 4 | $ 5,028 | $ 169,574 | 4 | $ 5,028 | $ 169,574 |
| U.S. government agencies | - | - | - | 9 | 3,052 | 56,959 | 9 | 3,052 | 56,959 |
| U.S. government agencies mortgage-backed | - | - | - | 128 | 12,122 | 106,370 | 128 | 12,122 | 106,370 |
| States and political subdivisions | 12 | 137 | 27,974 | 25 | 10,195 | 106,138 | 37 | 10,332 | 134,112 |
| Collateralized mortgage obligations | 2 | 8 | 734 | 143 | 50,856 | 376,236 | 145 | 50,864 | 376,970 |
| Asset-backed securities | - | - | - | 19 | 3,222 | 63,941 | 19 | 3,222 | 63,941 |
| Collateralized loan obligations | - | - | - | 25 | 1,350 | 150,902 | 25 | 1,350 | 150,902 |
| **Total securities available-for-sale** | 14 | $ 145 | $ 28,708 | 353 | $ 85,825 | $ 1,030,120 | 367 | $ 85,970 | $ 1,058,828 |

Each quarter, we perform an analysis to determine if any of the unrealized losses on securities available-for-sale are comprised of credit losses as compared to unrealized losses due to market interest rate adjustments. Our assessment includes a review of the unrealized loss for each security issuance held; the financial condition and near-term prospects of the issuer, including external credit ratings and recent downgrades; and our ability and intent to hold the security for a period of time sufficient for a recovery in value. We also consider the extent to which the securities are issued by the federal government or its agencies, and any guarantee of issued amounts by those agencies. The portfolio continues to consist of a mix of fixed and floating-rate, high quality securities, largely rated AA (or better), displaying an overall effective duration of approximately 3.0 years. No credit losses were determined to be present as of June 30, 2024 September 30, 2024, as there was no credit quality deterioration noted. Therefore, no provision for credit losses on securities was recognized for the second third quarter of 2024.



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**Old Second Bancorp, Inc. and Subsidiaries**
**Notes to Consolidated Financial Statements**
*(Dollar amounts in thousands, except per share data, unaudited)*

The following table presents net realized gains (losses) on securities available-for-sale for three and six months ended:

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|---|---|
| **Securities available-for-sale** | **2024** | **2023** | **2024** | **2023** | **2024** | **2023** | **2024** | **2023** |
| Proceeds from sales of securities | $ - | $ 73,996 | $ 5,331 | $ 140,166 | $ - | $65,572 | $5,331 | $205,738 |
| Gross realized gains on securities | $ - | $ - | $ 1 | $ - | $ - | $ - | $ 1 | $ - |
| Gross realized losses on securities | - | (1,547) | - | (3,222) | (1) | (924) | (1) | (4,146) |
| **Net realized (losses) gains** | $ - | $ (1,547) | $ 1 | $ (3,222) | $ (1) | $ (924) | $ - | $ (4,146) |
| Income tax benefit on net realized losses | $ - | $ 434 | $ - | $ 905 | $ - | $ 260 | $ - | $ 1,165 |
| Effective tax rate applied | N/M % | 28.1 % | N/M % | 28.1 % | 0.0 % | 28.1 % | N/M | 28.1 % |

N/M – *Not meaningful.*

As of June 30, 2024 September 30, 2024, securities valued at $762.2 million $755.2 million were pledged for borrowings and for other purposes, a decrease from $810.2 million of securities pledged at year-end 2023.

**Note 3 – Loans and Allowance for Credit Losses on Loans**

Major segments of loans were as follows:

| | June 30, 2024 | December 31, 2023 | September 30, 2024 | December 31, 2023 |
|---|---|---|---|---|
| Commercial | $ 809,443 | $ 841,697 | $ 814,668 | $ 841,697 |
| Leases | 452,957 | 398,223 | 458,317 | 398,223 |
| Commercial real estate – investor | 1,014,345 | 1,034,424 | 1,045,060 | 1,034,424 |
| Commercial real estate – owner occupied | 745,938 | 796,538 | 718,265 | 796,538 |
| Construction | 185,634 | 165,380 | 206,458 | 165,380 |
| Residential real estate – investor | 50,371 | 52,595 | 50,332 | 52,595 |
| Residential real estate – owner occupied | 218,974 | 226,248 | 208,227 | 226,248 |
| Multifamily | 388,743 | 401,696 | 375,394 | 401,696 |
| HELOC | 99,037 | 103,237 | 102,611 | 103,237 |
| Other [1] | 11,153 | 22,915 | 11,746 | 22,915 |
| **Total loans** | 3,976,595 | 4,042,953 | 3,991,078 | 4,042,953 |
| Allowance for credit losses on loans | (42,269) | (44,264) | (44,422) | (44,264) |
| **Net loans [2]** | $ 3,934,326 | $ 3,998,689 | $ 3,946,656 | $ 3,998,689 |

*[1] The "Other" segment includes consumer loans and overdrafts in this table and in subsequent tables within Note 3 – Loans and Allowance for Credit Losses on Loans.*

*[2] Excludes accrued interest receivable of $19.4 million and $20.5 million at June 30, 2024 September 30, 2024, and December 31, 2023, respectively, that is recorded in other assets on the consolidated balance sheets.*

It is the policy of the Company to review each prospective credit prior to making a loan in order to determine if an adequate level of security or collateral has been obtained. The type of collateral, when required, will vary from liquid assets to real estate. The Company seeks to ensure access to collateral, in the event of borrower default, through adherence to lending laws, the Company's lending standards and credit monitoring procedures. Although the Bank makes loans primarily 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. The real estate related categories listed above represent 68.0% 67.8% and 68.8% of the portfolio at June 30, 2024 September 30, 2024, and December 31, 2023, respectively, and include a mix of owner occupied and non-owner occupied commercial real estate, residential, construction and multifamily loans.

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**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

The following tables represent the activity in the allowance for credit losses for loans, or the ACL, for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023:

| Allowance for credit losses | Beginning Balance | Provision for (Release of) Credit Losses | Charge-offs | Recoveries | Ending Balance | Beginning Balance | Provision for (Release of) Credit Losses [1] | Charge-offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|---|---|---|---|---|
| **Three months ended June 30, 2024** | | | | | | | | | | |
| **Three months ended September 30, 2024** | | | | | | | | | | |
| Commercial | $ 6,382 | $ 327 | $ 3 | $ 22 | $ 6,728 | $ 6,728 | $ 2,950 | $ 33 | $ 40 | $ 9,685 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Leases | 2,959 | (900) | 81 | - | 1,978 | 1,978 | 40 | 68 | 25 | 1,975 |
| Commercial real estate – investor | 16,270 | 6,132 | 4,580 | 20 | 17,842 | 17,842 | (1,154) | - | 149 | 16,837 |
| Commercial real estate – owner occupied | 10,992 | (2,650) | 1,281 | 119 | 7,180 | 7,180 | (64) | (14) | 30 | 7,160 |
| Construction | 1,097 | 923 | - | - | 2,020 | 2,020 | 397 | - | - | 2,417 |
| Residential real estate – investor | 636 | (30) | - | 3 | 609 | 609 | (63) | - | 18 | 564 |
| Residential real estate – owner occupied | 1,660 | (51) | - | 9 | 1,618 | 1,618 | 111 | - | 11 | 1,740 |
| Multifamily | 2,593 | 211 | - | - | 2,804 | 2,804 | (341) | - | - | 2,463 |
| HELOC | 1,508 | (40) | - | 15 | 1,483 | 1,483 | 77 | - | 14 | 1,574 |
| Other | 16 | 28 | 66 | 29 | 7 | 7 | 45 | 78 | 33 | 7 |
| **Total** | $ 44,113 | $ 3,950 | $ 6,011 | $ 217 | $ 42,269 | $ 42,269 | $ 1,998 | $ 165 | $ 320 | $44,422 |

[1] *Amount does not include the provision for unfunded commitment liability.*

| **Allowance for credit losses** | **Beginning Balance** | **Provision for (Release of) Credit Losses** | **Charge-offs** | **Recoveries** | **Ending Balance** | **Beginning Balance** | **Provision for (Release of) Credit Losses [1]** | **Charge-offs** | **Recoveries** | **Ending Balance** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Six months ended June 30, 2024** | | | | | | | | | | |
| **Nine months ended September 30, 2024** | | | | | | | | | | |
| Commercial | $ 3,998 | $ 2,653 | $ 18 | $ 95 | $ 6,728 | $ 3,998 | $ 5,603 | $ 51 | $ 135 | $ 9,685 |
| Leases | 2,952 | (933) | 81 | 40 | 1,978 | 2,952 | (893) | 149 | 65 | 1,975 |
| Commercial real estate – investor | 17,105 | 5,230 | 4,596 | 103 | 17,842 | 17,105 | 4,076 | 4,596 | 252 | 16,837 |
| Commercial real estate – owner occupied | 12,280 | (70) | 5,168 | 138 | 7,180 | 12,280 | (134) | 5,154 | 168 | 7,160 |
| Construction | 1,038 | 982 | - | - | 2,020 | 1,038 | 1,379 | - | - | 2,417 |
| Residential real estate – investor | 669 | (65) | - | 5 | 609 | 669 | (128) | - | 23 | 564 |
| Residential real estate – owner occupied | 1,821 | (220) | - | 17 | 1,618 | 1,821 | (109) | - | 28 | 1,740 |
| Multifamily | 2,728 | 76 | - | - | 2,804 | 2,728 | (265) | - | - | 2,463 |
| HELOC | 1,656 | (205) | - | 32 | 1,483 | 1,656 | (128) | - | 46 | 1,574 |
| Other | 17 | 46 | 136 | 80 | 7 | 17 | 91 | 214 | 113 | 7 |
| **Total** | $ 44,264 | $ 7,494 | $ 9,999 | $ 510 | $ 42,269 | $ 44,264 | $ 9,492 | $ 10,164 | $ 830 | $44,422 |

[1] *Amount does not include the provision for unfunded commitment liability.*

| **Allowance for credit losses** | **Beginning Balance** | **Provision for (Release of) Credit Losses** | **Charge-offs** | **Recoveries** | **Ending Balance** | **Beginning Balance** | **Provision for (Release of) Credit Losses [1]** | **Charge-offs** | **Recoveries** | **Ending Balance** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Three months ended June 30, 2023** | | | | | | | | | | |
| **Three months ended September 30, 2023** | | | | | | | | | | |
| Commercial | $ 11,511 | $ 319 | $ 380 | $ 82 | $ 11,532 | $ 11,532 | $ (1,025) | $ 20 | $ 12 | $10,499 |
| Leases | 2,766 | (83) | - | 7 | 2,690 | 2,690 | (193) | - | 95 | 2,592 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Commercial real estate – investor | 15,260 | 4,822 | 71 | 20 | 20,031 | 20,031 | 4,726 | 6,774 | 20 | 18,003 |
| Commercial real estate – owner occupied | 15,576 | (2,816) | 201 | 3 | 12,562 | 12,562 | (154) | 35 | 12 | 12,385 |
| Construction | 1,045 | 134 | - | - | 1,179 | 1,179 | (39) | - | 100 | 1,240 |
| Residential real estate – investor | 746 | (8) | - | 5 | 743 | 743 | (55) | - | 3 | 691 |
| Residential real estate – owner occupied | 1,722 | 110 | - | 36 | 1,868 | 1,868 | (36) | - | 25 | 1,857 |
| Multifamily | 2,665 | 72 | - | - | 2,737 | 2,737 | (165) | - | - | 2,572 |
| HELOC | 1,788 | (118) | - | 24 | 1,694 | 1,694 | (77) | - | 35 | 1,652 |
| Other | 313 | (5) | 81 | 51 | 278 | 278 | 30 | 107 | 37 | 238 |
| **Total** | $ 53,392 | $ 2,427 | $ 733 | $ 228 | $ 55,314 | $ 55,314 | $ 3,012 | $ 6,936 | $ 339 | $51,729 |

[1] *Amount does not include the provision for unfunded commitment liability.*





**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

| **Allowance for credit losses Nine months ended September 30, 2023** | **Beginning Balance** | **Provision for (Release of) Credit Losses** [1] | **Charge-offs** | **Recoveries** | **Ending Balance** |
|---|---|---|---|---|---|
| Commercial | $ 11,968 | $ (1,287) | $ 427 | $ 245 | $ 10,499 |
| Leases | 2,865 | 498 | 882 | 111 | 2,592 |
| Commercial real estate – investor | 10,674 | 14,117 | 6,845 | 57 | 18,003 |
| Commercial real estate – owner occupied | 15,001 | (2,397) | 236 | 17 | 12,385 |
| Construction | 1,546 | (406) | - | 100 | 1,240 |
| Residential real estate – investor | 768 | (104) | - | 27 | 691 |
| Residential real estate – owner occupied | 2,046 | (260) | - | 71 | 1,857 |
| Multifamily | 2,453 | 119 | - | - | 2,572 |
| HELOC | 1,806 | (242) | - | 88 | 1,652 |
| Other | 353 | 53 | 301 | 133 | 238 |
| **Total** | $ 49,480 | $ 10,091 | $ 8,691 | $ 849 | $ 51,729 |

[1] *Amount does not include the provision for unfunded commitment liability.*

At September 30, 2024, our allowance for credit losses ("ACL") on loans totaled $44.4 million, and our ACL on unfunded commitments, included in other liabilities, totaled $2.5 million. During the first nine months of 2024, we recorded net provision for credit losses on loans of $9.5 million based on historical loss rate updates driven by higher charge offs in commercial real estate-investor, downward risk rating migration, and our assessment of estimated future credit losses. The ACL on loans excludes an allowance for unfunded commitments of $2.5 million as of September 30, 2024, and $2.7 million as of both December 31, 2023, and September 30, 2023, which is recorded within other liabilities.

Generally, the Bank considers a loan to be collateral dependent when, based on current information and events, it is probable that foreclosure could be initiated. Additionally, the Bank will review all loans meeting the criteria for individual analysis, to determine if repayment or satisfaction of the loan is expected through the sale of collateral. This will generally be the case for credits with high loan-to-values. Exceptions to this policy would include loans with guarantors or sponsors that have the means and willingness to support the obligation. Non-accruing loans with an outstanding balance of $500,000 or more are assessed on an individual loan level basis. When a financial asset is deemed collateral-dependent, the level of credit loss is measured by the difference between amortized cost of the financial asset and the fair value of collateral adjusted for estimated cost to sell. The Company had $50.2 million and $63.1 million of collateral dependent loans secured by real estate or business assets as of September 30, 2024, and December 31, 2023, respectively.





**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

| **Allowance for credit losses Six months ended June 30, 2023** | **Beginning Balance** | **Provision for (Release of) Credit Losses** | **Charge-offs** | **Recoveries** | **Ending Balance** |
|---|---|---|---|---|---|
| Commercial | $ 11,968 | $ (262) | $ 407 | $ 233 | $ 11,532 |
| Leases | 2,865 | 691 | 882 | 16 | 2,690 |
| Commercial real estate – investor | 10,674 | 9,391 | 71 | 37 | 20,031 |
| Commercial real estate – owner occupied | 15,001 | (2,243) | 201 | 5 | 12,562 |
| Construction | 1,546 | (367) | - | - | 1,179 |
| Residential real estate – investor | 768 | (49) | - | 24 | 743 |
| Residential real estate – owner occupied | 2,046 | (224) | - | 46 | 1,868 |
| Multifamily | 2,453 | 284 | - | - | 2,737 |
| HELOC | 1,806 | (165) | - | 53 | 1,694 |
| Other | 353 | 23 | 194 | 96 | 278 |
| **Total** | $ 49,480 | $ 7,079 | $ 1,755 | $ 510 | $ 55,314 |

At June 30, 2024, our allowance for credit losses (“ACL”) on loans totaled $42.3 million, and our ACL on unfunded commitments, included in other liabilities, totaled $2.5 million. During the first six months of 2024, we recorded net provision for credit losses on loans of $7.5 million based on historical loss rate updates driven by higher charge offs in commercial real estate-investor, downward risk rating migration, and our assessment of estimated future credit losses. The ACL on loans excludes an allowance for unfunded commitments of $2.5 million as of June 30, 2024, and $2.7 million as of both December 31, 2023, and June 30, 2023, which is recorded within other liabilities.

Generally, the Bank considers a loan to be collateral dependent when, based on current information and events, it is probable that foreclosure could be initiated. Additionally, the Bank will review all loans meeting the criteria for individual analysis, to determine if repayment or satisfaction of the loan is expected through the sale of collateral. This will generally be the case for credits with high loan-to-values. Exceptions to this policy would include loans with guarantors or sponsors that have the means and willingness to support the obligation. Non-accruing loans with an outstanding balance of $500,000 or more are assessed on an individual loan level basis. When a financial asset is deemed collateral-dependent, the level of credit loss is measured by the difference between amortized cost of the financial asset and the fair value of collateral adjusted for estimated cost to sell. The Company had $38.5 million and $63.1 million of collateral dependent loans secured by real estate or business assets as of June 30, 2024, and December 31, 2023, respectively.

The following tables present the collateral dependent loans and the related ACL allocated by segment of loans as of June 30, 2024 September 30, 2024, and December 31, 2023:

| **June 30, 2024** | **Real Estate** | **Accounts Receivable** | **Equipment** | **Other** | **Total** | **ACL Allocation** | **Accounts** | **ACL** |
|---|---|---|---|---|---|---|---|---|

| September 30, 2024 | | | | | | | Real Estate | Receivable | Equipment | Other | Total | Allocation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commercial | $ - | $ 825 | $ 508 | $1,227 | $ 2,560 | $ 1,229 | $ - | $ 16,529 | $ - | $ - | $ 16,529 | $ 4,286 |
| Leases | - | - | - | - | - | - | - | - | - | - | - | - |
| Commercial real estate – investor | 9,955 | - | - | - | 9,955 | 3,482 | 8,531 | - | - | - | 8,531 | 2,896 |
| Commercial real estate – owner occupied | 17,207 | - | - | - | 17,207 | - | 16,422 | - | - | - | 16,422 | - |
| Construction | 5,739 | - | - | - | 5,739 | 732 | 5,766 | - | - | - | 5,766 | 758 |
| Residential real estate – investor | 523 | - | - | - | 523 | - | 413 | - | - | - | 413 | - |
| Residential real estate – owner occupied | 1,640 | - | - | - | 1,640 | - | 1,644 | - | - | - | 1,644 | 221 |
| Multifamily | 839 | - | - | - | 839 | - | 861 | - | - | - | 861 | - |
| HELOC | 62 | - | - | - | 62 | - | - | - | - | - | - | - |
| Other | | | | | | | - | - | - | - | - | - |
| Total | $ 35,965 | $ 825 | $ 508 | $1,227 | $ 38,525 | $ 5,443 | $ 33,637 | $ 16,529 | $ - | $ - | $ 50,166 | $ 8,161 |

| December 31, 2023 | Real Estate | Accounts Receivable | Equipment | Other | Total | ACL Allocation | Real Estate | Accounts Receivable | Equipment | Other | Total | ACL Allocation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commercial | $ 837 | $ 797 | $ - | $ - | $ 1,634 | $ 2 | $ 837 | $ 797 | $ - | $ - | $ 1,634 | $ 2 |
| Leases | - | - | 321 | - | 321 | 320 | - | - | 321 | - | 321 | 320 |
| Commercial real estate – investor | 15,735 | - | - | - | 15,735 | 3,656 | 15,735 | - | - | - | 15,735 | 3,656 |
| Commercial real estate – owner occupied | 34,894 | - | - | - | 34,894 | 3,900 | 34,894 | - | - | - | 34,894 | 3,900 |
| Construction | 7,162 | - | - | - | 7,162 | - | 7,162 | - | - | - | 7,162 | - |
| Residential real estate – investor | 422 | - | - | - | 422 | - | 422 | - | - | - | 422 | - |
| Residential real estate – owner occupied | 1,506 | - | - | - | 1,506 | - | 1,506 | - | - | - | 1,506 | - |
| Multifamily | 1,402 | - | - | - | 1,402 | - | 1,402 | - | - | - | 1,402 | - |
| HELOC | 39 | - | - | - | 39 | - | 39 | - | - | - | 39 | - |
| Other | | | | | | | - | - | - | - | - | - |
| Total | $ 61,997 | $ 797 | $ 321 | $ - | $ 63,115 | $ 7,878 | $ 61,997 | $ 797 | $ 321 | $ - | $ 63,115 | $ 7,878 |

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

| September 30, 2024 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | Current | Total Loans | 90 days or Greater Past Due and Accruing |
|---|---|---|---|---|---|---|---|
| Commercial | $ 3,671 | $ 2,303 | $ 11,971 | $ 17,945 | $ 796,723 | $ 814,668 | $ - |
| Leases | 356 | 481 | 586 | 1,423 | 456,894 | 458,317 | - |
| Commercial real estate – investor | 492 | - | - | 492 | 1,044,568 | 1,045,060 | - |
| Commercial real estate – owner occupied | 9,728 | 13,393 | 12,416 | 35,537 | 682,728 | 718,265 | - |
| Construction | - | - | 5,766 | 5,766 | 200,692 | 206,458 | - |
| Residential real estate – investor | - | - | 449 | 449 | 49,883 | 50,332 | - |
| Residential real estate – owner occupied | 75 | - | 2,029 | 2,104 | 206,123 | 208,227 | 69 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Multifamily | 658 | 206 | 861 | 1,725 | 373,669 | 375,394 | - |
| HELOC | 423 | - | 161 | 584 | 102,027 | 102,611 | 40 |
| Other | 5 | 11 | - | 16 | 11,730 | 11,746 | - |
| **Total** | $ 15,408 | $ 16,394 | $ 34,239 | $ 66,041 | $ 3,925,037 | $ 3,991,078 | $ 109 |



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**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

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

| June 30, 2024 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | Current | Total Loans | 90 days or Greater Past Due and Accruing |
|---|---|---|---|---|---|---|---|
| Commercial | $ 914 | $ 3,127 | $ 842 | $ 4,883 | $ 804,560 | $ 809,443 | $ - |
| Leases | 479 | 451 | 108 | 1,038 | 451,919 | 452,957 | - |
| Commercial real estate – investor | 8,150 | 710 | 838 | 9,698 | 1,004,647 | 1,014,345 | - |
| Commercial real estate – owner occupied | 2,103 | 108 | 20,733 | 22,944 | 722,994 | 745,938 | 4,835 |
| Construction | - | - | 5,740 | 5,740 | 179,894 | 185,634 | - |
| Residential real estate – investor | - | - | 621 | 621 | 49,750 | 50,371 | - |
| Residential real estate – owner occupied | 390 | 70 | 1,870 | 2,330 | 216,644 | 218,974 | - |
| Multifamily | 235 | - | 1,054 | 1,289 | 387,454 | 388,743 | - |
| HELOC | 371 | 63 | 309 | 743 | 98,294 | 99,037 | 74 |
| Other | - | - | - | - | 11,153 | 11,153 | - |
| **Total** | $ 12,642 | $ 4,529 | $ 32,115 | $ 49,286 | $ 3,927,309 | $ 3,976,595 | $ 4,909 |

| December 31, 2023 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | Current | Total Loans | 90 days or Greater Past Due and Accruing |
|---|---|---|---|---|---|---|---|
| Commercial | $ 982 | $ - | $ 1,228 | $ 2,210 | $ 839,487 | $ 841,697 | $ 1,155 |
| Leases | 599 | - | 347 | 946 | 397,277 | 398,223 | - |
| Commercial real estate – investor | 1,209 | - | 6,087 | 7,296 | 1,027,128 | 1,034,424 | - |
| Commercial real estate – owner occupied | 2,103 | 3,726 | 15,645 | 21,474 | 775,064 | 796,538 | - |
| Construction | 2,540 | 307 | 7,161 | 10,008 | 155,372 | 165,380 | - |
| Residential real estate – investor | 540 | 579 | 168 | 1,287 | 51,308 | 52,595 | - |
| Residential real estate – owner occupied | 553 | 125 | 1,944 | 2,622 | 223,626 | 226,248 | - |

*(Dollar amounts in thousands, except per share data, unaudited)*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Multifamily | 1,085 | - | 233 | 1,318 | 400,378 | 401,696 | - |
| HELOC | 565 | 1,396 | 269 | 2,230 | 101,007 | 103,237 | 41 |
| Other | - | 1 | - | 1 | 22,914 | 22,915 | - |
| **Total** | $ 10,176 | $ 6,134 | $ 33,082 | $ 49,392 | $ 3,993,561 | $ 4,042,953 | $ 1,196 |

The table presents all nonaccrual loans as of June 30, 2024 September 30, 2024, and December 31, 2023:

| **Nonaccrual loan detail** | **June 30, 2024** | **With no ACL** | **December 31, 2023** | **With no ACL** | **September 30, 2024** | **With no ACL** | **December 31** |
|---|---|---|---|---|---|---|---|
| Commercial | $ 2,654 | $ 1,427 | $ 870 | $ 870 | $ 14,820 | $ 1,012 | $ |
| Leases | 284 | 284 | 639 | 318 | 746 | 746 | |
| Commercial real estate – investor | 9,954 | 2,481 | 16,572 | 8,926 | 8,531 | 1,645 | 1 |
| Commercial real estate – owner occupied | 17,256 | 17,256 | 34,946 | 8,429 | 17,032 | 17,032 | 3 |
| Construction | 5,740 | 5,740 | 7,162 | 7,162 | 5,765 | - | |
| Residential real estate – investor | 1,280 | 1,280 | 1,331 | 1,331 | 1,180 | 1,180 | |
| Residential real estate – owner occupied | 2,599 | 2,599 | 3,078 | 3,078 | 2,410 | 1,777 | |
| Multifamily | 1,395 | 1,395 | 1,775 | 1,775 | 1,196 | 1,196 | |
| HELOC | 795 | 795 | 1,210 | 1,210 | 491 | 491 | |
| Other | - | - | - | - | - | - | |
| **Total** | $ 41,957 | $ 33,257 | $ 67,583 | $ 33,099 | $ 52,171 | $ 25,079 | $ 6 |

The Company recognized $2,000 $395,000 and $36,000 $398,000 of interest on nonaccrual loans during the three months and six nine months ended June 30, 2024 September 30, 2024, respectively.



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**Credit Quality Indicators**

The Company categorizes loans into credit risk categories based on current financial information, overall debt service coverage, comparison to 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 Bank will sustain some loss if the deficiencies are not corrected. The substandard credit quality indicator includes both potential problem loans that are currently performing and nonperforming loans.

**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.



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**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

Credit quality indicators by loan segment and loan origination date at June 30, 2024 September 30, 2024, were as follows:

| | **2024** | **2023** | **2022** | **2021** | **2020** | **Prior** | **Revolving Loans** | **Revolving Loans Converted To Term Loans** | **Total** | **2024** | **2023** | **2022** | **2021** | **2020** | **Prior** | **Revolving Loans** | **Revolving Loans Converted To Term Loans** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Commercial** | | | | | | | | | | | | | | | | | | |
| Pass | $115,506 | $264,234 | $111,600 | $ 25,429 | $ 9,219 | $ 18,900 | $221,006 | $ | $ 765,894 | $200,043 | $230,428 | $ 81,173 | $ 23,250 | $ 5,838 | $ 7,264 | $218,666 | $ - | $ |
| Special Mention | - | 227 | 2,043 | 2,771 | 50 | - | 19,316 | - | 24,407 | 3,164 | 1,942 | 792 | 204 | - | - | 6,861 | - | |
| Substandard | - | 20 | 6,227 | 144 | - | - | 12,751 | - | 19,142 | - | 16 | 5,001 | 2,188 | - | - | 27,838 | - | |
| **Total commercial** | **115,506** | **264,481** | **119,870** | **28,344** | **9,269** | **18,900** | **253,073** | **-** | **809,443** | **203,207** | **232,386** | **86,966** | **25,642** | **5,838** | **7,264** | **253,365** | **-** | |
| **Leases** | | | | | | | | | | | | | | | | | | |
| Pass | 131,338 | 186,396 | $ 87,390 | 31,893 | 10,335 | 3,290 | - | - | 450,642 | 167,380 | 170,456 | $ 78,032 | 28,810 | 8,327 | 3,092 | - | - | |
| Special Mention | - | 300 | 775 | 947 | - | 9 | - | - | 2,031 | - | 670 | 618 | 181 | - | 5 | - | - | |
| Substandard | - | - | 284 | - | - | - | - | - | 284 | - | 306 | 261 | 179 | - | - | - | - | |
| **Total leases** | **131,338** | **186,696** | **88,449** | **32,840** | **10,335** | **3,299** | **-** | **-** | **452,957** | **167,380** | **171,432** | **78,911** | **29,170** | **8,327** | **3,097** | **-** | **-** | |
| **Commercial real estate – investor** | | | | | | | | | | | | | | | | | | |
| Pass | 55,037 | 190,938 | 334,504 | 188,015 | 93,138 | 104,176 | 7,398 | - | 973,206 | 162,086 | 185,368 | 314,843 | 183,750 | 91,782 | 75,277 | 6,140 | - | |
| Special Mention | - | - | - | 4,200 | - | - | - | - | 4,200 | - | - | - | 4,162 | - | - | - | - | |
| Substandard | - | 1,645 | - | 837 | 5,272 | 16,936 | 12,249 | - | 36,939 | - | 1,645 | - | - | - | 20,007 | - | - | |
| **Total commercial real estate – investor** | **55,037** | **192,583** | **334,504** | **193,052** | **98,410** | **121,112** | **19,647** | **-** | **1,014,345** | **162,086** | **187,013** | **314,843** | **187,912** | **91,782** | **95,284** | **6,140** | **-** | |
| **Commercial real estate – owner occupied** | | | | | | | | | | | | | | | | | | |
| Pass | 17,675 | 131,499 | 150,692 | 159,537 | 86,192 | 113,781 | 14,700 | - | 674,076 | 39,847 | 124,241 | 148,449 | 137,974 | 81,262 | 106,093 | 14,317 | - | |
| Special Mention | - | - | 18,605 | 2,844 | - | 2,026 | - | - | 23,475 | - | 1,217 | 8,359 | 8,972 | 3,695 | 1,901 | 118 | - | |
| Substandard | - | - | 13,560 | 4,835 | 12,925 | 17,067 | - | - | 48,387 | 211 | - | 1,168 | 10,670 | 13,258 | 16,513 | - | - | |

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total commercial real estate – owner occupied** | **17,675** | **131,499** | **182,857** | **167,216** | **99,117** | **132,874** | **14,700** | **-** | **745,938** | **40,058** | **125,458** | **157,976** | **157,616** | **98,215** | **124,507** | **14,435** | **-** |
| **Construction** | | | | | | | | | | | | | | | | | |
| Pass | 15,841 | 44,518 | 90,851 | 26,377 | 91 | 1,614 | 254 | - | 179,546 | 30,840 | 41,991 | 77,314 | 27,538 | 87 | 1,527 | - | - |
| Special Mention | - | - | 348 | - | - | - | - | - | 348 | - | - | 21,396 | - | - | - | - | - |
| Substandard | - | - | 5,740 | - | - | - | - | - | 5,740 | - | - | 5,765 | - | - | - | - | - |
| **Total construction** | **15,841** | **44,518** | **96,939** | **26,377** | **91** | **1,614** | **254** | **-** | **185,634** | **30,840** | **41,991** | **104,475** | **27,538** | **87** | **1,527** | **-** | **-** |
| **Residential real estate – investor** | | | | | | | | | | | | | | | | | |
| Pass | 1,321 | 3,908 | 14,032 | 7,851 | 6,062 | 13,199 | 2,089 | - | 48,462 | 4,047 | 3,871 | 13,914 | 7,764 | 5,767 | 11,596 | 1,650 | - |
| Special Mention | - | - | - | 566 | - | - | - | - | 566 | - | - | - | 543 | - | - | - | - |
| Substandard | - | - | 378 | 63 | - | 902 | - | - | 1,343 | - | - | 383 | - | - | 797 | - | - |
| **Total residential real estate – investor** | **1,321** | **3,908** | **14,410** | **8,480** | **6,062** | **14,101** | **2,089** | **-** | **50,371** | **4,047** | **3,871** | **14,297** | **8,307** | **5,767** | **12,393** | **1,650** | **-** |
| **Residential real estate – owner occupied** | | | | | | | | | | | | | | | | | |
| Pass | 9,551 | 31,099 | 36,751 | 38,750 | 23,967 | 75,320 | 802 | - | 216,240 | 8,235 | 30,383 | 36,381 | 33,720 | 23,492 | 72,642 | 762 | - |
| Special Mention | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | 101 | 2,633 | - | - | 2,734 | - | - | - | 156 | 101 | 2,355 | - | - |
| **Total residential real estate – owner occupied** | **9,551** | **31,099** | **36,751** | **38,750** | **24,068** | **77,953** | **802** | **-** | **218,974** | **8,235** | **30,383** | **36,381** | **33,876** | **23,593** | **74,997** | **762** | **-** |
| **Multifamily** | | | | | | | | | | | | | | | | | |
| Pass | 16,590 | 76,747 | 70,903 | 115,700 | 39,835 | 51,594 | 574 | - | 371,943 | 31,468 | 68,022 | 70,488 | 105,789 | 39,258 | 46,497 | 606 | - |
| Special Mention | - | - | - | 9,990 | - | - | - | - | 9,990 | - | - | - | 9,997 | - | - | - | - |
| Substandard | - | - | 1,135 | 3,337 | 514 | 1,824 | - | - | 6,810 | 1,204 | - | 990 | 869 | 206 | - | - | - |
| **Total multifamily** | **16,590** | **76,747** | **72,038** | **129,027** | **40,349** | **53,418** | **574** | **-** | **388,743** | **32,672** | **68,022** | **71,478** | **116,655** | **39,464** | **46,497** | **606** | **-** |
| **HELOC** | | | | | | | | | | | | | | | | | |
| Pass | 1,471 | 2,629 | 2,421 | 430 | 1,469 | 4,167 | 85,425 | - | 98,012 | 2,235 | 2,581 | 2,236 | 409 | 1,417 | 3,858 | 89,139 | - |
| Special Mention | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | 40 | 287 | 698 | - | 1,025 | - | - | - | - | 40 | 219 | 477 | - |
| **Total HELOC** | **1,471** | **2,629** | **2,421** | **430** | **1,509** | **4,454** | **86,123** | **-** | **99,037** | **2,235** | **2,581** | **2,236** | **409** | **1,457** | **4,077** | **89,616** | **-** |
| **Other** | | | | | | | | | | | | | | | | | |
| Pass | 2,800 | 1,953 | 1,401 | 884 | 96 | 129 | 3,889 | - | 11,152 | 2,714 | 1,058 | 1,262 | 707 | 86 | 47 | 5,872 | - |
| Special Mention | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | 1 | - | 1 | - | - | - | - | - | - | - | - |
| **Total other** | **2,800** | **1,953** | **1,401** | **884** | **96** | **129** | **3,890** | **-** | **11,153** | **2,714** | **1,058** | **1,262** | **707** | **86** | **47** | **5,872** | **-** |

| | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total loans** | | | | | | | | | | | | | | | | | | |
| Pass | 367,130 | 933,921 | 900,545 | 594,866 | 270,404 | 386,170 | 336,137 | - | 3,789,173 | 648,895 | 858,399 | 824,092 | 549,711 | 257,316 | 327,893 | 337,152 | - | |
| Special Mention | - | 527 | 21,771 | 21,318 | 50 | 2,035 | 19,316 | - | 65,017 | 3,164 | 3,829 | 31,165 | 24,059 | 3,695 | 1,906 | 6,979 | - | |
| Substandard | - | 1,665 | 27,324 | 9,216 | 18,852 | 39,649 | 25,699 | - | 122,405 | 1,415 | 1,967 | 13,568 | 14,062 | 13,605 | 39,891 | 28,315 | - | |
| **Total loans** | **$ 367,130** | **$ 936,113** | **$ 949,640** | **$ 625,400** | **$ 289,306** | **$ 427,854** | **$ 381,152** | **$ -** | **$ 3,976,595** | **$ 653,474** | **$ 864,195** | **$ 868,825** | **$ 587,832** | **$ 274,616** | **$ 369,690** | **$ 372,446** | **$ -** | **$** |



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**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

Credit quality indicators by loan segment and loan origination date at December 31, 2023, were as follows:

| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | Revolving Loans Converted To Term Loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Commercial** | | | | | | | | | |
| Pass | $ 318,569 | $ 136,668 | $ 35,901 | $ 11,983 | $ 18,390 | $ 3,426 | $ 298,931 | $ 1,408 | $ 825,276 |
| Special Mention | - | 2,737 | 707 | 171 | - | - | 4,392 | - | 8,007 |
| Substandard | - | 2,099 | 146 | - | 199 | - | 5,970 | - | 8,414 |
| **Total commercial** | **318,569** | **141,504** | **36,754** | **12,154** | **18,589** | **3,426** | **309,293** | **1,408** | **841,697** |
| **Leases** | | | | | | | | | |
| Pass | 219,163 | 113,074 | $ 42,275 | 14,663 | 6,975 | 1,255 | - | - | 397,405 |
| Special Mention | - | - | - | - | - | - | - | - | - |
| Substandard | - | 407 | 203 | - | 208 | - | - | - | 818 |
| **Total leases** | **219,163** | **113,481** | **42,478** | **14,663** | **7,183** | **1,255** | **-** | **-** | **398,223** |
| **Commercial real estate – investor** | | | | | | | | | |
| Pass | 159,654 | 367,512 | 218,084 | 108,384 | 54,322 | 63,281 | 8,122 | - | 979,359 |
| Special Mention | - | - | 11,267 | - | - | - | - | - | 11,267 |
| Substandard | - | - | 838 | 5,327 | 15,658 | 9,648 | 12,327 | - | 43,798 |
| **Total commercial real estate – investor** | **159,654** | **367,512** | **230,189** | **113,711** | **69,980** | **72,929** | **20,449** | **-** | **1,034,424** |
| **Commercial real estate – owner occupied** | | | | | | | | | |
| Pass | 124,059 | 134,383 | 177,553 | 103,109 | 42,839 | 91,062 | 33,243 | - | 706,248 |
| Special Mention | 1,650 | 17,415 | 9,585 | 3,128 | 218 | 3,681 | - | - | 35,677 |
| Substandard | - | 14,630 | 18,817 | 4,571 | 14,809 | 1,786 | - | - | 54,613 |
| **Total commercial real estate – owner occupied** | **125,709** | **166,428** | **205,955** | **110,808** | **57,866** | **96,529** | **33,243** | **-** | **796,538** |
| **Construction** | | | | | | | | | |

*(Dollar amounts in thousands, except per share data, unaudited)*

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Pass | 42,808 | 66,513 | 32,942 | 100 | 1,593 | 1,083 | 3,186 | - | 148,225 |
| Special Mention | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | 9,993 | - | 7,162 | - | - | 17,155 |
| **Total construction** | **42,808** | **66,513** | **32,942** | **10,093** | **1,593** | **8,245** | **3,186** | **-** | **165,380** |
| **Residential real estate – investor** | | | | | | | | | |
| Pass | 5,062 | 14,434 | 9,027 | 6,227 | 6,508 | 8,469 | 1,471 | - | 51,198 |
| Special Mention | - | - | 66 | - | - | - | - | - | 66 |
| Substandard | - | 390 | - | - | 408 | 533 | - | - | 1,331 |
| **Total residential real estate – investor** | **5,062** | **14,824** | **9,093** | **6,227** | **6,916** | **9,002** | **1,471** | **-** | **52,595** |
| **Residential real estate – owner occupied** | | | | | | | | | |
| Pass | 32,574 | 41,528 | 40,335 | 25,322 | 14,233 | 68,277 | 763 | - | 223,032 |
| Special Mention | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | 191 | 685 | 2,340 | - | - | 3,216 |
| **Total residential real estate – owner occupied** | **32,574** | **41,528** | **40,335** | **25,513** | **14,918** | **70,617** | **763** | **-** | **226,248** |
| **Multifamily** | | | | | | | | | |
| Pass | 55,310 | 79,060 | 123,834 | 72,539 | 12,231 | 40,825 | 562 | - | 384,361 |
| Special Mention | - | 168 | 13,425 | 322 | 1,645 | - | - | - | 15,560 |
| Substandard | - | 1,009 | - | - | - | 766 | - | - | 1,775 |
| **Total multifamily** | **55,310** | **80,237** | **137,259** | **72,861** | **13,876** | **41,591** | **562** | **-** | **401,696** |
| **HELOC** | | | | | | | | | |
| Pass | 2,735 | 2,679 | 490 | 1,757 | 1,756 | 2,995 | 89,161 | - | 101,573 |
| Special Mention | - | - | - | - | - | - | - | - | - |
| Substandard | - | 25 | 1 | 41 | 24 | 184 | 1,389 | - | 1,664 |
| **Total HELOC** | **2,735** | **2,704** | **491** | **1,798** | **1,780** | **3,179** | **90,550** | **-** | **103,237** |
| **Other** | | | | | | | | | |
| Pass | 4,060 | 2,278 | 1,569 | 153 | 85 | 73 | 14,697 | - | 22,915 |
| Special Mention | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | - | - | - |
| **Total other** | **4,060** | **2,278** | **1,569** | **153** | **85** | **73** | **14,697** | **-** | **22,915** |
| **Total loans** | | | | | | | | | |
| Pass | 963,994 | 958,129 | 682,010 | 344,237 | 158,932 | 280,746 | 450,136 | 1,408 | 3,839,592 |
| Special Mention | 1,650 | 20,320 | 35,050 | 3,621 | 1,863 | 3,681 | 4,392 | - | 70,577 |
| Substandard | - | 18,560 | 20,005 | 20,123 | 31,991 | 22,419 | 19,686 | - | 132,784 |
| **Total loans** | **$ 965,644** | **$ 997,009** | **$ 737,065** | **$ 367,981** | **$ 192,786** | **$ 306,846** | **$ 474,214** | **$ 1,408** | **$ 4,042,953** |



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The gross charge-offs activity by loan type and year of origination for the six nine months ended June 30, 2024 September 30, 2024 and June 30, 2023, 2023, were as follows:

| Six months ended June 30, 2024 | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving Loans | Revolving Loans Converted To Term Loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| Commercial | $ - | - | - | - | - | 18 | $ - | $ - | $ 18 |
| Leases | - | - | 28 | 53 | - | - | - | - | 81 |
| Commercial real estate – investor | - | - | 4,128 | 452 | 16 | - | - | - | 4,596 |
| Commercial real estate – owner occupied | - | | - | 5,135 | - | 33 | - | - | 5,168 |
| Other | - | - | - | - | - | 136 | - | - | 136 |
| **Total** | $ - | $ - | $ 4,156 | $ 5,640 | $ 16 | $ 187 | - | - | $ 9,999 |

| Nine months ended September 30, 2024 | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving Loans | Revolving Loans Converted To Term Loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| Commercial | $ 31 | $ - | $ - | $ - | $ - | $ 20 | $ - | $ - | $ 51 |
| Leases | - | - | 96 | 53 | - | - | - | - | 149 |
| Commercial real estate – investor | - | - | 4,128 | 452 | 16 | - | - | - | 4,596 |
| Commercial real estate – owner occupied | - | | - | 5,135 | - | 19 | - | - | 5,154 |
| Other | - | - | - | - | - | 214 | - | - | 214 |
| **Total** | $ 31 | $ - | $4,224 | $5,640 | $ 16 | $253 | $ - | $ - | $10,164 |

| Six months ended June 30, 2023 | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | Revolving Loans Converted To Term Loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| Commercial | $ - | $ - | $ - | $ 364 | $ - | $ 43 | $ - | $ - | $ 407 |
| Leases | - | 870 | - | - | 12 | - | - | - | 882 |
| Commercial real estate – investor | - | - | 71 | - | - | - | - | - | 71 |
| Commercial real estate – owner occupied | - | 22 | 179 | - | - | - | - | - | 201 |
| Other | - | 3 | 24 | 8 | - | 159 | - | - | 194 |
| **Total** | $ - | $ 895 | $ 274 | $ 372 | $ 12 | $ 202 | - | - | $ 1,755 |

| Nine months ended September 30, 2023 | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | Revolving Loans Converted To Term Loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| Commercial | $ - | $ - | $ 17 | $ 364 | $ - | $ 46 | $ - | $ - | $ 427 |
| Leases | - | 870 | - | - | 12 | - | - | - | 882 |
| Commercial real estate – investor | - | 4,121 | 71 | 2,653 | - | - | - | - | 6,845 |
| Commercial real estate – owner occupied | - | 22 | 178 | 4 | - | 32 | - | - | 236 |
| Other | - | 3 | 26 | 7 | - | 265 | - | - | 301 |
| **Total** | $ - | $5,016 | $292 | $3,028 | $ 12 | $343 | $ - | $ - | $8,691 |

The Company had $431,000 $630,000 and $170,000 in residential real estate loans in the process of foreclosure as of June 30, 2024 September 30, 2024, and December 31, 2023, respectively.

There were six thirteen loans modified during the six-month nine-month period ending June 30, 2024 September 30, 2024, totaling $16.4 million $41.2 million in aggregate, which were experiencing financial difficulty. There were eleven fifteen loans modified during the six-month nine-month period ending June 30, 2023 September 30, 2023, totaling $32.7 million $43.0 million in aggregate, which were experiencing financial difficulty. There were no modified loans experiencing financial difficulty in payment default as of June 30, 2024 September 30, 2024, and June 30, 2023 September 30, 2023.

The following tables present the amortized costs basis of loans at June 30, 2024 September 30, 2024, and June 30, 2023 September 30, 2023, that were both experiencing financial difficulty and modified during the period three-months and nine-months ended June 30, 2024 September 30, 2024, and June 30, 2023 September 30, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

*(Dollar amounts in thousands, except per share data, unaudited)*

| Three months ended September 30, 2024 | Term Extension | Combination - Term Extension, Interest Rate Modification, Payment Modification, and Principal Reduction | Combination - Term Extension and Interest Rate Modification | Combination - Term Extension and Payment Modification 1 | Total Loans Modified | % of Total Loan Segment Modified to Total Loan Segment |
|---|---|---|---|---|---|---|
| Commercial | $ - | $ 3,794 | $ - | $ - | $ 3,794 | 0.5% |
| Commercial real estate – investor | 12,549 | - | - | 6,886 | 19,435 | 1.9% |
| Commercial real estate – owner occupied | 12,571 | - | - | - | 12,571 | 1.8% |
| Residential real estate – owner occupied | - | - | - | - | - | 0.0% |
| Multifamily | - | 1,204 | - | - | 1,204 | 0.3% |
| HELOC | - | - | - | - | - | 0.0% |
| Total | $ 25,120 | $ 4,998 | $ - | $ 6,886 | $ 37,004 | 0.9% |

1 *Payment modifications are either contractual delays in payment or a modificationof the payment amount.*

| June 30, 2024 | Term Extension | Combination - Term Extension, Interest Rate Modification, Payment Modification, and Principal Reduction | Combination - Term Extension and Interest Rate Modification | Combination - Term Extension and Payment Modification (1) | Total Loans Modified | % of Total Loan Segment Modified to Total Loan Segment |
|---|---|---|---|---|---|---|
| Commercial | $ 247 | $ - | $ - | $ - | $ 247 | 0.0% |
| Commercial real estate – owner occupied | 12,156 | 491 | 3,269 | 212 | 16,128 | 2.2% |
| Total | $ 12,403 | $ 491 | $ 3,269 | $ 212 | $ 16,375 | 0.4% |



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| Nine months ended September 30, 2024 | Term Extension | Combination - Term Extension, Interest Rate Modification, Payment Modification, and Principal Reduction | Combination - Term Extension and Interest Rate Modification | Combination - Term Extension and Payment Modification 1 | Total Loans Modified | % of Total Loan Segment Modified to Total Loan Segment |
|---|---|---|---|---|---|---|
| Commercial | $ 247 | $ 3,794 | $ - | $ - | $ 4,041 | 0.5% |
| Commercial real estate – investor | 12,549 | - | - | 6,886 | 19,435 | 1.9% |
| Commercial real estate – owner occupied | 12,571 | - | 3,258 | 663 | 16,492 | 2.3% |
| Residential real estate – investor | - | - | - | - | - | 0.0% |

*(Dollar amounts in thousands, except per share data, unaudited)*

| | | | | | | |
|---|---|---|---|---|---|---|
| Multifamily | - | 1,204 | - | - | 1,204 | 0.3% |
| HELOC | - | - | - | - | - | 0.0% |
| **Total** | $ 25,367 | $ 4,998 | $ 3,258 | $ 7,549 | $ 41,172 | 1.0% |

*1 Payment modifications are either contractual delays in payment or a modificationof the payment amount.*

| **Three months ended September 30, 2023** | **Term Extension** | **Combination - Term Extension, Interest Rate Modification, Payment Modification, and Principal Reduction** | **Combination - Term Extension and Interest Rate Modification** | **Combination - Term Extension and Payment Modification [1]** | **Total Loans Modified** | **% of Total Loan Segment Modified to Total Loan Segment** |
|---|---|---|---|---|---|---|
| Commercial | $ 864 | $ - | $ - | $ - | $ 864 | 0.1% |
| Commercial real estate – investor | - | - | - | 8,823 | 8,823 | 0.8% |
| Commercial real estate – owner occupied | 16,218 | - | - | - | 16,218 | 2.0% |
| Residential real estate – owner occupied | 437 | - | - | - | 437 | 0.2% |
| Multifamily | 254 | - | - | - | 254 | 0.1% |
| HELOC | - | - | - | - | - | 0.0% |
| **Total** | $ 17,773 | $ - | $ - | $ 8,823 | $ 26,596 | 0.7% |

*1 Payment modifications are either contractual delays in payment or a modificationof the payment amount.*

| **Nine months ended September 30, 2023** | **Term Extension** | **Combination - Term Extension, Interest Rate Modification, Payment Modification, and Principal Reduction** | **Combination - Term Extension and Interest Rate Modification** | **Combination - Term Extension and Payment Modification [1]** | **Total Loans Modified** | **% of Total Loan Segment Modified to Total Loan Segment** |
|---|---|---|---|---|---|---|
| Commercial | $ 1,713 | $ - | $ 979 | $ - | $ 2,692 | 0.3% |
| Commercial real estate – investor | 12,755 | - | - | 10,608 | 23,363 | 2.2% |
| Commercial real estate – owner occupied | 16,218 | - | - | - | 16,218 | 2.0% |
| Residential real estate – owner occupied | 437 | - | - | - | 437 | 0.0% |
| Multifamily | 254 | - | - | - | 254 | 0.1% |
| HELOC | 39 | - | - | - | 39 | 0.0% |
| **Total** | $ 31,416 | $ - | $ 979 | $ 10,608 | $ 43,003 | 1.1% |

*1 Payment modifications are either contractual delays in payment or a modificationof the payment amount.*



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| **June 30, 2023** | **Term Extension** | **Combination - Term Extension and Interest Rate Modification** | **Combination - Term Extension and Payment Modification [1]** | **Total Loans Modified** | **% of Total Loan Segment Modified to Total Loan Segment** |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Commercial | $ 859 | $ 979 | $ - | $ 1,838 | 0.2% |
| Commercial real estate – investor | 12,664 | - | 1,774 | 14,438 | 1.3% |
| Commercial real estate – owner occupied | 16,318 | - | - | 16,318 | 2.0% |
| HELOC | 60 | - | - | 60 | 0.1% |
| **Total** | $ 29,901 | $ 979 | $ 1,774 | $ 32,654 | 8.0% |

*1 Payment modifications are either contractual delays in payment or a modificationof the payment amount.*

The Company closely monitors the performance of loan modifications to borrowers experiencing financial difficulty. The following tables present the performance of loans that have been modified in the last twelve months as of June 30, 2024 September 30, 2024, and June 30, 2023 September 30, 2023.

| **June 30, 2024** | **30-59 days past due** | **60-89 Days Past Due** | **90 Days or Greater Past Due** | **Total Past Due** | **Current** | **Total Loans Modified** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **September 30, 2024** | | | | | | | **30-59 days past due** | **60-89 Days Past Due** | **90 Days or Greater Past Due** | **Total Past Due** | **Current** | **Total Loans Modified** |
| Commercial | $ - | $ - | $ - | $ - | $ 247 | $ 247 | $ - | $ - | $ - | $ - | $ 5,536 | $ 5,536 |
| Commercial real estate – investor | | | | | | | - | - | - | - | 19,435 | 19,435 |
| Commercial real estate – owner occupied | - | - | - | - | 16,128 | 16,128 | - | 12,505 | - | 12,505 | 3,987 | 16,492 |
| Residential real estate – owner occupied | | | | | | | - | - | - | - | 111 | 111 |
| Multifamily | | | | | | | - | - | - | - | 1,204 | 1,204 |
| HELOC | | | | | | | - | - | - | - | 87 | 87 |
| **Total** | $ - | $ - | $ - | $ - | $ 16,375 | $ 16,375 | $ - | $12,505 | $ - | $12,505 | $30,360 | $ 42,865 |

| **June 30, 2023** | **30-59 days past due** | **60-89 Days Past Due** | **90 Days or Greater Past Due** | **Total Past Due** | **Current** | **Total Loans Modified** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **September 30, 2023** | | | | | | | **30-59 days past due** | **60-89 Days Past Due** | **90 Days or Greater Past Due** | **Total Past Due** | **Current** | **Total Loans Modified** |
| Commercial | $ - | $ - | $ - | $ - | $ 1,838 | $ 1,838 | $ - | $ - | $ 979 | $979 | $ 1,713 | $ 2,692 |
| Commercial real estate – investor | - | - | 1,774 | 1,774 | 12,664 | 14,438 | - | - | - | - | 23,363 | 23,363 |
| Commercial real estate – owner occupied | - | - | - | - | 16,318 | 16,318 | - | - | - | - | 16,218 | 16,218 |
| Residential real estate – owner occupied | | | | | | | - | - | - | - | 437 | 437 |
| Multifamily | | | | | | | - | - | - | - | 254 | 254 |
| HELOC | - | - | - | - | 60 | 60 | - | - | - | - | 39 | 39 |
| **Total** | $ - | $ - | $ 1,774 | $ 1,774 | $ 30,880 | $ 32,654 | $ - | $ - | $ 979 | $979 | $42,024 | $ 43,003 |

The following tables summarize the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the period three-months and nine-months ended June 30, 2024 September 30, 2024, and June 30, 2023 September 30, 2023. The Company had two four loans that had a payment modification as of June 30, 2024 September 30, 2024. One had an increase of monthly payment until maturity, and the other one had a reduction of monthly payment until maturity; maturity, and two with interest-only payments during forbearance; the financial impact of these modifications is immaterial. As of June 30, 2023 September 30, 2023, there was one loan were two loans that had a payment modification, one to a single payment at maturity and the other to interest-only until maturity.

| June 30, 2024 | Weighted-Average Term Extension (In Months) | Weighted-Average Interest Rate Change | Weighted-Average Delay of Payment (In Months) | | | |
|---|---|---|---|---|---|---|
| **Three months ended September 30, 2024** | | | | **Weighted-Average Term Extension (In Months)** | **Weighted-Average Interest Rate Change** | **Weighted-Average Delay of Payment (In Months)** |
| Commercial | 4.00 | - % | - | 7.00 | 0.50 % | - |
| Commercial real estate – investor | | | | 6.00 | - | - |
| Commercial real estate – owner occupied | 5.12 | 0.33 | - | 12.46 | - | - |
| Residential real estate – owner occupied | | | | - | - | - |
| Multifamily | | | | 60.00 | 2.75 | - |
| HELOC | | | | - | - | - |
| **Total** | 5.10 | 0.33 % | - | 10.05 | 1.04 % | - |

| June 30, 2023 | Weighted-Average Term Extension (In Months) | Weighted-Average Interest Rate Change | Weighted-Average Delay of Payment (In Months) | | | |
|---|---|---|---|---|---|---|
| **Nine months ended September 30, 2024** | | | | **Weighted-Average Term Extension (In Months)** | **Weighted-Average Interest Rate Change** | **Weighted-Average Delay of Payment (In Months)** |
| Commercial | 4.90 | 5.00 % | - | 7.06 | 0.50 % | - |
| Commercial real estate – investor | 11.50 | - | 7.00 | 6.00 | - | - |
| Commercial real estate – owner occupied | 12.00 | - | - | 12.71 | 0.15 | - |
| Residential real estate – owner occupied | | | | - | - | - |
| Multifamily | | | | 60.00 | 2.75 | - |
| HELOC | 24.00 | - | - | - | - | - |
| **Total** | 11.40 | 5.00 % | 7.00 | 10.37 | 0.69 % | - |

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**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

| Three months ended September 30, 2023 | Weighted-Average Term Extension (In Months) | Weighted-Average Interest Rate Change | Weighted-Average Delay of Payment (In Months) |
|---|---|---|---|
| Commercial | 10.57 | - % | - |
| Commercial real estate – investor | 7.00 | - | - |
| Commercial real estate – owner occupied | 14.00 | - | - |
| Residential real estate – owner occupied | 2.00 | - | - |
| Multifamily | 16.00 | - | - |
| HELOC | - | - | - |

*(Dollar amounts in thousands, except per share data, unaudited)*

| | | | |
|---|---|---|---|
| **Total** | 11.39 | - % | - |

| **Nine months ended September 30, 2023** | **Weighted-Average Term Extension (In Months)** | **Weighted-Average Interest Rate Change** | **Weighted-Average Delay of Payment (In Months)** |
|---|---|---|---|
| Commercial | 6.74 | 5.00 % | - |
| Commercial real estate – investor | 9.81 | - | 7.17 |
| Commercial real estate – owner occupied | 14.00 | - | - |
| Residential real estate – owner occupied | 2.00 | - | - |
| Multifamily | 16.00 | - | - |
| HELOC | 24.00 | - | - |
| **Total** | 11.17 | 5.00 % | 7.17 |

**Note 4 – Other Real Estate Owned**

Details related to the activity in the other real estate owned ("OREO") portfolio, net of valuation reserve, for the periods presented are itemized in the following table:

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|---|---|---|---|
| **Other real estate owned** | **2024** | **2023** | **2024** | **2023** | **2024** | **2023** | **2024** | **2023** |
| Balance at beginning of period | $ 5,123 | $ 1,255 | $ 5,123 | $ 1,561 | $6,920 | $761 | $ 5,123 | $ 1,561 |
| Property additions, net of acquisition adjustments | 3,388 | 185 | 3,388 | 476 | 1,282 | 210 | 4,670 | 686 |
| Less: | | | | | | | | |
| Proceeds from property disposals, net of participation purchase and gains/losses | 1,591 | 679 | 1,591 | 1,007 | - | 564 | 1,591 | 1,571 |
| Period valuation write-down | - | - | - | 269 | - | - | - | 269 |
| Balance at end of period | $ 6,920 | $ 761 | $ 6,920 | $ 761 | $8,202 | $407 | $ 8,202 | $ 407 |

Activity in the valuation allowance was as follows:

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** | **2024** | **2023** | **2024** | **2023** |
| Balance at beginning of period | $ 118 | $ 853 | $ 118 | $ 856 | $ 118 | $ 114 | $ 118 | $ 856 |
| Provision for unrealized losses | - | - | - | 269 | - | - | - | 269 |
| Reductions taken on sales | - | (739) | - | (1,011) | - | 4 | - | (1,007) |
| Balance at end of period | $ 118 | $ 114 | $ 118 | $ 114 | $ 118 | $ 118 | $ 118 | $ 118 |



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*(Dollar amounts in thousands, except per share data, unaudited)*

Expenses related to OREO, net of lease revenue, includes:

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| Gain on sales, net | $ (259) | $ (186) | $ (259) | $ (158) | $ - | $ (71) | $ (259) | $ (229) |
| Provision for unrealized losses | - | - | - | 269 | - | - | - | 269 |
| Operating expenses | 239 | 92 | 352 | 101 | 321 | 44 | 673 | 145 |
| Less: | | | | | | | | |
| Lease revenue | 67 | 4 | 134 | 4 | 79 | - | 213 | 4 |
| Net OREO expense | $ (87) | $ (98) | $ (41) | $ 208 | $ 242 | $ (27) | $ 201 | $ 181 |

**Note 5 – Deposits**

Major classifications of deposits were as follows:

| | June 30, 2024 | December 31, 2023 | September 30, 2024 | December 31, 2023 |
|---|---|---|---|---|
| Noninterest bearing demand | $ 1,728,487 | $ 1,834,891 | $ 1,669,000 | $ 1,834,891 |
| Savings | 908,826 | 971,334 | 885,933 | 971,334 |
| NOW accounts | 557,469 | 565,375 | 548,923 | 565,375 |
| Money market accounts | 695,131 | 671,240 | 690,840 | 671,240 |
| Certificates of deposit of less than $100,000 | 304,195 | 266,035 | 317,312 | 266,035 |
| Certificates of deposit of $100,000 through $250,000 | 223,137 | 180,289 | 239,775 | 180,289 |
| Certificates of deposit of more than $250,000 | 104,483 | 81,582 | 113,641 | 81,582 |
| **Total deposits** | $ 4,521,728 | $ 4,570,746 | $ 4,465,424 | $ 4,570,746 |



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**Note 6 – Borrowings**

The following table is a summary of borrowings as of June 30, 2024 September 30, 2024, and December 31, 2023. Junior subordinated debentures are discussed in more detail in Note 7.

| | June 30, 2024 | December 31, 2023 | September 30, 2024 | December 31, 2023 |
|---|---|---|---|---|
| Securities sold under repurchase agreements | $ 46,542 | $ 26,470 | $ 53,866 | $ 26,470 |
| Other short-term borrowings | 330,000 | 405,000 | 335,000 | 405,000 |
| Junior subordinated debentures[1] | 25,773 | 25,773 | 25,773 | 25,773 |
| Subordinated debentures | 59,425 | 59,382 | 59,446 | 59,382 |
| **Total borrowings** | $ 461,740 | $ 516,625 | $ 474,085 | $ 516,625 |

[1] *See Note 7: Junior Subordinated Debentures.*

The Company enters into deposit sweep transactions where the transaction amounts are secured by pledged securities. These transactions consistently mature overnight from the transaction date and are governed by sweep repurchase agreements. All sweep repurchase agreements are treated as financings secured by U.S. government agencies and collateralized mortgage-backed securities, and had a carrying amount of $46.5 $53.9 million at June 30, 2024 September 30, 2024, and $26.5 million at December 31, 2023. The fair value of the pledged collateral was $73.6 $75.0 million at June 30, 2024 September 30, 2024, and $45.7 million at December 31, 2023. At June 30, 2024 September 30, 2024, there were no customers with secured balances exceeding 10% of stockholders' equity.

The Company's borrowings at the FHLBC require the Bank to be a member and invest in the stock of the FHLBC. Total borrowings are generally limited to the lower of 35% of total assets or 60% of the book value of certain mortgage loans. As of June 30, 2024 September 30, 2024, the Bank had $330.0 million $335.0 million in short-term advances outstanding under the FHLBC, and $405.0 million in short-term advances as of December 31, 2023. FHLBC stock held at June 30, 2024 September 30, 2024, was valued at $17.1 $15.3 million, and any potential FHLBC advances were collateralized by loans and securities with a principal balance of $1.38 $1.40 billion, which carried a FHLBC-calculated combined collateral value of $933.9 $953.0 billion. The Company had excess collateral of $603.9 $653.0 million available to secure borrowings at June 30, 2024 September 30, 2024.



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In the second quarter of 2021, we issued $60.0 million in aggregate principal amount of our 3.50% Fixed-to-Floating Rate Subordinated Notes due April 15, 2031 (the "Notes"). The Company used the net proceeds from the offering for general corporate purposes. The Notes bear interest at a fixed annual rate of 3.50%, from and including the date of issuance to but excluding April 15, 2026, payable semi-annually in arrears. From and including April 15, 2026, to, but excluding the maturity date or early redemption date, the interest rate will reset quarterly to an interest rate per annum equal to three-month Term Secured Overnight Financing Rate ("SOFR") (as defined by the Note) plus 273 basis points, payable quarterly in arrears. As of June 30, 2024 September 30, 2024, and December 31, 2023, we had $59.4 million of subordinated debentures outstanding, net of deferred issuance cost.

The Company issued senior notes in December 2016 with a ten-year maturity, and terms included interest payable semiannually at 5.75% for five years. Beginning December 31, 2021, the senior debt began to pay interest at a floating rate, with interest payable quarterly at three month three-month LIBOR plus 385 basis points. The notes were redeemable, in whole or in part, at the option of the Company, beginning with the interest payment date on December 31, 2021, and on any floating rate interest payment date thereafter, at a redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest. On June 30, 2023, we redeemed all of the $45.0 million senior notes, at which point the interest rate was 9.39%. Upon redemption, the related deferred debt issuance costs of $362,000 was also recorded as interest expense, resulting in an effective cost of this debt issuance of 12.85% for the second quarter of 2023.

On February 24, 2020, the Company originated a $20.0 million three-year term note with a correspondent bank. The term note was issued at one-month LIBOR plus 175 basis points, and required principal payments quarterly and interest payments monthly. This note was included within Notes payable and other borrowings on the Consolidated Balance Sheets, and the remaining $9.0 million balance of the note was paid off on February 24, 2023. The Company also has an undrawn line of credit of $30.0 million with a correspondent bank to be used for short-term funding needs; advances under this line can be outstanding up to 360 days from the date of issuance. This line of credit has not been utilized since early 2019.

**Note 7 – Junior Subordinated Debentures**

The Company issued $25.0 million of cumulative trust preferred securities through a private placement completed by an unconsolidated subsidiary, Old Second Capital Trust II, in April 2007. These trust preferred securities mature in 30 years, but subject to regulatory approval, can be called in whole or in part on a quarterly basis commencing June 15, 2017. The quarterly cash distributions on the securities were fixed at 6.77% through June 15, 2017, and now have a floating rate of 150 basis points over three-month SOFR. Upon conversion to a floating rate, a cash flow hedge was initiated which resulted in the total interest rate paid on the debt of 4.49% 4.17% and 4.37% 3.77% for the quarters ended June 30, 2024 September 30, 2024, and June 30, 2023 September 30, 2023, respectively. The Company issued a $25.8 million subordinated debenture to Old Second Capital Trust II in return for the aggregate net proceeds of this trust preferred offering. The interest rate and payment frequency on the debenture are equivalent to the cash distribution basis on the trust preferred securities.

The junior subordinated debentures issued by the Company are disclosed on the Consolidated Balance Sheets, and the related interest expense for each issuance is included in the Consolidated Statements of Income. As of June 30, 2024 September 30, 2024, and December 31, 2023, the remaining unamortized debt issuance costs related to the junior subordinated debentures were less than $1,000 and are included as a reduction to the balance of the junior subordinated debentures on the Consolidated Balance Sheets. The remaining deferred issuance costs on the junior subordinated debentures related to the issuance of Old Second Capital Trust II will be amortized to interest expense over the remainder of the 30-year term of the notes and are included in the Consolidated Statements of Income.

**Note 8 – Equity Compensation Plans**

Stock-based awards are outstanding under the Company's 2019 Equity Incentive Plan, as amended and restated (the "2019 Plan"). The 2019 Plan was originally approved at the May 2019 annual stockholders' meeting and authorized 600,000 shares, and at the May 2021 annual stockholders' meeting, the Company obtained stockholder approval to increase the number of shares of common stock authorized for issuance under the 2019 Plan by 1,200,000 shares, from 600,000 shares to 1,800,000 shares. Following the approval of the 2019 Plan, no further awards will be granted under any other prior plan.

The 2019 Plan authorizes the granting of qualified stock options, non-qualified stock options, restricted stock, restricted stock units, and stock appreciation rights ("SARs"). Awards may be granted to selected directors, officers, employees or eligible service providers under the 2019 Plan at the discretion of the Compensation Committee of the Company's Board of Directors. As of June 30, 2024 September 30, 2024, 718,193 shares remained available for issuance under the 2019 Plan. The Company has granted only restricted stock units under the 2019 Equity Plan.





Generally, restricted stock units granted under the 2019 Plan vest three years from the grant date, but the Compensation Committee of the Company's Board of Directors has discretionary authority to change the terms of particular awards including the vesting schedule.

Under the 2019 Plan, unless otherwise provided in an award agreement, upon the occurrence of a change in control, all equity awards then held by the participant will become fully exercisable immediately if, and all stock awards and cash incentive awards will become fully earned and vested immediately if, (i) the 2019 Plan is not an obligation of the successor entity following a change in control or (ii) the 2019 Plan is an obligation of the successor entity following a change in control and the participant incurs a termination of service without cause or for good reason following the change in control. Notwithstanding the immediately preceding sentence, if the vesting of an award is conditioned upon the achievement of performance measures, then such vesting will generally be subject to the following: if, at the time of the change in control, the performance measures are less than 50% attained (pro rata based upon the time of the period through the change in control), the award will become vested and exercisable on a fractional basis with the numerator being equal to the percentage of attainment and the denominator being 50%; and if, at the time of the change in control, the performance measures are at least 50% attained (pro rata based upon the time of the period through the change in control), the award will become fully earned and vested immediately upon the change in control.

*(Dollar amounts in thousands, except per share data, unaudited)*

Awards of restricted stock under the 2019 Plan generally entitle holders to voting and dividend rights upon grant and are subject to forfeiture until certain restrictions have lapsed including employment for a specific period. Awards of restricted stock units under the 2019 Plan are also subject to forfeiture until certain restrictions have lapsed including employment for a specific period, but do not entitle holders to voting rights until the restricted period ends and shares are transferred in connection with the units.



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There were 339,235 and 238,149 240,149 restricted stock units issued under the 2019 Plan during the six nine months ended June 30, 2024 September 30, 2024, and June 30, 2023 September 30, 2023, respectively. Compensation expense is recognized over the vesting period of the restricted stock units based on the market value of the award on the issue date. Total compensation cost that has been recorded for the 2019 Plan was $2.2 million $3.1 million for the six nine months ended June 30, 2024 September 30, 2024, and $1.8 million $2.7 million for the six nine months ended June 30, 2023 September 30, 2023.

A summary of changes in the Company's unvested restricted awards for the six nine months ended June 30, 2024 September 30, 2024, is as follows:

| | June 30, 2024 | | September 30, 2024 | |
|---|---|---|---|---|
| | **Restricted Stock Shares and Units** | **Weighted Average Grant Date Fair Value** | **Restricted Stock Shares and Units** | **Weighted Average Grant Date Fair Value** |
| Unvested at January 1 | 709,237 | $ 14.26 | 709,237 | $ 14.26 |
| Granted | 339,235 | 13.44 | 339,235 | 13.44 |
| Vested | (209,969) | 11.38 | (211,469) | 11.39 |
| Forfeited | (8,954) | 14.09 | (8,954) | 14.09 |
| Unvested at June 30 | 829,549 | $ 14.65 | | |
| Unvested at September 30 | | | 828,049 | $ 14.65 |

Total unrecognized compensation cost of restricted awards was $6.2 million $5.2 million as of June 30, 2024 September 30, 2024, which is expected to be recognized over a weighted-average period of 2.03 1.86 years.



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**Old Second Bancorp, Inc. and Subsidiaries**
**Notes to Consolidated Financial Statements**
*(Dollar amounts in thousands, except per share data, unaudited)*

**Note 9 – Earnings Per Share**

The earnings per share, both basic and diluted, are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Basic earnings per share: | | | | |
| Weighted-average common shares outstanding | 44,846,848 | 44,665,127 | 44,802,704 | 44,642,250 |
| Net income | $ 21,891 | $ 25,562 | $ 43,203 | $ 49,169 |
| Basic earnings per share | $ 0.48 | $ 0.57 | $ 0.96 | $ 1.10 |
| Diluted earnings per share: | | | | |
| Weighted-average common shares outstanding | 44,846,848 | 44,665,127 | 44,802,704 | 44,642,250 |
| Dilutive effect of unvested restricted awards [1] | 835,391 | 759,291 | 800,358 | 728,556 |
| Diluted average common shares outstanding | 45,682,239 | 45,424,418 | 45,603,062 | 45,370,806 |
| Net Income | $ 21,891 | $ 25,562 | $ 43,203 | $ 49,169 |
| Diluted earnings per share | $ 0.48 | $ 0.56 | $ 0.95 | $ 1.08 |

[1] *Includes the common stock equivalents for restricted share rights that are dilutive.* [1] *Includes the common stock equivalents for restricted share rights that are dilutive.* [1]





**Old Second Bancorp, Inc. and Subsidiaries**
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*(Dollar amounts in thousands, except per share data, unaudited)*

**Note 10 – Regulatory & Capital Matters**

The Bank is subject to the risk-based capital regulatory guidelines, which include the methodology for calculating the risk-weighted Bank assets, developed by the Office of the Comptroller of the Currency (the "OCC") and the other bank regulatory agencies. In connection with the current risk-based capital regulatory guidelines, the Bank's Board of Directors has established an internal guideline requiring the Bank to maintain a Tier 1 leverage capital ratio at or above eight percent (8%) and a total risk-based capital ratio at or above twelve percent (12%). At June 30, 2024 September 30, 2024, the Bank exceeded those thresholds.

At June 30, 2024 September 30, 2024, the Bank's Tier 1 capital leverage ratio was 11.43% 11.46%, an increase of 102 105 basis points from December 31, 2023, and is above the 8.00% objective. The Bank's total capital ratio was 14.42% 14.45%, an increase of 118 121 basis points from December 31, 2023, and also above the objective of 12.00%.

Bank holding companies are generally required to maintain minimum levels of capital in accordance with capital guidelines implemented by the Board of Governors of the Federal Reserve System. The general bank and holding company capital adequacy guidelines are shown in the accompanying table, as are the capital ratios of the Company and the Bank, as of June 30, 2024 September 30, 2024, and December 31, 2023.

The Basel III Rules are applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than “small bank holding companies,” which are generally holding companies with consolidated assets of less than $3.0 billion. A detailed discussion of the Basel III Rules is included in Part I, Item 1 of the Company’s Form 10-K for the year ended December 31, 2023, under the heading “Supervision and Regulation.”

At June 30, 2024 September 30, 2024, and December 31, 2023, the Company, on a consolidated basis, exceeded the minimum thresholds to be considered “well capitalized” under current regulatory defined capital ratios.



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*(Dollar amounts in thousands, except per share data, unaudited)*

Capital levels and industry defined regulatory minimum required levels are as follows:

| | **Actual** | | **Minimum Capital Adequacy with Capital Conservation Buffer, if applicable**[1] | | **Well Capitalized Under Prompt Corrective Action Provisions**[2] | | **Actual** | | **Minimum Capital Adequacy with Capital Conservation Buffer, if applicable**[1] | | **Und… A…** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** | **An…** |
| **June 30, 2024** | | | | | | | | | | | |
| **September 30, 2024** | | | | | | | | | | | |
| Common equity tier 1 capital to risk weighted assets | | | | | | | | | | | |
| Consolidated | $587,746 | 12.41 % | $ 331,525 | 7.00 % | N/A | N/A | $609,778 | 12.86 % | $ 331,916 | 7.00 % | |
| Old Second Bank | 638,977 | 13.50 | 331,321 | 7.00 | $ 307,656 | 6.50 % | 638,983 | 13.49 | 331,570 | 7.00 | $ 30… |
| Total capital to risk weighted assets | | | | | | | | | | | |
| Consolidated | 716,185 | 15.12 | 497,351 | 10.50 | N/A | N/A | 740,371 | 15.62 | 497,689 | 10.50 | |
| Old Second Bank | 682,416 | 14.42 | 496,905 | 10.50 | 473,243 | 10.00 | 684,576 | 14.45 | 497,443 | 10.50 | 47… |
| Tier 1 capital to risk weighted assets | | | | | | | | | | | |
| Consolidated | 612,746 | 12.94 | 402,499 | 8.50 | N/A | N/A | 634,778 | 13.39 | 402,958 | 8.50 | |
| Old Second Bank | 638,977 | 13.50 | 402,319 | 8.50 | 378,653 | 8.00 | 638,983 | 13.49 | 402,621 | 8.50 | 37… |

*(Dollar amounts in thousands, except per share data, unaudited)*

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tier 1 capital to average assets | | | | | | | | | | | |
| Consolidated | 612,746 | 10.96 | 223,630 | 4.00 | N/A | N/A | 634,778 | 11.38 | 223,121 | 4.00 | |
| Old Second Bank | 638,977 | 11.43 | 223,614 | 4.00 | 279,517 | 5.00 | 638,983 | 11.46 | 223,031 | 4.00 | 27 |
| **December 31, 2023** | | | | | | | | | | | |
| Common equity tier 1 capital to risk weighted assets | | | | | | | | | | | |
| Consolidated | $547,721 | 11.37 % | $ 337,207 | 7.00 % | N/A | N/A | $547,721 | 11.37 % | $ 337,207 | 7.00 % | |
| Old Second Bank | 592,413 | 12.32 | 336,598 | 7.00 | $ 312,556 | 6.50 % | 592,413 | 12.32 | 336,598 | 7.00 | $ 31 |
| Total capital to risk weighted assets | | | | | | | | | | | |
| Consolidated | 677,076 | 14.06 | 505,640 | 10.50 | N/A | N/A | 677,076 | 14.06 | 505,640 | 10.50 | |
| Old Second Bank | 636,768 | 13.24 | 504,990 | 10.50 | 480,943 | 10.00 | 636,768 | 13.24 | 504,990 | 10.50 | 48 |
| Tier 1 capital to risk weighted assets | | | | | | | | | | | |
| Consolidated | 572,721 | 11.89 | 409,430 | 8.50 | N/A | N/A | 572,721 | 11.89 | 409,430 | 8.50 | |
| Old Second Bank | 592,413 | 12.32 | 408,727 | 8.50 | 384,684 | 8.00 | 592,413 | 12.32 | 408,727 | 8.50 | 38 |
| Tier 1 capital to average assets | | | | | | | | | | | |
| Consolidated | 572,721 | 10.06 | 227,722 | 4.00 | N/A | N/A | 572,721 | 10.06 | 227,722 | 4.00 | |
| Old Second Bank | 592,413 | 10.41 | 227,632 | 4.00 | 284,540 | 5.00 | 592,413 | 10.41 | 227,632 | 4.00 | 28 |

1 *Amounts are shown inclusive of a capital conservation buffer of 2.50%.*

2 *The prompt corrective action provisions are only applicable at the Bank level. The Bank exceeded the general minimum regulatory requirements to be considered "well capitalized."*

As part of its response to the impact of the COVID-19 pandemic, in the first quarter of 2020, U.S. federal regulatory authorities issued an interim final rule that provided banking organizations that adopted the Current Expected Credit Losses ("CECL") methodology during the 2020 calendar year with the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during the initial two-year delay (i.e., a five-year transition in total). In connection with our adoption of CECL on January 1, 2020, we elected to utilize the five-year CECL transition. As of June 30, 2024 September 30, 2024, the above capital measures of the Company include $951,000, which is the modified CECL transition adjustment.



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**Dividend Restrictions**

In addition to the above requirements, banking regulations and capital guidelines generally limit the amount of dividends that may be paid by a bank without prior regulatory approval. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's profits, combined with the retained profit of the previous two years, subject to the capital requirements described above. As of June 30, 2024 September 30, 2024, the Bank had capacity to pay dividends of $117.3 million $117.0 million to the Company without prior regulatory approval. Pursuant to the Basel III rules, the Bank must keep a capital conservation buffer of 2.50% above the regulatory minimum capital requirements, which must consist entirely of Common Equity Tier 1 capital in order to avoid additional limitations on capital distributions and certain other payments.

**Note 11 – Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy established by the Company also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair value are:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own view about the assumptions that market participants would use in pricing an asset or liability.

There were no transfers between levels during the six-month nine-month period ended June 30, 2024 September 30, 2024, however the Company reclassified one states and political subdivisions security to an asset-backed security in all periods presented. During the six-month nine-month period ended June 30, 2023 September 30, 2023, $14.9 million of asset-backed securities and $6.8 million of collateralized mortgage obligations were transferred to Level 2 from Level 3.

The majority of securities available-for-sale are valued by external pricing services or dealer market participants and are classified in Level 2 of the fair value hierarchy. Both market and income valuation approaches are utilized. Quarterly, the Company evaluates the methodologies used by the external pricing services or dealer market participants to develop the fair values to determine whether the results of the valuations are representative of an exit price in the Company's principal markets and an appropriate representation of fair value. The Company uses the following methods and significant assumptions to estimate fair value:

- Government-sponsored agency debt securities are primarily priced using available market information through processes such as benchmark spreads, market valuations of like securities, like securities groupings and matrix pricing.
- Other government-sponsored agency securities, mortgage backed mortgage-backed securities ("MBS") and some of the actively traded real estate mortgage investment conduits and collateralized mortgage obligations are priced using available market information including benchmark yields, prepayment speeds, spreads, volatility of similar securities and trade date.
- State and political subdivisions are largely grouped by characteristics (e.g., geographical data and source of revenue in trade dissemination systems). Because some securities are not traded daily and due to other grouping limitations, active market quotes are often obtained using benchmarking for like securities.
- Auction rate securities are priced using market spreads, cash flows, prepayment speeds, and loss analytics. Therefore, the valuations of auction rate asset-backed securities are considered Level 2 valuations.
- Asset-backed collateralized loan obligations were priced using data from a pricing matrix supported by our bond accounting service provider and are therefore considered Level 2 valuations.
- Annually every security holding is priced by a pricing service independent of the regular and recurring pricing services used. The independent service provides a measurement to indicate if the price assigned by the regular service is within or outside of a reasonable range. Management reviews this report and applies judgment in adjusting calculations at year end related to securities pricing.



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*(Dollar amounts in thousands, except per share data, unaudited)*

- Residential mortgage loans available for sale in the secondary market are carried at fair market value. The fair value of loans held-for-sale is determined using quoted secondary market prices.
- Lending related commitments to fund certain residential mortgage loans, e.g., residential mortgage loans with locked interest rates to be sold in the secondary market and forward commitments for the future delivery of mortgage loans to third party investors, as well as forward commitments for future delivery of MBS, are considered derivatives. Fair values are estimated based on observable changes in mortgage interest rates including prices for MBS from the date of the commitment and do not typically involve significant judgments by management.
- The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income to derive the resultant value. The Company is able to compare the valuation model inputs, such as the discount rate, prepayment speeds, weighted average delinquency and foreclosure/bankruptcy rates to widely available published industry data for reasonableness.
- Interest rate swap positions, both assets and liabilities, are based on valuation pricing models using an income approach reflecting readily observable market parameters such as interest rate yield curves.
- The fair value of individually evaluated loans with specific allocations of the allowance for credit losses is essentially based on recent real estate appraisals or the fair value of the collateralized asset. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are made in the appraisal process by the appraisers to reflect differences between the available comparable sales and income data. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.
- Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (“OREO”) are measured at fair value, less costs to sell. Fair values are based on third party appraisals of the property, resulting in a Level 3 classification, or an executed pending sales contract. In cases where the carrying amount exceeds the fair value, less costs to sell, a valuation loss is recognized.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**:

The tables below present the balance of assets and liabilities at June 30, 2024 September 30, 2024, and December 31, 2023, respectively, measured by the Company at fair value on a recurring basis:

| | June 30, 2024 | | | | September 30, 2024 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | | | | | |
| Securities available-for-sale | | | | | | | | |
| U.S. Treasury | $ 191,274 | $ - | $ - | $ 191,274 | $194,188 | $ - | $ - | $ 194,188 |
| U.S. government agencies | - | 37,298 | - | 37,298 | - | 37,976 | - | 37,976 |
| U.S. government agencies mortgage-backed | - | 96,872 | - | 96,872 | - | 96,413 | - | 96,413 |
| States and political subdivisions | - | 207,738 | 12,527 | 220,265 | - | 211,927 | 12,868 | 224,795 |
| Collateralized mortgage obligations | - | 386,055 | - | 386,055 | - | 384,271 | - | 384,271 |
| Asset-backed securities | - | 62,210 | 2,667 | 64,877 | - | 60,647 | 3,300 | 63,947 |
| Collateralized loan obligations | - | 177,020 | - | 177,020 | - | 189,264 | - | 189,264 |
| Loans held-for-sale | - | 2,291 | - | 2,291 | - | 2,447 | - | 2,447 |
| Mortgage servicing rights | - | - | 10,488 | 10,488 | - | - | 9,726 | 9,726 |
| Interest rate derivatives [1] | - | 6,095 | - | 6,095 | - | 4,576 | - | 4,576 |
| Mortgage banking derivatives | - | 64 | - | 64 | - | 70 | - | 70 |
| **Total** | $ 191,274 | $ 975,643 | $ 25,682 | $ 1,192,599 | $194,188 | $987,591 | $25,894 | $1,207,673 |
| **Liabilities:** | | | | | | | | |
| Interest rate swap agreements, including risk participation agreements | $ - | $ 7,835 | $ - | $ 7,835 | $ - | $ 4,389 | $ - | $ 4,389 |
| **Total** | $ - | $ 7,835 | $ - | $ 7,835 | $ - | $ 4,389 | $ - | $ 4,389 |

[1] *Interest rate derivatives includes interest rate swaps, a rate cap and risk participation agreements.*

**Old Second Bancorp, Inc. and Subsidiaries**

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| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Securities available-for-sale | | | | |
| U.S. Treasury | $ 169,574 | $ - | $ - | $ 169,574 |
| U.S. government agencies | - | 56,959 | - | 56,959 |
| U.S. government agencies mortgage-backed | - | 106,370 | - | 106,370 |
| States and political subdivisions | - | 214,006 | 13,059 | 227,065 |
| Collateralized mortgage obligations | - | 392,544 | - | 392,544 |
| Asset-backed securities | - | 66,166 | 2,270 | 68,436 |
| Collateralized loan obligations | - | 171,881 | - | 171,881 |
| Loans held-for-sale | - | 1,322 | - | 1,322 |
| Mortgage servicing rights | - | - | 10,344 | 10,344 |
| Interest rate derivatives [1] | - | 5,391 | - | 5,391 |
| **Total** | $ 169,574 | $ 1,014,639 | $ 25,673 | $ 1,209,886 |
| | | | | |
| **Liabilities:** | | | | |
| Interest rate swap agreements, including risk participation agreements | $ - | $ 8,324 | $ - | $ 8,324 |
| Mortgage banking derivatives | - | 10 | - | 10 |
| **Total** | $ - | $ 8,334 | $ - | $ 8,334 |

[1] *Interest rate derivatives includes interest rate swaps, a rate cap and risk participation agreements.*

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are as follows:

| | Six Months Ended June 30, 2024 | | | Nine Months Ended September 30, 2024 | | |
|---|---|---|---|---|---|---|
| | Securities available-for-sale | | | Securities available-for-sale | | |
| | Asset-backed Securities | States and Political Subdivisions | Mortgage Servicing Rights | Asset-backed Securities | States and Political Subdivisions | Mortgage Servicing Rights |
| **Beginning balance January 1, 2024** | $ 2,270 | $ 13,059 | $ 10,344 | $ 2,270 | $ 13,059 | $ 10,344 |
| Transfers out of Level 3 | - | - | - | - | - | - |
| Total gains or losses | | | | | | |
| Included in earnings | - | (66) | 88 | - | (98) | (706) |
| Included in other comprehensive income | (98) | (390) | - | (68) | 18 | - |
| Purchases, issuances, sales, and settlements | | | | | | |
| Purchases | 547 | - | - | 1,209 | - | - |
| Issuances | - | - | 288 | - | - | 490 |
| Settlements | (52) | (76) | (232) | (111) | (111) | (402) |
| **Ending balance June 30, 2024** | $ 2,667 | $ 12,527 | $ 10,488 | | | |
| **Ending balance September 30, 2024** | | | | $ 3,300 | $ 12,868 | $ 9,726 |

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| | Six Months Ended June 30, 2023 | | | | Nine Months Ended September 30, 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Securities available-for-sale | | | | Securities available-for-sale | | | |
| | Asset-backed Securities | Collateralized Mortgage Obligations | States and Political Subdivisions | Mortgage Servicing Rights | Asset-backed Securities | Collateralized Mortgage Obligations | States and Political Subdivisions | Mortgage Servicing Rights |
| **Beginning balance January 1, 2023** | $ 16,740 | $ 6,770 | $ 12,501 | $ 11,189 | $ 16,740 | $ 6,770 | $ 12,501 | $ 11,189 |
| Transfers into Level 3 | - | - | - | - | - | - | - | - |
| Transfers out of Level 3 | (14,885) | (6,764) | - | - | (14,885) | (6,764) | - | - |
| Total gains or losses | | | | | | | | |
| Included in earnings | (11) | - | (66) | 6,155 | (11) | - | (99) | 232 |
| Included in other comprehensive income | 206 | (6) | 642 | - | 168 | (6) | (74) | - |
| Purchases, issuances, sales, and settlements | | | | | | | | |
| Purchases | 406 | - | - | - | 406 | - | - | - |
| Issuances | - | - | - | 281 | - | - | - | 420 |
| Settlements | (521) | - | (74) | (6,584) | (572) | - | (108) | (380) |
| **Ending balance June 30, 2023** | $ 1,935 | $ - | $ 13,003 | $ 11,041 | | | | |
| **Ending balance September 30, 2023** | | | | | $ 1,846 | $ - | $ 12,220 | $ 11,461 |

The following table and commentary present quantitative and qualitative information about Level 3 fair value measurements as of June 30, 2024 September 30, 2024:

| **Measured at fair value on a recurring basis:** | **Fair Value** | **Valuation Methodology** | **Significant Unobservable Inputs** | **Range of Input** | **Weighted Average of Inputs** | **Fair Value** | **Valuation Methodology** | **Significant Unobservable Inputs** | **Range** |
|---|---|---|---|---|---|---|---|---|---|
| States and political subdivisions | $ 12,527 | Discounted Cash Flow | Discount Rate | 4.2 – 4.3% | 4.3 % | $ 12,868 | Discounted Cash Flow | Discount Rate | 5.2 - |
| | | | Liquidity Premium | 0.5 – 0.5% | 0.5 % | | | Liquidity Premium | 0.5 - |
| Asset-backed securities | $ 2,667 | Discounted Cash Flow | Discount Rate | 5.6 – 5.6% | 5.6 % | $ 3,300 | Discounted Cash Flow | Discount Rate | 4.9 - |
| Mortgage servicing rights | $ 10,488 | Discounted Cash Flow | Discount Rate | 9.0 – 11.0% | 9.0 % | $ 9,726 | Discounted Cash Flow | Discount Rate | 9.0 - |
| | | | Prepayment Speed | 2.8 – 30.6% | 6.7 % | | | Prepayment Speed | 0.0 - |

*(Dollar amounts in thousands, except per share data, unaudited)*

The following table and commentary present quantitative and qualitative information about Level 3 fair value measurements as December 31, 2023:

| Measured at fair value on a recurring basis: | Fair Value | Valuation Methodology | Significant Unobservable Inputs | Range of Input | Weighted Average of Inputs |
|---|---|---|---|---|---|
| States and political subdivisions | $ 13,059 | Discounted Cash Flow | Discount Rate | 3.2 – 5.4% | 4.7 % |
| | | | Liquidity Premium | 0.5 – 0.5% | 0.5 % |
| Asset-backed securities | $ 2,270 | Discounted Cash Flow | Discount Rate | 5.6 – 5.6% | 5.6 % |
| Mortgage servicing rights | $ 10,344 | Discounted Cash Flow | Discount Rate | 9.0 – 11.0% | 9.0 % |
| | | | Prepayment Speed | 5.1 – 33.0% | 6.6 % |



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**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis:**

The Company may be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with GAAP. These assets consist of individually evaluated loans and OREO. For assets measured at fair value on a nonrecurring basis at June 30, 2024 September 30, 2024, and December 31, 2023, respectively, the following tables provide the level of valuation assumptions used to determine each valuation and the carrying value of the related assets:

| | June 30, 2024 | | | | September 30, 2024 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Individually evaluated loans[1] | $ - | $ - | $ 33,082 | $ 33,082 | $ - | $ - | $42,005 | $42,005 |
| Other real estate owned, net[2] | - | - | 6,920 | 6,920 | - | - | 8,202 | 8,202 |
| **Total** | $ - | $ - | $ 40,002 | $ 40,002 | $ - | $ - | $50,207 | $50,207 |

[1] *Represents carrying value and related write-downs of loans for which adjustments are substantially based on the appraised value of collateral for collateral-dependent loans, which had a carrying amount of $38.5 50.2 million and a valuation allowance of $5.4 8.2 million resulting in a decrease of specific allocations within the allowance for credit losses on loans of $5.7 2.9 million for the six nine months ended June 30, 2024 September 30, 2024.*

[2] *OREO is measured at fair value, less costs to sell, and had a net carrying amount of $6.9 8.2 million at June 30, 2024 September 30, 2024, which is made up of the outstanding balance of $7.0 8.3 million, net of a valuation allowance of $118,000.*

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Individually evaluated loans[1] | $ - | $ - | $ 66,180 | $ 66,180 |
| Other real estate owned, net[2] | - | - | 5,123 | 5,123 |
| **Total** | $ - | $ - | $ 71,303 | $ 71,303 |

[1] *Represents carrying value and related write-downs of loans for which adjustments are substantially based on the appraised value of collateral for collateral-dependent loans, which had a carrying amount of $77.3 million and a valuation allowance of $11.1 million resulting in a decrease of specific allocations within the allowance for credit losses on loans of $6.5 million for the year December 31, 2023.*

[2] *OREO is measured at fair value, less costs to sell, and had a net carrying amount of $5.1 million at December 31, 2023, which is made up of the outstanding balance of $5.2 million, net of a valuation allowance of $118,000.*

The Company has estimated the fair values of these assets based primarily on Level 3 inputs. OREO and individually evaluated loans are generally valued using the fair value of collateral provided by third party appraisals. These valuations include assumptions related to cash flow projections, discount rates, and recent comparable sales. The numerical ranges of unobservable inputs for these valuation assumptions are not meaningful.

**Note 12 – Fair Values of Financial Instruments**

The estimated fair values approximate carrying amount for all items except those described in the following table. Securities available-for-sale fair values are based upon market prices or dealer quotes, and if no such information is available, on the rate and term of the security. The carrying value of FHLBC stock approximates fair value as the stock is nonmarketable and can only be sold to the FHLBC or another member institution at par. At June 30, 2024 September 30, 2024, and December 31, 2023, the fair values of loans are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors. The fair value of time deposits was estimated using discounted future cash flows at current rates offered for deposits of similar remaining maturities. The fair values of borrowings were estimated based on interest rates available to the Company for debt with similar terms and remaining maturities. The fair value of off balance off-balance sheet volume was not considered material.



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The carrying amount and estimated fair values of financial instruments were as follows:

| | June 30, 2024 | | | | | September 30, 2024 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| **Financial assets:** | | | | | | | | | | |
| Cash and due from banks | $ 54,888 | $ 54,888 | $ 54,888 | $ - | $ - | $ 63,298 | $ 63,298 | $ 63,298 | $ - | $ - |
| Interest earning deposits with financial institutions | 66,004 | 66,004 | 66,004 | - | - | 52,469 | 52,469 | 52,469 | - | - |
| Securities available-for-sale | 1,173,661 | 1,173,661 | 191,274 | 967,193 | 15,194 | 1,190,854 | 1,190,854 | 194,188 | 980,498 | 16,168 |
| FHLBC and FRBC stock | 32,005 | 32,005 | - | 32,005 | - | 30,205 | 30,205 | - | 30,205 | - |
| Loans held-for-sale | 2,291 | 2,291 | - | 2,291 | - | 2,447 | 2,447 | - | 2,447 | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net loans | 3,934,326 | 3,857,223 | - | - | 3,857,223 | 3,991,078 | 3,914,124 | - | - | 3,914,124 |
| Mortgage servicing rights | 10,488 | 10,488 | - | - | 10,488 | 9,726 | 9,726 | - | - | 9,726 |
| Interest rate swap and rate cap agreements | 6,051 | 6,051 | - | 6,051 | - | 4,499 | 4,499 | - | 4,499 | - |
| Interest rate lock commitments and forward contracts | 64 | 64 | - | 64 | - | 70 | 70 | - | 70 | - |
| Interest receivable on securities and loans | 26,086 | 26,086 | - | 26,086 | - | 26,682 | 26,682 | - | 26,682 | - |
| **Financial liabilities:** | | | | | | | | | | |
| Noninterest bearing deposits | $1,728,487 | $1,728,487 | $1,728,487 | $ - | $ - | $1,669,000 | $1,669,000 | $1,669,000 | $ - | $ - |
| Interest bearing deposits | 2,793,241 | 2,783,984 | - | 2,783,984 | - | 2,796,424 | 2,790,377 | - | 2,790,377 | - |
| Securities sold under repurchase agreements | 46,542 | 46,542 | - | 46,542 | - | 53,866 | 53,866 | - | 53,866 | - |
| Other short-term borrowings | 330,000 | 330,000 | - | 330,000 | - | 335,000 | 335,000 | - | 335,000 | - |
| Junior subordinated debentures | 25,773 | 20,620 | - | 20,620 | - | 25,773 | 21,316 | - | 21,316 | - |
| Subordinated debentures | 59,425 | 50,075 | - | 50,075 | - | 59,446 | 52,154 | - | 52,154 | - |
| Interest rate swap and rate cap agreements | 7,827 | 7,827 | - | 7,827 | - | 4,375 | 4,375 | - | 4,375 | - |
| Interest payable on deposits and borrowings | 3,483 | 3,483 | - | 3,483 | - | 4,275 | 4,275 | - | 4,275 | - |

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*(Dollar amounts in thousands, except per share data, unaudited)*

| | December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| **Financial assets:** | | | | | |
| Cash and due from banks | $ 55,534 | $ 55,534 | $ 55,534 | $ - | $ - |
| Interest earning deposits with financial institutions | 44,611 | 44,611 | 44,611 | - | - |
| Securities available-for-sale | 1,192,829 | 1,192,829 | 169,574 | 1,007,926 | 15,329 |
| FHLBC and FRBC stock | 33,355 | 33,355 | - | 33,355 | - |
| Loans held-for-sale | 1,322 | 1,322 | - | 1,322 | - |
| Net loans | 3,998,689 | 3,876,381 | - | - | 3,876,381 |
| Mortgage servicing rights | 10,344 | 10,344 | - | - | 10,344 |
| Interest rate swap and rate cap agreements | 5,302 | 5,302 | - | 5,302 | - |
| Interest receivable on securities and loans | 27,159 | 27,159 | - | 27,159 | - |
| **Financial liabilities:** | | | | | |
| Noninterest bearing deposits | $ 1,834,891 | $ 1,834,891 | $ 1,834,891 | $ - | $ - |
| Interest bearing deposits | 2,735,855 | 2,726,223 | - | 2,726,223 | - |
| Securities sold under repurchase agreements | 26,470 | 26,470 | - | 26,470 | - |
| Other short-term borrowings | 405,000 | 405,000 | - | 405,000 | - |
| Junior subordinated debentures | 25,773 | 20,361 | - | 20,361 | - |
| Subordinated debentures | 59,382 | 47,982 | - | 47,982 | - |
| Interest rate swap and rate cap agreements | 8,234 | 8,324 | - | 8,324 | - |
| Interest rate lock commitments and forward contracts | 10 | 10 | - | 10 | - |
| Interest payable on deposits and borrowings | 2,962 | 2,962 | - | 2,962 | - |

## Note 13 – Derivatives, Hedging Activities and Financial Instruments with Off-Balance Sheet Risk

### Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's loan portfolio.

### Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. The aggregate fair value of the swaps is recorded in other assets or other liabilities with changes in fair value recorded in other comprehensive income, net of tax. The amount included in other comprehensive income would be reclassified to current earnings should all or a portion of the hedge no longer be considered effective. For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income and subsequently reclassified into interest income or interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income or expense as interest payments are received on the variable rate loan pools or paid on the Company's fixed-rate borrowings.

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**Old Second Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollar amounts in thousands, except per share data, unaudited)*

Interest rate swaps with notional amounts totaling $300.0 million as of June 30, 2024 September 30, 2024, and December 31, 2023, were designated as cash flow hedges of certain variable rate commercial and commercial real estate loan pools. Each of these hedges were executed to pay variable and receive fixed rate cash flows. Each of these hedges was determined to be effective during all periods presented and the Company expects the hedges to remain effective during the remaining terms of the swaps.

An interest rate swap with a notional amount of $25.8 million as of June 30, 2024 September 30, 2024, and December 31, 2023, is designated as a cash flow hedge of junior subordinated debentures and was executed to pay fixed and receive variable rate cash flows. The hedge was determined to be effective during all periods presented and the Company expects the hedge to remain effective during the remaining terms of the swap.

During the next twelve months, the Company estimates that an additional $5.1 million $2.0 million will be reclassified as an increase to interest income and an additional $608,000 $327,000 will be reclassified as an increase to interest expense.

**Non-designated Hedges**

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps and rate cap agreements with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of interest rate swaps with its loan customers as of June 30, 2024 September 30, 2024, and December 31, 2023 were $97.9 million $120.5 million and $104.8 million, respectively. The notional amounts of interest rate cap agreements with its loan customers were $32.9 million as of June 30, 2024 September 30, 2024, and there were no interest rate caps cap agreements held at December 31, 2023. Those interest rate swaps and rate cap agreements are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings.

At June 30, 2024 September 30, 2024, and December 31, 2023, the Company had $6.8 million $3.6 million and $7.3 million of cash collateral pledged with two correspondent financial institutions, respectively. The Company held $5.4 million $2.6 million and $4.1 million of cash pledged from one correspondent financial institution to support the interest rate swap activity during the periods presented, respectively. No investment securities were required to be pledged to any correspondent financial institution during 2024 through June 30, 2024 September 30, 2024, or during 2023. The Company offsets derivative assets and liabilities that are subject to a master netting arrangement.

The Company also grants mortgage loan interest rate lock commitments to borrowers, subject to normal loan underwriting standards. The interest rate risk associated with these loan interest rate lock commitments is managed with contracts for future deliveries of loans as well as selling forward mortgage-backed securities contracts. Loan interest rate lock commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The notional amount of these commitments at June 30, 2024 September 30, 2024, and December 31, 2023 was $13.7 million $18.8 million and $8.4 million, respectively. Commitments to originate residential mortgage loans held-for-sale and forward commitments to sell residential mortgage loans or forward MBS contracts are considered derivative instruments and changes in the fair value are recorded to mortgage banking revenue. Fair values are estimated based on observable changes in mortgage interest rates including mortgage-backed securities prices from the date of the commitment.

**Old Second Bancorp, Inc. and Subsidiaries**
**Notes to Consolidated Financial Statements**
*(Dollar amounts in thousands, except per share data, unaudited)*

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of June 30, 2024 September 30, 2024, and December 31, 2023.

**Fair Value of Derivative Instruments**

| | June 30, 2024 | | | | | | September 30, 2024 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Trans. | Notional Amount $ | Balance Sheet Location | Fair Value $ | Balance Sheet Location | Fair Value $ | No. of Trans. | Notional Amount $ | Balance Sheet Location | Fair Value $ | Balance Sheet Location | Fair Value $ |
| **Derivatives designated as hedging instruments** | | | | | | | | | | | | |
| Interest rate swap agreements | 5 | 325,774 | Other Assets | 3,618 | Other Liabilities | 5,394 | 5 | 325,774 | Other Assets | 2,165 | Other Liabilities | 2,041 |
| **Total derivatives designated as hedging instruments** | | | | 3,618 | | 5,394 | | | | 2,165 | | 2,041 |
| **Derivatives not designated as hedging instruments** | | | | | | | | | | | | |
| Interest rate swaps with commercial loan customers and rate cap | 16 | 130,775 | Other Assets | 2,433 | Other Liabilities | 2,433 | 14 | 153,443 | Other Assets | 2,334 | Other Liabilities | 2,334 |
| Interest rate lock commitments and forward contracts | 45 | 13,687 | Other Assets | 64 | Other Liabilities | - | 57 | 18,816 | Other Assets | 70 | Other Liabilities | - |
| Other contracts | 4 | 39,021 | Other Assets | 44 | Other Liabilities | 8 | 5 | 57,184 | Other Assets | 77 | Other Liabilities | 14 |
| **Total derivatives not designated as hedging instruments** | | | | 2,541 | | 2,441 | | | | 2,481 | | 2,348 |

| | December 31, 2023 | | | | | | December 31, 2023 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Trans. | Notional Amount $ | Balance Sheet Location | Fair Value $ | Balance Sheet Location | Fair Value $ | No. of Trans. | Notional Amount $ | Balance Sheet Location | Fair Value $ | Balance Sheet Location | Fair Value $ |
| **Derivatives designated as hedging instruments** | | | | | | | | | | | | |
| Interest rate swap agreements | 5 | 325,774 | Other Assets | 2,576 | Other Liabilities | 5,598 | 5 | 325,774 | Other Assets | 2,576 | Other Liabilities | 5,598 |
| **Total derivatives designated as hedging instruments** | | | | 2,576 | | 5,598 | | | | 2,576 | | 5,598 |
| **Derivatives not designated as hedging instruments** | | | | | | | | | | | | |
| Interest rate swaps with commercial loan customers | 17 | 104,777 | Other Assets | 2,726 | Other Liabilities | 2,726 | 17 | 104,777 | Other Assets | 2,726 | Other Liabilities | 2,726 |
| Interest rate lock commitments and forward contracts | 24 | 8,375 | Other Assets | (10) | Other Liabilities | - | 24 | 8,375 | Other Assets | (10) | Other Liabilities | - |
| Other contracts | 4 | 44,790 | Other Assets | 89 | Other Liabilities | - | 4 | 44,790 | Other Assets | 89 | Other Liabilities | - |
| **Total derivatives not designated as hedging instruments** | | | | 2,805 | | 2,726 | | | | 2,805 | | 2,726 |

*(Dollar amounts in thousands, except per share data, unaudited)*

**Disclosure of the Effect of Fair Value and Cash Flow Hedge Accounting**

The fair value and cash flow hedge accounting related to derivatives covered under ASC Subtopic 815-20 impacted Accumulated Other Comprehensive Income ("AOCI") and the Income Statement. The loss gain recognized in AOCI on derivatives totaled $1.3 million $88,000 as of June 30, 2024 September 30, 2024, and $5.3 million the loss recognized in AOCI totaled $3.8 million as of June 30, 2023 September 30, 2023. The amount of the loss reclassified from AOCI to net interest income on the income statement was $3.2 million $4.8 million for the six nine months ended June 30, 2024 September 30, 2024, and $2.4 million $3.9 million for the six nine months ended June 30, 2023 September 30, 2023.

**Credit-risk-related Contingent Features**

For derivative transactions involving counterparties who are lending customers of the Company, the derivative credit exposure is managed through the normal credit review and monitoring process, which may include collateralization, financial covenants and/or financial guarantees of affiliated parties. Agreements with such customers require that losses associated with derivative transactions receive payment priority from any funds recovered should a customer default and ultimate disposition of collateral or guarantees occur.

Credit exposure to broker/dealer counterparties is managed through agreements with each derivative counterparty that require collateralization of fair value gains owed by such counterparties. Some small degree of credit exposure exists due to timing differences between when a gain may occur and the subsequent point in time that collateral is delivered to secure that gain. This is monitored by the Company and procedures are in place to minimize this exposure. Such agreements also require the Company to collateralize counterparties in circumstances wherein the fair value of the derivatives result in loss to the Company.



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Other provisions of such agreements include the definition of certain events that may lead to the declaration of default and/or the early termination of the derivative transaction(s):

- If the Company either defaults or is capable of being declared in default on any of its indebtedness (exclusive of deposit obligations), then the Company could also be declared in default on its derivative obligations.
- If a merger occurs that materially changes the Company's creditworthiness in an adverse manner.
- If certain specified adverse regulatory actions occur, such as the issuance of a Cease and Desist Order, or citations for actions considered Unsafe and Unsound or that may lead to the termination of deposit insurance coverage by the FDIC.

The Bank also issues letters of credit, which are conditional commitments that guarantee the performance of a customer to a third party. The credit risk involved and collateral obtained in issuing letters of credit are essentially the same as that involved in extending loan commitments to our customers. In addition to customer related commitments, the Company is responsible for letters of credit commitments that relate to properties held in OREO. The following table represents the Company's contractual commitments due to letters of credit as of June 30, 2024 September 30, 2024, and December 31, 2023.

The following table is a summary of letter of credit commitments:

| | June 30, 2024 | | | December 31, 2023 | | | September 30, 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fixed | Variable | Total | Fixed | Variable | Total | Fixed | Variable | Total | Fixed | Variable | Tota |
| **Letters of credit:** | | | | | | | | | | | | |
| **Borrower:** | | | | | | | | | | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial standby | $ 229 | $ 17,190 | $ 17,419 | $ 173 | $ 16,621 | $ 16,794 | $ 188 | $ 16,240 | $ 16,428 | $ 173 | $ 16,621 | $ 16,7 |
| Performance standby | 562 | 12,467 | 13,029 | 562 | 13,689 | 14,251 | 552 | 10,784 | 11,336 | 562 | 13,689 | 14,2 |
| | 791 | 29,657 | 30,448 | 735 | 30,310 | 31,045 | 740 | 27,024 | 27,764 | 735 | 30,310 | 31,0 |
| **Non-borrower:** | | | | | | | | | | | | |
| Performance standby | - | 67 | 67 | - | 67 | 67 | - | 67 | 67 | - | 67 | |
| **Total letters of credit** | $ 791 | $ 29,724 | $ 30,515 | $ 735 | $ 30,377 | $ 31,112 | $ 740 | $ 27,091 | $ 27,831 | $ 735 | $ 30,377 | $ 31,1 |
| Unused loan commitments: | $158,385 | $635,560 | $793,945 | $140,305 | $694,960 | $835,265 | $153,788 | $623,748 | $777,536 | $140,305 | $694,960 | $835,2 |

As of June 30, 2024 September 30, 2024, the Company evaluated current market conditions, including any impacts related to market interest rate changes and unused line of credit utilization trends during the second third quarter of 2024, and based on that analysis under the CECL methodology, the Company determined credit losses related to unfunded commitments totaled $2.5 million. The resultant decrease increase in the ACL for unfunded commitments of $199,000 $2,000 for the second third quarter of 2024, compared to the prior second quarter end, of 2024, is primarily driven by adjustments to historical benchmark assumptions, such as the funding rates and the period used to forecast those rates within the ACL calculation. The Company will continue to assess the credit risk at least quarterly, and adjust the allowance for unfunded commitments, which is carried within other liabilities on our Consolidated Balance Sheets, as needed, with the appropriate offsetting entry to the provision for credit losses on our Consolidated Statements of Income.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

The following discussion provides additional information regarding our operations for the three and six nine months ended June 30, 2024 September 30, 2024, compared to the three and six nine months ended June 30, 2023 September 30, 2023, and our financial condition at June 30, 2024 September 30, 2024, compared to December 31, 2023. This discussion should be read in conjunction with our consolidated financial statements as well as the financial and statistical data appearing elsewhere in this report and our Form 10-K for the year ended December 31, 2023. The results of operations for the three and six nine months ended June 30, 2024 September 30, 2024, are not necessarily indicative of future results. Dollar amounts presented in the following tables are in thousands, except per share data, and June 30, 2024 September 30, 2024 and 2023 amounts are unaudited.

In this report, unless the context suggests otherwise, references to the "Company," "we," "us," and "our" mean the combined business of Old Second Bancorp, Inc. and its subsidiary bank, Old Second National Bank (the "Bank").

We have made, and will continue to make, various forward-looking statements with respect to financial and business matters. Comments regarding our business that are not historical facts are considered forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in these forward-looking statements. For additional information regarding our cautionary disclosures, see the "*Cautionary Note Regarding Forward-Looking Statements*" on page 3 of this report.

**Business Overview**

The Company is a bank holding company headquartered in Aurora, Illinois. Through our wholly-owned subsidiary bank, Old Second National Bank, a national banking organization also headquartered in Aurora, Illinois, we offer a wide range of financial services through our 48 banking centers located in Cook, DeKalb, DuPage, Kane, Kendall, LaSalle and Will counties in Illinois. These banking centers offer access to a full range of traditional retail and commercial banking services including treasury management operations as well as fiduciary and wealth management services. We focus our business on establishing and maintaining relationships with our clients while maintaining a commitment to provide for the financial services needs of the communities in which we operate. We emphasize relationships with individual customers as well as small to medium-sized businesses throughout our market area. We also have extensive wealth management services, which includes a registered investment advisory platform in addition to trust administration and trust services related to personal and corporate trusts and employee benefit plan administration services.

On August 27, 2024, we announced that Old Second National Bank and First Merchants Bank (“FRME”), headquartered in Muncie, Indiana, had entered into a Purchase and Assumption Agreement where the Bank will purchase five Illinois branches of First Merchants, located in the southeast Chicago metropolitan statistical area. This purchase will result in the Bank assuming approximately $304.0 million in deposits and purchasing approximately $12.0 million in branch-related loans, with fixed assets and cash also acquired. The acquisition of the five branches is anticipated to close late in the fourth quarter of 2024.

Our results of operations depend generally on net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Net interest income is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. In addition, we are subject to interest rate risk to the degree that our interest-earning assets mature or reprice at different times, or at different speeds, than our interest-bearing liabilities. Our results of operations are also affected by noninterest income, such as service charges, wealth management fees, loan fees, gains from the sale of newly originated loans, gains or losses on investments and certain other noninterest related items. Our principal operating expenses, aside from interest expense, consist of compensation and employee benefits, occupancy costs, professional fees, data processing expenses and provision for credit losses.

We are significantly impacted by prevailing economic conditions, including federal monetary and fiscal policies, and federal regulations of financial institutions. Deposit balances are influenced by numerous factors such as competing investments, the level of income and the personal rate of savings within our market areas. Factors influencing lending activities include the demand for housing and the interest rate pricing competition from other lending institutions.

As of June 30, 2024 September 30, 2024, all of our capital ratios were in excess of all regulatory requirements. While we believe that we have sufficient capital to withstand an extended economic recession, our reported and regulatory capital ratios could be adversely impacted by credit losses.

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**Financial Overview**

Net income for the second third quarter of 2024 was $21.9 million $23.0 million, or $0.48 $0.50 per diluted share, compared to $25.6 million $24.3 million, or $0.56 $0.54 per diluted share, for the second third quarter of 2023. The reduction in net income was primarily due to a decrease in net interest and dividend income of $3.9 million $2.5 million year over year driven by a $3.2 million $4.3 million increase to interest expense as a result of higher interest rates offered on deposits, as well as a reduction in partially offset by increased interest and dividend income as the securities portfolio decreased $162.0 million during the last twelve months. of $1.8 million and lower short-term borrowing expense. Also contributing to the decrease in net income compared to the prior year like quarter was an increase in noninterest expenses of $1.9 million, partially offset by a decrease in provision for credit losses of $1.8 million $1.0 million, an increase in noninterest income of $704,000, and a decrease in provision for income taxes of $1.2 million. Adjusted net income, a non-GAAP financial measure that excludes certain nonrecurring items, as applicable, was $23.3 million for the third quarter of 2024, compared to $21.0 million for the second quarter of 2024, compared to $21.3 million and $24.8 million for the first quarter of 2024, and $25.6 million for the second third quarter of 2023.

Net income for the nine months ended September 30, 2024 was $66.2 million, or $1.45 per diluted share, compared to $73.5 million, or $1.62 per diluted share, for the nine months ended September 30, 2023. Adjusted net income was $42.3 million $65.6 million for the six nine months ended June 30, 2024 September 30, 2024, compared to $49.0 million $73.8 million for the six nine months ended June 30, 2023 September 30, 2023. See the discussion entitled “Non-GAAP Financial Measures” on page 40, 43, as well as the table below, which provides a reconciliation of this non-GAAP measure to the most comparable GAAP equivalents.

| | Quarters Ended | | | Six Months Ended | Quarters Ended | | | Nine Mont |
|---|---|---|---|---|---|---|---|---|
| | | | | | September | | | |
| | June 30, | March 31, | June 30, | June 30, | 30, | June 30, | September 30, | Septem |

| | 2024 | 2024 | 2023 | 2024 | 2023 | 2024 | 2024 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| **Net Income** | | | | | | | | | |
| Income before income taxes (GAAP) | $29,190 | $ 28,543 | $34,973 | $57,733 | $66,986 | $ 29,851 | $29,190 | $ 32,484 | $87,584 |
| Pre-tax income adjustments: | | | | | | | | | |
| Death benefit related to BOLI | (893) | | | (893) | | (12) | (893) | - | (905) |
| Losses (gains) on branch sales, net | - | - | 29 | - | (277) | | | | |
| Merger related costs, net of gains on branch sales | | | | | | 471 | - | - | 471 |
| Liquidation and deconversion costs on Visa credit card portfolio | | | | | | - | - | 629 | - |
| Adjusted net income before taxes | 28,297 | 28,543 | 35,002 | 56,840 | 66,709 | 30,310 | 28,297 | 33,113 | 87,150 |
| Taxes on adjusted net income | 7,299 | 7,231 | 9,419 | 14,530 | 17,745 | 7,009 | 7,299 | 8,307 | 21,539 |
| Adjusted net income (non-GAAP) | $20,998 | $ 21,312 | $25,583 | $42,310 | $48,964 | $ 23,301 | $20,998 | $ 24,806 | $65,611 |
| | | | | | | | | | |
| Basic earnings per share (GAAP) | $ 0.48 | $ 0.48 | $ 0.57 | $ 0.96 | $ 1.10 | $ 0.52 | $ 0.48 | $ 0.55 | $ 1.48 |
| Diluted earnings per share (GAAP) | 0.48 | 0.47 | 0.56 | 0.95 | 1.08 | 0.50 | 0.48 | 0.54 | 1.45 |
| Adjusted basic earnings per share (non-GAAP) | 0.46 | 0.48 | 0.58 | 0.94 | 1.10 | 0.52 | 0.46 | 0.55 | 1.46 |
| Adjusted diluted earnings per share (non-GAAP) | 0.46 | 0.47 | 0.56 | 0.93 | 1.08 | 0.51 | 0.46 | 0.55 | 1.44 |

The following provides an overview of some of the factors impacting our financial performance for the three month three-month period ended June 30, 2024 September 30, 2024, compared to the like period ended June 30, 2023 September 30, 2023:

- Net interest and dividend income was $59.7 million $60.6 million for the second third quarter of 2024, compared to $63.6 million $63.0 million for the second third quarter of 2023. The reduction in net interest and dividend income in the second third quarter of 2024 was primarily due to higher deposit costs, and a decrease in securities income primarily due to a reduction in balances, partially offset by higher loan yields.

- We recorded a net provision for credit losses of $3.8 million $2.0 million in the second third quarter of 2024, driven by the downgrade of two credits resulting in a $4.0 million increase higher specific allocation, as well as a slight upward adjustment to unemployment assumptions within the macro-economic forecast. These negative trends were offset, however, by upgrades and payoffs on credits that carried higher loss rates during the third quarter of 2024, resulting in the allowance net recoveries of $155,000. Further, we recorded a $2,000 provision for credit losses on loans based on historical loss rate updates driven by higher charge offs in commercial real estate-investor, downward risk rating migration, and our assessment of estimated future credit losses, net of a reversal of $199,000 in our allowance for unfunded commitments based on an adjustment of historical benchmark assumptions, such as funding rates and the period used to forecast those rates, within the ACL calculation. We recorded a net provision for credit losses of $2.0 million $3.0 million in the second third quarter of 2023.

- Noninterest income was $11.1 million $10.6 million for the second third quarter of 2024, compared to $8.2 million $9.9 million for the second third quarter of 2023. Contributing to the growth in higher noninterest income was a $321,000 $312,000 increase in wealth management income, a $146,000 $571,000 increase in service charges on deposits, other income, and no $1,000 of security gains or losses during in the second third quarter of 2024, compared to $1.5 million of net $924,000 in securities losses in the second third quarter of 2023. Also contributing to the growth in noninterest income was a $402,000 increase in the cash surrender value of BOLI due to market interest rate changes and an $893,000 death benefit realized on BOLI. These increases were partially offset by a decrease of $261,000 $1.2 million in mortgage banking revenue and a $113,000 decrease in card related income. driven by mark to market losses on mortgage servicing rights.



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- Noninterest expense was $37.9 $39.3 million for the second third quarter of 2024, compared to $34.8 million $37.4 million for the second third quarter of 2023, an increase of $3.1 million $1.9 million, or 8.7% 5.0%. Contributing to the increase in noninterest expense in the second third quarter of 2024 was higher salaries and employee benefits as well as increases in occupancy, furniture and equipment, computer and data processing, and advertising expenses, and consulting & management fees. expense. Partially offsetting the increase in noninterest expense was a reduction in FDIC insurance and other expenses. expenses for the year over year quarters.

- We had a provision for income tax expense of $7.3 million $6.9 million for the second third quarter of 2024, compared to a provision for income tax expense of $9.4 million $8.1 million for the second third quarter of 2023. The effective tax rate for these two periods was 25.0% 23.1% and 26.9% 25.1%, respectively. The reduction in the effective tax rate in the third quarter of 2024 reflects the new state of Illinois ruling regarding tax rate apportionment factors related to income generated from securities or loans originated in other states.

- Our community-focused banking franchise As of September 30, 2024, we experienced a decrease of $66.4 million $51.9 million in total loans in the second quarter of 2024, compared to the year ended December 31, 2023, and a decrease of $38.9 million $38.5 million in total loans compared to the second September 30, 2023. The fourth quarter of 2023. We is historically a slower period for loan originations; however, we believe we are positioned for loan growth for the remainder of 2024, in 2025, though likely at a slower pace than in recent years, as we continue to serve our customers' needs in a competitive economic environment. We continue to seek to provide value to our customers and the communities in which we operate, by executing on growth opportunities in our local markets and developing new banking relationships, while seeking to ensure the safety and soundness of our Bank, our customers, and our employees.

- Nonaccrual loans decreased $25.6 million $15.4 million as of June 30, 2024 September 30, 2024, compared to December 31, 2023, and decreased $19.0 million $9.9 million compared to June 30, 2023 September 30, 2023. The reduction in nonaccrual loans in the second third quarter of 2024, compared to December 31, 2023, was primarily due to $9.8 million $9.3 million of net charge-offs year to date, primarily due to two charge-offs totaling $5.1 million for a large healthcare loan and two charge-offs totaling $4.1 million for two CRE-investor loans, as well as $11.6 million $17.8 million of paid off loans, and two four loans totaling $3.4 million $4.7 million that were transferred to OREO. The decrease in nonaccrual loans year over year is due to various large charge-offs, larger transfers to OREO, and an increase in paid off loans over the last twelve months, primarily related to the CRE-Investor portfolio, the majority of which are office and healthcare loans. Nonperforming loans as a percent of total loans was 1.2% 1.3% as of June 30, 2024 September 30, 2024, compared to 1.7% as of December 31, 2023, and 1.5% 1.6% as of June 30, 2023 September 30, 2023. Classified assets decreased to $129.3 million $121.0 million as of June 30, 2024 September 30, 2024, which is $8.6 million $16.9 million, or 6.2% 12.2%, less than December 31, 2023, and $976,000, $32.6 million, or 0.8% 21.2%, more less than June 30, 2023 September 30, 2023.

**Critical Accounting Estimates**

Our consolidated financial statements are prepared based on the application of accounting policies in accordance with generally accepted accounting principles ("GAAP") and follow general practices within the banking industry. These policies require the reliance on estimates and assumptions, which may prove inaccurate or are subject to variations. 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. Changes in underlying factors, assumptions, or estimates could have a material impact on our future financial condition and results of operations.

Of the significant accounting policies used in the preparation of our consolidated financial statements, we have identified certain items as critical accounting policies based on the associated estimates, assumptions, judgments and complexity. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates*" in our Annual Report on Form 10-K for the year ended December 31, 2023. There have been no material changes to our critical accounting policies or the estimates made pursuant to those policies during the most recent quarter from those disclosed in our 2023 Annual Report in Form 10-K.

**Non-GAAP Financial Measures**

This report contains references to financial measures that are not defined in GAAP. Such non-GAAP financial measures include the presentation of net interest income and net interest margin on a tax equivalent ("TE") basis, adjusted net income, adjusted basic and diluted earnings per share, our adjusted efficiency ratio, and our tangible common equity to tangible assets ratio. Management believes that the presentation of these non-GAAP financial measures (a) provides important supplemental information that contributes to a proper understanding of our operating performance, (b) enables a more complete understanding of factors and trends affecting our business, and (c) allows investors to evaluate our performance in a manner similar to management, the financial services industry, bank stock analysts, and bank regulators. Management uses non-GAAP measures as follows: in the preparation of our operating budgets, monthly financial performance reporting, and in our presentation of our performance to investors. However, we acknowledge that these non-GAAP financial measures have a number of limitations. Limitations associated with non-GAAP financial measures include the risk that persons might disagree as to the appropriateness of items comprising these measures and that different companies might calculate these measures differently. These measures should not be considered an alternative to our GAAP results. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is presented below or alongside the first instance where each non-GAAP financial measure is used.



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**Results of Operations**

Overview

*Three months ended June 30, 2024 September 30, 2024 and 2023*

Our income before taxes was $29.2 million $29.9 million in the second third quarter of 2024 compared to $35.0 million $32.5 million in the second third quarter of 2023. This decrease in pretax income was primarily due to a $3.9 million $2.5 million decrease in net interest and dividend income a $1.8 million increase in provision for credit losses, and a $3.0 million $1.9 million increase in noninterest expenses. Income before taxes was positively impacted by a $2.9 million $1.0 million decrease in provision for credit losses, and a $704,000 increase in noninterest income, primarily due to no a minimal loss on the call of a security gains or losses in the second third quarter of 2024 compared to $1.5 million $924,000 of security losses, net, in the second third quarter of 2023, as well as an $893,000 death benefit realized on BOLI; no death benefit was recorded a $571,000 increase in the prior year like period. Noninterest other income. The noninterest expense increased by $3.0 million increase of $1.9 million is primarily due to a $1.6 million increase in salary and employee benefits expense, an $894,000 a $370,000 increase in occupancy, furniture and equipment, a $453,000 increase in computer and data processing expenses and primarily due to First Merchants acquisition related costs, a $369,000 $206,000 increase in advertising expenses expense, and a $269,000 increase in the second quarter of 2024. OREO related expenses. Our net income was $21.9 million $23.0 million, or $0.48 $0.50 per diluted share, for the second third quarter of 2024, compared to net income of $25.6 million $24.3 million, or $0.56 $0.54 per diluted share, for the second third quarter of 2023. The Bank remains well positioned to navigate uncertain macroeconomics; we have mitigated interest rate risk, controlled expenses in an inflationary environment, and actively managed daily liquidity. Furthermore, we continue to possess strong liquidity metrics and a short duration securities portfolio for short term funding needs.

Net interest and dividend income was $59.7 million $60.6 million in the second third quarter of 2024, compared to $63.6 million $63.0 million in the second third quarter of 2023. The $3.9 million $2.5 million decrease was driven by an increase in deposit interest expense in the second third quarter of 2024, compared to the second third quarter of 2023, primarily due to exception pricing on deposit accounts and product migration into term deposits. Decreases in our securities portfolio also contributed to the decrease in net interest and dividend income during the second quarter of 2024. Partially offsetting the decrease in net interest and dividend income during the second third quarter of 2024, compared to the like quarter a year ago, was growth in our higher loan related interest income due to the effect of higher market interest rates on our loan portfolios. portfolio coupled with lower short-term borrowing expense on lower average FHLB advances.

*Six Nine months ended June 30, 2024 September 30, 2024 and 2023*

Our income before taxes was $57.7 million $87.6 million for the six nine months ended June 30, 2024 September 30, 2024, compared to $67.0 million $99.5 million for the six nine months ended June 30, 2023 September 30, 2023. This decrease in pretax income was primarily due to an $8.2 million a $10.6 million decrease in net interest and dividend income, a $1.7 million $749,000 increase in provision for credit losses, and a $5.4 million $7.3 million increase in noninterest expenses. These changes were partially offset by a $6.1 million $6.8 million increase in noninterest income, primarily due to no net security gains or losses in the first six nine months of 2024, compared to $3.2 million $4.1 million of security losses, net, recorded in the first six nine months of 2023, a $1.3 million increase in the cash surrender value of BOLI, and an $893,000 a $905,000 death benefit realized on BOLI. Our net income was $43.2 million $66.2 million, or $0.95 $1.45 per diluted share, for the six nine months ended June 30, 2024 September 30, 2024, compared to net income of $49.2 million $73.5 million, or $1.08 $1.62 per diluted share, for the same period of 2023.

Net interest and dividend income was $119.5 million $180.1 million for the six nine months ended June 30, 2024 September 30, 2024, compared to $127.7 million $190.7 million for the same period of 2023. The $8.2 million $10.6 million decrease was primarily driven by an increase in interest expense in the first six nine months of 2024, compared to the first six nine months of 2023, driven by due to a rise in deposit interest rates stemming from exception pricing on deposit accounts. Also contributing to the decrease in net interest and dividend income was a $4.1 million $4.0 million decrease in securities related income due to the year over year decrease in the securities portfolio. Higher interest expenses were partially offset by the effect of higher market interest rates on our loan portfolio, which contributed to the $6.1 million $7.9 million increase in loan related income. income year over year. Also offsetting mitigating the decrease in net interest and dividend income year over year was a reduction in senior debt overall borrowing expense recorded in the first six month derived from our redemption of 2024 as the senior notes were redeemed on June 30, 2023, resulting and subordinated debt in no senior debt interest expense after that time. 2023 and the decrease in average short-term borrowing.

**Net Interest Income**

Net interest income, which is our primary source of earnings, is the difference between interest income earned on interest-earning assets, such as loans and investment securities, as well as accretion income on purchased loans, dividend income earned on certain equity investments, and interest incurred on interest-bearing liabilities, such as deposits and borrowings. Net interest income depends upon the relative mix of interest-earning assets and interest-bearing liabilities, the ratio of interest-earning assets to total assets and of interest-bearing liabilities to total funding sources, and movements in market interest rates. Our net interest income can be significantly influenced by a variety of factors, including overall loan demand, economic conditions, credit risk, the amount of nonearning assets including nonperforming loans and OREO, the amounts of and rates at which assets and liabilities reprice, variances in prepayment of loans and securities, early withdrawal of deposits, exercise of call options on borrowings or securities, a general rise or decline in interest rates, changes in the slope of the yield-curve, and balance sheet growth or contraction.

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*Three months ended June 30, 2024 September 30, 2024 and 2023*

The increased yield of six 16 basis points on interest earning assets compared to the linked period was driven by repricing within the loan and taxable securities portfolios. Changes in the market interest rate environment impact earning assets at varying intervals depending on the repricing timeline of loans, and securities, as well as the securities maturity, paydown and purchase and sale activities.

The year over year increase of 28 34 basis points on interest earning assets was primarily driven by overall increases to benchmark interest rates over the past twelve months, primarily impacting variable rate loans. Increases to market rates also impacted securities available for sale income during the quarter ended June 30, 2024. loans and securities. Average balances of securities available for sale decreased $225.2 million $121.3 million in the second third quarter of 2024 compared to the prior year like quarter; however, quarter, while the tax equivalent yield on the securities available for sale portfolio increased 15 38 basis points year over year due to variable security rate resets. Although average balances of loans and loans held-for-sale decreased $44.1 million, the tax equivalent yield on the loan portfolio increased 28 basis points in the year over year like quarters.

Average balances of interest-bearing deposit accounts have increased steadily during declined since the second quarter of 2024, from $2.76 billion $2.81 billion to $2.81 billion, as $2.79 billion. The decline was driven by NOW and money market account savings accounts while average balances increased as well as on time deposits average balance increases increased due to CD rate specials. The increase in average balances of interest-bearing deposit accounts was partially offset by reductions in savings accounts as customers sought higher yielding products. We have continued to control the cost of funds over the periods reflected with by slowing the pace of change; however, the rate of overall interest-bearing deposits increasing increased to 148 basis points for the quarter ended September 30, 2024, from 133 basis points for the quarter ended June 30, 2024, and from 118 65 basis points for the quarter ended March 31, 2024, and from 40 basis points for the quarter ended June 30, 2023 September 30, 2023. A 20 17 basis point increase in the cost of money market funds for the quarter ended June 30, 2024, September 30, 2024 compared to the prior linked quarter, and a 105 90 basis point increase compared to the prior year like quarter were both due to select deposit account exception pricing, and drove a significant portion of the overall increase. The increase Although there was a decrease in transactional account average balances from the prior year like quarter for the linked quarter were slightly offset by a 15 basis point decrease in NOW and savings accounts, driven by a large commercial deposit customer moving into an off-balance sheet sweep product, which reduced the overall average rates paid on exception priced NOW accounts. these balances increased. Average rates paid on time deposits for the quarter ended June 30, 2024, September 30, 2024 increased by 36 11 basis points and 221 169 basis points in the quarter over linked quarter and year over year quarters, respectively, primarily due to CD rate specials we offered. Average balances on time deposits increased $185.4 million in the year over year quarters, and the growth in rates and average balances resulted in an increase to interest expense on time deposits of $3.6 million.

Borrowing costs decreased increased in the second third quarter of 2024, compared to the first second quarter of 2024, primarily due to the $89.3 million decrease $62.6 million increase in average other short-term borrowings stemming from a decrease an increase in average daily FHLB advances over the prior quarter. The decrease of $159.6 million $121.7 million year over year of average FHLB advances was based on daily liquidity needs, and was the primary driver of the $1.8 million $1.7 million decrease to interest expense on other short-term borrowings. Subordinated and junior subordinated debt interest expense were essentially flat over each of the periods presented. Senior notes had the most significant interest expense decrease year over year, as we redeemed all of the $45.0 million senior notes, net of deferred issuance costs, in June 2023, resulting in senior notes having no balance after that time.

Our net interest margin, for both GAAP and TE presentations, was relatively static over the periods presented above. The impact of the Federal Reserve Bank (Federal Open Market Committee, or “FOMC”) fed funds rate reduction made in mid-September 2024 will not have a material impact on our financials until 30-, 60-, and 90-day rate resets are reached on our securities and loans, and deposit exception pricing is lowered. Our net interest margin (GAAP) increased five two basis points to 4.62% for the third quarter of 2024, compared to 4.60% for the second quarter of 2024, and decreased two basis points compared to 4.55% 4.64% for the first quarter of 2024, and decreased one basis point compared to 4.61% for the second third quarter of 2023. Our net interest margin (TE) increased five one basis points point to 4.64% for the third quarter of 2024, compared to 4.63% for the second quarter of 2024, and decreased two basis points compared to 4.58% 4.66% for the first quarter of 2024, and decreased one basis point compared to 4.64% for the second third quarter of 2023. The increase in the second third quarter of 2024, compared to the prior quarter, was driven by market interest rates as well as the composition of assets and liabilities as interest income and expense remained relatively flat both increased compared to the prior quarter while there was only a $65.9 million reduction $2.9 million increase in interest earning assets. Matured securities were replaced with higher yielding positions and the decrease in average loans was primarily driven by lower yielding or nonaccrual credits due to the payoff, charge-off or upgrade of loans year-to-date. Higher deposit interest expense was offset by lower borrowing interest expense due to a decline in average other short-term borrowing. The decrease in our net interest margin (TE) decrease in the second third quarter of 2024, compared to the prior year like quarter, is primarily due to an increase in market interest rates, and the related increase in costs of interest-bearing deposits. See the discussion entitled “Non-GAAP Financial Measures” and the table on page 47 49 that provides a reconciliation of each non-GAAP measure to the most comparable GAAP equivalent.



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*Six Nine months ended June 30, 2024 September 30, 2024 and 2023*

The year over year increase of 35 34 basis points on interest earning assets was driven by increases to benchmark interest rates over the past twelve months. The securities portfolio was primarily impacted by maturities and paydowns of lower yielding assets and timely purchase of higher yielding securities as we work to increase the weighted average yield in the portfolio. Average securities available-for-sale decreased $272.7 million $221.7 million for the six nine months ended June 30, 2024 September 30, 2024, compared to the six nine months ended June 30, 2023 September 30, 2023, due to maturities, paydowns, and strategic sales. Due to market interest rate increases year over year, securities available-for-sale interest income yields were slightly higher in the six nine months ended June 30, 2024 September 30, 2024; however, the decrease in balances resulted in a reduction of tax equivalent securities income to $19.9 million $30.7 million for the six nine months ended June 30, 2024 September 30, 2024, compared to $24.1 million $34.7 million for the like 2023 period. Average loans, including loans held for sale, increased $2.3 million decreased $13.3 million in the six nine months ended June 30, 2024 September 30, 2024, compared to the six nine months ended June 30, 2023 September 30, 2023. The rising interest rate environment resulted in $124.9 million $189.4 million of loan and dividend interest income in the six nine months ended June 30, 2024 September 30, 2024, compared to $118.8 million $181.5 million in the like 2023 period.

Average balances of interest bearing deposit accounts have decreased steadily since June 30, 2023 September 30, 2023, through compared to the six nine months ended June 30, 2024 September 30, 2024, from $2.93 billion $2.89 billion to $2.78 billion $2.79 billion, with these decreases reflected in all categories other than time deposits. We have continued to control the cost of funds over the periods reflected, with the rate of overall interest bearing deposits increasing by 93 90 basis points to 125 133 basis points from 32 43 basis points as of June 30, 2023 September 30, 2023. A 108 102 basis point increase in the cost of money market funds as of June 30, 2024 September 30, 2024, compared to June 30, 2023 September 30, 2023, was due to select deposit account exception pricing and drove a significant portion of the overall increase. Interest expense paid on time deposits also contributed to the growth increase in cost of deposits year over year, as the cost of average time deposits increased 226 206 basis points to 310 320 basis points for the six nine months ended June 30, 2024 September 30, 2024, compared to 84 114 basis points for the six nine months ended June 30, 2023 September 30, 2023, primarily due to CD rate specials we offered.

Market rates associated with borrowings increased in the six nine months ended June 30, 2024 September 30, 2024, compared to the like prior year period. Our borrowing interest expense was controlled over the past twelve months due to lower FHLB advance volumes and the redemption of senior notes and notes payable in 2023. Subordinated and junior subordinated debt interest expense remained flat over the periods presented. Senior notes had the most significant interest expense decrease year over year, as we redeemed all of the $45.0 million senior notes, net of deferred issuance costs, in June 2023, resulting in senior notes having no balance after that time. In February 2023, we paid off the remaining balance of $9.0 million on the original $20.0 million term note issued in 2020, resulting in notes payable and other borrowings having no balance after that time.

Our net interest margin (GAAP) decreased eight seven basis points to 4.58% 4.59% for the six nine months ended June 30, 2024 September 30, 2024, compared to 4.66% for the six nine months ended June 30, 2023 September 30, 2023. Our net interest margin (TE) decreased nine six basis points to 4.60% 4.62% for the six nine months ended June 30, 2024 September 30, 2024, compared to 4.69% 4.68% for the six nine months ended June 30, 2023 September 30, 2023. The decrease in the current period, compared to the prior year like period, is primarily due to higher interest expense related to the current interest rate environment and its effect on interest bearing deposits.

We continue to observe competitive pressure to maintain reduced interest rates on loans retained at renewal. While our loan prices are targeted to achieve certain returns on equity, significant competition for commercial and industrial loans as well as commercial real estate loans has put pressure on loan yields, and our stringent underwriting standards limit our ability to make higher-yielding loans.

The following tables set forth certain information relating to our average consolidated balance sheets and reflect the yield on average earning assets and cost of average interest bearing liabilities for the periods indicated. These yields reflect the related interest, on an annualized basis, divided by the average balance of assets or liabilities over the applicable period. Average balances are derived from daily balances. For purposes of discussion, net interest income and net interest income to total earning assets in the following tables have been adjusted to a non-GAAP TE basis using a marginal rate of 21% in 2024 and 2023 to compare returns more appropriately on tax-exempt loans and securities to other earning assets.

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**Analysis of Average Balances,**
**Tax Equivalent Income / Expense and Rates**
**(Dollars in thousands - unaudited)**

**Analysis of Average Balances,**
**Tax Equivalent Income / Expense and Rates**
**(Dollars in thousands - unaudited)**

| | Quarters Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2024 | | | March 31, 2024 | | | June 30, 2023 | | |
| | Average Balance | Income / Expense | Rate % | Average Balance | Income / Expense | Rate % | Average Balance | Income / Expense | Rate % |
| **Assets** | | | | | | | | | |
| Interest earning deposits with financial institutions | $ 50,740 | $ 625 | 4.95 | $ 48,088 | $ 610 | 5.10 | $ 50,309 | $ 643 | 5.13 |
| Securities: | | | | | | | | | |
| Taxable | 1,016,187 | 8,552 | 3.38 | 1,016,112 | 8,092 | 3.20 | 1,231,994 | 9,930 | 3.23 |
| Non-taxable (TE)[1] | 163,243 | 1,636 | 4.03 | 166,776 | 1,653 | 3.99 | 172,670 | 1,692 | 3.93 |
| Total securities (TE)[1] | 1,179,430 | 10,188 | 3.47 | 1,182,888 | 9,745 | 3.31 | 1,404,664 | 11,622 | 3.32 |
| FHLBC and FRBC Stock | 27,574 | 584 | 8.52 | 31,800 | 635 | 8.03 | 34,029 | 396 | 4.67 |
| Loans and loans held-for-sale[1, 2] | 3,958,504 | 62,180 | 6.32 | 4,019,377 | 62,698 | 6.27 | 4,040,202 | 61,591 | 6.11 |
| Total interest earning assets | 5,216,248 | 73,577 | 5.67 | 5,282,153 | 73,688 | 5.61 | 5,529,204 | 74,252 | 5.39 |
| Cash and due from banks | 54,286 | - | - | 54,533 | - | - | 56,191 | - | - |
| Allowance for credit losses on loans | (43,468) | - | - | (44,295) | - | - | (53,480) | - | - |
| Other noninterest bearing assets | 388,392 | - | - | 384,332 | - | - | 379,576 | - | - |
| **Total assets** | $5,615,458 | | | $5,676,723 | | | $5,911,491 | | |
| **Liabilities and Stockholders' Equity** | | | | | | | | | |
| NOW accounts | $ 570,523 | $ 639 | 0.45 | $ 553,844 | $ 829 | 0.60 | $ 600,957 | $ 312 | 0.21 |
| Money market accounts | 691,214 | 2,915 | 1.70 | 689,996 | 2,575 | 1.50 | 762,967 | 1,245 | 0.65 |
| Savings accounts | 934,161 | 763 | 0.33 | 958,645 | 633 | 0.27 | 1,073,172 | 185 | 0.07 |
| Time deposits | 610,705 | 4,961 | 3.27 | 558,463 | 4,041 | 2.91 | 436,524 | 1,156 | 1.06 |
| Interest bearing deposits | 2,806,603 | 9,278 | 1.33 | 2,760,948 | 8,078 | 1.18 | 2,873,620 | 2,898 | 0.40 |
| Securities sold under repurchase agreements | 37,430 | 83 | 0.89 | 30,061 | 86 | 1.15 | 25,575 | 7 | 0.11 |
| Other short-term borrowings | 242,912 | 3,338 | 5.53 | 332,198 | 4,557 | 5.52 | 402,527 | 5,160 | 5.14 |
| Junior subordinated debentures | 25,773 | 288 | 4.49 | 25,773 | 280 | 4.37 | 25,773 | 281 | 4.37 |
| Subordinated debentures | 59,414 | 546 | 3.70 | 59,393 | 546 | 3.70 | 59,329 | 546 | 3.69 |
| Senior notes | - | - | - | - | - | - | 44,134 | 1,414 | 12.85 |
| Notes payable and other borrowings | - | - | - | - | - | - | - | - | - |
| **Total interest bearing liabilities** | 3,172,132 | 13,533 | 1.72 | 3,208,373 | 13,547 | 1.70 | 3,430,958 | 10,306 | 1.20 |
| Noninterest bearing deposits | 1,769,543 | - | - | 1,819,476 | - | - | 1,920,448 | - | - |
| Other liabilities | 68,530 | - | - | 60,024 | - | - | 48,434 | - | - |

**Analysis of Average Balances,**
**Tax Equivalent Income / Expense and**
**(Dollars in thousands - unaudite**

| | Quarters Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2024 | | | June 30, 2024 | | |
| | Average Balance | Income / Expense | Rate % | Average Balance | Income / Expense | Rate % |
| **Assets** | | | | | | |
| Interest earning deposits with financial institutions | $ 48,227 | $ 616 | 5.08 | $ 50,740 | $ 625 | 4.95 |
| Securities: | | | | | | |
| Taxable | 1,010,379 | 9,113 | 3.59 | 1,016,187 | 8,552 | 3.38 |
| Non-taxable (TE)[1] | 163,569 | 1,634 | 3.97 | 163,243 | 1,636 | 4.03 |
| Total securities (TE)[1] | 1,173,948 | 10,747 | 3.64 | 1,179,430 | 10,188 | 3.47 |
| FHLBC and FRBC Stock | 30,268 | 497 | 6.53 | 27,574 | 584 | 8.52 |
| Loans and loans held-for-sale[1, 2] | 3,966,717 | 64,566 | 6.48 | 3,958,504 | 62,180 | 6.32 |
| Total interest earning assets | 5,219,160 | 76,426 | 5.83 | 5,216,248 | 73,577 | 5.67 |
| Cash and due from banks | 54,279 | - | - | 54,286 | - | - |
| Allowance for credit losses on loans | (42,683) | - | - | (43,468) | - | - |
| Other noninterest bearing assets | 384,386 | - | - | 388,392 | - | - |
| **Total assets** | $5,615,142 | | | $5,615,458 | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| NOW accounts | $ 553,906 | $ 714 | 0.51 | $ 570,523 | $ 639 | 0.45 |
| Money market accounts | 693,315 | 3,260 | 1.87 | 691,214 | 2,915 | 1.70 |
| Savings accounts | 895,086 | 886 | 0.39 | 934,161 | 763 | 0.33 |
| Time deposits | 651,663 | 5,539 | 3.38 | 610,705 | 4,961 | 3.27 |
| Interest bearing deposits | 2,793,970 | 10,399 | 1.48 | 2,806,603 | 9,278 | 1.33 |
| Securities sold under repurchase agreements | 45,420 | 93 | 0.81 | 37,430 | 83 | 0.89 |
| Other short-term borrowings | 305,489 | 4,185 | 5.45 | 242,912 | 3,338 | 5.53 |
| Junior subordinated debentures | 25,773 | 270 | 4.17 | 25,773 | 288 | 4.49 |
| Subordinated debentures | 59,436 | 547 | 3.66 | 59,414 | 546 | 3.70 |
| Senior notes | - | - | - | - | - | - |
| Notes payable and other borrowings | - | - | - | - | - | - |
| **Total interest bearing liabilities** | 3,230,088 | 15,494 | 1.91 | 3,172,132 | 13,533 | 1.72 |
| Noninterest bearing deposits | 1,691,450 | - | - | 1,769,543 | - | - |
| Other liabilities | 54,453 | - | - | 68,530 | - | - |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Stockholders' equity | 605,253 | - | - | 588,850 | - | - | 511,651 | - | - | 639,151 | - | - | 605,253 | - | - |
| **Total liabilities and stockholders' equity** | $5,615,458 | | | $5,676,723 | | | $5,911,491 | | | $5,615,142 | | | $5,615,458 | | |
| Net interest income (GAAP) | | $59,690 | | | $ 59,783 | | | $63,580 | | | $60,578 | | | $ 59,690 | |
| Net interest margin (GAAP) | | | 4.60 | | | 4.55 | | | 4.61 | | | 4.62 | | | 4.60 |
| Net interest income (TE)[1] | | $60,044 | | | $ 60,141 | | | $63,946 | | | $60,932 | | | $ 60,044 | |
| Net interest margin (TE)[1] | | | 4.63 | | | 4.58 | | | 4.64 | | | 4.64 | | | 4.63 |
| Interest bearing liabilities to earning assets | 60.81 % | | | 60.74 % | | | 62.05 % | | | 61.89 % | | | 60.81 % | | |

[1] *Represents a non-GAAP financial measure. See the discussion entitled “Reconciliation of Tax-Equivalent Non-GAAP Financial Measures” below that provides a reconciliation of each non-GAAP measure to the most comparable GAAP equivalent. Tax equivalent basis is calculated using a marginal tax rate of 21% in 2024 and 2023.*

[2] *Interest income from loans is shown on a tax equivalent basis, which is a non-GAAP financial measure, as discussed in the table on page 47, 49, and includes loan fee expense of $155,000 for the third quarter of 2024, $936,000 for the second quarter of 2024, $867,000 and $780,000 for the first quarter of 2024, and $242,000 for the second third quarter of 2023. Nonaccrual loans are included in the above-stated average balances.*



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**Analysis of Average Balances,**
**Tax Equivalent Income / Expense and Rates**
**(Dollars in thousands - unaudited)**

**Analysis of Average Balances,**
**Tax Equivalent Income / Expense and Rates**
**(Dollars in thousands - unaudited)**

**Analysis of Average Balances,**
**Tax Equivalent Income / Expense and Rates**
**(Dollars in thousands - unaudited)**

| | **Six Months Ended June 30,** | | | | | | **Nine Months Ended September 30,** | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2024** | | | **2023** | | | **2024** | | | **2023** | | |
| | **Average Balance** | **Income / Expense** | **Rate %** | **Average Balance** | **Income / Expense** | **Rate %** | **Average Balance** | **Income / Expense** | **Rate %** | **Average Balance** | **Income / Expense** | **Rate %** |
| **Assets** | | | | | | | | | | | | |
| Interest earning deposits with financial institutions | $ 49,414 | $ 1,235 | 5.03 | $ 49,812 | $ 1,228 | 4.97 | $ 49,015 | $ 1,851 | 5.04 | $ 49,787 | $ 1,887 | 5.07 |
| Securities: | | | | | | | | | | | | |
| Taxable | 1,016,150 | 16,644 | 3.29 | 1,280,873 | 20,665 | 3.25 | 1,014,211 | 25,757 | 3.39 | 1,228,576 | 29,611 | 3.22 |
| Non-taxable (TE)[1] | 165,009 | 3,289 | 4.01 | 172,995 | 3,385 | 3.95 | 164,526 | 4,923 | 4.00 | 171,825 | 5,072 | 3.95 |
| Total securities (TE)[1] | 1,181,159 | 19,933 | 3.39 | 1,453,868 | 24,050 | 3.34 | 1,178,737 | 30,680 | 3.48 | 1,400,401 | 34,683 | 3.31 |
| Dividends from FHLBC and FRBC | 29,687 | 1,219 | 8.26 | 29,492 | 676 | 4.62 | 29,882 | 1,716 | 7.67 | 31,670 | 1,273 | 5.37 |
| Loans and loans held-for-sale [1, 2] | 3,988,941 | 124,878 | 6.30 | 3,986,644 | 118,819 | 6.01 | 3,981,478 | 189,444 | 6.36 | 3,994,804 | 181,524 | 6.08 |
| **Total interest earning assets** | 5,249,201 | 147,265 | 5.64 | 5,519,816 | 144,773 | 5.29 | 5,239,112 | 223,691 | 5.70 | 5,476,662 | 219,367 | 5.36 |
| Cash and due from banks | 54,410 | - | - | 55,668 | - | - | 54,366 | - | - | 56,211 | - | - |
| Allowance for credit losses on loans | (43,882) | - | - | (51,450) | - | - | (43,479) | - | - | (52,505) | - | - |
| Other noninterest bearing assets | 386,362 | - | - | 381,070 | - | - | 385,700 | - | - | 382,077 | - | - |
| **Total assets** | $ 5,646,091 | | | $ 5,905,104 | | | $ 5,635,699 | | | $ 5,862,445 | | |
| **Liabilities and Stockholders' Equity** | | | | | | | | | | | | |
| NOW accounts | $ 562,184 | $ 1,468 | 0.53 | $ 600,993 | $ 555 | 0.19 | $ 559,404 | $ 2,182 | 0.52 | $ 592,617 | $ 995 | 0.22 |
| Money market accounts | 690,605 | 5,490 | 1.60 | 798,199 | 2,073 | 0.52 | 691,515 | 8,750 | 1.69 | 772,011 | 3,840 | 0.67 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Savings accounts | 946,403 | 1,396 | 0.30 | 1,099,460 | 263 | 0.05 | 929,173 | 2,282 | 0.33 | 1,075,374 | 614 | 0.08 |
| Time deposits | 584,584 | 9,002 | 3.10 | 435,595 | 1,820 | 0.84 | 607,107 | 14,541 | 3.20 | 445,926 | 3,802 | 1.14 |
| Interest bearing deposits | 2,783,776 | 17,356 | 1.25 | 2,934,247 | 4,711 | 0.32 | 2,787,199 | 27,755 | 1.33 | 2,885,928 | 9,251 | 0.43 |
| Securities sold under repurchase agreements | 33,746 | 169 | 1.01 | 28,312 | 16 | 0.11 | 37,666 | 262 | 0.93 | 27,178 | 43 | 0.21 |
| Other short-term borrowings | 287,555 | 7,895 | 5.52 | 302,238 | 7,505 | 4.99 | 293,577 | 12,080 | 5.50 | 344,341 | 13,345 | 5.18 |
| Junior subordinated debentures | 25,773 | 568 | 4.43 | 25,773 | 560 | 4.37 | 25,773 | 838 | 4.34 | 25,773 | 805 | 4.18 |
| Subordinated debentures | 59,404 | 1,092 | 3.70 | 59,318 | 1,092 | 3.70 | 59,414 | 1,639 | 3.68 | 59,329 | 1,639 | 3.69 |
| Senior note | - | - | - | 44,365 | 2,408 | 10.92 | - | - | - | 29,414 | 2,408 | 10.95 |
| Notes payable and other borrowings | - | - | - | 2,685 | 87 | 6.52 | - | - | - | 1,780 | 87 | 6.53 |
| **Total interest bearing liabilities** | 3,190,254 | 27,080 | 1.71 | 3,396,938 | 16,379 | 0.97 | 3,203,629 | 42,574 | 1.78 | 3,373,743 | 27,578 | 1.09 |
| Noninterest bearing deposits | 1,794,509 | - | - | 1,961,397 | - | - | 1,759,905 | - | - | 1,929,653 | - | - |
| Other liabilities | 64,277 | - | - | 49,849 | - | - | 60,978 | - | - | 50,965 | - | - |
| Stockholders' equity | 597,051 | - | - | 496,920 | - | - | 611,187 | - | - | 508,084 | - | - |
| **Total liabilities and stockholders' equity** | $ 5,646,091 | | | $ 5,905,104 | | | $ 5,635,699 | | | $ 5,862,445 | | |
| Net interest income (GAAP) | | $119,473 | | | $127,666 | | | $180,051 | | | $190,696 | |
| Net interest margin (GAAP) | | | 4.58 | | | 4.66 | | | 4.59 | | | 4.66 |
| Net interest income (TE)[1] | | $120,185 | | | $128,394 | | | $181,117 | | | $191,789 | |
| Net interest margin (TE)[1] | | | 4.60 | | | 4.69 | | | 4.62 | | | 4.68 |
| **Interest bearing liabilities to earning assets** | 60.78 % | | | 61.54 % | | | 61.15 % | | | 61.60 % | | |

[1]*Represents a non-GAAP financial measure. See the discussion entitled "Reconciliation of Tax-Equivalent Non-GAAP Financial Measures" below that provides a reconciliation of each non-GAAP measure to the most comparable GAAP equivalent. Tax equivalent basis is calculated using a marginal tax rate of 21% in 2024 and 2023.*

[2] *Interest income from loans is shown on a tax equivalent basis, which is a non-GAAP financial measure, as discussed in the table on page 47, 49, and includes fee expense of $1.8 million $2.0 million and $973,000 $1.8 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively. Nonaccrual loans are included in the above-stated average balances.*



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**Reconciliation of Tax-Equivalent (TE) Non-GAAP Financial Measures**

Net interest and dividend income (TE) and net interest income (TE) to average interest earning assets are non-GAAP measures that have been adjusted on a TE basis using a marginal rate of 21% for 2024 and 2023 to compare returns more appropriately on tax-exempt loans and securities to other earning assets. The table below provides a reconciliation of each non-GAAP (TE) measure to the GAAP equivalent for the periods indicated:

| | Three Months Ended | | | Six Months Ended | | Three Months Ended | | | Nir |
|---|---|---|---|---|---|---|---|---|---|
| | June 30, | March 31, | June 30, | June 30, | | September 30, | June 30, | September 30, | |
| **Net Interest Margin** | 2024 | 2024 | 2023 | 2024 | 2023 | 2024 | 2024 | 2023 | 20 |
| Interest income (GAAP) | $ 73,223 | $ 73,330 | $ 73,886 | $ 146,553 | $ 144,045 | $ 76,072 | $ 73,223 | $ 74,229 | $ 22 |
| Taxable-equivalent adjustment: | | | | | | | | | |
| Loans | 10 | 11 | 11 | 21 | 17 | 11 | 10 | 11 | |
| Securities | 344 | 347 | 355 | 691 | 711 | 343 | 344 | 354 | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Interest and dividend income (TE) | 73,577 | 73,688 | 74,252 | 147,265 | 144,773 | 76,426 | 73,577 | 74,594 | 22 |
| Interest expense (GAAP) | 13,533 | 13,547 | 10,306 | 27,080 | 16,379 | 15,494 | 13,533 | 11,199 | 4 |
| Net interest income (TE) | $ 60,044 | $ 60,141 | $ 63,946 | $ 120,185 | $ 128,394 | $ 60,932 | $ 60,044 | $ 63,395 | $ 18 |
| Net interest income (GAAP) | $ 59,690 | $ 59,783 | $ 63,580 | $ 119,473 | $ 127,666 | $ 60,578 | $ 59,690 | $ 63,030 | $ 18 |
| Average interest earning assets | $5,216,248 | $5,282,153 | $5,529,204 | $5,249,201 | $5,519,816 | $ 5,219,160 | $5,216,248 | $ 5,391,761 | $5,23 |
| Net interest margin (TE) | 4.63 % | 4.58 % | 4.64 % | 4.60 % | 4.69 % | 4.64 % | 4.63 % | 4.66 % | |
| Net interest margin (GAAP) | 4.60 % | 4.55 % | 4.61 % | 4.58 % | 4.66 % | 4.62 % | 4.60 % | 4.64 % | |

**Noninterest Income**

*Three months ended June 30, 2024 September 30, 2024 and 2023*

The following table details the major components of noninterest income for the periods presented:

| **Noninterest Income (Dollars in thousands)** | **Three Months Ended** | | | **2nd Quarter 2024 Percent Change From** | | **Three Months Ended** | | | **3rd Qua Percent Ch** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **June 30, 2024** | **March 31, 2024** | **June 30, 2023** | **March 31, 2024** | **June 30, 2023** | **September 30, 2024** | **June 30, 2024** | **September 30, 2023** | **June 30, 2024** | **S** |
| Wealth management | $ 2,779 | $ 2,561 | $ 2,458 | 8.5 | 13.1 | $ 2,787 | $ 2,779 | $ 2,475 | 0.3 | |
| Service charges on deposits | 2,508 | 2,415 | 2,362 | 3.9 | 6.2 | 2,646 | 2,508 | 2,504 | 5.5 | |
| Residential mortgage banking revenue | | | | | | | | | | |
| Secondary mortgage fees | 65 | 50 | 76 | 30.0 | (14.5) | 84 | 65 | 66 | 29.2 | |
| MSRs mark to market (loss) gain | (238) | 94 | 96 | (353.2) | (347.9) | (964) | (238) | 281 | (305.0) | |
| Mortgage servicing income | 513 | 488 | 499 | 5.1 | 2.8 | 466 | 513 | 519 | (9.2) | |
| Net gain on sales of mortgage loans | 468 | 314 | 398 | 49.0 | 17.6 | 507 | 468 | 407 | 8.3 | |
| Total residential mortgage banking revenue | 808 | 946 | 1,069 | 14.6 | (24.4) | 93 | 808 | 1,273 | (88.5) | |
| Securities gains (losses), net | - | 1 | (1,547) | N/M | N/M | | | | | |
| Securities losses, net | | | | | | (1) | - | (924) | N/M | |
| Change in cash surrender value of BOLI | 820 | 1,172 | 418 | (30.0) | 96.2 | 860 | 820 | 919 | 4.9 | |
| Death benefit realized on BOLI | 893 | - | - | 100.0 | 100.0 | 12 | 893 | - | (98.7) | |
| Card related income | 2,577 | 2,376 | 2,690 | 8.5 | (4.2) | 2,589 | 2,577 | 2,606 | 0.5 | |
| Other income | 742 | 1,030 | 773 | (28.0) | (4.0) | 1,595 | 742 | 1,024 | 115.0 | |
| **Total noninterest income** | $11,127 | $ 10,501 | $ 8,223 | 6.0 | 35.3 | $ 10,581 | $11,127 | $ 9,877 | (4.9) | |

N/M – *Not meaningful.*



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Noninterest income increased $626,000, decreased $546,000, or 6.0% 4.9%, in the second third quarter of 2024, compared to the first second quarter of 2024, and increased $2.9 million, $704,000, or 35.3% 7.1%, compared to the second third quarter of 2023. The increase decrease from the first second quarter of 2024 was primarily driven by a $218,000 increase in wealth management income, an $893,000 death benefit realized on BOLI, and a $201,000 increase in card related income. Partially offsetting the increase in noninterest income from the prior quarter was a $138,000 $715,000 decrease in residential mortgage banking revenue primarily due to a decrease decline of $332,000 $726,000 in MSRs mark to market valuation, valuation. The second quarter of 2024 included a realized BOLI death benefit of $893,000, and in third quarter, we received a $352,000 decrease in the cash surrender value of BOLI, both of which were due to market interest rate changes, while MSRs were also impacted by a slight increase in prepayment speeds in the second quarter. Also $12,000 true-up payment. Partially offsetting the increase decrease in noninterest income from the prior quarter was a $288,000 decrease an $853,000 increase in other income primarily due to a $172,000 incentive $245,000 refund received from a vendor with whom we cancelled services, $155,000 from recognition of a refund related to check order volumes received the advance reserves held for our VISA card portfolio which was sold in the first quarter of 2024. 2022, and $78,000 related to an incentive bonus from a vendor for certain transactional levels being attained.

The increase in noninterest income of $2.9 million $704,000 in the second third quarter of 2024, compared to the second third quarter of 2023, is primarily due to a $321,000 $312,000 increase in wealth management income primarily due to growth in advisory fees from new customers and market value increases, a $146,000 increase in service charges minimal loss on deposits, no security sales activity the call of securities in the second third quarter of 2024 compared to net losses on the sale of securities of $1.5 million $924,000 in the second third quarter of 2023, and a $402,000 $571,000 increase in the cash surrender value of BOLI other income due to changes in market interest rates, a $245,000 refund received from a vendor due to cancellation of services, a refund of $155,000 related to the sold VISA credit card portfolio's advance reserves, and an $893,000 death benefit realized a $78,000 incentive bonus from a vendor based on BOLI. certain transactional levels which were attained. These increases were partially offset by a $261,000 decrease in residential mortgage banking revenue mainly due to a decrease reduction of $334,000 $1.2 million in MSRs mark to market valuation, and a $113,000 decrease in card related income. valuation.

*Six Nine months ended June 30, 2024 September 30, 2024 and 2023*

| **Noninterest Income (Dollars in thousands)** | **Six Months Ended June 30, 2024** | **Six Months Ended June 30, 2023** | **Percent Change** | **Nine Months Ended September 30, 2024** | **Nine Months Ended September 30, 2023** | **Percent Change** |
|---|---|---|---|---|---|---|
| Wealth management | $ 5,340 | $ 4,728 | 12.9 | $ 8,127 | $ 7,203 | 12.8 |
| Service charges on deposits | 4,923 | 4,786 | 2.9 | 7,569 | 7,290 | 3.8 |
| Residential mortgage banking revenue | | | | | | |
| Secondary mortgage fees | 115 | 135 | (14.8) | 199 | 201 | (1.0) |
| MSRs mark to market loss | (144) | (429) | (66.4) | (1,108) | (148) | (648.6) |
| Mortgage servicing income | 1,001 | 1,015 | (1.4) | 1,467 | 1,534 | (4.4) |
| Net gain on sales of mortgage loans | 782 | 704 | 11.1 | 1,289 | 1,111 | 16.0 |
| Total residential mortgage banking revenue | 1,754 | 1,425 | 23.1 | 1,847 | 2,698 | (31.5) |
| Securities gains (losses), net | 1 | (3,222) | N/M | - | (4,146) | (100.0) |
| Change in cash surrender value of BOLI | 1,992 | 660 | 201.8 | 2,852 | 1,579 | 80.6 |
| Death benefit realized on BOLI | 893 | - | 100.0 | 905 | - | N/M |
| Card related income | 4,953 | 4,934 | 0.4 | 7,542 | 7,540 | 0.0 |
| Other income | 1,772 | 2,262 | (21.7) | 3,367 | 3,286 | 2.5 |
| **Total noninterest income** | $ 21,628 | $ 15,573 | 38.9 | $ 32,209 | $ 25,450 | 26.6 |

N/M – *Not meaningful.*

Noninterest income increased $6.1 million $6.8 million, or 38.9% 26.6%, for the six nine months ended June 30, 2024 September 30, 2024, compared to the six nine months ended June 30, 2023 September 30, 2023. This increase was primarily driven by $1,000 of securities no security gains net, or losses, compared to $3.2 million $4.1 million of security losses, net, in the prior year like period, a $1.3 million increase in the cash surrender value of BOLI due to market interest rate changes, an $893,000 a $905,000 death benefit realized on BOLI, a $612,000 $924,000 increase in wealth management income primarily due to an increase in advisory fees, and a $137,000 $279,000 increase in service charges on deposits. In addition, the current six month period increased due to Partially offsetting these increases was a $329,000 increase $851,000 decrease in mortgage banking revenue, comprised primarily of due to a $285,000 decrease $960,000 increase in MSRs mark to market losses. Partially offsetting these increases was a $490,000 decrease in other income, as the 2023 period reflected credits from a data service provider.

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### Noninterest Expense

*Three months ended June 30, 2024 September 30, 2024 and 2023*

The following table details the major components of noninterest expense for the periods presented:

| Noninterest Expense (Dollars in thousands) | Three Months Ended | | | 2nd Quarter 2024 Percent Change From | | Three Months Ended | | | 3rd Quarter Percent Chang | |
|---|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | June 30, 2023 | March 31, 2024 | June 30, 2023 | September 30, 2024 | June 30, 2024 | September 30, 2023 | June 30, 2024 | Septe 2 |
| Salaries | $17,997 | $ 17,647 | $16,310 | 2.0 | 10.3 | $ 17,665 | $17,997 | $ 17,279 | (1.8) | |
| Officers' incentive | 1,482 | 2,148 | 2,397 | (31.0) | (38.2) | 2,993 | 1,482 | 2,773 | 102.0 | |
| Benefits and other | 3,945 | 4,517 | 3,091 | (12.7) | 27.6 | 4,018 | 3,945 | 3,063 | 1.9 | |
| Total salaries and employee benefits | 23,424 | 24,312 | 21,798 | (3.7) | 7.5 | 24,676 | 23,424 | 23,115 | 5.3 | |
| Occupancy, furniture and equipment expense | 3,899 | 3,927 | 3,639 | (0.7) | 7.1 | 3,876 | 3,899 | 3,506 | (0.6) | |
| Computer and data processing | 2,184 | 2,255 | 1,290 | (3.1) | 69.3 | 2,375 | 2,184 | 1,922 | 8.7 | |
| FDIC insurance | 616 | 667 | 794 | (7.6) | (22.4) | 632 | 616 | 744 | 2.6 | |
| Net teller & bill paying | 578 | 521 | 515 | 10.9 | 12.2 | 570 | 578 | 534 | (1.4) | |
| General bank insurance | 312 | 309 | 306 | 1.0 | 2.0 | 320 | 312 | 300 | 2.6 | |
| Amortization of core deposit intangible asset | 574 | 580 | 618 | (1.0) | (7.1) | 570 | 574 | 616 | (0.7) | |
| Advertising expense | 472 | 192 | 103 | 145.8 | 358.3 | 299 | 472 | 93 | (36.7) | |
| Card related expense | 1,323 | 1,277 | 1,222 | 3.6 | 8.3 | 1,458 | 1,323 | 1,347 | 10.2 | |
| Legal fees | 238 | 226 | 283 | 5.3 | (15.9) | 202 | 238 | 97 | (15.1) | |
| Consulting & management fees | 797 | 336 | 520 | 137.2 | 53.3 | 480 | 797 | 549 | (39.8) | |
| Other real estate owned expense, net | (87) | 46 | (98) | (289.1) | (11.2) | 242 | (87) | (27) | N/M | |
| Other expense | 3,547 | 3,593 | 3,840 | (1.3) | (7.6) | 3,608 | 3,547 | 4,627 | 1.7 | |
| **Total noninterest expense** | $37,877 | $ 38,241 | $34,830 | (1.0) | 8.7 | $ 39,308 | $37,877 | $ 37,423 | 3.8 | |
| Efficiency ratio (GAAP)[1] | 53.29 % | 53.59 % | 46.84 % | | | 53.38 % | 53.29 % | 50.08 % | | |
| Adjusted efficiency ratio (non-GAAP)[2] | 52.68 % | 53.09 % | 46.49 % | | | 52.31 % | 52.68 % | 48.82 % | | |

[1] *The efficiency ratio shown in the table above is a GAAP financial measure calculated as noninterest expense, excluding amortization of core deposits and OREO expenses, divided by the sum of net interest income and total noninterest income less net gains or losses on securities, and mark to market gains or losses on MSRs.*

[2] *The adjusted efficiency ratio shown in the table above is a non-GAAP financial measure calculated as noninterest expense, excluding amortization of core deposits, OREO expenses, litigation acquisition expense, and net of gains on branch sales, as applicable, divided by the sum of net interest income on a fully tax equivalent basis, total noninterest income less net gains or losses on securities, death benefits realized on BOLI, mark to market gains or losses on MSRs, and includes a tax equivalent adjustment on the change in cash surrender value of BOLI. See the discussion entitled "Non-GAAP Financial Measures" above and the table on page 51 53 that provides a reconciliation of this non-GAAP financial measure to the most comparable GAAP equivalent.*

Noninterest expense for the second third quarter of 2024 decreased $364,000, or 1.0%, compared to the first quarter of 2024, and increased $3.0 million $1.4 million, or 8.7% 3.8%, compared to the second quarter of 2024, and increased $1.9 million, or 5.0%, compared to the third quarter of 2023. The decrease increase in the second third quarter of 2024 compared to the first second quarter of 2024 was attributable to a $888,000 decrease $1.3 million increase in salaries and employee benefits, with decreases increases reflected primarily in restricted stock expense, officers' incentives payroll taxes, due to a higher projection of year end accruals based on our bank's performance, and deferred executive compensation due to changes in market interest rates. Also contributing to the decrease growth in noninterest expense in the second third quarter of 2024 was a $71,000 decrease $191,000 increase in computer and data processing expenses, a $51,000 decrease in FDIC insurance, primarily due to transaction-related costs incurred related to our pending purchase of five bank branches from FRME, and a $133,000 reduction $329,000 increase in other real estate owned expense, net, as a gain of $259,000 was recorded on an OREO sale in the second quarter of 2024; no like gain was recorded in the third quarter of 2024. Partially offsetting the decreases increases in noninterest expense in the second third quarter of 2024 compared to the first second quarter of 2024 was a $57,000 increase in net teller & bill paying expenses, a $280,000 increase $173,000 decrease in advertising expense primarily due to a new an overdraft disclosure mailed to retail deposit customers during the second quarter of

2024, and a $461,000 increase $317,000 decrease in consulting & management fees primarily driven by ongoing systems projects and as the second quarter of 2024 included costs of a deposit one-time compliance matter.
review project.



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The year over year increase in noninterest expense for the third quarter of 2024 is primarily attributable to a $1.6 million increase in salaries and employee benefits, primarily due to increases in annual base salary rates, restricted stock expense, and deferred employee compensation due to market interest rate changes. Also contributing to the increase was a $260,000 $370,000 increase in occupancy, furniture and equipment due to facilities improvements year over year, an $894,000 a $453,000 increase in computer and data processing primarily due to credits transaction-related costs incurred related to our pending branch purchase from our core data provider in the prior year period, FRME, a $369,000 $206,000 increase in advertising expense, a $101,000 $105,000 increase in card related expense, legal fees largely from merger-related costs, and a $277,000 $269,000 increase in consulting & management fees. OREO related expenses. Partially offsetting the increases in noninterest expense in the second third quarter of 2024, compared to the second third quarter of 2023, was a $178,000 decrease in FDIC insurance, and a $293,000 $1.0 million decrease in other expenses. expenses primarily due to $629,000 of liquidation costs recorded in the third quarter of 2023 from the September 2023 Visa credit card portfolio servicing deconversion.

*Six Nine months ended June 30, 2024 September 30, 2024 and 2023*

| **Noninterest Expense (Dollars in thousands)** | **Six Months Ended June 30, 2024** | **Six Months Ended June 30, 2023** | **Percent Change** | **Nine Months Ended September 30, 2024** | **Nine Months Ended September 30, 2023** | **Percent Change** |
|---|---|---|---|---|---|---|
| Salaries | $ 35,644 | $ 32,397 | 10.0 | $ 53,309 | $ 49,676 | 7.3 |
| Officers' incentive | 3,630 | 4,224 | (14.1) | 6,623 | 6,997 | (5.3) |
| Benefits and other | 8,462 | 7,425 | 14.0 | 12,480 | 10,488 | 19.0 |
| Total salaries and employee benefits | 47,736 | 44,046 | 8.4 | 72,412 | 67,161 | 7.8 |
| Occupancy, furniture and equipment expense | 7,826 | 7,114 | 10.0 | 11,702 | 10,620 | 10.2 |
| Computer and data processing | 4,439 | 3,064 | 44.9 | 6,814 | 4,986 | 36.7 |
| FDIC insurance | 1,283 | 1,378 | (6.9) | 1,915 | 2,122 | (9.8) |
| Net teller & bill paying | 1,099 | 1,017 | 8.1 | 1,669 | 1,551 | 7.6 |
| General bank insurance | 621 | 611 | 1.6 | 941 | 911 | 3.3 |
| Amortization of core deposit intangible asset | 1,154 | 1,242 | (7.1) | 1,724 | 1,858 | (7.2) |
| Advertising expense | 664 | 245 | 171.0 | 963 | 338 | 184.9 |
| Card related expense | 2,600 | 2,438 | 6.6 | 4,058 | 3,785 | 7.2 |
| Legal fees | 464 | 602 | (22.9) | 666 | 699 | (4.7) |
| Consulting & management fees | 1,133 | 1,310 | (13.5) | 1,613 | 1,859 | (13.2) |
| Other real estate owned expense, net | (41) | 208 | (119.7) | 201 | 181 | 11.0 |
| Other expense | 7,140 | 7,477 | (4.5) | 10,748 | 12,104 | (11.2) |
| **Total noninterest expense** | $ 76,118 | $ 70,752 | 7.6 | $ 115,426 | $ 108,175 | 6.7 |
| Efficiency ratio (GAAP)[1] | 53.44 % | 47.18 % | | 53.42 % | 48.15 % | |
| Adjusted efficiency ratio (non-GAAP)[2] | 52.88 % | 47.08 % | | 52.69 % | 47.66 % | |

[1] *The efficiency ratio shown in the table above is a GAAP financial measure calculated as noninterest expense, excluding amortization of core deposits and OREO expenses, divided by the sum of net interest income and total noninterest income less net gains or losses on securities, and mark to market gains or losses on MSRs.*

[2] *The adjusted efficiency ratio shown in the table above is a non-GAAP financial measure calculated as noninterest expense, excluding amortization of core deposits, OREO expenses, and acquisition expense, net of gains on branch sales, as applicable, divided by the sum of net interest income on a fully tax equivalent basis, total noninterest income less net gains or losses on securities, death benefits realized on BOLI, mark to market gains or losses on MSRs, and*

*includes a tax equivalent adjustment on the change in cash surrender value of BOLI. See the discussion entitled “Non-GAAP Financial Measures” above and the table on page 51 54 that provides a reconciliation of this non-GAAP financial measure to the most comparable GAAP equivalent.*

Noninterest expense for the six nine months ended June 30, 2024 September 30, 2024, increased $5.4 million $7.3 million, or 7.6% 6.7%, compared to the six nine months ended June 30, 2023 September 30, 2023, primarily due to a $3.7 million $5.3 million increase primarily from increases in salaries and employee benefits due to higher annual base salary rates, restricted stock expense, and deferred employee compensation due to market interest rate changes. Computer and data processing increased $1.4 million $1.8 million as credits were received from our core data provider in the prior year period. period, and the 2024 year to date period includes acquisition-related costs related to the FRME transaction. Occupancy, furniture and equipment increased $712,000, $1.1 million, or 10.0% 10.2%, as multiple branch improvements and office updates were completed over the past year. Advertising expenses increased $419,000 $625,000 primarily due to a new overdraft disclosure mailed to retail deposit customers in 2024. In addition, card related expense increased $162,000 $273,000 primarily due to additional customer volumes. Partially offsetting these increases were was a $95,000 decrease in FDIC insurance, a $138,000 decrease in legal fees, a $177,000 decrease in consulting & management fees, a $249,000 decrease in net OREO expenses, and a $337,000 $1.4 million decrease in other expenses. expenses driven by $833,000 liquidation fees incurred on the VISA portfolio sale recorded in 2023, which was not incurred in 2024.





**Reconciliation of Adjusted Efficiency Ratio Non-GAAP Financial Measures**

| | GAAP | | | Non-GAAP | | | GAAP | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended | | | Three Months Ended | | | Three Months Ended | | | Thr |
| | June 30, 2024 | March 31, 2024 | June 30, 2023 | June 30, 2024 | March 31, 2024 | June 30, 2023 | September 30, 2024 | June 30, 2024 | September 30, 2023 | September 30, 2024 |
| **Efficiency Ratio / Adjusted Efficiency Ratio** | | | | | | | | | | |
| Noninterest expense | $ 37,877 | $ 38,241 | $ 34,830 | $ 37,877 | $ 38,241 | $ 34,830 | $ 39,308 | $ 37,877 | $ 37,423 | $ 39,308 |
| Less amortization of core deposit | 574 | 580 | 618 | 574 | 580 | 618 | 570 | 574 | 616 | 570 |
| Less other real estate expense, net | (87) | 46 | (98) | (87) | 46 | (98) | 242 | (87) | (27) | 242 |
| Less losses on branch sales, net | N/A | N/A | N/A | - | - | 29 | | | | |
| Less merger related costs, net of gains on branch sales | | | | | | | N/A | N/A | N/A | 471 |
| Less liquidation and deconversion costs on Visa credit card portfolio | | | | | | | N/A | N/A | N/A | - |
| Noninterest expense less adjustments | $ 37,390 | $ 37,615 | $ 34,310 | $ 37,390 | $ 37,615 | $ 34,281 | $ 38,496 | $ 37,390 | $ 36,834 | $ 38,025 |
| Net interest income | $ 59,690 | $ 59,783 | $ 63,580 | $ 59,690 | $ 59,783 | $ 63,580 | $ 60,578 | $ 59,690 | $ 63,030 | $ 60,578 |
| Taxable-equivalent adjustment: | | | | | | | | | | |
| Loans | N/A | N/A | N/A | 10 | 11 | 11 | N/A | N/A | N/A | 11 |
| Securities | N/A | N/A | N/A | 344 | 347 | 355 | N/A | N/A | N/A | 343 |
| Net interest income including adjustments | 59,690 | 59,783 | 63,580 | 60,044 | 60,141 | 63,946 | 60,578 | 59,690 | 63,030 | 60,932 |
| Noninterest income | 11,127 | 10,501 | 8,223 | 11,127 | 10,501 | 8,223 | 10,581 | 11,127 | 9,877 | 10,581 |
| Less death benefit related to BOLI | 893 | - | - | 893 | - | - | 12 | 893 | - | 12 |
| Less securities gains (losses) | - | 1 | (1,547) | - | 1 | (1,547) | | | | |
| Less securities losses | | | | | | | (1) | - | (924) | (1) |
| Less MSRs mark to market (losses) gains | (238) | 94 | 96 | (238) | 94 | 96 | (964) | (238) | 281 | (964) |
| Taxable-equivalent adjustment: | | | | | | | | | | |
| Change in cash surrender value of BOLI | N/A | N/A | N/A | 456 | 311 | 111 | N/A | N/A | N/A | 232 |
| Noninterest income (excluding) / including adjustments | 10,472 | 10,406 | 9,674 | 10,928 | 10,717 | 9,785 | 11,534 | 10,472 | 10,520 | 11,766 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income including adjustments plus noninterest income (excluding) / including adjustments | $ 70,162 | $ 70,189 | $ 73,254 | $ 70,972 | $ 70,858 | $ 73,731 | $ 72,112 | $ 70,162 | $ 73,550 | $ 72,698 |
| Efficiency ratio / Adjusted efficiency ratio | 53.29 % | 53.59 % | 46.84 % | 52.68 % | 53.09 % | 46.49 % | 53.38 % | 53.29 % | 50.08 % | 52.31 |

N/A - *not applicable*

| | GAAP Six Months Ended | | Non-GAAP Six Months Ended | | GAAP Nine Months Ended | | Non-GAAP Nine Months Ended | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 | September 30, 2024 | September 30, 2023 | September 30, 2024 | September 2023 |
| **Efficiency Ratio / Adjusted Efficiency Ratio** | | | | | | | | |
| **(Dollars in thousands)** | | | | | | | | |
| Noninterest expense | $ 76,118 | $ 70,752 | $ 76,118 | $ 70,752 | $ 115,426 | $ 108,175 | $ 115,426 | $ 108, |
| Less amortization of core deposit intangible | 1,154 | 1,242 | 1,154 | 1,242 | 1,724 | 1,858 | 1,724 | 1, |
| Less other real estate expense, net | (41) | 208 | (41) | 208 | 201 | 181 | 201 | |
| Less gains on branch sales | N/A | N/A | - | (277) | | | | |
| Less merger related costs, net of gains on branch sales | | | | | N/A | N/A | 471 | ( |
| Less liquidation and deconversion costs on Visa credit card portfolio | | | | | N/A | N/A | - | |
| Noninterest expense less adjustments | $ 75,005 | $ 69,302 | $ 75,005 | $ 69,579 | $ 113,501 | $ 106,136 | $ 113,030 | $ 105, |
| Net interest income | $ 119,473 | $ 127,666 | $ 119,473 | $ 127,666 | $ 180,051 | $ 190,696 | $ 180,051 | $ 190, |
| Taxable-equivalent adjustment: | | | | | | | | |
| Loans | N/A | N/A | 21 | 17 | N/A | N/A | 32 | |
| Securities | N/A | N/A | 691 | 711 | N/A | N/A | 1,034 | 1, |
| Net interest income including adjustments | 119,473 | 127,666 | 120,185 | 128,394 | 180,051 | 190,696 | 181,117 | 191, |
| Noninterest income | 21,628 | 15,573 | 21,628 | 15,573 | 32,209 | 25,450 | 32,209 | 25, |
| Less death benefit related to BOLI | 893 | - | 893 | - | 905 | - | 905 | |
| Less securities gains (losses), net | 1 | (3,222) | 1 | (3,222) | - | (4,146) | - | (4, |
| Less MSRs mark to market losses | (144) | (429) | (144) | (429) | (1,108) | (148) | (1,108) | ( |
| Taxable-equivalent adjustment: | | | | | | | | |
| Change in cash surrender value of BOLI | N/A | N/A | 767 | 175 | N/A | N/A | 999 | |
| Noninterest income (excluding) / including adjustments | 20,878 | 19,224 | 21,645 | 19,399 | 32,412 | 29,744 | 33,411 | 30, |
| Net interest income including adjustments plus noninterest income (excluding) / including adjustments | $ 140,351 | $ 146,890 | $ 141,830 | $ 147,793 | $ 212,463 | $ 220,440 | $ 214,528 | $ 221, |
| Efficiency ratio / Adjusted efficiency ratio | 53.44 % | 47.18 % | 52.88 % | 47.08 % | 53.42 % | 48.15 % | 52.69 % | 47 |

N/A - *not applicable*



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**Income Taxes**

We recorded income tax expense of $7.3 million $6.9 million for the second third quarter of 2024 on $29.2 million $29.9 million of pretax income, compared to income tax expense of $7.2 million $7.3 million on $28.5 million $29.2 million of pretax income in the first second quarter of 2024, and income tax expense of

$9.4 million $8.1 million on $35.0 million $32.5 million of pretax income in the second third quarter of 2023. Our effective tax rate was 23.1% in the third quarter of 2024, 25.0% in for the second quarter of 2024, 25.3% and 25.1% for the first third quarter of 2023. The reduction in the effective tax rate in the third quarter of 2024 and 26.9% for reflects the second quarter new state of 2023. Illinois ruling regarding tax rate apportionment factors related to income generated from securities or loans originated in other states.

Income tax expense reflected all relevant statutory tax rates and GAAP accounting. There were no significant changes in our ability to utilize our deferred tax assets during the quarter ended June 30, 2024 September 30, 2024. We had no valuation reserve on the deferred tax assets as of June 30, 2024 September 30, 2024.

**Financial Condition**

Total assets decreased $60.1 $51.0 million to $5.66 billion $5.67 billion at June 30, 2024 September 30, 2024, from $5.72 billion at December 31, 2023, due primarily to the decrease of $19.2 million in securities available-for-sale and the decrease of $66.4 million $51.9 million in total loans. loans and a $9.0 million decrease in deferred tax assets. Deferred tax assets decreased $9.0 million driven by changes in other accumulated comprehensive income. The decrease in securities available-for-sale and loans is primarily due to maturities and paydowns. These decreases were was partially offset by increases an increase in cash and cash equivalents of $20.7 million $15.6 million, increases in premises and equipment of $3.6 million, increases $3.5 million with the build out of a new corporate facility and branches, and an increase in other real estate owned of $1.8, and increases in BOLI of $1.2 million. $3.1 million due to four additions. We continue to actively assess potential investment opportunities to utilize our excess liquidity. Total deposits were $4.52 billion $4.47 billion at June 30, 2024 September 30, 2024, a decrease of $49.0 million $105.3 million from December 31, 2023.

| **Securities** | **As of** | | | **June 30, 2024 Percent Change From** | | **As of** | | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **June 30, 2024** | **December 31, 2023** | **June 30, 2023** | **December 31, 2023** | **June 30, 2023** | **September 30, 2024** | **December 31, 2023** | **Septem 20** |
| **Securities available-for-sale, at fair value** | | | | | | | | |
| U.S. Treasuries | $ 191,274 | $ 169,574 | $ 214,613 | 12.8 | (10.9) | $ 194,188 | $ 169,574 | $ 2 |
| U.S. government agencies | 37,298 | 56,959 | 55,981 | (34.5) | (33.4) | 37,976 | 56,959 | |
| U.S. government agencies mortgage-backed | 96,872 | 106,370 | 115,140 | (8.9) | (15.9) | 96,413 | 106,370 | 1 |
| States and political subdivisions | 220,265 | 227,065 | 227,599 | (3.0) | (3.2) | 224,795 | 227,065 | 2 |
| Corporate bonds | - | - | 4,882 | N/M | (100.0) | - | - | |
| Collateralized mortgage obligations | 386,055 | 392,544 | 407,495 | (1.7) | (5.3) | 384,271 | 392,544 | 3 |
| Asset-backed securities | 64,877 | 68,436 | 136,254 | (5.2) | (52.4) | 63,947 | 68,436 | |
| Collateralized loan obligations | 177,020 | 171,881 | 173,658 | 3.0 | 1.9 | 189,264 | 171,881 | 1 |
| **Total securities** | $1,173,661 | $ 1,192,829 | $1,335,622 | (1.6) | (12.1) | $ 1,190,854 | $ 1,192,829 | $ 1,2 |

N/M – *Not meaningful.*



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Securities available-for-sale decreased $19.2 million $2.0 million as of June 30, 2024 September 30, 2024, compared to December 31, 2023, and decreased $162.0 million $38.8 million compared to June 30, 2023 September 30, 2023. The decrease in the portfolio during year to date 2024 was driven by paydowns totaling $74.7 million $106.0 million, securities sales totaling $5.3 million, and maturities totaling $97.0 million, partially offset by $157.9 million $180.6 million in purchases. purchases and a $27.9 million reduction in unrealized losses on securities available-for-sale. We continue to position the portfolio in higher credit quality, shorter duration securities with an appropriate mix of fixed- and floating-rate exposures.

| | June 30, 2024 | September 30, 2024 |
|---|---|---|

| Loans | As of | | | Percent Change From | | As of | | | Percent Change From | |
|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | June 30, 2024 | December 31, 2023 | June 30, 2023 | December 31, 2023 | June 30, 2023 | September 30, 2024 | December 31, 2023 | September 30, 2023 | December 31, 2023 | September 3 2023 |
| Commercial | $ 809,443 | $ 841,697 | $ 820,027 | (3.8) | (1.3) | $ 814,668 | $ 841,697 | $ 834,877 | (3.2) | (2 |
| Leases | 452,957 | 398,223 | 314,919 | 13.7 | 43.8 | 458,317 | 398,223 | 354,827 | 15.1 | 29 |
| Commercial real estate – investor | 1,014,345 | 1,034,424 | 1,080,073 | (1.9) | (6.1) | 1,045,060 | 1,034,424 | 1,047,122 | 1.0 | (0 |
| Commercial real estate – owner occupied | 745,938 | 796,538 | 824,277 | (6.4) | (9.5) | 718,265 | 796,538 | 809,050 | (9.8) | (11 |
| Construction | 185,634 | 165,380 | 189,058 | 12.2 | (1.8) | 206,458 | 165,380 | 202,546 | 24.8 | 1 |
| Residential real estate – investor | 50,371 | 52,595 | 55,935 | (4.2) | (9.9) | 50,332 | 52,595 | 53,762 | (4.3) | (6 |
| Residential real estate – owner occupied | 218,974 | 226,248 | 218,205 | (3.2) | 0.4 | 208,227 | 226,248 | 227,446 | (8.0) | (8 |
| Multifamily | 388,743 | 401,696 | 383,184 | (3.2) | 1.5 | 375,394 | 401,696 | 372,020 | (6.5) | 0 |
| HELOC | 99,037 | 103,237 | 102,058 | (4.1) | (3.0) | 102,611 | 103,237 | 102,055 | (0.6) | 0 |
| Other [1] | 11,153 | 22,915 | 27,789 | (51.3) | (59.9) | 11,746 | 22,915 | 25,838 | (48.7) | (54 |
| **Total loans** | $3,976,595 | $ 4,042,953 | $4,015,525 | (1.6) | (1.0) | $ 3,991,078 | $ 4,042,953 | $ 4,029,543 | (1.3) | (1 |

[1] *The "Other" segment includes consumer loans and overdrafts.*

Total loans were $3.98 billion $3.99 billion as of June 30, 2024 September 30, 2024, a decrease of $66.4 million $51.9 million from December 31, 2023. The decrease in total loans in the first six nine months of 2024, compared to December 31, 2023, was due primarily to paydowns, net of originations, within commercial real estate – owner occupied of $50.6 million $78.3 million, commercial of $32.3 million $27.0 million, commercial multifamily of $26.3 million, and residential real estate – investor owner occupied of $20.1 million and multifamily of $13.0 million $18.0 million, partially offset by net increases in leases of $54.7 million $60.1 million and construction of $20.3 million $41.1 million. Total loans decreased $38.9 million $38.5 million from June 30, 2023 September 30, 2023, to June 30, 2024 September 30, 2024, primarily due to paydowns, net of originations, within commercial real estate – owner occupied of $78.3 million $90.8 million, commercial of $20.2 million, and residential real estate - investor – owner occupied of $65.7 million, and commercial of $10.6 million $19.2 million, partially offset by net increases in leases of $138.0 million $103.5 million. As required by CECL, the balance (or amortized cost basis) of purchased credit deteriorated loans, or PCD loans (discussed below) is carried on a gross basis, rather than net of the associated credit loss estimate, and the expected credit losses for PCD loans are estimated and separately recognized as part of the allowance for credit losses, or ACL.

The quality of our loan portfolio is impacted not only by our credit decisions but also by the economic health of the communities in which we operate. Since we are located in a corridor with significant open space and undeveloped real estate, real estate lending (including commercial real estate, construction, residential, multifamily, and HELOCs) has been and continues to be a sizeable portion of our portfolio. These categories comprised 68.0% 67.8% of the portfolio as of June 30, 2024 September 30, 2024, compared to 68.8% of the portfolio as of December 31, 2023. At June 30, 2024 September 30, 2024, our outstanding commercial real estate loans and undrawn commercial real estate commitments, excluding owner occupied real estate, were equal to 259.7% 264.0% of our Tier 1 capital plus allowance for credit losses, a decrease from 286.9% at December 31, 2023. We continue to oversee and seek to manage our loan portfolio in accordance with interagency guidance on risk management.

**Asset Quality**

Nonperforming loans consist of nonaccrual loans and loans 90 days or greater past due. Nonperforming loans decreased by $21.9 million $16.5 million to $46.9 million $52.3 million at June 30, 2024 September 30, 2024, from $68.8 million at December 31, 2023, and decreased $14.4 million $11.0 million from $61.2 million $63.3 million at June 30, 2023 September 30, 2023. Purchased credit deteriorated loans, or PCD loans, are purchased loans that, as of the date of acquisition, we determined had experienced a more-than-insignificant deterioration in credit quality since origination. PCD loans and their related deferred loan costs are included in our nonperforming loan disclosures, if such loans otherwise meet the definition of a nonperforming loan. Management continues to carefully monitor loans considered to be in a classified status. Nonperforming loans as a percent of total loans were 1.2% 1.3% as of June 30, 2024 September 30, 2024, 1.7% as of December 31, 2023, and 1.5% 1.6% as of June 30, 2023 September 30, 2023. The distribution of our nonperforming loans is shown in the following table.

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| Nonperforming Loans (Dollars in thousands) | As of June 30, 2024 | As of December 31, 2023 | As of June 30, 2023 | June 30, 2024 Percent Change From December 31, 2023 | June 30, 2024 Percent Change From June 30, 2023 |
|---|---|---|---|---|---|
| Commercial | $ 2,654 | $ 2,025 | $ 1,544 | 31.1 | 71.9 |
| Leases | 284 | 639 | 758 | (55.6) | (62.5) |
| Commercial real estate – investor | 9,954 | 16,572 | 31,613 | (39.9) | (68.5) |
| Commercial real estate – owner occupied | 22,091 | 34,946 | 18,857 | (36.8) | 17.2 |
| Construction | 5,740 | 7,162 | 116 | (19.9) | N/M |
| Residential real estate – investor | 1,280 | 1,331 | 1,445 | (3.8) | (11.4) |
| Residential real estate – owner occupied | 2,599 | 3,078 | 3,660 | (15.6) | (29.0) |
| Multifamily | 1,395 | 1,775 | 1,191 | (21.4) | 17.1 |
| HELOC | 869 | 1,251 | 2,049 | (30.5) | (57.6) |
| **Total nonperforming loans** | $ 46,866 | $ 68,779 | $ 61,233 | (31.9) | (23.5) |

N/M – *Not meaningful.*

| Nonperforming Loans (Dollars in thousands) | As of September 30, 2024 | As of December 31, 2023 | As of September 30, 2023 | September 30, 2024 Percent Change From December 31, 2023 | September 30, 2024 Percent Change From September 30, 2023 |
|---|---|---|---|---|---|
| Commercial | $ 14,820 | $ 2,025 | $ 3,146 | 631.9 | 371.1 |
| Leases | 746 | 639 | 377 | 16.7 | 97.9 |
| Commercial real estate – investor | 8,531 | 16,572 | 26,724 | (48.5) | (68.1) |
| Commercial real estate – owner occupied | 17,032 | 34,946 | 18,290 | (51.3) | (6.9) |
| Construction | 5,765 | 7,162 | 7,206 | (19.5) | (20.0) |
| Residential real estate – investor | 1,180 | 1,331 | 1,502 | (11.3) | (21.4) |
| Residential real estate – owner occupied | 2,479 | 3,078 | 3,627 | (19.5) | (31.7) |
| Multifamily | 1,196 | 1,775 | 1,141 | (32.6) | 4.8 |
| HELOC | 531 | 1,251 | 1,312 | (57.6) | (59.5) |
| **Total nonperforming loans** | $ 52,280 | $ 68,779 | $ 63,325 | (24.0) | (17.4) |

The components of our nonperforming assets are shown in the following table.

| Nonperforming Assets (Dollars in thousands) | As of September 30, 2024 | As of December 31, 2023 | As of September 30, 2023 | September 30, 2024 Percent Change From December 31, 2023 | September 30, 2024 Percent Change From September 30, 2023 |
|---|---|---|---|---|---|
| Nonaccrual loans | $ 52,171 | $ 67,583 | $ 62,116 | (22.8) | (16.0) |
| Loans past due 90 days or more and still accruing interest | 109 | 1,196 | 1,209 | (90.9) | (91.0) |
| Total nonperforming loans | 52,280 | 68,779 | 63,325 | (24.0) | (17.4) |
| Other real estate owned | 8,202 | 5,123 | 407 | 60.1 | N/M |
| **Total nonperforming assets** | $ 60,482 | $ 73,902 | $ 63,732 | (18.2) | (5.1) |
| 30-89 days past due loans and still accruing interest | $ 28,480 | $ 13,668 | $ 28,486 | | |
| Nonaccrual loans to total loans | 1.3 % | 1.7 % | 1.5 % | | |
| Nonperforming loans to total loans | 1.3 % | 1.7 % | 1.6 % | | |
| Nonperforming assets to total loans plus OREO | 1.5 % | 1.8 % | 1.6 % | | |
| Allowance for credit losses | $ 44,422 | $ 44,264 | $ 51,729 | | |

| | | | |
|---|---|---|---|
| Allowance for credit losses to total loans | 1.1 % | 1.1 % | 1.3 % |
| Allowance for credit losses to nonaccrual loans | 85.1 % | 65.5 % | 83.3 % |

| Nonperforming Assets (Dollars in thousands) | As of June 30, 2024 | As of December 31, 2023 | As of June 30, 2023 | June 30, 2024 Percent Change From December 31, 2023 | June 30, 2024 Percent Change From June 30, 2023 |
|---|---|---|---|---|---|
| Nonaccrual loans | $ 41,957 | $ 67,583 | $ 60,925 | (37.9) | (31.1) |
| Loans past due 90 days or more and still accruing interest | 4,909 | 1,196 | 308 | 310.5 | N/M |
| Total nonperforming loans | 46,866 | 68,779 | 61,233 | (31.9) | (23.5) |
| Other real estate owned | 6,920 | 5,123 | 761 | 35.1 | 809.3 |
| **Total nonperforming assets** | $ 53,786 | $ 73,902 | $ 61,994 | (27.2) | (13.2) |
| | | | | | |
| 30-89 days past due loans and still accruing interest | $ 16,728 | $ 13,668 | $ 12,449 | | |
| Nonaccrual loans to total loans | 1.1 % | 1.7 % | 1.5 % | | |
| Nonperforming loans to total loans | 1.2 % | 1.7 % | 1.5 % | | |
| Nonperforming assets to total loans plus OREO | 1.4 % | 1.8 % | 1.5 % | | |
| | | | | | |
| Allowance for credit losses | $ 42,269 | $ 44,264 | $ 55,314 | | |
| Allowance for credit losses to total loans | 1.1 % | 1.1 % | 1.4 % | | |
| Allowance for credit losses to nonaccrual loans | 100.7 % | 65.5 % | 90.8 % | | |

N/M – *Not meaningful.*



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Loan charge-offs, net of recoveries, for the second third quarter of 2024, prior linked quarter and year over year quarter are shown in the following table.

| Loan Charge–offs, Net of Recoveries (Dollars in thousands) | Three Months Ended June 30, 2024 | % of Total[1] | March 31, 2024 | % of Total[1] | June 30, 2023 | % of Total[1] | Three Months Ended September 30, 2024 | % of Total[1] | June 30, 2024 | % of Total[1] | September 30, 2023 | % of Total[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commercial | $ (19) | (0.3) | $ (58) | (1.6) | $ 298 | 59.0 | $ (7) | 4.5 | $ (19) | (0.3) | $ 8 | 0.1 |
| Leases | 81 | 1.4 | (40) | (1.1) | (7) | (1.4) | 43 | (27.7) | 81 | 1.4 | (95) | (1.4) |
| Commercial real estate – investor | 4,560 | 78.7 | (67) | (1.8) | 51 | 10.1 | (149) | 96.1 | 4,560 | 78.7 | 6,754 | 102.4 |
| Commercial real estate – owner occupied | 1,162 | 20.1 | 3,868 | 104.7 | 198 | 39.2 | (44) | 28.4 | 1,162 | 20.1 | 23 | 0.3 |
| Construction | | | | | | | - | - | - | - | (100) | (1.5) |
| Residential real estate – investor | (3) | (0.1) | (2) | (0.1) | (5) | (1.0) | (18) | 11.6 | (3) | (0.1) | (3) | - |
| Residential real estate – owner occupied | (9) | (0.2) | (8) | (0.2) | (36) | (7.1) | (11) | 7.1 | (9) | (0.2) | (25) | (0.4) |
| Multifamily | | | | | | | - | - | - | - | - | - |
| HELOC | (15) | (0.3) | (17) | (0.5) | (24) | (4.8) | (14) | 9.0 | (15) | (0.3) | (35) | (0.5) |
| Other [2] | 37 | 0.7 | 19 | 0.6 | 30 | 6.0 | 45 | (29.0) | 37 | 0.7 | 70 | 1.0 |
| **Net charge–offs** | $ 5,794 | 100.0 | $ 3,695 | 100.0 | $ 505 | 100.0 | | | | | | |
| **Net (recoveries)/charge–offs** | | | | | | | $ (155) | 100.0 | $ 5,794 | 100.0 | $ 6,597 | 100.0 |

[1] *Represents the percentage of net charge-offs attributable to each category of loans.*

[2] *The "Other" segment includes consumer and overdrafts.*

Net charge-offs recoveries of $5.8 million $155,000 were recorded for the second third quarter of 2024, compared to net charge-offs of $3.7 million $5.8 million for the first second quarter of 2024, and net charge-offs of $505,000 $6.6 million for the second third quarter of 2023, reflecting continuing management attention to credit quality and remediation efforts. The net charge-offs recoveries for the second third quarter of 2024 were primarily due to three a commercial real estate – investor charge offs recovery totaling $4.6 million and a $1.3 million charge off of a commercial real estate – owner occupied loan. The commercial real estate – owner occupied credit had a reported reserve allocation of $1.2 million prior to the second quarter of 2024 charge-off. $131,000. We have continued our conservative loan valuations and aggressive recovery efforts on prior charge-offs.

Classified loans include nonaccrual loans and all other loans considered substandard. accruing substandard loans. Classified assets include both classified loans and OREO. Loans classified as substandard are inadequately protected by either the current net worth and ability to meet payment obligations of the obligor, or by the collateral pledged to secure the loan, if any. These loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and carry the distinct possibility that we will sustain some loss if deficiencies remain uncorrected.

The following table shows classified assets by segment for the following periods.

| Classified Assets | June 30, 2024 As of | | | Percent Change From | | September 30, 2024 As of | | | Percent Change From | |
|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | June 30, 2024 | December 31, 2023 | June 30, 2023 | December 31, 2023 | June 30, 2023 | September 30, 2024 | December 31, 2023 | September 30, 2023 | December 31, 2023 | September 30, 2023 |
| Commercial | $ 19,142 | $ 8,414 | $ 22,245 | 127.5 | (13.9) | $ 35,043 | $ 8,414 | $ 18,298 | 316.5 | 91.5 |
| Leases | 284 | 818 | 974 | (65.3) | (70.8) | 746 | 818 | 574 | (8.8) | 30.0 |
| Commercial real estate – investor | 36,939 | 43,798 | 57,041 | (15.7) | (35.2) | 21,652 | 43,798 | 54,126 | (50.6) | (60.0) |
| Commercial real estate – owner occupied | 48,387 | 54,613 | 38,495 | (11.4) | 25.7 | 41,820 | 54,613 | 55,292 | (23.4) | (24.4) |
| Construction | 5,740 | 17,155 | 116 | (66.5) | N/M | 5,765 | 17,155 | 17,263 | (66.4) | (66.6) |
| Residential real estate – investor | 1,343 | 1,331 | 1,714 | 0.9 | (21.6) | 1,180 | 1,331 | 1,502 | (11.3) | (21.4) |
| Residential real estate – owner occupied | 2,734 | 3,216 | 3,660 | (15.0) | (25.3) | 2,612 | 3,216 | 3,627 | (18.8) | (28.0) |
| Multifamily | 6,810 | 1,775 | 1,191 | 283.7 | 471.8 | 3,269 | 1,775 | 1,141 | 84.2 | 186.5 |
| HELOC | 1,025 | 1,664 | 2,152 | (38.4) | (52.4) | 736 | 1,664 | 1,434 | (55.8) | (48.7) |
| Other [1] | 1 | - | - | N/M | N/M | | | | | |
| Total classified loans | 122,405 | 132,784 | 127,588 | (7.8) | (4.1) | 112,823 | 132,784 | 153,257 | (15.0) | (26.4) |
| Other real estate owned | 6,920 | 5,123 | 761 | 35.1 | 809.3 | 8,202 | 5,123 | 407 | 60.1 | N/M |
| **Total classified assets** | $129,325 | $ 137,907 | $128,349 | (6.2) | 0.8 | $ 121,025 | $ 137,907 | $ 153,664 | (12.2) | (21.2) |

[1] *The "Other" segment includes consumer loans and overdrafts.*

N/M - *Not meaningful*



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Total classified loans and classified assets decreased $10.4 million $20.0 million and $8.6 million $16.9 million as of June 30, 2024 September 30, 2024, from December 31, 2023, respectively. The decrease since December 31, 2023, is due to outflows of $40.3 million $85.7 million which consisted of $11.9 million $32.6 million of loans paid off, $9.8 million $9.9 million of loans charged off, $8.7 million $29.6 million of classified loans upgraded, $6.5 million $9.0 million of principal reductions through payments, and $3.4 million $4.6 million that transferred to OREO. The outflows are offset by the additions of $29.9 million $65.7 million, the majority of which consisted of five relationships totaling $28.2 million. Commercial commercial loans were the majority of the additions, consisting of twelve loans totaling $18.6 million $38.4 million. The increase $32.6 million decrease in classified assets from June 30, 2023 September 30, 2023 to September 30, 2024, is primarily due to additions outflows to commercial real estate – investor of $32.5 million and commercial real estate – owner occupied. occupied of $13.5 million. Management monitors a ratio of classified assets to the sum of Bank Tier 1 capital and the ACL on loans as another measure of overall change in loan related asset quality, which is referred to as the "classified assets ratio." The classified assets ratio was 18.98% 17.71% for the period ended June 30, 2024 September 30, 2024, compared to 21.66% as of December 31, 2023, and 20.46% 23.51% as of June 30, 2023 September 30, 2023.

**Allowance for Credit Losses on Loans**

The provision for credit losses, which includes a provision for losses on unfunded commitments, is a charge to earnings to maintain the allowance for credit losses ("ACL") at a level consistent with management's assessment of expected losses in the loan portfolio at the balance sheet date.

At June 30, 2024 September 30, 2024, our ACL on loans totaled $42.3 million $44.4 million, and our ACL on unfunded commitments, included in other liabilities, totaled $2.5 million. In the second third quarter of 2024, we recorded provision expense on loans of $4.0 million, based on historical loss rates, our assessment $2.0 million driven by the downgrade of nonperforming loan metrics and trends, downward risk rating migrations, and estimated future credit losses, two credits resulting in a higher specific allocation and a $199,000 slight upward adjustment to a macro-economic forecast, these negative trends were offset by upgrades and payoffs on credits that carried higher loss rates. Further, we recorded a $2,000 reversal of provision on unfunded commitments, primarily due to an adjustment of historical benchmark assumptions, such as funding rates and the period used to forecast those rates, within the ACL calculation. These adjustments resulted in a $3.8 million $2.0 million net impact to the provision for credit losses for the second third quarter of 2024.

Management estimates the amount of provision required on a quarterly basis and records the appropriate provision expense, or release of expense, to maintain an adequate reserve for all potential and estimated credit losses on loans, leases and unfunded commitments. The ACL on loans totaled $42.3 million $44.4 million as of June 30, 2024 September 30, 2024, $44.3 million as of December 31, 2023, and $55.3 million $51.7 million as of June 30, 2023 September 30, 2023. Our ACL on loans to total loans was 1.1% as of June 30, 2024 September 30, 2024, and December 31, 2023, and 1.4% 1.3% as of June 30, 2023 September 30, 2023. See Item 7 – *Critical Accounting Estimates* in the Management Discussion and Analysis in our 2023 Annual Report in Form 10-K for discussion of our ACL methodology on loans. Allocations of the ACL may be made for specific loans, but the entire allowance is available for any loan that, in our judgment, should be charged-off.



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Below is a reconciliation of the activity in the allowance for credit losses on loans for the periods indicated (dollars in thousands):

| | Three Months Ended | | | Six Months Ended | | Three Months Ended | | | Nine M |
|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 | September 30, 2024 | June 30, 2024 | September 30, 2023 | September 3 2024 |
| Allowance at beginning of period | $ 44,113 | $ 44,264 | $ 53,392 | $ 44,264 | $ 49,480 | $ 42,269 | $ 44,113 | $ 55,314 | $ 44,264 |
| Charge–offs: | | | | | | | | | |
| Commercial | 3 | 15 | 380 | 18 | 407 | 33 | 3 | 20 | 51 |
| Leases | 81 | - | - | 81 | 882 | 68 | 81 | - | 149 |
| Commercial real estate – investor | 4,580 | 16 | 71 | 4,596 | 71 | - | 4,580 | 6,774 | 4,596 |
| Commercial real estate – owner occupied | 1,281 | 3,887 | 201 | 5,168 | 201 | | | | |
| Commercial real estate – owner occupied [1] | | | | | | (14) | 1,281 | 35 | 5,154 |
| Construction | - | - | - | - | - | - | - | - | - |
| Residential real estate – investor | - | - | - | - | - | - | - | - | - |
| Residential real estate – owner occupied | - | - | - | - | - | - | - | - | - |
| Multifamily | - | - | - | - | - | - | - | - | - |
| HELOC | - | - | - | - | - | - | - | - | - |
| Other [1] | 66 | 70 | 81 | 136 | 194 | | | | |
| Other [2] | | | | | | 78 | 66 | 107 | 214 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total charge–offs | 6,011 | 3,988 | 733 | 9,999 | 1,755 | 165 | 6,011 | 6,936 | 10,164 |
| Recoveries: | | | | | | | | | |
| Commercial | 22 | 73 | 82 | 95 | 233 | 40 | 22 | 12 | 135 |
| Leases | - | 40 | 7 | 40 | 16 | 25 | - | 95 | 65 |
| Commercial real estate – investor | 20 | 83 | 20 | 103 | 37 | 149 | 20 | 20 | 252 |
| Commercial real estate – owner occupied | 119 | 19 | 3 | 138 | 5 | 30 | 119 | 12 | 168 |
| Construction | - | - | - | - | - | - | - | 100 | - |
| Residential real estate – investor | 3 | 2 | 5 | 5 | 24 | 18 | 3 | 3 | 23 |
| Residential real estate – owner occupied | 9 | 8 | 36 | 17 | 46 | 11 | 9 | 25 | 28 |
| Multifamily | - | - | - | - | - | - | - | - | - |
| HELOC | 15 | 17 | 24 | 32 | 53 | 14 | 15 | 35 | 46 |
| Other 1 | 29 | 51 | 51 | 80 | 96 | | | | |
| Other 2 | | | | | | 33 | 29 | 37 | 113 |
| Total recoveries | 217 | 293 | 228 | 510 | 510 | 320 | 217 | 339 | 830 |
| Net charge-offs | 5,794 | 3,695 | 505 | 9,489 | 1,245 | | | | |
| Provision for credit losses on loans | 3,950 | 3,544 | 2,427 | 7,494 | 7,079 | | | | |
| Net (recoveries) charge-offs | | | | | | (155) | 5,794 | 6,597 | 9,334 |
| Provision for credit losses on loans 3 | | | | | | 1,998 | 3,950 | 3,012 | 9,492 |
| Allowance at end of period | $ 42,269 | $ 44,113 | $ 55,314 | $ 42,269 | $ 55,314 | $ 44,422 | $ 42,269 | $ 51,729 | $ 44,422 |
| Average total loans (exclusive of loans held–for–sale) | $3,957,454 | $4,018,631 | $4,039,052 | $3,988,043 | $3,985,662 | $ 3,965,160 | $3,957,454 | $ 4,009,218 | $ 3,980,359 |
| Net charge–offs to average loans | 0.59 % | 0.37 % | 0.05 % | 0.48 % | 0.06 % | (0.02)% | 0.59 % | 0.65 % | 0.31 |
| Allowance at period end to average loans | 1.07 % | 1.10 % | 1.37 % | 1.06 % | 1.39 % | 1.12 % | 1.07 % | 1.29 % | 1.12 |

1 *The reduction of the commercial real estate – owner occupied is a reversal and not a recovery. This is a correction to a prior charge-off recorded in the first quarter of 2024.*

2 *The "Other" segment includes consumer loans and overdrafts.*

3 *Amount does not include the provision for unfunded commitment liability.*

The coverage ratio of the ACL on loans to nonperforming loans was 90.2% 85.0% as of June 30, 2024 September 30, 2024, which was an increase a decrease from the coverage ratio of 67.8% 90.2% as of March 31, 2024 June 30, 2024, and a slight decrease an increase from 90.3% 81.7% as of June 30, 2023 September 30, 2023. When measured as a percentage of quarter to date average loans, our total ACL on loans was 1.12% at September 30, 2024, 1.07% at June 30, 2024, 1.10% and 1.29% at March 31, 2024, and 1.37% at June 30, 2023 September 30, 2023.

In management's judgment, an adequate ACL has been established to encompass the current lifetime expected credit losses at June 30, 2024 September 30, 2024, and as well as general changes in lending policy, procedures and staffing, as well as and other external factors. However, there can be no assurance that actual losses will not exceed the estimated amounts in the future, based on unforeseen economic events, changes in business climates and the condition of collateral at the time of default and repossession. Continued volatility in the economic environment stemming from the impacts of and response to inflation, political election results, potential recession, and the war in Ukraine and the conflict in the Middle East, and the associated effects on our customers, or other factors, such as changes in business climates and the condition of collateral at the time of default or repossession, may revise our current expectations of future credit losses in future reporting periods.



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**Other Real Estate Owned**

As of June 30, 2024 September 30, 2024, OREO totaled $6.9 million $8.2 million, reflecting an increase of $1.8 million $3.1 million from $5.1 million at December 31, 2023, and an increase of $6.2 million $7.8 million from $761,000 $407,000 at June 30, 2023 September 30, 2023. There were two property additions totaling

$3.4 million $1.3 million and one disposal totaling $1.6 million carrying value adjustment of $28,000 in the OREO portfolio during the second third quarter of 2024. 2024 due to an updated appraisal. No valuation adjustments occurred in the second quarter of 2024, the fourth quarter of 2023 or the second third quarter of 2023.

| OREO | | | | June 30, 2024 | | | | | September 3 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended | | | Percent Change From | | Three Months Ended | | | Percent Chang | |
| | | | | | June | | | | | S |
| (Dollars in thousands) | June 30, 2024 | December 31, 2023 | June 30, 2023 | December 31, 2023 | 30, 2023 | September 30, 2024 | December 31, 2023 | September 30, 2023 | December 31, 2023 | |
| Balance at beginning of period | $ 5,123 | $ 407 | $ 1,255 | N/M | 308.2 | $ 6,920 | $ 407 | $ 761 | N/M | |
| Property additions, net of acquisition adjustments | 3,388 | 4,894 | 185 | (30.8) | N/M | | | | | |
| Property additions, net of transfer adjustments | | | | | | 1,282 | 4,894 | 210 | (73.8) | |
| Less: | | | | | | | | | | |
| Proceeds from property disposals, net of participation purchase and of gains/losses | 1,591 | 178 | 679 | 793.8 | 134.3 | - | 178 | 564 | (100.0) | |
| **Balance at end of period** | $ 6,920 | $ 5,123 | $ 761 | 35.1 | 809.3 | $ 8,202 | $ 5,123 | $ 407 | 60.1 | |

*N/M - Not meaningful*

In management's judgment, the property valuation allowance as established presents OREO at current estimates of fair value less estimated costs to sell; however, there can be no assurance that additional losses will not be incurred on disposals or upon updates to valuations in the future.

| **OREO Properties by Type** (Dollars in thousands) | June 30, 2024 | | December 31, 2023 | | June 30, 2023 | | September 30, 2024 | | December 31, 2023 | | September 30, 2023 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % of Total | Amount | % of Total | Amount | % of Total | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Single family residence | $ - | - % | $ - | - % | $ 227 | 30 % | $ - | - % | $ - | - % | $ - | - % |
| Lots (single family and commercial) | - | - | - | - | 337 | 44 | - | - | - | - | 211 | 52 |
| Vacant land | 197 | 3 | 197 | 4 | 197 | 26 | 197 | 2 | 197 | 4 | 196 | 48 |
| Multi-family | - | - | - | - | - | - | - | - | - | - | - | - |
| Commercial property | 6,723 | 97 | 4,926 | 96 | - | - | 8,005 | 98 | 4,926 | 96 | - | - |
| **Total other real estate owned** | $ 6,920 | 100 % | $ 5,123 | 100 % | $ 761 | 100 % | $ 8,202 | 100 % | $ 5,123 | 100 % | $ 407 | 100 % |

**Deposits and Borrowings**

| **Deposits** | | | | June 30, 2024 | | | | | September 30, 2024 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As of | | | Percent Change From | | As of | | | Percent Change From | |
| (Dollars in thousands) | June 30, 2024 | December 31, 2023 | June 30, 2023 | December 31, 2023 | June 30, 2023 | September 30, 2024 | December 31, 2023 | September 30, 2023 | December 31, 2023 | September 30, 2023 |
| Noninterest bearing demand | $1,728,487 | $ 1,834,891 | $1,897,694 | (5.8) | (8.9) | $ 1,669,000 | $ 1,834,891 | $ 1,862,659 | (9.0) | (10.4) |
| Savings | 908,826 | 971,334 | 1,050,453 | (6.4) | (13.5) | 885,933 | 971,334 | 1,003,498 | (8.8) | (11.7) |
| NOW accounts | 557,469 | 565,375 | 586,121 | (1.4) | (4.9) | 548,923 | 565,375 | 567,997 | (2.9) | (3.4) |
| Money market accounts | 695,131 | 671,240 | 731,459 | 3.6 | (5.0) | 690,840 | 671,240 | 702,176 | 2.9 | (1.6) |
| Certificates of deposit of less than $100,000 | 304,195 | 266,035 | 240,848 | 14.3 | 26.3 | 317,312 | 266,035 | 248,272 | 19.3 | 27.8 |
| Certificates of deposit of $100,000 through $250,000 | 223,137 | 180,289 | 148,070 | 23.8 | 50.7 | 239,775 | 180,289 | 162,901 | 33.0 | 47.2 |
| Certificates of deposit of more than $250,000 | 104,483 | 81,582 | 62,937 | 28.1 | 66.0 | 113,641 | 81,582 | 66,817 | 39.3 | 70.1 |
| **Total deposits** | $4,521,728 | $ 4,570,746 | $4,717,582 | (1.1) | (4.2) | $ 4,465,424 | $ 4,570,746 | $ 4,614,320 | (2.3) | (3.2) |

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Total deposits were $4.52 billion $4.47 billion at June 30, 2024 September 30, 2024, which reflects a $49.0 million $105.3 million decrease from total deposits of $4.57 billion at December 31, 2023, and a decrease of $195.9 million $148.9 million from total deposits of $4.72 billion $4.61 billion at June 30, 2023 September 30, 2023. The decrease in deposits at June 30, 2024 September 30, 2024, compared to December 31, 2023, was primarily due to decreases in non-interest bearing deposits of $106.4 million $165.9 million, savings accounts of $62.5 million $85.4 million, and NOW accounts of $7.9 million $16.5 million, partially offset by an increase of $23.9 million $19.6 million in money market accounts, and $103.9 million $142.8 million in time deposits. The decrease in deposits at June 30, 2024 September 30, 2024, compared to June 30, 2023 September 30, 2023, was primarily due to decreases in non-interest bearing deposits of $169.2 million $193.7 million, savings accounts of $141.6 million $117.6 million, NOW accounts of $28.7 million $19.1 million, and money market accounts of $36.3 million $11.3 million, partially offset by an increase in time deposits of $180.0 million $192.7 million. Total quarterly average deposits decreased $217.9 million $172.6 million, or 4.6% 3.7%, in the year over year period, driven by declines in our average demand deposits of $150.9 million $175.8 million, and savings, NOW and money markets combined decreased $182.3 million, which was partially offset by average time deposit growth of $241.2 million $185.4 million. In general, the bulk of the decline in deposits year over year can be characterized as rate sensitive with significant flows and transfers into investing activities.

The following table presents estimated insured and uninsured deposits at June 30, 2024 September 30, 2024, and December 31, 2023, by deposit type, as well as the weighted average rates for each year to date ending period.

| (Dollars in thousands) | June 30, 2024 | | | | December 31, 2023 | | | | September 30, 2024 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Deposits | Insured Deposits | Uninsured Deposits | Average Rate Paid | Total Deposits | Insured Deposits | Uninsured Deposits | Average Rate Paid | Total Deposits | Insured Deposits | Uninsured Deposits | Average Rate Paid | T De |
| Noninterest bearing demand | $1,728,487 | $1,129,090 | $ 599,397 | - % | $1,834,891 | $1,137,089 | $ 697,802 | - % | $1,669,000 | $1,086,500 | $ 582,500 | - % | $1,8 |
| Savings | 908,826 | 853,603 | 55,223 | 0.30 | 971,334 | 905,163 | 66,171 | 0.11 | 885,933 | 827,107 | 58,826 | 0.33 | 9 |
| NOW accounts | 557,469 | 391,902 | 165,567 | 0.53 | 565,375 | 414,005 | 151,370 | 0.27 | 548,923 | 381,832 | 167,091 | 0.52 | 5 |
| Money market accounts | 695,131 | 462,474 | 232,657 | 1.60 | 671,240 | 473,006 | 198,234 | 0.80 | 690,840 | 458,380 | 232,460 | 1.69 | 6 |
| Time deposits | 631,815 | 537,328 | 94,487 | 3.10 | 527,906 | 452,000 | 75,906 | 1.45 | 670,728 | 570,291 | 100,437 | 3.20 | 5 |
| **Total** | $4,521,728 | $3,374,397 | $1,147,331 | 0.76 % | $4,570,746 | $3,381,263 | $1,189,483 | 0.32 % | $4,465,424 | $3,324,110 | $1,141,314 | 0.82 % | $4,5 |
| *Collateralized public funds* | *$ 253,790* | *$ 16,673* | *$ 237,117* | | *$ 247,202* | *$ 15,211* | *$ 231,991* | | *$ 249,110* | *$ 16,313* | *$ 232,797* | | *$ 2* |

Deposits declined 1.1% experienced a moderate decline of 2.3% for the six nine months ended June 30, 2024, as a result September 30, 2024; our deposit level has remained stable into the second half of seasonal flows and overall stabilization. Balances continue 2024. Deposit balances continued to migrate shift into money market interest bearing accounts and time deposits, in the third quarter of 2024 as customers seek higher interest rates. Additionally, competitive pricing remains aggressive In response to the Federal Reserve Bank rate cut, we reduced the interest rate on our CD specials in our market which has increased late September 2024, thus we expect the rates paid on deposits. migration of balances into interest bearing accounts to start to slow.

In addition to deposits, we used other liquidity sources for our funding needs in all periods presented, such as repurchase agreements and other short-term borrowings with the FHLBC. Securities sold under repurchase agreements totaled $46.5 million $53.9 million at June 30, 2024 September 30, 2024, a $20.1 million $27.4 million, or 75.8% 103.5%, increase from $26.5 million at December 31, 2023, and an increase of $15.0 million $28.0 million, or 47.6% 108.0%, from June 30, 2023 September 30, 2023. The outstanding balance of our short-term FHLBC borrowings was $330.0 million $335.0 million as of June 30, 2024 September 30, 2024, $405.0 million as of December 31, 2023, and $485.0 million $435.0 million as of June 30, 2023 September 30, 2023.

We are also indebted on $25.8 million of junior subordinated debentures, net of deferred issuance costs, as of June 30, 2024 September 30, 2024, which are related to the trust preferred securities issued by its statutory trust subsidiary, Old Second Capital Trust II (“Trust II”). The Trust II issuance converted from fixed to floating rate at three month LIBOR, which is now three month Term SOFR, plus 150 basis points beginning June 15, 2017. Upon conversion to a floating rate, we initiated a cash flow hedge which resulted in the total net year to date interest rate paid on this debt of 4.43% 4.34% as of June 30, 2024 September 30, 2024, as compared to 6.77%, which was the rate paid during the period prior to the June 15, 2017, rate reset.

In the second quarter of 2021, we entered into Subordinated Note Purchase Agreements with certain qualified institutional buyers pursuant to which we issued $60.0 million in aggregate principal amount of our 3.50% Fixed-to-Floating Rate Subordinated Notes due April 15, 2031 (the "Notes"). We sold the Notes to eligible purchasers in a private offering, and the proceeds of this issuance were used for general corporate purposes. The Notes bear interest at a fixed annual rate of 3.50% through April 14, 2026, payable semi-annually in arrears. As of April 15, 2026, forward, the interest rate on the Notes will generally reset quarterly to a rate equal to three-month Term SOFR (as defined by the Note) plus 273 basis points, payable quarterly in arrears. The Notes have a stated maturity of April 15, 2031, and are redeemable, in whole are in part, on April 15, 2026, or any interest payment date thereafter, and at any time upon the occurrence of certain events. As of June 30, 2024 September 30, 2024, we had $59.4 million of subordinated debentures outstanding, net of deferred issuance costs.

In December 2016, we completed a $45.0 million senior note issuance. The notes had a ten-year term, and included interest payable semiannually at 5.75% for five years. Beginning December 31, 2021, the interest became payable quarterly at three month LIBOR plus 385 basis points. On June 30, 2023, the senior notes were redeemed in full. The remaining balance of deferred debt issuance costs of $362,000 related to these senior notes was recognized as interest expense as of June 30, 2023.



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On February 24, 2023, we paid off the remaining $9.0 million balance in notes payable and other borrowings, resulting in no balance in this line item as of June 30, 2024 September 30, 2024, December 31, 2023, and June 30, 2023. The balance in notes payable was related to a $20.0 million term note originated with a correspondent bank in the first quarter of 2020, to facilitate the redemption of our Old Second Capital Trust I trust preferred securities and related junior subordinated debentures, completed on March 2, 2020 September 30, 2023.

**Capital**

As of June 30, 2024 September 30, 2024, total stockholders' equity was $619.3 million $661.4 million, which was an increase of $42.1 million $84.1 million from $577.3 million as of December 31, 2023. This increase was largely attributable to net income of $43.2 $66.2 million in the first six nine months of 2024, partially offset by $4.5 million $6.7 million of dividends paid to our common stockholders. In addition, total stockholders' equity as of June 30, 2024 September 30, 2024, increased over December 31, 2023, due to a reduction in unrealized net losses on available-for-sale securities, which contributed to the overall decrease in accumulated other comprehensive loss of $2.0 million $22.4 million in the first six nine months of 2024, due to changes in market interest rates. Total stockholders' equity as of June 30, 2024 September 30, 2024, increased $105.4 million $128.8 million compared to June 30, 2023 September 30, 2023, due to net income year over year and the decrease in accumulated other comprehensive loss of $25.4 million $50.2 million year over year.

The following table shows the regulatory capital ratios and the current well capitalized regulatory requirements for the Company and the Bank as of the dates indicated:

| | Minimum Capital Adequacy with Capital Conservation Buffer, if applicable[1] | Well Capitalized Under Prompt Corrective Action Provisions[2] | June 30, 2024 | December 31, 2023 | June 30, 2023 | Minimum Capital Adequacy with Capital Conservation Buffer, if applicable[1] | Well Capitalized Under Prompt Corrective Action Provisions[2] | September 30, 2024 | December 31, 2023 | Sep |
|---|---|---|---|---|---|---|---|---|---|---|
| **The Company** | | | | | | | | | | |
| Common equity tier 1 capital ratio | 7.00 % | N/A | 12.41 % | 11.37 % | 10.29 % | 7.00 % | N/A | 12.86 % | 11.37 % | |
| Total risk-based capital ratio | 10.50 | N/A | 15.12 | 14.06 | 13.16 | 10.50 | N/A | 15.62 | 14.06 | |
| Tier 1 risk-based capital ratio | 8.50 | N/A | 12.94 | 11.89 | 10.80 | 8.50 | N/A | 13.39 | 11.89 | |
| Tier 1 leverage ratio | 4.00 | N/A | 10.96 | 10.06 | 8.96 | 4.00 | N/A | 11.38 | 10.06 | |
| **The Bank** | | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Common equity tier 1 capital ratio | 7.00 % | 6.50 % | 13.50 % | 12.32 % | 11.70 % | 7.00 % | 6.50 % | 13.49 % | 12.32 % |
| Total risk-based capital ratio | 10.50 | 10.00 | 14.42 | 13.24 | 12.83 | 10.50 | 10.00 | 14.45 | 13.24 |
| Tier 1 risk-based capital ratio | 8.50 | 8.00 | 13.50 | 12.32 | 11.70 | 8.50 | 8.00 | 13.49 | 12.32 |
| Tier 1 leverage ratio | 4.00 | 5.00 | 11.43 | 10.41 | 9.70 | 4.00 | 5.00 | 11.46 | 10.41 |

1 *Amounts are shown inclusive of a capital conservation buffer of 2.50%.*

2 *The prompt corrective action provisions are only applicable at the Bank level.*

*N/A - Not applicable*

As part of its response to the impact of the COVID-19 pandemic, in the first quarter of 2020, U.S. federal regulatory authorities issued an interim final rule that provided banking organizations that adopted CECL during the 2020 calendar year with the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during the initial two-year delay (i.e., a five-year transition in total). In connection with our adoption of CECL on January 1, 2020, we elected to utilize the five-year CECL transition. As of June 30, 2024 September 30, 2024, our capital measures listed above include $951,000, which is the modified CECL transition adjustment.

As of June 30, 2024 September 30, 2024, the Company, on a consolidated basis, exceeded the minimum capital ratios to be deemed "well capitalized" and met the capital conservation buffer requirements. In addition to the above regulatory ratios, our GAAP common equity to total assets ratio, which is used as a performance measurement for capital analysis and peer comparisons, increased from 10.09% at December 31, 2023, to 10.94% 11.66% at June 30, 2024 September 30, 2024. Our GAAP tangible common equity to tangible assets ratio was 9.39% 10.14% at June 30, 2024 September 30, 2024, compared to 8.53% as of December 31, 2023. Our non-GAAP tangible common equity to tangible assets ratio, which management also considers a valuable performance measurement for capital analysis, increased from 8.56% at December 31, 2023, to 9.43% 10.17% at June 30, 2024 September 30, 2024, primarily due to an increase in tangible common equity in the second quarter of 2024. The increase in tangible common equity from December 31, 2023, to September 30, 2024, was primarily due to an increase in retained earnings of $38.7 million $59.4 million.



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**Reconciliation of Tangible Common Equity to Tangible Assets Ratio Non-GAAP Measure**

| | June 30, 2024 | | December 31, 2023 | | September 30, 2024 | | Decemb |
|---|---|---|---|---|---|---|---|
| **Tangible common equity** | **GAAP** | **Non-GAAP** | **GAAP** | **Non-GAAP** | **GAAP** | **Non-GAAP** | **GAAP** |
| **(Dollars in thousands)** | | | | | | | |
| Total Equity | $ 619,335 | $ 619,335 | $ 577,281 | $ 577,281 | $ 661,390 | $ 661,390 | $ 577,281 |
| Less: Goodwill and intangible assets | 96,541 | 96,541 | 97,695 | 97,695 | 95,971 | 95,971 | 97,695 |
| Add: Limitation of exclusion of core deposit intangible (80%) | N/A | 2,014 | N/A | 2,243 | N/A | 1,900 | N/A |
| Adjusted goodwill and intangible assets | 96,541 | 94,527 | 97,695 | 95,452 | 95,971 | 94,071 | 97,695 |
| **Tangible common equity** | $ 522,794 | $ 524,808 | $ 479,586 | $ 481,829 | $ 565,419 | $ 567,319 | $ 479,586 |
| **Tangible assets** | | | | | | | |
| Total assets | $5,662,700 | $5,662,700 | $5,722,799 | $5,722,799 | $5,671,760 | $5,671,760 | $5,722,799 |
| Less: Adjusted goodwill and intangible assets | 96,541 | 94,527 | 97,695 | 95,452 | 95,971 | 94,071 | 97,695 |
| **Tangible assets** | $5,566,159 | $5,568,173 | $5,625,104 | $5,627,347 | $5,575,789 | $5,577,689 | $5,625,104 |
| **Common equity to total assets** | 10.94 % | 10.94 % | 10.09 % | 10.09 % | 11.66 % | 11.66 % | 10.09 |
| **Tangible common equity to tangible assets** | 9.39 % | 9.43 % | 8.53 % | 8.56 % | 10.14 % | 10.17 % | 8.53 |

*N/A - Not applicable*

The non-GAAP intangible asset exclusion reflects the 80% core deposit limitation per Basel III guidelines within risk-based capital calculations, and is useful for us when reviewing risk-based capital ratios and equity performance metrics.

**Liquidity**

Liquidity is our ability to fund operations, to meet depositor withdrawals, to provide for customers' credit needs, and to meet maturing obligations and existing commitments. Our liquidity principally depends on our cash flows from operating activities, investment in and maturity of assets, changes in balances of deposits and borrowings, and our ability to borrow funds. In the second third quarter of 2024, we experienced an increase in loans and a decrease in loans and deposits. We managed the change in our funding through a reduction in average borrowings from the Federal Home Loan Bank of Chicago ("FHLBC") in the current year to date period, through September 30, 2024, compared to the prior year like period, which resulted in a minimal interest expense impact to our interest rate risk profile. The bank failures that occurred in 2023 exemplify the potentially serious results of the unexpected inability of insured depository institutions to obtain needed liquidity to satisfy deposit withdrawal requests, including how quickly such requests can accelerate once uninsured depositors lose confidence in an institution's ability to satisfy its obligations to depositors. We seek to ensure our funding needs are met by maintaining a level of liquidity through asset and liability management. We monitor our borrowing capacity at the FHLBC as part of our liquidity management process as supervised by our Asset and Liability Committee ("ALCO") and reviewed by our Board of Directors. In addition, our senior management team monitors cash balances daily to ensure we have adequate liquidity to meet our operational and financing needs. As of June 30, 2024 September 30, 2024, our cash on hand liquidity totaled $120.9 million $115.8 million, an increase of $20.7 million $15.6 million over cash balances held as of December 31, 2023.

Net cash inflows from operating activities were $59.0 million $107.5 million during the first six nine months of 2024, compared with net cash inflows of $5.6 million $87.3 million in the same period of 2023. Proceeds from sales of loans held-for-sale, net of funds used to originate loans held-for-sale, were a source of outflows for the first six months of 2024 and 2023. Interest paid, net of interest received, combined with changes in other assets and liabilities were a source of inflows for the six nine months ended June 30, 2024 September 30, 2024, and a source of outflows for the like period of 2023. The management of investing and financing activities, as well as market conditions, determines the level and the stability of net interest cash flows. Management's policy is to mitigate the impact of changes in market interest rates to the extent possible, as part of the balance sheet management process.

Net cash inflows from investing activities were $70.8 million $63.4 million in the six nine months ended June 30, 2024 September 30, 2024, compared to net cash inflows of $49.0 million $124.5 million in the same period in 2023. In the first six nine months of 2024, securities transactions accounted for net inflows of $19.2 $27.8 million, and the principal change on loans accounted for net inflows of $54.0 million $38.5 million. In the first six nine months of 2023, securities transactions accounted for net inflows of $210.0 $306.0 million, and principal on loans funded, net of paydowns, accounted for net outflows of $144.0 $164.3 million.



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Net cash outflows from financing activities in the six nine months ended June 30, 2024 September 30, 2024, were $109.1 million $155.3 million, compared with net cash outflows of $57.1 million $218.0 million in the six nine months ended June 30, 2023 September 30, 2023. Net deposit outflows in the first six nine months of 2024 were $48.9 $105.2 million compared to net deposit outflows of $392.4 $495.4 million in the first six nine months of 2023. Other short-term borrowings had $75.0 million $70.0 million of net cash outflows in the first six nine months of 2024, compared to net cash inflows of $395.0 million $345.0 million for other short-term borrowings in the first six nine months of 2023. Changes in securities sold under repurchase agreements accounted for inflows of $20.1 million $27.4 million and outflows of $624,000 $6.3 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively. Dividends paid on our common stock totaled $4.5 million $6.7 million for both the six nine months ended June 30, 2024 September 30, 2024 and 2023. The purchase of treasury stock in the first six nine months of 2024 due to shares acquired with equity award vestings resulted in outflows of $791,000, compared to cash outflows of $605,000 in the first six nine months of 2023 related to shares acquired from equity award vestings.

Cash and cash equivalents for the six nine months ended June 30, 2024 September 30, 2024, totaled $120.9 million $115.8 million, as compared to $100.1 million as of December 31, 2023, and $112.6 million $109.0 million as of June 30, 2023 September 30, 2023. The increase in cash and cash equivalents for the six nine months ended June 30, 2024 September 30, 2024, was mainly attributable to the decrease in our loan and securities portfolios, partially offset by the decrease in customer deposits and other short-term borrowings during the first six nine months of 2024. The year over year cash and cash equivalents increase is driven by the decline in loans and securities, partially offset by decreased customer use of deposits and a reduction in other short-term borrowings. In addition to cash and cash equivalents on hand or held as deposits with other financial institutions, we rely on funding sources from customer deposits, cash flows from securities available-for-sale and loans, and a line of credit with the FHLBC to meet potential liquidity needs. These sources of liquidity are immediately available to satisfy any funding requirements due to depositor or borrower demands through the ordinary course of our business. Additional sources of funding available include a $30.0 million undrawn line of credit held by the Company with a third party financial institution, as well as unpledged securities available-for-sale.



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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

**Interest Rate Risk**

As part of our normal operations, we are subject to interest-rate risk on the assets we invest in, primarily loans and securities, and the liabilities we fund, primarily from customer deposits and borrowed funds. funds, and off-balance sheet interest rate swap derivatives. Fluctuations in interest rates may result in changes in the fair market values of our financial instruments, cash flows, and net interest income. Like most financial institutions, we have an exposure to changes in both short-term and long-term interest rates. A financial institution's ability to be relatively unaffected by changes in interest rates is a good indicator of its capability to perform in a volatile rate environment. We mitigate the impact of interest rate volatility to the Bank by managing our rate sensitivity under various scenarios.

The In September 2024, the Federal Reserve Board ("FRB") continues cut the Federal Funds ("FF") rate by 50 basis points to hold rates unchanged through a target range of 4.75-5.00%, after holding the second quarter of 2024, this FF target range at 5.25-5.50% for 14 months. The FRB elected for a larger rate cut given a softer employment landscape and signs that inflation was widely expected among moderating and on a path towards the 2.00% target. The market participants. The outlook of multiple rate cuts by market participants has come back into the picture for the second half rest of 2024. The softer labor market and broader disinflationary trends are conditions that 2024 remains, though at a modest pace of 25 basis points, in alignment with the FRB looks for when evaluating lowering rates. Federal Open Market Committee (FOMC) dot plot.

We manage interest rate risk within guidelines established by policy which are intended to limit the amount of rate exposure. In practice, we seek to manage our interest rate risk exposure within our guidelines so that such exposure does not pose a material risk to our future earnings. We manage various market risks in the normal course of our operations, including credit, liquidity risk, and interest-rate risk. Other types of market risk, such as foreign currency exchange risk and commodity price risk, do not arise in the normal course of our business activities and operations. In addition, since we do not hold a trading portfolio, we are not exposed to significant market risk from trading activities. Our interest rate risk exposures at June 30, 2024 September 30, 2024 and December 31, 2023, are outlined in the table below.

Our net income can be significantly influenced by a variety of external factors, including: overall economic conditions, policies and actions of regulatory authorities, the amounts of and rates at which assets and liabilities reprice, variances in prepayment of loans and securities other than those that are assumed, early withdrawal of deposits, exercise of call options on borrowings or securities, competition, a general rise or decline in interest rates, changes in the slope of the yield-curve, changes in historical relationships between indices (such as SOFR and Prime), and balance sheet growth or contraction. Our asset-liability committee seeks to manage interest rate risk under a variety of rate environments by structuring our on-balance sheet and off-balance sheet positions, which includes interest rate swap derivatives as discussed in Note 19 of our consolidated financial statements found in our Annual Report on Form 10-K for the year ended December 31, 2023. We seek to monitor and manage interest rate risk within approved policy guidelines and limits. Asset and liability modeling and tracking is performed and presented to the asset-liability committee and the Board of Directors no less than quarterly. The presentations discuss our current and historical interest rate risk posture, shifts in the balance sheet composition, and the impact of interest rate movements on earnings and equity. Our current balance sheet is a moderately asset sensitive profile, as our variable rate assets reprice faster than our longer duration, low beta deposit base. The 2023 market events of failed liquidity management at other banks have been discussed and reviewed by the asset-liability committee. The committee concluded that we continue to have possess a strong liquidity position and no new liquidity risks were identified. Prudently, we added new measures to assess liquidity risk and enhanced our reports to segment deposits by insured, uninsured, collateralized deposits; and monitor the bank's funding sources and uses on a regular basis.

We also have a Risk Committee, chaired by our Chief Risk Officer, which reports no less than quarterly to senior management as well as our Board of Directors regarding compliance with risk tolerance limits, key risk factor changes, both internally and externally, due to portfolio changes as well as market conditions. Our enterprise risk management framework is governed by this committee, with input being provided by line of business managers, senior management and the Board.

We use simulation analysis to quantify the impact of various rate scenarios on our net interest income. Specific cash flows, repricing characteristics, and embedded options of the assets and liabilities held by us are incorporated into the simulation model. Earnings at risk are calculated by comparing the net interest income of a stable interest rate environment to the net interest income of a different interest rate environment in order to determine the percentage change. As of June 30, 2024 September 30, 2024, our net interest income profile remained sensitive to earnings gains, in both dollars and percentage, should interest rates rise. Our profile is less asset sensitive compared to December 31, 2023, due to shortening of term deposits and updates made to modeling of swap cashflows.



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The following table summarizes the effect on annual income before income taxes based upon an immediate increase or decrease in interest rates of 0.5%, 1.0%, and 2.0%, with no change in the slope of the yield curve.

| | Analysis of Net Interest Income Sensitivity Immediate Changes in Rates | | | | | | Analysis of Net Interest Income Sensitivity Immediate Changes in Rates | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **(2.0)%** | **(1.0)%** | **(0.5)%** | **0.5 %** | **1.0 %** | **2.0 %** | **(2.0)%** | **(1.0)%** | **(0.5)%** | **0.5 %** | **1.0 %** |
| **June 30, 2024** | | | | | | | | | | | |
| **September 30, 2024** | | | | | | | | | | | |
| Dollar change | $ (34,147) | $ (16,994) | $(8,367) | $8,395 | $16,916 | $31,899 | $ (35,413) | $ (17,733) | $(8,775) | $8,676 | $17,503 |
| Percent change | (13.4)% | (6.7)% | (3.3)% | 3.3 % | 6.7 % | 12.5 % | (14.1)% | (7.1)% | (3.5)% | 3.5 % | 7.0 % |
| **December 31, 2023** | | | | | | | | | | | |
| Dollar change | $ (36,337) | $ (18,117) | $(8,982) | $9,354 | $18,818 | $36,453 | $ (36,337) | $ (18,117) | $(8,982) | $9,354 | $18,818 |
| Percent change | (14.7)% | (7.3)% | (3.6)% | 3.8 % | 7.6 % | 14.7 % | (14.7)% | (7.3)% | (3.6)% | 3.8 % | 7.6 % |

The amounts and assumptions used in the simulation model should not be viewed as indicative of expected actual results. Actual results will differ from simulated results due to timing, magnitude, balance sheet composition and frequency of interest rate changes as well as changes in market conditions and management strategies. The above results do not take into account any additional management action to mitigate potential risk.

**Effects of Inflation**

In management's opinion, although changes in interest rates affect our financial condition to a far greater degree than changes in the inflation rate, we monitor both. The annual U.S. inflation rate for June September 2024 was 3.0% 2.4%, down from 3.5% quarter-over-quarter, 3.0% in the second quarter, while Core CPI eased edged up to 3.3%. Inflationary pressures have subsided and are expected the inflation rate continues to continue trending down. descend. The downside risks of high inflation put upwards pressure to our expenses, which could impact our profits. Furthermore, higher costs of living weaken the financial condition of our borrowers which could affect our credit profile. Inflation is moderating at a comfortable level and has minimal direct impact to our results.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended, as of June 30, 2024 September 30, 2024. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2024 September 30, 2024, the Company's internal controls were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities and Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified.

There were no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2024 September 30, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.



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## PART II - OTHER INFORMATION

**Item 1. Legal Proceedings**

The Company and its subsidiaries, from time to time, are involved in collection suits in the ordinary course of business against its debtors and are defendants in legal actions arising from normal business activities. Management, after consultation with legal counsel, believes that the ultimate liabilities, if any, resulting from these actions will not have a material adverse effect on the financial position of the Bank or on the consolidated financial position of the Company.

**Item 1.A. Risk Factors**

Investing in shares of our common stock involves certain risks, including those identified and described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, as well as cautionary statements contained in this Quarterly Report, on Form 10-Q, including those under the caption "Cautionary Note Regarding Forward-Looking Statements."

There have been no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Stock Repurchases**

In December 2023, our board of directors authorized the repurchase of up to 2,234,896 shares of our common stock (the "Repurchase Program"). The Company received notice of non-objection in January 2024 from the Federal Reserve Bank of Chicago for the Repurchase Program. Under the Repurchase Program, repurchases may be made through December 31, 2024, will not exceed $17.50 per share, and the aggregate value of share repurchases will not exceed $39.1 million. We may make repurchases under the Repurchase Program from time to time through open market purchases, trading plans established in accordance with SEC rules, privately negotiated transactions, or by other means.

The actual means and timing of any repurchases, quantity of purchased shares and prices will be, subject to certain limitations, at the discretion of management and will depend on a number of factors, including, without limitation, market prices of our common stock, general market and economic conditions, and applicable legal and regulatory requirements. Repurchases under the Repurchase Program may be initiated, discontinued, suspended or restarted at any time provided that repurchases under the Repurchase Program after December 31, 2024, would require Federal Reserve non-objection or approval. We are not obligated to repurchase any shares under the Repurchase Program.

The following table presents our stock repurchases for the quarter ended June 30, 2024 September 30, 2024.

| | Total Number of Shares Purchased (a) | Average Price Paid per Share (b) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)[1] | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (d) |
|---|---|---|---|---|
| April July 1, 2024 - April 30, 2024 July 31, 2024 | - | | - | 2,234,896 |
| May August 1, 2024 - May 31, 2024 August 31, 2024 | - | | - | 2,234,896 |
| June September 1, 2024 - June 30, 2024 September 30, 2024 | - | | - | 2,234,896 |
| Total | - | $ - | - | 2,234,896 |

*[1] We announced our Repurchase Program, which will expire on December 31, 2024, unless further extended as described above, in our Current Report on Form 8-K filed on January 3, 2024, and 2,234,896 shares remained available for repurchase under the Repurchase Program as of June 30, 2024 September 30, 2024.*

**Item 3. Defaults Upon Senior Securities**

None.



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**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

**Trading Plans**

During the three months ended June 30, 2024 September 30, 2024, no director or "officer" of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.



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**Item 6. Exhibits**

**Exhibits:**

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a). |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a). |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

| | |
|---|---|
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets at June 30, 2024 September 30, 2024 and December 31, 2023; (ii) Consolidated Statements of Income for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023; (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended June 30, 2024 September 30, 2024 and 2023; (iv) Consolidated Statements of Cash Flows for the six nine months ended June 30, 2024 September 30, 2024 and 2023; (v) Consolidated Statements of Stockholders' Equity for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023; and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail. |
| 104 | Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document). |



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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OLD SECOND BANCORP, INC.

BY: /s/ James L. Eccher
James L. Eccher
Chairman and Chief Executive Officer
(principal executive officer)

BY: /s/ Bradley S. Adams
Bradley S. Adams
Executive Vice President,
Chief Operating Officer and Chief Financial Officer
(principal financial and accounting officer)

DATE: August 8, 2024 November 7, 2024



**Exhibit 31.1**

I, James L. Eccher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Old Second Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August November 8, 7, 2024

/s/ James L. Eccher
James L. Eccher
Chairman and Chief Executive Officer



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**Exhibit 31.2**

I, Bradley S. Adams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Old Second Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August November 8, 7, 2024

/s/ Bradley S. Adams

Bradley S. Adams
Executive Vice President,
Chief Operating Officer and
Chief Financial Officer



**Exhibit 32.1**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Old Second Bancorp, Inc. (the “Company”) on Form 10-Q, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James L. Eccher, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

August 8, November 7, 2024

/s/ James L. Eccher
James L. Eccher
Chairman and Chief Executive Officer
(principal executive officer)



**Exhibit 32.2**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Old Second Bancorp, Inc. (the “Company”) on Form 10-Q, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bradley S. Adams, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

August 8, November 7, 2024

/s/ Bradley S. Adams
Bradley S. Adams
Executive Vice President,
Chief Operating Officer and
Chief Financial Officer
(principal financial and accounting officer)

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