

OLD SECOND BANCORP INC
Form 10-Q/A
November 15, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended September 30, 2016

OR

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

For transition period from to

Commission File Number 0 -10537

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction)

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

of incorporation or organization)

37 South River Street, Aurora, Illinois 60507

(Address of principal executive offices) (Zip Code)

(630) 892-0202

(Registrant's telephone number, including area code)

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

Yes No

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

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

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of November 4, 2016, the Registrant had outstanding 29,554,716 shares of common stock, \$1.00 par value per share.



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EXPLANATORY NOTE

This Amendment to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2016 is being filed for the sole purpose of filing the corrected Exhibits 32.1 and 32.2.

This Amendment contains the complete text of the original report in addition to the corrected Exhibits listed above. This Amendment does not reflect any events occurring subsequent to the November 8, 2016 filing date of the original Form 10-Q for the quarter ended September 30, 2016, or in any way modify or update disclosures in the original Form 10-Q.

OLD SECOND BANCORP, INC.

Form 10-Q Quarterly Report

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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) September 30, 2016 | December 31, 2015 |
|---|--------------------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 29,203 | \$ 26,975 |
| Interest bearing deposits with financial institutions | 160,744 | 13,363 |
| Cash and cash equivalents | 189,947 | 40,338 |
| Securities available-for-sale, at fair value | 531,057 | 456,066 |
| Securities held-to-maturity, at amortized cost | - | 247,746 |
| Federal Home Loan Bank and Federal Reserve Bank stock | 7,918 | 8,518 |
| Loans held-for-sale | 3,750 | 2,849 |
| Loans | 1,202,852 | 1,133,715 |
| Less: allowance for loan losses | 14,983 | 16,223 |
| Net loans | 1,187,869 | 1,117,492 |
| Premises and equipment, net | 39,092 | 39,612 |
| Other real estate owned | 14,144 | 19,141 |
| Mortgage servicing rights, net | 5,075 | 5,847 |
| Bank-owned life insurance (BOLI) | 60,036 | 59,049 |
| Deferred tax assets, net | 55,536 | 64,552 |
| Other assets | 18,327 | 15,818 |
| Total assets | \$ 2,112,751 | \$ 2,077,028 |
| Liabilities | | |
| Deposits: | | |
| Noninterest bearing demand | \$ 473,477 | \$ 442,639 |
| Interest bearing: | | |
| Savings, NOW, and money market | 904,137 | 908,598 |
| Time | 399,768 | 407,849 |
| Total deposits | 1,777,382 | 1,759,086 |
| Securities sold under repurchase agreements | 46,606 | 34,070 |
| Other short-term borrowings | - | 15,000 |
| Junior subordinated debentures | 57,579 | 57,543 |
| Subordinated debt | 45,000 | 45,000 |
| Notes payable and other borrowings | 500 | 500 |
| Other liabilities | 14,057 | 9,900 |
| Total liabilities | 1,941,124 | 1,921,099 |

| | | |
|--|--------------|--------------|
| Stockholders' Equity | | |
| Common stock | 34,533 | 34,427 |
| Additional paid-in capital | 116,468 | 115,918 |
| Retained earnings | 124,283 | 114,209 |
| Accumulated other comprehensive loss | (7,437) | (12,659) |
| Treasury stock | (96,220) | (95,966) |
| Total stockholders' equity | 171,627 | 155,929 |
| Total liabilities and stockholders' equity | \$ 2,112,751 | \$ 2,077,028 |

| | September 30, 2016 | | December 31, 2015 | |
|--------------------|-------------------------|----------------------|-------------------------|----------------------|
| | Preferred Stock \$ 1 | Common Stock \$ 1 | Preferred Stock \$ 1 | Common Stock \$ 1 |
| Par value | | | | |
| Liquidation value | - | N/A | - | N/A |
| Shares authorized | 300,000 | 60,000,000 | 300,000 | 60,000,000 |
| Shares issued | - | 34,532,734 | - | 34,427,234 |
| Shares outstanding | - | 29,554,716 | - | 29,483,429 |
| Treasury shares | - | 4,978,018 | - | 4,943,805 |

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 September 30, | | (unaudited) Nine Months Ended September 30, | |
|---|--|-----------|---|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest and dividend income | | | | |
| Loans, including fees | \$ 13,496 | \$ 13,353 | \$ 39,593 | \$ 40,038 |
| Loans held-for-sale | 48 | 38 | 115 | 153 |
| Securities: | | | | |
| Taxable | 3,954 | 3,471 | 12,547 | 10,218 |
| Tax exempt | 180 | 122 | 579 | 426 |
| Dividends from Federal Reserve Bank and Federal Home Loan Bank stock | 83 | 76 | 251 | 230 |
| Interest bearing deposits with financial institutions | 64 | 12 | 98 | 43 |
| Total interest and dividend income | 17,825 | 17,072 | 53,183 | 51,108 |
| Interest expense | | | | |
| Savings, NOW, and money market deposits | 193 | 185 | 577 | 547 |
| Time deposits | 931 | 799 | 2,622 | 2,377 |
| Other short-term borrowings | 23 | 6 | 69 | 22 |
| Junior subordinated debentures | 1,084 | 1,072 | 3,251 | 3,215 |
| Subordinated debt | 245 | 205 | 727 | 604 |
| Notes payable and other borrowings | 2 | 1 | 6 | 5 |
| Total interest expense | 2,478 | 2,268 | 7,252 | 6,770 |
| Net interest and dividend income | 15,347 | 14,804 | 45,931 | 44,338 |
| Loan loss reserve release | - | (2,100) | - | (4,400) |
| Net interest and dividend income after release for loan losses | 15,347 | 16,904 | 45,931 | 48,738 |
| Noninterest income | | | | |
| Trust income | 1,403 | 1,444 | 4,274 | 4,526 |
| Service charges on deposits | 1,756 | 1,766 | 4,961 | 5,086 |
| Secondary mortgage fees | 322 | 190 | 795 | 715 |
| Mortgage servicing gain / (loss), net of changes in fair value | 290 | (274) | (641) | 18 |
| Net gain on sales of mortgage loans | 2,177 | 1,359 | 5,031 | 4,677 |
| Securities loss, net | (1,959) | (57) | (2,020) | (178) |
| Increase in cash surrender value of bank-owned life insurance | 383 | 236 | 987 | 1,015 |
| Debit card interchange income | 1,013 | 1,004 | 3,009 | 3,013 |
| Loss on disposal and transfer of fixed assets, net | - | (1,143) | (1) | (1,143) |
| Other income | 1,209 | 1,123 | 3,751 | 4,156 |
| Total noninterest income | 6,594 | 5,648 | 20,146 | 21,885 |
| Noninterest expense | | | | |
| Salaries and employee benefits | 9,014 | 8,260 | 26,854 | 26,664 |
| Occupancy expense, net | 1,120 | 1,156 | 3,358 | 3,521 |

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| | | | | |
|---|----------|----------|-----------|-----------|
| Furniture and equipment expense | 1,144 | 1,110 | 3,180 | 3,176 |
| FDIC insurance | 228 | 373 | 793 | 1,023 |
| General bank insurance | 269 | 308 | 839 | 975 |
| Advertising expense | 430 | 434 | 1,212 | 992 |
| Debit card interchange expense | 363 | 379 | 1,186 | 1,131 |
| Legal fees | 242 | 279 | 594 | 922 |
| Other real estate expense, net | 426 | 977 | 2,043 | 4,717 |
| Other expense | 3,346 | 2,968 | 9,487 | 9,203 |
| Total noninterest expense | 16,582 | 16,244 | 49,546 | 52,324 |
| Income before income taxes | 5,359 | 6,308 | 16,531 | 18,299 |
| Provision for income taxes | 1,860 | 2,384 | 5,865 | 6,747 |
| Net income | \$ 3,499 | \$ 3,924 | \$ 10,666 | \$ 11,552 |
| Preferred stock dividends and accretion of discount | - | 339 | - | 1,873 |
| Net income available to common stockholders | \$ 3,499 | \$ 3,585 | \$ 10,666 | \$ 9,679 |
| Basic earnings per share | \$ 0.12 | \$ 0.12 | \$ 0.36 | \$ 0.33 |
| Diluted earnings per share | 0.12 | 0.12 | 0.36 | 0.33 |

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(In thousands)

| | (Unaudited) Three Months Ended September 30, | | (Unaudited) Nine Months Ended September 30, | |
|--|--|----------|---|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Net Income | \$ 3,499 | \$ 3,924 | \$ 10,666 | \$ 11,552 |
| Unrealized holding (losses) gains on available-for-sale securities arising during the period | (616) | (5,191) | 5,151 | (4,845) |
| Related tax benefit (expense) | 237 | 2,079 | (2,071) | 1,869 |
| Holding (losses) gains after tax on available-for-sale securities | (379) | (3,112) | 3,080 | (2,976) |
| Less: Reclassification adjustment for the net losses realized during the period | | | | |
| Net realized losses | (1,959) | (57) | (2,020) | (178) |
| Income tax benefit on net realized losses | 782 | 23 | 807 | 71 |
| Net realized losses after tax | (1,177) | (34) | (1,213) | (107) |
| Other comprehensive income (loss) on available-for-sale securities | 798 | (3,078) | 4,293 | (2,869) |
| Accretion and reversal of net unrealized holding gains on held-to-maturity securities | - | 242 | 5,939 | 739 |
| Related tax expense | - | (100) | (2,446) | (304) |
| Other comprehensive income on held-to-maturity securities | - | 142 | 3,493 | 435 |
| Changes in fair value of derivatives used for cashflow hedges | (254) | (816) | (4,278) | (816) |
| Related tax benefit | 102 | - | 1,714 | - |
| Other comprehensive loss on cashflow hedges | (152) | (816) | (2,564) | (816) |
| Total other comprehensive income (loss) | 646 | (3,752) | 5,222 | (3,250) |
| Total comprehensive income | \$ 4,145 | \$ 172 | \$ 15,888 | \$ 8,302 |

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) | |
|--|-------------------|-----------|
| | Nine Months Ended | |
| | September 30, | |
| | 2016 | 2015 |
| Cash flows from operating activities | | |
| Net income | \$ 10,666 | \$ 11,552 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of leasehold improvement | 1,682 | 1,816 |
| Change in fair value of mortgage servicing rights | 1,920 | 1,201 |
| Loan loss reserve release | - | (4,400) |
| Provision for deferred tax expense | 5,476 | 6,485 |
| Originations of loans held-for-sale | (147,186) | (153,990) |
| Proceeds from sales of loans held-for-sale | 150,247 | 158,621 |
| Net gain on sales of mortgage loans | (5,031) | (4,677) |
| Change in current income taxes receivable | 300 | 11 |
| Increase in cash surrender value of bank-owned life insurance | (987) | (624) |
| Change in accrued interest receivable and other assets | (2,659) | (2,413) |
| Change in accrued interest payable and other liabilities | (246) | (3,385) |
| Net discount (accretion)/premium amortization on securities | (517) | 226 |
| Securities losses, net | 2,020 | 178 |
| Amortization of junior subordinated debentures issuance costs | 36 | 35 |
| Stock based compensation | 482 | 466 |
| Net gain on sale of other real estate owned | (316) | (769) |
| Provision for other real estate owned losses | 1,305 | 3,825 |
| Net loss on disposal of fixed assets | 1 | 4 |
| Loss on transfer of premises to other real estate owned | - | 1,139 |
| Net cash provided by operating activities | 17,193 | 15,301 |
| Cash flows from investing activities | | |
| Proceeds from maturities and calls including pay down of securities available-for-sale | 62,868 | 33,035 |
| Proceeds from sales of securities available-for-sale | 271,374 | 70,176 |
| Purchases of securities available-for-sale | (153,252) | (131,956) |
| Proceeds from maturities and calls including pay down of securities held-to-maturity | 3,372 | 10,689 |
| Proceeds from sales of Federal Home Loan Bank stock | 600 | 787 |
| Net change in loans | (71,600) | 18,403 |
| Improvements in other real estate owned | (16) | - |
| Proceeds from sales of other real estate owned | 5,247 | 12,336 |
| Net purchases of premises and equipment | (1,163) | (793) |
| Net cash provided by investing activities | 117,430 | 12,677 |
| Cash flows from financing activities | | |
| Net change in deposits | 18,296 | 35,424 |

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| | | |
|---|------------|-----------|
| Net change in securities sold under repurchase agreements | 12,536 | 6,038 |
| Net change in other short-term borrowings | (15,000) | (10,000) |
| Redemption of preferred stock | - | (47,331) |
| Dividends paid on preferred stock | - | (2,417) |
| Dividends paid on common stock | (592) | - |
| Purchase of treasury stock | (254) | (117) |
| Net cash provided by (used in) financing activities | 14,986 | (18,403) |
| Net change in cash and cash equivalents | 149,609 | 9,575 |
| Cash and cash equivalents at beginning of period | 40,338 | 44,197 |
| Cash and cash equivalents at end of period | \$ 189,947 | \$ 53,772 |

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows - Continued

(In thousands)

| | (Unaudited) | |
|---|-------------------|--------|
| | Nine Months Ended | |
| | September 30, | |
| Supplemental cash flow information | 2016 | 2015 |
| Income taxes paid, net | \$ 160 | \$ 250 |
| Interest paid for deposits | 3,142 | 2,964 |
| Interest paid for borrowings | 4,021 | 3,848 |
| Non-cash transfer of loans to other real estate owned | 1,223 | 7,393 |
| Non-cash transfer of premises to other real estate owned | - | 468 |
| Non-cash transfer of securities held-to-maturity to securities available-for-sale | 244,823 | - |
| Change in dividends accrued and declared but not paid | - | (544) |

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)

| | Common Stock | Preferred Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Stockholders' Equity |
|--|-----------------|--------------------|----------------------------------|----------------------|---|-------------------|----------------------------------|
| Balance, December 31, 2014 | \$ 34,365 | \$ 47,331 | \$ 115,332 | \$ 100,697 | \$ (7,713) | \$ (95,849) | \$ 194,163 |
| Net income | | | | 11,552 | | | 11,552 |
| Other comprehensive loss, net of tax | | | | | (3,250) | | (3,250) |
| Change in restricted stock | 58 | | (58) | | | | - |
| Tax effect from vesting of restricted stock | | | 33 | | | | 33 |
| Stock based compensation | | | 466 | | | | 466 |
| Purchase of treasury stock | | | | | | (117) | (117) |
| Redemption of preferred stock | | (47,331) | | | | | (47,331) |
| Preferred stock accretion and declared dividends | | | | (1,873) | | | (1,873) |
| Balance, September 30, 2015 | \$ 34,423 | \$ - | \$ 115,773 | \$ 110,376 | \$ (10,963) | \$ (95,966) | \$ 153,643 |
| Balance, December 31, 2015 | \$ 34,427 | \$ - | \$ 115,918 | \$ 114,209 | \$ (12,659) | \$ (95,966) | \$ 155,929 |
| Net income | | | | 10,666 | | | 10,666 |
| Other comprehensive gain, net of tax | | | | | 5,222 | | 5,222 |
| Dividends declared and paid | | | | (592) | | | (592) |
| Change in restricted stock | 106 | | (106) | | | | - |
| | | | 174 | | | | 174 |

| | | | | | | | |
|---|-----------|------|------------|------------|------------|-------------|------------|
| Tax effect from vesting of restricted stock | | | | | | | |
| Stock based compensation | | | 482 | | | | 482 |
| Purchase of treasury stock | | | | | | (254) | (254) |
| Balance, September 30, 2016 | \$ 34,533 | \$ - | \$ 116,468 | \$ 124,283 | \$ (7,437) | \$ (96,220) | \$ 171,627 |

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Note 1 – Summary of Significant Accounting Policies

The accounting policies followed in the preparation of the interim consolidated financial statements are consistent with those used in the preparation of the annual financial information. The interim consolidated financial statements reflect all normal and recurring adjustments that are necessary, in the opinion of management, for a fair statement of results for the interim period presented. Results for the period ended September 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These interim consolidated financial statements are unaudited and should be read in conjunction with the audited financial statements and notes included in Old Second Bancorp, Inc.'s (the "Company") annual report on Form 10-K for the year ended December 31, 2015. Unless otherwise indicated, amounts in the tables contained in the notes to the consolidated financial statements are in thousands. Certain items in prior periods have been reclassified to conform to the current presentation.

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

All significant accounting policies are presented in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date." This accounting standards update defers the effective date of ASU 2014-09 for an additional year. ASU 2015-14 will be effective for annual reporting periods beginning after December 15, 2017. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. Early application is not permitted. In March 2016, the FASB issued ASU 2016-08 "Revenue from Contracts with Customers (TOPIC 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" and in April 2016, the FASB issued ASU 2016-10 "Revenue from Contracts with Customers (TOPIC 606): Identifying Performance Obligations and Licensing." ASU 2016-08 requires the entity to determine if it is acting as a principal with control over the goods or services it is contractually obligated to provide, or an agent with no control over specified goods or services provided by another party to a customer. ASU 2016-10 was issued to further clarify ASU 2014-09 implementation regarding identifying performance obligation materiality, identification of key contract components, and scope. The Company is assessing the impact of ASU 2014-09 and other related ASUs as noted above on its accounting and disclosures.

In April 2015, the FASB issued ASU No. 2015-03 "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 amended prior guidance to simplify the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of this standard did not have a material effect to the Company's operating results or financial condition. This standard was adopted by the Company effective January 2016.

In March 2016, the FASB issued ASU No. 2016-09 "Improvements to Employee Share-Based Payment Accounting." FASB issued this ASU as part of the Simplification Initiative. This ASU involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liability, and classification on the statement of cash flows. ASU 2016-09 is effective for financial statements issued for fiscal years beginning after December 15, 2016. The Company is assessing the impact of ASU 2016-09 on its accounting and disclosures.

In June 2016, the FASB issued ASU No. 2016-13 "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 was issued to provide financial statement users with more useful information about the expected credit losses on financial instruments

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and other commitments to extend credit held by a reporting entity at each reporting date to enhance the decision making process. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019. The Company is assessing the impact of ASU 2016-13 on its accounting and disclosures.

Subsequent Events

On October 18, 2016, the Company's Board of Directors declared a cash dividend of 1 cent per share payable on November 7, 2016, to stockholders of record as of October 28, 2016.

On October 28, 2016, the bank completed its previously announced acquisition of the Chicago branch of Talmer Bank and Trust, the banking subsidiary of Talmer Bancorp, Inc. ("Talmer"). As a result of the transaction, the Bank acquired approximately \$48.9 million of deposits and \$223.4 million of loans.

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.

In the second quarter of 2016, the securities held-to-maturity portfolio was reclassified to available-for-sale to allow for portfolio restructuring and to fund loan growth. This transfer of \$244.8 million at net book value was approved by the Board of Directors, and will preclude any holdings of securities held-to-maturity for a two year period.

In the third quarter of 2016, approximately \$233.5 million of securities available-for-sale were sold to satisfy anticipated funding requirements for the acquisition of the Talmer branch. Securities losses of \$2.0 million pretax were realized upon these sales.

Nonmarketable equity investments include Federal Home Loan Bank of Chicago (“FHLBC”) stock and Federal Reserve Bank of Chicago (“Reserve Bank”) stock. FHLBC stock was recorded at \$3.2 million at September 30, 2016, and \$3.7 million at December 31, 2015. Reserve Bank stock was recorded at \$4.8 million at September 30, 2016, and December 31, 2015. Our FHLBC stock is necessary to maintain access to FHLBC advances.

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The following table summarizes the amortized cost and fair value of the securities portfolio at September 30, 2016, and December 31, 2015, and the corresponding amounts of gross unrealized gains and losses (in thousands):

| September 30, 2016 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| Securities available-for-sale | | | | |
| U.S. government agencies | \$ 1,661 | \$ - | \$ (158) | \$ 1,503 |
| U.S. government agencies mortgage-backed States and political subdivisions | 42,899 | 824 | - | 43,723 |
| Corporate bonds | 21,489 | 765 | - | 22,254 |
| Collateralized mortgage obligations | 10,958 | - | (228) | 10,730 |
| Asset-backed securities | 202,670 | 2,478 | (758) | 204,390 |
| Collateralized loan obligations | 149,394 | 431 | (9,652) | 140,173 |
| Total securities available-for-sale | 109,468 | - | (1,184) | 108,284 |
| | \$ 538,539 | \$ 4,498 | \$ (11,980) | \$ 531,057 |

| December 31, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| Securities available-for-sale | | | | |
| U.S. Treasury | \$ 1,509 | \$ - | \$ - | \$ 1,509 |
| U.S. government agencies | 1,683 | - | (127) | 1,556 |
| U.S. government agencies mortgage-backed States and political subdivisions | 2,040 | | (44) | 1,996 |
| Corporate bonds | 30,341 | 285 | (100) | 30,526 |
| Collateralized mortgage obligations | 30,157 | - | (757) | 29,400 |
| Asset-backed securities | 68,743 | 24 | (1,847) | 66,920 |
| Collateralized loan obligations | 241,872 | 74 | (10,038) | 231,908 |
| Total securities available-for-sale | 94,374 | - | (2,123) | 92,251 |
| | \$ 470,719 | \$ 383 | \$ (15,036) | \$ 456,066 |
| Securities held-to-maturity | | | | |
| U.S. government agency mortgage-backed Collateralized mortgage obligations | \$ 36,505 | \$ 1,592 | \$ - | \$ 38,097 |
| Total securities held-to-maturity | 211,241 | 3,302 | (965) | 213,578 |
| | \$ 247,746 | \$ 4,894 | \$ (965) | \$ 251,675 |

The fair value, amortized cost and weighted average yield of debt securities at September 30, 2016, by contractual maturity, were as follows in the table below. Securities not due at a single maturity date are shown separately.

| | Amortized Cost | Weighted Average Yield | | Fair Value |
|---|-------------------|------------------------------|---|---------------|
| Securities available-for-sale | | | | |
| Due in one year or less | \$ 410 | 4.60 | % | \$ 420 |
| Due after one year through five years | 11,575 | 2.31 | | 11,734 |
| Due after five years through ten years | 18,573 | 2.43 | | 18,538 |
| Due after ten years | 3,550 | 2.77 | | 3,795 |
| | 34,108 | 2.45 | | 34,487 |
| Mortgage-backed and collateralized mortgage obligations | 245,569 | 2.43 | | 248,113 |
| Asset-backed securities | 149,394 | 1.95 | | 140,173 |
| Collateralized loan obligations | 109,468 | 3.66 | | 108,284 |
| Total securities available-for-sale | \$ 538,539 | 2.55 | % | \$ 531,057 |

At September 30, 2016, the Company's investments include \$118.9 million of asset-backed securities that are backed by student loans originated under the Federal Family Education Loan program ("FFEL"). Under the FFEL, private lenders made federally guaranteed student loans to parents and students and packaged and sold them as asset-backed securities. While the program was modified several times before elimination in 2010, not less than 97% of the outstanding principal amount of the loans made under FFEL are guaranteed by the U.S. Department of Education. In addition to the U.S. Department of Education guarantee, total added credit enhancement in the form of overcollateralization and/or subordination amounted to \$12.8 million, or 9.62%, of outstanding principal.

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Securities with unrealized losses at September 30, 2016, and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows (in thousands except for number of securities):

| September 30, 2016 | Less than 12 months in an unrealized loss position | | | 12 months or more in an unrealized loss position | | | Total Number of | Unrealized | Fair |
|--------------------------------|---|------------|-----------|---|------------|------------|--------------------|------------|------------|
| | Number of | Unrealized | Fair | Number of | Unrealized | Fair | | | |
| Securities | | | | | | | | | |
| Available-for-sale | Securities | Losses | Value | Securities | Losses | Value | Securities | Losses | Value |
| U.S. government | | | | | | | | | |
| Securities | - | \$ - | \$ - | 1 | \$ 158 | \$ 1,503 | 1 | \$ 158 | \$ 1,503 |
| Corporate bonds | 2 | 52 | 5,423 | 2 | 176 | 5,307 | 4 | 228 | 10,730 |
| Securities collateralized | | | | | | | | | |
| Mortgage | | | | | | | | | |
| Investments | 10 | 415 | 50,958 | 6 | 343 | 17,020 | 16 | 758 | 67,978 |
| Asset-backed | | | | | | | | | |
| Securities | 6 | 694 | 23,817 | 10 | 8,958 | 99,432 | 16 | 9,652 | 123,247 |
| Securities collateralized loan | | | | | | | | | |
| Investments | 2 | 48 | 11,947 | 12 | 1,136 | 81,337 | 14 | 1,184 | 93,284 |
| Securities | | | | | | | | | |
| Available-for-sale | 20 | \$ 1,209 | \$ 92,145 | 31 | \$ 10,771 | \$ 204,599 | 51 | \$ 11,980 | \$ 296,744 |
| December 31, 2015 | | | | | | | | | |
| Securities | | | | | | | | | |
| Available-for-sale | Securities | Losses | Value | Securities | Losses | Value | Securities | Losses | Value |
| U.S. government | | | | | | | | | |
| Securities | - | \$ - | \$ - | 1 | \$ 127 | \$ 1,556 | 1 | \$ 127 | \$ 1,556 |
| U.S. government | | | | | | | | | |
| Securities | | | | | | | | | |
| Mortgage-backed | 1 | 44 | 1,996 | - | - | - | 1 | 44 | 1,996 |
| Securities and political | | | | | | | | | |
| Divisions | 2 | 19 | 1,541 | 1 | 81 | 1,713 | 3 | 100 | 3,250 |
| Corporate bonds | 5 | 292 | 14,866 | 3 | 465 | 14,534 | 8 | 757 | 29,400 |
| Securities collateralized | | | | | | | | | |
| Mortgage | | | | | | | | | |
| Investments | 4 | 334 | 16,218 | 7 | 1,513 | 43,618 | 11 | 1,847 | 59,836 |
| Asset-backed | | | | | | | | | |
| Securities | 9 | 2,080 | 78,301 | 8 | 7,958 | 121,217 | 17 | 10,038 | 199,518 |
| Securities collateralized loan | | | | | | | | | |
| Investments | 5 | 446 | 29,480 | 9 | 1,677 | 62,771 | 14 | 2,123 | 92,251 |

| | | | | | | | | | |
|--------------------|----|----------|------------|----|-----------|------------|----|-----------|---------|
| al securities | | | | | | | | | |
| available-for-sale | 26 | \$ 3,215 | \$ 142,402 | 29 | \$ 11,821 | \$ 245,409 | 55 | \$ 15,036 | \$ 387, |
| securities | | | | | | | | | |
| held-to-maturity | | | | | | | | | |
| collateralized | | | | | | | | | |
| mortgage | | | | | | | | | |
| investments | 8 | \$ 505 | \$ 40,307 | 2 | \$ 460 | \$ 33,842 | 10 | \$ 965 | \$ 74,1 |
| al securities | | | | | | | | | |
| held-to-maturity | 8 | \$ 505 | \$ 40,307 | 2 | \$ 460 | \$ 33,842 | 10 | \$ 965 | \$ 74,1 |

Recognition of other-than-temporary impairment was not necessary in the three and nine months ending September 30, 2016, or the year ended December 31, 2015. The changes in fair value related primarily to interest rate fluctuations. Our review of other-than-temporary impairment determined that there was no credit quality deterioration.

Note 3 – Loans

Major classifications of loans were as follows:

| | September 30, 2016 | December 31, 2015 |
|-----------------------------|--------------------|-------------------|
| Commercial | \$ 169,824 | \$ 130,362 |
| Real estate - commercial | 617,280 | 605,721 |
| Real estate - construction | 28,786 | 19,806 |
| Real estate - residential | 357,846 | 351,007 |
| Consumer | 3,325 | 4,216 |
| Overdraft | 403 | 483 |
| Lease financing receivables | 14,210 | 10,953 |
| Other | 10,114 | 10,130 |
| | 1,201,788 | 1,132,678 |
| Net deferred loan costs | 1,064 | 1,037 |
| Total loans | \$ 1,202,852 | \$ 1,133,715 |

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's access to collateral, in the event of borrower default, is assured through adherence to lending laws, the Company's lending standards and credit monitoring procedures. With selected exceptions, the Bank makes loans solely within its market area. There are no significant concentrations of loans where the customers' ability to honor loan terms is dependent upon a single economic sector, although the real estate related categories listed above represent 83.5% and 86.1% of the portfolio at September 30, 2016, and December 31, 2015, respectively.

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

| September 30, 2016 | 90 Days or Greater Past | | | | Current | Nonaccrual | Total Loans | Recorded Investment 90 days or Greater Past Due and Accruing |
|---------------------------------------|----------------------------|------------------------|-----------------------------------|-------------------|--------------|------------|--------------|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | | | | |
| Commercial | \$ 182 | \$ - | \$ - | \$ 182 | \$ 183,269 | \$ 583 | \$ 184,034 | \$ - |
| Real estate - commercial | | | | | | | | |
| Owner occupied general purpose | 96 | - | - | 96 | 125,733 | 1,492 | 127,321 | - |
| Owner occupied special purpose | - | - | - | - | 167,664 | 397 | 168,061 | - |
| Non-owner occupied general purpose | 789 | - | - | 789 | 159,923 | 2,463 | 163,175 | - |
| Non-owner occupied special purpose | - | - | - | - | 103,990 | 1,013 | 105,003 | - |
| Retail properties | - | - | - | - | 37,685 | 1,980 | 39,665 | - |
| Farm | 22 | 1,350 | - | 1,372 | 12,683 | - | 14,055 | - |
| Real estate - construction | | | | | | | | |
| Homebuilder | - | - | - | - | 612 | - | 612 | - |
| Land | - | - | - | - | 1,237 | - | 1,237 | - |
| Commercial speculative | - | - | - | - | 8,901 | 76 | 8,977 | - |
| All other | 102 | - | - | 102 | 17,858 | - | 17,960 | - |
| Real estate - residential | | | | | | | | |
| Investor | 419 | 132 | 454 | 1,005 | 129,302 | 910 | 131,217 | 454 |
| Owner occupied | - | 70 | - | 70 | 119,854 | 5,654 | 125,578 | - |
| Revolving and junior liens | 112 | 102 | 29 | 243 | 98,640 | 2,168 | 101,051 | 29 |
| Consumer | 10 | - | - | 10 | 3,315 | - | 3,325 | - |
| Other ² | - | - | - | - | 11,581 | - | 11,581 | - |
| Total | \$ 1,732 | \$ 1,654 | \$ 483 | \$ 3,869 | \$ 1,182,247 | \$ 16,736 | \$ 1,202,852 | \$ 483 |

Recorded

| December 31, 2015 | 90 Days or Greater Past | | | | Current | Nonaccrual | Total Loans | Investment 90 days or Greater Past Due and Accruing |
|--|----------------------------|------------------------|---------------------|-------------------|--------------|------------|--------------|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Past Due | Total Past Due | | | | |
| Commercial ¹ | \$ 394 | \$ - | \$ - | \$ 394 | \$ 140,848 | \$ 73 | \$ 141,315 | \$ - |
| Real estate - commercial | | | | | | | | |
| Owner occupied general purpose | 652 | 119 | - | 771 | 123,479 | 1,254 | 125,504 | - |
| Owner occupied special purpose | 358 | - | - | 358 | 170,827 | 763 | 171,948 | - |
| Non-owner occupied general purpose | - | - | - | - | 166,668 | 975 | 167,643 | - |
| Non-owner occupied special purpose | - | - | - | - | 92,387 | - | 92,387 | - |
| Retail properties | - | - | - | - | 34,352 | - | 34,352 | - |
| Farm | - | - | - | - | 12,615 | 1,272 | 13,887 | - |
| Real estate - construction | | | | | | | | |
| Homebuilder | - | - | - | - | 2,604 | - | 2,604 | - |
| Land | - | - | - | - | 1,137 | - | 1,137 | - |
| Commercial speculative | - | - | - | - | 2,117 | 83 | 2,200 | - |
| All other | 6 | 77 | 65 | 148 | 13,717 | - | 13,865 | 65 |
| Real estate - residential | | | | | | | | |
| Investor | 101 | - | - | 101 | 125,611 | 972 | 126,684 | - |
| Owner occupied | 1,083 | 446 | - | 1,529 | 110,885 | 6,378 | 118,792 | - |
| Revolving and junior liens | 344 | 68 | - | 412 | 102,500 | 2,619 | 105,531 | - |
| Consumer | 4 | - | - | 4 | 4,212 | - | 4,216 | - |
| Other ² | - | - | - | - | 11,650 | - | 11,650 | - |
| Total | \$ 2,942 | \$ 710 | \$ 65 | \$ 3,717 | \$ 1,115,609 | \$ 14,389 | \$ 1,133,715 | \$ 65 |

¹ The "Commercial" class includes lease financing receivables.

² The "Other" class includes overdrafts and net deferred costs.

Credit Quality Indicators

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

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

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

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

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

Credit Quality Indicators by class of loans were as follows:

| September 30, 2016 | Pass | Special Mention | Substandard 1 | Doubtful | Total |
|------------------------------------|--------------|--------------------|---------------|----------|--------------|
| Commercial | \$ 177,082 | \$ 4,650 | \$ 2,302 | \$ - | \$ 184,034 |
| Real estate - commercial | | | | | |
| Owner occupied general purpose | 124,359 | 645 | 2,317 | - | 127,321 |
| Owner occupied special purpose | 165,333 | 2,330 | 398 | - | 168,061 |
| Non-owner occupied general purpose | 160,463 | 249 | 2,463 | - | 163,175 |
| Non-owner occupied special purpose | 100,191 | - | 4,812 | - | 105,003 |
| Retail Properties | 36,435 | - | 3,230 | - | 39,665 |
| Farm | 11,014 | 1,240 | 1,801 | - | 14,055 |
| Real estate - construction | | | | | |
| Homebuilder | 612 | - | - | - | 612 |
| Land | 1,237 | - | - | - | 1,237 |
| Commercial speculative | 8,901 | - | 76 | - | 8,977 |
| All other | 17,782 | - | 178 | - | 17,960 |
| Real estate - residential | | | | | |
| Investor | 130,046 | - | 1,171 | - | 131,217 |
| Owner occupied | 119,146 | - | 6,432 | - | 125,578 |
| Revolving and junior liens | 97,973 | - | 3,078 | - | 101,051 |
| Consumer | 3,324 | - | 1 | - | 3,325 |
| Other | 11,554 | 27 | - | - | 11,581 |
| Total | \$ 1,165,452 | \$ 9,141 | \$ 28,259 | \$ - | \$ 1,202,852 |

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| December 31, 2015 | Pass | Special Mention | Substandard 1 | Doubtful | Total |
|------------------------------------|--------------|--------------------|---------------|----------|--------------|
| Commercial | \$ 136,078 | \$ 3,208 | \$ 2,029 | \$ - | \$ 141,315 |
| Real estate - commercial | | | | | |
| Owner occupied general purpose | 123,827 | - | 1,677 | - | 125,504 |
| Owner occupied special purpose | 171,185 | - | 763 | - | 171,948 |
| Non-owner occupied general purpose | 163,956 | 1,908 | 1,779 | - | 167,643 |
| Non-owner occupied special purpose | 88,468 | - | 3,919 | - | 92,387 |
| Retail Properties | 30,432 | 1,490 | 2,430 | - | 34,352 |
| Farm | 12,615 | - | 1,272 | - | 13,887 |
| Real estate - construction | | | | | |
| Homebuilder | 2,604 | - | - | - | 2,604 |
| Land | 1,137 | - | - | - | 1,137 |
| Commercial speculative | 2,117 | - | 83 | - | 2,200 |
| All other | 13,865 | - | - | - | 13,865 |
| Real estate - residential | | | | | |
| Investor | 125,548 | - | 1,136 | - | 126,684 |
| Owner occupied | 111,713 | - | 7,079 | - | 118,792 |
| Revolving and junior liens | 102,476 | - | 3,055 | - | 105,531 |
| Consumer | 4,215 | - | 1 | - | 4,216 |
| Other | 11,650 | - | - | - | 11,650 |
| Total | \$ 1,101,886 | \$ 6,606 | \$ 25,223 | \$ - | \$ 1,133,715 |

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

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The Company had \$2.2 million and \$3.9 million residential assets in the process of foreclosure as of September 30, 2016, and December 31, 2015, respectively.

Impaired loans, which include nonaccrual loans and troubled debt restructurings, by class of loans for the September 2016 periods listed were as follows:

| | As of September 30, 2016 | | | Nine Months Ended September 30, 2016 | |
|---|--------------------------|--------------------------------|----------------------|---|----------------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded | | | | | |
| Commercial | \$ 382 | \$ 464 | \$ - | \$ 226 | \$ - |
| Commercial real estate | | | | | |
| Owner occupied general purpose | 2,509 | 2,807 | - | 2,412 | 66 |
| Owner occupied special purpose | 397 | 525 | - | 580 | - |
| Non-owner occupied general purpose | 2,263 | 2,458 | - | 1,655 | 2 |
| Non-owner occupied special purpose | 1,013 | 1,649 | - | 506 | - |
| Retail properties | 1,980 | 2,364 | - | 990 | - |
| Farm | - | - | - | 636 | - |
| Construction | | | | | |
| Homebuilder | - | - | - | - | - |
| Land | - | - | - | - | - |
| Commercial speculative | 76 | 83 | - | 80 | - |
| All other | - | - | - | - | - |
| Residential | | | | | |
| Investor | 1,822 | 2,156 | - | 1,864 | 35 |
| Owner occupied | 9,294 | 10,720 | - | 9,916 | 120 |
| Revolving and junior liens | 2,322 | 3,336 | - | 2,527 | 9 |
| Consumer | 201 | 268 | - | 100 | - |
| Total impaired loans with no recorded allowance | 22,259 | 26,830 | - | 21,492 | 232 |
| With an allowance recorded | | | | | |
| Commercial | - | - | - | 2 | - |
| Commercial real estate | | | | | |
| Owner occupied general purpose | - | - | - | - | - |
| Owner occupied special purpose | - | - | - | - | - |
| Non-owner occupied general purpose | 264 | 603 | 264 | 132 | 31 |
| Non-owner occupied special purpose | - | - | - | - | - |
| Retail properties | - | - | - | - | - |
| Farm | - | - | - | - | - |

| | | | | | |
|--|-----------|-----------|--------|-----------|--------|
| Construction | | | | | |
| Homebuilder | - | - | - | - | - |
| Land | - | - | - | - | - |
| Commercial speculative | - | - | - | - | - |
| All other | - | - | - | - | - |
| Residential | | | | | |
| Investor | - | - | - | - | - |
| Owner occupied | 600 | 639 | 250 | 356 | - |
| Revolving and junior liens | - | - | - | 23 | - |
| Consumer | - | - | - | - | - |
| Total impaired loans with a recorded allowance | 864 | 1,242 | 514 | 513 | 31 |
| Total impaired loans | \$ 23,123 | \$ 28,072 | \$ 514 | \$ 22,005 | \$ 263 |

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Impaired loans by class of loans as of December 31, 2015 and for the nine months ended September 30, 2015 were as follows:

| | As of December 31, 2015 | | | Nine Months Ended September 30, 2015 | |
|---|-------------------------|--------------------------------|----------------------|---|----------------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded | | | | | |
| Commercial | \$ 70 | \$ 149 | \$ - | \$ 1,014 | \$ - |
| Commercial real estate | | | | | |
| Owner occupied general purpose | 2,314 | 3,004 | - | 4,857 | 62 |
| Owner occupied special purpose | 763 | 871 | - | 1,288 | - |
| Non-owner occupied general purpose | 1,047 | 1,065 | - | 2,583 | - |
| Non-owner occupied special purpose | - | - | - | 712 | - |
| Retail properties | - | - | - | - | - |
| Farm | 1,272 | 1,338 | - | 636 | - |
| Construction | | | | | |
| Homebuilder | - | - | - | 896 | - |
| Land | - | - | - | - | - |
| Commercial speculative | 83 | 86 | - | 1,780 | - |
| All other | - | - | - | 266 | - |
| Residential | | | | | |
| Investor | 1,906 | 2,259 | - | 2,050 | 33 |
| Owner occupied | 10,539 | 11,999 | - | 11,309 | 128 |
| Revolving and junior liens | 2,731 | 3,947 | - | 2,500 | 4 |
| Consumer | - | - | - | - | - |
| Total impaired loans with no recorded allowance | 20,725 | 24,718 | - | 29,891 | 227 |
| With an allowance recorded | | | | | |
| Commercial | 3 | 8 | 3 | 2 | - |
| Commercial real estate | | | | | |
| Owner occupied general purpose | - | - | - | - | - |
| Owner occupied special purpose | - | - | - | - | - |
| Non-owner occupied general purpose | - | - | - | 38 | - |
| Non-owner occupied special purpose | - | - | - | - | - |
| Retail properties | - | - | - | - | - |
| Farm | - | - | - | - | - |
| Construction | | | | | |
| Homebuilder | - | - | - | - | - |
| Land | - | - | - | - | - |
| Commercial speculative | - | - | - | - | - |
| All other | - | - | - | 135 | - |
| Residential | | | | | |
| Investor | - | - | - | 67 | - |

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| | | | | | |
|--|-----------|-----------|-------|-----------|--------|
| Owner occupied | 112 | 112 | 31 | 12 | - |
| Revolving and junior liens | 46 | 46 | - | 364 | 2 |
| Consumer | - | - | - | - | - |
| Total impaired loans with a recorded allowance | 161 | 166 | 34 | 618 | 2 |
| Total impaired loans | \$ 20,886 | \$ 24,884 | \$ 34 | \$ 30,509 | \$ 229 |

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

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

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allowance for loan losses also includes an allowance based on a loss migration analysis for each loan category on loans that are not individually evaluated for specific impairment. All loans charged-off, including TDRs charged-off, are factored into this calculation by portfolio segment.

TDRs that were modified during the period are as follows:

| | TDR Modifications Three Months Ended September 30, 2016 | | | TDR Modifications Nine Months Ended September 30, 2016 | | |
|---------------------------------|--|---|--|---|---|--|
| | # of contracts | Pre-modification recorded investment | Post-modification recorded investment | # of contracts | Pre-modification recorded investment | Post-modification recorded investment |
| Troubled debt restructurings | | | | | | |
| Real estate - commercial | | | | | | |
| Other1 | - | \$ - | \$ - | 2 | \$ 312 | \$ 211 |
| Real estate - residential | | | | | | |
| Owner occupied | | | | | | |
| HAMP2 | - | - | - | 1 | 239 | 235 |
| Revolving and junior liens | | | | | | |
| HAMP2 | - | - | - | | | |