

OLD SECOND BANCORP INC
Form DEF 14A
April 19, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant
Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material under §240.14a-12

Old Second Bancorp, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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OLD SECOND BANCORP, INC.

37 South River Street, Aurora, Illinois 60507

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 21, 2019

TO THE STOCKHOLDERS:

The annual meeting of stockholders of Old Second Bancorp, Inc., will be held on Tuesday, May 21, 2019, at 9:00 a.m., central time, at Waubensee Community College, 18 South River Street, Aurora, Illinois, 60506 for the following purposes:

1. to elect the four director nominees named in the accompanying proxy statement;
2. to conduct an advisory, non-binding vote to approve the compensation of our named executive officers;
3. to conduct an advisory, non-binding vote on the frequency of future advisory votes on compensation of our named executive officers;
4. to approve the 2019 Equity Incentive Plan;
5. to approve an amendment to our certificate of incorporation eliminating the mandatory retirement age for directors; to ratify the appointment of Plante & Moran, PLLC as our independent registered public accounting firm for the year ending December 31, 2019;
6. to approve the adjournment, postponement or continuance of the annual meeting, if necessary, if there are insufficient votes at the time of the annual meeting to approve the 2019 Equity Incentive Plan or the amendment to our certificate of incorporation eliminating the mandatory retirement age for directors, or if a quorum is not present at the time of the annual meeting, in order to solicit additional proxies; and
7. to transact such other business as may properly be brought before the meeting or any postponements or adjournments of the meeting.

The board of directors is not aware of any other business to come before the meeting. Stockholders of record at the close of business on March 29, 2019 are the stockholders entitled to vote at the meeting and any and all adjournments or postponements of the meeting.

Important Notice Regarding Availability of Proxy Materials for the Annual Meeting: Our 2019 proxy statement, proxy card and 2018 Annual Report to Shareholders are available free of charge online at www.oldsecond.com under "2019 Annual Meeting Materials."

By order of the board of directors

James L. Eccher
Chief Executive Officer and President

Aurora, Illinois

April 19, 2019

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE US THE EXPENSE OF FURTHER REQUESTS FOR PROXIES TO ENSURE A QUORUM AT THE MEETING. A SELF ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

OLD SECOND BANCORP, INC.

37 South River Street, Aurora, Illinois 60507

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation by the board of directors of Old Second Bancorp, Inc., a Delaware corporation, of proxies to be voted at the annual meeting of stockholders. This meeting is to be held at Waubensee Community College, 18 South River Street, Aurora, Illinois, 60506, on May 21, 2019 at 9:00 a.m., central time, or at any postponements or adjournments of the meeting. Old Second conducts full service community banking and trust business through its wholly owned subsidiary, Old Second National Bank.

A copy of our annual report for the year ended December 31, 2018, which includes audited financial statements, is enclosed. This proxy statement was first mailed to stockholders on or about April 19, 2019. As used in this proxy statement, the terms “Old Second,” “the Company,” “we,” “our” and “us” all refer to Old Second Bancorp, Inc., and its subsidiaries. Additionally, the term “the Bank” refers to Old Second National Bank.

Why am I receiving this proxy statement and proxy form?

You are receiving a proxy statement and proxy form from us because on March 29, 2019, the record date for the annual meeting, you owned shares of our common stock. This proxy statement describes the matters that will be presented for consideration by the stockholders at the annual meeting. It also gives you information concerning these matters to assist you in making an informed decision.

When you sign the enclosed proxy form, you appoint the proxy holder as your representative at the meeting. The proxy holder will vote your shares as you have instructed in the proxy form, ensuring that your shares will be voted whether or not you attend the meeting. Even if you plan to attend the annual meeting, complete, sign and return your proxy form in advance of the annual meeting in case your plans change.

What matters will be voted on at the meeting?

You are being asked to vote on seven matters:

- the election of the four director nominees named in this proxy statement;
- a non-binding, advisory proposal to approve the compensation of our named executive officers, which is referred to as the “say-on-pay” proposal;
- a non-binding, advisory vote on the frequency of future say-on-pay advisory votes on compensation of our named executive officers, which is referred to as the “say-on-frequency” proposal;
- a proposal to approve the 2019 Equity Incentive Plan;
- a proposal to approve an amendment to our certificate of incorporation eliminating the mandatory retirement age for directors;
- the ratification of Plante & Moran, PLLC as our independent registered public accounting firm for the year ending December 31, 2019; and
- a proposal to approve the adjournment, postponement or continuance of the annual meeting, if necessary, if there are insufficient votes at the time of the annual meeting to approve the 2019 Equity Incentive Plan or the amendment to our certificate of incorporation eliminating the mandatory retirement age for directors, or if a quorum is not present at the time of the annual meeting, in order to solicit additional proxies (the “adjournment proposal”).

How do I vote?

A form of proxy is enclosed for use at the meeting. If the proxy is executed and returned, it may nevertheless be revoked at any time insofar as it has not been exercised. Stockholders attending the meeting may, on request, vote their own shares even though they have previously sent in a proxy. Unless revoked or instructions to the contrary are contained in the proxies, the shares represented by validly executed proxies will be voted at the meeting and will be voted "FOR" the election of the nominees for director named in this proxy statement, "FOR" the say-on-pay proposal, "FOR" the "every year" frequency alternative for the say-on-frequency proposal, "FOR" approval of the 2019 Equity Incentive Plan, "FOR" the amendment to our certificate of incorporation eliminating the mandatory retirement age for directors, "FOR" the ratification of our independent registered public accounting firm, and "FOR" the adjournment proposal, and in accordance with the proxy holder's judgement on any other business that is properly brought before the meeting.

If you want to vote in person, please come to the meeting. We will distribute written ballots to anyone who wants to vote at the meeting. Please note, however, that if your shares are held in the name of a broker or other fiduciary (or what is usually referred to as "street name"), you will need to arrange to obtain a proxy from the record holder in order to vote in person at the meeting. Even if you plan to attend the annual meeting, we ask that you complete, sign and return your proxy card in advance of the annual meeting in case your plans change.

What does it mean if I receive more than one proxy form?

It means that you have multiple holdings reflected in our stock transfer records and/or in accounts with stockbrokers. Please sign and return ALL proxy forms to ensure that all your shares are voted.

If I hold shares in the name of a broker, who votes my shares?

If you received this proxy statement from your broker, your broker should have given you instructions for directing how your broker should vote your shares. It will then be your broker's responsibility to vote your shares for you in the manner you direct.

Under the applicable stock exchange rule, brokers may generally vote on routine matters, but cannot vote on non routine matters, such as the election of directors, the say-on-pay proposal, the say-on-frequency proposal, and the 2019 Equity Incentive Plan proposal, unless they have received voting instructions from the person for whom they are holding shares. If there is a matter presented to stockholders at the meeting and your broker does not receive instructions from you on how to vote on that matter, your broker will return the proxy card to us, indicating that he or she does not have the authority to vote on that matter. This is generally referred to as a "broker non vote."

Each of the proposals you will be asked to consider and vote upon at the annual meeting, other than the ratification of the appointment of our independent registered accountants, the proposed amendment to our certificate of incorporation eliminating the mandatory retirement age for directors, and the adjournment proposal, is considered a non routine matter. Therefore, we encourage you to provide directions to your broker as to how you want your shares voted on all matters to be brought before the 2019 annual meeting upon receipt of our proxy materials. You should do this by carefully following the instructions your broker gives you concerning its procedures. This ensures that your shares will be voted at the meeting.

What if I change my mind after I return my proxy card?

If you hold your shares in your own name, you may revoke your proxy and change your vote at any time before the polls close at the meeting. You may do this by:

- signing another proxy card with a later date and returning that proxy card to us, or

- sending notice to us that you are revoking your proxy, or
- voting in person at the meeting.

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If you hold your shares in the name of your broker or other fiduciary and desire to revoke your proxy, you will need to contact that party to revoke your proxy.

How many shares must be represented for us to hold the annual meeting?

A majority of the shares that were outstanding and entitled to vote as of the record date must be present in person or by proxy at the meeting in order to hold the meeting and conduct business. On March 29, 2019, the record date, there were 29,895,022 shares of common stock outstanding. A majority of these shares must be present in person or by proxy at the meeting.

Shares are counted as present at the meeting if the stockholder either:

- is present in person at the meeting, or
- has properly submitted a signed proxy form or other proxy.

What happens if any nominee is unable to stand for re-election?

The board may, by resolution, provide for a lesser number of directors or designate a substitute nominee. In the latter case, shares represented by proxies may be voted for a substitute nominee. Proxies cannot be voted for more than four nominees. The board has no reason to believe any nominee will be unable to stand for re-election.

What options do I have in voting on each of the proposals?

You may vote “FOR,” “AGAINST” or “ABSTAIN” on each proposal properly brought before the meeting, other than the say-on-pay frequency proposal, including the election of directors. You may vote for “EVERY YEAR,” “EVERY TWO YEARS,” “EVERY THREE YEARS,” or “ABSTAIN” on the say-on-frequency proposal.

How many votes may I cast?

You are entitled to cast one vote for each share of stock you owned on the record date with respect to each of the proposals. Stockholders do not have cumulative voting rights. The proxy card included with this proxy statement indicates the number of shares owned by an account attributable to you.

What is the quorum for the annual meeting?

A majority of our outstanding shares of common stock as of the record date must be present at the meeting, either in person or by proxy, to hold the meeting and conduct business. This is called a quorum. In determining whether we have a quorum at the annual meeting for purposes of all matters to be voted on, all votes “FOR” or “AGAINST” and all votes to “ABSTAIN” will be counted. Shares will be counted for quorum purposes if they are represented at the meeting for any purpose other than solely to object to holding the meeting or transacting business at the meeting. If you hold your shares in street name, your brokerage firm may vote your shares under certain circumstances.

Brokerage firms have authority under stock exchange rules to vote their customers’ unvoted shares on certain “routine” matters. We expect that brokers will be allowed to exercise discretionary authority for beneficial owners who have not provided voting instructions ONLY with respect to Proposal 5 – the amendment of our certificate of incorporation, Proposal 6 - the ratification of Plante & Moran, PLLC as our independent registered public accounting firm for the year ending December 31, 2019, and Proposal 7 - the adjournment proposal, but not with respect to any of the other proposals to be voted on at the annual meeting. If you hold your shares in street name, please provide voting instructions to your bank, broker or other nominee so that your shares may be voted on all other proposals.

When a brokerage firm votes its customers’ unvoted shares on routine matters, these shares are counted for purposes of establishing a quorum to conduct business at the meeting. If a brokerage firm indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, then those shares will be treated as “broker

non votes". Shares represented by broker non votes will be counted in determining whether there is a quorum.

No notice of an adjourned meeting need be given if the time and place of the adjourned meeting are announced at the annual meeting, unless the adjournment is for more than 30 days or if, after the adjournment, a new record date is fixed for the adjourned meeting, in which case a notice of the adjourned meeting shall be given to each shareholder of

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record entitled to vote at the meeting. At an adjourned meeting, all proxies will be voted in the same manner as they would have been voted at the original convening of the annual meeting, except for any proxies that have been effectively revoked or withdrawn prior to the adjourned meeting.

How many votes are needed for each proposal?

Assuming a quorum is present, a majority of the shares having voting power present in person or represented by proxy must approve each proposal brought before the annual meeting other than the say-on-frequency proposal and the proposal to amend our certificate of incorporation (meaning that the number of votes cast “FOR” each proposal must exceed the number of votes cast “AGAINST” or “ABSTAIN” with respect to that proposal). This includes the proposal regarding the election of directors in accordance with the policy of majority voting in uncontested director elections set forth in our bylaws. The proposal to amend our certificate of incorporation must be approved by 75% of the voting power of all outstanding shares of our common stock. With respect to the say-on-frequency proposal, the alternative receiving the highest number of votes will be considered the preference of our stockholders.

Broker non votes will not affect the outcome of voting on a particular proposal other than the proposal to amend our certificate of incorporation or the election of directors, but abstentions will have the effect of a vote against the applicable proposal or director. Broker non-votes will have the effect of a vote against the proposal to amend our certificate of incorporation.

Please note that, because the say on pay and say-on-frequency votes are advisory, they will not be binding upon the board of directors or the Compensation Committee.

Where do I find the voting results of the meeting?

If available, we will announce voting results at the meeting. The voting results will also be disclosed in a Form 8 K filed with the Securities and Exchange Commission (the “SEC”) within four business days of the meeting. The determination of the board of directors with respect to the frequency of the say-on-pay vote also will be disclosed in a Form 8-K filed with the SEC.

PROPOSAL 1:

ELECTION OF DIRECTORS

Old Second's board of directors is divided into three classes approximately equal in number, serving staggered three year terms. As a result, the terms of only approximately one third of our board members expire at each annual meeting. The current terms of our Class III directors will expire at this year's annual meeting. The terms of our Class I directors will expire at the 2020 annual meeting and the terms of our Class II directors will expire at the 2021 annual meeting.

Each proposed Class III director nominee currently serves as a Class III director.

Following a review and nomination from our Corporate Governance and Nominating Committee, our board has proposed that the following Class III directors be elected as Class III directors at our 2019 annual meeting of shareholders for a term that will expire at our 2022 annual meeting and until their respective successors are duly elected and qualified.

Class III Director Nominees

Name	Age	Served as Director Since
Edward Bonifas	59	2000
Gary Collins	60	2016
William B. Skoglund	68	1992
Duane Suits	69	2012

Each Class III director nominee will be elected if the number of shares voted "FOR" the nominee constitutes a majority of the shares having voting power present in person or represented by proxy at the meeting. Accordingly, broker non votes will not have any effect on the outcome of voting, but abstentions will have the effect of a vote "AGAINST" the applicable nominee.

The board of directors recommends you vote your shares "FOR" each of the above Class III director nominees.

Set forth below is information concerning our other directors, whose term of office will continue after the annual meeting, including their age, year first elected or appointed as a director.

Continuing Directors

Name	Age	Served as Director Since
Class I (term expires 2020)		
William Kane	68	1999
John Ladowicz	66	2008
Patti Temple Rocks	59	2015
Class II (term expires 2021).		
James Eccher	53	2006
Barry Finn	58	2004
James F. Tapscott	68	2015

All directors will hold office for the terms indicated, or until their earlier death, resignation, removal or disqualification and until their respective successors are duly elected and qualified.

There are no arrangements or understandings between any of the nominees, directors or executive officers and any other person pursuant to which any of our nominees, directors or executive officers have been selected for their respective positions.

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No nominee, member of the board of directors or executive officer is related to any other nominee, member of the board of directors or executive officer.

Director Experience

Biographical information regarding each of our director nominees and continuing directors is set forth below, including the particular experience, qualifications, attributes or skills that led the board to conclude that each member is qualified to serve on the board and any committee he or she serves.

Mr. Bonifas: Mr. Bonifas is the Executive Vice President of Alarm Detection Systems, Inc., a producer and installer of alarm systems, closed circuit video systems and card access control systems, a position he has held since 2000. We consider Mr. Bonifas to be qualified for service on the board, the Risk Committee, Nominating and Corporate Governance Committee and the Compensation Committee due to his skills and expertise acquired as a leader of a successful business and his prominence in the communities we serve. Mr. Bonifas also serves as Chairman of our Information Technology Steering committee where he uses his business expertise for cybersecurity oversight.

Mr. Collins: Mr. Collins has served as the Vice Chairman of the Company since October 2016. Before that, he was Vice Chairman of Talmer Bancorp, Inc., a publicly traded bank holding company, from 2011 until 2016. He also served as a director of Talmer Bancorp, Inc. from 2010 until 2016. Mr. Collins served as Chairman and Co Chief Executive Officer of Lake Shore Wisconsin Corporation, a bank holding company, from 2010 until 2011, and as a founding Managing Director and Vice Chairman of The Private Bank — Chicago from 1991 until 2009. We consider Mr. Collins to be qualified for service on the board due to his experience focused within mortgage banking and real estate opportunities among residential, multi family, and commercial lending.

Mr. Eccher: Mr. Eccher has served as the Chief Executive Officer and President of the Company since 2015 and has served as President and Chief Executive Officer of the Bank since 2003. He also serves as Chief Operating Officer of the Company, a position he has held since 2007, and served as Senior Vice President and Branch Director of the Bank from 1999 until 2003. Before that he served as President and Chief Executive Officer of the Bank of Sugar Grove from 1996 until 1999. We consider Mr. Eccher to be qualified for service on the board due to his experience in the financial services industry and the familiarity with Old Second's operations that he has acquired as the Chief Executive Officer and President of Old Second and Old Second National Bank.

Mr. Finn: Mr. Finn has served as the President and Chief Executive Officer of Rush Copley Medical Center since 2002. Before that, Mr. Finn served as the Chief Operating Officer and Chief Financial Officer of Rush Copley Medical Center from 1996 until 2002. We consider Mr. Finn to be a qualified candidate for service on the board and the Nominating and Corporate Governance Committee as Lead Director, the Information Technology Steering Committee, and the Audit Committee due to his business and financial expertise acquired as an executive at a successful local medical center, as well as his prominence in the communities we serve. We also consider Mr. Finn to be a qualified financial expert.

Mr. Kane: Mr. Kane is a Partner of Label Printers, Inc., a printing company, a position he has held since 1977. We consider Mr. Kane to be a qualified candidate for service on the board and the Compensation Committee and the Risk Committee as Chairman, and Nominating and Corporate Governance Committee due to his experience as a partner at a successful local business, his general experience in business and his prominence in the communities we serve.

Mr. Ladowicz: Mr. Ladowicz is the former Chairman and Chief Executive Officer of HeritageBanc, Inc. and Heritage Bank, where he served from 1996 until 2008, when it was acquired by Old Second. We consider Mr. Ladowicz to be a qualified candidate for service on the board, the Audit Committee, Nominating and Corporate Governance Committee and the Compensation Committee as Chairman due to his previous experience as a chief executive officer in the financial services industry, as well as his extensive knowledge of the market areas we entered through the acquisition of HeritageBanc, Inc. in 2008.

Mr. McLean: Mr. McLean has been a Partner with Rock Island Capital since November 2016. Before that, Mr. McLean served as Regional President and Managing Director of Talmer Bank from 2010 until October 2016. From 2009 until 2010, he was President and Director of Lake Shore Wisconsin Corporation. Mr. McLean was Vice Chairman of The PrivateBank, a publicly traded commercial bank headquartered in Chicago, from 1996 until 2008, and was a Managing Director of The PrivateBank from 1996 until 2001. He also held senior commercial banking positions with

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Firstar Bank and American National Bank prior to joining the PrivateBank in 1996. We consider Mr. McLean to be a qualified candidate for service on the board and the Audit Committee and the Information Technology Steering Committee due to his previous experience in the financial industry.

Mr. Skoglund: Mr. Skoglund serves as the Chairman of the Company and the Bank. From 1998 until 2014, Mr. Skoglund served as the Chief Executive Officer of the Company. He also served as Chief Executive Officer of the Bank from 1996 until 2014. We consider Mr. Skoglund to be qualified for service on the board due to his skills and experience in the financial services industry and his familiarity with the Company's operations as our former Chief Executive Officer.

Mr. Suits: Mr. Suits was a founding Partner of Sikich LLC, a financial services firm, from 1982 until his retirement in 2004. We consider Mr. Suits to be a qualified candidate for service on the board and the Audit Committee as Chairman (including as the audit committee financial expert) and the Risk Committee and the Nominating and Corporate Governance Committee due to his skills and experience in the financial services industry and his familiarity with Old Second's operations.

Mr. Tapscott: Mr. Tapscott was a Partner of McGladrey LLP, an audit, tax and consulting firm, from 1991 until his retirement in 2015. Before that, he was a Partner with Wilkes Besterfield and Co., Ltd., from 1972 until 1991. We consider Mr. Tapscott to be a qualified candidate for service on the board and the Risk Committee and the Audit Committee due to his previous experience in accounting and financial matters as a partner of McGladrey LLP and Wilkes Besterfield and Co., Ltd.

Ms. Temple Rocks: Ms. Temple Rocks was the Managing Director of the Chicago office of Golin, a global communications agency until her retirement in 2018. We consider Ms. Temple Rocks to be a qualified candidate for service on the board and the Compensation Committee and the Information Technology Steering Committee due to her business experience and familiarity with the greater Chicago market through her managing directorship with Golin.

Biographical Information for Executive Officers

Name	Title
James Eccher	President and Chief Executive Officer of the Company and the Bank
Bradley Adams	Executive Vice President, Chief Financial Officer
Gary Collins	Vice Chairman
Donald Pilmer	Executive Vice President & Chief Lending Officer
Keith Gottschalk	Executive Vice President, Digital Banking Services

Because each of Mr. Eccher and Mr. Collins also serves on our board of directors, we have provided biographical information for them above. Biographical information for each of Mr. Adams, Mr. Gottschalk and Mr. Pilmer is provided below:

Mr. Adams, age 45, joined Old Second and Old Second National Bank in May 2017 to serve as an Executive Vice President and our Chief Financial Officer. From November 2016 until joining us, he served as Executive Vice President and Director of Corporate Development and Strategy for TCF National Bank, where he oversaw corporate development and strategy. Before that, he served as Executive Managing Director, Corporate Development, of Talmer Bancorp, Inc. from 2011 and 2016. While at Talmer, Mr. Adams was responsible for management of internal financial reporting, budgeting, mortgage bank accounting, investor relations, strategic planning and corporate development activities. Prior to joining Talmer, Mr. Adams also held positions as Managing Director of W2 Freedom, LLC, a private investment fund manager focused on investing in community banks, and as Director of Investor Relations for

Fifth Third Bancorp.

Mr. Pilmer, age 54, joined Old Second and Old Second National Bank in 1989. He currently serves as Executive Vice President (a position he has held since 2016) and as Chief Lending Officer (a position he has held since 2008). Mr. Pilmer manages the Commercial Banking unit and has more than 25 years of experience in the Commercial Banking industry.

Mr. Gottschalk, age 57, joined Old Second and Old Second National Bank in 2001. He currently serves as Executive Vice President, Digital Banking Services at Old Second National Bank, a position he has held since January

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2019. Prior to that, Mr. Gottschalk was Executive Vice President and Chief Operating Officer of the Bank since 2012. From 2007 until 2012, he served as Executive Vice President of Operations of the Bank. Mr. Gottschalk has more than 35 years of banking experience, including managing Operations, Information Technology, Retail Banking and extensive experience in the ATM/Debit arena. Before joining the Old Second team, Mr. Gottschalk held senior management positions for Old Kent Bank (Elmhurst, IL), Fifth Third Bank (Elmhurst, IL), Pinnacle Bank (Berwyn, IL) and FBOP Corporation (Oak Park, IL). He has served on many customer advisory boards in the operations field.

CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

General

Currently, the board of directors is made up of eleven directors, who are elected by the holders of our common stock every three years to serve staggered terms. In accordance with our corporate governance procedures, the board does not involve itself in the day to day operations of Old Second, which is monitored by our executive officers and management. Our directors fulfill their duties and responsibilities by attending regular meetings of the board and through committee membership, which is discussed below.

Director Attendance

The board of directors held ten regular meetings during 2018. All of the directors attended at least 75% of these meetings and the meetings of the committees on which they served. We typically schedule a board meeting in conjunction with our annual meeting and expect that our directors will attend our annual meeting. Last year, all of our then serving directors attended our annual meeting.

Code of Business Conduct and Ethics

The board of directors believes that it is important to encourage the highest level of corporate ethics and responsibility. Among other things, the board adopted a Code of Business Conduct and Ethics, which applies to all of our directors, officers and employees, as well as a procedure for allowing employees to anonymously report any problems they may detect with respect to our financial reporting. The Code of Business Conduct and Ethics, as well as other information pertaining to our committees, corporate governance and reporting with the Securities and Exchange Commission, can be found on our website at www.oldsecond.com. The Company will post on its website any amendments to, or waiver from, the Code of Business Conduct and Ethics as it applies to any director or officer to the extent required to be disclosed by applicable NASDAQ or SEC requirements.

Director Independence

The board of directors has standing Audit, Nominating and Corporate Governance, and Compensation Committees, each of which is made up solely of directors who are deemed to be “independent” under the rules of NASDAQ. NASDAQ’s independence rules include certain instances that will preclude a director from being deemed independent and the board reviews those requirements each year to determine a director’s status as an independent director. The board has determined that all of the directors and nominees are “independent” as defined by the NASDAQ Stock Market, with the exception of Messrs. Eccher and Collins, each of whom has been an executive officer of the Company during the past three calendar years ended December 31, 2018.

During its review of director independence, the board considered Mr. Finn’s roles as President and Chief Executive Officer at Rush Copley Medical Center and Mr. Skoglund’s position as the Vice Chairman of Rush Copley’s board of directors. Our board determined that this does not preclude a finding that Mr. Finn is independent under NASDAQ’s rules because Mr. Skoglund does not serve on Rush Copley’s compensation committee and has recused himself from any discussions or votes that involve Mr. Finn’s salary. The board also reviewed certain transactions between Alarm Detection Systems, Inc. and the Company. Mr. Bonifas is an Executive Vice President of Alarm Detection Systems, Inc. The board determined that Mr. Bonifas qualified as an independent director because the amounts paid by the Company to Alarm Detection Systems in 2018, which totaled approximately \$214,921, were less than 5% of Alarm Detection System’s gross revenues for 2018 and because Mr. Bonifas had no interest in the transaction with the Company, except an indirect and de minimis interest as a stockholder of Alarm Detection Systems.

Actions taken by each committee of the board are reported to the full board, usually at its next meeting. The principal responsibilities of each of the committees are described below.

Committees of the Board of Directors

Our board committees are currently composed as follows (M — member; C — chair):

Name	Audit	Compensation	Nominating and Corporate Governance	Risk
Edward Bonifas		M	M	M
Gary Collins				
James Eccher				
Barry Finn	M		C	
William Kane		M	M	C
John Ladowicz	M	C	M	
Hugh McLean	M			
William B. Skoglund			M	M
Duane Suits	C		M	M
James Tapscott	M			M
Patti Temple Rocks		M		

Audit Committee

The Audit Committee assists the board in carrying out its oversight responsibilities for our financial reporting process, audit process and internal controls. The Audit Committee is solely responsible for the pre approval of all required audit and non audit services to be provided by our independent registered public accounting firm and exercises its authority to do so in accordance with a policy that it has adopted. The committee’s duties, responsibilities and functions are further described in its charter, which is available on our website at www.oldsecond.com, in the “Governance Documents” section under “Investor Relations.” You can request a copy of the committee’s charter by sending a written request to the Corporate Secretary at 37 South River Street, Aurora, Illinois 60507, or by requesting via e mail to corporatesecretary@oldsecond.com.

The members of our Audit Committee during 2018 were Mr. Suits (who serves as Chairman), Mr. Finn, Mr. Tapscott, Mr. Ladowicz and Mr. McLean, each of whom is deemed to be an independent director under SEC Rule 10A-3 and NASDAQ’s listing requirements. The Audit Committee met six times in 2018.

The board has designated Mr. Suits as the “audit committee financial expert,” as such term is defined by the regulations of the SEC. The board’s determination was based upon Mr. Suits’ level of knowledge and experience regarding financial matters and his experience as an independent financial consultant and as the founding partner of Sikich Gardner & Co., LLP, a public accounting and consulting firm. The board believes that each of the other members of the Audit Committee possesses knowledge and experience sufficient to understand the complexities of the financial statements of Old Second. Mr. Suits met on a quarterly basis during 2018 with our independent registered public accounting firm.

To review our annual Audit Committee report, please see “Proposal 6 — Ratification of Our Independent Registered Public Accounts — Audit Committee Report.”

Compensation Committee

The Compensation Committee reviews the performance of Old Second’s executive officers and establishes their compensation levels. The committee also has the authority, among other things, to:

- review and approve performance goals and objectives relevant to the chief executive Officer and other executive officers and evaluate, at least annually, the performance of the chief executive officer and other executive officers in light of those goals and objectives;
- review and approve employment agreements, severance arrangements, and change in control agreements or provisions for our executive officers;

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- adopt, approve or ratify awards under equity incentive compensation plans;
 - review with the chief executive officer our management succession plans; and
- evaluate the risks posed by the design and implementation of our compensation plans and evaluate the implementation of appropriate risk management and controls to avoid or mitigate any excessive risk to the Company.

The committee's duties, responsibilities and functions are described more fully in its charter, which is available on our website at www.oldsecond.com, in the "Governance Documents" section under "Investor Relations." You can request a copy of the committee's charter by sending a written request to the Corporate Secretary at 37 South River Street, Aurora, Illinois 60507, or by requesting via e mail to corporatesecretary@oldsecond.com.

The members of our Compensation Committee during 2018 were Mr. Ladowicz (who serves as Chairman), Mr. Kane, Mr. Bonifas and Ms. Temple Rocks, each of whom is deemed to be an independent director under NASDAQ's listing requirements. The Compensation Committee met three times in 2018.

The Compensation Committee has the authority under its charter to select, or receive advice from, advisors (including compensation consultants). In 2018, the committee continued its engagement of ChaseCompGroup LLC as an independent advisor to assist the committee in determining and evaluating executive compensation. The Compensation Committee assessed the independence of ChaseCompGroup LLC taking into consideration all factors specified in NASDAQ listing standards. Based on this assessment, the committee determined the engagement of ChaseCompGroup LLC did not raise any conflict of interest.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee reviews the qualifications of, and recommends to the board for nomination, candidates to stand for election at each annual meeting or to fill vacancies on the board as they may occur during the year. The committee also reviews on at least an annual basis whether each director is "independent" under NASDAQ listing requirements. Additionally, the Nominating and Corporate Governance Committee is responsible for reviewing our policies, procedures and structure as they relate to corporate governance. The committee's duties, responsibilities and functions are further described in its charter, which is available on our website at www.oldsecond.com, in the "Governance Documents" section under "Investor Relations." You can request a copy of the committee's charter by sending a written request to the Corporate Secretary at 37 South River Street, Aurora, Illinois 60507, or by requesting via e mail to corporatesecretary@oldsecond.com.

The members of the Nominating and Corporate Governance Committee in 2018 were Mr. Finn (who serves as Chairman), Mr. Kane, Mr. Bonifas, Mr. Suits and Mr. Ladowicz, each of whom is deemed to be an independent director under NASDAQ's listing requirements. The Nominating and Corporate Governance Committee met two times in 2018.

Director Nominations and Qualifications

In making its nominations for persons to be elected to the board of directors and included in our proxy statement, the Nominating and Corporate Governance Committee evaluates incumbent directors, board nominees and persons nominated by stockholders, if any. The committee reviews each candidate in light of the criteria that we believe each director should possess. Included in the criteria are whether each nominee: (i) meets the minimum requirements for service on the board of directors contained in our bylaws; (ii) is under the age of 70 in accordance with our certificate of incorporation (but see Proposal 5 for a proposed amendment to the certificate of incorporation regarding this criterion); (iii) possesses the highest personal and professional ethics, integrity and values; (iv) has, in the committee's opinion, a sufficient educational and professional background and relevant past and current employment affiliations, board affiliations and experience for service on the board; (v) has demonstrated effective leadership and sound judgment in his or her professional life; (vi) has a strong sense of service to the communities in which we serve;

(vii) has exemplary management and communication skills; (viii) is free of conflicts of interest that would prevent him or her from serving on the board; (ix) will ensure that other existing and future commitments do not materially interfere with his or her service as a director; (x) will review and agree to meet the standards and duties set forth in the Company's Code of Business Conduct and Ethics; (xi) is willing to devote sufficient time to carrying out their duties and responsibilities effectively; and (xii) is

committed to serving on the board for an extended period of time. While we do not have a separate diversity policy, the committee does consider the diversity of its directors and nominees in terms of knowledge, experience, skills, expertise and other demographics which may contribute to the board. The committee also evaluates potential nominees to determine if they have any conflicts of interest that may interfere with their ability to serve as effective board members and to determine whether they are “independent” in accordance with NASDAQ requirements (to ensure that at least a majority of the directors will, at all times, be independent).

The committee, when considering potential board members, will look at all of the foregoing criteria. The various qualifications and criteria are normally considered by the committee in connection with its evaluation of who the committee will recommend as the Company’s nominees. Generally, each incumbent director standing for re election should have and will have, at a minimum, attended at least 75% of board meetings during the past year and attended 75% of committee meetings of which he or she is a member. The committee retains the ability to make exceptions to this attendance requirement as individual circumstances warrant.

All of the nominees for election as directors at the 2019 annual meeting were recommended for nomination by the committee. The committee did not receive any formal nominations for directors from our common stockholders.

Common Stock Ownership and Retention Guidelines for Directors

In order to align the interests of board members and stockholders, we require each director to develop a significant equity stake in the company. The Compensation Committee is responsible for monitoring compliance with these stock ownership and retention guidelines.

Non employee directors are expected to acquire and hold during their service as board members, shares of our common stock equal in value to at least three times the annual cash retainer for non employee directors. Non employee directors have three years from their initial election to the board to meet the target stock ownership guidelines. Once they obtain the requisite number of shares, they are expected to continuously own sufficient shares to meet the guidelines. The stock ownership goal will be determined by using the value of their retainers as of January 1 of each year and the average closing stock price for our common stock over the prior twelve months.

Shares that count toward meeting the stock ownership guidelines include: (i) shares owned, which include shares obtained upon exercise of options or shares purchased in the open market; (ii) shared ownership, which includes shares owned or held in trust by immediate family; and (iii) restricted stock units. Unexercised stock options do not count toward meeting the stock ownership guidelines. Until such time as the director reaches his or her target stock ownership, the director will be required to hold 50% of the shares of common stock received upon lapse of the restrictions, and upon exercise of stock options. In the rare instance in which these guidelines would place a severe hardship on a director, the Compensation Committee may decide to allow an alternative stock ownership guideline that reflects the intentions of these overall guidelines and the director’s own personal circumstances.

Board Leadership Structure

The roles of Chairman of the Board and Chief Executive Officer are separate positions within our Company. Mr. Skoglund, our former Chief Executive Officer, serves as our Chairman, and Mr. Eccher serves as our Chief Executive Officer and President. We currently separate the roles of Chairman and Chief Executive Officer in recognition of the differences between the two roles.

Our board of directors has also created the position of a “lead” independent director, who assists the board of directors in assuring effective corporate governance, and serves as chairman when the board of directors meets in independent director sessions. In 2018, our board of directors designated Mr. Finn to serve as the Company’s lead independent director. The Nominating and Corporate Governance Committee reviews this appointment annually and the full board has the opportunity to ratify the committee’s selection.

Our board of directors believes this structure is appropriate for our Company because it allows the Chief Executive Officer to focus on our strategic direction and our day to day leadership and performance, and we are also able to leverage the experience and perspective of the Chairman through his guidance to the Chief Executive Officer and his management team as well as to the board of directors. In addition, the lead independent director, who is an

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independent member of our Board, provides independent leadership within our Board that strengthens its effectiveness and oversight of our business.

Board's Role in Risk Oversight

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including general economic risks, credit risks, regulatory risks, audit risks, reputational risks and others, such as the impact of competition. Management is responsible for the day to day management of risks the Company faces, while the board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

While the full board of directors is charged with ultimate oversight responsibility for risk management, various committees of the board and members of management also have responsibilities with respect to our risk oversight. In particular, the Risk Committee plays a large role in monitoring and assessing our financial, legal and organizational risks, and receives regular reports from the management team's senior risk officer regarding comprehensive organizational risk as well as particular areas of concern. The board's Compensation Committee monitors and assesses the various risks associated with compensation policies, and oversees incentives that encourage a level of risk taking consistent with our overall strategy. Mr. Bonifas, the Chairman of the Information Technology Steering Committee, serves as our cybersecurity expert. Additionally, our senior credit officer and loan review staff are directly responsible for overseeing our credit risk.

We believe that establishing the right "tone at the top" and providing for full and open communication between management and the board of directors are essential for effective risk management and oversight. Our executive management meets regularly with our other senior officers to discuss strategy and risks facing the Company. Senior officers attend many of the board meetings, or, if not in attendance, are available to address any questions or concerns raised by the board on risk management related and any other matters. Additionally, each of our board level committees provides regular reports to the full board and apprises the board of our comprehensive risk profile and any areas of concern.

Certain Relationships and Related Party Transactions

Statement of Policy Regarding Transactions with Related Persons

Transactions by us with related parties are subject to regulatory requirements and restrictions. These requirements and restrictions include Sections 23A and 23B of the Federal Reserve Act (which govern certain transactions by us with our affiliates) and the Federal Reserve's Regulation O (which governs certain loans by us to our executive officers, directors and principal shareholders). We have also adopted policies to comply with these regulatory requirements and restrictions, including policies governing the approval of related party transactions. Our Audit Committee reviews and approves all related person transactions between Old Second and related parties in accordance with NASDAQ's rules and regulations. For purposes of this review, related person transactions are those transactions required to be disclosed under applicable SEC regulations.

Banking Relationships

Certain of our executive officers and directors have, from time to time, engaged in banking transactions with Old Second National Bank and are expected to continue such relationships in the future. All loans or other extensions of credit made by Old Second National Bank to such individuals were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unaffiliated third parties and did not involve more than the normal risk of collectability or present other unfavorable features.

Compensation Committee Interlocks and Insider Participation

For the year ended December 31, 2018, our Compensation Committee consisted of Mr. Ladowicz, Mr. Kane, Mr. Bonifas and Ms. Temple Rocks. No member of our Compensation Committee in 2018 was, during the last

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fiscal year, an officer or employee of the Company or formerly an officer of the Company. In addition, none has had any relationship with the Company of the type that is required to be disclosed under “Certain Relationships and Related Party Transactions,” except Mr. Bonifas as described above. During 2018, none of our executive officers served as a member of the board of directors, compensation committee or other board committee performing equivalent functions of another entity that had one or more executive officers serving as a member of the board of directors or Compensation Committee of the Company.

Stockholder Communications with the Board; Nomination and Proposal Procedures

Stockholder Communications with Directors. Our stockholders may contact any member of the board of directors, or the board as a whole, through the Corporate Secretary either in person, in writing by mail or by e-mail to corporatesecretary@oldsecond.com. Any such communication should indicate whether the sender is an Old Second stockholder. The address for submitting communications to the board by mail is 37 South River Street, Aurora, Illinois 60507. Any communication will be forwarded promptly to the board as a group or to the attention of a specified director per your request, except for communications that are primarily commercial in nature or related to an improper or irrelevant topic.

Nominations of Directors. In order for a stockholder nominee to be considered by the Nominating and Corporate Governance Committee to be its nominee and included in our proxy statement, the nominating stockholder must file a written notice of the proposed director nomination with our Corporate Secretary, at the above address, at least 120 days prior to the date on which the previous year’s proxy statement was mailed to stockholders. Nominations must include the full name and address of the proposed nominee and a brief description of the proposed nominee’s business experience for at least the previous five years and, as to the stockholder giving the notice, his or her name and address, and the class and number of shares of our capital stock owned by that stockholder. All submissions must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected. The committee may request additional information in order to make a determination as to whether to nominate the person for director.

In accordance with our Certificate of Incorporation, a stockholder may otherwise nominate a director for election to the board at an annual meeting of stockholders by giving timely notice in writing to our Corporate Secretary, at the address provided above. To be timely, stockholder nominations must be made in writing, delivered or mailed by first class United States mail, postage prepaid, to our Corporate Secretary not fewer than 60 days nor more than 90 days prior to the anniversary date of the prior year’s annual meeting. Each written nomination must set forth (i) the name, age, business address and residential address of the nominee; (ii) the principal occupation or employment of such person; (iii) the class and number of shares of the Company’s stock which are beneficially owned by such person on the date of such stockholder notice; and (iv) any other information relating to such person that would be required to be disclosed on Schedule 13D pursuant to Regulation 13D under the Exchange Act and pursuant to Regulation 14A under the Exchange Act. The nominating stockholder must also provide certain information regarding his, her or itself including (a) the name and address, as they appear on the Company’s books, of such stockholder and the name and principal business or residential address of any other beneficial stockholders known by such stockholder to support the nominees; and (b) the class and number of shares of Old Second’s stock which are beneficially owned by the stockholder on the date of the stockholder notice.

In the event that a stockholder nominates an individual to serve as a director in accordance with our bylaws and the applicable federal and state laws, the Committee shall evaluate the individual to determine whether the individual satisfies the qualification criteria and determine whether the individual will be nominated by the Committee to serve on the board.

Other Stockholder Proposals. To be considered for inclusion in our proxy statement and form of proxy relating to our 2020 annual meeting of stockholders, the proposing stockholder must file a written notice of the proposal with our Corporate Secretary, at the above address, by December 19, 2019, and must otherwise comply with the rules and

regulations set forth by the Securities and Exchange Commission.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of March 29, 2019, by each director or nominee for director, by each named executive officer, by all of our directors, director nominees and executive officers as a group, and each stockholder known by us to be the beneficial owner of more than 5% of our outstanding common stock.

Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o Old Second Bancorp, Inc., 37 South River Street, Aurora, Illinois 60507. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the tables below have sole voting and investment power with respect to all shares of our common stock that they beneficially own, subject to applicable community property laws. We have based our calculation of the percentage of beneficial ownership on 29,895,022 shares of common stock outstanding as of March 29, 2019. Beneficial ownership has been determined for this purpose in accordance with Rule 13d-3 under the Exchange Act, under which a person is deemed to be the beneficial owner of securities if he or she has or shares voting power or investment power with respect to such securities or has the right to acquire beneficial ownership of securities within 60 days of March 29, 2019.

Name	Shares Beneficially Owned	Percent of Class	
Directors and named executive officers:			
Bradley Adams(1)	41,800	*	
Edward Bonifas(2)	153,130	*	
Gary Collins(3)	110,213	*	
James Eccher(4)	175,732	*	
Barry Finn(5)	54,386	*	
Keith Gottschalk(6)	7,080	*	
William Kane(7)	41,659	*	
John Ladowicz(8)	245,423	*	
Hugh McLean(9)	125,000	*	
Donald Pilmer(10)	32,725	*	
William B. Skoglund(11)	92,731	*	
Duane Suits(12)	28,109	*	
James Tapscott(13)	26,500	*	
Patti Temple Rocks(14)	11,054	*	
All directors and executive officers as a group (14 persons)	1,145,542	3.83	%
5% Stockholders:			
BlackRock, Inc.(15)	1,998,050	6.90	%

*Denotes ownership of less than 1%.

- (1) Consists of 41,800 shares held in a brokerage account. Excludes 58,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Adams.
- (2) Consists of: (i) 9,562 shares held in Mr. Bonifas' name alone; and (ii) 143,568 shares held in a brokerage account. Excludes 9,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Bonifas.
- (3)

Consists of: (i) 37,602 shares held in a brokerage account; (ii) 72,149 shares held in an IRA account in Mr. Collins' name; and (iii) 462 shares held in our 401(k) plan. Excludes 54,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Collins.

⁽⁴⁾ Consists of: (i) 161,420 shares held in a brokerage account; (ii) 148 shares held jointly with his spouse; (iii) 11,725 shares held in our 401(k) plan; and (iv) 2,439 shares held in our profit sharing plan and trust. Excludes 85,000

shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Eccher.

- (5) Consists of: (i) 2,500 shares held in Mr. Finn's name alone; and (ii) 51,886 shares held in a brokerage account, which are pledged to secure a line of credit. Excludes 9,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Finn.
- (6) Consists of: (i) 5,596 shares held in a brokerage account; (ii) 1,108 shares held in our 401(k) plan; and (iii) 376 shares held in Mr. Gottschalk's name in our profit sharing plan and trust. Excludes 9,729 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Gottschalk.
- (7) Consists of: (i) 22,500 shares held in Mr. Kane's name alone; and (ii) 19,159 shares held in a brokerage account. Excludes 9,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Kane.
- (8) Consists of: (i) 2,500 shares held in Mr. Ladowicz's name alone; and (ii) 242,923 shares held in a Roth IRA. Excludes 9,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Ladowicz.
- (9) Consists of: 125,000 shares held jointly with his spouse. Excludes 9,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. McLean.
- (10) Consists of: (i) 10 shares held with Mr. Pilmer as custodian; (ii) 27,374 shares held in a brokerage account; (iii) 1,450 shares held jointly with spouse in a brokerage; (iv) 2,965 shares held in our 401(k) plan; and (v) 926 shares held in our profit sharing plan and trust. Excludes 16,566 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Pilmer.
- (11) Consists of: (i) 92,731 shares held in a trust account in Mr. Skoglund's name. Excludes 11,500 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Skoglund.
- (12) Consists of: (i) 2,500 shares in Mr. Suits' name outright; (ii) 23,409 shares held in a brokerage account in Mr. Suits' name alone; (iii) 1,700 shares held in an IRA; and (iv) 500 shares held in a Trust with spouse. Excludes 9,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Suits.
- (13) Consists of: (i) 22,000 shares held in a brokerage account; (ii) 3,500 shares held in an IRA; and (iii) 1,000 shares held in spouse's Trust. Excludes 9,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Tapscott.
- (14) Consists of: (i) 2,500 shares held outright in Ms. Temple Rocks' name; and (ii) 8,554 shares held in a brokerage account in Ms. Temple Rocks' name alone. Excludes 9,000 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Ms. Temple Rocks.

(15) This information is based solely on the Schedule 13G/A filed by BlackRock, Inc. with the SEC on February 5, 2019, reporting that BlackRock, Inc. has sole voting power over 1,998,050 shares and sole dispositive power over 2,051,586 shares. According to this Schedule 13G/A, the following subsidiaries of BlackRock, Inc. hold shares of our common stock, none of which beneficially owns 5% or greater of our outstanding shares: BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A. and BlackRock Investment Management, LLC. BlackRock, Inc.'s business address is 55 East 52nd Street, New York, NY 10055.

SECURITY 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires that our directors, executive officers and ten percent stockholders file reports of ownership and changes in ownership with the Securities and Exchange Commission. Such persons are also required to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the Section 16(a) reports furnished to us with respect to 2018 and written representations from our executive officers and directors, we believe that all Section 16(a) filing requirements applicable to each covered person were satisfied during 2018, except for a late Form 4 filed by Gary Collins on February 20, 2018 that reported dividend reinvestment transactions that occurred between September 2017 and December 2017; and a late Form 4 filed by Keith Gottschalk on January 2, 2019, that reported a sale transaction that occurred on May 11, 2018, that was inadvertently not reported by the broker.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (“CD&A”) is intended to assist our shareholders in understanding our compensation programs, the philosophy underlying our compensation strategy and the fundamental elements of the compensation paid to our “named executive officers” whose 2018 compensation information is provided in the tables following this discussion. Our named executive officers as of December 31, 2018, are noted in the following table, along with their current titles:

Name	Title
James Eccher	President and Chief Executive Officer of the Company and the Bank
Bradley Adams	Executive Vice President, Chief Financial Officer
Gary Collins	Vice Chairman
Donald Pilmer	Executive Vice President and Chief Lending Officer
Keith Gottschalk	Executive Vice President, Digital Banking Services(1)

⁽¹⁾ In 2018, Mr. Gottschalk served as Chief Operating Officer of the Bank, until he was appointed as our Executive Vice President, Digital Banking Services in January 2019.

Introduction

Our CD&A is organized as follows:

- Overview and Executive Summary. We provide background context and financial and operational highlights that puts our overall disclosure into perspective.
- Objectives of Our Compensation Program. The objectives of our executive compensation program are based on our business model and the competitive pressures we face in attracting and retaining executive talent. We structure our executive compensation program to reflect our compensation philosophy and related operating principles.
- Elements of Compensation. The key components of our compensation program are base salary, annual bonuses and long term equity awards, with an emphasis on tying executive compensation to performance.
- Severance and Change in Control Arrangements. We provide certain severance benefits in the event of Mr. Eccher’s involuntary termination and “double trigger” change in control benefits to each of our named executive officers.
- Compensation Process. Our executive compensation program is regularly reviewed by the Compensation Committee to ensure that we meet our compensation objectives and to ensure that our compensation program does not pose material risks to the Company.
- Analysis of 2018 Compensation. Decisions on 2018 compensation are analyzed and explained in the context of our compensation objectives and performance.
- Regulatory Considerations. We consider guidance established by the Federal Deposit Insurance Corporation (the “FDIC”) and other bank regulatory agencies, in addition to various other regulatory requirements, in making decisions about executive compensation.

Overview and Executive Summary

Business Overview. The Company, through its banking subsidiary, provides lending, deposit, and trust services for businesses and individuals. We offer competitive commercial and personal banking products and are committed to providing superior customer service. We place a high priority on community service and are actively involved with many civic and community projects in the communities where we conduct business. We operate in an intensely competitive and uncertain business environment. From a business perspective, not only do we compete with numerous companies in our markets for customers, but we also compete with many different types and sizes of organizations for

senior leadership capable of executing our business strategies. Among other challenges, our business model requires experienced leaders with banking and operational expertise who are capable of taking on high levels of personal responsibility in an ever evolving banking industry and economy.

Financial and Operational Performance. During 2018, we continued our emphasis on sustaining profitability and growth as primary objectives. Specific accomplishments in 2018 that directly impacted those objectives include:

- Net income of \$34.0 million for 2018, compared to \$15.1 million for 2017; and
 - Commercial loan growth of 17.4% in 2018, including 4.1% of organic commercial loan growth compared to 2017.
- In 2018, our Compensation Committee selected, among others, corporate performance metrics for our annual incentive plan based on our (a) adjusted net income, which excludes after-tax acquisition related costs, and was earned at 115% of target based on our 2018 adjusted net income of \$36.7 million, and (b) adjusted efficiency ratio, which was earned at 110% of target based on our adjusted efficiency ratio of 58.94% at year-end 2018. The adjusted efficiency ratio is calculated as noninterest expense, excluding OREO expenses, amortization of core deposits and acquisition related costs divided by the sum of net interest income on a fully tax equivalent basis, total noninterest income less net gains and losses on securities and includes a tax equivalent adjustment on the increase in cash surrender value of bank-owned life insurance.

Overview of Our Executive Compensation Programs. The Company and the Bank share an executive management team, the members of which are compensated by the Bank rather than the Company. The compensation packages of our named executive officers are determined and approved by our Compensation Committee based on their performance and roles for both the Company and the Bank.

We are committed to paying for performance. This commitment is reflected by the significant portion of our named executive officers' compensation that is provided through performance based programs. Our executive compensation programs evolve and are adjusted over time to support the business goals of the Company and the Bank and to promote both near and long term profitable growth. Total compensation for each named executive officer varies with performance in achieving financial and nonfinancial objectives.

Accordingly, our executive compensation, particularly metrics for the organization's short term incentive plans, focused on the following goals and accountabilities: our and the Bank's net income growth; the Bank's loan growth; asset credit quality risk reduction and a reduction in classified assets; cost savings initiatives; and specific profit center performance. These metrics were prudently designed to contain and minimize risk while at the same time emphasizing growth and profitability.

Say on Pay. Of the votes cast on our say-on-pay proposal at our 2018 annual meeting, 97% voted in support of the compensation of our named executive officers. Our board and the Compensation Committee pay careful attention to communications received from stockholders regarding executive compensation, including the non binding advisory vote. The Compensation Committee believes that these voting results reflect strong confidence in our board to exercise good judgement in structuring thoughtful executive compensation programs that benefit our stockholders. We considered the result of the 2018 advisory vote on executive compensation but not for specific 2018 compensation decisions. Based on this consideration and the other factors described in this CD&A, the Compensation Committee did not alter the policies or structure for named executives' compensation for 2018.

Objectives of Our Compensation Program

The goal of our compensation program is to align the interests of management with those of our stockholders while minimizing undue risk taking. The Compensation Committee has designed our executive compensation program in a manner that does not provide our executives with incentives to engage in business activities or other behavior that would threaten our value or the investments of our stockholders.

The executive compensation program is intended to accomplish the following objectives:

- pay for performance;

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- tie equity compensation to long term value creation for our stockholders;
- align the financial interests of our named executive officers with those of our stockholders;
- maintain a corporate environment that encourages stability and a long term focus for both us and our management;
-