

Harvard Illinois Bancorp, Inc. Announces Quarterly Earnings

HARVARD, Ill., Aug. 12, 2015 /PRNewswire/ – Harvard Illinois Bancorp, Inc. (the "Company") (OTC: HARI), the holding company for Harvard Savings Bank (the "Bank"), announced today its unaudited results of operations for the three months and six months ended June 30, 2015.

Results of operations. The Company reported unaudited net income for the three months ended June 30, 2015 of \$1.3 million, compared to net income of \$173,000 for the three months ended June 30, 2014. The Company reported unaudited net income for the six months ended June 30, 2015 of \$1.4 million, compared to net income of \$407,000 for the six months ended June 30, 2014.

Net income increased \$1.1 million, or 654.3% during the second quarter of 2015, compared to the second quarter of 2014. The increase in net income was due to an increase in noninterest income of \$16,000, and decreases in interest expense, the provision for loan losses and the provision for income taxes of \$71,000, \$1.3 million and \$90,000, respectively, partially offset by a decrease in interest and dividend income of \$186,000, and an increase in noninterest expense of \$204,000. The decrease in interest expense was primarily due to deposits and borrowings re-pricing at current lower rates as the average cost of interest-bearing liabilities decreased 22 basis points to 0.74%. The decrease in the provision for loan losses was primarily due to a \$1.3 million increase in the carrying basis of the defaulted repurchase agreement purchased through Pennant Management, Inc. The decrease in the provision for income taxes to zero for the three months ended June 30, 2015 reflected the impact of the non-recurring decrease in valuation allowances recorded for deferred tax assets. The decrease in interest and dividend income was primarily due to a decrease of \$9.3 million in average interest-earning assets, and a decrease in the average yield on interest-earning assets of 24 basis points to 3.95%. The increase in noninterest expense was primarily due to an increase in legal and professional fees of \$256,000 related to the recently announced transaction with The State Bank Group, ongoing regulatory issues, and recovery efforts with respect to the defaulted repurchase agreement purchased through Pennant Management, Inc.

Stockholders' equity. Total stockholders' equity increased \$1.5 million to \$11.6 million at June 30, 2015 from \$10.1 million at December 31, 2014, primarily as a result of the net income of \$1.4 million for the six months ended June 30, 2015.

Non-performing assets. Non-performing assets increased \$14.1 million to \$16.9 million or 10.79% as a percent of total assets at June 30, 2015, compared to \$2.8 million or 1.61% as a percent of total assets at June 30, 2014. Included in non-performing assets were non-performing loans which increased \$5.4 million to \$7.7 million or 6.76% as a percent of loans at June 30, 2015, compared to \$2.3 million or 1.91% as a percent of loans at June 30, 2014. Non-performing assets at June 30, 2015 included \$11.2 million related to the Bank's investment in the defaulted repurchase agreement purchased through Pennant Management, Inc., \$2.7 million of which was included in non-performing loans. At June 30, 2015, the net recognized receivable for the defaulted repurchase agreement totaled \$8.5 million, net of a valuation allowance of \$2.7 million recognized.

Selected Consolidated Financial and Other Data

The financial condition data at June 30, 2015 and the operating data for the three and six months ended June 30, 2015 and 2014 is derived in part from the consolidated financial statements of Harvard Illinois Bancorp, Inc. and is unaudited. The financial condition data at December 31, 2014 is derived in part from the audited consolidated financial statements of Harvard Illinois Bancorp, Inc. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. The selected operating data presented below are not necessarily indicative of the results that may be expected for future periods.

	At June 30, 2015 (Unaudited)	At December 31, 2014
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(Dollars in thousands)

Financial Condition Data:

Total assets	\$ 156,352	\$ 164,753
Cash and cash equivalents	3,877	15,563
Other interest-bearing deposits	17,264	8,562
Securities	5,725	6,365
Loans, net	109,901	113,859
Federal Home Loan Bank stock	544	1,074
Deposits	133,564	140,278
Federal Home Loan Bank advances	7,845	10,804
Total stockholders' equity	11,581	10,088

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)

(Dollars in thousands)

Operating Data

Interest and dividend income	\$ 1,456	\$ 1,642	\$ 2,957	\$ 3,318
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Interest expense	256	327	557	669
Net interest income	1,200	1,315	2,400	2,649
Provision (recovery) for loan losses	(1,310)	35	(1,330)	60
Net interest income after provision for loan losses	2,510	1,280	3,730	2,589
Noninterest income:				
Net realized gains on loan sales	44	9	70	13
Other noninterest income	145	164	313	326
Total noninterest income	189	173	383	339
Noninterest expense	1,394	1,190	2,672	2,317
Income before income taxes	1,305	263	1,441	611
Provision for income taxes	0	90	0	204
Net income	\$ 1,305	\$ 173	\$ 1,441	\$ 407

At or For the Three Months Ended June 30, At or For the Six Months Ended June 30,

	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)
Performance Ratios:				
Return on average assets (annualized)	3.30%	0.41%	1.80%	0.48%
Interest rate spread (annualized) ⁽¹⁾	3.21%	3.23%	3.17%	3.24%
Net interest margin (annualized) ⁽²⁾	3.25%	3.35%	3.22%	3.37%
Noninterest expense to average total assets (annualized)	3.52%	2.66%	3.34%	2.75%
Average interest-earning assets to average interest-bearing liabilities	106.83%	114.89%	106.31%	114.38%
Capital Ratios:				
Total risk-based capital to risk-weighted assets ⁽³⁾	12.09%	14.70%	12.09%	14.70%
Tier 1 risk-based capital to risk-weighted assets ⁽³⁾	10.85%	13.43%	10.85%	13.43%
Tier 1 leverage (core) capital to adjusted tangible assets ⁽³⁾	8.51%	10.87%	8.51%	10.87%
Equity to total assets	7.41%	12.18%	7.41%	12.18%
Average equity to average total assets	6.53%	12.41%	6.37%	12.30%
Asset Quality Ratios:				
Total non-performing assets to total assets ⁽⁴⁾	10.79%	1.61%	10.79%	1.61%
Total non-performing assets and troubled debt restructurings to total assets ⁽⁴⁾	11.31%	2.34%	11.31%	2.34%
Total non-performing loans to total loans ⁽⁵⁾	6.76%	1.91%	6.76%	1.91%
Total non-performing loans and troubled debt restructurings to total loans ⁽⁵⁾	7.48%	2.93%	7.48%	2.93%
Allowance for loan losses to total non-performing loans and troubled debt restructurings ⁽⁵⁾	53.69%	67.62%	53.69%	67.62%
Allowance for loan losses to non-performing loans ⁽⁵⁾	59.41%	103.85%	59.41%	103.85%
Allowance for loan losses to total loans	4.02%	1.98%	4.02%	1.98%
Net charge-offs (recoveries) to average total loans (annualized)	6.76%	0.22%	3.60%	0.23%

- (1) The interest rate spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (2) The net interest margin represents net interest income as a percent of average interest-earning assets.
- (3) For Harvard Savings Bank only.
- (4) Nonperforming assets consist of nonperforming loans, other real estate owned, repossessed automobiles, and \$8.5 million related to the defaulted repurchase agreement reported with other assets at June 30, 2015.
- (5) Nonperforming loans consist of nonaccrual loans and accruing loans past due 90 days or more, including \$2.7 million related to the defaulted repurchase agreement reported with loans that is fully reserved at June 30, 2015.

Harvard Illinois Bancorp, Inc. is a Maryland corporation. The Company is headquartered at 58 North Ayer Street, Harvard, Illinois. The Company's operations are limited to its ownership of Harvard Savings Bank, an Illinois chartered savings bank, which operates three offices located in McHenry and Grundy Counties in Illinois. All information at and for the periods ended June 30, 2015, has been derived from unaudited financial information.

This news release contains certain forward-looking statements within the meaning of the federal securities laws. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and experiences of the Company, are generally identified by use of the words "believe", "expect", "intend", "anticipate", "estimate", "project", or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in: interest rates, general economic

conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

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