

Shareholder Letter

2nd Quarter 2016

Dear Shareholders:

I am pleased to report that our second quarter financial results were solid, with net income of \$6.8 million, or \$0.50 diluted earnings per share, which was up from net income of \$5.1 million, or \$0.42 diluted earnings per share, for the first quarter of 2016. We also had an outstanding quarter of business development and our total loan portfolio increased by \$145 million, representing an annualized growth rate of 28.8% in the quarter. Our loan production was very well balanced and we had strong growth in our consumer, equipment leasing, construction, commercial real estate and residential real estate portfolios, as well as robust loan production in our commercial FHA business.

While our second quarter performance was good, it is also an example of our diversified business mix and the balance it can provide in varying economic environments. Like many other banks that service mortgage loans, we were required to take a charge against earnings in the quarter to reflect the implied decline in the value of our mortgage servicing rights (MSRs) as interest rates moved lower. This charge, which was \$3.0 million for the quarter (which equated to \$0.14 per diluted share), was counter-balanced by

the improvement in our various lending and fee based businesses as customers sought to lock in lower rates. This allowed us to maintain strong earnings for the quarter even after the charge against MSRs. Similarly, when interest rates enter a different cycle and begin to rise, we would expect to see an increase in the value of our MSRs.

Also, as pleased as I was to see our overall business increase in the second quarter, from my perspective the most important events in the quarter were the completion of our initial public offering and NASDAQ listing. The IPO provided us almost \$72 million of new capital, which we have already begun to put to work, while the NASDAQ listing enhances our visibility and creates a public market for our shares. Most importantly, I believe that becoming a publicly traded company enhances our ability to further increase shareholder value through continued growth.

The IPO does not change our focus on executing on our Strategic Plan. However, it does require a change in the process we must use for releasing financial information. While in the past we used these quarterly shareholder letters to provide financial updates to our shareholders, as a public company we are required to release our financial

Midland
States Bancorp, Inc.



2nd Quarter 2016 Financial Results

Summary Consolidated Financial Data

(in thousands, except for share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Summary Income Statement Data - Unaudited				
Interest income	\$ 32,115	\$ 31,242	\$ 60,082	\$ 58,547
Interest expense	4,126	2,925	8,053	5,529
Net interest income	27,989	28,317	52,029	53,018
Provision for loan losses	629	2,379	1,754	3,376
Net interest income after provision for loan losses	27,360	25,938	50,275	49,642
Noninterest income:				
Commercial FHA revenue	8,538	4,101	15,100	11,216
Residential mortgage banking revenue	1,045	4,832	2,166	10,815
Wealth management revenue	1,870	1,857	3,655	3,653
Service charges on deposit accounts	965	950	1,872	1,968
Interchange revenue	945	863	1,909	1,809
FDIC loss-sharing expense	(1,608)	(204)	(1,661)	(297)
Other income	2,269	1,798	3,602	3,055
Total noninterest income	14,024	14,197	26,643	32,219
Noninterest expense:				
Salaries and employee benefits	17,020	16,437	32,407	34,656
Occupancy and equipment	3,233	3,317	6,544	6,613
Data processing	2,624	2,626	5,244	5,110
Professional	1,573	2,183	3,274	4,533
Amortization of intangible assets	519	602	1,099	1,265
Other	5,942	5,538	9,982	10,071
Total noninterest expense	30,911	30,703	58,550	62,248
Income before income taxes	10,473	9,432	18,368	19,613
Income taxes	3,683	2,762	6,460	6,353
Net income	6,790	6,670	11,908	13,260
Net income attributable to noncontrolling interests	1	17	-	76
Net income attributable to Midland States Bancorp, Inc	\$ 6,789	\$ 6,653	\$ 11,908	\$ 13,184
Per Common Share Data				
Earnings per share:				
Basic	\$ 0.51	\$ 0.56	\$ 0.94	\$ 1.10
Diluted	0.50	0.55	0.92	1.08
Dividends declared	0.18	0.16	0.36	0.32
Weighted average common shares outstanding:				
Basic	13,358,289	11,899,919	12,657,552	11,893,069
Diluted	13,635,074	12,098,476	12,936,995	12,090,474
Selected Performance Metrics				
Return on average assets	0.89%	0.97%	0.80%	0.99%
Return on average shareholders' equity	10.18%	11.74%	9.48%	11.89%
Return on average tangible common shareholders' equity	12.67%	15.56%	12.00%	15.91%
Yield on earning assets	4.81%	5.27%	4.61%	5.07%
Cost of average interest-bearing liabilities	0.74%	0.61%	0.74%	0.59%
Net interest spread	4.07%	4.66%	3.87%	4.48%
Net interest margin	4.20%	4.79%	4.01%	4.60%
Efficiency ratio	67.09%	67.61%	67.39%	65.79%
Common stock dividend payout ratio	35.29%	28.57%	38.30%	29.09%
Net charge-offs to average loans	0.09%	(0.14)%	0.29%	(0.06)%
Net charge-offs to average loans - excludes PCI	0.09%	(0.13)%	0.30%	(0.05)%

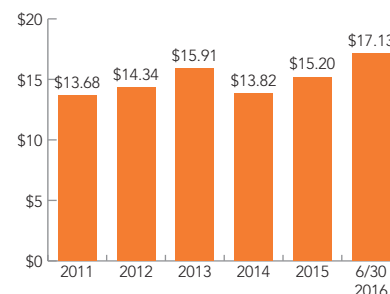
Summary Consolidated Financial Data - Continued

(in thousands, except for share and per share data)

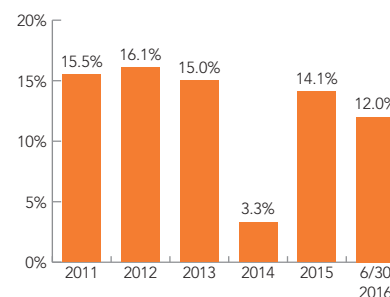
	June 30, 2016	December 31, 2015
Summary Balance Sheet Data - Unaudited		
Total assets	\$ 3,021,784	\$ 2,884,824
Loans	2,161,041	1,995,589
Allowance for loan losses	(14,752)	(15,988)
Investment securities	323,537	324,148
Cash and cash equivalents	123,366	212,475
Deposits	2,354,552	2,367,648
Borrowings	222,602	147,716
Subordinated debt and trust preferred debentures	91,688	98,916
Total Midland States Bancorp, Inc shareholders' equity	316,268	232,880
Per Common Share Data		
Book value	\$ 20.53	\$ 19.74
Tangible book value	17.13	15.20
Common shares outstanding	15,402,946	11,797,404
Regulatory and Other Capital Ratios - Consolidated		
Tier 1 leverage ratio	9.77%	7.49%
Tier 1 capital to risk-weighted assets	11.23%	8.62%
Total capital to risk-weighted assets	13.91%	11.82%
Tier 1 common capital to risk-weighted assets	9.24%	6.50%
Tangible common equity to tangible assets	8.89%	6.33%
Regulatory Capital Ratios - Bank Only		
Tier 1 leverage ratio	9.85%	9.01%
Tier 1 capital to risk-weighted assets	11.31%	10.39%
Total capital to risk-weighted assets	11.89%	11.06%
Credit Quality Data		
Allowance for loan losses to total loans	0.68%	0.80%
Allowance for loan losses plus credit marks to total loans	1.13%	1.39%

Performance Metrics

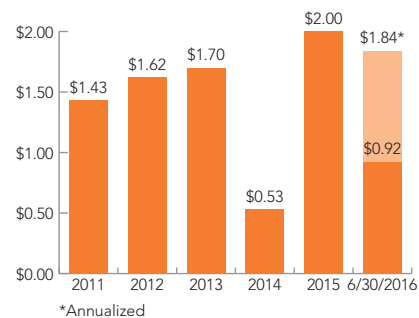
Tangible Book Value / Share⁽¹⁾



Return on Average Tangible Common Equity



Diluted Earnings Per Share



(1) Amounts shown assume the conversion of all preferred shares that were outstanding prior to December 31, 2014.

results more broadly. Therefore, on July 28th we announced our financial results for the second quarter through a press release, and that will be our quarterly process going forward. We are also required to file quarterly reports with the SEC containing detailed financial information. As an example, our Form 10-Q for the second quarter was filed with the SEC on August 15th.

Each quarter's earnings release and Form 10-Q (and our annual SEC reports on Form 10-K) will provide more detailed financial information than our shareholder letters. You may wish to review our quarterly earnings, press releases and SEC filings, which will be posted on our website under the "Investors" tab. If you wish to receive automatic notifications of these postings, please go to the "Investors" tab and click on the email link at the bottom of that page to register.

Enclosed is your quarterly dividend of \$0.18 per common share. As always, we appreciate your continued support.

Very truly yours,



Leon J. Holschbach
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Midland States Bancorp, Inc.



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