




Midland States Bancorp, Inc. NASDAQ: MSBI

First Quarter 2019 Earnings Call



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Use of Non-GAAP Financial Measures. This presentation may contain certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States ("GAAP"). These non-GAAP financial measures include "Adjusted Earnings," "Adjusted Diluted Earnings Per Share," "Adjusted Return on Average Assets," "Adjusted Return on Average Shareholders' Equity," "Adjusted Return on Average Tangible Common Equity," "Efficiency Ratio," "Tangible Common Equity to Tangible Assets," "Tangible Book Value Per Share" and "Return on Average Tangible Common Equity." The Company believes that these non-GAAP financial measures provide both management and investors a more complete understanding of the Company's funding profile and profitability. These non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP financial measures. Not all companies use the same calculation of these measures; therefore this presentation may not be comparable to other similarly titled measures as presented by other companies. Reconciliations of these non-GAAP measures are provided in the Appendix section of this presentation.

Overview of 1Q19

1Q19 Earnings

- Net income of \$14.0 million
- Diluted EPS of \$0.57

Strong Capital Generation

- Book value per share increased 2.3% to \$26.08
- Tangible book value per share ⁽¹⁾ increased 4.0% to \$17.68
- Significant increases in all capital ratios

Solid Execution on Strategic Priorities

- Prudent balance sheet management keeping NIM stable
- Loan production focused on areas with attractive risk-adjusted yields
- Disciplined expense management

HomeStar Acquisition

- Fill-in acquisition in our existing Kankakee, Illinois market with strong synergies
- Adds attractive low-cost deposit base with excess liquidity
- Expected to be ~9% accretive to EPS in 2020

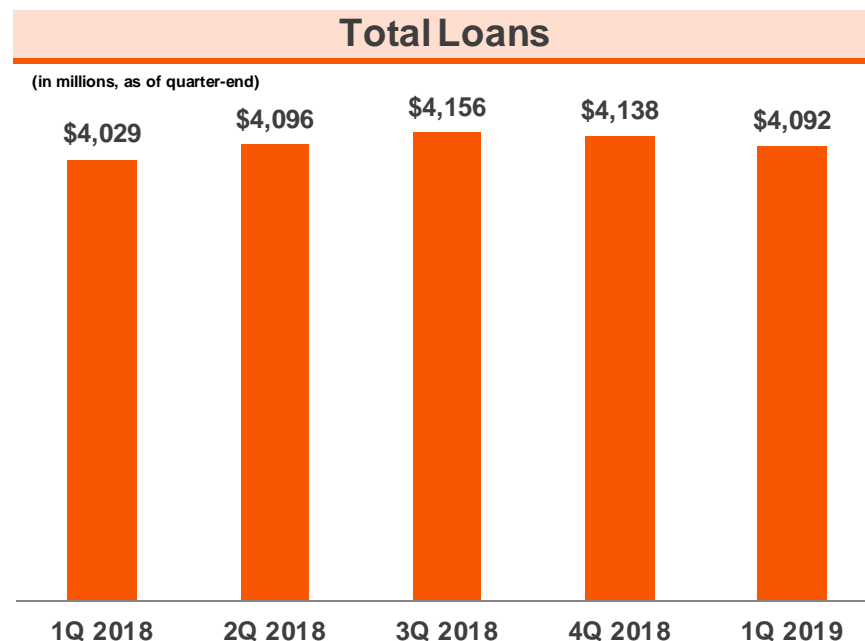
Notes:

(1) Represents a non-GAAP financial measure. See “Non-GAAP Reconciliation” in the appendix.

Loan Portfolio

- Total loans declined \$45.4 million, or 1.1%, to \$4.09 billion
- Decline in commercial real estate partially offset by continued growth in commercial loans and leases
- Equipment loan and lease financings increased \$57.5 million, or 15.3%, from December 31, 2018

Loan Portfolio Mix			
(in millions, as of quarter-end)			
	1Q 2019	4Q 2018	1Q 2018
Commercial loans and leases	\$ 1,123	\$ 1,075	\$ 1,026
Commercial real estate	1,560	1,639	1,774
Construction and land development	239	232	235
Residential real estate	569	578	570
Consumer	601	613	424
Total Loans	\$ 4,092	\$ 4,138	\$ 4,029



Total Deposits

- Total deposits decreased \$37.9 million, or 0.9%, to \$4.04 billion
- Decline in deposits primarily attributable to:
 - Outflows of commercial deposits
 - Decrease in public funds

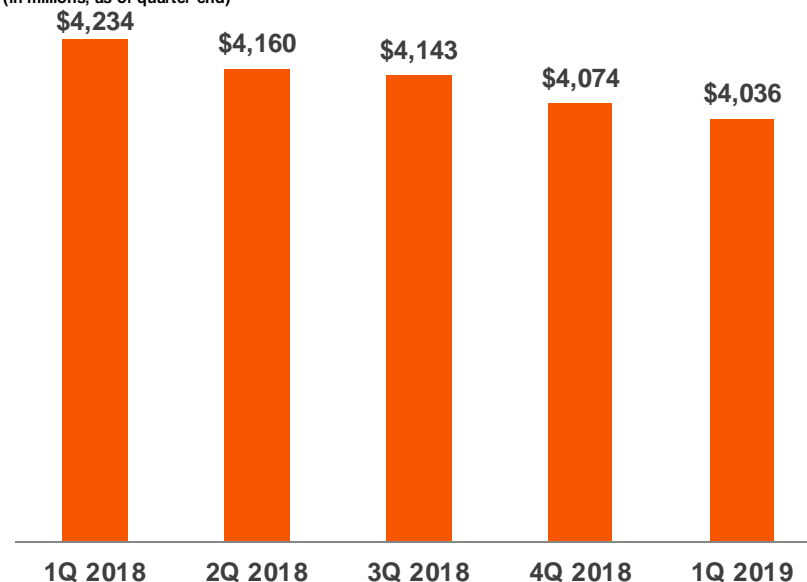
Deposit Mix

(in millions, as of quarter-end)

	1Q 2019	4Q 2018	1Q 2018
Noninterest-bearing demand	\$ 941	\$ 972	\$ 1,038
Interest-bearing:			
Checking	969	1,002	993
Money market	802	862	840
Savings	457	442	467
Time	686	634	672
Brokered	181	162	224
Total Deposits	\$ 4,036	\$ 4,074	\$ 4,234

Total Deposits

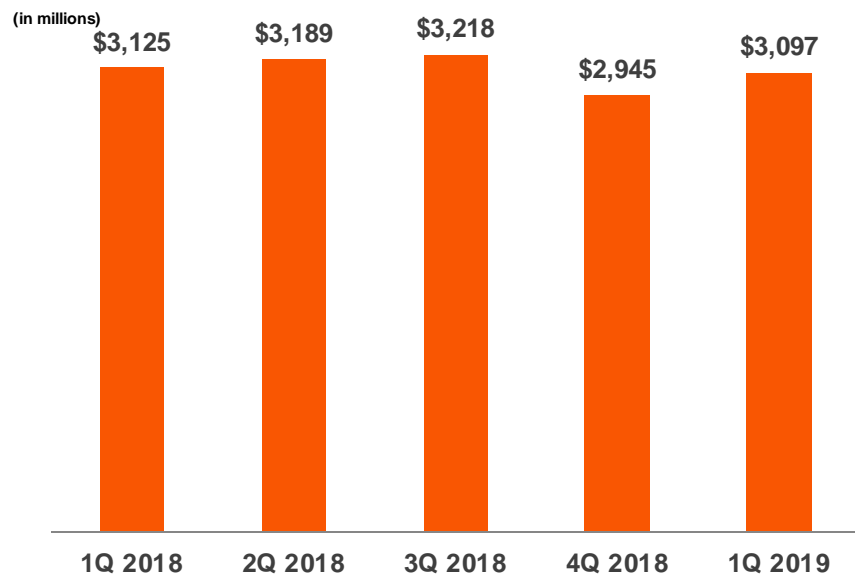
(in millions, as of quarter-end)



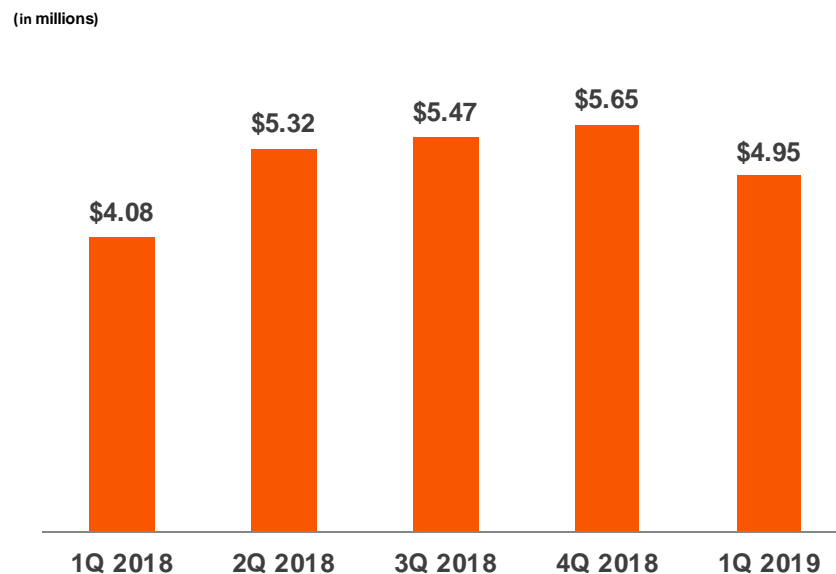
Wealth Management

- Total Wealth Management revenue declined 12.4% from the prior quarter
- Decline attributable to higher estate fees and other one-time revenue items recorded in 4Q18
- During 1Q19, assets under administration increased \$152.0 million, primarily due to market performance

Assets Under Administration



Wealth Management Revenue

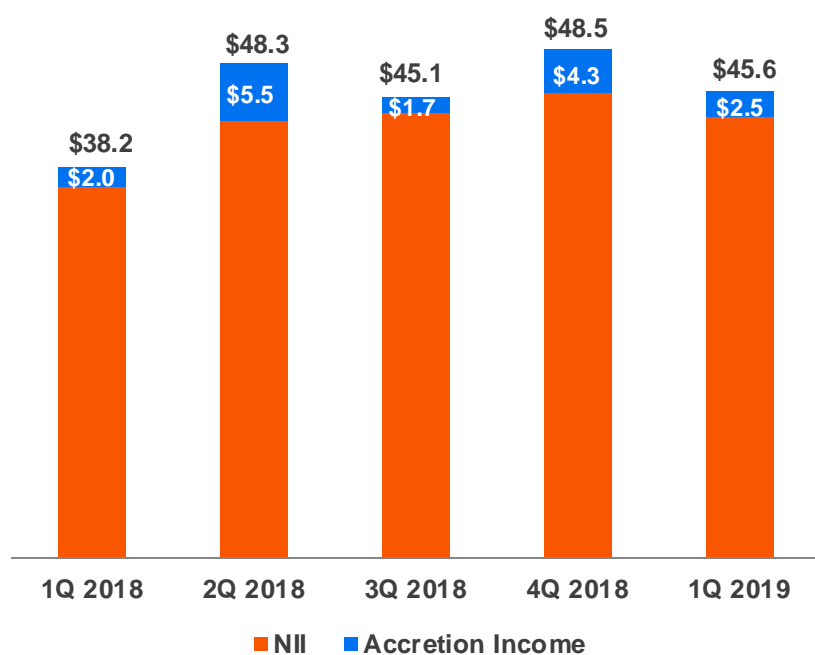


Net Interest Income/Margin

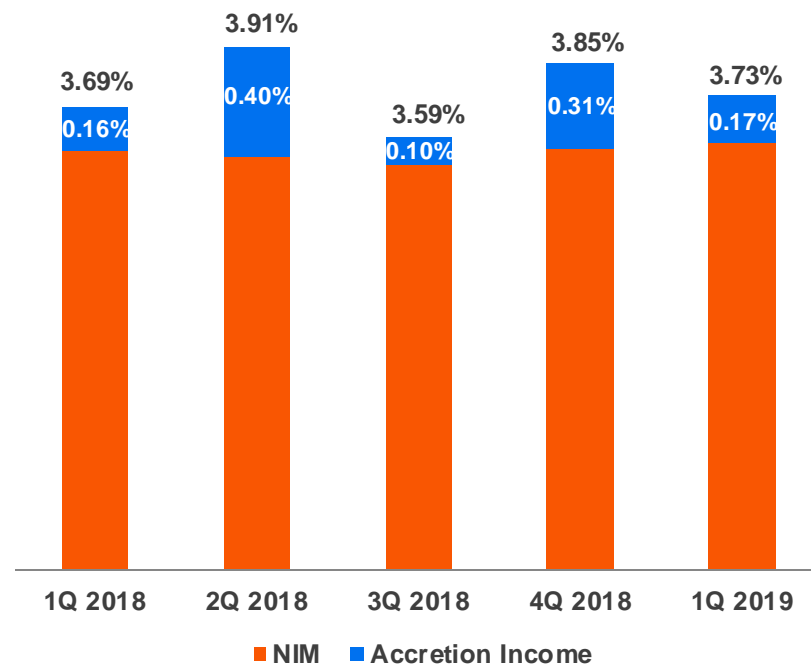
- Net interest income and margin declined due to lower accretion income
- Excluding the impact of accretion income, net interest margin increased 2 bps
- Average rate on new and renewed loans was 5.70%
- Expected scheduled accretion income: \$2.1 million in 2Q19; \$8.1 million in FY 2019 (excluding impact of pending HomeStar acquisition)

Net Interest Income

(in millions)



Net Interest Margin

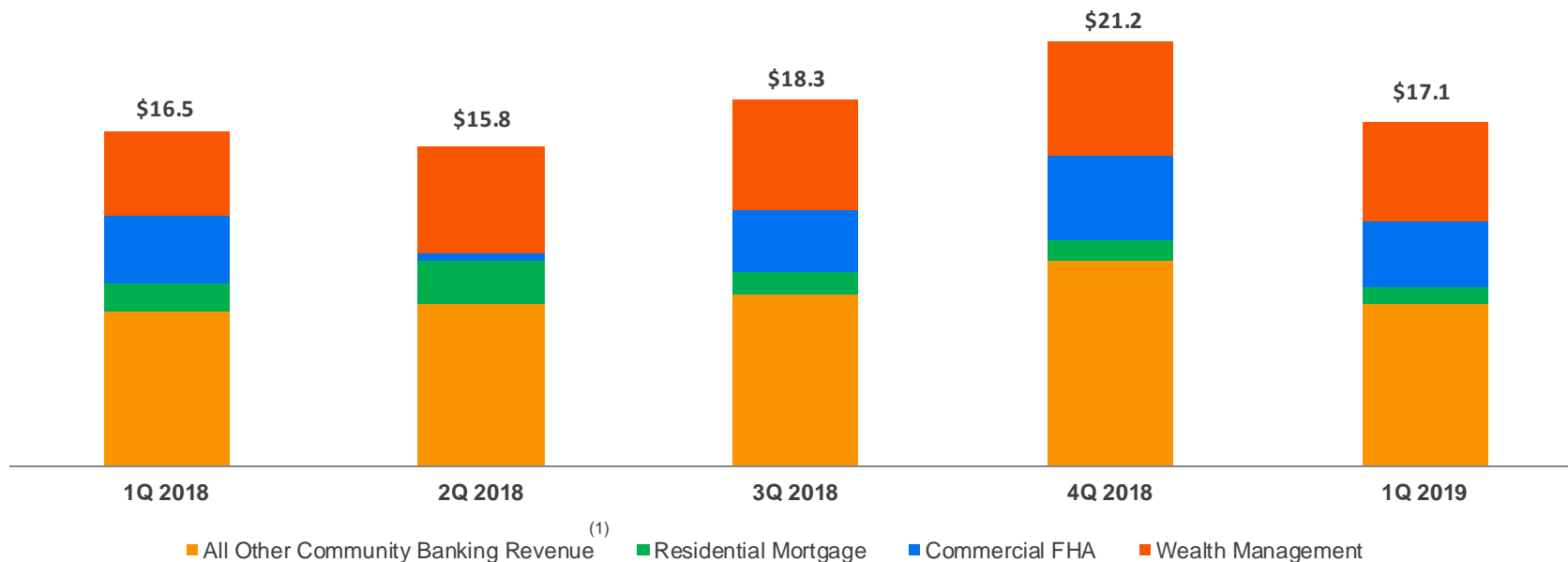


Noninterest Income

- Noninterest income decreased 19.3% from prior quarter
- Wealth management remains largest single contributor to noninterest income
- Commercial FHA revenue of \$3.3 million remained within projected range despite impact of government shutdown in 1Q19

Noninterest Income

(in millions)



(1)

■ All Other Community Banking Revenue ■ Residential Mortgage ■ Commercial FHA ■ Wealth Management

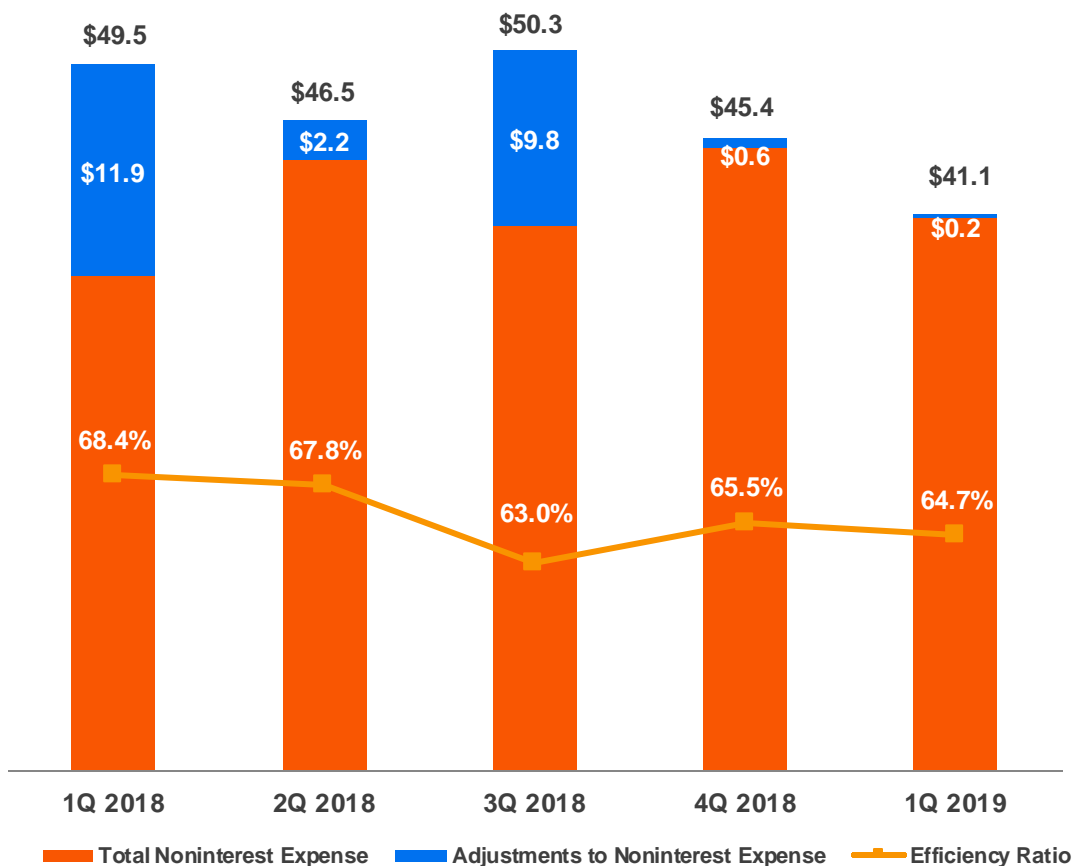
Notes:

(1) Represents service charges, interchange revenue, net gain (loss) on sale of investment securities, and other income

Noninterest Expense and Operating Efficiency

Noninterest Expense and Efficiency Ratio ⁽¹⁾

(Noninterest expense in millions)



- Efficiency Ratio ⁽¹⁾ was 64.7% in 1Q19 vs. 65.5% in 4Q18
- Integration and acquisition related expenses
 - \$0.2 million in 1Q19
 - \$0.6 million in 4Q18
- Excluding these expenses, noninterest expense decreased 8.7% on a linked-quarter basis
- Decrease in noninterest expense attributable to declines in most major expense items, reflecting our focus on disciplined expense management
- Quarterly run-rate for noninterest expense projected to be approximately \$42-\$43 million

Notes:

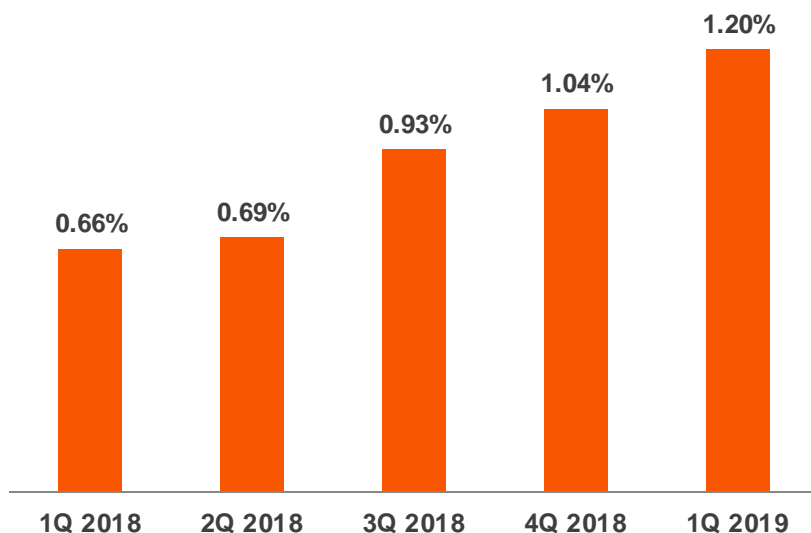
(1) Represents a non-GAAP financial measure. See "Non-GAAP Reconciliation" in the appendix.

Asset Quality

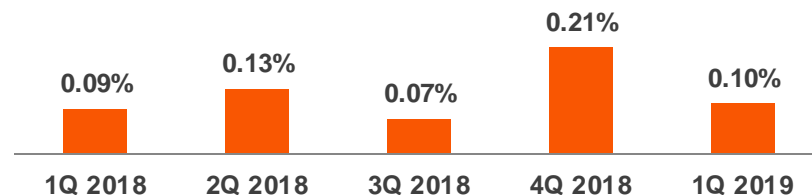
- Increase in nonperforming loans primarily attributable to the downgrade of one commercial real estate loan and one residential real estate loan
- Net charge-offs for 1Q19 was 0.10% of average loans on an annualized basis
- Provision for loan losses of \$3.2 million in 1Q19
- ALLL/total loans of 0.56% and credit marks/total loans of 0.47% at March 31, 2019

Nonperforming Loans/ Total Loans

(Total Loans as of quarter-end)



NCO / Average Loans





Outlook

- **Continued execution on protecting margin and controlling expenses resulting in solid financial performance**
- **Low-single-digit organic loan growth expected in 2019**
- **Organic loan growth closely linked to core deposit growth**
- **HomeStar acquisition will provide additional liquidity that can be utilized to profitably fund our organic loan growth**



APPENDIX

MIDLAND STATES BANCORP, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES

Adjusted Earnings Reconciliation

	For the Quarter Ended				
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
<i>(dollars in thousands, except per share data)</i>					
Income before income taxes - GAAP	\$ 18,336	\$ 20,863	\$ 10,933	\$ 15,827	\$ 3,182
Adjustments to noninterest income:					
Gain (loss) on sales of investment securities, net	-	469	-	(70)	65
Other	-	(1)	(12)	(48)	150
Total adjustments to noninterest income	-	468	(12)	(118)	215
Adjustments to noninterest expense:					
Loss on mortgage servicing rights held for sale	-	-	270	188	-
Integration and acquisition expenses	160	553	9,559	2,019	11,884
Total adjustments to noninterest expense	160	553	9,829	2,207	11,884
Adjusted earnings pre tax	18,496	20,948	20,774	18,152	14,851
Adjusted earnings tax	4,398	4,551	5,142	3,683	4,586
Adjusted earnings - non-GAAP	14,098	16,397	15,632	14,469	10,265
Preferred stock dividends, net	34	34	35	36	36
Adjusted earnings available to common shareholders - non-GAAP	\$ 14,064	\$ 16,363	\$ 15,597	\$ 14,433	\$ 10,229
Adjusted diluted earnings per common share	\$ 0.58	\$ 0.67	\$ 0.64	\$ 0.59	\$ 0.48
Adjusted return on average assets	1.02 %	1.14 %	1.09 %	1.03 %	0.87 %
Adjusted return on average shareholders' equity	9.31 %	10.85 %	10.45 %	9.93 %	8.34 %
Adjusted return on average tangible common equity	13.90 %	16.46 %	16.02 %	15.27 %	11.86 %

MIDLAND STATES BANCORP, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES (continued)

Efficiency Ratio Reconciliation

	For the Quarter Ended				
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
<i>(dollars in thousands)</i>					
Noninterest expense - GAAP	\$ 41,097	\$ 45,375	\$ 50,317	\$ 46,452	\$ 49,499
Loss on mortgage servicing rights held for sale	-	-	(270)	(188)	-
Integration and acquisition expenses	(160)	(553)	(9,559)	(2,019)	(11,884)
Adjusted noninterest expense	<u>\$ 40,937</u>	<u>\$ 44,822</u>	<u>\$ 40,488</u>	<u>\$ 44,245</u>	<u>\$ 37,615</u>
Net interest income - GAAP	\$ 45,601	\$ 48,535	\$ 45,081	\$ 48,286	\$ 38,185
Effect of tax-exempt income	543	574	585	541	394
Adjusted net interest income	<u>46,144</u>	<u>49,109</u>	<u>45,666</u>	<u>48,827</u>	<u>38,579</u>
Noninterest income - GAAP	\$ 17,075	\$ 21,170	\$ 18,272	\$ 15,847	\$ 16,502
Mortgage servicing rights impairment (recapture)	25	(1,380)	297	500	133
(Gain) loss on sales of investment securities, net	-	(469)	-	70	(65)
Other	-	1	12	48	(150)
Adjusted noninterest income	<u>17,100</u>	<u>19,322</u>	<u>18,581</u>	<u>16,465</u>	<u>16,420</u>
Adjusted total revenue	<u>\$ 63,244</u>	<u>\$ 68,431</u>	<u>\$ 64,247</u>	<u>\$ 65,292</u>	<u>\$ 54,999</u>
Efficiency ratio	64.73 %	65.50 %	63.02 %	67.76 %	68.39 %

MIDLAND STATES BANCORP, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES (continued)

Tangible Common Equity to Tangible Assets Ratio and Tangible Book Value Per Share

	As of				
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
<i>(dollars in thousands, except per share data)</i>					
Shareholders' Equity to Tangible Common Equity					
Total shareholders' equity—GAAP	\$ 624,168	\$ 608,525	\$ 594,146	\$ 592,535	\$ 585,385
Adjustments:					
Preferred stock	(2,733)	(2,781)	(2,829)	(2,876)	(2,923)
Goodwill	(164,673)	(164,673)	(164,044)	(164,044)	(155,674)
Other intangibles	(35,566)	(37,376)	(39,228)	(41,081)	(46,473)
Tangible common equity	<u>\$ 421,196</u>	<u>\$ 403,695</u>	<u>\$ 388,045</u>	<u>\$ 384,534</u>	<u>\$ 380,315</u>
Total Assets to Tangible Assets:					
Total assets—GAAP	\$ 5,641,780	\$ 5,637,673	\$ 5,724,612	\$ 5,730,600	\$ 5,723,372
Adjustments:					
Goodwill	(164,673)	(164,673)	(164,044)	(164,044)	(155,674)
Other intangibles	(35,566)	(37,376)	(39,228)	(41,081)	(46,473)
Tangible assets	<u>\$ 5,441,541</u>	<u>\$ 5,435,624</u>	<u>\$ 5,521,340</u>	<u>\$ 5,525,475</u>	<u>\$ 5,521,225</u>
Common Shares Outstanding	23,827,438	23,751,798	23,694,637	23,664,596	23,612,430
Tangible Common Equity to Tangible Assets	7.74 %	7.43 %	7.03 %	6.96 %	6.89 %
Tangible Book Value Per Share	\$ 17.68	\$ 17.00	\$ 16.38	\$ 16.25	\$ 16.11

Return on Average Tangible Common Equity (ROATCE)

	For the Quarter Ended				
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
<i>(dollars in thousands)</i>					
Net income available to common shareholders	<u>\$ 13,948</u>	<u>\$ 16,302</u>	<u>\$ 8,462</u>	<u>\$ 12,746</u>	<u>\$ 1,770</u>
Average total shareholders' equity—GAAP	\$ 614,210	\$ 599,723	\$ 593,457	\$ 584,653	\$ 498,941
Adjustments:					
Preferred stock	(2,759)	(2,812)	(2,859)	(2,905)	(2,952)
Goodwill	(164,673)	(164,051)	(164,044)	(158,461)	(118,996)
Other intangibles	(36,438)	(38,394)	(40,228)	(44,098)	(27,156)
Average tangible common equity	<u>\$ 410,340</u>	<u>\$ 394,466</u>	<u>\$ 386,326</u>	<u>\$ 379,189</u>	<u>\$ 349,837</u>
ROATCE	13.79 %	16.40 %	8.69 %	13.48 %	2.05 %