# Midland States Bancorp, Inc.

## NASDAQ: MSBI

## Third Quarter 2017 Earnings Call

**Forward-Looking Statements.** This presentation may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements express management's current expectations, forecasts of future events or long-term goals, and may be based upon beliefs, expectations and assumptions of Midland's management, are generally identifiable by the use of words such as "believe," "expect," "anticipate," "plan," "intend," "estimate," "may," "will," "would," "could," "should" or other similar expressions. All statements in this presentation speak only as of the date they are made, and Midland undertakes no obligation to update any statement. A number of factors, many of which are beyond the ability of Midland to control or predict, could cause actual results to differ materially from those in its forward-looking statements. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning Midland and its respective businesses, including additional factors that could materially affect Midland's financial results, are included in Midland's filings with the Securities and Exchange Commission.

**Use of Non-GAAP Financial Measures.** This presentation contains 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," "Yield on Loans Excluding Accretion Income," "Net Interest Margin Excluding Accretion Income," "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. 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.

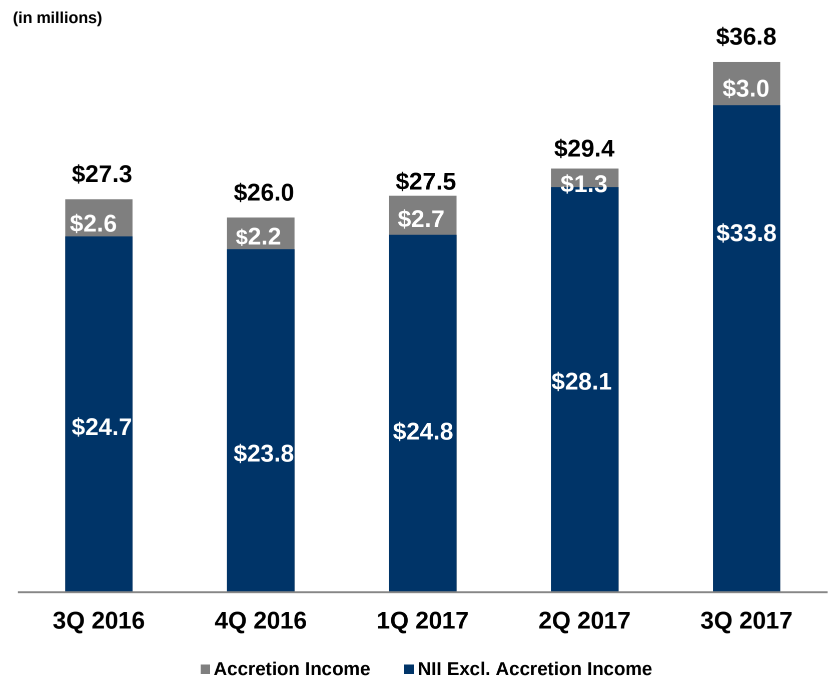
# Overview of 3Q17 and Recent Developments

| | |
|---|---|
| **Alpine Acquisition** | Announced on October 16, 2017<br>• Leading market share in Rockford, IL MSA<br>• $1.3 billion in total assets<br>• $1.0 billion wealth management business |
| **Centrue Integration** | System conversion completed in third quarter<br>• On track to realize projected cost savings in 4Q17 |
| **Enhancing Business Mix** | Centrue and Alpine acquisitions focused on core community banking and wealth management<br>• Mortgage banking becoming smaller component of revenue mix<br>• Pending sale of 72% of residential MSRs reduces earnings volatility and frees up capital |
| **3Q17 Earnings** | Net income of $2.0 million, or $0.10 diluted EPS<br>• Integration and acquisition expenses of $8.3 million, or $0.27 per diluted share<br>• Loss on MSRs held-for-sale of $3.6 million, or $0.12 per diluted share |

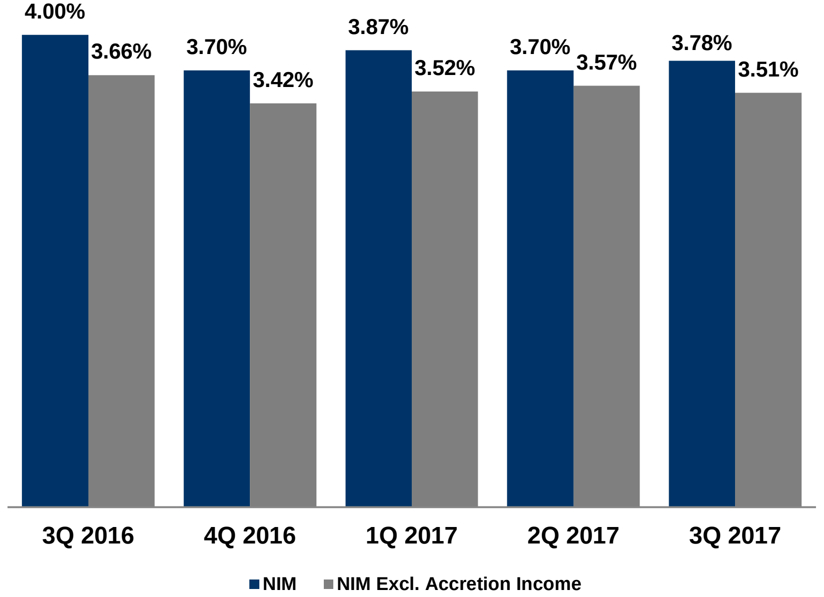
# Net Interest Income/Margin

- Net interest income increased 25% from 2Q17, primarily due to the full quarter impact of Centrue
- Net interest margin, excluding accretion income, declined 6 bps, due to full quarter impact of Centrue's lower yielding assets
- Average rate on new and renewed loans increased 48 bps to 4.72% in 3Q17

## Net Interest Income



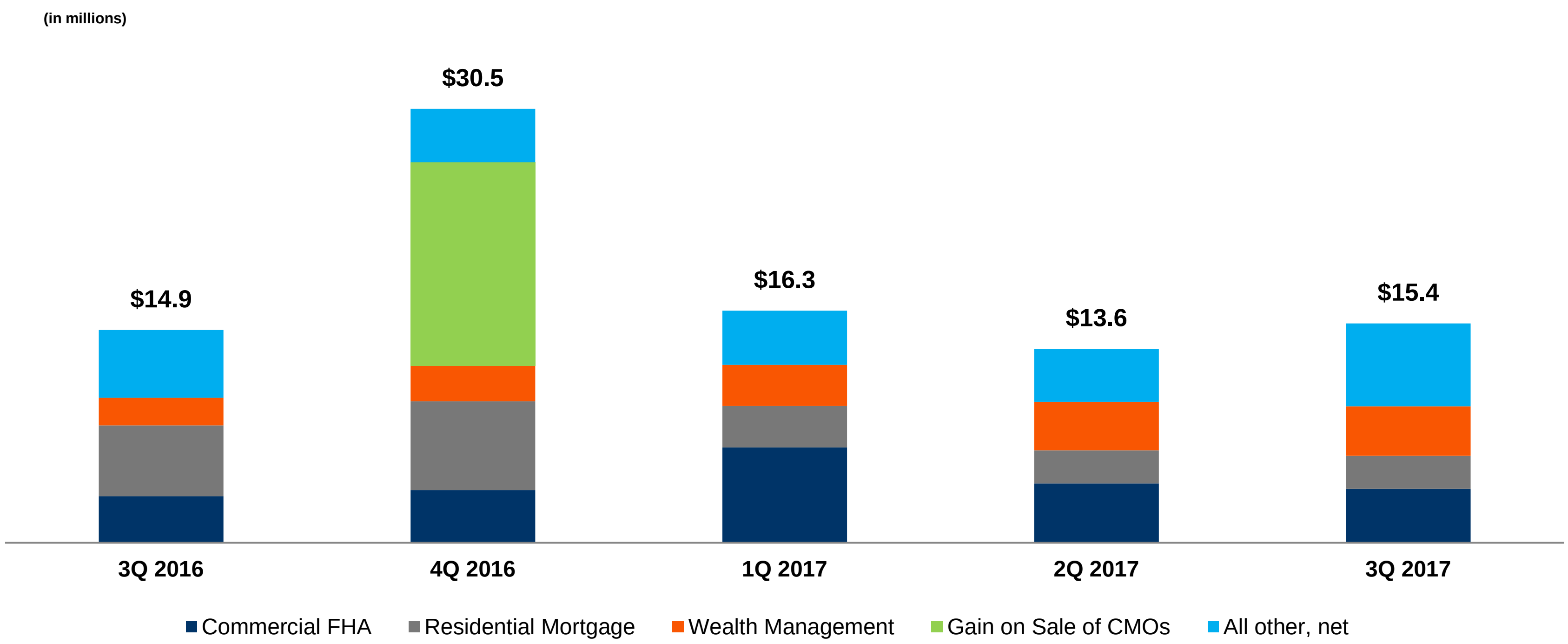

## NIM / NIM Excl. Accretion Income



# Non-Interest Income

- Fee generating businesses accounted for 30% of total revenue in 3Q17
- Fee income increased 13.1% from 2Q17 due to full quarter impact of Centrue
- Strong growth in deposit service charges and interchange revenue

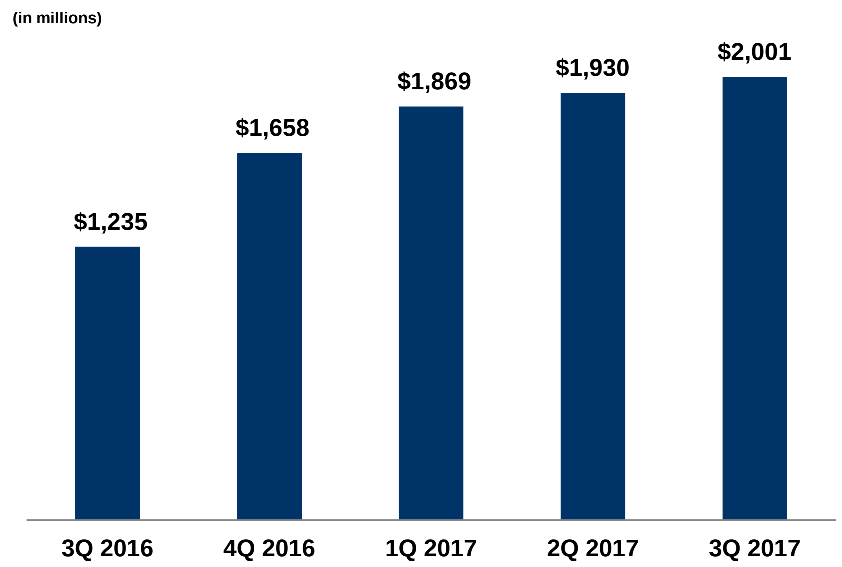
## Non-Interest Income



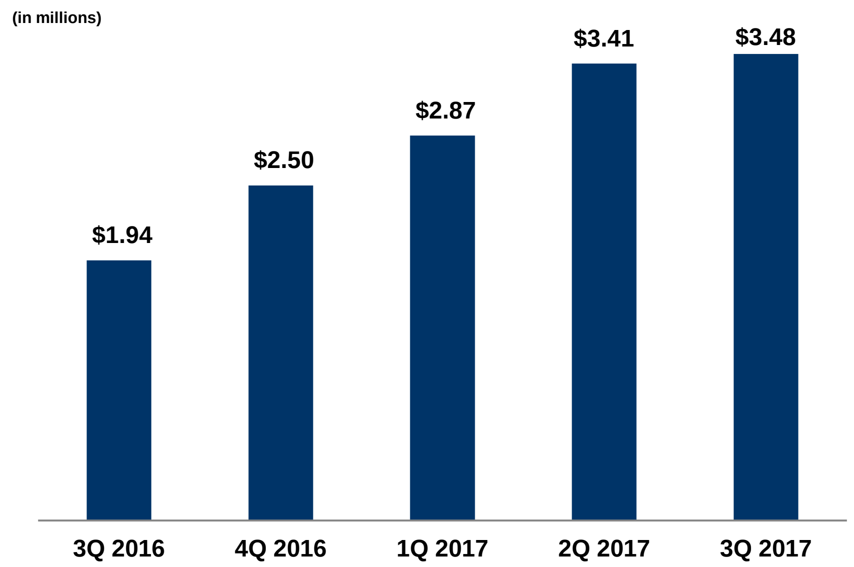
# Wealth Management

- Wealth Management group offers Trust and Estate services, Investment Management, Financial Planning and Employer Sponsored Retirement Plans
- Surpassed $2 billion in assets under administration
- Total revenue increased 2% from the prior quarter
- Year-over-year organic growth in assets under administration was $172 million, or 14%, excluding both the Sterling Trust and CedarPoint acquisitions

## Assets Under Administration



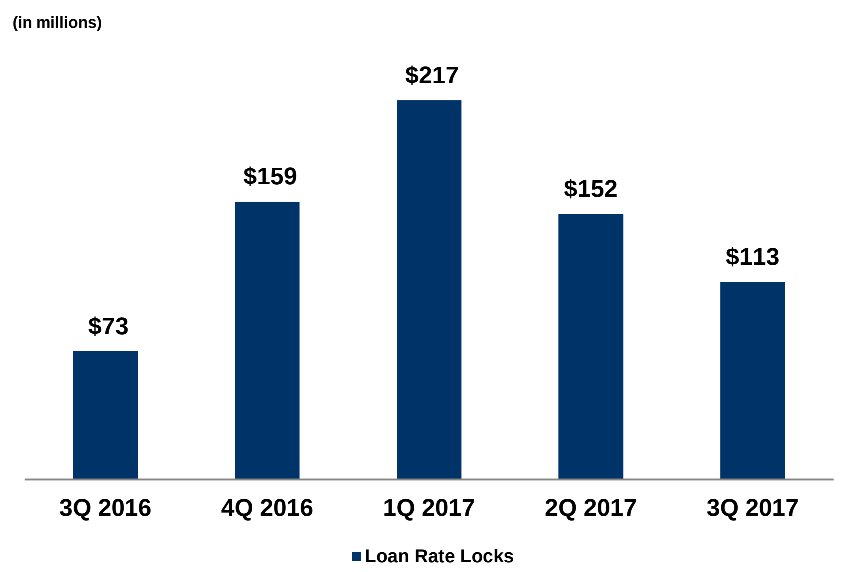

## Wealth Management Revenue



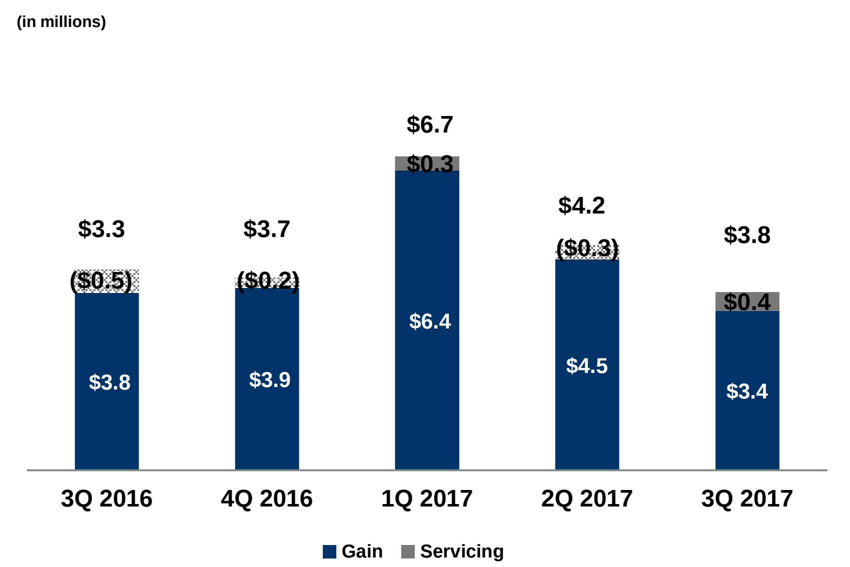
# Love Funding – Commercial FHA Revenue

- Commercial FHA origination and servicing business for multifamily and healthcare facilities
- Long-term replacement reserve deposits for maintenance/capex of properties and escrow deposits are low-cost sources of funds
- Annual revenue expected to be $18-$20 million (excluding MSR impairment)
- Average deposits related to servicing were $322 million in 3Q17, up 17% over prior year

## Loan Rate Locks

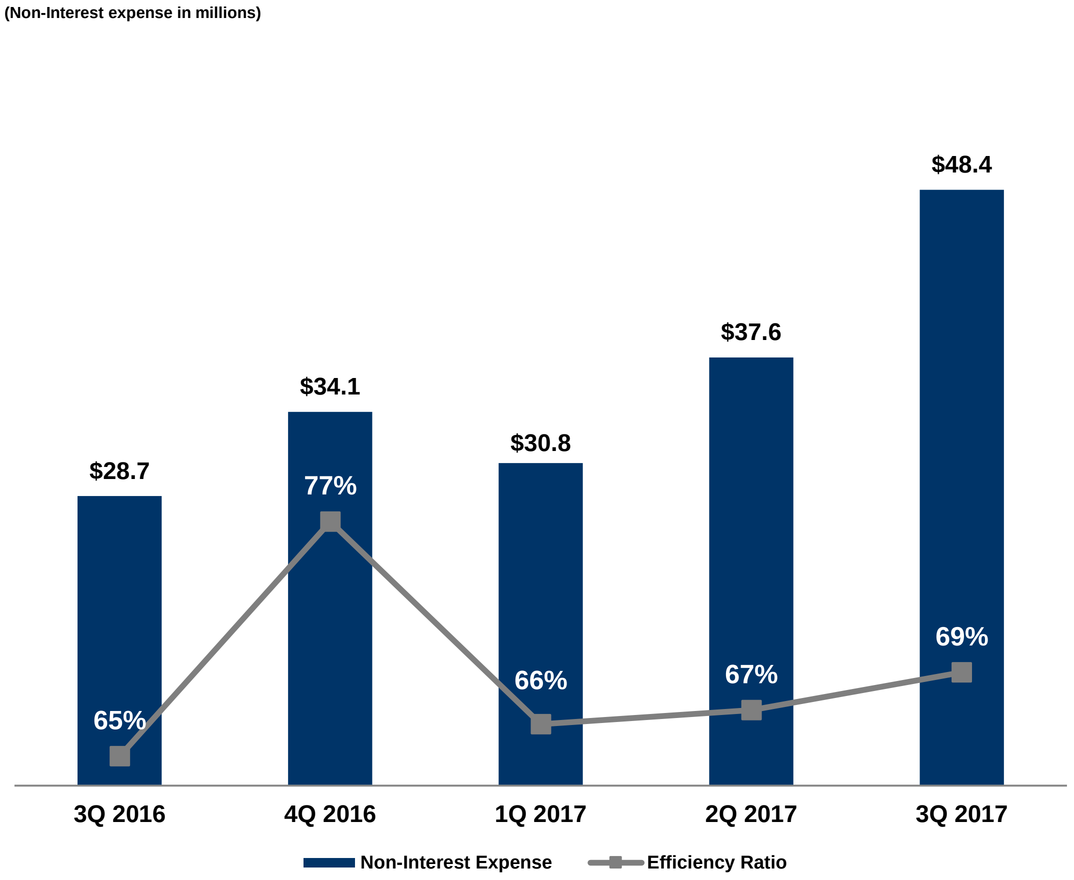



## Commercial FHA Revenue Mix



# Non-Interest Expense and Operating Efficiency

## Non-Interest Expense and Efficiency Ratio[1]




- **Efficiency Ratio[1] was 69.0% in 3Q17 vs. 66.5% in 2Q17**
- **Integration and acquisition related expenses**
  - **$8.3 million in 3Q17**
  - **$7.5 million in 2Q17**
- **3Q17 expenses include $3.6 million loss on MSRs held-for-sale**
- **Excluding these charges, noninterest expense increased 20.7% on a linked-quarter basis**
- **Increase attributable to full quarter impact of Centrue**

[1]Efficiency ratio represents noninterest expenses, as adjusted, divided by the sum of fully taxable equivalent net interest income plus noninterest income, as adjusted. Noninterest expense adjustments exclude net expense from the loss share termination agreement, branch network optimization plan charges, loss on mortgage servicing rights held for sale and integration and acquisition expenses. Noninterest income adjustments exclude mortgage servicing rights impairment / recapture, gains or losses from the sale of investment securities, other-than-temporary impairment on investment securities and certain other noninterest income adjustments.

# Loan Portfolio

- **Total loans declined $26 million during 3Q17**
- **Elevated payoffs in commercial portfolio largely from companies or properties that were sold, as well as lower rated credits exiting the bank**
- **Continued growth in residential real estate, consumer and construction portfolios**

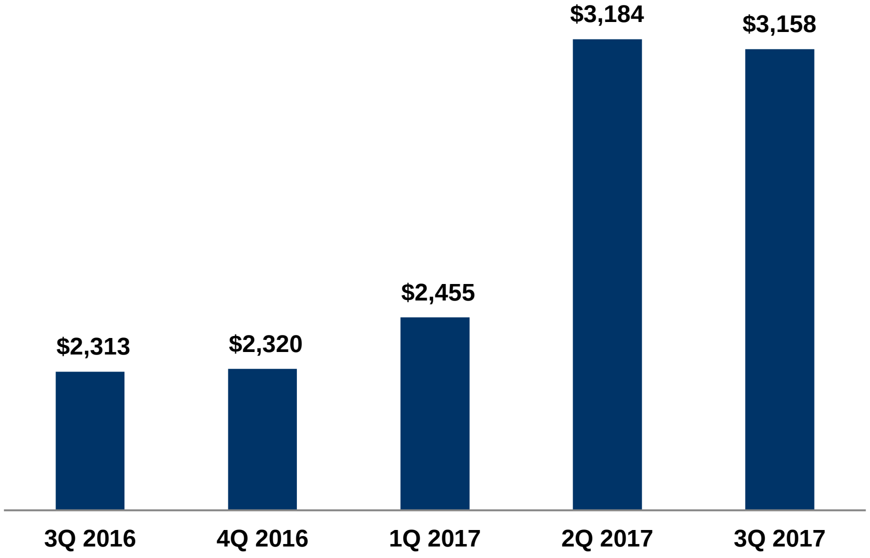
## Loan Portfolio Mix

(in millions, as of quarter-end)

| | 3Q 2017 | 2Q 2017 | 3Q 2016 |
|---|---|---|---|
| Commercial | $ 514 | $ 571 | $ 545 |
| Commercial real estate | 1,472 | 1,471 | 956 |
| Construction and land development | 183 | 176 | 164 |
| Residential real estate | 446 | 428 | 217 |
| Consumer | 343 | 336 | 248 |
| Lease financing | 201 | 202 | 182 |
| **Total** | **$ 3,158** | **$ 3,184** | **$ 2,313** |

## Total Loans

(in millions, as of quarter-end)



# Total Deposits

- Average community banking deposits trended higher throughout 3Q17
- Repositioning of non-core funding sources as brokered CDs replaced with lower-cost FHLB advances
- $108 million fluctuation in end-of-period servicing deposits
- Total deposits declined $219 million in 3Q17

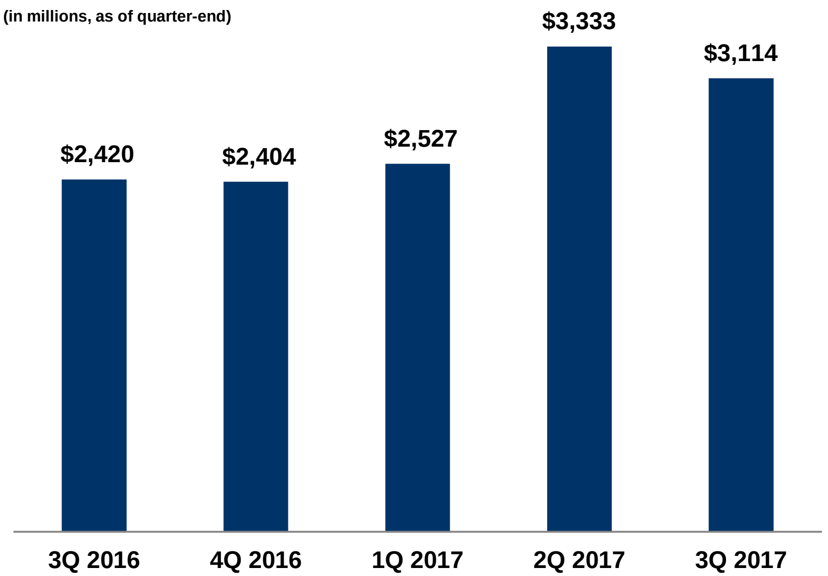
## Deposit Mix

(in millions, as of quarter-end)

| | 3Q 2017 | 2Q 2017 | 3Q 2016 |
|---|---|---|---|
| Noninterest-bearing demand | $ 674 | $ 781 | $ 629 |
| Checking | 801 | 842 | 658 |
| Money market | 634 | 578 | 366 |
| Savings | 279 | 292 | 163 |
| Time | 494 | 526 | 421 |
| Brokered | 233 | 315 | 183 |
| **Total deposits** | **$ 3,114** | **$ 3,333** | **$ 2,420** |

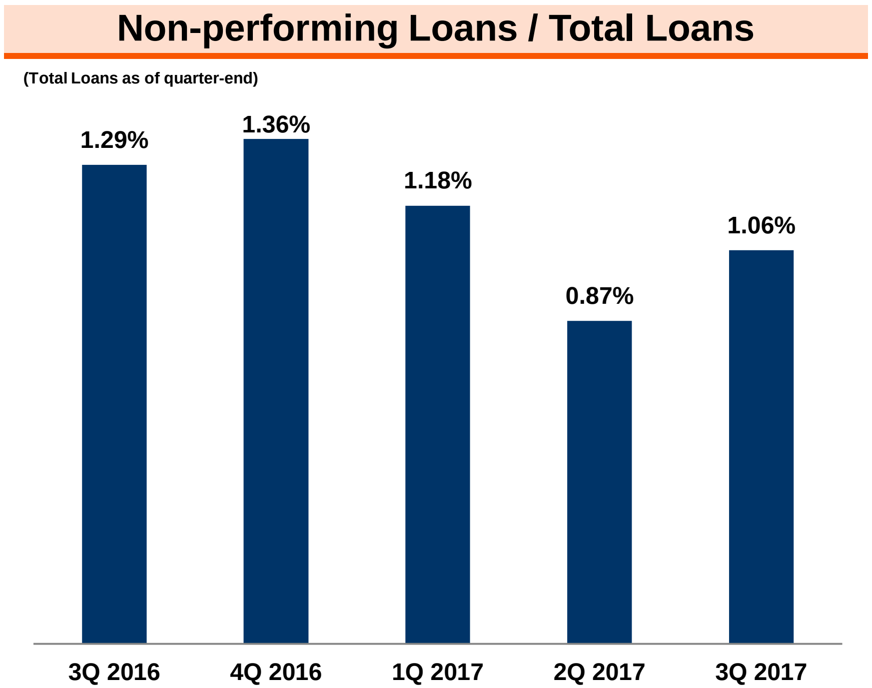
## Total Deposits

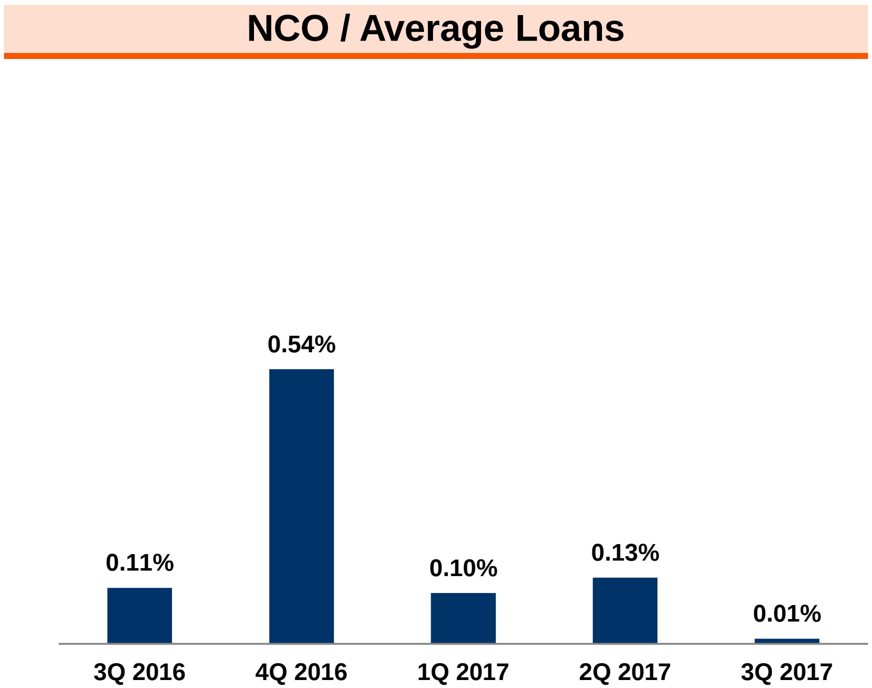
(in millions, as of quarter-end)



# Asset Quality

- Non-performing loans increased due to downgrade of one commercial real estate loan
- Net charge-offs totaled $0.1 million in 3Q17, or 1 bp of average loans
- Provision for loan losses of $1.5 million in 3Q17
- ALL + credit marks/total loans of 0.99% at September 30, 2017



# Outlook

- Accretive acquisitions continue to drive shareholder value
- Significant increase in scale and deeper presence throughout Illinois
- Recurring revenue of wealth management becoming larger percentage of revenue mix
- Expanded base of low-cost deposits
- Midland positioned to be a higher performing bank with more consistent earnings stream

# APPENDIX

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

| *(in thousands, except per share data)* | For the Quarter Ended September 30, 2017 | June 30, 2017 | March 31, 2017 | December 31, 2016 | September 30, 2016 |
|---|---|---|---|---|---|
| **Adjusted Earnings Reconciliation** | | | | | |
| Income before income taxes - GAAP | $ 2,316 | $ 4,916 | $ 11,473 | $ 19,910 | $ 12,153 |
| Adjustments to other income: | | | | | |
| Gain on sales of investment securities, net | 98 | 55 | 67 | 14,387 | 39 |
| Gain (loss) on sale of other assets | 45 | (91) | (58) | - | - |
| Total adjusted other income | 143 | (36) | 9 | 14,387 | 39 |
| Adjustments to other expense: | | | | | |
| Net expense from loss share termination agreement | - | - | - | 351 | - |
| Branch network optimization plan charges | 336 | 1,236 | 9 | 2,099 | - |
| Loss on mortgage servicing rights held for sale | 3,617 | - | - | - | - |
| Integration and acquisition expenses | 7,967 | 6,214 | 1,242 | 1,200 | 352 |
| Total adjusted other expense | 11,920 | 7,450 | 1,251 | 3,650 | 352 |
| Adjusted earnings pre tax | 14,093 | 12,402 | 12,715 | 9,173 | 12,466 |
| Adjusted earnings tax | 4,355 | 3,473 | 3,306 | 2,871 | 4,189 |
| Adjusted earnings - non-GAAP | $ 9,738 | $ 8,929 | $ 9,409 | $ 6,302 | $ 8,277 |
| Adjusted diluted EPS | $ 0.49 | $ 0.51 | $ 0.57 | $ 0.39 | $ 0.52 |
| Adjusted return on average assets | 0.87 % | 0.99 % | 1.16 % | 0.78 % | 1.06 % |
| Adjusted return on average shareholders' equity | 8.52 % | 9.91 % | 11.73 % | 7.64 % | 10.33 % |
| Adjusted return on average tangible common equity | 11.43 % | 12.39 % | 14.16 % | 9.16 % | 12.35 % |
| | | | | | |
| **Yield on Loans** | | | | | |
| Reported yield on loans | 4.90 % | 4.71 % | 4.91 % | 4.65 % | 4.83 % |
| Effect of accretion income on acquired loans | (0.33) % | (0.17) % | (0.43) % | (0.33) % | (0.43) % |
| Yield on loans excluding accretion income | 4.57 % | 4.54 % | 4.48 % | 4.32 % | 4.40 % |
| | | | | | |
| **Net Interest Margin** | | | | | |
| Reported net interest margin | 3.78 % | 3.70 % | 3.87 % | 3.70 % | 4.00 % |
| Effect of accretion income on acquired loans | (0.27) % | (0.13) % | (0.35) % | (0.28) % | (0.34) % |
| Net interest margin excluding accretion income | 3.51 % | 3.57 % | 3.52 % | 3.42 % | 3.66 % |

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

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

| *(dollars in thousands, except per share data)* | As of September 30, 2017 | June 30, 2017 | March 31, 2017 | December 31, 2016 | September 30, 2016 |
|---|---|---|---|---|---|
| ***Shareholders' Equity to Tangible Common Equity*** | | | | | |
| Total shareholders' equity—GAAP | $ 450,689 | $ 451,952 | $ 334,333 | $ 321,770 | $ 321,749 |
| Adjustments: | | | | | |
| Preferred stock | (3,015) | (3,134) | - | - | - |
| Goodwill | (97,351) | (96,940) | (50,807) | (48,836) | (46,519) |
| Other intangibles | (17,966) | (18,459) | (8,633) | (7,187) | (5,391) |
| Tangible common equity | $ 332,357 | $ 333,419 | $ 274,893 | $ 265,747 | $ 269,839 |
| ***Total Assets to Tangible Assets:*** | | | | | |
| Total assets—GAAP | 4,347,761 | 4,491,642 | 3,373,577 | 3,233,723 | 3,247,727 |
| Adjustments: | | | | | |
| Goodwill | (97,351) | (96,940) | (50,807) | (48,836) | (46,519) |
| Other intangibles | (17,966) | (18,459) | (8,633) | (7,187) | (5,391) |
| Tangible assets | $ 4,232,444 | $ 4,376,243 | $ 3,314,137 | $ 3,177,700 | $ 3,195,817 |
| Common Shares Outstanding | 19,093,153 | 19,087,409 | 15,780,651 | 15,483,499 | 15,404,423 |
| ***Tangible Common Equity to Tangible Assets*** | 7.85 % | 7.62 % | 8.29 % | 8.36 % | 8.44 % |
| ***Tangible Book Value Per Share*** | $ 17.41 | $ 17.47 | $ 17.42 | $ 17.16 | $ 17.52 |

**Return on Average Tangible Common Equity (ROATCE)**

| *(in thousands)* | As of September 30, 2017 | June 30, 2017 | March 31, 2017 | December 31, 2016 | September 30, 2016 |
|---|---|---|---|---|---|
| Net Income | $ 2,036 | $ 3,539 | $ 8,490 | $ 11,583 | $ 8,051 |
| Average total shareholders' equity—GAAP | $ 453,317 | $ 361,335 | $ 325,442 | $ 327,886 | $ 318,860 |
| Adjustments: | | | | | |
| Goodwill | (97,129) | (61,424) | (48,836) | (46,594) | (46,519) |
| Other intangibles | (18,153) | (10,812) | (7,144) | (7,718) | (5,656) |
| Average tangible common equity | $ 338,035 | $ 289,099 | $ 269,462 | $ 273,574 | $ 266,685 |
| **ROATCE** | 2.39 % | 4.91 % | 12.78 % | 16.84 % | 12.01 % |