UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to _______________

Commission File Number 001-35272

MIDLAND STATES BANCORP, INC.

(Exact name of registrant as specified in its charter)

ILLINOIS	**37-1233196**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1201 Network Centre Drive **Effingham, IL**	**62401**
(Address of principal executive offices)	(Zip Code)

(217) 342-7321
(Registrant’s telephone number, including area code)

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value	MSBI	Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

As of April 30, 2019, the Registrant had 24,063,471 shares of outstanding common stock, $0.01 par value.

MIDLAND STATES BANCORP, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

MIDLAND STATES BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	March 31, 2019 *(unaudited)*	December 31, 2018
Assets		
Cash and due from banks	$ 275,939	$ 210,780
Federal funds sold	541	2,920
Cash and cash equivalents	276,480	213,700
Investment securities available for sale, at fair value	652,739	657,451
Equity securities, at fair value	3,413	3,334
Loans	4,092,106	4,137,551
Allowance for loan losses	(23,091)	(20,903)
Total loans, net	4,069,015	4,116,648
Loans held for sale, at fair value	16,851	30,401
Premises and equipment, net	94,514	94,840
Operating lease right-of-use asset	10,677	—
Other real estate owned	2,020	3,483
Nonmarketable equity securities	46,009	42,472
Accrued interest receivable	16,669	16,560
Mortgage servicing rights, at lower of cost or fair value	52,957	53,447
Mortgage servicing rights held for sale	257	3,545
Intangible assets	35,566	37,376
Goodwill	164,673	164,673
Cash surrender value of life insurance policies	139,686	138,783
Accrued income taxes receivable	5,070	8,809
Deferred tax assets, net	—	1,251
Other assets	55,184	50,900
Total assets	$ 5,641,780	$ 5,637,673
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 941,344	$ 972,164
Interest-bearing	3,094,944	3,102,006
Total deposits	4,036,288	4,074,170
Short-term borrowings	115,832	124,235
FHLB advances and other borrowings	669,009	640,631
Subordinated debt	94,174	94,134
Trust preferred debentures	47,918	47,794
Accrued interest payable	6,254	4,855
Deferred tax liabilities, net	868	—
Operating lease liabilities	11,198	—
Other liabilities	36,071	43,329
Total liabilities	5,017,612	5,029,148
Shareholders' Equity:		
Preferred stock, Series H, $2 par value; $1,000 per share liquidation value; 2,636 shares authorized, issued and outstanding at March 31, 2019 and December 31, 2018	2,733	2,781
Common stock, $0.01 par value; 40,000,000 shares authorized; 23,827,438 and 23,751,798 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	238	238
Capital surplus	475,811	473,833
Retained earnings	141,906	133,781
Accumulated other comprehensive income (loss)	3,480	(2,108)
Total shareholders' equity	624,168	608,525
Total liabilities and shareholders' equity	$ 5,641,780	$ 5,637,673

The accompanying notes are an integral part of the consolidated financial statements.

MIDLAND STATES BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME—(UNAUDITED)

(dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2019	**2018**
Interest income:		
Loans:		
Taxable	$ 51,882	$ 41,031
Tax exempt	974	467
Loans held for sale	299	428
Investment securities:		
Taxable	3,683	2,643
Tax exempt	1,066	1,016
Nonmarketable equity securities	621	399
Federal funds sold and cash investments	907	521
Total interest income	59,432	46,505
Interest expense:		
Deposits	7,363	4,117
Short-term borrowings	237	124
FHLB advances and other borrowings	3,847	1,871
Subordinated debt	1,514	1,514
Trust preferred debentures	870	694
Total interest expense	13,831	8,320
Net interest income	45,601	38,185
Provision for loan losses	3,243	2,006
Net interest income after provision for loan losses	42,358	36,179
Noninterest income:		
Commercial FHA revenue	3,270	3,330
Residential mortgage banking revenue	834	1,418
Wealth management revenue	4,953	4,079
Service charges on deposit accounts	2,520	1,967
Interchange revenue	2,680	2,045
Gain on sales of investment securities, net	—	65
Gain on sales of other real estate owned	66	307
Other income	2,752	3,291
Total noninterest income	17,075	16,502
Noninterest expense:		
Salaries and employee benefits	22,039	28,395
Occupancy and equipment	4,832	4,252
Data processing	4,891	4,479
FDIC insurance	435	548
Professional	2,073	3,749
Marketing	1,234	1,206
Communications	671	1,576
Loan expense	360	524
Other real estate owned	93	90
Amortization of intangible assets	1,810	1,675
Other expense	2,659	3,005
Total noninterest expense	41,097	49,499
Income before income taxes	18,336	3,182
Income taxes	4,354	1,376
Net income	13,982	1,806
Preferred stock dividends and premium amortization	34	36
Net income available to common shareholders	$ 13,948	$ 1,770
Per common share data:		
Basic earnings per common share	$ 0.58	$ 0.08
Diluted earnings per common share	$ 0.57	$ 0.08
Weighted average common shares outstanding	23,998,119	20,901,738
Weighted average diluted common shares outstanding	24,204,661	21,351,511

The accompanying notes are an integral part of the consolidated financial statements.

MIDLAND STATES BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)—(UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31,	
	2019	2018
Net income	$ 13,982	$ 1,806
Other comprehensive income (loss):		
Investment securities available for sale:		
Unrealized gains (losses) that occurred during the period	7,708	(3,337)
Reclassification adjustment for realized net gains on sales of investment securities included in net income	—	(65)
Income tax effect	(2,120)	924
Change in investment securities available for sale, net of tax	5,588	(2,478)
Other comprehensive income (loss), net of tax	5,588	(2,478)
Total comprehensive income (loss)	$ 19,570	$ (672)

The accompanying notes are an integral part of the consolidated financial statements.

MIDLAND STATES BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY—(UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(dollars in thousands, except per share data)

	Preferred stock	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive (loss) income	Total shareholders' equity
Balances, December 31, 2018	$ 2,781	$ 238	$ 473,833	$ 133,781	$ (2,108)	$ 608,525
Net income	—	—	—	13,982	—	13,982
Other comprehensive income	—	—	—	—	5,588	5,588
Common dividends declared ($0.2425 per share)	—	—	—	(5,823)	—	(5,823)
Preferred dividends declared	—	—	—	(82)	—	(82)
Preferred stock, premium amortization	(48)	—	—	48	—	—
Share-based compensation expense	—	—	846	—	—	846
Issuance of common stock under employee benefit plans	—	—	1,132	—	—	1,132
Balances, March 31, 2019	$ 2,733	$ 238	$ 475,811	$ 141,906	$ 3,480	$ 624,168
Balances, December 31, 2017	$ 2,970	$ 191	$ 330,148	$ 114,478	$ 1,758	$ 449,545
Net income	—	—	—	1,806	—	1,806
Other comprehensive loss	—	—	—	—	(2,478)	(2,478)
Common dividends declared ($0.22 per share)	—	—	—	(4,239)	—	(4,239)
Preferred dividends declared	—	—	—	(83)	—	(83)
Preferred stock, premium amortization	(47)	—	—	47	—	—
Acquisition of Alpine Bancorporation, Inc.	—	45	139,876	—	—	139,921
Share-based compensation expense	—	—	433	—	—	433
Issuance of common stock under employee benefit plans	—	—	480	—	—	480
Balances, March 31, 2018	$ 2,923	$ 236	$ 470,937	$ 112,009	$ (720)	$ 585,385

The accompanying notes are an integral part of the consolidated financial statements.

MIDLAND STATES BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS—(UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash flows from operating activities:		
Net income	$ 13,982	$ 1,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,243	2,006
Depreciation on premises and equipment	1,601	1,454
Amortization of intangible assets	1,810	1,675
Amortization of operating lease right-of-use asset	708	—
Share-based compensation expense	846	433
Increase in cash surrender value of life insurance	(903)	(822)
Investment securities amortization, net	964	689
Gain on sales of investment securities, net	—	(65)
Gain on sales of other real estate owned	(66)	(307)
Impairment of other real estate owned	16	—
Origination of loans held for sale	(84,231)	(122,749)
Proceeds from sales of loans held for sale	99,323	154,020
Gain on loans sold and held for sale	(3,121)	(3,951)
Loss on disposals of premises and equipment	7	26
Amortization of mortgage servicing rights	678	863
Impairment of mortgage servicing rights	25	133
Net change in operating assets and liabilities:		
Accrued interest receivable	(109)	1,081
Accrued interest payable	1,399	1,698
Accrued income taxes receivable	3,739	448
Operating lease liabilities	(741)	—
Other assets	(1,920)	(131)
Other liabilities	(7,252)	(429)
Net cash provided by operating activities	29,998	37,878
Cash flows from investing activities:		
Investment securities available for sale:		
Purchases	(15,565)	(17,375)
Sales	—	1,609
Maturities and payments	27,023	26,022
Equity securities:		
Purchases	(16)	(14)
Net decrease (increase) in loans	44,390	(13,051)
Proceeds from sale of premises and equipment	—	7
Purchases of premises and equipment	(1,282)	(1,373)
Proceeds from sales of mortgage servicing rights held for sale	3,288	10,176
Purchases of nonmarketable equity securities	(7,971)	(7,610)
Sales of nonmarketable equity securities	4,434	5,576
Proceeds from sales of other real estate owned	1,164	1,621
Net cash acquired in acquisition	—	36,153
Net cash provided by investing activities	55,465	41,741
Cash flows from financing activities:		
Net decrease in deposits	(37,882)	(7,299)
Net decrease in short-term borrowings	(8,403)	(25,433)
Proceeds from FHLB borrowings	195,000	217,000
Payments made on FHLB borrowings	(165,196)	(144,064)
Payments made on other borrowings	(1,429)	—
Cash dividends paid on preferred stock	(82)	(83)
Cash dividends paid on common stock	(5,823)	(4,239)
Proceeds from issuance of common stock under employee benefit plans	1,132	480
Net cash (used in) provided by financing activities	(22,683)	36,362
Net increase in cash and cash equivalents	$ 62,780	$ 115,981
Cash and cash equivalents:		
Beginning of period	$ 213,700	$ 215,202
End of period	$ 276,480	$ 331,183
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest paid on deposits and borrowed funds	$ 12,432	$ 6,083
Income tax paid	337	29
Supplemental disclosures of noncash investing and financing activities:		
Transfer of investment securities available for sale to equity securities	$ —	$ 2,830
Transfer of loans to other real estate owned	—	346

The accompanying notes are an integral part of the consolidated financial statements.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(UNAUDITED)

Note 1 – Business Description

Midland States Bancorp, Inc. (the "Company," "we," "our," or "us") is a diversified financial holding company headquartered in Effingham, Illinois. Its wholly owned banking subsidiary, Midland States Bank (the "Bank"), has branches across Illinois and in Missouri, and provides a full range of commercial and consumer banking products and services, business equipment financing, merchant credit card services, trust and investment management, and insurance and financial planning services. In addition, multifamily and healthcare facility Federal Housing Administration ("FHA") financing is provided through Love Funding Corporation ("Love Funding"), our non-bank subsidiary.

Our principal business activity has been lending to and accepting deposits from individuals, businesses, municipalities and other entities. We have derived income principally from interest charged on loans and, to a lesser extent, from interest and dividends earned on investment securities. We have also derived income from noninterest sources, such as: fees received in connection with various lending and deposit services; wealth management services; residential mortgage loan originations, sales and servicing; and, from time to time, gains on sales of assets. Our income sources also include Love Funding's commercial FHA loan origination and servicing income. Our principal expenses include interest expense on deposits and borrowings, operating expenses, such as salaries and employee benefits, occupancy and equipment expenses, data processing costs, professional fees and other noninterest expenses, provisions for loan losses and income tax expense.

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of the Company are unaudited and should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (the "SEC") on February 28, 2019. The consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("GAAP") and conform to predominant practices within the banking industry. A discussion of these policies can be found in Note 1 – Summary of Significant Accounting Policies included in the Company's 2018 Annual Report on Form 10-K. There has been one change to our significant accounting policies since December 31, 2018, which is described below. Management of the Company has made a number of estimates and assumptions related to the reporting of assets and liabilities to prepare the consolidated financial statements in conformity with GAAP. Actual results may differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation of the results of operations for the interim periods presented herein, have been included. Certain reclassifications of 2018 amounts have been made to conform to the 2019 presentation. Management has evaluated subsequent events for potential recognition or disclosure. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019 or any other period.

Leases

The Company determines if a lease is present at the inception of an agreement. Operating leases are capitalized at commencement and are discounted using the Company's FHLB borrowing rate for a similar term borrowing unless the lease defines an implicit rate within the contract. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

The right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and operating lease liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent future rental expenses associated with operating leases and the borrowing rates are based on publicly available interest rates.

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Assets held for customers in a fiduciary or agency capacity, other than trust cash on deposit with the Bank, are not assets of the Company and, accordingly, are not included in the accompanying unaudited consolidated financial statements.

Impact of Recently Issued Accounting Standards

FASB ASU 2016-02, "Leases (Topic 842)" – In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*," which requires lessees to recognize leases on-balance sheet and to disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-10, "*Codification Improvements to Topic 842, Leases;*" and ASU No. 2018-11, "*Targeted Improvements.*" The new standard established a ROU model, that requires a lessee to recognize ROU assets and lease liabilities on the balance sheet for all leases with a term longer than 12 months. Under the new guidance, leases are classified as either finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of income. The Company adopted the new standard on January 1, 2019, and used the effective date as our date of initial application.

A modified retrospective adoption approach is required, applying the new standard to all existing leases in effect at the adoption date and new leases going forward. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods prior to January 1, 2019. This update also allows lessors to not separate non-lease components from the associated lease component if certain conditions are met. The Company elected the "package of practical expedients" permitted by ASU 2018-11, which allows us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs.

The new standard also provides practical expedients for ongoing accounting. The Company elected the short-term lease recognition exemption for our office equipment leases. This means, for those leases that qualify, we did recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition.

At the adoption date, the Company reported increased assets and liabilities of approximately $12.1 million on its consolidated balance sheet as a result of recognizing ROU assets and lease liabilities related to non-cancelable operating lease agreements for office space. The adoption of this guidance did not have a material effect to its consolidated statement of income.

FASB ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" – In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL").*" The objective of this update is to improve financial reporting by providing timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will use forward-looking information to better understand their credit loss estimates. For public companies that are filers with the SEC, this update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. As previously disclosed, the Company has established a cross-functional governance structure, which oversees overall strategy for implementation of Topic 326. Additionally, a working group was formed and has developed a project plan focused on understanding the ASU, researching issues, data requirements, technology solutions and future state processes. The project plan is targeting the data and model validation completion during the second quarter of 2019, with parallel processing of our existing allowance for loan loss model with CECL prior to implementation. The working group has identified 12 distinct loan portfolios for which a model has been or is in the process of being developed. The Company is focused on completing data and model validation, refining assumptions and continued review of the models. The Company also continues to focus on researching and resolving interpretive accounting issues in the ASU, contemplating various related accounting policies, developing processes and related controls and considering various reporting disclosures. The Company also continues to believe that the adoption of the standard will result in an overall increase in the allowance for loan losses to cover credit losses over the estimated life of the financial assets. However, the magnitude of the increase in its allowance for loan losses at the adoption date will depend upon the nature and characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that time.

FASB ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement" – In August 2018, the FASB issued ASU No. 2018-13 to improve the disclosure requirements on fair value measurements. The amendment removes certain disclosures required by Topic 820 related to transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements. The update also adds certain disclosure requirements related to changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update become effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements, but it is not expected to have a material impact.

Note 3 – Acquisitions

Alpine Bancorporation, Inc.

On February 28, 2018, the Company completed its acquisition of Alpine Bancorporation, Inc. ("Alpine") and its banking subsidiary, Alpine Bank & Trust Co. ("Alpine Bank"), which operated 19 locations in northern Illinois. In the aggregate, the Company acquired Alpine for consideration valued at approximately $173.2 million, which consisted of approximately $33.3 million in cash and the issuance of 4,463,200 shares of the Company's common stock. The acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, while $22.4 million of transaction and integration costs associated with the acquisition were expensed as incurred. As of February 28, 2019, the Company finalized its valuation of all assets acquired liabilities assumed in its acquisition of Alpine, resulting in no material change to acquisition accounting adjustments.

Note 4 – Investment Securities

Investment securities as of March 31, 2019 and December 31, 2018 were as follows:

(dollars in thousands)	March 31, 2019 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale securities				
U.S. Treasury securities	$ 25,009	$ —	$ 241	$ 24,768
Government sponsored entity debt securities	75,620	133	166	75,587
Agency mortgage-backed securities	321,127	1,840	1,516	321,451
State and municipal securities	146,557	4,501	146	150,912
Corporate securities	79,626	863	468	80,021
Total available for sale securities	$ 647,939	$ 7,337	$ 2,537	$ 652,739
Equity securities				$ 3,413

(dollars in thousands)	December 31, 2018 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale securities				
U.S. Treasury securities	$ 25,018	$ —	$ 368	$ 24,650
Government sponsored entity debt securities	76,554	17	887	75,684
Agency mortgage-backed securities	329,690	371	3,756	326,305
State and municipal securities	156,795	3,282	815	159,262
Corporate securities	72,302	383	1,135	71,550
Total available for sale securities	$ 660,359	$ 4,053	$ 6,961	$ 657,451
Equity securities				$ 3,334

Unrealized losses and fair values for investment securities available for sale as of March 31, 2019 and December 31, 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows:

	March 31, 2019					
	Less than 12 Months		12 Months or more		Total	
(dollars in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Available for sale securities						
U.S. Treasury securities	$ 5,004	$ 1	$ 19,764	$ 240	$ 24,768	$ 241
Government sponsored entity debt securities	6,056	8	34,855	158	40,911	166
Agency mortgage-backed securities	13,390	26	124,358	1,490	137,748	1,516
State and municipal securities	5,429	2	16,839	144	22,268	146
Corporate securities	16,096	186	8,804	282	24,900	468
Total available for sale securities	$ 45,975	$ 223	$ 204,620	$ 2,314	$ 250,595	$ 2,537

	December 31, 2018					
	Less than 12 Months		12 Months or more		Total	
(dollars in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Available for sale securities						
U.S. Treasury securities	$ 5,012	$ 1	$ 19,638	$ 367	$ 24,650	$ 368
Government sponsored entity debt securities	51,717	195	23,223	692	74,940	887
Agency mortgage-backed securities	139,115	528	126,561	3,228	265,676	3,756
State and municipal securities	15,791	146	27,692	669	43,483	815
Corporate securities	32,616	575	8,535	560	41,151	1,135
Total available for sale securities	$ 244,251	$ 1,445	$ 205,649	$ 5,516	$ 449,900	$ 6,961

For all of the above investment securities, the unrealized losses are generally due to changes in interest rates and unrealized losses are considered to be temporary as the fair value is expected to recover as the securities approach maturity date.

We evaluate securities for other-than-temporary impairment (“OTTI”) on a quarterly basis, at a minimum, and more frequently when economic or market concerns warrant such evaluation. In estimating OTTI losses, we consider the severity and duration of the impairment; the financial condition and near-term prospects of the issuer, which for debt securities considers external credit ratings and recent downgrades; and the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value.

At March 31, 2019, 141 investment securities available for sale had unrealized losses with aggregate depreciation of 1.0% from their amortized cost basis. The unrealized losses relate principally to the fluctuations in the current interest rate environment. In analyzing an issuer’s financial condition, we consider whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred. The Company does not have the intent to sell and it is not more likely than not that it will be required to sell a security in an unrealized loss position prior to recovery in value; therefore, the Company does not consider these securities to be other than temporarily impaired at March 31, 2019.

For the three months ended March 31, 2019 and 2018, the Company did not recognize OTTI losses on its investment securities.

The following is a summary of the amortized cost and fair value of the available-for-sale investment securities, by maturity, at March 31, 2019. Expected maturities may differ from contractual maturities in mortgage-backed

securities because the mortgages underlying the securities may be prepaid without penalties. The maturities of all other available-for-sale investment securities are based on final contractual maturity.

(dollars in thousands)	Amortized cost	Fair value
Available for sale securities		
Within one year	$ 45,564	$ 45,610
After one year through five years	110,602	111,624
After five years through ten years	142,380	145,013
After ten years	28,266	29,041
Mortgage-backed securities	321,127	321,451
Total available for sale securities	$ 647,939	$ 652,739

There were no sales of securities available for sale during the three months ended March 31, 2019.

Proceeds from the sale of securities available for sale were $1.6 million for the three months ended March 31, 2018. Gross realized gains and gross realized losses from the sale of securities available for sale were $65,000 and $0 for the three months ended March 31, 2018, respectively.

During the three months ended March 31, 2019 and 2018, the Company recognized net unrealized gains of $67,000 and $111,000, respectively, which was recorded as other income in the consolidated statements of income. There were no sales of equity securities during the three months ended March 31, 2019 and 2018.

Note 5 – Loans

The following table presents total loans outstanding by portfolio, which includes non-purchased credit impaired (“Non-PCI”) loans and purchased credit impaired (“PCI”) loans, as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
(dollars in thousands)	Non-PCI Loans	PCI Loans(1)	Total	Non-PCI Loans	PCI Loans(1)	Total
Commercial	$ 839,731	$ 3,358	$ 843,089	$ 806,027	$ 4,857	$ 810,884
Commercial real estate	1,542,997	17,430	1,560,427	1,619,903	19,252	1,639,155
Construction and land development	233,332	6,044	239,376	223,898	8,331	232,229
Total commercial loans	2,616,060	26,832	2,642,892	2,649,828	32,440	2,682,268
Residential real estate	560,427	8,624	569,051	569,289	8,759	578,048
Consumer	599,151	1,480	600,631	611,408	1,776	613,184
Lease financing	279,532	—	279,532	264,051	—	264,051
Total loans	$ 4,055,170	$ 36,936	$ 4,092,106	$ 4,094,576	$ 42,975	$ 4,137,551

(1) The unpaid principal balance for PCI loans totaled $50.5 million and $56.9 million as of March 31, 2019 and December 31, 2018, respectively.

Total loans include net deferred loan fees of $7.3 million and $11.6 million at March 31, 2019 and December 31, 2018, respectively, and unearned income of $32.9 million and $29.2 million within the lease financing portfolio at March 31, 2019 and December 31, 2018, respectively.

At March 31, 2019 and December 31, 2018, the Company had commercial and residential loans held for sale totaling $16.9 million and $30.4 million, respectively. During the three months ended March 31, 2019 and 2018, the Company sold commercial and residential real estate loans with proceeds totaling $99.3 million and $154.0 million, respectively.

The aggregate loans outstanding to the directors, executive officers, principal shareholders and their affiliates totaled $23.5 million and $26.5 million at March 31, 2019 and December 31, 2018, respectively. During the three months ended March 31, 2019, there were $1.5 million of new loans and other additions, while repayments and other reductions totaled $4.5 million.

Credit Quality Monitoring

The Company maintains loan policies and credit underwriting standards as part of the process of managing credit risk. These standards include making loans generally within the Company's four main regions, which include eastern, northern and southern Illinois and the St. Louis metropolitan area. Our equipment leasing business provides financing to business customers across the country.

The Company has a loan approval process involving underwriting and individual and group loan approval authorities to consider credit quality and loss exposure at loan origination. The loans in the Company's commercial loan portfolio are risk rated at origination based on the grading system set forth below. All loan authority is based on the aggregate credit to a borrower and its related entities.

The Company's consumer loan portfolio is primarily comprised of both secured and unsecured loans that are relatively small and are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer loan portfolio is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Company's Consumer Collections Group for resolution. Credit quality for the entire consumer loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

Loans in the commercial loan portfolio tend to be larger and more complex than those in the other loan portfolio, and therefore, are subject to more intensive monitoring. All loans in the commercial loan portfolio have an assigned relationship manager, and most borrowers provide periodic financial and operating information that allows the relationship managers to stay abreast of credit quality during the life of the loans. The risk ratings of loans in the commercial loan portfolio are reassessed at least annually, with loans below an acceptable risk rating reassessed more frequently and reviewed by various individuals within the Company at least quarterly.

The Company maintains a centralized independent loan review function that monitors the approval process and ongoing asset quality of the loan portfolio, including the accuracy of loan grades. The Company also maintains an independent appraisal review function that participates in the review of all appraisals obtained by the Company.

Credit Quality Indicators

The Company uses a ten grade risk rating system to monitor the ongoing credit quality of its commercial loan portfolio. These loan grades rank the credit quality of a borrower by measuring liquidity, debt capacity, and coverage and payment behavior as shown in the borrower's financial statements. The risk grades also measure the quality of the borrower's management and the repayment support offered by any guarantors.

The Company considers all loans with Risk Grades of 1 – 6 as acceptable credit risks and structures and manages such relationships accordingly. Periodic financial and operating data combined with regular loan officer interactions are deemed adequate to monitor borrower performance. Loans with Risk Grades of 7 are considered "watch credits" and the frequency of loan officer contact and receipt of financial data is increased to stay abreast of borrower performance. Loans with Risk Grades of 8 – 10 are considered problematic and require special care. Further, loans with Risk Grades of 7 – 10 are managed and monitored regularly through a number of processes, procedures and committees, including oversight by a loan administration committee comprised of executive and senior management of the Company, which includes highly structured reporting of financial and operating data, intensive loan officer intervention and strategies to exit, as well as potential management by the Company's Special Assets Group. Loans not graded in the commercial loan portfolio are monitored by aging status and payment activity.

The following table presents the recorded investment of the commercial loan portfolio (excluding PCI loans) by risk category as of March 31, 2019 and December 31, 2018:

	March 31, 2019				December 31, 2018			
(dollars in thousands)	Commercial	Commercial Real Estate	Construction and Land Development	Total	Commercial	Commercial Real Estate	Construction and Land Development	Total
Acceptable credit quality	$ 788,619	$ 1,449,480	$ 227,953	$ 2,466,052	$ 748,296	$ 1,536,127	$ 218,798	$ 2,503,221
Special mention	21,121	14,627	2,522	38,270	35,103	15,306	3,448	53,857
Substandard	21,498	51,574	890	73,962	14,139	46,976	—	61,115
Substandard – nonaccrual	8,493	27,316	1,168	36,977	8,489	21,494	1,171	31,154
Doubtful	—	—	—	—	—	—	—	—
Not graded	—	—	799	799	—	—	481	481
Total (excluding PCI)	$ 839,731	$ 1,542,997	$ 233,332	$ 2,616,060	$ 806,027	$ 1,619,903	$ 223,898	$ 2,649,828

The Company evaluates the credit quality of its other loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, loans on nonaccrual status, loans past due 90 days or more and still accruing interest, and loans modified under troubled debt restructurings are considered to be impaired for purposes of credit quality evaluation. The following table presents the recorded investment of our other loan portfolio (excluding PCI loans) based on the credit risk profile of loans that are performing and loans that are impaired as of March 31, 2019 and December 31, 2018:

	March 31, 2019				December 31, 2018			
(dollars in thousands)	Residential Real Estate	Consumer	Lease Financing	Total	Residential Real Estate	Consumer	Lease Financing	Total
Performing	$ 552,674	$ 598,618	$ 278,284	$ 1,429,576	$ 562,019	$ 610,839	$ 263,094	$ 1,435,952
Impaired	7,753	533	1,248	9,534	7,270	569	957	8,796
Total (excluding PCI)	$ 560,427	$ 599,151	$ 279,532	$ 1,439,110	$ 569,289	$ 611,408	$ 264,051	$ 1,444,748

Impaired Loans

Impaired loans include loans on nonaccrual status, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings. Impaired loans at March 31, 2019 and December 31, 2018 do not include $36.9 million and $43.0 million, respectively, of PCI loans. The risk of credit loss on acquired loans was recognized as part of the fair value adjustment at the acquisition date.

There was no interest income recognized on nonaccrual loans during the three months ended March 31, 2019 and 2018 while the loans were in nonaccrual status. Additional interest income that would have been recorded on nonaccrual loans had they been current in accordance with their original terms was $653,000 and $500,000 for the three months ended March 31, 2019 and 2018, respectively. The Company recognized interest income on commercial and commercial real estate loans modified under troubled debt restructurings of $32,000 and $30,000 for the three months ended March 31, 2019 and 2018, respectively.

The following table presents impaired loans (excluding PCI loans) by portfolio and related valuation allowance as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
(dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Valuation Allowance**	**Recorded Investment**	**Unpaid Principal Balance**	**Related Valuation Allowance**
Impaired loans with a valuation allowance:						
Commercial	$ 8,191	$ 8,356	$ 4,730	$ 7,945	$ 8,102	$ 4,448
Commercial real estate	5,592	6,221	2,437	7,496	13,844	523
Construction and land development	125	169	14	171	171	54
Residential real estate	4,457	5,203	512	4,055	4,662	554
Consumer	522	547	41	428	444	45
Lease financing	436	436	146	766	766	361
Total impaired loans with a valuation allowance	19,323	20,932	7,880	20,861	27,989	5,985
Impaired loans with no related valuation allowance:						
Commercial	708	4,124	—	983	4,392	—
Commercial real estate	24,019	30,492	—	16,372	16,921	—
Construction and land development	1,093	1,093	—	1,136	1,136	—
Residential real estate	3,296	3,557	—	3,215	3,516	—
Consumer	11	13	—	141	145	—
Lease financing	812	813	—	191	191	—
Total impaired loans with no related valuation allowance	29,939	40,092	—	22,038	26,301	—
Total impaired loans:						
Commercial	8,899	12,480	4,730	8,928	12,494	4,448
Commercial real estate	29,611	36,713	2,437	23,868	30,765	523
Construction and land development	1,218	1,262	14	1,307	1,307	54
Residential real estate	7,753	8,760	512	7,270	8,178	554
Consumer	533	560	41	569	589	45
Lease financing	1,248	1,249	146	957	957	361
Total impaired loans (excluding PCI)	$ 49,262	$ 61,024	$ 7,880	$ 42,899	$ 54,290	$ 5,985

The difference between a loan’s recorded investment and the unpaid principal balance represents: (1) a partial charge-off resulting from a confirmed loss due to the value of the collateral securing the loan being below the loan’s principal balance and management’s assessment that the full collection of the loan balance is not likely and/or (2) payments received on nonaccrual loans that are fully applied to principal on the loan’s recorded investment as compared to being applied to principal and interest on the unpaid customer principal and interest balance. The difference between the recorded investment and the unpaid principal balance on loans was $11.8 million and $11.4 million at March 31, 2019 and December 31, 2018, respectively.

The average balance of impaired loans (excluding PCI loans) and interest income recognized on impaired loans during the three months ended March 31, 2019 and 2018 are included in the table below:

(dollars in thousands)	Three Months Ended March 31, 2019 Average Recorded Investment	2019 Interest Income Recognized While on Impaired Status	2018 Average Recorded Investment	2018 Interest Income Recognized While on Impaired Status
Impaired loans with a valuation allowance:				
Commercial	$ 8,240	$ 6	$ 2,291	$ 10
Commercial real estate	5,563	27	2,104	20
Construction and land development	141	—	101	1
Residential real estate	4,465	10	3,579	10
Consumer	527	—	208	—
Lease financing	436	—	1,014	—
Total impaired loans with a valuation allowance	19,372	43	9,297	41
Impaired loans with no related valuation allowance:				
Commercial	723	—	518	—
Commercial real estate	24,153	—	13,731	—
Construction and land development	1,110	1	739	—
Residential real estate	3,306	2	2,370	1
Consumer	12	—	42	—
Lease financing	813	—	247	—
Total impaired loans with no related valuation allowance	30,117	3	17,647	1
Total impaired loans:				
Commercial	8,963	6	2,809	10
Commercial real estate	29,716	27	15,835	20
Construction and land development	1,251	1	840	1
Residential real estate	7,771	12	5,949	11
Consumer	539	—	250	—
Lease financing	1,249	—	1,261	—
Total impaired loans (excluding PCI)	$ 49,489	$ 46	$ 26,944	$ 42

The aging status of the recorded investment in loans by portfolio (excluding PCI loans) as of March 31, 2019 and December 31, 2018 were as follows:

(dollars in thousands)	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual	Total Past Due	Current	Total Loans
March 31, 2019							
Commercial	$ 2,323	$ 2,147	$ —	$ 8,493	$ 12,963	$ 826,768	$ 839,731
Commercial real estate	4,862	1,160	—	27,316	33,338	1,509,659	1,542,997
Construction and land development	1,020	160	—	1,168	2,348	230,984	233,332
Residential real estate	1,305	716	—	6,884	8,905	551,522	560,427
Consumer	4,735	3,365	—	431	8,531	590,620	599,151
Lease financing	1,829	377	255	993	3,454	276,078	279,532
Total (excluding PCI)	$ 16,074	$ 7,925	$ 255	$ 45,285	$ 69,539	$ 3,985,631	$ 4,055,170
December 31, 2018							
Commercial	$ 4,013	$ 2,581	$ 4	$ 8,489	$ 15,087	$ 790,940	$ 806,027
Commercial real estate	1,667	945	149	21,494	24,255	1,595,648	1,619,903
Construction and land development	989	—	85	1,171	2,245	221,653	223,898
Residential real estate	1,292	728	566	5,894	8,480	560,809	569,289
Consumer	5,211	2,533	51	388	8,183	603,225	611,408
Lease financing	4,322	932	206	751	6,211	257,840	264,051
Total (excluding PCI)	$ 17,494	$ 7,719	$ 1,061	$ 38,187	$ 64,461	$ 4,030,115	$ 4,094,576

Troubled Debt Restructurings

Loans modified as TDRs for commercial and commercial real estate loans generally consist of allowing commercial borrowers to defer scheduled principal payments and make interest only payments for a specified period of time at the stated interest rate of the original loan agreement or lower payments due to a modification of the loans'

contractual terms. TDRs that continue to accrue interest and are greater than $50,000 are individually evaluated for impairment on a quarterly basis, and transferred to nonaccrual status when it is probable that any remaining principal and interest payments due on the loan will not be collected in accordance with the contractual terms of the loan. TDRs that subsequently default are individually evaluated for impairment at the time of default. The allowance for loan losses on TDRs totaled $446,000 and $557,000 as of March 31, 2019 and December 31, 2018, respectively. The Company had no unfunded commitments in connection with TDRs at March 31, 2019 and December 31, 2018.

The Company's TDRs are identified on a case-by-case basis in connection with the ongoing loan collection processes. The following table presents TDRs by loan portfolio (excluding PCI loans) as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
(dollars in thousands)	**Accruing [1]**	**Non-accrual [2]**	**Total**	**Accruing [1]**	**Non-accrual [2]**	**Total**
Commercial	$ 406	$ 399	$ 805	$ 435	$ 406	$ 841
Commercial real estate	2,295	10,713	13,008	2,225	9,103	11,328
Construction and land development	50	17	67	51	—	51
Residential real estate	869	1,398	2,267	810	853	1,663
Consumer	102	—	102	130	—	130
Lease financing	—	—	—	—	—	—
Total loans (excluding PCI)	$ 3,722	$ 12,527	$ 16,249	$ 3,651	$ 10,362	$ 14,013

(1) These loans are still accruing interest.
(2) These loans are included in non-accrual loans in the preceding tables.

The following table presents a summary of loans by portfolio that were restructured during the three months ended March 31, 2019 and the loans by portfolio that were modified as TDRs within the previous twelve months that subsequently defaulted during the three months ended March 31, 2019:

	Commercial Loan Portfolio			Other Loan Portfolio			
(dollars in thousands)	**Commercial**	**Commercial Real Estate**	**Construction and Land Development**	**Residential Real Estate**	**Consumer**	**Lease Financing**	**Total**
For the three months ended March 31, 2019							
Troubled debt restructurings:							
Number of loans	—	3	1	7	1	—	12
Pre-modification outstanding balance	$ —	$ 1,924	$ 62	$ 224	$ 15	$ —	$ 2,225
Post-modification outstanding balance	—	1,838	17	222	15	—	2,092
Troubled debt restructurings that subsequently defaulted							
Number of loans	—	—	1	—	—	—	1
Recorded balance	$ —	$ —	$ 43	$ —	$ —	$ —	$ 43

During the three months ended March 31, 2018, there were no loans restructured. There were also no loans modified as TDRs within the previous twelve months that subsequently defaulted during the three months ended March 31, 2018.

Purchased Credit Impaired Loans

The Company has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Accretable yield of PCI loans, or income expected to be collected, was as follows:

(dollars in thousands)	Three Months Ended March 31, 2019	2018
Balance, at beginning of period	$ 12,240	$ 5,732
New loans purchased – Alpine acquisition	—	842
Accretion	(1,076)	(1,161)
Other adjustments (including maturities, charge-offs and impact of changes in timing of expected cash flows)	(106)	660
Reclassification from non-accretable	5	1,154
Balance, at end of period	$ 11,063	$ 7,227

Accretion recorded as loan interest income totaled $1.1 million and $1.2 million during the three months ended March 31, 2019 and 2018, respectively.

Allowance for Loan Losses

The Company's loan portfolio is principally comprised of commercial, commercial real estate, construction and land development, residential real estate and consumer loans and lease financing receivables. The principal risks to each category of loans are as follows:

Commercial – The principal risk of commercial loans is that these loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, this collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. As such, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the general economy.

Commercial real estate – As with commercial loans, repayment of commercial real estate loans is often dependent on the borrower's ability to make repayment from the cash flow of the commercial venture. While commercial real estate loans are collateralized by the borrower's underlying real estate, foreclosure on such assets may be more difficult than with other types of collateralized loans because of the possible effect the foreclosure would have on the borrower's business, and property values may tend to be partially based upon the value of the business situated on the property.

Construction and land development – Construction and land development lending involves additional risks not generally present in other types of lending because funds are advanced upon the estimated future value of the project, which is uncertain prior to its completion and at the time the loan is made, and costs may exceed realizable values in declining real estate markets. Moreover, if the estimate of the value of the completed project proves to be overstated or market values or rental rates decline, the collateral may prove to be inadequate security for the repayment of the loan. Additional funds may also be required to complete the project, and the project may have to be held for an unspecified period of time before a disposition can occur.

Residential real estate – The principal risk to residential real estate lending is associated with residential loans not sold into the secondary market. In such cases, the value of the underlying property may have deteriorated as a result of a change in the residential real estate market, and the borrower may have little incentive to repay the loan or continue living in the property. Additionally, in areas with high vacancy rates, reselling the property without substantial loss may be difficult.

Consumer – The repayment of consumer loans is typically dependent on the borrower remaining employed through the life of the loan, as well as the possibility that the collateral underlying the loan, if applicable, may not be adequately maintained by the borrower.

Lease financing – Our financing leases are primarily for business equipment leased to varying types of businesses, nationwide, for the purchase of business equipment and software. If the cash flow from business operations is reduced, the business's ability to repay may become impaired.

The following table represents, by loan portfolio, a summary of changes in the allowance for loan losses for the three months ended March 31, 2019 and 2018:

	Commercial Loan Portfolio			Other Loan Portfolio			
(dollars in thousands)	**Commercial**	**Commercial Real Estate**	**Construction and Land Development**	**Residential Real Estate**	**Consumer**	**Lease Financing**	**Total**
Changes in allowance for loan losses for the three months ended March 31, 2019:							
Balance, beginning of period	$ 9,524	$ 4,723	$ 372	$ 2,041	$ 2,154	$ 2,089	$ 20,903
Provision for loan losses	118	1,945	63	514	329	274	3,243
Charge-offs	(112)	(58)	(44)	(153)	(556)	(459)	(1,382)
Recoveries	15	7	7	22	210	66	327
Balance, end of period	$ 9,545	$ 6,617	$ 398	$ 2,424	$ 2,137	$ 1,970	$ 23,091
Changes in allowance for loan losses for the three months ended March 31, 2018:							
Balance, beginning of period	$ 5,256	$ 5,044	$ 518	$ 2,750	$ 1,344	$ 1,519	$ 16,431
Provision for loan losses	567	507	(215)	(261)	304	1,104	2,006
Charge-offs	(25)	(160)	—	(36)	(434)	(486)	(1,141)
Recoveries	104	94	25	51	95	39	408
Balance, end of period	$ 5,902	$ 5,485	$ 328	$ 2,504	$ 1,309	$ 2,176	$ 17,704

The following table represents, by loan portfolio, details regarding the balance in the allowance for loan losses and the recorded investment in loans as of March 31, 2019 and December 31, 2018 by impairment evaluation method:

	Commercial Loan Portfolio			Other Loan Portfolio			
(dollars in thousands)	Commercial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Lease Financing	Total
March 31, 2019:							
Allowance for loan losses:							
Loans individually evaluated for impairment	$ 4,671	$ 2,391	$ —	$ 177	$ —	$ 114	$ 7,353
Loans collectively evaluated for impairment	59	46	14	335	41	32	527
Non-impaired loans collectively evaluated for impairment	4,797	3,375	384	1,481	1,898	1,824	13,759
Loans acquired with deteriorated credit quality (1)	18	805	—	431	198	—	1,452
Total allowance for loan losses	$ 9,545	$ 6,617	$ 398	$ 2,424	$ 2,137	$ 1,970	$ 23,091
Recorded investment (loan balance):							
Impaired loans individually evaluated for impairment	$ 8,354	$ 29,186	$ 1,093	$ 4,408	$ —	$ 957	$ 43,998
Impaired loans collectively evaluated for impairment	545	425	125	3,345	533	291	5,264
Non-impaired loans collectively evaluated for impairment	830,832	1,513,386	232,114	552,674	598,618	278,284	4,005,908
Loans acquired with deteriorated credit quality (1)	3,358	17,430	6,044	8,624	1,480	—	36,936
Total recorded investment (loan balance)	$ 843,089	$ 1,560,427	$ 239,376	$ 569,051	$ 600,631	$ 279,532	$ 4,092,106
December 31, 2018:							
Allowance for loan losses:							
Loans individually evaluated for impairment	$ 4,405	$ 476	$ 48	$ 233	$ —	$ 330	$ 5,492
Loans collectively evaluated for impairment	43	47	6	321	45	31	493
Non-impaired loans collectively evaluated for impairment	4,971	3,356	318	1,051	1,926	1,728	13,350
Loans acquired with deteriorated credit quality (1)	105	844	—	436	183	—	1,568
Total allowance for loan losses	$ 9,524	$ 4,723	$ 372	$ 2,041	$ 2,154	$ 2,089	$ 20,903
Recorded investment (loan balance):							
Impaired loans individually evaluated for impairment	$ 8,520	$ 23,431	$ 1,249	$ 3,929	$ 5	$ 668	$ 37,802
Impaired loans collectively evaluated for impairment	408	437	58	3,341	564	289	5,097
Non-impaired loans collectively evaluated for impairment	797,099	1,596,035	222,591	562,019	610,839	263,094	4,051,677
Loans acquired with deteriorated credit quality (1)	4,857	19,252	8,331	8,759	1,776	—	42,975
Total recorded investment (loan balance)	$ 810,884	$ 1,639,155	$ 232,229	$ 578,048	$ 613,184	$ 264,051	$ 4,137,551

(1) Loans acquired with deteriorated credit quality were originally recorded at fair value at the acquisition date and the risk of credit loss was recognized at that date based on estimates of expected cash flows

Note 6 – Premises and Equipment, Net

A summary of premises and equipment as of March 31, 2019 and December 31, 2018 is as follows:

(dollars in thousands)	March 31, 2019	December 31, 2018
Land	$ 20,231	$ 20,231
Buildings and improvements	77,290	76,141
Furniture and equipment	29,873	29,858
Total	127,394	126,230
Accumulated depreciation	(32,880)	(31,390)
Premises and equipment, net	$ 94,514	$ 94,840

Depreciation expense of $1.6 million and $1.5 million was recorded for the three months ended March 31, 2019 and 2018, respectively.

Note 7 – Mortgage Servicing Rights

The Company serviced commercial FHA mortgage loans for others with unpaid principal balances of approximately $3.97 billion and $3.98 billion at March 31, 2019 and December 31, 2018, respectively. Changes in our commercial FHA mortgage servicing rights were as follows for the three months ended March 31, 2019 and 2018:

(dollars in thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Mortgage servicing rights:		
Balance, beginning of period	$ 56,252	$ 55,714
Originated servicing	213	1,001
Amortization	(678)	(676)
Balance, end of period	55,787	56,039
Valuation allowances:		
Balance, beginning of period	2,805	3,254
Additions	25	133
Reductions	—	—
Balance, end of period	2,830	3,387
Mortgage servicing rights, net	$ 52,957	$ 52,652
Fair value:		
At beginning of period	$ 53,447	$ 52,460
At end of period	$ 52,957	$ 52,652

The following table is a summary of key assumptions, representing both general economic and other published information and the weighted average characteristics of the commercial portfolio, used in the valuation of servicing rights at March 31, 2019 and December 31, 2018. Assumptions used in the prepayment rate consider many factors as appropriate, including lockouts, balloons, prepayment penalties, interest rate ranges, delinquencies and geographic location. The discount rate is based on an average pre-tax internal rate of return utilized by market participants in pricing the servicing portfolio. Significant increases or decreases in any one of these assumptions would result in a significantly lower or higher fair value measurement.

(dollars in thousands)	Servicing Fee	Interest Rate	Remaining Years to Maturity	Prepayment Rate	Servicing Cost	Discount Rate
March 31, 2019:						
Commercial FHA mortgage loans	0.13 %	3.67 %	30.0	8.21 %	$ 1,000	10 - 14 %
December 31, 2018:						
Commercial FHA mortgage loans	0.13 %	3.67 %	30.1	8.24 %	$ 1,000	10 - 14 %

We recognize revenue from servicing commercial FHA and residential mortgages as earned based on the specific contractual terms. This revenue, along with amortization of and changes in impairment on servicing rights, is reported in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income. Mortgage servicing rights do not trade in an active market with readily observable prices. The fair value of mortgage servicing rights and their sensitivity to changes in interest rates is influenced by the mix of the servicing portfolio and characteristics of each segment of the portfolio. The Company's servicing portfolio consists of the distinct portfolios of government-insured residential and commercial mortgages and conventional residential mortgages. The fair value of our servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rates, cost to service, contractual servicing fee income, ancillary income, late fees, replacement reserves and other economic factors that are determined based on current market conditions.

At March 31, 2019 and December 31, 2018, the Company serviced residential mortgage loans for others with unpaid principal balances of approximately $861.9 million and $897.6 million, respectively. During the first quarters of 2019 and 2018, the Company sold mortgage servicing rights held for sale of $3.3 million and $10.2 million, respectively. At March 31, 2019, total residential mortgage servicing rights of $257,000 are reflected in the consolidated balance sheet as mortgage servicing rights held for sale.

Note 8 – Goodwill and Intangible Assets

At March 31, 2019 and December 31, 2018, goodwill totaled $164.7 million.

The following table summarizes the carrying amount of goodwill by segment at both March 31, 2019 and December 31, 2018.

(dollars in thousands)	Goodwill
Banking	$ 149,035
Commercial FHA origination and servicing	10,892
Wealth management	4,746
Total goodwill	$ 164,673

The Company's intangible assets, consisting of core deposit and customer relationship intangibles, as of March 31, 2019 and December 31, 2018 are summarized as follows:

	March 31, 2019			December 31, 2018		
(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
Core deposit intangibles	$ 52,712	$ (26,309)	$ 26,403	$ 52,712	$ (24,803)	$ 27,909
Customer relationship intangibles	13,771	(4,608)	9,163	13,771	(4,304)	9,467
Total intangible assets	$ 66,483	$ (30,917)	$ 35,566	$ 66,483	$ (29,107)	$ 37,376

Amortization of intangible assets was $1.8 million and $1.7 million for the three months ended March 31, 2019 and 2018, respectively.

Note 9 – Derivative Instruments

As part of the Company's overall management of interest rate sensitivity, the Company utilizes derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility, including interest rate lock commitments, forward commitments to sell mortgage-backed securities and interest rate swap contracts.

Interest Rate Lock Commitments / Forward Commitments to Sell Mortgage-Backed Securities

The Company issues interest rate lock commitments on originated fixed-rate commercial and residential real estate loans to be sold. The interest rate lock commitments and loans held for sale are hedged with forward contracts to sell mortgage-backed securities. The fair value of the interest rate lock commitments and forward contracts to sell mortgage-backed securities are included in other assets or other liabilities in the consolidated balance sheets. Changes in the fair value of derivative financial instruments are recognized in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

The following table summarizes the interest rate lock commitments and forward commitments to sell mortgage-backed securities held by the Company, their notional amount and estimated fair values at March 31, 2019 and December 31, 2018:

	Notional Amount		Fair Value Gain	
(dollars in thousands)	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Derivative Instruments (included in Other Assets):				
Interest rate lock commitments	$ 275,324	$ 264,710	$ 5,752	$ 4,492
Forward commitments to sell mortgage-backed securities	274,234	276,871	—	—
Total	$ 549,558	$ 541,581	$ 5,752	$ 4,492

	Notional Amount		Fair Value Loss	
(dollars in thousands)	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Derivative Instruments (included in Other Liabilities):				
Forward commitments to sell mortgage-backed securities	$ 67	$ 54	$ —	$ —

During the three months ended March 31, 2019, the Company recognized net gains of $1.3 million on derivative instruments in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

During the three months ended March 31, 2018, the Company recognized net losses of $74,000 on derivative instruments in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

Interest Rate Swap Contracts

The Company entered into interest rate swap contracts sold to commercial customers who wish to modify their interest rate sensitivity. These swaps are offset by contracts simultaneously purchased by the Company from other financial dealer institutions with mirror-image terms. Because of the mirror-image terms of the offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in the fair value subsequent to initial recognition have a minimal effect on earnings. These derivative contracts do not qualify for hedge accounting.

The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $9.4 million and $9.5 million at March 31, 2019 and December 31, 2018, respectively. The fair value of the customer derivative instruments and the offsetting counterparty derivative instruments was $18,000 and $145,000 at March 31, 2019 and December 31, 2018, respectively, which are included in other assets and other liabilities, respectively, on the consolidated balance sheets.

Note 10 – Deposits

The following table summarizes the classification of deposits as of March 31, 2019 and December 31, 2018:

(dollars in thousands)	March 31, 2019	December 31, 2018
Noninterest-bearing demand	$ 941,344	$ 972,164
Interest-bearing:		
Checking	968,844	1,002,275
Money market	802,036	862,171
Savings	457,176	442,132
Time	866,888	795,428
Total deposits	$ 4,036,288	$ 4,074,170

Note 11 – Short-Term Borrowings

The following table presents the distribution of short-term borrowings and related weighted average interest rates as of March 31, 2019 and December 31, 2018:

	Repurchase Agreements	
(dollars in thousands)	March 31, 2019	December 31, 2018
Outstanding at period-end	$ 115,832	$ 124,235
Average amount outstanding	135,337	138,135
Maximum amount outstanding at any month end	138,907	173,387
Weighted average interest rate:		
During period	0.71 %	0.51 %
End of period	0.73 %	0.71 %

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction, which represents the amount of the Bank’s obligation. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. Investment securities with a carrying amount of $123.4 million and $132.2 million at March 31, 2019 and December 31, 2018, respectively, were pledged for securities sold under agreements to repurchase.

The Company had lines of credit of $50.0 million and $56.8 million at March 31, 2019 and December 31, 2018,

respectively, from the Federal Reserve Discount Window. The lines are collateralized by a collateral agreement with respect to a pool of commercial real estate loans totaling $59.4 million and $67.6 million at March 31, 2019 and December 31, 2018, respectively. There were no outstanding borrowings at March 31, 2019 and December 31, 2018.

At March 31, 2019, the Company had available federal funds lines of credit totaling $45.0 million. These lines of credit were unused at March 31, 2019.

Note 12 – FHLB Advances and Other Borrowings

The following table summarizes our Federal Home Loan Bank ("FHLB") advances and other borrowings as of March 31, 2019 and December 31, 2018:

(dollars in thousands)	March 31, 2019	December 31, 2018
Midland States Bancorp, Inc.		
Term loan - variable interest rate equal to LIBOR plus 2.25%, which was 4.75% and 4.63% at March 31, 2019 and December 31, 2018, respectively, – maturing May 25, 2020	$ 31,414	$ 32,840
Series G redeemable preferred stock - 181 shares at $1,000 per share	181	181
Midland States Bank		
FHLB advances – fixed rate, fixed term of $62.5 million and $87.7 million, at rates averaging 2.50% and 2.35% at March 31, 2019 and December 31, 2018, respectively – maturing through February 2023 and putable fixed rate of $565.0 million and $520.0 million at rates averaging 2.11% and 2.09% at March 31, 2019 and December 31, 2018, respectively – maturing through August 2025 with call provisions through August 2021	627,414	607,610
FHLB advances – variable rate, fixed term, at a rate averaging 2.60% at March 31, 2019 – maturing in June 2019	10,000	—
Total FHLB advances and other borrowings	$ 669,009	$ 640,631

In May 2017, the Company entered into a loan agreement with another bank for a revolving line of credit in the original principal amount of up to $10.0 million and a term loan in the original principal amount of $40.0 million. The term loan matures on May 25, 2020 and has a variable rate of interest equal to one-month LIBOR plus 2.25%. Beginning September 1, 2018, the Company was required to make quarterly principal and interest payments on the term loan of $1.4 million with the remaining principal and any unpaid interest due at maturity. The loan is unsecured with a negative pledge of shares of the Bank's common stock. The loan agreement contains financial covenants that require the Company to maintain a minimum total capital to risk-weighted assets ratio, a minimum adjusted loan loss reserves to nonperforming loans ratio, a minimum fixed charge coverage ratio and a maximum percentage of nonperforming assets to tangible capital. At March 31, 2019, the Company was in compliance with each of these financial covenants.

The Company's advances from the FHLB are collateralized by a blanket collateral agreement of qualifying mortgage and home equity line of credit loans and certain commercial real estate loans totaling approximately $2.11 billion and $2.22 billion at March 31, 2019 and December 31, 2018, respectively.

Note 13 – Earnings Per Share

Earnings per share are calculated utilizing the two-class method. Basic earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of shares adjusted for the dilutive effect of common stock awards. The diluted earnings per share computation for the three months ended March 31, 2019 and 2018 excluded antidilutive stock options of 97,628 and 31,259, respectively, because the exercise prices of these stock options exceeded the average

market prices of the Company's common shares for those respective periods. Presented below are the calculations for basic and diluted earnings per common share for the three months ended March 31, 2019 and 2018:

(dollars in thousands, except per share data)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net income	$ 13,982	$ 1,806
Preferred dividends declared	(82)	(83)
Preferred stock, premium amortization	48	47
Net income available to common shareholders	13,948	1,770
Common shareholder dividends	(5,776)	(4,208)
Unvested restricted stock award dividends	(47)	(31)
Undistributed earnings to unvested restricted stock awards	(65)	—
Undistributed earnings to common shareholders	$ 8,060	$ (2,469)
Basic		
Distributed earnings to common shareholders	$ 5,776	$ 4,208
Undistributed earnings to common shareholders	8,060	(2,469)
Total common shareholders earnings, basic	$ 13,836	$ 1,739
Diluted		
Distributed earnings to common shareholders	$ 5,776	$ 4,208
Undistributed earnings to common shareholders	8,060	(2,469)
Total common shareholders earnings	13,836	1,739
Add back:		
Undistributed earnings reallocated from unvested restricted stock awards	—	—
Total common shareholders earnings, diluted	$ 13,836	$ 1,739
Weighted average common shares outstanding, basic	23,998,119	20,901,738
Options and warrants	206,542	449,773
Weighted average common shares outstanding, diluted	24,204,661	21,351,511
Basic earnings per common share	$ 0.58	$ 0.08
Diluted earnings per common share	0.57	0.08

Note 14 – Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting assumptions that a market participant would use when pricing an asset or liability. The hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities traded in active markets.
- Level 2: Significant other observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured and recorded at fair value, including financial assets for which the Company has elected the fair value option, on a recurring and nonrecurring basis as of March 31, 2019 and December 31, 2018, are summarized below:

	March 31, 2019			
(dollars in thousands)	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets and liabilities measured at fair value on a recurring basis:				
Assets				
Investment securities available for sale:				
U.S. Treasury securities	$ 24,768	$ 24,768	$ —	$ —
Government sponsored entity debt securities	75,587	—	75,587	—
Agency mortgage-backed securities	321,451	—	321,451	—
State and municipal securities	150,912	—	150,912	—
Corporate securities	80,021	—	78,091	1,930
Equity securities	3,413	—	3,413	—
Loans held for sale	16,851	—	16,851	—
Interest rate lock commitments	5,752	—	5,752	—
Interest rate swap contracts	18	—	18	—
Total	$ 678,773	$ 24,768	$ 652,075	$ 1,930
Liabilities				
Interest rate swap contracts	$ 18	$ —	$ 18	$ —
Assets measured at fair value on a non-recurring basis:				
Mortgage servicing rights	$ 52,957	$ —	$ —	$ 52,957
Mortgage servicing rights held for sale	257	257	—	—
Impaired loans	6,734	—	4,639	2,095
Other real estate owned	47	—	47	—
Assets held for sale	1,687	—	1,687	—

(dollars in thousands)	December 31, 2018 Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets and liabilities measured at fair value on a recurring basis:				
Assets				
Investment securities available for sale:				
U.S. Treasury securities	$ 24,650	$ 24,650	$ —	$ —
Government sponsored entity debt securities	75,684	—	75,684	—
Agency mortgage-backed securities	326,305	—	326,305	—
State and municipal securities	159,262	—	159,262	—
Corporate securities	71,550	—	69,627	1,923
Equity securities	3,334	—	3,334	—
Loans held for sale	30,401	—	30,401	—
Interest rate lock commitments	4,492	—	4,492	—
Forward commitments to sell mortgage-backed securities	—	—	—	—
Interest rate swap contracts	145	—	145	—
Total	$ 695,823	$ 24,650	$ 669,250	$ 1,923
Liabilities				
Interest rate swap contracts	$ 145	$ —	$ 145	$ —
Assets measured at fair value on a non-recurring basis:				
Mortgage servicing rights	$ 53,447	$ —	$ —	$ 53,447
Mortgage servicing rights held for sale	3,545	3,545	—	—
Impaired loans	11,238	—	9,226	2,012
Other real estate owned	1,439	—	1,439	—
Assets held for sale	1,687	—	1,687	—

The following table presents losses recognized on assets measured on a non-recurring basis for the three months ended March 31, 2019 and 2018:

(dollars in thousands)	Three Months Ended March 31, 2019	2018
Mortgage servicing rights	$ 25	$ 133
Impaired loans	981	875
Other real estate owned	16	—
Total loss on assets measured on a nonrecurring basis	$ 1,022	$ 1,008

The following table presents activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2019 and 2018:

(dollars in thousands)	Corporate Securities Three Months Ended March 31, 2019	2018
Balance, beginning of period	$ 1,923	$ 4,779
Total realized in earnings [(1)]	22	187
Total unrealized in other comprehensive income	7	616
Net settlements (principal and interest)	(22)	(162)
Balance, end of period	$ 1,930	$ 5,420

(1) Amounts included in interest income from investment securities taxable in the consolidated statements of income.

The following table presents quantitative information about significant unobservable inputs used in fair value measurements of non-recurring assets (Level 3) at March 31, 2019:

Non-recurring fair value measurements	Fair Value (dollars in thousands		Valuation technique	Unobservable input / assumptions	Range (weighted average)
Mortgage servicing rights	$	52,957	Discounted cash flow	Prepayment speed	8.00% - 18.00% (8.21%)
				Discount rate	10.00% - 12.00% (11.12%)
Impaired loans	$	2,095	Fair value of collateral	Discount for type of property, age of appraisal and current status	4.32% - 7.33% (5.49%)

The following table presents quantitative information about significant unobservable inputs used in fair value measurements of non-recurring assets (Level 3) at December 31, 2018:

Non-recurring fair value measurements	Fair Value (dollars in thousands		Valuation technique	Unobservable input / assumptions	Range (weighted average)
Mortgage servicing rights	$	53,447	Discounted cash flow	Prepayment speed	8.00% - 18.00% (8.24%)
				Discount rate	10.00% - 27.00% (11.12%)
Impaired loans	$	2,012	Fair value of collateral	Discount for type of property, age of appraisal and current status	5.00% - 7.26% (5.26%)

Mortgage Servicing Rights. In accordance with GAAP, the Company must record impairment charges on mortgage servicing rights on a non-recurring basis when the carrying value exceeds the estimated fair value. The fair value of our servicing rights is estimated by using a cash flow valuation model, which calculates the present value of estimated future net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rates, servicing costs, replacement reserves and other economic factors which are estimated based on current market conditions. The determination of fair value of servicing rights relies upon Level 3 inputs. The fair value of mortgage servicing rights was $53.0 million and $53.4 million at March 31, 2019 and December 31, 2018, respectively.

Impaired loans. Impaired loans are measured and recorded at fair value on a non-recurring basis. All of our nonaccrual loans and restructured loans are considered impaired and are reviewed individually for the amount of impairment, if any. Most of our loans are collateral dependent and, accordingly, we measure impaired loans based on the estimated fair value of such collateral. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a nonrecurring fair value measurement that is categorized as a Level 2 measurement. When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. The impaired loans categorized as Level 3 also include unsecured loans and other secured loans whose fair values are based significantly on unobservable inputs such as the strength of a guarantor, cash flows discounted at the effective loan rate, and management's judgment.

ASC Topic 825, *Financial Instruments*, requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements.

The Company has elected the fair value option for newly originated residential and commercial loans held for sale. These loans are intended for sale and are hedged with derivative instruments. We have elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification.

The following table presents the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
(dollars in thousands)	**Aggregate fair value**	**Difference**	**Contractual principal**	**Aggregate fair value**	**Difference**	**Contractual principal**
Residential loans held for sale	$ 5,896	$ 322	$ 5,574	$ 8,121	$ 484	$ 7,637
Commercial loans held for sale	10,955	267	10,688	22,280	595	21,685
Total loans held for sale	$ 16,851	$ 589	$ 16,262	$ 30,401	$ 1,079	$ 29,322

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
(dollars in thousands)	**2019**	**2018**
Residential loans held for sale	$ (57)	$ (108)
Commercial loans held for sale	(328)	(235)
Total loans held for sale	$ (385)	$ (343)

The following tables are a summary of the carrying values and fair value estimates of certain financial instruments as of March 31, 2019 and December 31, 2018:

	March 31, 2019				
(dollars in thousands)	Carrying Amount	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets					
Cash and due from banks	$ 275,939	$ 275,939	$ 275,939	$ —	$ —
Federal funds sold	541	541	541	—	—
Investment securities available for sale	652,739	652,739	24,768	626,041	1,930
Equity securities	3,413	3,413	—	3,413	—
Nonmarketable equity securities	46,009	46,009	—	46,009	—
Loans, net	4,069,015	4,061,017	—	—	4,061,017
Loans held for sale	16,851	16,851	—	16,851	—
Accrued interest receivable	5,070	5,070	—	5,070	—
Interest rate lock commitments	5,752	5,752	—	5,752	—
Interest rate swap contracts	18	18	—	18	—
Liabilities					
Deposits	$ 4,036,288	$ 4,034,453	$ —	$ 4,034,453	$ —
Short-term borrowings	115,832	115,832	—	115,832	—
FHLB and other borrowings	669,009	674,353	—	674,353	—
Subordinated debt	94,174	95,526	—	95,526	—
Trust preferred debentures	47,918	56,018	—	56,018	—
Accrued interest payable	6,254	6,254	—	6,254	—
Interest rate swap contracts	18	18	—	18	—

	December 31, 2018				
(dollars in thousands)	Carrying Amount	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets					
Cash and due from banks	$ 210,780	$ 210,780	$ 210,780	$ —	$ —
Federal funds sold	2,920	2,920	2,920	—	—
Investment securities available for sale	660,785	660,785	24,650	634,212	1,923
Nonmarketable equity securities	42,472	42,472	—	42,472	—
Loans, net	4,116,648	4,091,438	—	—	4,091,438
Loans held for sale	30,401	30,401	—	30,401	—
Accrued interest receivable	16,560	16,560	—	16,560	—
Interest rate lock commitments	4,492	4,492	—	4,492	—
Interest rate swap contracts	145	145	—	145	—
Liabilities					
Deposits	$ 4,074,170	$ 4,069,098	$ —	$ 4,069,098	$ —
Short-term borrowings	124,235	124,235	—	124,235	—
FHLB and other borrowings	640,631	641,050	—	641,050	—
Subordinated debt	94,134	91,926	—	91,926	—
Trust preferred debentures	47,794	56,805	—	56,805	—
Accrued interest payable	4,855	4,855	—	4,855	—
Interest rate swap contracts	145	145	—	145	—

Note 15 – Commitments, Contingencies and Credit Risk

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal actions, which are not reflected in the consolidated financial statements. No material losses are anticipated as a result of these actions or claims.

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank used the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The commitments are principally tied to variable rates. Loan commitments as of March 31, 2019 and December 31, 2018 were as follows:

(dollars in thousands)	March 31, 2019	December 31, 2018
Commitments to extend credit	$ 670,694	$ 663,555
Financial guarantees – standby letters of credit	140,183	142,859

The Company establishes a mortgage repurchase liability to reflect management's estimate of losses on loans for which the Company could have a repurchase obligation based on the volume of loans sold in 2019 and years prior, borrower default expectations, historical investor repurchase demand and appeals success rates, and estimated loss severity. Loans repurchased from investors are initially recorded at fair value, which becomes the Company's new accounting basis. Any difference between the loan's fair value and the outstanding principal amount is charged or credited to the mortgage repurchase liability, as appropriate. Subsequent to repurchase, such loans are carried in loans receivable. As a result of make-whole requests and loan repurchases, the Company incurred losses totaling $20,000 for the three months ended March 31, 2018. There were no losses as a result of make-whole requests and loan repurchases for the three months ended March 31, 2019. The liability for unresolved repurchase demands totaled $289,000 and $492,000 at March 31, 2019 and December 31, 2018, respectively.

Note 16 – Segment Information

Our business segments are defined as Banking, Commercial FHA Origination and Servicing, Wealth Management, and Other. The reportable business segments are consistent with the internal reporting and evaluation of the principle lines of business of the Company. The banking segment provides a wide range of financial products and services to consumers and businesses, including commercial, commercial real estate, mortgage and other consumer loan products; commercial equipment leasing; mortgage loan sales and servicing; letters of credit; various types of deposit products, including checking, savings and time deposit accounts; merchant services; and corporate treasury management services. The commercial FHA origination and servicing segment provides for the origination and servicing of government sponsored mortgages for multifamily and healthcare facilities. The wealth management segment consists of trust and fiduciary services, brokerage and retirement planning services. The other segment includes the operating results of the parent company, our captive insurance business unit, and the elimination of intercompany transactions.

Selected business segment financial information as of and for the three months ended March 31, 2019 and 2018 were as follows:

(dollars in thousands)	Banking	Commercial FHA Origination and Servicing	Wealth Management	Other	Total
Three Months Ended March 31, 2019					
Net interest income (expense)	$ 48,518	$ (176)	$ —	$ (2,741)	$ 45,601
Provision for loan losses	3,243	—	—	—	3,243
Noninterest income	8,940	3,238	4,953	(56)	17,075
Noninterest expense	35,371	2,811	3,247	(332)	41,097
Income before income taxes	18,844	251	1,706	(2,465)	18,336
Income taxes (benefit)	4,975	71	140	(832)	4,354
Net income (loss)	$ 13,869	$ 180	$ 1,566	$ (1,633)	$ 13,982
Total assets	$ 5,582,494	$ 94,797	$ 19,039	$ (54,550)	$ 5,641,780
Three Months Ended March 31, 2018					
Net interest income (expense)	$ 40,631	$ 37	$ 85	$ (2,568)	$ 38,185
Provision for loan losses	2,006	—	—	—	2,006
Noninterest income	9,016	3,521	4,080	(115)	16,502
Noninterest expense	44,366	3,538	2,386	(791)	49,499
Income (loss) before income taxes (benefit)	3,275	20	1,779	(1,892)	3,182
Income taxes (benefit)	1,379	407	141	(551)	1,376
Net income (loss)	$ 1,896	$ (387)	$ 1,638	$ (1,341)	$ 1,806
Total assets	$ 5,671,231	$ 91,580	$ 16,573	$ (56,012)	$ 5,723,372

Note 17 – Related Party Transactions

The Company utilizes the services of a company to act as a general manager for the construction of new facilities. A member of our board of directors is a substantial shareholder of this company and currently serves as its Chairman. During the three months ended March 31, 2019, the Company paid $210,000 to this company for work on various projects, which was approved in accordance with the Company's related party transaction policy.

Note 18 – Leases

The Company has operating leases for banking centers and operating facilities. Our leases have remaining lease terms of 2 months to 13 years, some of which may include options to extend the lease terms for up to an additional 5 years. The options to extend are not recognized as part of the ROU assets and lease liabilities.

Information related to operating leases for the three months ended March 31, 2019 was as follows:

(dollars in thousands)	Three Months Ended March 31, 2019
Operating lease cost	$ 708
Operating cash flows from leases	741
Right-of-use assets obtained in exchange for lease obligations	10,677
Weighted average remaining lease term	6 years
Weighted average discount rate	3.12 %

The projected minimum rental payments under the terms of the leases as of March 31, 2019 were as follows:

(dollars in thousands)	Amount
Year ending December 31:	
2019 remaining	$ 2,482
2020	2,288
2021	2,160
2022	2,060
2023	1,292
Thereafter	2,057
Total future minimum lease payments	12,339
Less imputed interest	(1,141)
Total operating lease liabilities	$ 11,198

Note 19 – Revenue From Contracts with Customers

On January 1, 2018, the Company adopted ASU No. 2014-09 *"Revenue from Contracts with Customers" (Topic 606)* and all subsequent ASUs that modified Topic 606. As stated in "*Note 2 – Basis of Presentation and Summary of Significant Accounting Policies*," the implementation of the new standard did not have a material impact on the measurement or recognition of revenue. Since the impact of applying the standard was determined to be immaterial, the Company did not record a cumulative effect adjustment to beginning retained earnings on January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with previous GAAP.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and investment securities. In addition, certain noninterest income streams such as commercial FHA revenue, residential mortgage banking revenue and gain on sales of investment securities, net are also not in scope of the new guidance. Topic 606 is applicable to noninterest income streams such as wealth management revenue, service charges on deposit accounts, interchange revenue, gain on sales of other real estate owned, and certain other noninterest income streams. The recognition of revenue associated with these noninterest income streams did not change significantly from current practice upon adoption of Topic 606. The noninterest income streams considered in-scope by Topic 606 are discussed below.

Wealth Management Revenue

Wealth management revenue is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company also earns investment advisory fees through its SEC registered investment advisory subsidiary. The Company's performance obligation in both of these instances is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and contractually determined fee schedules. Payment is generally received a few days after month end through a direct charge to each customer's account. The Company does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered. Fees generated from transactions executed by the Company's third party broker dealer are remitted by them to the Company on a monthly basis for that month's transactional activity.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of fees received under depository agreements with customers to provide access to deposited funds, serve as custodian of deposited funds, and when applicable, pay interest on deposits. These service charges primarily include non-sufficient fund fees and other account related service charges. Non-sufficient fund fees are earned when a depositor presents an item for payment in excess of available funds, and the Company, at its discretion, provides the necessary funds to complete the transaction. The Company generates other account related service charge revenue by providing depositors proper safeguard and remittance of funds as well as by delivering optional services for depositors, such as check imaging or treasury management, that are performed upon the depositor's request. The Company's performance obligation for the proper safeguard and remittance of funds, monthly account analysis and any other monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service

is provided. Payment for service charges on deposit accounts is typically received immediately or in the following month through a direct charge to a customer's account.

Interchange Revenue

Interchange revenue includes debit / credit card income and ATM user fees. Card income is primarily comprised of interchange fees earned for standing ready to authorize and providing settlement on card transactions processed through the MasterCard interchange network. The levels and structure of interchange rates are set by MasterCard and can vary based on cardholder purchase volumes. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with completion of the Company's performance obligation, the transaction processing services provided to the cardholder. Payment is typically received immediately or in the following month. ATM fees are primarily generated when a Company cardholder withdraws funds from a non-Company ATM or a non-Company cardholder withdraws funds from a Company ATM. The Company satisfies its performance obligation for each transaction at the point in time when the ATM withdrawal is processed.

Gain on Sales of Other Real Estate Owned

The Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to a buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

Other Noninterest Income

The other noninterest income revenue streams within the scope of Topic 606 consist of merchant services revenue, safe deposit box rentals, wire transfer fees, paper statement fees, check printing commissions, and other noninterest related fees. Revenue from the Company's merchant services business consists principally of transaction and account management fees charged to merchants for the electronic processing of transactions. These fees are net of interchange fees paid to the credit card issuing bank, card company assessments, and revenue sharing amounts. Account management fees are considered earned at the time the merchant's transactions are processed or other services are performed. Fees related to the other components of other noninterest income within the scope of Topic 606 are largely transactional based, and therefore, the Company's performance obligation is satisfied and related revenue recognized, at the point in time the customer uses the selected service to execute a transaction.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three months ended March 31, 2019 and 2018.

(dollars in thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Noninterest income - in-scope of Topic 606		
Wealth management revenue:		
Trust management/administration fees	$ 3,617	$ 3,119
Investment advisory fees	529	465
Investment brokerage fees	219	264
Other	588	231
Service charges on deposit accounts:		
Nonsufficient fund fees	1,754	1,450
Other	766	517
Interchange revenues	2,680	2,045
Other income:		
Merchant services revenue	375	338
Other	818	1,070
Noninterest income - out-of-scope of Topic 606	5,729	7,003
Total noninterest income	$ 17,075	$ 16,502

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of March 31, 2019 and December 31, 2018, the Company did not have any significant contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition costs.

Note 20 – Subsequent Events

Pending Acquisition – HomeStar Financial Group, Inc.

On April 2, 2019, the Company announced it had entered into a definitive agreement to acquire HomeStar Financial Group, Inc. ("HomeStar"), and its wholly owned subsidiary, HomeStar Bank and Financial Services ("HomeStar Bank") for estimated total consideration of $9.9 million, consisting of 405,000 shares of the Company's common stock, plus cash in an amount equal to the amount, if any, by which HomeStar's adjusted shareholders' equity prior to closing exceeds $10.4 million. HomeStar Bank is headquartered in Manteno, Illinois, and operates 5 full-service banking centers in northern Illinois. As of December 31, 2018, HomeStar Bank had total assets of $375.4 million, net loans of $222.7 million and total deposits of $333.1 million. Under the terms of the definitive agreement, prior to closing, HomeStar's outstanding trust preferred securities and subordinated debentures plus accrued interest will be repurchased or paid off with approximately $23.5 million of cash provided by the Company, which amount represents a discount to the outstanding obligations on these securities. Additionally, prior to closing, HomeStar Bank will sell its interest in both its insurance agency and title company subsidiaries. The transaction is expected to close in the third quarter of 2019, subject to regulatory approval, the approval of HomeStar's shareholders, the completion of the trust preferred securities transactions, and the satisfaction of customary closing conditions.

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion explains our financial condition and results of operations as of and for the three months ended March 31, 2019. Annualized results for this interim period may not be indicative of results for the full year or future periods. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes presented elsewhere in this report and our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 28, 2019.

In addition to the historical information contained herein, this Form 10-Q includes "forward-looking statements" within the meaning of such term in the Private Securities Litigation Reform Act of 1995. These statements are subject to many risks and uncertainties, including changes in interest rates and other general economic, business and political conditions, including changes in the financial markets; changes in business plans as circumstances warrant; risks related to mergers and acquisitions and the integration of acquired businesses; and other risks detailed from time to time in filings made by the Company with the SEC. Readers should note that the forward-looking statements included herein are not a guarantee of future events, and that actual events may differ materially from those made in or suggested by the forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "will," "propose," "may," "plan," "seek," "expect," "intend," "estimate," "anticipate," "believe," or "continue," or similar terminology. Any forward-looking statements presented herein are made only as of the date of this document, and we do not undertake any obligation to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of unanticipated events, or otherwise.

Critical Accounting Policies

The preparation of our consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under current circumstances. These estimates form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates and judgments that management believes have the most effect on the Company's reported financial position and results of operations are set forth in "*Note 1 – Summary of Significant Accounting Policies*" of the Notes to Consolidated Financial Statements, included in our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since December 31, 2018.

Overview

Midland States Bancorp, Inc. is a diversified financial holding company headquartered in Effingham, Illinois. Its wholly owned banking subsidiary, Midland States Bank, has branches across Illinois and in Missouri, and provides a full range of commercial and consumer banking products and services, business equipment financing, merchant credit card services, trust and investment management, and insurance and financial planning services. In addition, multifamily and healthcare facility FHA financing is provided through Love Funding, our non-bank subsidiary. As of March 31, 2019, we had $5.64 billion in assets, $4.04 billion of deposits and $624.2 million of shareholders' equity.

Our strategic plan is focused on building a diversified financial services company anchored by a strong community bank. In the past several years, we have grown organically and through a series of acquisitions, with an over-arching focus on enhancing shareholder value and maintaining a platform for scalability. In February 2018, the Company completed the acquisition of Alpine, and its subsidiary, Alpine Bank, a regional, full-service community bank headquartered in Belvidere, Illinois. At closing, Alpine had 19 bank branches located principally in and around the Rockford, Illinois area and had total assets of $1.24 billion. On April 2, 2019, the Company announced it had entered into a definitive agreement to acquire HomeStar, and its wholly owned subsidiary, HomeStar Bank. HomeStar Bank is headquartered in Manteno, Illinois, and operates 5 full-service banking centers in northern Illinois. As of December 31, 2018, HomeStar Bank had total assets of $375.4 million, net loans of $222.7 million and total deposits of $333.1 million.

Our principal business activity has been lending to and accepting deposits from individuals, businesses, municipalities and other entities. We have derived income principally from interest charged on loans and leases and, to a lesser extent, from interest and dividends earned on investment securities. We have also derived income from noninterest sources, such as: fees received in connection with various lending and deposit services; wealth management services; commercial FHA mortgage loan originations, sales and servicing; residential mortgage loan originations, sales and

servicing; and, from time to time, gains on sales of assets. Our principal expenses include interest expense on deposits and borrowings, operating expenses, such as salaries and employee benefits, occupancy and equipment expenses, data processing costs, professional fees and other noninterest expenses, provisions for loan losses and income tax expense.

Significant Transactions

Each item listed below materially affects the comparability of our results of operations for the three months ended March 31, 2019 and 2018, and our financial condition as of March 31, 2019 and December 30, 2018, and may affect the comparability of financial information we report in future fiscal periods.

Recent Acquisitions. On February 28, 2018, the Company acquired Alpine for total consideration valued at approximately $173.2 million. Consideration transferred by the Company consisted of $33.3 million in cash and 4,463,200 shares of common stock. All identifiable assets acquired and liabilities assumed were adjusted to fair value as of February 28, 2018, and the results of Alpine's operations have been included in the consolidated statements of income beginning on that date. Intangible assets recognized as a result of the transaction consisted of $66.0 million in goodwill, $6.3 million in customer relationship intangibles and $21.1 million in core deposit intangibles.

Purchased Loans. Our net interest margin benefits from favorable changes in expected cash flows on our PCI loans and from accretion income associated with purchase accounting discounts established on the non-PCI loans included in our acquisitions. Our reported net interest margin for the three months ended March 31, 2019 and 2018 was 3.73% and 3.69%, respectively. Accretion income associated with accounting discounts established on loans acquired totaled $2.5 million and $2.0 million for the three months ended March 31, 2019 and 2018, respectively, increasing the reported net interest margin by 17 and 16 basis points for each respective period.

Results of Operations

Net Interest Income. Our primary source of revenue is net interest income, which is the difference between interest income from interest-earning assets (primarily loans and securities) and interest expense of funding sources (primarily interest-bearing deposits and borrowings). Net interest income is impacted by the volume of interest-earning assets and related funding sources, as well as changes in the levels of interest rates. Noninterest-bearing sources of funds, such as demand deposits and shareholders' equity, also support earning assets. The impact of the noninterest-bearing sources of funds is captured in the net interest margin, which is calculated as net interest income divided by average interest-earning assets. The net interest margin is presented on a tax-equivalent basis, which means that tax-free interest income has been adjusted to a pretax-equivalent income, assuming a federal income tax rate of 21% for the three months ended March 31, 2019 and 2018.

In the first quarter of 2019, net interest income (on a tax-equivalent basis) was $46.1 million, an increase of $7.6 million, or 19.6%, from $38.6 million of net interest income we generated for the comparative prior year quarter. The tax-equivalent net interest margin was 3.73% for the first quarter of 2019 compared to 3.69% in the first quarter of 2018.

Average Balance Sheet, Interest and Yield/Rate Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended March 31, 2019 and 2018. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of discount accretion and net deferred loan origination costs accounted for as yield adjustments.

(tax-equivalent basis, dollars in thousands)	For the Three Months Ended March 31, 2019 Average Balance	2019 Interest & Fees	2019 Yield / Rate	2018 Average Balance	2018 Interest & Fees	2018 Yield / Rate
EARNING ASSETS:						
Federal funds sold and cash investments	$ 152,078	$ 907	2.42 %	$ 138,275	$ 521	1.53 %
Investment securities:						
Taxable investment securities	500,672	3,683	2.94	417,102	2,643	2.53
Investment securities exempt from federal income tax [1]	154,092	1,349	3.50	131,066	1,286	3.93
Total securities	654,764	5,032	3.07	548,168	3,929	2.87
Loans:						
Loans [2]	4,020,502	51,882	5.23	3,413,808	41,031	4.87
Loans exempt from federal income tax [1]	108,391	1,234	4.61	64,109	591	3.74
Total loans	4,128,893	53,116	5.22	3,477,917	41,622	4.85
Loans held for sale	30,793	299	3.94	40,841	428	4.25
Nonmarketable equity securities	44,279	621	5.69	34,890	399	4.64
Total earning assets	5,010,807	$ 59,975	4.85 %	4,240,091	$ 46,899	4.49 %
Noninterest-earning assets	618,996			536,750		
Total assets	$ 5,629,803			$ 4,776,841		
INTEREST-BEARING LIABILITIES:						
Checking and money market deposits	$ 1,813,875	$ 3,377	0.75 %	$ 1,582,222	$ 1,651	0.42 %
Savings deposits	449,174	220	0.20	344,456	161	0.19
Time deposits	652,576	2,702	1.68	564,396	1,450	1.04
Brokered deposits	178,354	1,064	2.42	184,265	855	1.88
Total interest-bearing deposits	3,093,979	7,363	0.97	2,675,339	4,117	0.62
Short-term borrowings	135,337	237	0.71	148,703	124	0.34
FHLB advances and other borrowings	673,250	3,847	2.32	489,567	1,871	1.55
Subordinated debt	94,156	1,514	6.43	93,993	1,514	6.44
Trust preferred debentures	47,848	870	7.38	47,373	694	5.94
Total interest-bearing liabilities	4,044,570	$ 13,831	1.39 %	3,454,975	$ 8,320	0.98 %
NONINTEREST-BEARING LIABILITIES						
Noninterest-bearing deposits	919,185			782,164		
Other noninterest-bearing liabilities	51,838			40,761		
Total noninterest-bearing liabilities	971,023			822,925		
Shareholders’ equity	614,210			498,941		
Total liabilities and shareholders’ equity	$ 5,629,803			$ 4,776,841		
Net interest income / net interest margin [3]		$ 46,144	3.73 %		$ 38,579	3.69 %

(1) Interest income and average rates for tax-exempt loans and securities are presented on a tax-equivalent basis, assuming a federal income tax rate of 21% for the three months ended March 31, 2019 and 2018. Tax-equivalent adjustments totaled $543,000 and $394,000 for the three months ended March 31, 2019 and 2018, respectively.

(2) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

(3) Net interest margin during the periods presented represents: (i) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.

Interest Rates and Operating Interest Differential. Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on our interest-earning assets and the interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume. Changes which are not due solely to volume or rate have been allocated proportionally to the change due to volume and the change due to rate.

	Three Months Ended March 31, 2019 Compared with Three Months Ended March 31, 2018		
	Change due to:		Interest
(tax-equivalent basis, dollars in thousands)	Volume	Rate	Variance
EARNING ASSETS:			
Federal funds sold and cash investments	$ 67	$ 319	$ 386
Investment securities:			
Taxable investment securities	572	468	1,040
Investment securities exempt from federal income tax	214	(151)	63
Total securities	786	317	1,103
Loans:			
Loans	7,560	3,291	10,851
Loans exempt from federal income tax	456	187	643
Total loans	8,016	3,478	11,494
Loans held for sale	(102)	(27)	(129)
Nonmarketable equity securities	120	102	222
Total earning assets	$ 8,887	$ 4,189	$ 13,076
INTEREST-BEARING LIABILITIES:			
Checking and money market deposits	$ 337	$ 1,389	$ 1,726
Savings deposits	50	9	59
Time deposits	296	956	1,252
Brokered deposits	(31)	240	209
Total interest-bearing deposits	652	2,594	3,246
Short-term borrowings	(17)	130	113
FHLB advances and other borrowings	875	1,101	1,976
Subordinated debt	3	(3)	—
Trust preferred debentures	8	168	176
Total interest-bearing liabilities	$ 1,521	$ 3,990	$ 5,511
Net interest income	$ 7,366	$ 199	$ 7,565

Interest Income. The $11.5 million, or 27.6%, increase in interest income on loans (on a tax-equivalent basis) for the first quarter of 2019 was primarily due to a 18.7% increase in the average balance of loans outstanding combined with a 37 basis point increase in the average yield. The average balance increase was primarily driven by the addition of $786.2 million of loans from Alpine in February 2018. The increase in the average yield on loans was mainly due to the impact of higher market interest rates. Accretion income associated with accounting discounts established on loans acquired totaled $2.5 million and $2.0 million for the three months ended March 31, 2019 and 2018, respectively, increasing the reported net interest margin by 17 and 16 basis points for each respective period.

Interest income on our investment securities portfolio on a tax-equivalent basis increased $1.1 million for the three months ended March 31, 2019 compared to the prior year period, mainly attributable to increases in the average balance of investment securities of 19.4%. The increase in the average balance for the quarter was primarily due to the addition of $293.4 million of investment securities from Alpine in February 2018.

Interest income on short-term cash investments increased to $0.9 million for the three months ended March 31, 2019 compared to $0.5 million for the corresponding period in 2018. This increase was primarily attributable to an increase in short-term interest rates and a $13.8 million increase in the average balance of short term cash investments.

Interest Expense. Interest expense on deposits increased to $7.4 million for the three months ended March 31, 2019 as compared to $4.1 million for the three months ended March 31, 2018. The $3.2 million, or 78.8%, increase in

interest expense on deposits for the first quarter of 2019 was primarily due to a 35 basis point increase in the average rate paid combined with the average balance of interest-bearing deposits increasing 15.6%. The increase in the average balance of deposits for the three months ended March 31, 2019 primarily reflected the addition of $770.2 million of interest-bearing deposits from Alpine in February 2018. The increase in the average rates paid were primarily due to the impact of higher market interest rates.

Interest expense on borrowings increased to $6.5 million for the three months ended March 31, 2019, as compared to $4.2 million for the three months ended March 31, 2018. The $2.3 million increase in interest expense on borrowings for the three months ended March 31, 2019 was primarily due to expanded usage of FHLB advances as a short-term and long-term funding source, the addition of $18.1 million of FHLB advances assumed from Alpine and the impact of higher market interest rates on new FHLB advances and our variable rate trust preferred debentures.

Provision for Loan Losses. The provision for loan losses totaled $3.2 million for the three months ended March 31, 2019 compared to $2.0 million for the three months ended March 31, 2018. The provision for loan losses recorded during the three months ended March 31, 2019 was primarily due to specific reserves established on a nonperforming loan.

Noninterest Income. The following table sets forth the major components of our noninterest income for the three months ended March 31, 2019 and 2018:

(dollars in thousands)	For the Three Months Ended March 31, 2019	For the Three Months Ended March 31, 2018	Increase (decrease)
Noninterest income:			
Commercial FHA revenue	$ 3,270	$ 3,330	$ (60)
Residential mortgage banking revenue	834	1,418	(584)
Wealth management revenue	4,953	4,079	874
Service charges on deposit accounts	2,520	1,967	553
Interchange revenue	2,680	2,045	635
Gain on sales of investment securities, net	—	65	(65)
Gain on sales of other real estate owned	66	307	(241)
Other income	2,752	3,291	(539)
Total noninterest income	$ 17,075	$ 16,502	$ 573

The $0.6 million increase in noninterest income for the three months ended March 31, 2019 was primarily due to the full quarter impact of the Alpine acquisition, which was a primary factor in wealth management revenue increasing $0.9 million, service charges on deposit accounts increasing $0.6 million and interchange revenue increasing $0.6 million between the quarters. Included in the Alpine acquisition were $1.0 billion of wealth management assets under administration. These increases were offset in part by a $0.6 million decrease in mortgage banking revenue impacted by a decline in closed production and interest rate lock commitments that were due in part to a smaller loan production team. The increases in noninterest income were also offset by a $0.2 million decrease in gain on sales of other real estate owned due to a decrease in the number of properties sold and a $0.5 million decrease in other income.

Noninterest Expense. The following table sets forth the major components of noninterest expense for the three months ended March 31, 2019 and 2018:

(dollars in thousands)	For the Three Months Ended March 31, 2019	2018	Increase (decrease)
Noninterest expense:			
Salaries and employee benefits	$ 22,039	$ 28,395	$ (6,356)
Occupancy and equipment	4,832	4,252	580
Data processing	4,891	4,479	412
FDIC insurance	435	548	(113)
Professional	2,073	3,749	(1,676)
Marketing	1,234	1,206	28
Communications	671	1,576	(905)
Loan expense	360	524	(164)
Other real estate owned	93	90	3
Amortization of intangible assets	1,810	1,675	135
Other	2,659	3,005	(346)
Total noninterest expense	$ 41,097	$ 49,499	$ (8,402)

The $8.4 million decrease in noninterest expense for the three months ended March 31, 2019 was attributable to the impact of the Alpine acquisition in 2018. The decrease of $6.4 million in salaries and employee benefits was mainly due to the incurrence of Alpine acquisition expenses of change in control payments, severance costs and other benefit-related expenses in the first quarter of 2018. The $1.7 million decrease in professional fees was primarily due to the decrease in professional fees incurred on various technology and other integration projects related to the Alpine acquisition. Communications expense decreased due to expenses incurred the first quarter of 2018, related to the acquisition of Centrue Financial Corporation in June of 2017.

Income Tax Expense. Income tax expense was $4.4 million for the three months ended March 31, 2019 compared to $1.4 million for the three months ended March 31, 2018. Effective tax rates were 23.7% and 43.2% for the three months ended March 31, 2019 and 2018, respectively. The effective tax rate in the first quarter of 2018 was negatively impacted by the Company recording additional income tax expense of $0.7 million for the revaluation of net deferred state tax liabilities as a result of the Alpine acquisition.

Financial Condition

Assets. Total assets remained consistent at $5.64 billion at March 31, 2019, as compared to December 31, 2018.

Loans. The loan portfolio is the largest category of our assets. At March 31, 2019, total loans were $4.09 billion. The following table shows loans by non-PCI and PCI loan category as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
(dollars in thousands)	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
Commercial	$ 839,731	$ 3,358	$ 843,089	$ 806,027	$ 4,857	$ 810,884
Commercial real estate	1,542,997	17,430	1,560,427	1,619,903	19,252	1,639,155
Construction and land development	233,332	6,044	239,376	223,898	8,331	232,229
Total commercial loans	2,616,060	26,832	2,642,892	2,649,828	32,440	2,682,268
Residential real estate	560,427	8,624	569,051	569,289	8,759	578,048
Consumer	599,151	1,480	600,631	611,408	1,776	613,184
Lease financing	279,532	—	279,532	264,051	—	264,051
Total loans	$ 4,055,170	$ 36,936	$ 4,092,106	$ 4,094,576	$ 42,975	$ 4,137,551

Loans decreased $45.4 million to $4.09 billion at March 31, 2019 as compared to December 31, 2018. The decrease in loans was primarily due to several large loan payoffs and principal reductions in the commercial real estate portfolio in addition to payoffs and payments in the residential real estate and consumer portfolio during the first three months of 2019. These decreases were partially offset by organic loan growth primarily from our commercial equipment financing business and consumer loans originated through home improvement specialty retailers.

The principal categories of our loan portfolio are discussed below:

Commercial loans. We provide a mix of variable and fixed rate commercial loans. The loans are typically made to small- and medium-sized manufacturing, wholesale, retail and service businesses for working capital needs, business expansions and farm operations. Commercial loans generally include lines of credit and loans with maturities of five years or less. The loans are generally made with business operations as the primary source of repayment, but may also include collateralization by inventory, accounts receivable and equipment, and generally include personal guarantees.

Commercial real estate loans. Our commercial real estate loans consist of both real estate occupied by the borrower for ongoing operations and non-owner occupied real estate properties. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as owner occupied offices, warehouses and production facilities, office buildings, hotels, mixed-use residential and commercial facilities, retail centers, multifamily properties and assisted living facilities. Our commercial real estate loan portfolio also includes farmland loans. Farmland loans are generally made to a borrower actively involved in farming rather than to passive investors.

Construction and land development loans. Our construction and land development loans are comprised of residential construction, commercial construction and land acquisition and development loans. Interest reserves are generally established on real estate construction loans.

Residential real estate loans. Our residential real estate loans consist of residential properties that generally do not qualify for secondary market sale.

Consumer loans. Our consumer loans include direct personal loans, indirect automobile loans, lines of credit and installment loans originated through home improvement specialty retailers and contractors. Personal loans are generally secured by automobiles, boats and other types of personal property and are made on an installment basis.

Lease financing. Our equipment leasing business provides financing leases to varying types of businesses, nationwide, for purchases of business equipment and software. The financing is secured by first priority interest in the financed asset and generally require monthly payments.

The following table shows the contractual maturities of our loan portfolio and the distribution between fixed and adjustable interest rate loans at March 31, 2019:

	March 31, 2019						
	Within One Year		One Year to Five Years		After Five Years		
(dollars in thousands)	**Fixed Rate**	**Adjustable Rate**	**Fixed Rate**	**Adjustable Rate**	**Fixed Rate**	**Adjustable Rate**	**Total**
Loans:							
Commercial	$ 47,021	$ 289,515	$ 278,846	$ 74,882	$ 114,637	$ 38,188	$ 843,089
Commercial real estate	179,992	78,113	791,131	189,924	62,306	258,961	1,560,427
Construction and land development	10,260	68,321	41,088	114,915	243	4,549	239,376
Total commercial loans	237,273	435,949	1,111,065	379,721	177,186	301,698	2,642,892
Residential real estate	4,551	9,003	23,399	40,606	199,067	292,425	569,051
Consumer	2,863	2,554	575,848	18,911	425	30	600,631
Lease financing	6,761	—	247,229	—	25,542	—	279,532
Total loans	$ 251,448	$ 447,506	$ 1,957,541	$ 439,238	$ 402,220	$ 594,153	$ 4,092,106

Loan Quality

We use what we believe is a comprehensive methodology to monitor credit quality and prudently manage credit concentration within our loan portfolio. Our underwriting policies and practices govern the risk profile, credit and geographic concentration for our loan portfolio. We also have what we believe to be a comprehensive methodology to monitor these credit quality standards, including a risk classification system that identifies potential problem loans based on risk characteristics by loan type as well as the early identification of deterioration at the individual loan level. In addition to our allowance for loan losses, our purchase discounts on acquired loans provide additional protections against credit losses.

Discounts on PCI Loans. PCI loans are loans that have evidence of credit deterioration since origination and for which it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments. These loans are recorded at estimated fair value on their purchase date without a carryover of the related

allowance for loan losses. At March 31, 2019 and December 31, 2018, we had PCI loans totaling $36.9 million and $43.0 million, respectively.

In determining the fair value of purchased credit-impaired loans at acquisition, we first determine the contractually required payments due, which represent the total undiscounted amount of all uncollected principal and interest payments, adjusted for the effect of estimated prepayments. We then estimate the undiscounted cash flows we expect to collect. We incorporate several key assumptions to estimate cash flows expected to be collected, including probability of default rates, loss given default assumptions and the amount and timing of prepayments. We calculate fair value by discounting the estimated cash flows we expect to collect using an observable market rate of interest, when available, adjusted for factors that a market participant would consider in determining fair value. We have aggregated certain credit-impaired loans acquired in the same transaction into pools based on common risk characteristics. A pool is accounted for as one asset with a single composite interest rate and an aggregate fair value and expected cash flows.

The difference between contractually required payments due and the cash flows expected to be collected, considering the impact of prepayments, is referred to as the nonaccretable difference. The nonaccretable difference, which is neither accreted into income nor recorded on our consolidated balance sheet, reflects estimated future credit losses expected to be incurred over the life of the loans. The excess of cash flows expected to be collected over the estimated fair value of PCI loans is referred to as the accretable yield. This amount is not recorded on our consolidated balance sheet, but is accreted into interest income over the remaining life of the loans, or pool of loans, using the effective yield method. The outstanding customer balance for PCI loans totaled $50.5 million and $56.9 million as of March 31, 2019 and December 31, 2018, respectively.

Subsequent to acquisition, we periodically evaluate our estimates of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications between accretable yield and the nonaccretable difference. Decreases in expected cash flows due to further credit deterioration will result in an impairment charge to the provision for loan losses, resulting in an increase to the allowance for loan losses and a reclassification from accretable yield to nonaccretable difference. Increases in expected cash flows due to credit improvements will result in an increase in the accretable yield through a reclassification from the nonaccretable difference or as a reduction in the allowance for loan losses to the extent established on specific pools subsequent to acquisition. The adjusted accretable yield is recognized in interest income over the remaining life of the loan, or pool of loans.

The following table shows changes in the accretable yield for PCI loans for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
(dollars in thousands)	**2019**	**2018**
Balance, beginning of period	$ 12,240	$ 5,732
New loans purchased - Alpine acquisition	—	842
Accretion	(1,076)	(1,161)
Other adjustments (including maturities, charge-offs, and impact of changes in timing of expected cash flows)	(106)	660
Reclassification from non-accretable	5	1,154
Balance, end of period	$ 11,063	$ 7,227

As of March 31, 2019, the balance of accretable discounts on our PCI loan portfolio was $11.1 million compared to $7.2 million at December 31, 2018. We may not accrete the full amount of these discounts into interest income in future periods if the assets to which these discounts are applied do not perform according to our current expectations.

We have also recorded accretable discounts in purchase accounting for loans that are not considered PCI loans. Similar to the way in which we employ the fair value methodology for PCI loans, we consider expected prepayments and estimate the amount and timing of undiscounted cash flows in order to determine the accretable discount for non-PCI loans. Such discounts are accreted into income on a level yield basis.

Analysis of the Allowance for Loan Losses. The following table allocates the allowance for loan losses, or the allowance, by loan category:

	March 31, 2019		December 31, 2018	
(dollars in thousands)	**Book Value**	**% [(1)]**	**Book Value**	**% [(1)]**
Loans:				
Commercial	$ 9,545	1.13 %	$ 9,524	1.17 %
Commercial real estate	6,617	0.42	4,723	0.29
Construction and land development	398	0.17	372	0.16
Total commercial loans	16,560	0.63	14,619	0.55
Residential real estate	2,424	0.43	2,041	0.35
Consumer	2,137	0.36	2,154	0.35
Lease financing	1,970	0.70	2,089	0.79
Total allowance for loan losses	$ 23,091	0.56	$ 20,903	0.51

(1) Represents the percentage of the allowance to total loans in the respective category.

The allowance and the balance of nonaccretable discounts represent our estimate of probable and reasonably estimable credit losses inherent in loans held for investment as of the respective balance sheet date. We assess the appropriateness of our allowance for non-PCI loans separately from our allowance for PCI loans.

The allowance for loan losses was $23.1 million at March 31, 2019 compared to $20.9 million at December 31, 2018. The increase in the allowance at March 31, 2019 compared to December 31, 2018 was mainly attributable to the downgrade of one commercial real estate loan and one residential real estate loan during the first quarter of 2019.

Individual loans considered to be uncollectible are charged off against the allowance. Factors used in determining the amount and timing of charge-offs on loans include consideration of the loan type, length of delinquency, sufficiency of collateral value, lien priority and the overall financial condition of the borrower. Collateral value is determined using updated appraisals and/or other market comparable information. Charge-offs are generally taken on loans once the impairment is determined to be other-than-temporary. Recoveries on loans previously charged off are added to the allowance. Net charge-offs to average loans were 0.10% and 0.13% for the three months ended March 31, 2019 and the year ended December 31, 2018, respectively.

Allowance for non-PCI loans. Our methodology for assessing the appropriateness of the allowance for non-PCI loans includes a general allowance for performing loans, which are grouped based on similar characteristics, and a specific allowance for individual impaired loans or loans considered by management to be in a high-risk category. General allowances are established based on a number of factors, including historical loss rates, an assessment of portfolio trends and conditions, accrual status and economic conditions.

For commercial and commercial real estate loans, a specific allowance may be assigned to individual loans based on an impairment analysis. Loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. The amount of impairment is based on an analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows and the estimated market value or the fair value of the underlying collateral. Interest income on impaired loans is accrued as earned, unless the loan is placed on nonaccrual status.

Allowance for PCI loans. PCI loans are recorded at their estimated fair value at the date of acquisition, with the estimated fair value including a component for estimated credit losses. An allowance related to PCI loans may be recorded subsequent to acquisition if a PCI loan pool experiences a decrease in expected cash flows as compared to the expected cash flows projected in the previous quarter. Loans considered to be uncollectible are initially charged off against the specific loan pool’s non-accretable difference. When the pool’s non-accretable difference has been fully utilized, uncollectible amounts are charged off against the corresponding allowance.

The following table shows our allowance by loan portfolio and by non-PCI and PCI loans as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
(dollars in thousands)	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
Loans:						
Commercial	$ 9,527	$ 18	$ 9,545	$ 9,419	$ 105	$ 9,524
Commercial real estate	5,812	805	6,617	3,879	844	4,723
Construction and land development	398	—	398	372	—	372
Total commercial loans	15,737	823	16,560	13,670	949	14,619
Residential real estate	1,993	431	2,424	1,605	436	2,041
Consumer	1,939	198	2,137	1,971	183	2,154
Lease financing	1,970	—	1,970	2,089	—	2,089
Total allowance for loan losses	$ 21,639	$ 1,452	$ 23,091	$ 19,335	$ 1,568	$ 20,903

Provision for Loan Losses. In determining the allowance and the related provision for loan losses, we consider three principal elements: (i) valuation allowances based upon probable losses identified during the review of impaired commercial, commercial real estate, and construction and land development loans, (ii) allocations, by loan classes, on loan portfolios based on historical loan loss experience and qualitative factors, and (iii) valuation allowances on PCI loan pools based on decreases in expected cash flows. Provisions for loan losses are charged to operations to adjust the total allowance to a level deemed appropriate by us.

The following table provides an analysis of the allowance for loan losses, provision for loan losses and net charge-offs for the three months ended March 31, 2019 and 2018:

	As of and for the Three Months Ended March 31,	
(dollars in thousands)	2019	2018
Balance, beginning of period	$ 20,903	$ 16,431
Charge-offs:		
Commercial	112	25
Commercial real estate	58	160
Construction and land development	44	—
Residential real estate	153	36
Consumer	556	434
Lease financing	459	486
Total charge-offs	1,382	1,141
Recoveries:		
Commercial	15	104
Commercial real estate	7	94
Construction and land development	7	25
Residential real estate	22	51
Consumer	210	95
Lease financing	66	39
Total recoveries	327	408
Net charge-offs	1,055	733
Provision for loan losses	3,243	2,006
Balance, end of period	$ 23,091	$ 17,704
Gross loans, end of period	$ 4,092,106	$ 4,029,150
Average loans	$ 4,128,893	$ 3,477,917
Net charge-offs to average loans	0.10 %	0.09 %
Allowance to total loans	0.56 %	0.44 %

Impaired Loans. The following table sets forth our nonperforming assets by asset categories as of the dates indicated. Impaired loans include nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings. The balances of impaired loans reflect the net investment in these assets, including deductions for purchase discounts. PCI loans are excluded from nonperforming status because we expect to fully collect their new carrying values, which reflect significant purchase discounts. If our expectation of reasonably estimable future cash flows from PCI loans deteriorates, the loans may be classified as nonaccrual loans and interest income will not be recognized until the timing and amount of future cash flows can be reasonably estimated.

(dollars in thousands)	March 31, 2019	December 31, 2018
Impaired loans:		
Commercial	$ 8,899	$ 8,928
Commercial real estate	29,611	23,868
Construction and land development	1,218	1,307
Residential real estate	7,753	7,270
Consumer	533	569
Lease financing	1,248	957
Total impaired loans	49,262	42,899
Other real estate owned, non-guaranteed	2,020	3,000
Nonperforming assets	$ 51,282	$ 45,899
Impaired loans to total loans	1.20 %	1.04 %
Nonperforming assets to total assets	0.91 %	0.81 %

We did not recognize any interest income on nonaccrual loans during the three months ended March 31, 2019 and the year ended December 31, 2018 while the loans were in nonaccrual status. Additional interest income that would have been recorded on nonaccrual loans had they been current in accordance with their original terms was $0.7 million and $0.5 million for the three months ended March 31, 2019 and 2018, respectively. The Company recognized interest income on commercial and commercial real estate loans modified under troubled debt restructurings of $32,000 and $30,000 for the three months ended March 31, 2019 and 2018, respectively.

We use a ten grade risk rating system to categorize and determine the credit risk of our loans. Potential problem loans include loans with a risk grade of 7, which are "special mention," and loans with a risk grade of 8, which are "substandard" loans that are not considered to be impaired. These loans generally require more frequent loan officer contact and receipt of financial data to closely monitor borrower performance. Potential problem loans are managed and monitored regularly through a number of processes, procedures and committees, including oversight by a loan administration committee comprised of executive officers and other members of the Bank's senior management team.

The following table presents the recorded investment of potential problem commercial loans (excluding PCI loans) by loan category at the dates indicated:

	Commercial Risk Category		Commercial Real Estate Risk Category		Construction & Land Development Risk Category		
(dollars in thousands)	7	8 [(1)]	7	8 [(1)]	7	8 [(1)]	Total
March 31, 2019	$ 20,885	$ 21,329	$ 14,304	$ 49,789	$ 2,522	$ 890	$ 109,719
December 31, 2018	34,857	12,956	14,934	45,263	3,448	—	111,458

(1) Includes only those 8-rated loans that are not included in impaired loans.

Investment Securities. Our investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk. The types and maturities of securities purchased are primarily based on our current and projected liquidity and interest rate sensitivity positions.

The following table sets forth the book value and percentage of each category of investment securities at March 31, 2019 and December 31, 2018. The book value for investment securities classified as available for sale and equity securities is equal to fair market value.

(dollars in thousands)	March 31, 2019 Book Value	March 31, 2019 % of Total	December 31, 2018 Book Value	December 31, 2018 % of Total
Available for sale securities				
U.S. Treasury securities	$ 24,768	3.8 %	$ 24,650	3.7 %
Government sponsored entity debt securities	75,587	11.5	75,684	11.5
Agency mortgage-backed securities	321,451	49.0	326,305	49.4
State and municipal securities	150,912	23.0	159,262	24.1
Corporate securities	80,021	12.2	71,550	10.8
Total investment securities, available for sale, at fair value	652,739	99.5	657,451	99.5
Equity securities	3,413	0.5	3,334	0.5
Total investment securities, at fair value	$ 656,152	100.0 %	$ 660,785	100.0 %

The following table sets forth the book value, maturities and weighted average yields for our investment portfolio at March 31, 2019. The book value for investment securities classified as available for sale is equal to fair market value.

(dollars in thousands)	March 31, 2019 Book Value	% of Total Investment Securities	Weighted Average Yield
Investment securities, available for sale			
U.S. Treasury securities:			
Maturing within one year	$ 5,004	0.8 %	2.4 %
Maturing in one to five years	19,764	3.0	1.5
Maturing in five to ten years	—	—	—
Maturing after ten years	—	—	—
Total U.S. Treasury securities	$ 24,768	3.8 %	1.7 %
Government sponsored entity debt securities:			
Maturing within one year	$ 19,969	3.0 %	2.3 %
Maturing in one to five years	42,792	6.5	2.4
Maturing in five to ten years	12,372	1.9	2.6
Maturing after ten years	454	0.1	2.6
Total government sponsored entity debt securities	$ 75,587	11.5 %	2.4 %
Agency mortgage-backed securities:			
Maturing within one year	$ 7,889	1.2 %	2.5 %
Maturing in one to five years	271,077	41.3	2.8
Maturing in five to ten years	36,740	5.6	2.8
Maturing after ten years	5,745	0.9	3.1
Total agency mortgage-backed securities	$ 321,451	49.0 %	2.8 %
State and municipal securities [(1)]*:*			
Maturing within one year	$ 17,615	2.7 %	3.4 %
Maturing in one to five years	43,062	6.6	4.1
Maturing in five to ten years	61,648	9.4	4.2
Maturing after ten years	28,587	4.3	4.1
Total state and municipal securities	$ 150,912	23.0 %	4.0 %
Corporate securities:			
Maturing within one year	$ 3,022	0.5 %	3.9 %
Maturing in one to five years	6,006	0.9	3.7
Maturing in five to ten years	70,993	10.8	5.2
Maturing after ten years	—	—	—
Total corporate securities	$ 80,021	12.2 %	5.0 %
Total investment securities, available for sale	$ 652,739	99.5 %	3.3 %
Equity securities:			
No stated maturity	$ 3,413	0.5 %	2.5 %
Total investment securities and equity securities	$ 656,152	100.0 %	3.3 %

(1) Weighted average yield for tax-exempt securities are presented on a tax-equivalent basis assuming a federal income tax rate of 21%.

The table below presents the credit ratings at March 31, 2019 at fair value for our investment securities classified as available for sale.

	March 31, 2019							
	Amortized	Estimated	Average Credit Rating					
(dollars in thousands)	Cost	Fair Value	AAA	AA+/−	A+/−	BBB+/−	<BBB−	Not Rated
Investment securities available for sale:								
U.S. Treasury securities	$ 25,009	$ 24,768	$ 5,004	$ 19,764	$ —	$ —	$ —	$ —
Government sponsored entity debt securities	75,620	75,587	65,170	10,417	—	—	—	—
Agency mortgage-backed securities	321,127	321,451	6,478	314,973	—	—	—	—
State and municipal securities	146,557	150,912	29,039	95,176	9,513	6,041	480	10,663
Corporate securities	79,626	80,021	—	—	32,623	43,391	—	4,007
Total investment securities, available for sale	$ 647,939	$ 652,739	$ 105,691	$ 440,330	$ 42,136	$ 49,432	$ 480	$ 14,670

Cash and Cash Equivalents. Cash and cash equivalents increased $62.8 million to $276.5 million as of March 31, 2019 compared to December 31, 2018. This increase was primarily due to cash flows from investing activities and operating activities totaling $55.5 million and $30.0 million, respectively. These increases were offset in part by cash flows used in financing activities of $22.7 million. Cash flows provided by investing activities primarily consisted of a $44.4 million decrease in loans offset in part by $15.6 million in purchases of investments securities available for sale and $8.0 million in purchases of nonmarketable equity securities. Cash flows provided by operating activities primarily reflected $14.0 million of net income and $99.3 million of proceeds received from sales of loans held for sale exceeding $84.2 million in originations of loans held for sale. Cash used in financing activities primarily reflected $195.0 million of proceeds received from FHLB borrowings which exceeded payments made on FLHB borrowings.

Goodwill and Other Intangible Assets. Goodwill was $164.7 million at March 31, 2019 and December 31, 2018.

Our other intangible assets, which consist of core deposit and customer relationship intangibles, were $35.6 million and $37.4 million at March 31, 2019 and December 31, 2018, respectively. The decrease in other intangibles primarily reflected the accumulated amortization during the first three months of 2019.

Liabilities. Total liabilities decreased to $5.02 billion at March 31, 2019 compared to $5.03 billion at December 31, 2018.

Deposits. We emphasize developing total client relationships with our customers in order to increase our retail and commercial core deposit bases, which are our primary funding sources. Our deposits consist of noninterest-bearing and interest-bearing demand, savings and time deposit accounts.

The following table summarizes our average deposit balances and weighted average rates for the three months ended March 31, 2019 and 2018:

	March 31, 2019		March 31, 2018	
(dollars in thousands)	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Deposits:				
Noninterest-bearing demand	$ 919,185	—	$ 782,164	—
Interest-bearing:				
Checking	990,612	0.54 %	867,604	0.22 %
Money market	823,263	1.02	714,618	0.67
Savings	449,174	0.20	344,456	0.19
Time, less than $250,000	571,344	1.64	488,963	1.02
Time, $250,000 and over	81,232	1.96	75,433	1.16
Time, brokered	178,354	2.42	184,265	1.88
Total interest-bearing	$ 3,093,979	0.97 %	$ 2,675,339	0.62 %
Total deposits	$ 4,013,164	0.74 %	$ 3,457,503	0.48 %

The following table sets forth the maturity of time deposits of $250,000 or more and brokered time deposits as of March 31, 2019:

	March 31, 2019				
	Maturity Within:				
(dollars in thousands)	Three Months or Less	Three to Six Months	Six to 12 Months	After 12 Months	Total
Time, $250,000 and over	$ 26,537	$ 11,538	$ 20,077	$ 29,182	$ 87,334
Brokered deposits	92,536	54,387	22,064	12,201	181,188
Total	$ 119,073	$ 65,925	$ 42,141	$ 41,383	$ 268,522

Total deposits decreased $37.9 million to $4.04 billion at March 31, 2019 as compared to December 31, 2018. This decrease primarily resulted from outflows of commercial deposits and a decrease in public funds. At March 31, 2019, total deposits were comprised of 23.3% noninterest-bearing demand accounts, 55.2% interest-bearing transaction accounts and 21.5% of time deposits. At March 31, 2019, brokered time deposits totaled $181.2 million, or 4.5% of total deposits, compared to $161.6 million, or 4.0% of total deposits, at December 31, 2018.

Short-Term Borrowings. In addition to deposits, we use short-term borrowings, such as federal funds purchased and securities sold under agreements to repurchase, as a source of funds to meet the daily liquidity needs of our customers and fund growth in earning assets. Short-term borrowings were $115.8 million at March 31, 2019 compared to $124.2 million at December 31, 2018.

FHLB Advances and Other Borrowings. FHLB advances and other borrowings totaled $669.0 million and $640.6 million as of March 31, 2019 and December 31, 2018, respectively. During the first three months of 2019, we increased FHLB advances at the Bank by $29.8 million and made payments of $1.4 million against our term loan.

Capital Resources and Liquidity Management

Capital Resources. Shareholders' equity is influenced primarily by earnings, dividends, issuances and redemptions of common stock and changes in accumulated other comprehensive income caused primarily by fluctuations in unrealized holding gains or losses, net of taxes, on available-for-sale investment securities.

Shareholders' equity increased $15.6 million to $624.2 million at March 31, 2019 as compared to December 31, 2018. The increase in shareholders' equity was due primarily to $5.6 million increase in accumulated other comprehensive income and $14.0 million of net income, partially offset by $5.8 million of declared dividends to common shareholders.

Liquidity Management. Liquidity refers to the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

Integral to our liquidity management is the administration of short-term borrowings. To the extent we are unable to obtain sufficient liquidity through core deposits, we seek to meet our liquidity needs through wholesale funding or other borrowings on either a short- or long-term basis.

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction, which represents the amount of the Bank's obligation. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. Investment securities with a carrying amount of $123.4 million and $132.2 million at March 31, 2019 and December 31, 2018, respectively, were pledged for securities sold under agreements to repurchase.

The Company had lines of credit of $50.0 million and $56.8 million at March 31, 2019 and December 31, 2018, respectively, from the Federal Reserve Discount Window. The lines are collateralized by a collateral agreement with

respect to a pool of commercial real estate loans totaling $59.4 million and $67.6 million at March 31, 2019 and December 31, 2018, respectively. There were no outstanding borrowings at March 31, 2019 and December 31, 2018.

At March 31, 2019, the Company had available federal funds lines of credit totaling $45.0 million. These lines of credit were unused at March 31, 2019.

The Company is a corporation separate and apart from the Bank and, therefore, must provide for its own liquidity. The Company's main source of funding is dividends declared and paid to us by the Bank. There are statutory, regulatory and debt covenant limitations that affect the ability of the Bank to pay dividends to the Company. Management believes that these limitations will not impact our ability to meet our ongoing short-term cash obligations.

Regulatory Capital Requirements

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for "prompt corrective action", we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies.

At March 31, 2019, the Company and the Bank exceeded the regulatory minimums and the Bank met the regulatory definition of well-capitalized based on the most recent regulatory notification.

Ratio	Actual	Fully Phased-In Guidelines Minimum [(1)]	Well Capitalized
Total risk-based capital ratio			
Midland States Bancorp, Inc.	13.25 %	10.50 %	N/A
Midland States Bank	13.06	10.50	10.00 %
Common equity Tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	9.16	7.00	N/A
Midland States Bank	12.52	7.00	6.50
Tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	10.65	8.50	N/A
Midland States Bank	12.52	8.50	8.00
Tier 1 leverage ratio			
Midland States Bancorp, Inc.	8.92	8.50	N/A
Midland States Bank	10.49	8.50	5.00

(1) As of January 1, 2019, the capital conservation buffer was fully phased in at 2.5%.

Contractual Obligations

The following table contains supplemental information regarding our total contractual obligations at March 31, 2019:

	Payments Due				
(dollars in thousands)	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
Deposits without a stated maturity	$3,169,400	$ —	$ —	$ —	$3,169,400
Time deposits	581,105	252,882	32,900	1	866,888
Securities sold under repurchase agreements	115,832	—	—	—	115,832
FHLB advances and other borrowings	83,081	35,341	440,587	110,000	669,009
Operating lease obligations	2,181	4,030	3,152	1,835	11,198
Subordinated debt	—	—	—	94,174	94,174
Trust preferred debentures	—	—	—	47,918	47,918
Total contractual obligations	$3,951,599	$ 292,253	$ 476,639	$ 253,928	$4,974,419

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment

and maturity activity and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Quantitative and Qualitative Disclosures About Market Risk

Market Risk. Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. We have identified two primary sources of market risk: interest rate risk and price risk.

Interest Rate Risk

Overview. Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (reprice risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay residential mortgage loans at any time and depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and LIBOR (basis risk).

Our board of directors established broad policy limits with respect to interest rate risk. Enterprise Risk Committee ("ERC") establishes specific operating guidelines within the parameters of the board of directors' policies. In general, we seek to minimize the impact of changing interest rates on net interest income and the economic values of assets and liabilities. Our ERC meets quarterly to monitor the level of interest rate risk sensitivity to ensure compliance with the board of directors' approved risk limits.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Income Simulation and Economic Value Analysis. Interest rate risk measurement is calculated and reported to the ERC at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

We use two approaches to model interest rate risk: Net Interest Income at Risk ("NII at Risk") and Economic Value of Equity ("EVE"). Under NII at Risk, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivatives. EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. EVE is a period end measurement.

The following table shows NII at Risk at the dates indicated:

	Net Interest Income Sensitivity Immediate Change in Rates		
(dollars in thousands)	**-100**	**+100**	**+200**
March 31, 2019:			
Dollar change	$ (9,221)	$ 3,247	$ 5,477
Percent change	(4.9)%	1.7 %	2.9 %
December 31, 2018:			
Dollar change	$ (8,497)	$ 2,694	$ 4,623
Percent change	(4.3)%	1.4 %	2.4 %

We report NII at Risk to isolate the change in income related solely to interest earning assets and interest-bearing liabilities. The NII at Risk results included in the table above reflect the analysis used quarterly by management. It models −100, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next twelve months.

We are within Board policy limits for the −100, +100 and +200 basis point scenarios. NII at Risk reported at March 31, 2019, projects that our earnings exhibit increased sensitivity to changes in interest rates compared to December 31, 2018.

The following table shows EVE at the dates indicated:

	Economic Value of Equity Sensitivity Immediate Change in Rates		
(dollars in thousands)	**-100**	**+100**	**+200**
March 31, 2019:			
Dollar change	$ (91,343)	$ 49,599	$ 80,987
Percent change	(14.9)%	8.1 %	13.2 %
December 31, 2018:			
Dollar change	$ (80,035)	$ 40,599	$ 69,461
Percent change	(12.7)%	6.4 %	11.0 %

The EVE results included in the table above reflect the analysis used quarterly by management. It models immediate −100, +100 and +200 basis point parallel shifts in market interest rates.

We are within board policy limits for the +100 and +200 basis point scenarios.

In September 2018, the Federal Reserve increased the range for the Federal Funds Target Rate, which led to an increase in the magnitude of the declining rate scenario to 100 basis points from the prior −50 basis point floor. Tolerance levels for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a parallel 100 basis point increase or 100 basis point decrease in interest rates over the twelve months would adversely affect net interest income over the same period by more than the tolerance level. The Bank, effective March 31, 2019 has exceeded the established tolerance level for the −100 basis point sensitivity.

Price Risk. Price risk represents the risk of loss arising from adverse movements in the prices of financial instruments that are carried at fair value and subject to fair value accounting. We have price risk from equity investments and investments in securities backed by mortgage loans.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

The quantitative and qualitative disclosures about market risk are included under “Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures About Market Risk”.

Item 4 – Controls and Procedures

Evaluation of disclosure controls and procedures. The Company’s management, including our President and Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”)), as of the end of the period covered by this report. Based on such evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures were effective as of that date to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its President and Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II – Other Information

Item 1 – Legal Proceedings

In the normal course of business, we are named or threatened to be named as a defendant in various lawsuits, none of which we expect to have a material effect on the Company. However, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business (including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security, anti-money laundering and anti-terrorism), we, like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risk. There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

Item 1A – Risk Factors

There have been no material changes from the risk factors previously disclosed in the “Risk Factors” section included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table sets forth information regarding the Company's repurchase of shares of its outstanding common stock during the first quarter of 2019.

Period	Total Number of Shares Purchased (1)		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - 31, 2019	2,426	$	22.35	-	-
February 1 - 28, 2019	775		24.17	-	-
March 1 - 31, 2019	512		25.31	-	-
Total	3,713	$	23.14	-	-

(1) Represents shares of the Company's common stock repurchased under the employee stock purchase program and/or shares withheld to satisfy tax withholding obligations upon the vesting of awards of restricted stock. These shares were purchased pursuant to the terms of the applicable plan and not pursuant to a publicly announced repurchase plan or program.

Item 5 – Other Information

The 2019 annual meeting of shareholders ("Annual Meeting") of the Company was held on May 3, 2019. There were a total of 24,052,923 shares of common stock outstanding as of the record date for the Annual Meeting, of which 21,958,175 were present in person or by proxy at the meeting, representing 91.3% of the outstanding shares eligible to vote.

Proposal 1:

A proposal to elect three nominees to serve as Class III directors, each for a term expiring at the 2022 annual meeting of shareholders, was presented to shareholders. The results of the shareholder vote on the proposal were as follows:

Nominees	Number of Shares Voted For	Number of Shares Voted Against	Abstentions	Broker Non-Votes
John M. Schultz	16,671,842	2,357,177	1,354	2,927,803
Jerry L. McDaniel	16,873,819	2,155,200	1,354	2,927,803
Jeffrey M. McDonnell	16,877,320	2,151,699	1,354	2,927,803

Proposal 2:

A proposal to approve, on a nonbinding basis, the executive compensation disclosed in the Company's definitive proxy statement, which was filed on March 18, 2019, was presented to the shareholders. The results of the shareholder vote on the proposal were as follows:

	Number of Shares Voted For	Number of Shares Voted Against	Abstentions	Broker Non-Votes
Approval of executive compensation	15,504,694	3,247,774	277,905	2,927,803

Proposal 3:

A proposal to approve, on a nonbinding basis, the frequency (every one, two or three years) of the nonbinding vote to approve the compensation of the named executive officers was presented to the shareholders. The results of the shareholder vote on the proposal were as follows:

	Number of Shares Voted Every Year	Number of Shares Voted Every Two Years	Number of Shares Voted Every Three Years	Abstentions	Broker Non-Votes
Frequency of compensation vote	17,294,575	241,163	1,044,109	450,526	2,927,803

Based upon these results, and consistent with the Board of Directors' previous recommendation, the Company will hold an advisory stockholder vote to approve the compensation of the named executive officers every year.

Proposal 4:

A proposal to approve the Amended and Restated Midland States Bancorp, Inc. Employee Stock Purchase Plan (Amended and Restated May 3, 2019) was presented to the shareholders. The results of the shareholder vote on the proposal were as follows:

	Number of Shares Voted For	Number of Shares Voted Against	Abstentions	Broker Non-Votes
Approval of the Amended and Restated Midland States Bancorp, Inc. Employee Stock Purchase Plan	18,878,880	84,211	67,281	2,927,803

Proposal 5:

A proposal to approve the Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan was presented to the shareholders. The results of the shareholder vote on the proposal were as follows:

	Number of Shares Voted For	Number of Shares Voted Against	Abstentions	Broker Non-Votes
Approval of the Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan	17,814,253	1,144,632	71,487	2,927,803

Proposal 6:

A proposal to ratify the appointment of Crowe LLP as the Company's independent registered public accounting firm for the year ending December 31, 2019, was presented to the shareholders. The results of the shareholder vote on the proposal were as follows:

	Number of Shares Voted For	Number of Shares Voted Against	Abstentions	Broker Non-Votes
Ratification of Appointment of Crowe LLP	21,837,962	94,925	25,288	-

Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan

At the Annual Meeting, the Company's shareholders approved the Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan (the "2019 LTIP"). The 2019 LTIP was adopted by the Company's board of directors on February 5, 2019, subject to shareholder approval at the Annual Meeting, to promote the Company's long term financial success, to attract, retain and reward persons who can contribute to the Company's success, and to further align the participants' interest with those of the Company's shareholders. The 2019 LTIP will be administered by the Compensation Committee of the board of directors, which will select award recipients from the eligible participants, determine the types of awards to be granted, and determine the applicable terms, conditions, performance criteria, restrictions and other provisions of such awards, including any vesting or accelerated vesting requirements or conditions applicable to an

award or awards. The types of awards which may be granted under the 2019 LTIP include incentive and nonqualified stock options, stock appreciation rights, stock awards, restricted stock units, restricted stock and cash incentive awards.

The 2019 LTIP incorporates a broad variety of cash-based and equity-based incentive compensation elements to provide the Compensation Committee with significant flexibility to appropriately address the requirements and limitations of recently applicable legal, regulatory and financial accounting standards in a manner mutually consistent with the purposes of the 2019 LTIP and shareholder interests.

Subject to permitted adjustments for certain corporate transactions, the maximum number of shares that may be delivered to participants, or their beneficiaries, under the 2019 LTIP is 1,000,000 shares of the Company’s common stock.

The foregoing description of the 2019 LTIP is qualified in its entirety by the text of the 2019 LTIP, which is filed as Appendix B to the Company’s definitive proxy statement, filed with the SEC on March 18, 2019, and which is incorporated herein by reference.

Item 6 – Exhibits

Exhibit No.	Description
10.1	Amendment No. 3 to Employment Agreement, dated as of January 1, 2019, between Midland States Bancorp, Inc., Midland States Bank and Jeffrey G. Ludwig (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2019).
10.2	Amendment No. 2 to Employment Agreement, dated as of January 1, 2019, between Midland States Bancorp, Inc., Midland States Bank and Douglas J. Tucker (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2019).
10.3	Amendment No. 2 to Employment Agreement, dated as of January 1, 2019, between Midland States Bank and Jeffrey S. Mefford (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2019).
31.1	Chief Executive Officer's Certification required by Rule 13(a)-14(a) – filed herewith.
31.2	Chief Financial Officer's Certification required by Rule 13(a)-14(a) – filed herewith.
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith.
101	Financial information from the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019, formatted in XBRL interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements – filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDLAND STATES BANCORP, INC.

Date: May 9, 2019	By: /s/ Jeffrey G. Ludwig Jeffrey G. Ludwig *President and Chief Executive Officer* (Principal Executive Officer)
Date: May 9, 2019	By: /s/ Stephen A. Erickson Stephen A. Erickson *Chief Financial Officer* (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OR RULE 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Jeffrey G. Ludwig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the “Report”) of Midland States Bancorp, Inc. (the “Registrant”);

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;

4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

   b) [Reserved]

   c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

   d) Disclosed in this Report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adverse affect the Registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

MIDLAND STATES BANCORP, INC.

Dated as of: May 9, 2019

By: /s/ Jeffrey G. Ludwig
Jeffrey G. Ludwig
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OR RULE 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Stephen A. Erickson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the “Report”) of Midland States Bancorp, Inc. (the “Registrant”);

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;

4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

   b) [Reserved]

   c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

   d) Disclosed in this Report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

MIDLAND STATES BANCORP, INC.

Dated as of: May 9, 2019

By: /s/ Stephen A. Erickson
Stephen A. Erickson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey G. Ludwig, President and Chief Executive Officer of Midland States Bancorp, Inc. (the “Company”) certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2019 (the “Report”) fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

MIDLAND STATES BANCORP, INC.

Dated as of: May 9, 2019

By: /s/ Jeffrey G. Ludwig
Jeffrey G. Ludwig
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

**CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen A. Erickson, Chief Financial Officer of Midland States Bancorp, Inc. (the "Company") certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2019 (the "Report") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

MIDLAND STATES BANCORP, INC.

Dated as of: May 9, 2019

By: /s/ Stephen A. Erickson
Stephen A. Erickson
Chief Financial Officer
(Principal Financial and Accounting Officer)