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, 2024

☐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** (Address of principal executive offices)	**62401** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value	MSBI	The Nasdaq Stock Market LLC
Depositary Shares, each representing a 1/40th interest in a share of 7.75% fixed rate reset non-cumulative perpetual preferred stock, Series A	MSBIP	The Nasdaq Stock Market LLC

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 26, 2024, the Registrant had 21,481,762 shares of outstanding common stock, $0.01 par value.

MIDLAND STATES BANCORP, INC.

TABLE OF CONTENTS

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

As used in this report, references to the "Company," "we," "our," "us," and similar terms refer to the consolidated entity consisting of Midland States Bancorp, Inc. and its wholly owned subsidiaries. Midland States Bancorp refers solely to the parent holding company and Midland States Bank (the "Bank") refers to our wholly owned banking subsidiary.

The acronyms and abbreviations identified below are used throughout this report, including the Notes to the Consolidated Financial Statements. You may find it helpful to refer to this page as you read this report.

2019 Incentive Plan	The Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan
ACL	Allowance for credit losses on loans
ASU	Accounting Standards Update
BaaS	Banking-as-a-Service
Basel III Rule	Basel III regulatory capital reforms required by the Dodd-Frank Act
BHCA	Bank Holding Company Act of 1956, as amended
CBLR	Community Bank Leverage Ratio
CFPB	Consumer Financial Protection Bureau
CISA	Cybersecurity and Infrastructure Security Agency
COVID	Coronavirus Disease
CRA	Community Reinvestment Act
CRA Proposal	Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations
CRE	Commercial Real Estate
CRE Guidance	Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance
DFPR	Illinois Department of Financial and Professional Regulation
DIF	Deposit Insurance Fund
EAD	Exposure at default
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FinTech	Financial Technology
FRB	Federal Reserve Bank
GAAP	U.S. generally accepted accounting principles
Greensky	GreenSky, LLC
Illinois CRA	Illinois Community Reinvestment Act
LendingPoint	LendingPoint, LLC
LGD	Loss given default
LIBOR	London Inter-Bank Offered Rate
Midland Trust	Midland States Preferred Securities Trust
Nasdaq	Nasdaq Global Select Market
NII at Risk	Net Interest Income at Risk
OREO	Other real estate owned
PCAOB	Public Company Accounting Oversight Board
PCD	Purchased credit deteriorated
PD	Probability of default
Q-Factor	Qualitative factor
Regulatory Relief Act	Economic Growth, Regulatory Relief and Consumer Protection Act
SBA	Small Business Administration
SEC	U.S. Securities and Exchange Commission
SOFR	Secured Overnight Financing Rate
Treasury	U.S. Department of the Treasury
TDR	Troubled debt restructuring

PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

MIDLAND STATES BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

	March 31, 2024	December 31, 2023
	(unaudited)	
Assets		
Cash and due from banks	$ 166,471	$ 134,212
Federal funds sold	845	849
Cash and cash equivalents	167,316	135,061
Investment securities available for sale, at fair value	1,040,406	915,895
Equity securities, at fair value	4,494	4,501
Loans	5,958,462	6,131,079
Allowance for credit losses on loans	(78,057)	(68,502)
Total loans, net	5,880,405	6,062,577
Loans held for sale	5,043	3,811
Premises and equipment, net	81,831	82,814
Other real estate owned	8,920	9,112
Nonmarketable equity securities	33,476	43,421
Accrued interest receivable	25,931	24,934
Loan servicing rights, at lower of cost or fair value	19,577	20,253
Goodwill	161,904	161,904
Other intangible assets, net	15,019	16,108
Company-owned life insurance	205,286	203,485
Other assets	182,201	182,992
Total assets	$ 7,831,809	$ 7,866,868
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand deposits	$ 1,212,382	$ 1,145,395
Interest-bearing deposits	5,111,602	5,164,134
Total deposits	6,323,984	6,309,529
Short-term borrowings	214,446	34,865
Federal Home Loan Bank advances and other borrowings	255,000	476,000
Subordinated debt	93,617	93,546
Trust preferred debentures	50,790	50,616
Accrued interest payable and other liabilities	102,966	110,459
Total liabilities	7,040,803	7,075,015
Shareholders' Equity:		
Preferred stock, $2.00 par value; 4,000,000 shares authorized; 115,000 Series A shares, $1,000 per share liquidation preference, issued and outstanding at March 31, 2024 and December 31, 2023, respectively	110,548	110,548
Common stock, $0.01 par value; 40,000,000 shares authorized; 21,485,231 and 21,551,402 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	215	216
Capital surplus	434,398	435,463
Retained earnings	327,264	322,379
Accumulated other comprehensive loss, net of tax	(81,419)	(76,753)
Total shareholders' equity	791,006	791,853
Total liabilities and shareholders' equity	$ 7,831,809	$ 7,866,868

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,	
	2024	**2023**
Interest income:		
Loans including fees:		
Taxable	$ 88,995	$ 87,459
Tax exempt	390	425
Loans held for sale	55	16
Investment securities:		
Taxable	10,179	5,370
Tax exempt	418	494
Nonmarketable equity securities	687	795
Federal funds sold and cash investments	951	980
Total interest income	101,675	95,539
Interest expense:		
Deposits	39,214	26,405
Short-term borrowings	836	25
Federal Home Loan Bank advances and other borrowings	3,036	6,006
Subordinated debt	1,280	1,370
Trust preferred debentures	1,389	1,229
Total interest expense	45,755	35,035
Net interest income	55,920	60,504
Provision for credit losses on loans	14,000	3,135
Net interest income after provision for credit losses	41,920	57,369
Noninterest income:		
Wealth management revenue	7,132	6,411
Service charges on deposit accounts	3,116	2,745
Interchange revenue	3,358	3,412
Residential mortgage banking revenue	527	405
Income on company-owned life insurance	1,801	876
Loss on sales of investment securities, net	—	(648)
Other income	5,253	2,578
Total noninterest income	21,187	15,779
Noninterest expense:		
Salaries and employee benefits	24,102	24,243
Occupancy and equipment	4,142	4,443
Data processing	6,722	6,311
FDIC insurance	1,274	1,329
Professional services	2,255	1,760
Marketing	737	703
Communications	342	511
Loan expense	1,231	818
Amortization of intangible assets	1,089	1,291
Other expense	2,973	3,073
Total noninterest expense	44,867	44,482
Income before income taxes	18,240	28,666
Income taxes	4,355	6,894
Net income	13,885	21,772
Preferred dividends	2,228	2,228
Net income available to common shareholders	$ 11,657	$ 19,544
Per common share data:		
Basic earnings per common share	$ 0.53	$ 0.86
Diluted earnings per common share	$ 0.53	$ 0.86
Weighted average common shares outstanding	21,774,647	22,478,808
Weighted average diluted common shares outstanding	21,787,691	22,501,970

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

MIDLAND STATES BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME — (UNAUDITED)
(dollars in thousands)

	Three Months Ended March 31,	
	2024	**2023**
Net income	$ 13,885	$ 21,772
Other comprehensive income (loss):		
Investment securities available for sale:		
Unrealized (losses) gains that occurred during the period	(7,037)	5,364
Reclassification adjustment for realized net losses on sales of investment securities included in net income	—	648
Income tax effect	1,900	(1,622)
Change in investment securities available for sale, net of tax	(5,137)	4,390
Cash flow hedges:		
Net unrealized derivative gains on cash flow hedges	644	2,206
Income tax effect	(173)	(596)
Change in cash flow hedges, net of tax	471	1,610
Other comprehensive (loss) income, net of tax	(4,666)	6,000
Total comprehensive income	$ 9,219	$ 27,772

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

MIDLAND STATES BANCORP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY — (UNAUDITED)
(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, 2023	$ 110,548	$ 216	$ 435,463	$ 322,379	$ (76,753)	$ 791,853
Net income	—	—	—	13,885	—	13,885
Other comprehensive loss	—	—	—	—	(4,666)	(4,666)
Common dividends declared ($0.31 per share)	—	—	—	(6,772)	—	(6,772)
Preferred dividends declared ($19.375 per share)	—	—	—	(2,228)	—	(2,228)
Common stock repurchased	—	(1)	(1,943)	—	—	(1,944)
Share-based compensation expense	—	—	701	—	—	701
Issuance of common stock under employee benefit plans	—	—	177	—	—	177
Balances, March 31, 2024	$ 110,548	$ 215	$ 434,398	$ 327,264	$ (81,419)	$ 791,006
Balances, December 31, 2022	$ 110,548	$ 222	$ 449,196	$ 282,405	$ (83,797)	$ 758,574
Net income	—	—	—	21,772	—	21,772
Other comprehensive income	—	—	—	—	6,000	6,000
Common dividends declared ($0.30 per share)	—	—	—	(6,749)	—	(6,749)
Preferred dividends declared ($19.375 per share)	—	—	—	(2,228)	—	(2,228)
Common stock repurchased	—	(1)	(2,800)	—	—	(2,801)
Share-based compensation expense	—	—	625	—	—	625
Issuance of common stock under employee benefit plans	—	—	450	—	—	450
Balances, March 31, 2023	$ 110,548	$ 221	$ 447,471	$ 295,200	$ (77,797)	$ 775,643

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,	
	2024	2023
Cash flows from operating activities:		
Net income	$ 13,885	$ 21,772
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on loans	14,000	3,135
Depreciation on premises and equipment	1,231	1,208
Amortization of intangible assets	1,089	1,291
Amortization of operating lease right-of-use asset	402	421
Amortization of loan servicing rights	676	88
Share-based compensation expense	701	625
Increase in cash surrender value of life insurance	(1,801)	(876)
Investment securities accretion, net	(1,296)	(47)
Loss on sales of investment securities, net	—	648
Gain on sales of other real estate owned	(22)	—
Origination of loans held for sale	(14,070)	(7,507)
Proceeds from sales of loans held for sale	17,627	6,261
Gain on sale of loans held for sale	(442)	(264)
Net change in operating assets and liabilities:		
Accrued interest receivable	(997)	(221)
Other assets	1,034	4,423
Accrued expenses and other liabilities	(5,100)	(14,949)
Net cash provided by operating activities	26,917	16,008
Cash flows from investing activities:		
Purchases of investment securities available for sale	(172,715)	(136,881)
Proceeds from sales of investment securities available for sale	—	84,493
Maturities and payments on investment securities available for sale	42,464	13,748
Purchases of equity securities	(93)	(139)
Net decrease (increase) in loans	163,694	(49,923)
Purchases of premises and equipment	(527)	(2,788)
Proceeds from sale of premises and equipment	—	8
Purchases of nonmarketable equity securities	(58,162)	(11,315)
Proceeds from redemptions of nonmarketable equity securities	68,107	4,385
Proceeds from sales of other real estate owned	301	—
Net cash provided by (used in) investing activities	43,069	(98,412)
Cash flows from financing activities:		
Net increase in deposits	14,455	60,549
Net increase (decrease) in short-term borrowings	179,581	(11,138)
Net (decrease) increase in short-term FHLB borrowings	(166,000)	92,000
Proceeds from long-term FHLB borrowings	35,000	235,000
Payments made on long-term FHLB borrowings	(90,000)	(305,000)
Cash dividends paid on preferred stock	(2,228)	(2,228)
Cash dividends paid on common stock	(6,772)	(6,749)
Common stock repurchased	(1,944)	(2,801)
Proceeds from issuance of common stock under employee benefit plans	177	450
Net cash (used in) provided by financing activities	(37,731)	60,083
Net increase (decrease) in cash and cash equivalents	32,255	(22,321)
Cash and cash equivalents:		
Beginning of period	135,061	160,631
End of period	$ 167,316	$ 138,310
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest paid on deposits and borrowed funds	$ 46,187	$ 34,888
Income tax paid (net of refunds)	985	1,409
Supplemental disclosures of noncash investing and financing activities:		
Transfer of loans to other real estate owned	51	—
Right of use assets obtained in exchange for lease obligations	222	1,130

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

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (UNAUDITED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Midland States Bancorp, Inc. is a diversified financial holding company headquartered in Effingham, Illinois. Our 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 services, and insurance and financial planning services.

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; 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 credit losses and income tax expense.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with GAAP and guidance provided by the SEC for interim financial information. Accordingly, the condensed financial statements do not include all of the information and footnotes required by GAAP for completed financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

The consolidated financial statements of the Company 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, 2023, filed with the SEC on February 23, 2024. Certain reclassifications of 2023 amounts have been made to conform to the 2024 presentation. All significant transactions and accounts between subsidiaries have been eliminated. Assets held for customers in a fiduciary or agency capacity are not assets of the Company and, accordingly, other than trust cash on deposit with the Bank, are not included in the accompanying unaudited balance sheets. Management has evaluated subsequent events for potential recognition or disclosure. Operating results for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024 or any other period.

Accounting Guidance Adopted in 2024

FASB ASU No. 2023-02, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method – In March 2023, the FASB issued ASU No. 2023-02, which allows for reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the type of program the tax credits are related to. The ASU is effective for fiscal years beginning after December 15, 2023. The Company adopted this guidance on January 1, 2024 on a prospective basis. The adoption of this accounting pronouncement did not have a material impact on the consolidated financial statements.

Accounting Guidance Not Yet Adopted

FASB ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures - In December 2023, the FASB issued ASU No. 2023-07, which requires public entities to disclose significant segment expenses, an amount and description for other segment items, the title and position of the entity's chief operating decision maker and an explanation of how the chief operating decision maker uses the reported measures of profit or loss to assess segment performance, and, on an interim basis, certain segment related disclosures that previously were required only on an annual basis.The ASU is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The Company will update the related disclosures upon adoption.

FASB ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures - In December 2023, the FASB issued ASU No. 2023-09, which requires public entities to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. The pronouncement also requires entities to disclose income taxes paid, net of refunds, disaggregated by federal, state and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative threshold, among other things. The ASU is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company will update the related disclosures upon adoption.

NOTE 2 – INVESTMENT SECURITIES

Investment Securities Available for Sale

Investment securities available for sale at March 31, 2024 and December 31, 2023 were as follows:

	March 31, 2024			
(dollars in thousands)	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Investment securities available for sale				
U.S. government sponsored entities and U.S. agency securities	$ 69,487	$ 126	$ 1,890	$ 67,723
Mortgage-backed securities - agency	763,902	1,517	83,899	681,520
Mortgage-backed securities - non-agency	93,146	456	4,074	89,528
State and municipal securities	66,902	233	6,505	60,630
Collateralized loan obligations	33,558	102	46	33,614
Corporate securities	117,145	142	9,896	107,391
Total available for sale securities	$ 1,144,140	$ 2,576	$ 106,310	$ 1,040,406

(dollars in thousands)	December 31, 2023 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury securities	$ 1,097	$ —	$ —	$ 1,097
U.S. government sponsored entities and U.S. agency securities	74,161	176	1,765	72,572
Mortgage-backed securities - agency	650,119	2,325	77,944	574,500
Mortgage-backed securities - non-agency	87,019	414	3,904	83,529
State and municipal securities	62,952	258	5,750	57,460
Collateralized loan obligations	27,646	3	84	27,565
Corporate securities	109,598	41	10,467	99,172
Total available for sale securities	$ 1,012,592	$ 3,217	$ 99,914	$ 915,895

The following is a summary of the amortized cost and fair value of the investment securities available for sale, by maturity, at March 31, 2024. 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 investment securities available for sale are based on final contractual maturity.

(dollars in thousands)	Amortized cost	Fair value
Investment securities available for sale		
Within one year	$ 12,571	$ 12,566
After one year through five years	101,298	98,686
After five years through ten years	136,040	122,565
After ten years	37,183	35,541
Mortgage-backed securities	857,048	771,048
Total available for sale securities	$ 1,144,140	$ 1,040,406

Proceeds and gross realized gains and losses on sales of investment securities available for sale for the three months ended March 31, 2024 and 2023 are summarized as follows:

(dollars in thousands)	Three Months Ended March 31, 2024	2023
Investment securities available for sale		
Proceeds from sales	$ —	$ 84,493
Gross realized gains on sales	—	338
Gross realized losses on sales	—	(986)

Unrealized losses and fair values for investment securities available for sale as of March 31, 2024 and December 31, 2023, 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, 2024					
	Less than 12 Months		12 Months or more		Total	
(dollars in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Investment securities available for sale						
U.S. government sponsored entities and U.S. agency securities	$ 28,789	$ 50	$ 21,364	$ 1,840	$ 50,153	$ 1,890
Mortgage-backed securities - agency	160,215	6,769	383,450	77,130	543,665	83,899
Mortgage-backed securities - non-agency	30,644	453	18,920	3,621	49,564	4,074
State and municipal securities	51,422	6,505	—	—	51,422	6,505
Collateralized loan obligations	14,712	46	—	—	14,712	46
Corporate securities	3,671	62	88,991	9,834	92,662	9,896
Total available for sale securities	$ 289,453	$ 13,885	$ 512,725	$ 92,425	$ 802,178	$ 106,310

	December 31, 2023					
	Less than 12 Months		12 Months or more		Total	
(dollars in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Investment securities available for sale						
U.S. Treasury securities	$ —	$ —	$ —	$ —	$ —	$ —
U.S. government sponsored entities and U.S. agency securities	42,826	87	8,323	1,678	51,149	1,765
Mortgage-backed securities - agency	130,106	7,386	348,476	70,558	478,582	77,944
Mortgage-backed securities - non-agency	8,852	353	19,418	3,551	28,270	3,904
State and municipal securities	51,497	5,750	—	—	51,497	5,750
Collateralized loan obligations	14,763	84	—	—	14,763	84
Corporate securities	4,688	53	84,662	10,414	89,350	10,467
Total available for sale securities	$ 252,732	$ 13,713	$ 460,879	$ 86,201	$ 713,611	$ 99,914

At March 31, 2024, 285 investment securities available for sale had unrealized losses with aggregate depreciation of 11.70% from their amortized cost basis. For all of the above investment securities, the unrealized losses were generally due to changes in interest rates and other market conditions, and unrealized losses were considered to be temporary as the fair value is expected to recover as the securities approach their respective maturity dates. The issuers are of high credit quality and all principal amounts are expected to be paid when securities mature. The Company does not intend to sell and it is likely that the Company will not be required to sell the securities prior to their anticipated recovery.

NOTE 3 – LOANS

The following table presents total loans outstanding by portfolio class, as of March 31, 2024 and December 31, 2023:

(dollars in thousands)	March 31, 2024	December 31, 2023
Commercial:		
Commercial	$ 813,963	$ 825,938
Commercial other	601,704	656,592
Commercial real estate:		
Commercial real estate non-owner occupied	1,591,455	1,622,668
Commercial real estate owner occupied	450,149	436,857
Multi-family	287,586	279,904
Farmland	67,923	67,416
Construction and land development	474,128	452,593
Total commercial loans	4,286,908	4,341,968
Residential real estate:		
Residential first lien	316,310	317,388
Other residential	62,273	63,195
Consumer:		
Consumer	99,157	107,743
Consumer other	737,935	827,435
Lease financing	455,879	473,350
Total loans	$ 5,958,462	$ 6,131,079

Total loans include net deferred loan costs of $3.5 million and $3.8 million at March 31, 2024 and December 31, 2023, respectively, and unearned discounts of $64.4 million and $66.4 million within the lease financing portfolio at March 31, 2024 and December 31, 2023, respectively.

At March 31, 2024, the Company had residential real estate loans held for sale totaling $5.0 million, compared to $3.8 million at December 31, 2023. The Company sold loans and leases with proceeds totaling $17.6 million and $6.3 million during the three months ended March 31, 2024 and 2023, respectively.

Classifications of Loan Portfolio

The Company monitors and assesses the credit risk of its loan portfolio using the classes set forth below. These classes also represent the segments by which the Company monitors the performance of its loan portfolio and estimates its allowance for credit losses on loans.

Commercial—Loans to varying types of businesses, including municipalities, school districts and nonprofit organizations, for the purpose of supporting working capital, operational needs and term financing of equipment. Repayment of such loans is generally provided through operating cash flows of the business. Commercial loans are predominately secured by equipment, inventory, accounts receivable, and other sources of repayment. Commercial FHA warehouse lines of $8.0 million as of March 31, 2024 were included in this classification.

Commercial real estate—Loans secured by real estate occupied by the borrower for ongoing operations, including loans to borrowers engaged in agricultural production, and non-owner occupied real estate leased to one or more tenants, including commercial office, industrial, special purpose, retail and multi-family residential real estate loans.

Construction and land development—Secured loans for the construction of business and residential properties. Real estate construction loans often convert to a real estate commercial loan at the completion of the construction period. Secured development loans are made to borrowers for the purpose of infrastructure improvements to vacant land to create finished marketable residential and commercial lots/land. Most land development loans are originated with the intention that the loans will be paid through the sale of developed lots/land by the developers within twelve months of the completion date. Interest reserves may be established on real estate construction loans.

Residential real estate—Loans, secured by residential properties, that generally do not qualify for secondary market sale; however, the risk to return and/or overall relationship are considered acceptable to the Company. This category also includes loans whereby consumers utilize equity in their personal residence, generally through a second mortgage, as collateral to secure the loan.

Consumer—Loans to consumers primarily for the purpose of home improvements or acquiring automobiles, recreational vehicles and boats. Consumer loans consist of relatively small amounts that are spread across many individual borrowers.

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 a first priority interest in the financed assets and generally requires monthly payments.

Commercial, commercial real estate, and construction and land development loans are collectively referred to as the Company's commercial loan portfolio, while residential real estate, consumer loans and lease financing receivables are collectively referred to as the Company's other loan portfolio.

We have extended loans to certain of our directors, executive officers, principal shareholders and their affiliates. These loans were made in the ordinary course of business upon substantially the same terms, including collateralization and interest rates prevailing at the time. The new loans, other additions, repayments and other reductions for the three months ended March 31, 2024 and 2023, are summarized as follows:

	Three Months Ended March 31,	
(dollars in thousands)	**2024**	**2023**
Beginning balance	$ 20,990	$ 19,776
Repayments and other reductions	(264)	(257)
Ending balance	$ 20,726	$ 19,519

The following table represents, by loan portfolio segment, a summary of changes in the allowance for credit losses on loans for the three months ended March 31, 2024 and 2023:

	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 credit losses on loans for the three months ended March 31, 2024:							
Balance, beginning of period	$ 21,847	$ 20,229	$ 4,163	$ 5,553	$ 3,770	$ 12,940	$ 68,502
Provision for credit losses on loans	1,776	1,677	8,466	82	(11)	2,010	14,000
Charge-offs	(2,410)	(691)	—	(35)	(235)	(1,665)	(5,036)
Recoveries	116	152	—	55	87	181	591
Balance, end of period	$ 21,329	$ 21,367	$ 12,629	$ 5,655	$ 3,611	$ 13,466	$ 78,057
Changes in allowance for credit losses on loans for the three months ended March 31, 2023:							
Balance, beginning of period	$ 14,639	$ 29,290	$ 2,435	$ 4,301	$ 3,599	$ 6,787	$ 61,051
Provision for credit losses on loans	1,998	(330)	7	63	700	697	3,135
Charge-offs	(969)	(746)	—	(31)	(263)	(390)	(2,399)
Recoveries	94	2	—	17	93	74	280
Balance, end of period	$ 15,762	$ 28,216	$ 2,442	$ 4,350	$ 4,129	$ 7,168	$ 62,067

The Company utilizes a combination of models which measure probability of default and loss given default in determining expected future credit losses.

The probability of default is the risk that the borrower will be unable or unwilling to repay its debt in full or on time. The risk of default is derived by analyzing the obligor's capacity to repay the debt in accordance with contractual terms. Probability of default is generally associated with financial characteristics such as inadequate cash flow to service debt, declining revenues or operating margins, high leverage, declining or marginal liquidity, and the inability to successfully implement a business plan. In addition to these quantifiable factors, the borrower's willingness to repay also must be evaluated.

The probability of default is forecasted, for most commercial and retail loans, using a regression model that determines the likelihood of default within the twelve month time horizon. The regression model uses forward-looking economic forecasts including variables such as gross domestic product, housing price index, and real disposable income to predict default rates. The forecasting method for the equipment financing portfolio assumes a rolling twelve-month average of the through-the-cycle default rate, to predict default rates for the twelve month time horizon.

The loss given default component is the percentage of defaulted loan balance that is ultimately charged off. As a method for estimating the allowance, a form of migration analysis is used that combines the estimated probability of loans experiencing default events and the losses ultimately associated with the loans experiencing those defaults. Multiplying one by the other gives the Company its loss rate, which is then applied to the loan portfolio balance to determine expected future losses.

Within the model, the loss given default approach produces segmented loss given default estimates using a loss curve methodology, which is based on historical net losses from charge-off and recovery information. The main principle of a loss curve model is that the loss follows a steady timing schedule based on how long the defaulted loan has been on the books.

The Company's expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Company's historical look-back period includes January 2012 through the current period on a monthly basis. When historical credit loss experience is not sufficient for a specific portfolio, the Company may supplement its own portfolio data with external models or data.

Historical data is evaluated in multiple components of the expected credit loss, including the reasonable and supportable forecast and the post-reversion period of each loan segment. The historical experience is used to infer probability of default and loss given default in the reasonable and supportable forecast period. In the post-reversion period, long-term average loss rates are segmented by loan pool.

Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit-related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible.

The Company segments the loan portfolio into pools based on the following risk characteristics: financial asset type, collateral type, loan characteristics, credit characteristics, outstanding loan balances, contractual terms and prepayment assumptions, industry of borrower and concentrations, historical or expected credit loss patterns, and reasonable and supportable forecast periods. Within the probability of default segmentation, credit metrics are identified to further segment the financial assets. The Company utilizes risk ratings for the commercial portfolios and days past due for the consumer and the lease financing portfolios.

Within the probability of default segmentation, credit metrics are identified to further segment the financial assets. The Company utilizes risk ratings for the commercial portfolios and days past due for the consumer and the lease financing portfolios.

The Company has defined five transitioning risk states for each asset pool within the expected credit loss model. The below table illustrates the transition matrix:

Risk state	Commercial loans risk rating	Consumer loans and equipment finance loans and leases days past due
1	0-5	0-14
2	6	15-29
3	7	30-59
4	8	60-89
Default	9+ and nonaccrual	90+ and nonaccrual

Expected Credit Losses

In calculating expected credit losses, the Company individually evaluates loans on nonaccrual status with a balance greater than $500,000, loans past due 90 days or more and still accruing interest, and loans that do not share risk characteristics with other loans in the pool. The following table presents the amortized cost basis of individually evaluated loans on nonaccrual status as of March 31, 2024 and December 31, 2023:

	March 31, 2024			December 31, 2023		
(dollars in thousands)	Nonaccrual with allowance	Nonaccrual with no allowance	Total nonaccrual	Nonaccrual with allowance	Nonaccrual with no allowance	Total nonaccrual
Commercial:						
Commercial	$ 3,572	$ —	$ 3,572	$ 3,560	$ —	$ 3,560
Commercial other	6,251	—	6,251	4,941	—	4,941
Commercial real estate:						
Commercial real estate non-owner occupied	6,544	14,902	21,446	1,614	14,098	15,712
Commercial real estate owner occupied	4,198	6,500	10,698	4,276	6,500	10,776
Multi-family	3,413	2,652	6,065	240	6,015	6,255
Farmland	1,265	—	1,265	1,148	—	1,148
Construction and land development	15,724	10,594	26,318	39	—	39
Total commercial loans	40,967	34,648	75,615	15,818	26,613	42,431
Residential real estate:						
Residential first lien	2,658	590	3,248	2,583	490	3,073
Other residential	670	—	670	635	—	635
Consumer:						
Consumer	91	—	91	134	—	134
Lease financing	10,185	15	10,200	9,097	36	9,133
Total loans	$ 54,571	$ 35,253	$ 89,824	$ 28,267	$ 27,139	$ 55,406

There was no interest income recognized on nonaccrual loans during the three months ended March 31, 2024 and 2023 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 $1.3 million and $0.8 million for the three months ended March 31, 2024 and 2023, respectively.

Collateral Dependent Financial Assets

A collateral dependent financial loan relies solely on the operation or sale of the collateral for repayment. In evaluating the overall risk associated with a loan, the Company considers character, overall financial condition and resources, and payment record of the borrower; the prospects for support from any financially responsible guarantors; and the nature and degree of protection provided by the cash flow and value of any underlying collateral. However, as other sources of repayment become inadequate over time, the significance of the collateral's value increases and the loan may become collateral dependent.

The table below presents the value of individually evaluated, collateral dependent loans by loan class, for borrowers experiencing financial difficulty, as of March 31, 2024 and December 31, 2023:

	Type of Collateral		
(dollars in thousands)	**Real Estate**	**Equipment**	**Total**
March 31, 2024			
Commercial:			
Commercial	$ —	$ 1,972	$ 1,972
Commercial other	—	1,399	1,399
Commercial real estate:			
Non-owner occupied	20,293	—	20,293
Owner occupied	9,275	—	9,275
Multi-family	20,461	—	20,461
Construction and land development	26,204	—	26,204
Total collateral dependent loans	$ 76,233	$ 3,371	$ 79,604
December 31, 2023			
Commercial:			
Commercial	$ —	$ 1,972	$ 1,972
Commercial other	—	1,232	1,232
Commercial real estate:			
Non-owner occupied	14,147	—	14,147
Owner occupied	9,275	—	9,275
Multi-family	5,143	—	5,143
Total collateral dependent loans	$ 28,565	$ 3,204	$ 31,769

The aging status of the recorded investment in loans by portfolio as of March 31, 2024 was as follows:

	Accruing loans						
(dollars in thousands)	**30-59 days past due**	**60-89 days past due**	**Past due 90 days or more**	**Total past due**	**Nonaccrual**	**Current**	**Total**
Commercial:							
Commercial	$ 4,164	$ 640	$ 450	$ 5,254	$ 3,572	$ 805,137	$ 813,963
Commercial other	12,247	4,474	3	16,724	6,251	578,729	601,704
Commercial real estate:							
Commercial real estate non-owner occupied	7,072	4,339	—	11,411	21,446	1,558,598	1,591,455
Commercial real estate owner occupied	284	265	—	549	10,698	438,902	450,149
Multi-family	—	—	14,483	14,483	6,065	267,038	287,586
Farmland	3	—	—	3	1,265	66,655	67,923
Construction and land development	—	—	—	—	26,318	447,810	474,128
Total commercial loans	23,770	9,718	14,936	48,424	75,615	4,162,869	4,286,908
Residential real estate:							
Residential first lien	429	—	212	641	3,248	312,421	316,310
Other residential	142	52	—	194	670	61,409	62,273
Consumer:							
Consumer	39	22	—	61	91	99,005	99,157
Consumer other	6,735	4,126	2	10,863	—	727,072	737,935
Lease financing	8,646	5,174	5	13,825	10,200	431,854	455,879
Total loans	$ 39,761	$ 19,092	$ 15,155	$ 74,008	$ 89,824	$ 5,794,630	$ 5,958,462

The aging status of the recorded investment in loans by portfolio as of December 31, 2023 was as follows:

	Accruing loans						
(dollars in thousands)	**30-59 days past due**	**60-89 days past due**	**Past due 90 days or more**	**Total past due**	**Nonaccrual**	**Current**	**Total**
Commercial:							
Commercial	$ 9,340	$ 504	$ —	$ 9,844	$ 3,560	$ 812,534	$ 825,938
Commercial other	11,156	5,990	781	17,927	4,941	633,724	656,592
Commercial real estate:							
Commercial real estate non-owner occupied	384	—	—	384	15,712	1,606,572	1,622,668
Commercial real estate owner occupied	—	—	—	—	10,776	426,081	436,857
Multi-family	14,506	8,140	—	22,646	6,255	251,003	279,904
Farmland	—	120	—	120	1,148	66,148	67,416
Construction and land development	211	10,593	—	10,804	39	441,750	452,593
Total commercial loans	35,597	25,347	781	61,725	42,431	4,237,812	4,341,968
Residential real estate:							
Residential first lien	69	299	161	529	3,073	313,786	317,388
Other residential	100	50	—	150	635	62,410	63,195
Consumer:							
Consumer	62	20	—	82	134	107,527	107,743
Consumer other	7,225	4,561	3	11,789	—	815,646	827,435
Lease financing	7,622	1,826	—	9,448	9,133	454,769	473,350
Total loans	$ 50,675	$ 32,103	$ 945	$ 83,723	$ 55,406	$ 5,991,950	$ 6,131,079

Loan Restructurings

The Company adopted the accounting guidance in ASU No. 2022-02, effective as of January 1, 2023, which eliminated the recognition and measurement of a TDR. Due to the removal of the TDR designation, the Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulties that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are for modifications which have a direct impact on cash flows.

The Company may offer various types of concessions when modifying a loan. Commercial and industrial loans modified in a loan restructuring often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested.

Loans modified in a loan restructuring for the Company may have the financial effect of increasing the specific allowance associated with the loan. An allowance for loans that have been modified in a loan restructuring is measured based on the probability of default and loss given default model, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

Commercial and consumer loans modified in a loan restructuring are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a loan restructuring subsequently default, the Company evaluates the loan for possible further loss. The allowance may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan.

In some cases, the Company will modify a loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession such as an interest rate reduction or principal forgiveness, may be granted. During the three months ended March 31, 2024 the Company restructured four loans and three leases for borrowers experiencing financial difficulties with principal balances totaling $1.5 million. Each of the restructured loans and leases were provided a term extension. The Company has not committed to lend any additional amounts to the borrowers that have been granted a loan modification.

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 geographic regions. In addition, our specialty finance division does nationwide bridge lending for FHA and HUD developments and originates loans for multifamily, assisted and senior living and multi-use properties. 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 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" categorized as special mention 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. Risk Grade 8 is categorized as substandard, 9 as substandard - nonaccrual and 10 as doubtful. Further, loans with Risk Grades of 7 - 10 are managed 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 tables present the recorded investment of the commercial loan portfolio by risk category as of March 31, 2024 and December 31, 2023:

(dollars in thousands)			March 31, 2024 — Term Loans Amortized Cost Basis by Origination Year: 2024	2023	2022	2021	2020	Prior	Revolving loans	Total
Commercial	Commercial	Acceptable credit quality	$ 34,179	$ 161,363	$ 94,071	$ 63,411	$ 32,308	$ 51,224	$ 343,792	$ 780,348
		Special mention	—	—	450	—	—	169	1,103	1,722
		Substandard	970	3,321	13,192	420	322	5,229	4,867	28,321
		Substandard – nonaccrual	—	1,308	—	1,321	—	273	670	3,572
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	35,149	165,992	107,713	65,152	32,630	56,895	350,432	813,963
	Commercial other	Acceptable credit quality	31,164	117,553	177,957	89,308	49,811	49,197	77,454	592,444
		Special mention	2	—	400	368	109	94	1,071	2,044
		Substandard	—	36	220	—	—	—	709	965
		Substandard – nonaccrual	—	2,301	2,437	654	148	595	116	6,251
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	31,166	119,890	181,014	90,330	50,068	49,886	79,350	601,704
Commercial real estate	Non-owner occupied	Acceptable credit quality	183,143	181,438	540,756	294,180	102,842	185,288	6,923	1,494,570
		Special mention	—	4,423	—	181	452	277	—	5,333
		Substandard	17,978	19,027	11,474	—	—	21,627	—	70,106
		Substandard – nonaccrual	—	5,256	—	96	860	15,234	—	21,446
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	201,121	210,144	552,230	294,457	104,154	222,426	6,923	1,591,455
	Owner occupied	Acceptable credit quality	11,641	37,180	108,068	111,372	47,480	95,805	793	412,339
		Special mention	—	5,750	—	127	—	546	5	6,428
		Substandard	—	—	7,644	265	—	12,775	—	20,684
		Substandard – nonaccrual	—	109	9,419	5	159	702	304	10,698
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	11,641	43,039	125,131	111,769	47,639	109,828	1,102	450,149
	Multi-family	Acceptable credit quality	59,782	12,834	111,585	25,660	27,987	20,888	112	258,848
		Special mention	—	—	—	—	—	—	—	—
		Substandard	8,140	—	—	—	—	14,533	—	22,673
		Substandard – nonaccrual	—	1,658	—	899	—	3,508	—	6,065
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	67,922	14,492	111,585	26,559	27,987	38,929	112	287,586
	Farmland	Acceptable credit quality	1,017	9,720	4,654	15,117	12,037	21,322	1,040	64,907
		Special mention	—	—	—	1,451	—	—	—	1,451
		Substandard	—	—	—	14	—	286	—	300
		Substandard – nonaccrual	—	—	—	117	—	1,100	48	1,265
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	1,017	9,720	4,654	16,699	12,037	22,708	1,088	67,923
Construction and land development		Acceptable credit quality	9,176	69,390	229,815	88,372	—	1,566	27,125	425,444
		Special mention	—	—	9,851	3,810	—	40	—	13,701
		Substandard	—	—	—	6,000	—	—	—	6,000
		Substandard – nonaccrual	—	—	—	26,278	—	40	—	26,318
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	264	1,601	421	355	—	24	—	2,665
		Subtotal	9,440	70,991	240,087	124,815	—	1,670	27,125	474,128
Total		Acceptable credit quality	330,102	589,478	1,266,906	687,420	272,465	425,290	457,239	4,028,900
		Special mention	2	10,173	10,701	5,937	561	1,126	2,179	30,679
		Substandard	27,088	22,384	32,530	6,699	322	54,450	5,576	149,049
		Substandard – nonaccrual	—	10,632	11,856	29,370	1,167	21,452	1,138	75,615
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	264	1,601	421	355	—	24	—	2,665
Total commercial loans			$ 357,456	$ 634,268	$ 1,322,414	$ 729,781	$ 274,515	$ 502,342	$ 466,132	$ 4,286,908

(dollars in thousands)			December 31, 2023 Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving loans	Total
Commercial	Commercial	Acceptable credit quality	$ 157,498	$ 96,295	$ 71,366	$ 36,680	$ 14,688	$ 42,827	$ 369,297	$ 788,651
		Special mention	3,015	450	4	—	181	43	983	4,676
		Substandard	4,485	13,651	420	342	253	4,961	4,940	29,052
		Substandard – nonaccrual	1,238	—	1,321	25	79	360	536	3,559
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	166,236	110,396	73,111	37,047	15,201	48,191	375,756	825,938
	Commercial other	Acceptable credit quality	139,057	195,726	100,946	59,392	32,848	28,946	90,928	647,843
		Special mention	—	532	399	114	107	4	1,682	2,838
		Substandard	37	220	—	—	—	—	639	896
		Substandard – nonaccrual	1,819	1,918	449	184	361	94	116	4,941
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	74	—	—	—	—	—	—	74
		Subtotal	140,987	198,396	101,794	59,690	33,316	29,044	93,365	656,592
Commercial real estate	Non-owner occupied	Acceptable credit quality	237,215	653,057	309,013	110,743	82,563	124,430	6,328	1,523,349
		Special mention	4,480	—	181	457	—	274	—	5,392
		Substandard	35,811	1,658	—	—	17,835	22,911	—	78,215
		Substandard – nonaccrual	5,573	—	154	999	7,597	1,389	—	15,712
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	283,079	654,715	309,348	112,199	107,995	149,004	6,328	1,622,668
	Owner occupied	Acceptable credit quality	32,972	100,893	113,264	48,415	23,671	77,854	1,803	398,872
		Special mention	5,750	—	129	—	149	177	8	6,213
		Substandard	—	7,716	265	—	705	12,310	—	20,996
		Substandard – nonaccrual	126	9,431	28	171	27	689	304	10,776
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	38,848	118,040	113,686	48,586	24,552	91,030	2,115	436,857
	Multi-family	Acceptable credit quality	4,483	170,519	25,835	28,137	10,185	11,538	254	250,951
		Special mention	—	—	—	—	—	—	—	—
		Substandard	8,140	—	—	—	—	14,558	—	22,698
		Substandard – nonaccrual	1,700	—	899	—	104	3,552	—	6,255
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	14,323	170,519	26,734	28,137	10,289	29,648	254	279,904
	Farmland	Acceptable credit quality	10,104	4,735	13,405	12,255	3,723	18,636	1,439	64,297
		Special mention	—	—	1,451	—	—	96	—	1,547
		Substandard	—	—	133	—	22	269	—	424
		Substandard – nonaccrual	—	—	—	—	—	1,100	48	1,148
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	10,104	4,735	14,989	12,255	3,745	20,101	1,487	67,416
Construction and land development		Acceptable credit quality	65,538	233,660	88,047	—	677	916	29,385	418,223
		Special mention	—	—	—	—	—	40	—	40
		Substandard	—	—	16,594	—	—	—	15,349	31,943
		Substandard – nonaccrual	—	—	—	—	—	39	—	39
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	1,535	432	356	—	—	25	—	2,348
		Subtotal	67,073	234,092	104,997	—	677	1,020	44,734	452,593
Total		Acceptable credit quality	646,867	1,454,885	721,876	295,622	168,355	305,147	499,434	4,092,186
		Special mention	13,245	982	2,164	571	437	634	2,673	20,706
		Substandard	48,473	23,245	17,412	342	18,815	55,009	20,928	184,224
		Substandard – nonaccrual	10,456	11,349	2,851	1,379	8,168	7,223	1,004	42,430
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	1,609	432	356	—	—	25	—	2,422
Total commercial loans			$ 720,650	$ 1,490,893	$ 744,659	$ 297,914	$ 195,775	$ 368,038	$ 524,039	$ 4,341,968

The following table presents the gross charge-offs by class of loan and year of origination on the commercial loan portfolio for the three months ended March 31, 2024:

		Term Loans by Origination Year							
(dollars in thousands)		**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Revolving Loans**	**Total**
For the three months ended March 31, 2024									
Commercial	Commercial	$ —	$ —	$ —	$ —	$ 10	$ 1	$ 102	$ 113
	Commercial Other	—	866	1,074	294	20	43	—	2,297
Commercial Real Estate	Non-owner occupied	—	—	—	—	—	—	—	—
	Owner occupied	—	—	—	—	138	553	—	691
	Multi-family	—	—	—	—	—	—	—	—
Construction and land development		—	—	—	—	—	—	—	—
Total gross commercial charge-offs		$ —	$ 866	$ 1,074	$ 294	$ 168	$ 597	$ 102	$ 3,101

The Company evaluates the credit quality of its other loan portfolios, which includes residential real estate, consumer and lease financing loans, based primarily on the aging status of the loan and payment activity. Accordingly, loans on nonaccrual status and loans past due 90 days or more and still accruing interest are considered to be nonperforming for purposes of credit quality evaluation. The following tables present the recorded investment of our other loan portfolio based on the credit risk profile of loans that are performing and loans that are nonperforming as of March 31, 2024 and December 31, 2023:

			March 31, 2024							
			Term Loans Amortized Cost Basis by Origination Year							
(dollars in thousands)			**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Revolving Loans**	**Total**
Residential real estate	Residential first lien	Performing	$ 5,943	$ 43,221	$ 73,140	$ 36,738	$ 28,978	$ 124,818	$ 12	$ 312,850
		Nonperforming	—	176	—	331	—	2,953	—	3,460
		Subtotal	5,943	43,397	73,140	37,069	28,978	127,771	12	316,310
	Other residential	Performing	542	2,465	1,039	329	375	2,542	54,311	61,603
		Nonperforming	—	—	—	24	—	169	477	670
		Subtotal	542	2,465	1,039	353	375	2,711	54,788	62,273
Consumer	Consumer	Performing	2,856	27,585	21,508	29,044	5,203	11,971	900	99,067
		Nonperforming	—	15	42	9	—	23	1	90
		Subtotal	2,856	27,600	21,550	29,053	5,203	11,994	901	99,157
	Consumer other	Performing	20	183,855	350,647	128,536	50,076	24,798	—	737,932
		Nonperforming	—	—	—	—	—	3	—	3
		Subtotal	20	183,855	350,647	128,536	50,076	24,801	—	737,935
Leases financing		Performing	30,896	128,315	144,134	65,687	43,798	32,844	—	445,674
		Nonperforming	—	1,342	5,107	2,720	261	775	—	10,205
		Subtotal	30,896	129,657	149,241	68,407	44,059	33,619	—	455,879
Total		Performing	40,257	385,441	590,468	260,334	128,430	196,973	55,223	1,657,126
		Nonperforming	—	1,533	5,149	3,084	261	3,923	478	14,428
Total other loans			$ 40,257	$ 386,974	$ 595,617	$ 263,418	$ 128,691	$ 200,896	$ 55,701	$ 1,671,554

(dollars in thousands)			December 31, 2023 Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving loans	Total
Residential real estate	Residential first lien	Performing	$ 42,550	$ 74,613	$ 37,009	$ 29,628	$ 19,647	$ 110,703	$ 4	$ 314,154
		Nonperforming	179	50	335	—	139	2,531	—	3,234
		Subtotal	42,729	74,663	37,344	29,628	19,786	113,234	4	317,388
	Other residential	Performing	3,245	1,113	377	409	836	2,009	54,571	62,560
		Nonperforming	—	9	—	—	—	178	448	635
		Subtotal	3,245	1,122	377	409	836	2,187	55,019	63,195
Consumer	Consumer	Performing	30,748	24,190	31,946	6,116	2,313	10,794	1,502	107,609
		Nonperforming	11	55	6	6	—	56	—	134
		Subtotal	30,759	24,245	31,952	6,122	2,313	10,850	1,502	107,743
	Consumer other	Performing	190,018	392,184	149,791	63,461	23,991	7,987	—	827,432
		Nonperforming	—	—	—	—	—	3	—	3
		Subtotal	190,018	392,184	149,791	63,461	23,991	7,990	—	827,435
Leases financing		Performing	143,334	157,059	74,359	50,174	30,428	8,863	—	464,217
		Nonperforming	1,485	5,043	1,482	317	612	194	—	9,133
		Subtotal	144,819	162,102	75,841	50,491	31,040	9,057	—	473,350
Total										
		Performing	409,895	649,159	293,482	149,788	77,215	140,356	56,077	1,775,972
		Nonperforming	1,675	5,157	1,823	323	751	2,962	448	13,139
Total other loans			$ 411,570	$ 654,316	$ 295,305	$ 150,111	$ 77,966	$ 143,318	$ 56,525	$ 1,789,111

The following table presents the gross charge-offs by class of loan and year of origination on the other loan portfolio for the three months ended March 31, 2024:

(dollars in thousands)		Term Loans by Origination Year 2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
For the three months ended March 31, 2024									
Residential real estate	Residential first lien	$ —	$ —	$ 11	$ —	$ —	$ —	$ —	$ 11
	Other residential	—	—	16	—	—	—	8	24
Consumer	Consumer	—	—	—	—	6	27	—	33
	Consumer other	—	—	—	—	—	202	—	202
Lease financing		—	123	1,371	114	37	20	—	1,665
Total gross other charge-offs		$ —	$ 123	$ 1,398	$ 114	$ 43	$ 249	$ 8	$ 1,935

NOTE 4 – PREMISES, EQUIPMENT AND LEASES

A summary of premises, equipment and leases at March 31, 2024 and December 31, 2023 is as follows:

(dollars in thousands)	March 31, 2024	December 31, 2023
Land	$ 15,968	$ 15,968
Buildings and improvements	78,196	78,104
Furniture and equipment	35,461	35,797
Lease right-of-use assets	7,492	7,673
Total	137,117	137,542
Accumulated depreciation	(55,286)	(54,728)
Premises and equipment, net	$ 81,831	$ 82,814

Depreciation expense for the three months ended March 31, 2024 and 2023 was $1.2 million for each period.

The Company has entered into operating leases, primarily for banking offices and operating facilities, which have remaining lease terms of 7 months to 14 years, some of which may include options to extend the lease terms for up to an additional 10 years. The options to extend are included in the remaining lease term if they are reasonably certain to be exercised. The Company had operating lease right-of-use assets of $7.5 million and $7.7 million as of March 31, 2024 and December 31, 2023, respectively, included in premises and equipment on our consolidated balance sheets. The operating lease liabilities of the Company were $9.0 million and $9.3 million as of March 31, 2024 and December 31, 2023, respectively, and are included in accrued interest payable and other liabilities on our consolidated balance sheets.

Information related to operating leases for the three months ended March 31, 2024 and 2023 was as follows:

	Three Months Ended March 31,	
(dollars in thousands)	2024	2023
Operating lease cost	$ 476	$ 484
Operating cash flows from leases	572	590
Right-of-use assets obtained in exchange for lease obligations	222	1,130
Weighted average remaining lease term	7.61 years	8.10 years
Weighted average discount rate	3.44 %	3.26 %

The projected minimum rental payments under the terms of the leases as of March 31, 2024 were as follows:

(dollars in thousands)	Amount
Year ending December 31:	
2024 remaining	$ 1,475
2025	1,402
2026	1,277
2027	1,132
2028	1,074
Thereafter	3,976
Total future minimum lease payments	10,336
Less imputed interest	(1,305)
Total operating lease liabilities	$ 9,031

NOTE 5 – DERIVATIVE INSTRUMENTS

As part of the Company's overall interest rate risk management, 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, cash flow hedges and interest rate swap contracts. The notional amount does not represent amounts exchanged by the parties, rather the amount exchanged is determined by reference to the notional amount and the other terms of the individual agreements.

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

The Company issues interest rate lock commitments on originated fixed-rate 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 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, 2024 and December 31, 2023:

	Notional amount		Fair value gain	
(dollars in thousands)	**March 31, 2024**	**December 31, 2023**	**March 31, 2024**	**December 31, 2023**
Derivative instruments (included in other assets):				
Interest rate lock commitments	$ 5,564	$ 2,405	$ 116	$ 62

	Notional amount		Fair value loss	
(dollars in thousands)	**March 31, 2024**	**December 31, 2023**	**March 31, 2024**	**December 31, 2023**
Derivative instruments (included in other liabilities):				
Forward commitments to sell mortgage-backed securities	$ 8,500	$ 5,000	$ 19	$ 83

During both the three months ended March 31, 2024 and 2023, the Company recognized net gains of $0.1 million on derivative instruments in residential mortgage banking revenue in the consolidated statements of income.

Cash Flow Hedges

The Company periodically enters into interest rate swap agreements, which qualify as cash flow hedges, to manage the risk of changes in future cash flows due to interest rate fluctuations. The following table summarizes the Company's receive-fixed, pay-variable interest rate swaps on certain pools of loans indexed to prime at March 31, 2024 and December 31, 2023

(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
Notional Amount	$ 425,000	$ 400,000
Fair value loss included in other liabilities	(8,895)	(8,443)
Tax effected amount included in accumulated other comprehensive (loss) income	(5,693)	(6,164)
Average remaining life	2.56	2.67
Weighted average pay rate	6.37 %	6.55 %
Weighted average receive rate	5.40 %	5.41 %

Interest Rate Swap Contracts Not Designated as Hedges

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 the customer derivative instruments and the offsetting counterparty derivative instruments were $6.8 million and $6.9 million at March 31, 2024 and December 31, 2023, respectively. The fair value of the customer derivative instruments and the offsetting counterparty derivative instruments was $0.4 million and $0.3 million at March 31, 2024 and December 31, 2023, respectively, which are included in other assets and other liabilities, respectively, on the consolidated balance sheets.

NOTE 6 – DEPOSITS

The following table summarizes the classification of deposits as of March 31, 2024 and December 31, 2023:

(dollars in thousands)	March 31, 2024	December 31, 2023
Noninterest-bearing demand	$ 1,212,382	$ 1,145,395
Interest-bearing:		
Checking	2,394,163	2,511,840
Money market	1,128,463	1,135,629
Savings	555,552	559,267
Time	1,033,424	957,398
Total deposits	$ 6,323,984	$ 6,309,529

NOTE 7 – SHORT-TERM BORROWINGS

The following table presents the distribution of securities sold under agreements to repurchase and federal funds purchased and the related weighted average interest rates as of March 31, 2024:

	As of and for the quarter ended March 31, 2024	
(dollars in thousands)	Repurchase agreements	Federal funds purchased
Outstanding at period-end	$ 7,446	$ 207,000
Average amount outstanding	7,347	57,835
Maximum amount outstanding at any month end	7,446	207,000
Weighted average interest rate:		
During period	0.26 %	5.78 %
End of period	0.25 %	5.44 %

NOTE 8 – FHLB ADVANCES AND OTHER BORROWINGS

The following table summarizes our FHLB advances and other borrowings as of March 31, 2024 and December 31, 2023:

(dollars in thousands)	March 31, 2024	December 31, 2023
FHLB advances – fixed rate, fixed term at rates averaging 4.64% and 4.94% at March 31, 2024 and December 31, 2023 - maturing through February 2029	$ 100,000	$ 150,000
FHLB advances – putable fixed rate at rates averaging 3.11% and 3.07% at March 31, 2024 and December 31, 2023, respectively – maturing through February 2028 with call provisions through October 2024	155,000	160,000
FHLB advances – Short term fixed rate at rates averaging 5.45% at December 31, 2023 – matured January 2024	—	166,000
Total FHLB advances and other borrowings	$ 255,000	$ 476,000

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 $3.01 billion and $2.98 billion at March 31, 2024 and December 31, 2023, respectively.

NOTE 9 – SUBORDINATED DEBT

The following table summarizes the Company's subordinated debt at March 31, 2024 and December 31, 2023:

	Subordinated debt		
	Fixed to Float		
(dollars in thousands)	Issued September 2019	Issued September 2019	Total
At March 31, 2024			
Outstanding amount	$ 66,750	$ 27,250	$ 94,000
Carrying amount	66,632	26,985	93,617
Current rate	5.00 %	5.50 %	
At December 31, 2023			
Outstanding amount	$ 66,750	$ 27,250	$ 94,000
Carrying amount	66,573	26,973	93,546
Current rate	5.00 %	5.50 %	
Maturity date	9/30/2029	9/30/2034	
Optional redemption date	9/30/2024	9/30/2029	
Fixed to variable conversion date	9/30/2024	9/30/2029	
Variable rate	3-month SOFR plus 3.61%	3-month SOFR plus 4.05%	
Interest payment terms	Semiannually	Semiannually	

The value of subordinated debentures have been reduced by the debt issuance costs, which are being amortized on a straight line basis through the earlier of the redemption option or maturity date. All of the subordinated debentures above may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTE 10 – EARNINGS PER COMMON SHARE

Earnings per common share is calculated utilizing the two-class method. Basic earnings per common share is 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 common share is 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. Presented below are the calculations for basic and diluted earnings per common share for the three months ended March 31, 2024 and 2023:

(dollars in thousands, except per share data)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Net income	$ 13,885	$ 21,772
Preferred dividends declared	(2,228)	(2,228)
Net income available to common shareholders	11,657	19,544
Common shareholder dividends	(6,666)	(6,669)
Unvested restricted stock award dividends	(106)	(80)
Undistributed earnings to unvested restricted stock awards	(75)	(151)
Undistributed earnings to common shareholders	$ 4,810	$ 12,644
Basic		
Distributed earnings to common shareholders	$ 6,666	$ 6,669
Undistributed earnings to common shareholders	4,810	12,644
Total common shareholders earnings, basic	$ 11,476	$ 19,313
Diluted		
Distributed earnings to common shareholders	$ 6,666	$ 6,669
Undistributed earnings to common shareholders	4,810	12,644
Total common shareholders earnings	11,476	19,313
Add back:		
Undistributed earnings reallocated from unvested restricted stock awards	—	—
Total common shareholders earnings, diluted	$ 11,476	$ 19,313
Weighted average common shares outstanding, basic	21,774,647	22,478,808
Options	13,044	23,162
Weighted average common shares outstanding, diluted	21,787,691	22,501,970
Basic earnings per common share	$ 0.53	$ 0.86
Diluted earnings per common share	0.53	0.86
Antidilutive stock options[(1)]	235,652	265,831

(1) The diluted earnings per common share computation excludes antidilutive stock options because the exercise prices of these stock options exceeded the average market prices of the Company's common shares for those respective periods.

NOTE 11 – 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.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment securities. The fair value of investment securities available for sale are determined by quoted market prices, if available (Level 1). For investment securities available for sale where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For investment securities available for sale where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Securities classified as Level 3 are not actively traded, and as a result, fair value is determined utilizing third-party valuation services through consensus pricing. There were no transfers between Levels 1, 2 or 3 during the period presented for assets measured at fair value on a recurring basis. The fair value of equity securities is determined using quoted prices or market prices for similar securities (Level 2).

Loans held for sale. The fair value of loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Derivative instruments. The fair value of derivative instruments are determined based on derivative valuation models using observable market data as of the measurement date (Level 2).

Loan servicing rights. In accordance with GAAP*,* the Company records impairment charges on loan 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 (Level 3).

Nonperforming loans. All of our nonaccrual loans are considered nonperforming and are reviewed individually for the amount of impairment, if any. We measure collateral dependent nonperforming loans based on the estimated fair value of such collateral. In cases where the Company has an agreed upon selling price for the collateral, the fair value is set at the selling price (Level 1). 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 (Level 2). 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 (Level 3). The nonperforming 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.

Other Real Estate Owned. OREO is initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost basis. After foreclosure, OREO is held for sale and is carried at the lower of cost or fair value less estimated costs of disposal. Fair value for OREO is based on an appraisal performed upon foreclosure. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between comparable sales and income data available. Property is evaluated regularly to ensure the recorded amount is supported by its fair value less estimated costs to dispose. After the initial foreclosure appraisal, fair value is generally determined by an annual appraisal unless known events warrant adjustments to the recorded value (Level 2).

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 at March 31, 2024 and December 31, 2023, are summarized below:

	March 31, 2024			
(dollars in thousands)	**Carrying amount**	**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. government sponsored entities and U.S. agency securities	$ 67,723	$ —	$ 67,723	$ —
Mortgage-backed securities - agency	681,520	—	681,520	—
Mortgage-backed securities - non-agency	89,528	—	89,528	—
State and municipal securities	60,630	—	60,630	—
Collateralized loan obligations	33,614	—	33,614	—
Corporate securities	107,391	—	107,391	—
Equity securities	4,494	4,494	—	—
Loans held for sale	5,043	—	5,043	—
Derivative assets	1,585	—	1,585	—
Total	$ 1,051,528	$ 4,494	$ 1,047,034	$ —
Liabilities				
Derivative liabilities	$ 9,287	$ —	$ 9,287	$ —
Total	$ 9,287	$ —	$ 9,287	$ —
Assets measured at fair value on a non-recurring basis:				
Nonperforming loans	$ 20,740	$ —	$ 19,115	$ 1,625
Other real estate owned	8,920	—	8,920	—

(dollars in thousands)	December 31, 2023 Carrying amount	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	$ 1,097	$ 1,097	$ —	$ —
U.S. government sponsored entities and U.S. agency securities	72,572	—	72,572	—
Mortgage-backed securities - agency	574,500	—	574,500	—
Mortgage-backed securities - non-agency	83,529	—	83,529	—
State and municipal securities	57,460	—	57,460	—
Corporate securities	99,172	—	99,172	—
Equity securities	4,501	4,501	—	—
Loans held for sale	3,811	—	3,811	—
Derivative assets	372	—	372	—
Total	$ 924,579	$ 5,598	$ 918,981	$ —
Liabilities				
Derivative liabilities	$ 8,836	$ —	$ 8,836	$ —
Total	$ 8,836	$ —	$ 8,836	$ —
Assets measured at fair value on a non-recurring basis:				
Nonperforming loans	$ 4,633	$ —	$ 3,964	$ 669
Other real estate owned	9,112	—	9,112	—

The following table presents losses recognized on assets measured on a nonrecurring basis for the three months ended March 31, 2024 and 2023:

(dollars in thousands)	Three Months Ended March 31, 2024	2023
Nonperforming loans	$ 4,834	$ 1,103

The following tables present quantitative information about significant unobservable inputs used in fair value measurements of Level 3 assets measured on a nonrecurring basis at March 31, 2024 and December 31, 2023:

(dollars in thousands)	Fair value	Valuation technique	Unobservable input / assumptions	Range (weighted average)(1)
March 31, 2024				
Nonperforming loans	$ 1,625	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	25.80% - 100.00% (51.90%)
December 31, 2023				
Nonperforming loans	$ 669	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	24.38% - 100.00% (27.46%)

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

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 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, 2024 and December 31, 2023:

	March 31, 2024			December 31, 2023		
(dollars in thousands)	**Aggregate fair value**	**Difference**	**Contractual principal**	**Aggregate fair value**	**Difference**	**Contractual principal**
Residential loans held for sale	$ 5,043	$ 259	$ 4,784	$ 3,811	$ 203	$ 3,608

The following table presents the amount of gains from fair value changes included in income before income taxes for financial assets carried at fair value for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
(dollars in thousands)	**2024**	**2023**
Residential loans held for sale	$ 18	$ 99

The carrying values and estimated fair value of certain financial instruments not carried at fair value at March 31, 2024 and December 31, 2023 were as follows:

	March 31, 2024				
(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	$ 166,471	$ 166,471	$ 166,471	$ —	$ —
Federal funds sold	845	845	845	—	—
Loans	5,958,462	5,888,375	—	—	5,888,375
Accrued interest receivable	25,931	25,931	—	25,931	—
Liabilities					
Deposits	$ 6,323,984	$ 6,304,279	$ —	$ 6,304,279	$ —
Short-term borrowings	214,446	214,446	207,000	7,446	—
FHLB and other borrowings	255,000	252,517	—	252,517	—
Subordinated debt	93,617	86,353	—	86,353	—
Trust preferred debentures	50,790	53,240	—	53,240	—

(dollars in thousands)	December 31, 2023 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	$ 134,212	$ 134,212	$ 134,212	$ —	$ —
Federal funds sold	849	849	849	—	—
Loans	6,131,079	6,129,244	—	—	6,129,244
Accrued interest receivable	24,934	24,934	—	24,934	—
Liabilities					
Deposits	$ 6,309,529	$ 6,294,979	$ —	$ 6,294,979	$ —
Short-term borrowings	34,865	34,865	25,000	9,865	—
FHLB and other borrowings	476,000	475,240	—	475,240	—
Subordinated debt	93,546	90,253	—	90,253	—
Trust preferred debentures	50,616	51,626	—	51,626	—

The methods utilized to measure fair value of financial instruments at March 31, 2024 and December 31, 2023 represent an approximation of exit price; however, an actual exit price may differ.

NOTE 12 – 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, 2024 and December 31, 2023 were as follows:

(dollars in thousands)	March 31, 2024	December 31, 2023
Commitments to extend credit	$ 827,049	$ 855,489
Financial guarantees – standby letters of credit	23,689	22,745

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 2024 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. There were no losses as a result of make-whole requests and loan repurchases for the three months ended March 31, 2024 and 2023. The liability for unresolved repurchase demands totaled $0.1 million at both March 31, 2024 and December 31, 2023.

NOTE 13 – SEGMENT INFORMATION

The Company's reportable segments are comprised of strategic business units primarily based upon industry categories and, to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing. Segment determination also considers organizational structure and is consistent with the presentation of financial information to the chief operating decision maker to evaluate segment performance, develop strategy and allocate resources. The Company's chief operating decision maker is the Chief Executive Officer of the Company. Management has determined that the Company has three reportable segments consisting of Banking, Wealth Management and Corporate.

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 financing; 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 Wealth Management segment consists of trust and fiduciary services, brokerage and retirement planning services.

The Corporate segment includes the holding company financing and investment activities, administrative expenses, as well as the elimination of intercompany transactions. The Corporate segment also included our captive insurance business unit for the three months ended March 31, 2023. This business was dissolved as of December 31, 2023.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The accounting policies of the segments are substantially the same as those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2023 Form 10-K.

Transactions between segments consist primarily of borrowed funds and servicing fees. Noninterest income and expense directly attributable to a segment are assigned to it with various shared service costs such as human resources, accounting, finance, risk management and information technology expense assigned to the Banking segment.

Selected business segment financial information for the three months ended March 31, 2024 and 2023 were as follows:

(dollars in thousands)	Banking	Wealth Management	Corporate	Total
Three Months Ended March 31, 2024				
Net interest income (expense)	$ 58,216	$ (8)	$ (2,288)	$ 55,920
Provision for credit losses	14,000	—	—	14,000
Noninterest income	14,491	7,132	(436)	21,187
Noninterest expense	40,098	5,412	(643)	44,867
Income (loss) before income taxes (benefit)	18,609	1,712	(2,081)	18,240
Income taxes (benefit)	4,461	690	(796)	4,355
Net income (loss)	$ 14,148	$ 1,022	$ (1,285)	$ 13,885
Total assets	$ 7,810,328	$ 33,103	$ (11,622)	$ 7,831,809
Three Months Ended March 31, 2023				
Net interest income (expense)	$ 62,608	$ —	$ (2,104)	$ 60,504
Provision for credit losses	3,135	—	—	3,135
Noninterest income	9,621	6,411	(253)	15,779
Noninterest expense	39,847	4,841	(206)	44,482
Income (loss) before income taxes (benefit)	29,247	1,570	(2,151)	28,666
Income taxes (benefit)	7,206	439	(751)	6,894
Net income (loss)	$ 22,041	$ 1,131	$ (1,400)	$ 21,772
Total assets	$ 7,918,339	$ 29,828	$ (17,993)	$ 7,930,174

NOTE 14 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company's revenue from contracts with customers in the scope of Topic 606 is recognized within noninterest income in the consolidated statements of income. 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, 2024 and 2023.

	Three Months Ended March 31,	
(dollars in thousands)	**2024**	**2023**
Noninterest income - in-scope of Topic 606		
Wealth management revenue:		
Trust management/administration fees	$ 6,267	$ 5,636
Investment advisory and brokerage fees	423	431
Other	442	344
Service charges on deposit accounts:		
Nonsufficient fund fees	1,822	1,698
Other	1,294	870
Interchange revenues	3,358	3,412
Other income:		
Merchant services revenue	344	358
Other	98	630
Noninterest income - out-of-scope of Topic 606	7,139	2,400
Total noninterest income	$ 21,187	$ 15,779

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 Topic 606. 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 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 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.

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, gain on sales of other real estate owned 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.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors which have affected the financial condition and results of operations of the Company as reflected in the unaudited consolidated balance sheet as of March 31, 2024, as compared to December 31, 2023, and operating results for the three months ended March 31, 2024 and 2023. These comments should be read in conjunction with the Company's unaudited consolidated financial statements and accompanying notes appearing elsewhere herein and our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 23, 2024.

In addition to the historical information contained herein, this Form 10-Q includes "forward-looking statements" within the meaning of such term under 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 prevailing interest rates and the rate of inflation; changes in the financial markets; changes in business plans as circumstances warrant; risks related to mergers and acquisitions and the integration of acquired businesses; changes to U.S. tax laws, regulations and guidance; 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, 2023. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since December 31, 2023.

Significant Developments and Transactions

Each item listed below affects the comparability of our results of operations for the three months ended March 31, 2024 and 2023, and our financial condition as of March 31, 2024 and December 31, 2023, and may affect the comparability of financial information we report in future fiscal periods.

Balance sheet repositioning. The Company took advantage of certain market conditions during 2023 to reposition out of lower yielding securities into other structures, which were expected to result in improved overall margin, liquidity and capital allocations. These transactions resulted in losses of $0.6 million in the three months ended March 31, 2023.

In addition, in the third quarter of 2023, the Company surrendered certain low-yielding life insurance policies and purchased additional policies. The Company recognized a $4.5 million tax charge related to the surrender of the policies.

Redemption of Subordinated Notes. In the second quarter of 2023, the Company redeemed $6.6 million of outstanding subordinated notes. The weighted average redemption price was 89.2% of the aggregate principal amount of the subordinated notes, plus accrued and unpaid interest. The Company recorded gains totaling $0.7 million on these redemptions.

Results of Operations

Overview. The following table sets forth condensed income statement information of the Company for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
(dollars in thousands, except per share data)	**2024**	**2023**
Income Statement Data:		
Interest income	$ 101,675	$ 95,539
Interest expense	45,755	35,035
Net interest income	55,920	60,504
Provision for credit losses	14,000	3,135
Noninterest income	21,187	15,779
Noninterest expense	44,867	44,482
Income before income taxes	18,240	28,666
Income taxes	4,355	6,894
Net income	13,885	21,772
Preferred dividends	2,228	2,228
Net income available to common shareholders	$ 11,657	$ 19,544
Per Share Data:		
Basic earnings per common share	$ 0.53	$ 0.86
Diluted earnings per common share	$ 0.53	$ 0.86
Performance Metrics:		
Return on average assets	0.72 %	1.12 %
Return on average shareholders' equity	7.07 %	11.51 %

During the three months ended March 31, 2024, we generated net income of $13.9 million, or diluted earnings per common share of $0.53, compared to net income of $21.8 million, or diluted earnings per common share of $0.86, in the three months ended March 31, 2023. Earnings for the first quarter of 2024 compared to the first quarter of 2023 decreased primarily due to a $4.6 million decrease in net interest income, a $10.9 million increase in provision for credit losses, and a $0.4 million increase in noninterest expense. These results were partially offset by a $5.4 million increase in noninterest income and a $2.5 million decrease in income tax expense.

Net Interest Income and Margin. 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 influenced by many factors, primarily the volume and mix of interest-earning assets, funding sources, and interest rate fluctuations. Noninterest-bearing sources of funds, such as demand deposits and shareholders' equity, also support earning assets. Net interest margin is calculated as net interest income divided by average interest-earning assets. 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 2024 and 2023.

At its March 20, 2024 meeting, the Federal Reserve held its key interest rate steady for the fifth consecutive meeting, as the central bank awaits more data to determine when, and if, to cut rates. Federal Reserve officials also released an updated set of economic projections that show they now expect fewer rate cuts in the coming years than they estimated in December 2023. A majority of policymakers continue to expect three rate cuts this year, but they now see fewer in 2025 and 2026. They expect interest rates in the longer run to be slightly higher than they projected in December. Economic growth is also expected to be much higher this year than officials previously estimated. In 2023, the Federal Reserve increased the federal funds rate 100 basis points to a target range of 5.25%-5.50%, the highest since August 2007. The benchmark federal funds rate remains at a target range between 5.25%-5.50%, compared to a target range of 4.25%-4.50% at the beginning of 2023.

During the three months ended March 31, 2024, net interest income, on a tax-equivalent basis, decreased to $56.1 million compared to $60.7 million for the three months ended March 31, 2023. The tax-equivalent net interest margin decreased to 3.18% for the first quarter of 2024 compared to 3.39% for the first quarter of 2023.

Average Balance Sheet, Interest and Yield/Rate Analysis. The following tables present the average balance sheets, interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended March 31, 2024 and 2023. 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.

	Three Months Ended March 31,					
	2024			2023		
(tax-equivalent basis, dollars in thousands)	**Average balance**	**Interest & fees**	**Yield/ Rate**	**Average balance**	**Interest & fees**	**Yield/ Rate**
Interest-earning assets:						
Federal funds sold and cash investments	$ 69,316	$ 951	5.52 %	$ 85,123	$ 980	4.67 %
Investment securities:						
Taxable investment securities	933,785	10,179	4.38	731,075	5,370	2.98
Investment securities exempt from federal income tax (1)	54,931	529	3.87	78,773	625	3.22
Total securities	988,716	10,708	4.36	809,848	5,995	3.00
Loans:						
Loans (2)	5,964,454	88,995	6.00	6,264,591	87,459	5.66
Loans exempt from federal income tax (1)	47,578	494	4.17	55,811	538	3.91
Total loans	6,012,032	89,489	5.99	6,320,402	87,997	5.65
Loans held for sale	3,405	55	6.56	1,506	16	4.41
Nonmarketable equity securities	35,927	687	7.69	47,819	795	6.75
Total interest-earning assets	7,109,396	101,890	5.76	7,264,698	95,783	5.35
Noninterest-earning assets	671,671			610,811		
Total assets	$ 7,781,067			$ 7,875,509		
Interest-bearing liabilities:						
Deposits:						
Checking and money market deposits	$ 3,605,946	$ 29,237	3.26 %	$ 3,686,192	$ 22,955	2.53 %
Savings deposits	555,668	477	0.34	650,138	243	0.15
Time deposits	852,440	7,310	3.45	703,039	3,121	1.80
Brokered time deposits	181,064	2,190	4.86	14,572	86	2.39
Total interest-bearing deposits	5,195,118	39,214	3.04	5,053,941	26,405	2.12
Short-term borrowings	65,182	836	5.16	38,655	25	0.26
FHLB advances and other borrowings	313,121	3,036	3.90	540,278	6,006	4.51
Subordinated debt	93,583	1,280	5.50	99,812	1,370	5.57
Trust preferred debentures	50,707	1,389	11.02	50,047	1,229	9.96
Total interest-bearing liabilities	5,717,711	45,755	3.22	5,782,733	35,035	2.46
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,151,542			1,250,899		
Other noninterest-bearing liabilities	121,908			74,691		
Total noninterest-bearing liabilities	1,273,450			1,325,590		
Shareholders' equity	789,906			767,186		
Total liabilities and shareholders' equity	$ 7,781,067			$ 7,875,509		
Net interest income / net interest margin (3)		$ 56,135	3.18 %		$ 60,748	3.39 %

(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%. Tax-equivalent adjustments totaled $0.2 million for each of the three months ended March 31, 2024 and 2023.

(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, 2024 compared with Three Months Ended March 31, 2023		
	Change due to:		
(tax-equivalent basis, dollars in thousands)	**Volume**	**Rate**	**Interest Variance**
Earning assets:			
Federal funds sold and cash investments	$ (196)	$ 167	$ (29)
Investment securities:			
Taxable investment securities	1,846	2,963	4,809
Investment securities exempt from federal income tax	(210)	114	(96)
Total securities	1,636	3,077	4,713
Loans:			
Loans	(3,987)	5,523	1,536
Loans exempt from federal income tax	(80)	36	(44)
Total loans	(4,067)	5,559	1,492
Loans held for sale	26	13	39
Nonmarketable equity securities	(210)	102	(108)
Total earning assets	$ (2,811)	$ 8,918	$ 6,107
Interest-bearing liabilities:			
Checking and money market deposits	$ (481)	$ 6,763	$ 6,282
Savings deposits	(57)	291	234
Time deposits	989	3,200	4,189
Brokered time deposits	1,501	603	2,104
Total interest-bearing deposits	1,952	10,857	12,809
Short-term borrowings	179	632	811
FHLB advances and other borrowings	(2,349)	(621)	(2,970)
Subordinated debt	(90)	—	(90)
Trust preferred debentures	23	137	160
Total interest-bearing liabilities	$ (285)	$ 11,005	$ 10,720
Net interest income	$ (2,526)	$ (2,087)	$ (4,613)

Interest Income. Interest income, on a tax-equivalent basis, increased $6.1 million to $101.9 million in the three months ended March 31, 2024 as compared to the same quarter in 2023, primarily due to improved yields on earning assets. The yield on earning assets increased 41 basis points to 5.76% from 5.35% primarily due to the impact of increasing market interest rates.

Average earning assets decreased to $7.11 billion in the first quarter of 2024 from $7.26 billion in the same quarter of 2023. Decreases in average loans and federal funds sold and cash investments of $308.4 million and $15.8 million, respectively, were partially offset by a $178.9 million increase in investment securities.

Average loans decreased $308.4 million in the first quarter of 2024 compared to the same quarter of 2023. Average commercial loans decreased $120.6 million. Included in this category are commercial FHA warehouse lines, which decreased $12.1 million to $1.2 million in the first quarter of 2024.

Average commercial real estate loans and leases also decreased this quarter by $44.8 million and $37.5 million, respectively, compared to prior year's first quarter. Average construction loans increased this quarter by $136.9 million, compared to the prior year's first quarter, primarily due to funding draws on existing multifamily project lines. Average balances in our consumer loan portfolio decreased this quarter by $252.0 million compared to the prior year first quarter. During the fourth quarter of 2023, the Company ceased originating consumer loans through both Greensky and LendingPoint.

Interest Expense. Interest expense increased $10.7 million to $45.8 million for the three months ended March 31, 2024, compared to the three months ended March 31, 2023. The cost of interest-bearing liabilities increased to 3.22% for the first quarter of 2024, compared to 2.46% for the first quarter of 2023, due to the increase in deposit costs as a result of the rate increases announced by the Federal Reserve.

Interest expense on deposits increased $12.8 million to $39.2 million for the three months ended March 31, 2024 from the comparable period in 2023. The increase was primarily due to an increase in rates paid on deposits. Average balances of interest-bearing deposit accounts increased $141.2 million, or 2.8%, to $5.20 billion for the three months ended March 31, 2024 compared to the same period one year earlier. The increase in volume was attributable to increases of brokered deposits and reciprocal deposits of $194.0 million and $227.5 million, respectively. Our retail, commercial, servicing and public fund deposits decreased $26.3 million, $156.8 million, $49.0 million, and $48.1 million, respectively.

Interest expense on FHLB advances and other borrowings decreased $3.0 million for the three months ended March 31, 2024, from the comparable period in 2023. Average balances decreased $227.2 million for the three months ended March 31, 2024, from the comparable period in 2023, as loan paydowns and increases brokered deposits replaced this funding source.

Interest expense on trust preferred debentures increased $0.2 million for the three months ended March 31, 2024, from the comparable period in 2023, due to interest rate increases, as these debt instruments reprice quarterly.

Provision for Credit Losses. The Company's provision for credit losses on loans was $14.0 million for the three months ended March 31, 2024, compared to $3.1 million for the three months ended March 31, 2023. The Company recorded a specific reserve of $8.0 million on one large construction and land development loan. Net charge-offs for the quarter totaled $4.4 million compared to $2.1 million for the comparable quarter of 2023.

The provision for credit losses on loans recognized during the three months ended March 31, 2024 was made at a level deemed necessary by management to absorb estimated losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for credit losses is completed quarterly by management, the results of which are used to determine provision for credit losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and reasonable and supportable forecasts along with other qualitative and quantitative factors.

Noninterest Income. Noninterest income increased 34.3% for the three months ended March 31, 2024, compared to the same period one year prior. The following table sets forth the major components of our noninterest income for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,		
(dollars in thousands)	**2024**	**2023**	**Increase (decrease)**
Noninterest income:			
Wealth management revenue	$ 7,132	$ 6,411	$ 721
Service charges on deposit accounts	3,116	2,745	371
Interchange revenue	3,358	3,412	(54)
Residential mortgage banking revenue	527	405	122
Income on Company-owned life insurance	1,801	876	925
Loss on sales of investment securities, net	—	(648)	648
Other income	5,253	2,578	2,675
Total noninterest income	$ 21,187	$ 15,779	$ 5,408

Wealth management revenue. Income from our wealth management business increased $0.7 million for the three months ended March 31, 204, as compared to the same period in 2023. Assets under administration increased to $3.89 billion at March 31, 2024 from $3.50 billion at March 31, 2023, primarily due to an increase in the market performance as a result of economic growth between the two periods.

Company-owned life insurance income. Income on company-owned life insurance income increased $0.9 million for the three months ended March 31, 2024, as compared to the same period in 2023. As previously discussed, the Company surrendered certain low-yielding life insurance policies and purchased additional policies in the third quarter of 2023.

Loss on sale of investment securities. The Company took advantage of certain market conditions during the three months ended March 31, 2023 to reposition out of lower yielding securities into other structures, which are expected to result in improved overall margin, liquidity and capital allocations. These transactions resulted in net losses of $0.6 million.

Other noninterest income. Other income totaled $5.3 million for the three months ended March 31, 2024, an increase of $2.7 million, as compared to the same period of 2023. Other noninterest income in 2024 included incremental servicing revenues of $3.7 million related to Greensky portfolio. In addition, we recognized amortization expense of $0.6 million on our commercial serving portfolio in the current quarter but no expense in the first quarter of 2023, as the portfolio was classified as held for sale.

Noninterest Expense. The following table sets forth the major components of noninterest expense for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,		
(dollars in thousands)	**2024**	**2023**	**Increase (decrease)**
Noninterest expense:			
Salaries and employee benefits	$ 24,102	$ 24,243	$ (141)
Occupancy and equipment	4,142	4,443	(301)
Data processing	6,722	6,311	411
FDIC insurance	1,274	1,329	(55)
Professional services	2,255	1,760	495
Marketing	737	703	34
Communications	342	511	(169)
Loan expense	1,231	818	413
Amortization of intangible assets	1,089	1,291	(202)
Other expense	2,973	3,073	(100)
Total noninterest expense	$ 44,867	$ 44,482	$ 385

Total noninterest expense increased $0.4 million, or 0.9%, in the three months ended March 31, 2024, as compared to the same period of 2023.

Income Tax Expense. Income tax expense was $4.4 million for the three months ended March 31, 2024, as compared to $6.9 million for the three months ended March 31, 2023. The resulting effective tax rates were 23.9% and 24.0% for the three months ended March 31, 2024 and 2023, respectively.

Financial Condition

Assets. Total assets were $7.83 billion at March 31, 2024, as compared to $7.87 billion at December 31, 2023.

Loans. The loan portfolio is the largest category of our assets. The following table presents the balance and associated percentage of each major category in our loan portfolio at March 31, 2024 and December 31, 2023:

	March 31, 2024		December 31, 2023	
(dollars in thousands)	**Balance**	**Percent**	**Balance**	**Percent**
Loans:				
Commercial:				
Equipment finance loans	$ 494,068	8.3 %	$ 531,143	8.7 %
Equipment finance leases	455,879	7.7	473,350	7.7
Commercial FHA lines	8,035	0.1	—	—
Other commercial loans	913,564	15.3	951,387	15.5
Total commercial loans and leases	1,871,546	31.4	1,955,880	31.9
Commercial real estate	2,397,113	40.2	2,406,845	39.3
Construction and land development	474,128	8.0	452,593	7.4
Residential real estate	378,583	6.4	380,583	6.2
Consumer	837,092	14.0	935,178	15.2
Total loans, gross	5,958,462	100.0 %	6,131,079	100.0 %
Allowance for credit losses on loans	(78,057)		(68,502)	
Total loans, net	$ 5,880,405		$ 6,062,577	

Total loans decreased $172.6 million to $5.96 billion at March 31, 2024, as compared to December 31, 2023, as the Company originated loans in a more selective and deliberate approach to balance liquidity and funding costs. An increase in construction and land development loans of $21.5 million was offset by decreases in all other loan categories. The increase in our construction and land development portfolio was primarily driven by draws on existing lines.

Consumer loans decreased $98.1 million to $837.1 million at March 31, 2024 compared to December 31, 2023, due to loan payoffs and a cessation in loans originated through GreenSky. Our Greensky-originated loan balances decreased $77.5 million during the first quarter of 2024 to $606.0 million at March 31, 2024. In addition, during the fourth quarter of 2023, the Company ceased originating loans through LendingPoint. At March 31, 2024, the Company had $112.7 million in loans outstanding that were originated through LendingPoint, which will continue to be serviced by LendingPoint.

The principal segments 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. The commercial loan category also includes loans originated by the equipment financing business that are secured by the underlying equipment.

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.

The following table presents the balance and associated percentage of the major property types within our commercial real estate and construction and land development loan portfolios at March 31, 2024 and December 31, 2023:

	March 31, 2024		December 31, 2023	
(dollars in thousands)	Balance	Percent	Balance	Percent
Multi-Family	$ 537,704	18.7 %	$ 516,295	18.1 %
Skilled Nursing	420,768	14.6	469,096	16.4
Retail	466,572	16.2	454,589	15.9
Industrial/Warehouse	218,399	7.6	217,956	7.6
Hotel/Motel	176,447	6.1	159,707	5.6
Office	154,253	5.4	153,756	5.4
All other	897,098	31.4	888,039	31.0
Total commercial real estate and construction and land development loans	$ 2,871,241	100.0 %	$ 2,859,438	100.0 %

Loans secured by office space totaled $154.3 million and $153.8 million at March 31, 2024 and December 31, 2023, respectively, primarily located in suburban locations in Illinois and Missouri.

Residential real estate loans. Our residential real estate loans, secured by 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 a first priority interest in the financed asset and generally requires 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, 2024:

	March 31, 2024								
	Within One Year		One Year to Five Years		Five Years to 15 Years		After 15 Years		
(dollars in thousands)	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Total
Commercial	$ 106,058	$ 427,010	$ 541,137	$ 78,344	$ 124,373	$ 91,298	$ —	$ 47,447	$ 1,415,667
Commercial real estate	330,647	312,529	955,687	243,948	355,598	175,316	5,530	17,858	2,397,113
Construction and land development	74,590	97,996	94,159	155,958	2,647	45,858	100	2,820	474,128
Total commercial loans	511,295	837,535	1,590,983	478,250	482,618	312,472	5,630	68,125	4,286,908
Residential real estate	4,275	5,702	8,050	18,306	24,095	36,980	169,877	111,298	378,583
Consumer	3,343	53	687,572	113,182	32,942	—	—	—	837,092
Lease financing	24,092	—	344,661	—	87,126	—	—	—	455,879
Total loans	$ 543,005	$ 843,290	$ 2,631,266	$ 609,738	$ 626,781	$ 349,452	$ 175,507	$ 179,423	$ 5,958,462

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.

Analysis of the Allowance for Credit Losses on Loans. The allowance for credit losses on loans was $78.1 million, or 1.31% of total loans, at March 31, 2024 compared to $68.5 million, or 1.12% of total loans, at December 31, 2023. The following table allocates the allowance for credit losses on loans by loan category:

	March 31, 2024		December 31, 2023	
(dollars in thousands)	**Allowance**	**Percent (1)**	**Allowance**	**Percent (1)**
Commercial	$ 21,329	1.51 %	$ 21,847	1.47 %
Commercial real estate	21,367	0.89	20,229	0.84
Construction and land development	12,629	2.66	4,163	0.92
Total commercial loans	55,325	1.29	46,239	1.06
Residential real estate	5,655	1.49	5,553	1.46
Consumer	3,611	0.43	3,770	0.40
Lease financing	13,466	2.95	12,940	2.73
Total allowance for credit losses on loans	$ 78,057	1.31 %	$ 68,502	1.12 %

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

We measure expected credit losses over the life of each loan utilizing a combination of models which measure probability of default and loss given default, among other things. The measurement of expected credit losses is impacted by loan and borrower attributes and certain macroeconomic variables. Models are adjusted to reflect the impact of certain current macroeconomic variables as well as their expected changes over a reasonable and supportable forecast period.

In estimating expected credit losses as of March 31, 2024, we utilized certain forecasted macroeconomic variables from Oxford Economics in our models. The forecasted projections included, among other things, (i) U.S. gross domestic product ranging from 1.5% to 3.0% over the next four quarters; (ii) the 10-year treasury rate decreasing from 4.2% in the first quarter of 2024 to 3.7% by the first quarter of 2025; and (iii) Illinois unemployment rate averaging 4.9% through the first quarter of 2025.

We qualitatively adjust the model results based on this scenario for various risk factors that are not considered within our modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These Q-Factor adjustments are based upon management judgment and current assessment as to the impact of risks related to changes in lending policies and procedures; economic and business conditions; loan portfolio attributes and credit concentrations; and external factors, among other things, that are not already fully captured within the modeling inputs, assumptions and other processes. Management assesses the potential impact of such items within a range of severely negative impact to positive impact and adjusts the modeled expected credit loss by an aggregate adjustment percentage based upon the assessment. The qualitative factor adjustment at March 31, 2024, was approximately 42 basis points of total loans, consistent with 41 basis points at December 31, 2023.

The allowance allocated to commercial loans totaled $21.3 million, or 1.51% of total commercial loans, at March 31, 2024, compared to $21.8 million, or 1.47%, at December 31, 2023. Modeled expected credit losses increased $0.2 million and qualitative factor adjustments related to commercial loans decreased $0.3 million. Specific allocations for commercial loans that were evaluated for expected credit losses on an individual basis decreased $0.4 million from $1.8 million at December 31, 2023.

The allowance allocated to commercial real estate loans totaled $21.4 million, or 0.89% to total commercial real estate loans, at March 31, 2024, increasing $1.1 million, from $20.2 million, or 0.84% of total commercial real estate loans, at December 31, 2023. Modeled expected credit losses were unchanged from prior quarter. Specific allocations for commercial real estate loans that were evaluated for expected credit losses on an individual basis increased from $0.7 million at December 31, 2023, to $2.3 million at March 31, 2024. The commercial real estate portfolio does not include significant exposure to urban office properties.

The allowance allocated to construction and land development loans totaled $12.6 million, or 2.66% to total construction loans, at March 31, 2024, increasing $8.5 million, from $4.2 million, or 0.92% of total constructions loans, at December 31, 2023. Specific allocations for construction loans that were evaluated for expected credit losses on an individual basis total $8.0 million and $0.0 million at March 31, 2024 and December 31, 2023, respectively. This represents the specific reserve of $8.0 million on one large construction and land development loan recognized in our first current period provision for credit losses. Modeled expected credit losses decreased $0.1 million and qualitative factor adjustments related to construction loans increased $0.6 million.

The allowance allocated to the lease portfolio totaled $13.5 million, or 2.95% of total commercial leases, at March 31, 2024, increasing $0.5 million, from $12.9 million, or 2.73% of total commercial leases at December 31, 2023. Modeled expected credit losses related to commercial leases increased $0.3 million and specific allocation reserves increased $0.4 million.

The following table provides an analysis of the allowance for credit losses on loans, provision for credit losses on loans and net charge-offs for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
(dollars in thousands)	**2024**	**2023**
Balance, beginning of period	$ 68,502	$ 61,051
Charge-offs:		
Commercial	2,410	969
Commercial real estate	691	746
Residential real estate	35	31
Consumer	235	263
Lease financing	1,665	390
Total charge-offs	5,036	2,399
Recoveries:		
Commercial	116	94
Commercial real estate	152	2
Residential real estate	55	17
Consumer	87	93
Lease financing	181	74
Total recoveries	591	280
Net charge-offs	4,445	2,119
Provision for credit losses on loans	14,000	3,135
Balance, end of period	$ 78,057	$ 62,067
Gross loans, end of period	$ 5,958,462	$ 6,354,271
Average total loans	$ 6,012,032	$ 6,320,402
Net charge-offs to average loans	0.30 %	0.14 %
Allowance for credit losses to total loans	1.31 %	0.98 %

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.

Charge-offs of equipment financing loans and leases for the three months ended March 31, 2024 and 2023, totaled $3.6 million and $1.2 million, respectively, primarily due to continued weakness within the trucking and transportation sector. Net charge-offs for the three months ended March 31, 2024 totaled $4.4 million, compared to $2.1 million for the same period one year ago.

Nonperforming Loans. The following table sets forth our nonperforming assets by asset categories as of the dates indicated. Nonperforming loans include nonaccrual loans and loans past due 90 days or more and still accruing interest. The balances of nonperforming loans reflect the net investment in these assets.

(dollars in thousands)	March 31, 2024	December 31, 2023
Nonperforming loans:		
Commercial	$ 10,276	$ 9,282
Commercial real estate	53,957	33,891
Construction and land development	26,318	39
Residential real estate	4,130	3,869
Consumer	93	137
Lease financing	10,205	9,133
Total nonperforming loans	104,979	56,351
Other real estate owned and other repossessed assets	11,742	11,350
Nonperforming assets	$ 116,721	$ 67,701
Nonperforming loans to total loans	1.76 %	0.92 %
Nonperforming assets to total assets	1.49 %	0.86 %
Allowance for credit losses to nonperforming loans	74.35 %	121.56 %

Non-performing loans increased $48.6 million to $105.0 million at March 31, 2024, compared to $56.4 million as of December 31, 2023. Four loans totaling $47.4 million account for the increase. Of these, three loans totaling $40.8 million are multi-family construction or multi-family projects.

We did not recognize interest income on nonaccrual loans during the three months ended March 31, 2024 or 2023 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 $1.3 million and $0.8 million for the three months ended March 31, 2024 and 2023, respectively.

The following table presents the change in our non-performing loans for the three months ended March 31, 2024:

(dollars in thousands)	Year Ended March 31, 2024
Balance, beginning of period	$ 56,351
New nonperforming loans	56,119
Return to performing status	(1,471)
Payments received	(3,452)
Transfer to OREO and other repossessed assets	(522)
Charge-offs	(2,046)
Balance, end of period	$ 104,979

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. In the periods presented, all investment securities of the Company are classified as available for sale and, therefore, the book value of investment securities is equal to the fair market value.

The following table sets forth the book value and associated percentage of each category of investment securities at March 31, 2024 and December 31, 2023.

	March 31, 2024		December 31, 2023	
(dollars in thousands)	**Balance**	**Percent**	**Balance**	**Percent**
Investment securities available for sale:				
U.S. Treasury securities	$ —	— %	$ 1,097	0.1 %
U.S. government sponsored entities and U.S. agency securities	67,723	6.5	72,572	7.9
Mortgage-backed securities - agency	681,520	65.5	574,500	62.7
Mortgage-backed securities - non-agency	89,528	8.6	83,529	9.1
State and municipal securities	60,630	5.8	57,460	6.3
Collateralized loan obligations	33,614	3.2	27,565	3.0
Corporate securities	107,391	10.4	99,172	10.9
Total investment securities, available for sale, at fair value	$ 1,040,406	100.0 %	$ 915,895	100.0 %

The following table sets forth the book value, maturities and weighted average yields for our investment portfolio at March 31, 2024.

(dollars in thousands)	Balance	Percent	Weighted average yield
Investment securities available for sale:			
U.S. government sponsored entities and U.S. agency securities:			
Maturing within one year	$ —	— %	
Maturing in one to five years	33,923	3.3	5.82
Maturing in five to ten years	33,800	3.2	4.65
Maturing after ten years	—	—	—
Total U.S. government sponsored entities and U.S. agency securities	$ 67,723	6.5 %	5.23 %
Mortgage-backed securities - agency:			
Maturing within one year	$ 13,461	1.3 %	4.92 %
Maturing in one to five years	335,140	32.2	4.45
Maturing in five to ten years	179,363	17.2	3.17
Maturing after ten years	153,556	14.8	2.85
Total mortgage-backed securities - agency	$ 681,520	65.5 %	3.73 %
Mortgage-backed securities - non-agency:			
Maturing within one year	$ —	— %	— %
Maturing in one to five years	79,896	7.7	4.69
Maturing in five to ten years	4,230	0.4	2.24
Maturing after ten years	5,402	0.5	3.21
Total mortgage-backed securities - non-agency	$ 89,528	8.6 %	4.45 %
State and municipal securities [(1)]*:*			
Maturing within one year	$ 1,175	0.1 %	2.82 %
Maturing in one to five years	9,253	0.9	2.59
Maturing in five to ten years	25,760	2.5	2.15
Maturing after ten years	24,442	2.3	3.99
Total state and municipal securities	$ 60,630	5.8 %	2.95 %
Collateralized loan obligations:			
Maturing within one year	$ 6,395	0.6 %	6.82 %
Maturing in one to five years	16,120	1.5	6.99
Maturing in five to ten years	—	—	—
Maturing after ten years	11,099	1.1	6.49
Total collateralized loan obligations	$ 33,614	3.2 %	6.79 %
Corporate securities:			
Maturing within one year	$ 4,997	0.5 %	8.41 %
Maturing in one to five years	39,390	3.8	4.42
Maturing in five to ten years	63,004	6.1	3.87
Maturing after ten years	—	—	—
Total corporate securities	$ 107,391	10.4 %	4.25 %
Total investment securities, available for sale	$ 1,040,406	100.0 %	3.98 %

(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 for our investment securities classified as available for sale, at fair value, at March 31, 2024.

(dollars in thousands)	Amortized cost	Fair Value	Average credit rating AAA	AA+/-	A+/-	BBB+/-	<BBB-	Not Rated
Investment securities available for sale:								
U.S. government sponsored entities and U.S. agency securities	69,487	67,723	47,417	20,306	—	—	—	—
Mortgage-backed securities - agency	763,902	681,520	39,740	641,780	—	—	—	—
Mortgage-backed securities - non-agency	93,146	89,528	13,786	75,742	—	—	—	—
State and municipal securities	66,902	60,630	788	59,842	—	—	—	—
Collateralized loan obligations	33,558	33,614	20,246	13,368	—	—	—	—
Corporate securities	117,145	107,391	—	63,291	21,984	16,325	5,791	—
Total investment securities, available for sale	$ 1,144,140	$ 1,040,406	$ 121,977	$ 874,329	$ 21,984	$ 16,325	$ 5,791	$ —

Liabilities. At March 31, 2024, liabilities totaled $7.04 billion compared to $7.08 billion at December 31, 2023.

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.

Total deposits increased $14.5 million to $6.32 billion at March 31, 2024, as compared to December 31, 2023. Increases in noninterest-bearing demand accounts and time deposits of $67.0 million and $76.0 million, respectively, during this period, were partially offset by decreases in interest-bearing checking, money market and savings account balances. Noninterest-bearing demand commercial accounts, servicing deposits and treasury services accounts increased $20.3 million, $21.4 million, and $16.7 million, respectively during the first quarter of 2024. Our noninterest-bearing deposits increased to 19.2% of total deposits at March 31, 2024 compared to 18.1% at December 31, 2023.

Brokered time deposits increased to $188.2 million at March 31, 2024 from $94.5 million at December 31, 2023, accounting for all of the increase in time deposit balances.

(dollars in thousands)	March 31, 2024		December 31, 2023	
	Balance	Percent	Balance	Percent
Noninterest-bearing demand	$ 1,212,382	19.2 %	$ 1,145,395	18.1 %
Interest-bearing:				
Checking	2,394,163	37.9	2,511,840	39.8
Money market	1,128,463	17.8	1,135,629	18.0
Savings	555,552	8.8	559,267	8.9
Time	1,033,424	16.3	957,398	15.2
Total deposits	$ 6,323,984	100.0 %	$ 6,309,529	100.0 %

The following table sets forth the maturity of uninsured time deposits as of March 31, 2024:

(dollars in thousands)	Amount
Three months or less	$ 58,488
Three to six months	24,419
Six to 12 months	7,301
After 12 months	8,763
Total	$ 98,971

Short-term Borrowings. Short-term borrowings, consisting of federal funds purchased and securities sold under agreements to repurchase totaled $214.4 million and $34.9 million at March 31, 2024 and December 31, 2023, respectively. The Company utilized additional short-term liquidity resources and reduced our reliance on FHLB advances to optimize contingent liquidity and improve our cost of funds.

FHLB Advances and Other Borrowings. FHLB advances and other borrowings totaled $255.0 million and $476.0 million as of March 31, 2024 and December 31, 2023, respectively. The decrease in borrowings was due to FHLB advances totaling $251.0 million being repaid in accordance with contract terms.

Capital Resources and Liquidity Management

Capital Resources. Shareholders' equity is influenced primarily by earnings, dividends, issuances and redemptions of common and preferred 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 and cash flow hedges.

Shareholders' equity decreased $0.8 million to $791.0 million at March 31, 2024 as compared to December 31, 2023. The change in shareholders' equity was the result of the generation of net income of $13.9 million, offset by dividends to common shareholders of $6.8 million, dividends to preferred shareholders of $2.2 million, the repurchases of common stock of $1.9 million and increase in accumulated other comprehensive losses of $4.7 million.

On December 5, 2023, the Company's board of directors authorized a new share repurchase program, pursuant to which the Company is authorized to repurchase up to $25.0 million of common stock through December 31, 2024. As of March 31, 2024, the Company repurchased 73,781 shares of its common stock at a weighted average price of $26.31 under its stock repurchase program, with approximately $23.1 million of remaining repurchase authority.

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 $15.8 million and $20.9 million at March 31, 2024 and December 31, 2023, respectively, were pledged for securities sold under agreements to repurchase.

The table below presents our sources of liquidity as of March 31, 2024 and December 31, 2023:

(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
Cash and cash equivalents	$ 167,316	$ 160,631
Unpledged securities	506,158	209,184
FHLB committed liquidity	1,167,381	997,388
FRB discount window availability	613,250	12,201
Total Estimated Liquidity	$ 2,454,105	$ 1,379,404
Conditional Funding Based on Market Conditions		
Additional credit facility	$ 431,000	$ 250,000
Brokered CDs (additional capacity)	$ 400,000	$ 500,000

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 it 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 believed at March 31, 2024, 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.

In December 2018, the Office of the Comptroller of the Currency, the Federal Reserve, and the FDIC approved a final rule to address changes to credit loss accounting under GAAP, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the CECL accounting standard. In March 2020, the Office of the Comptroller of the Currency, the Federal Reserve, and the FDIC published an interim final rule to delay the estimated impact on regulatory capital stemming from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Company is adopting the capital transition relief over the permissible five-year period.

At March 31, 2024, the Company and the Bank exceeded the regulatory minimums and met the regulatory definition of well-capitalized.

The following table presents the Company's and the Bank's capital ratios and the minimum requirements at March 31, 2024:

Ratio	Actual	Minimum Regulatory Requirements [1]	Well Capitalized
Total risk-based capital ratio			
Midland States Bancorp, Inc.	13.68 %	10.50 %	N/A
Midland States Bank	12.77	10.50	10.00 %
Tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	11.16	8.50	N/A
Midland States Bank	11.62	8.50	8.00
Common equity tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	8.60	7.00	N/A
Midland States Bank	11.62	7.00	6.50
Tier 1 leverage ratio			
Midland States Bancorp, Inc.	9.92	4.00	N/A
Midland States Bank	10.33	4.00	5.00

(1) Total risk-based capital ratio, Tier 1 risk-based capital ratio and Common equity tier 1 risk-based capital ratio include the capital conservation buffer of 2.5%.

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 are primarily exposed to interest rate risk as a result of offering a wide array of financial products to our customers and secondarily to price risk from investments in securities backed by mortgage loans.

Interest Rate Risk. Interest rate risk is the risk to earnings 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 SOFR (basis risk).

We actively manage interest rate risk, as changes in market interest rates may have a significant impact on reported earnings. Changes in market interest rates may result in changes in the fair market value of our financial instruments, cash flows, and net interest income. We seek to achieve consistent growth in net interest income while managing volatility arising from shifts in market interest rates. Our Board of Directors' Risk Policy and Compliance Committee oversees interest rate risk, as well as the establishment of risk measures, limits, and policy guidelines for managing the amount of interest rate risk and its effect on net interest income. The Committee 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.

Interest rate risk measurement is calculated and reported to the Risk Policy and Compliance Committee 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 NII at Risk to model interest rate risk utilizing various assumptions for assets, liabilities, and derivatives. NII at Risk uses net interest income simulation analysis which involves forecasting net interest earnings under a variety of scenarios including changes in the level of interest rates, the shape of the yield curve, and spreads between market interest rates. The sensitivity of net interest income to changes in interest rates is measured using numerous interest rate scenarios including shocks, gradual ramps, curve flattening, curve steepening as well as forecasts of likely interest rates scenarios. Modeling the sensitivity of net interest earnings to changes in market interest rates is highly dependent on numerous assumptions incorporated into the modeling process. To the extent that actual performance is different than what was assumed, actual net interest earnings sensitivity may be different than projected. We use a data warehouse to study interest rate risk at a transactional level and use various ad-hoc reports to continuously refine assumptions. Assumptions and methodologies regarding administered rate liabilities (e.g., savings accounts, money market accounts and interest-bearing checking accounts), balance trends, and repricing relationships reflect our best estimate of expected behavior and these assumptions are reviewed periodically.

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

	Net interest income sensitivity (Shocks)			
	Immediate change in rates			
(dollars in thousands)	**-200**	**-100**	**+100**	**+200**
March 31, 2024:				
Dollar change	$ 497	$ (295)	$ (768)	$ (2,519)
Percent change	0.2 %	(0.1)%	(0.3)%	(1.1)%
December 31, 2023:				
Dollar change	$ 539	$ (293)	$ (1,424)	$ (3,162)
Percent change	0.2 %	(0.1)%	(0.6)%	(1.3)%

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 -200, −100, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next twelve months. We were within board policy limits for all scenarios at March 31, 2024.

Tolerance levels for risk management require the continuing development of remedial plans to maintain residual risk within approved levels as we adjust the balance sheet. NII at Risk reported at March 31, 2024 projects that our earnings exhibit increasing profitability in a declining rate environment, consistent with our modeling at December 31, 2023. Throughout the course of 2023, the bank exhibited similar trends to the industry concerning its beta assumptions related to its non-maturity deposit portfolio. Coupled with a market shift to slowing rate increases or even rate cuts into 2024, the bank did start to position its investment strategy to protect against lower rates in the future. These two aspects are the primary drivers of moving to a virtually neutral position as measured in the +/- 100 basis point rate shocks.

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 are subject to fair value accounting. We have price risk from mortgage-backed securities, derivative instruments, and equity investments.

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 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, 2023.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

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 2024.

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	Approximate dollar value of shares that may yet be purchased under the plans or programs (2)
January 1 - 31, 2024	55,166	$ 27.26	55,023	$ 23,500,019
February 1 - 29, 2024	278	24.74	—	23,500,019
March 1 - 31, 2024	18,758	23.51	18,758	23,059,060
Total	74,202	$ 26.30	73,781	$ 23,059,060

(1) Represents shares of the Company's common stock repurchased under the employee stock purchase program and shares withheld to satisfy tax withholding obligations upon the vesting of awards of restricted stock.

(2) As previously disclosed, the board of directors of the Company approved a stock repurchase program on December 5, 2023, pursuant to which the Company is authorized to repurchase up to $25.0 million of common stock through December 31, 2024. Stock repurchases under this programs may be made from time to time on the open market, in privately negotiated transactions, or in any manner that complies with applicable securities laws, at the discretion of the Company. The timing of purchases and the number of shares repurchased under the programs are dependent upon a variety of factors including price, trading volume, corporate and regulatory requirements and market condition. The repurchase program may be suspended or discontinued at any time without notice. As of March 31, 2024, 73,781 shares of the Company's common stock have been repurchased under the program for an aggregate purchase price of $1.9 million.

ITEM 5 – OTHER INFORMATION

During the three months ended March 31, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6 – EXHIBITS

Exhibit No.	Description
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, 2024 formatted in iXBRL (Inline eXtensible Business Reporting Language): (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.
104	The cover page from Midland States Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended March 31, 2024 formatted in inline XBRL and contained in Exhibit 101.

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, 2024	By:	/s/	Jeffrey G. Ludwig
			Jeffrey G. Ludwig *President and Chief Executive Officer* (Principal Executive Officer)
Date: May 9, 2024	By:	/s/	Eric T. Lemke
			Eric T. Lemke *Chief Financial Officer* (Principal Financial 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   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, 2024

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, Eric T. Lemke, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   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, 2024

By: /s/ Eric T. Lemke
Eric T. Lemke
Chief Financial Officer
(Principal Financial 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, 2024 (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, 2024

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, Eric T. Lemke, 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, 2024 (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, 2024

By: /s/ Eric T. Lemke
Eric T. Lemke
Chief Financial Officer
(Principal Financial Officer)