**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 June 30, 2022**

☐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**<br>**Effingham, IL** | **62401** |
| (Address of principal executive offices) | (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 | Nasdaq Global Select Market |

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

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

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

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

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

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

As of July 22, 2022, the Registrant had 22,067,424 shares of outstanding common stock, $0.01 par value.

**MIDLAND STATES BANCORP, INC.**

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## PART I – FINANCIAL INFORMATION

## ITEM 1 – FINANCIAL STATEMENTS

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| | *(unaudited)* | |
| **Assets** | | |
| Cash and due from banks | $ 264,173 | $ 673,297 |
| Federal funds sold | 5,944 | 7,074 |
| Cash and cash equivalents | 270,117 | 680,371 |
| Investment securities available for sale, at fair value (allowance for credit losses of $0 and $221 at June 30, 2022 and December 31, 2021, respectively) | 760,540 | 906,603 |
| Equity securities, at fair value | 8,738 | 9,529 |
| Loans | 5,795,544 | 5,224,801 |
| Allowance for credit losses on loans | (54,898) | (51,062) |
| Total loans, net | 5,740,646 | 5,173,739 |
| Loans held for sale | 5,298 | 32,045 |
| Premises and equipment, net | 77,668 | 79,220 |
| Other real estate owned | 11,131 | 12,059 |
| Nonmarketable equity securities | 35,701 | 36,341 |
| Accrued interest receivable | 16,552 | 19,470 |
| Loan servicing rights, at lower of cost or fair value | 25,879 | 28,865 |
| Goodwill | 161,904 | 161,904 |
| Other intangible assets, net | 23,559 | 24,374 |
| Company-owned life insurance | 148,900 | 148,378 |
| Other assets | 149,179 | 130,907 |
| Total assets | $ 7,435,812 | $ 7,443,805 |
| **Liabilities and Shareholders' Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing demand deposits | $ 1,972,261 | $ 2,245,701 |
| Interest-bearing deposits | 4,212,177 | 3,864,947 |
| Total deposits | 6,184,438 | 6,110,648 |
| Short-term borrowings | 67,689 | 76,803 |
| Federal Home Loan Bank advances and other borrowings | 285,000 | 310,171 |
| Subordinated debt | 139,277 | 139,091 |
| Trust preferred debentures | 49,674 | 49,374 |
| Accrued interest payable and other liabilities | 73,546 | 93,881 |
| Total liabilities | 6,799,624 | 6,779,968 |
| | | |
| Shareholders' Equity: | | |
| Common stock, $0.01 par value; 40,000,000 shares authorized; 22,060,255 and 22,050,537 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively | 221 | 221 |
| Capital surplus | 446,894 | 445,907 |
| Retained earnings | 242,170 | 212,472 |
| Accumulated other comprehensive (loss) income, net of tax | (53,097) | 5,237 |
| Total shareholders' equity | 636,188 | 663,837 |
| Total liabilities and shareholders' equity | $ 7,435,812 | $ 7,443,805 |

*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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Interest income: | | | | |
| Loans including fees: | | | | |
| Taxable | $ 62,943 | $ 52,490 | $ 119,529 | $ 107,044 |
| Tax exempt | 514 | 650 | 1,062 | 1,320 |
| Loans held for sale | 77 | 261 | 297 | 703 |
| Investment securities: | | | | |
| Taxable | 4,055 | 3,451 | 7,952 | 6,731 |
| Tax exempt | 692 | 794 | 1,534 | 1,575 |
| Nonmarketable equity securities | 487 | 609 | 971 | 1,289 |
| Federal funds sold and cash investments | 468 | 142 | 639 | 238 |
| Total interest income | 69,236 | 58,397 | 131,984 | 118,900 |
| Interest expense: | | | | |
| Deposits | 3,810 | 2,992 | 5,971 | 6,175 |
| Short-term borrowings | 22 | 20 | 45 | 44 |
| Federal Home Loan Bank advances and other borrowings | 1,435 | 2,470 | 2,647 | 5,040 |
| Subordinated debt | 2,011 | 2,316 | 4,022 | 4,683 |
| Trust preferred debentures | 624 | 489 | 1,138 | 980 |
| Total interest expense | 7,902 | 8,287 | 13,823 | 16,922 |
| Net interest income | 61,334 | 50,110 | 118,161 | 101,978 |
| Provision for credit losses: | | | | |
| Provision for credit losses on loans | 4,741 | — | 8,873 | 3,950 |
| Provision for credit losses on unfunded commitments | 700 | (265) | 956 | (800) |
| Recapture of provision for other credit losses | — | (190) | (221) | (40) |
| Total provision for credit losses | 5,441 | (455) | 9,608 | 3,110 |
| Net interest income after provision for credit losses | 55,893 | 50,565 | 108,553 | 98,868 |
| Noninterest income: | | | | |
| Wealth management revenue | 6,143 | 6,529 | 13,282 | 12,460 |
| Residential mortgage banking revenue | 384 | 1,562 | 983 | 3,136 |
| Service charges on deposit accounts | 2,304 | 1,916 | 4,372 | 3,742 |
| Interchange revenue | 3,590 | 3,797 | 6,870 | 7,172 |
| (Loss) gain on sales of investment securities, net | (101) | 377 | (101) | 377 |
| Impairment on commercial mortgage servicing rights | (869) | (1,148) | (1,263) | (2,423) |
| Company-owned life insurance | 840 | 863 | 1,859 | 1,723 |
| Other income | 2,322 | 3,521 | 4,224 | 6,046 |
| Total noninterest income | 14,613 | 17,417 | 30,226 | 32,233 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 22,645 | 22,071 | 44,515 | 42,599 |
| Occupancy and equipment | 3,489 | 3,796 | 7,244 | 7,736 |
| Data processing | 6,082 | 6,288 | 11,955 | 12,281 |
| Professional | 1,516 | 5,549 | 3,488 | 7,734 |
| Marketing | 733 | 700 | 1,421 | 1,177 |
| Communications | 635 | 824 | 1,347 | 1,646 |
| Amortization of intangible assets | 1,318 | 1,470 | 2,716 | 2,985 |
| Federal Home Loan Bank advances prepayment fees | — | 3,669 | — | 3,677 |
| Other expense | 4,921 | 4,574 | 9,537 | 8,185 |
| Total noninterest expense | 41,339 | 48,941 | 82,223 | 88,020 |
| Income before income taxes | 29,167 | 19,041 | 56,556 | 43,081 |
| Income taxes | 7,284 | (1,083) | 13,924 | 4,419 |
| Net income | $ 21,883 | $ 20,124 | $ 42,632 | $ 38,662 |
| Per common share data: | | | | |
| Basic earnings per common share | $ 0.97 | $ 0.88 | $ 1.89 | $ 1.70 |
| Diluted earnings per common share | $ 0.97 | $ 0.88 | $ 1.89 | $ 1.69 |
| Weighted average common shares outstanding | 22,305,590 | 22,591,127 | 22,290,486 | 22,557,728 |
| Weighted average diluted common shares outstanding | 22,360,819 | 22,677,515 | 22,355,936 | 22,633,040 |

*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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net income | $ 21,883 | $ 20,124 | $ 42,632 | $ 38,662 |
| Other comprehensive loss: | | | | |
| Investment securities available for sale: | | | | |
| Unrealized (losses) gains that occurred during the period | (32,659) | 565 | (83,435) | (6,176) |
| Recapture of provision for credit loss expense | — | (190) | (221) | (40) |
| Reclassification adjustment for realized net (gains) losses on sales of investment securities included in net income | 101 | (377) | 101 | (377) |
| Income tax effect | 8,953 | — | 22,977 | 1,813 |
| Change in investment securities available for sale, net of tax | (23,605) | (2) | (60,578) | (4,780) |
| Cash flow hedges: | | | | |
| Net unrealized derivative (losses) gains on cash flow hedges | (2,010) | (2,797) | 3,095 | 4,838 |
| Reclassification adjustment for gains realized in net income | — | — | — | 314 |
| Income tax effect | 553 | 770 | (851) | (1,417) |
| Change in cash flow hedges, net of tax | (1,457) | (2,027) | 2,244 | 3,735 |
| Other comprehensive loss, net of tax | (25,062) | (2,029) | (58,334) | (1,045) |
| Total comprehensive (loss) income | $ (3,179) | $ 18,095 | $ (15,702) | $ 37,617 |

*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)*

| | Common stock | Capital surplus | Retained earnings | Accumulated other comprehensive (loss) income | Total shareholders' equity |
|---|---|---|---|---|---|
| Balances, March 31, 2022 | $ 220 | $ 446,044 | $ 226,757 | $ (28,035) | $ 644,986 |
| Net income | — | — | 21,883 | — | 21,883 |
| Other comprehensive loss | — | — | — | (25,062) | (25,062) |
| Common dividends declared ($0.29 per share) | — | — | (6,470) | — | (6,470) |
| Share-based compensation expense | — | 519 | — | — | 519 |
| Issuance of common stock under employee benefit plans | 1 | 331 | — | — | 332 |
| Balances, June 30, 2022 | $ 221 | $ 446,894 | $ 242,170 | $ (53,097) | $ 636,188 |
| | | | | | |
| Balances, December 31, 2021 | $ 221 | $ 445,907 | $ 212,472 | $ 5,237 | $ 663,837 |
| Net income | — | — | 42,632 | — | 42,632 |
| Other comprehensive loss | — | — | — | (58,334) | (58,334) |
| Common dividends declared ($0.58 per share) | — | — | (12,934) | — | (12,934) |
| Common stock repurchased | (1) | (1,108) | — | — | (1,109) |
| Share-based compensation expense | — | 1,046 | — | — | 1,046 |
| Issuance of common stock under employee benefit plans | 1 | 1,049 | — | — | 1,050 |
| Balances, June 30, 2022 | $ 221 | $ 446,894 | $ 242,170 | $ (53,097) | $ 636,188 |
| | | | | | |
| Balances, March 31, 2021 | $ 224 | $ 454,264 | $ 168,564 | $ 12,415 | $ 635,467 |
| Net income | — | — | 20,124 | — | 20,124 |
| Other comprehensive loss | — | — | — | (2,029) | (2,029) |
| Common dividends declared ($0.28 per share) | — | — | (6,327) | — | (6,327) |
| Share-based compensation expense | — | 484 | — | — | 484 |
| Issuance of common stock under employee benefit plans | — | 467 | — | — | 467 |
| Balances, June 30, 2021 | $ 224 | $ 455,215 | $ 182,361 | $ 10,386 | $ 648,186 |
| | | | | | |
| Balances, December 31, 2020 | $ 223 | $ 453,410 | $ 156,327 | $ 11,431 | $ 621,391 |
| Net income | — | — | 38,662 | — | 38,662 |
| Other comprehensive loss | — | — | — | (1,045) | (1,045) |
| Common dividends declared ($0.56 per share) | — | — | (12,628) | — | (12,628) |
| Common stock repurchased | (1) | (1,207) | — | — | (1,208) |
| Share-based compensation expense | — | 986 | — | — | 986 |
| Issuance of common stock under employee benefit plans | 2 | 2,026 | — | — | 2,028 |
| Balances, June 30, 2021 | $ 224 | $ 455,215 | $ 182,361 | $ 10,386 | $ 648,186 |

*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)*

| | Six months ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| Cash flows from operating activities: | | |
| Net income | $ 42,632 | $ 38,662 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 9,608 | 3,110 |
| Depreciation on premises and equipment | 2,445 | 2,851 |
| Amortization of intangible assets | 2,716 | 2,985 |
| Amortization of operating lease right-of-use asset | 904 | 845 |
| Amortization of loan servicing rights | 1,507 | 1,708 |
| Share-based compensation expense | 1,046 | 986 |
| Increase in cash surrender value of life insurance | (1,671) | (1,723) |
| Gain on proceeds from company-owned life insurance | (188) | — |
| Investment securities amortization, net | 1,440 | 2,148 |
| Loss (gain) on sales of investment securities, net | 101 | (377) |
| Loss (gain) on sales of other real estate owned | 120 | (450) |
| Impairment on other real estate owned | 404 | 417 |
| Origination of loans held for sale | (100,806) | (317,350) |
| Proceeds from sales of loans held for sale | 203,545 | 494,541 |
| Gain on sale of loans held for sale | (799) | (2,728) |
| Impairment on commercial mortgage servicing rights | 1,263 | 2,423 |
| Net change in operating assets and liabilities: | | |
| Accrued interest receivable | 2,954 | 922 |
| Other assets | (17,160) | (12,094) |
| Accrued expenses and other liabilities | 4,416 | (223) |
| Net cash provided by operating activities | 154,477 | 216,653 |
| Cash flows from investing activities: | | |
| Purchases of investment securities available for sale | (99,882) | (206,033) |
| Proceeds from sales of investment securities available for sale | 107,740 | 12,617 |
| Maturities and payments on investment securities available for sale | 53,329 | 114,808 |
| Purchases of equity securities | (379) | (186) |
| Net (increase) decrease in loans | (634,229) | 212,886 |
| Purchases of premises and equipment | (928) | (1,000) |
| Proceeds from sale of premises and equipment | 143 | 590 |
| Purchases of nonmarketable equity securities | (1,860) | — |
| Proceeds from sales of nonmarketable equity securities | 2,500 | 7,923 |
| Proceeds from sales of other real estate owned | 505 | 8,069 |
| Purchases of company-owned life insurance | — | (550) |
| Proceeds from settlements of company-owned life insurance | 1,337 | — |
| Net cash received (paid) on acquisition | 60,275 | (2,797) |
| Net cash (used in) provided by investing activities | (511,449) | 146,327 |
| Cash flows from financing activities: | | |
| Net (decrease) increase in deposits | (6,004) | 95,335 |
| Net (decrease) increase in short-term borrowings | (9,114) | 7,028 |
| Proceeds from FHLB borrowings | 700,000 | 300,000 |
| Payments made on FHLB borrowings and other borrowings | (725,000) | (639,000) |
| Payments made on subordinated debt | — | (31,075) |
| Redemption of Series G preferred stock | (171) | — |
| Cash dividends paid on common stock | (12,934) | (12,628) |
| Common stock repurchased | (1,109) | (1,208) |
| Proceeds from issuance of common stock under employee benefit plans | 1,050 | 2,028 |
| Net cash used in financing activities | (53,282) | (279,520) |
| Net (decrease) increase in cash and cash equivalents | (410,254) | 83,460 |
| Cash and cash equivalents: | | |
| Beginning of period | 680,371 | 341,640 |
| End of period | $ 270,117 | $ 425,100 |
| Supplemental disclosures of cash flow information: | | |
| Cash payments for: | | |
| Interest paid on deposits and borrowed funds | $ 13,746 | $ 17,369 |
| Income tax paid, net of refunds | 16,606 | 12,907 |
| Supplemental disclosures of noncash investing and financing activities: | | |
| Transfer of loans to loans held for sale | 74,997 | 48,494 |
| Transfer of loans to other real estate owned | 102 | 485 |

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

# MIDLAND STATES BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(UNAUDITED)

### NOTE 1 – BUSINESS DESCRIPTION

Midland States Bancorp, Inc. (the “Company,” “we,” “our,” or “us”) is a diversified financial holding company headquartered in Effingham, Illinois. Our wholly owned banking subsidiary, Midland States Bank (the “Bank”), has branches across Illinois and in Missouri, and provides a full range of commercial and consumer banking products and services, business equipment financing, merchant credit card services, trust and investment management 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; commercial Federal Housing Administration ("FHA") mortgage loan servicing; residential mortgage loan originations, sales and servicing; and, from time to time, gains on sales of assets. Our principal expenses include interest expense on deposits and borrowings, operating expenses, such as salaries and employee benefits, occupancy and equipment expenses, data processing costs, professional fees and other noninterest expenses, provisions for credit losses and income tax expense.

### NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation***

The consolidated financial statements of the Company are unaudited and should be read in conjunction with the consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission (the “SEC”) on February 25, 2022. The consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“GAAP”) and conform to predominant practices within the banking industry. A discussion of these policies can be found in Note 1 – Summary of Significant Accounting Policies included in the Company's 2021 Annual Report on Form 10-K. Certain reclassifications of 2021 amounts have been made to conform to the 2022 presentation. Management has evaluated subsequent events for potential recognition or disclosure. Operating results for the three and six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022 or any other period.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the parent company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Assets held for customers in a fiduciary or agency capacity 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.

***Accounting Guidance Issued But Not Yet Adopted***

***FASB ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*** – In March 2020, the FASB issued ASU No. 2020-04 which provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04 was effective upon issuance and generally can be applied through December 31, 2022.

The Company has been monitoring its volume of commercial loans tied to LIBOR. In 2021, the Company began prioritizing SOFR as the preferred alternative reference rate with plans to cease booking LIBOR based commitments after the end of 2021. Loans with a maturity after June 2023 are being reviewed and monitored to ensure there is appropriate fallback language in place when LIBOR is no longer published. Loans with a maturity date before that time should naturally mature and be re-underwritten with the alternative index rate.

In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848): Scope, which addresses questions about whether Topic 848 can be applied to derivative instruments that do not reference a rate that is expected to be discontinued but that use an interest rate for margining, discounting, or contract price alignment that is expected to be modified as a result of reference rate reform, commonly referred to as the "discounting transition". The amendments clarify that certain optional expedients and exceptions in Topic 848 do apply to derivatives that are affected by the discounting transition. The amendments in ASU 2021-01 are effective immediately.

The Company believes the adoption of this guidance on activities subsequent to December 31, 2021 through December 31, 2022 will not have a material impact on the consolidated financial statements.

***FASB ASU No. 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*** – In March 2022, the FASB issued ASU No. 2022-02, which 1) eliminates the accounting guidance for troubled debt restructurings ("TDRs") by creditors while enhancing the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty; and 2) requires that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022 and the amendments should be applied prospectively, although the entity has the option to apply a modified retrospective transition method for the recognition and measurement of TDRs, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

## NOTE 3 – ACQUISITIONS

***FNBC Bank & Trust***

On June 17, 2022, the Company completed its branch acquisition from FNBC Bank & Trust ("FNBC") whereby we acquired $79.8 million of deposits and $16.6 million of loans as well as other assets and liabilities associated with FNBC's branches in Mokena and Yorkville, Illinois. The acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identified tangible and intangible assets acquired and liabilities assumed at their estimated acquisition date fair values, while $0.5 million of transaction and integration costs were expensed as incurred.

A summary of the fair value of the assets acquired and liabilities assumed are included in the table below.

| **(dollars in thousands)** | **FNBC** |
|---|---|
| Assets acquired: | |
| Cash and cash equivalents | $ 60,275 |
| Loans | 16,632 |
| Premises and equipment, net | 950 |
| Accrued interest receivable | 36 |
| Intangible assets | 1,901 |
| Total assets acquired | $ 79,794 |
| Liabilities assumed: | |
| Deposits | $ 79,794 |
| Total liabilities assumed | $ 79,794 |
| Intangible assets: | |
| Core deposit intangible | $ 1,901 |
| Estimated useful life | 10 years |

***ATG Trust Company***

On June 1, 2021, the Company completed its acquisition of substantially all of the trust assets of ATG Trust Company (“ATG Trust”), a trust company based in Chicago, Illinois, with approximately $399.7 million in assets under management. In aggregate, the Company acquired the assets of ATG Trust for $2.7 million in cash. The acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired at their estimated acquisition date fair values, while $0.4 million of transaction and integration costs associated with the acquisition have been expensed during 2021.

## NOTE 4 – INVESTMENT SECURITIES

### *Investment Securities Available for Sale*

Investment securities available for sale at June 30, 2022 and December 31, 2021 were as follows:

| (dollars in thousands) | June 30, 2022 Amortized cost | Gross unrealized gains | Gross unrealized losses | Allowance for credit losses | Fair value |
|---|---|---|---|---|---|
| **Investment securities available for sale** | | | | | |
| U.S. Treasury securities | $ 68,390 | $ — | $ 4,394 | $ — | $ 63,996 |
| U.S. government sponsored entities and U.S. agency securities | 33,756 | 66 | 3,519 | — | 30,303 |
| Mortgage-backed securities - agency | 480,408 | 17 | 56,587 | — | 423,838 |
| Mortgage-backed securities - non-agency | 26,118 | — | 3,341 | — | 22,777 |
| State and municipal securities | 113,920 | 525 | 7,757 | — | 106,688 |
| Corporate securities | 119,374 | 56 | 6,492 | — | 112,938 |
| Total available for sale securities | $ 841,966 | $ 664 | $ 82,090 | $ — | $ 760,540 |

| (dollars in thousands) | December 31, 2021 Amortized cost | Gross unrealized gains | Gross unrealized losses | Allowance for credit losses | Fair value |
|---|---|---|---|---|---|
| **Investment securities available for sale** | | | | | |
| U.S. Treasury securities | $ 65,347 | $ — | $ 430 | $ — | $ 64,917 |
| U.S. government sponsored entities and U.S. agency securities | 34,569 | 79 | 831 | — | 33,817 |
| Mortgage-backed securities - agency | 444,484 | 2,687 | 6,901 | — | 440,270 |
| Mortgage-backed securities - non-agency | 29,037 | 50 | 381 | — | 28,706 |
| State and municipal securities | 137,904 | 5,561 | 366 | — | 143,099 |
| Corporate securities | 193,354 | 3,128 | 467 | 221 | 195,794 |
| Total available for sale securities | $ 904,695 | $ 11,505 | $ 9,376 | $ 221 | $ 906,603 |

The following is a summary of the amortized cost and fair value of the investment securities available for sale, by maturity, at June 30, 2022. 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 | $ 12,828 | $ 12,898 |
| After one year through five years | 134,666 | 127,807 |
| After five years through ten years | 156,446 | 145,497 |
| After ten years | 31,500 | 27,723 |
| Mortgage-backed securities | 506,526 | 446,615 |
| Total available for sale securities | $ 841,966 | $ 760,540 |

Proceeds and gross realized gains on sales of investment securities available for sale for the three and six months ended June 30, 2022 and 2021, are summarized as follows:

| (dollars in thousands) | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| **Investment securities available for sale** | | | | |
| Proceeds from sales | $ 107,740 | $ 12,617 | $ 107,740 | $ 12,617 |
| Gross realized gains on sales | 716 | 377 | 716 | 377 |
| Gross realized losses on sales | (817) | — | (817) | — |

The table below presents a rollforward by security type for the three and six months ended June 30, 2022 and 2021 of the allowance for credit losses on investment securities available for sale held at period end:

| (dollars in thousands) | Mortgage-backed securities - non-agency | State and municipal securities | Corporate securities | Total |
|---|---|---|---|---|
| **Changes in allowance for credit losses on investment securities available for sale:** | | | | |
| **For the three months ended June 30, 2022** | | | | |
| Balance, beginning of period | $ — | $ — | $ — | $ — |
| Current-period provision for expected credit losses | — | — | — | — |
| Balance, end of period | $ — | $ — | $ — | $ — |
| **For the six months ended June 30, 2022** | | | | |
| Balance, beginning of period | $ — | $ — | $ 221 | $ 221 |
| Current-period provision for expected credit losses | — | — | (221) | (221) |
| Balance, end of period | $ — | $ — | $ — | $ — |
| **For the three months ended June 30, 2021** | | | | |
| Balance, beginning of period | $ 28 | $ 28 | $ 460 | $ 516 |
| Current-period provision for expected credit losses | 85 | (28) | (247) | (190) |
| Balance, end of period | $ 113 | $ — | $ 213 | $ 326 |
| **For the six months ended June 30, 2021** | | | | |
| Balance, beginning of period | $ — | $ 29 | $ 337 | $ 366 |
| Current-period provision for expected credit losses | 113 | (29) | (124) | (40) |
| Balance, end of period | $ 113 | $ — | $ 213 | $ 326 |

Unrealized losses and fair values for investment securities available for sale as of June 30, 2022 and December 31, 2021, for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows:

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 63,996 | $ 4,394 | $ — | $ — | $ 63,996 | $ 4,394 |
| U.S. government sponsored entities and U.S. agency securities | 13,042 | 1,296 | 12,777 | 2,223 | 25,819 | 3,519 |
| Mortgage-backed securities - agency | 319,343 | 35,977 | 103,015 | 20,610 | 422,358 | 56,587 |
| Mortgage-backed securities - non-agency | 17,947 | 2,297 | 4,830 | 1,044 | 22,777 | 3,341 |
| State and municipal securities | 58,112 | 6,667 | 6,118 | 1,090 | 64,230 | 7,757 |
| Corporate securities | 100,250 | 6,383 | 2,869 | 109 | 103,119 | 6,492 |
| Total available for sale securities | $ 572,690 | $ 57,014 | $ 129,609 | $ 25,076 | $ 702,299 | $ 82,090 |

| (dollars in thousands) | December 31, 2021 Less than 12 Months Fair value | Unrealized loss | 12 Months or more Fair value | Unrealized loss | Total Fair value | Unrealized loss |
|---|---|---|---|---|---|---|
| **Investment securities available for sale** | | | | | | |
| U.S. Treasury securities | $ 64,917 | $ 430 | $ — | $ — | $ 64,917 | $ 430 |
| U.S. government sponsored entities and U.S. agency securities | 17,487 | 263 | 9,432 | 568 | 26,919 | 831 |
| Mortgage-backed securities - agency | 317,372 | 6,633 | 9,051 | 268 | 326,423 | 6,901 |
| Mortgage-backed securities - non-agency | 24,095 | 381 | — | — | 24,095 | 381 |
| State and municipal securities | 27,324 | 270 | 2,538 | 96 | 29,862 | 366 |
| Corporate securities | — | — | — | — | — | — |
| Total available for sale securities | $ 451,195 | $ 7,977 | $ 21,021 | $ 932 | $ 472,216 | $ 8,909 |

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

At June 30, 2022, 326 investment securities available for sale had unrealized losses with aggregate depreciation of 10.47% from their amortized cost basis. The unrealized losses related principally to the fluctuations in the current interest rate environment. In analyzing an issuer’s financial condition, we consider whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred. The Company does not intend to sell and it is likely that the Company will not be required to sell the securities prior to their anticipated recovery.

***Equity Securities***

Equity securities are recorded at fair value and totaled $8.7 million and $9.5 million at June 30, 2022 and December 31, 2021, respectively.

During both the three and six months ended June 30, 2022 and 2021, there were no sales of equity securities. Net unrealized gains and losses on equity securities for the three and six months ended June 30, 2022 and 2021 are summarized below:

| (dollars in thousands) | Three Months Ended June 30, 2022 | 2021 | Six Months Ended June 30, 2022 | 2021 |
|---|---|---|---|---|
| **Equity securities** | | | | |
| Net unrealized (losses) gains | $ (425) | $ 145 | $ (947) | $ 226 |

Net unrealized gains and losses on equity securities were recorded in other income in the consolidated statements of income.

## NOTE 5 – LOANS

The following table presents total loans outstanding by portfolio class, as of June 30, 2022 and December 31, 2021:

| (dollars in thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Commercial: | | |
| Commercial | $ 747,782 | $ 770,670 |
| Commercial other | 643,476 | 679,518 |
| Commercial real estate: | | |
| Commercial real estate non-owner occupied | 1,480,030 | 1,105,333 |
| Commercial real estate owner occupied | 524,587 | 469,658 |
| Multi-family | 265,749 | 171,875 |
| Farmland | 65,289 | 69,962 |
| Construction and land development | 203,955 | 193,749 |
| Total commercial loans | 3,930,868 | 3,460,765 |
| Residential real estate: | | |
| Residential first lien | 279,628 | 274,412 |
| Other residential | 60,475 | 63,739 |
| Consumer: | | |
| Consumer | 98,558 | 106,008 |
| Consumer other | 986,813 | 896,597 |
| Lease financing | 439,202 | 423,280 |
| Total loans, gross | $ 5,795,544 | $ 5,224,801 |

Total loans include net deferred loan costs of $3.8 million and $4.6 million at June 30, 2022 and December 31, 2021, respectively, and unearned discounts of $49.7 million and $46.1 million within the lease financing portfolio at June 30, 2022 and December 31, 2021, respectively.

At June 30, 2022, the Company had residential real estate loans held for sale totaling $5.3 million compared to commercial real estate and residential real estate loans held for sale totaling $32.0 million at December 31, 2021. The Company sold commercial real estate, residential real estate and consumer loans with proceeds totaling $100.4 million and $203.5 million during the three and six months ended June 30, 2022, respectively, and $161.9 million and $494.5 million during the comparable periods in 2021, 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. Paycheck Protection Program ("PPP") loans of $6.4 million and $52.5 million as of June 30, 2022 and December 31, 2021, respectively, and commercial FHA warehouse lines of $23.9 million and $91.9 million as of June 30, 2022 and December 31, 2021, respectively, 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 normal terms, including collateralization and interest rates prevailing at the time. The aggregate loans outstanding to the Company's directors, executive officers, principal shareholders and their affiliates totaled $23.1 million and $13.9 million at June 30, 2022 and December 31, 2021, respectively. The new loans, other additions, repayments and other reductions for the three and six months ended June 30, 2022 and 2021, are summarized as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2022** | **2021** | **2022** | **2021** |
| Beginning balance | $ 23,374 | $ 19,372 | $ 13,869 | $ 19,693 |
| New loans and other additions | — | 404 | 9,805 | 1,024 |
| Repayments and other reductions | (277) | (1,014) | (577) | (1,955) |
| Ending balance | $ 23,097 | $ 18,762 | $ 23,097 | $ 18,762 |

The following table represents, by loan portfolio segment, a summary of changes in the allowance for credit losses on loans for the three and six months ended June 30, 2022 and 2021:

| | 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 June 30, 2022:** | | | | | | | |
| Balance, beginning of period | $ 12,621 | $ 26,277 | $ 816 | $ 3,288 | $ 2,672 | $ 7,264 | $ 52,938 |
| Provision for credit losses on loans | (111) | 4,284 | 279 | 133 | 415 | (259) | 4,741 |
| Charge-offs | (60) | (2,625) | — | (46) | (191) | (499) | (3,421) |
| Recoveries | 298 | (62) | 6 | 41 | 98 | 259 | 640 |
| Balance, end of period | $ 12,748 | $ 27,874 | $ 1,101 | $ 3,416 | $ 2,994 | $ 6,765 | $ 54,898 |
| **Changes in allowance for credit losses on loans for the six months ended June 30, 2022:** | | | | | | | |
| Balance, beginning of period | $ 14,375 | $ 22,993 | $ 972 | $ 2,695 | $ 2,558 | $ 7,469 | $ 51,062 |
| Provision for credit losses on loans | 278 | 7,728 | 123 | 717 | 672 | (645) | 8,873 |
| Charge-offs | (2,214) | (2,852) | (6) | (150) | (496) | (705) | (6,423) |
| Recoveries | 309 | 5 | 12 | 154 | 260 | 646 | 1,386 |
| Balance, end of period | $ 12,748 | $ 27,874 | $ 1,101 | $ 3,416 | $ 2,994 | $ 6,765 | $ 54,898 |
| **Changes in allowance for credit losses on loans for the three months ended June 30, 2021:** | | | | | | | |
| Balance, beginning of period | $ 17,339 | $ 31,821 | $ 1,239 | $ 3,981 | $ 2,271 | $ 6,036 | $ 62,687 |
| Provision for credit losses on loans | 5 | (168) | 414 | (177) | 84 | (158) | — |
| Charge-offs | (2,634) | (946) | (1) | (141) | (218) | (516) | (4,456) |
| Recoveries | 139 | 11 | 81 | 20 | 155 | 27 | 433 |
| Balance, end of period | $ 14,849 | $ 30,718 | $ 1,733 | $ 3,683 | $ 2,292 | $ 5,389 | $ 58,664 |
| **Changes in allowance for credit losses on loans for the six months ended June 30, 2021:** | | | | | | | |
| Balance, beginning of period | $ 19,851 | $ 25,465 | $ 1,433 | $ 3,929 | $ 2,338 | $ 7,427 | $ 60,443 |
| Provision for credit losses on loans | (2,016) | 6,959 | 425 | (109) | 137 | (1,446) | 3,950 |
| Charge-offs | (3,140) | (1,719) | (272) | (251) | (460) | (769) | (6,611) |
| Recoveries | 154 | 13 | 147 | 114 | 277 | 177 | 882 |
| Balance, end of period | $ 14,849 | $ 30,718 | $ 1,733 | $ 3,683 | $ 2,292 | $ 5,389 | $ 58,664 |

The Company utilizes a combination of models which measure probability of default and loss given default methodology 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 mean, 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.

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 amortized cost basis of individually evaluated loans on nonaccrual status as of June 30, 2022 and December 31, 2021:

| | June 30, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Nonaccrual with allowance** | **Nonaccrual with no allowance** | **Total nonaccrual** | **Nonaccrual with allowance** | **Nonaccrual with no allowance** | **Total nonaccrual** |
| Commercial: | | | | | | |
| Commercial | $ 4,528 | $ 2,275 | $ 6,803 | $ 4,681 | $ 2,275 | $ 6,956 |
| Commercial other | 2,950 | — | 2,950 | 4,467 | — | 4,467 |
| Commercial real estate: | | | | | | |
| Commercial real estate non-owner occupied | 1,848 | 19,003 | 20,851 | 1,914 | 9,912 | 11,826 |
| Commercial real estate owner occupied | 2,627 | 1,340 | 3,967 | 2,164 | 1,340 | 3,504 |
| Multi-family | 177 | 9,056 | 9,233 | 201 | 1,967 | 2,168 |
| Farmland | 150 | — | 150 | 155 | — | 155 |
| Construction and land development | 251 | — | 251 | 83 | — | 83 |
| Total commercial loans | 12,531 | 31,674 | 44,205 | 13,665 | 15,494 | 29,159 |
| Residential real estate: | | | | | | |
| Residential first lien | 3,685 | 639 | 4,324 | 3,116 | 832 | 3,948 |
| Other residential | 933 | — | 933 | 836 | — | 836 |
| Consumer: | | | | | | |
| Consumer | 97 | — | 97 | 110 | — | 110 |
| Lease financing | 1,399 | — | 1,399 | 1,510 | — | 1,510 |
| Total loans | $ 18,645 | $ 32,313 | $ 50,958 | $ 19,237 | $ 16,326 | $ 35,563 |

There was no interest income recognized on nonaccrual loans during the three and six months ended June 30, 2022 and 2021 while the loans were in nonaccrual status. Additional interest income that would have been recorded on nonaccrual loans had they been current in accordance with their original terms was $0.5 million and $1.3 million for the three and six months ended June 30, 2022, respectively, and $0.7 million and $1.4 million for the three and six months ended June 30, 2021, 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 June 30, 2022 and December 31, 2021:

| | Type of Collateral | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Real Estate** | **Blanket Lien** | **Equipment** | **Total** |
| **June 30, 2022** | | | | |
| Commercial | | | | |
| Commercial | $ — | $ 4,890 | $ — | $ 4,890 |
| Commercial other | — | — | — | — |
| Commercial real estate | | | | |
| Non-owner occupied | 20,062 | — | — | 20,062 |
| Owner occupied | 1,336 | — | — | 1,336 |
| Multi-family | 1,905 | — | — | 1,905 |
| Total collateral dependent loans | $ 23,303 | $ 4,890 | $ — | $ 28,193 |
| | | | | |
| **December 31, 2021** | | | | |
| Commercial | | | | |
| Commercial | $ — | $ 5,402 | $ — | $ 5,402 |
| Commercial other | — | — | 502 | 502 |
| Commercial real estate | | | | |
| Non-owner occupied | 11,604 | — | — | 11,604 |
| Owner occupied | 1,336 | — | — | 1,336 |
| Multi-family | 1,969 | — | — | 1,969 |
| Total collateral dependent loans | $ 14,909 | $ 5,402 | $ 502 | $ 20,813 |

The aging status of the recorded investment in loans by portfolio as of June 30, 2022 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 | $ 143 | $ 92 | $ — | $ 235 | $ 6,803 | $ 740,744 | $ 747,782 |
| Commercial other | 3,136 | 2,425 | — | 5,561 | 2,950 | 634,965 | 643,476 |
| Commercial real estate: | | | | | | | |
| Commercial real estate non-owner occupied | 741 | 26 | — | 767 | 20,851 | 1,458,412 | 1,480,030 |
| Commercial real estate owner occupied | 76 | 338 | — | 414 | 3,967 | 520,206 | 524,587 |
| Multi-family | 162 | — | — | 162 | 9,233 | 256,354 | 265,749 |
| Farmland | 190 | — | — | 190 | 150 | 64,949 | 65,289 |
| Construction and land development | — | — | — | — | 251 | 203,704 | 203,955 |
| Total commercial loans | 4,448 | 2,881 | — | 7,329 | 44,205 | 3,879,334 | 3,930,868 |
| Residential real estate: | | | | | | | |
| Residential first lien | 64 | 318 | — | 382 | 4,324 | 274,922 | 279,628 |
| Other residential | 109 | 41 | — | 150 | 933 | 59,392 | 60,475 |
| Consumer: | | | | | | | |
| Consumer | 121 | 6 | — | 127 | 97 | 98,334 | 98,558 |
| Consumer other | 3,711 | 2,258 | — | 5,969 | — | 980,844 | 986,813 |
| Lease financing | 1,654 | 601 | — | 2,255 | 1,399 | 435,548 | 439,202 |
| Total loans | $ 10,107 | $ 6,105 | $ — | $ 16,212 | $ 50,958 | $ 5,728,374 | $ 5,795,544 |

The aging status of the recorded investment in loans by portfolio as of December 31, 2021 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 | $ 283 | $ 1,082 | $ — | $ 1,365 | $ 6,956 | $ 762,349 | $ 770,670 |
| Commercial other | 2,402 | 2,110 | 5 | 4,517 | 4,467 | 670,534 | 679,518 |
| Commercial real estate: | | | | | | | |
| Commercial real estate non-owner occupied | 585 | 243 | — | 828 | 11,826 | 1,092,679 | 1,105,333 |
| Commercial real estate owner occupied | 232 | 730 | — | 962 | 3,504 | 465,192 | 469,658 |
| Multi-family | — | — | — | — | 2,168 | 169,707 | 171,875 |
| Farmland | — | 26 | — | 26 | 155 | 69,781 | 69,962 |
| Construction and land development | 195 | 195 | — | 390 | 83 | 193,276 | 193,749 |
| Total commercial loans | 3,697 | 4,386 | 5 | 8,088 | 29,159 | 3,423,518 | 3,460,765 |
| Residential real estate: | | | | | | | |
| Residential first lien | 113 | 285 | — | 398 | 3,948 | 270,066 | 274,412 |
| Other residential | 456 | 151 | — | 607 | 836 | 62,296 | 63,739 |
| Consumer: | | | | | | | |
| Consumer | 127 | 20 | — | 147 | 110 | 105,751 | 106,008 |
| Consumer other | 4,423 | 2,358 | 1 | 6,782 | — | 889,815 | 896,597 |
| Lease financing | 1,253 | 245 | — | 1,498 | 1,510 | 420,272 | 423,280 |
| Total loans | $ 10,069 | $ 7,445 | $ 6 | $ 17,520 | $ 35,563 | $ 5,171,718 | $ 5,224,801 |

***Troubled Debt Restructurings ("TDRs")***

Loans modified as TDRs for commercial and commercial real estate loans generally consist of allowing commercial borrowers to defer scheduled principal payments and make interest only payments for a specified period of time at the stated interest rate of the original loan agreement or lower payments due to a modification of the loans' contractual terms. TDRs are transferred to nonaccrual status when it is probable that any remaining principal and interest payments due on the loan will not be collected in accordance with the contractual terms of the loan. TDRs that subsequently default are individually evaluated for impairment at the time of default. The outstanding balance of modifications made as a result of COVID, that were not considered TDRs under the Cornavirus Aid, Relief, and Economic Security Act, as amended by Section 541 of the Consolidated Appropriations Act, totaled $13.3 million at December 31, 2021. There were no such TDRs at June 30, 2022.

The Company's TDRs are identified on a case-by-case basis in connection with the ongoing loan collection processes. The following table presents TDRs by loan portfolio as of June 30, 2022 and December 31, 2021:

| | June 30, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Accruing (1) | Non-accrual (2) | Total | Accruing (1) | Non-accrual (2) | Total |
| Commercial | $ 1,826 | $ 550 | $ 2,376 | $ 833 | $ 1,422 | $ 2,255 |
| Commercial real estate | 115 | 2,851 | 2,966 | 1,522 | 3,302 | 4,824 |
| Construction and land development | 32 | — | 32 | 37 | — | 37 |
| Residential real estate | 2,917 | 1,188 | 4,105 | 3,128 | 784 | 3,912 |
| Consumer | 157 | — | 157 | 98 | — | 98 |
| Lease financing | 878 | 84 | 962 | 1,394 | 241 | 1,635 |
| Total loans | $ 5,925 | $ 4,673 | $ 10,598 | $ 7,012 | $ 5,749 | $ 12,761 |

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

The allowance for credit losses on TDRs totaled $0.5 million and $0.7 million as of June 30, 2022 and December 31, 2021, respectively. The Company had no unfunded commitments in connection with TDRs at June 30, 2022 and December 31, 2021.

The following table presents a summary of loans by portfolio that were restructured during the three and six months ended June 30, 2022 and 2021. There were no loans modified as TDRs within the previous twelve months that subsequently defaulted during the three and six months ended June 30, 2022 or 2021:

| | Commercial loan portfolio | | | Other loan portfolio | | | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Commercial | Commercial real estate | Construction and land development | Residential real estate | Consumer | Lease financing | Total |
| **For the three months ended June 30, 2022** | | | | | | | |
| *Troubled debt restructurings:* | | | | | | | |
| Number of loans | 2 | 1 | — | 2 | 1 | — | 6 |
| Pre-modification outstanding balance | $ 705 | $ 6 | $ — | $ 176 | $ 66 | $ — | $ 953 |
| Post-modification outstanding balance | 705 | 6 | — | 176 | 66 | — | 953 |
| **For the six months ended June 30, 2022** | | | | | | | |
| *Troubled debt restructurings:* | | | | | | | |
| Number of loans | 4 | 1 | — | 5 | 3 | 2 | 15 |
| Pre-modification outstanding balance | $ 1,324 | $ 6 | $ — | $ 204 | $ 107 | $ 84 | $ 1,725 |
| Post-modification outstanding balance | 1,324 | 6 | — | 204 | 105 | 84 | 1,723 |
| **For the three months ended June 30, 2021** | | | | | | | |
| *Troubled debt restructurings:* | | | | | | | |
| Number of loans | 5 | 1 | — | 1 | 1 | 1 | 9 |
| Pre-modification outstanding balance | $ 609 | $ 1,432 | $ — | $ 136 | $ 19 | $ 505 | $ 2,701 |
| Post-modification outstanding balance | 609 | 1,432 | — | 139 | 19 | 505 | 2,704 |
| **For the six months ended June 30, 2021** | | | | | | | |
| *Troubled debt restructurings:* | | | | | | | |
| Number of loans | 5 | 1 | 1 | 3 | 3 | 1 | 14 |
| Pre-modification outstanding balance | $ 609 | $ 1,432 | $ 49 | $ 191 | $ 50 | $ 505 | $ 2,836 |
| Post-modification outstanding balance | 609 | 1,432 | 40 | 195 | 50 | 505 | 2,831 |

***Credit Quality Monitoring***

The Company maintains loan policies and credit underwriting standards as part of the process of managing credit risk. These standards include making loans generally within the Company’s four main regions, which include eastern, northern and southern Illinois and the St. Louis metropolitan area. 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 June 30, 2022 and December 31, 2021:

| | | | June 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Term Loans Amortized Cost Basis by Origination Year | | | | | | | |
| (dollars in thousands) | | | 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving loans | Total |
| Commercial | Commercial | Acceptable credit quality | $ 42,773 | $ 104,834 | $ 72,395 | $ 30,577 | $ 19,403 | $ 53,815 | $ 394,649 | $ 718,446 |
| | | Special mention | — | 113 | — | 325 | 1,279 | 282 | 1,887 | 3,886 |
| | | Substandard | — | 364 | — | 631 | 1,822 | 4,260 | 11,570 | 18,647 |
| | | Substandard – nonaccrual | — | 340 | — | 370 | 174 | 383 | 5,536 | 6,803 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 42,773 | 105,651 | 72,395 | 31,903 | 22,678 | 58,740 | 413,642 | 747,782 |
| | Commercial other | Acceptable credit quality | 132,949 | 182,457 | 131,480 | 77,820 | 20,303 | 359 | 79,421 | 624,789 |
| | | Special mention | — | 210 | 1,818 | 9,055 | 3,185 | — | — | 14,268 |
| | | Substandard | — | — | — | 61 | — | — | 1,408 | 1,469 |
| | | Substandard – nonaccrual | 422 | 712 | 26 | 1,216 | 574 | — | — | 2,950 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 133,371 | 183,379 | 133,324 | 88,152 | 24,062 | 359 | 80,829 | 643,476 |
| Commercial real estate | Non-owner occupied | Acceptable credit quality | 453,041 | 433,844 | 143,804 | 113,828 | 19,577 | 187,187 | 3,203 | 1,354,484 |
| | | Special mention | 1,439 | 26 | 3,476 | 15,341 | 313 | 7,211 | — | 27,806 |
| | | Substandard | 663 | 109 | — | 37,065 | 1,641 | 37,161 | 250 | 76,889 |
| | | Substandard – nonaccrual | — | 744 | 859 | 5,879 | 10,246 | 3,123 | — | 20,851 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 455,143 | 434,723 | 148,139 | 172,113 | 31,777 | 234,682 | 3,453 | 1,480,030 |
| | Owner occupied | Acceptable credit quality | 97,287 | 138,775 | 68,158 | 45,755 | 34,857 | 115,714 | 4,548 | 505,094 |
| | | Special mention | — | 141 | — | 175 | 160 | 1,824 | 27 | 2,327 |
| | | Substandard | 47 | 4,187 | 585 | 2,901 | — | 5,182 | 297 | 13,199 |
| | | Substandard – nonaccrual | — | 402 | 320 | 157 | 333 | 2,755 | — | 3,967 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 97,334 | 143,505 | 69,063 | 48,988 | 35,350 | 125,475 | 4,872 | 524,587 |
| | Multi-family | Acceptable credit quality | 138,000 | 52,078 | 19,800 | 475 | 24,927 | 16,031 | 1,597 | 252,908 |
| | | Special mention | — | — | — | — | — | — | — | — |
| | | Substandard | — | — | — | — | — | 3,608 | — | 3,608 |
| | | Substandard – nonaccrual | — | 969 | — | 114 | — | 8,150 | — | 9,233 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 138,000 | 53,047 | 19,800 | 589 | 24,927 | 27,789 | 1,597 | 265,749 |
| | Farmland | Acceptable credit quality | 3,337 | 16,384 | 13,958 | 4,126 | 3,158 | 21,255 | 1,751 | 63,969 |
| | | Special mention | — | — | — | — | — | 162 | — | 162 |
| | | Substandard | — | 15 | — | 166 | 13 | 633 | 181 | 1,008 |
| | | Substandard – nonaccrual | — | — | — | — | 101 | — | 49 | 150 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 3,337 | 16,399 | 13,958 | 4,292 | 3,272 | 22,050 | 1,981 | 65,289 |
| Construction and land development | | Acceptable credit quality | 49,052 | 67,643 | 46,495 | 8,052 | 4,102 | 2,363 | 24,033 | 201,740 |
| | | Special mention | — | — | — | — | — | 220 | — | 220 |
| | | Substandard | — | — | — | — | — | — | — | — |
| | | Substandard – nonaccrual | — | — | — | 222 | — | 29 | — | 251 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 189 | 1,516 | 35 | — | — | 4 | — | 1,744 |
| | | Subtotal | 49,241 | 69,159 | 46,530 | 8,274 | 4,102 | 2,616 | 24,033 | 203,955 |
| Total | | Acceptable credit quality | 916,439 | 996,015 | 496,090 | 280,633 | 126,327 | 396,724 | 509,202 | 3,721,430 |
| | | Special mention | 1,439 | 490 | 5,294 | 24,896 | 4,937 | 9,699 | 1,914 | 48,669 |
| | | Substandard | 710 | 4,675 | 585 | 40,824 | 3,476 | 50,844 | 13,706 | 114,820 |
| | | Substandard – nonaccrual | 422 | 3,167 | 1,205 | 7,958 | 11,428 | 14,440 | 5,585 | 44,205 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 189 | 1,516 | 35 | — | — | 4 | — | 1,744 |
| Total commercial loans | | | $ 919,199 | $ 1,005,863 | $ 503,209 | $ 354,311 | $ 146,168 | $ 471,711 | $ 530,407 | $ 3,930,868 |

| | | | December 31, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Term Loans Amortized Cost Basis by Origination Year | | | | | | | |
| (dollars in thousands) | | | 2021 | 2020 | 2019 | 2018 | 2017 | Prior | Revolving loans | Total |
| Commercial | Commercial | Acceptable credit quality | $ 108,490 | $ 78,071 | $ 50,458 | $ 20,045 | $ 27,405 | $ 35,856 | $ 417,920 | $ 738,245 |
| | | Special mention | 186 | 57 | 198 | 6,154 | 2 | 316 | 1,517 | 8,430 |
| | | Substandard | 380 | 372 | 1,934 | 1,868 | 64 | 4,322 | 8,099 | 17,039 |
| | | Substandard – nonaccrual | 52 | — | 612 | 177 | 242 | 169 | 5,704 | 6,956 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 109,108 | 78,500 | 53,202 | 28,244 | 27,713 | 40,663 | 433,240 | 770,670 |
| | Commercial other | Acceptable credit quality | 264,282 | 167,326 | 101,083 | 29,981 | 303 | 341 | 88,198 | 651,514 |
| | | Special mention | — | 1,929 | 10,676 | 3,966 | — | — | 3,252 | 19,823 |
| | | Substandard | 688 | — | 62 | 341 | — | — | 2,623 | 3,714 |
| | | Substandard – nonaccrual | 10 | 158 | 3,894 | 384 | — | — | 21 | 4,467 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 264,980 | 169,413 | 115,715 | 34,672 | 303 | 341 | 94,094 | 679,518 |
| Commercial real estate | Non-owner occupied | Acceptable credit quality | 441,483 | 154,379 | 134,507 | 20,524 | 55,207 | 182,465 | 5,258 | 993,823 |
| | | Special mention | 26 | 6,341 | 14,177 | 2,296 | 711 | 2,272 | — | 25,823 |
| | | Substandard | 6,196 | 817 | 8,825 | 20,572 | 14,857 | 22,344 | 250 | 73,861 |
| | | Substandard – nonaccrual | 169 | 992 | 6,206 | — | 195 | 4,264 | — | 11,826 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 447,874 | 162,529 | 163,715 | 43,392 | 70,970 | 211,345 | 5,508 | 1,105,333 |
| | Owner occupied | Acceptable credit quality | 141,084 | 69,415 | 47,187 | 35,974 | 30,583 | 98,442 | 1,886 | 424,571 |
| | | Special mention | 150 | 24 | 187 | 161 | 13,087 | 4,540 | 32 | 18,181 |
| | | Substandard | 4,192 | 1,127 | 10,810 | 205 | 297 | 6,466 | 305 | 23,402 |
| | | Substandard – nonaccrual | — | 318 | 129 | 336 | 72 | 2,649 | — | 3,504 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 145,426 | 70,884 | 58,313 | 36,676 | 44,039 | 112,097 | 2,223 | 469,658 |
| | Multi-family | Acceptable credit quality | 88,329 | 20,080 | 1,973 | 25,450 | 1,414 | 18,642 | 2,241 | 158,129 |
| | | Special mention | — | 451 | — | — | — | — | — | 451 |
| | | Substandard | 988 | — | — | — | — | 10,139 | — | 11,127 |
| | | Substandard – nonaccrual | — | — | 123 | — | — | 2,045 | — | 2,168 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 89,317 | 20,531 | 2,096 | 25,450 | 1,414 | 30,826 | 2,241 | 171,875 |
| | Farmland | Acceptable credit quality | 15,689 | 14,966 | 3,931 | 3,162 | 7,996 | 19,305 | 1,196 | 66,245 |
| | | Special mention | — | 66 | 1,236 | 145 | 153 | 240 | — | 1,840 |
| | | Substandard | 371 | 76 | 166 | 211 | — | 898 | — | 1,722 |
| | | Substandard – nonaccrual | — | — | — | 105 | — | — | 50 | 155 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 16,060 | 15,108 | 5,333 | 3,623 | 8,149 | 20,443 | 1,246 | 69,962 |
| Construction and land development | | Acceptable credit quality | 65,053 | 65,274 | 19,269 | 10,029 | 2,511 | 3,841 | 19,452 | 185,429 |
| | | Special mention | — | — | 5,014 | — | — | 221 | — | 5,235 |
| | | Substandard | — | 1,336 | — | — | — | — | — | 1,336 |
| | | Substandard – nonaccrual | — | — | 43 | — | — | 40 | — | 83 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 1,465 | 37 | — | — | — | 164 | — | 1,666 |
| | | Subtotal | 66,518 | 66,647 | 24,326 | 10,029 | 2,511 | 4,266 | 19,452 | 193,749 |
| Total | | Acceptable credit quality | 1,124,410 | 569,511 | 358,408 | 145,165 | 125,419 | 358,892 | 536,151 | 3,217,956 |
| | | Special mention | 362 | 8,868 | 31,488 | 12,722 | 13,953 | 7,589 | 4,801 | 79,783 |
| | | Substandard | 12,815 | 3,728 | 21,797 | 23,197 | 15,218 | 44,169 | 11,277 | 132,201 |
| | | Substandard – nonaccrual | 231 | 1,468 | 11,007 | 1,002 | 509 | 9,167 | 5,775 | 29,159 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 1,465 | 37 | — | — | — | 164 | — | 1,666 |
| Total commercial loans | | | $ 1,139,283 | $ 583,612 | $ 422,700 | $ 182,086 | $ 155,099 | $ 419,981 | $ 558,004 | $ 3,460,765 |

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, loans past due 90 days or more and still accruing interest, and loans modified under troubled debt restructurings 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 June 30, 2022 and December 31, 2021:

| | | | June 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Term Loans Amortized Cost Basis by Origination Year | | | | | | | |
| (dollars in thousands) | | | 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving Loans | Total |
| Residential real estate | Residential first lien | Performing | $ 30,586 | $ 41,338 | $ 32,385 | $ 21,765 | $ 23,865 | $ 122,619 | $ 758 | $ 273,316 |
| | | Nonperforming | — | — | 106 | 260 | 942 | 5,004 | — | 6,312 |
| | | Subtotal | 30,586 | 41,338 | 32,491 | 22,025 | 24,807 | 127,623 | 758 | 279,628 |
| | Other residential | Performing | 857 | 549 | 613 | 1,209 | 1,668 | 1,999 | 51,718 | 58,613 |
| | | Nonperforming | — | — | — | 9 | 10 | 222 | 1,621 | 1,862 |
| | | Subtotal | 857 | 549 | 613 | 1,218 | 1,678 | 2,221 | 53,339 | 60,475 |
| Consumer | Consumer | Performing | 9,605 | 44,947 | 11,083 | 5,994 | 6,097 | 18,226 | 2,352 | 98,304 |
| | | Nonperforming | 91 | 61 | 12 | 2 | 37 | 51 | — | 254 |
| | | Subtotal | 9,696 | 45,008 | 11,095 | 5,996 | 6,134 | 18,277 | 2,352 | 98,558 |
| | Consumer other | Performing | 371,625 | 369,572 | 174,852 | 45,799 | 8,814 | 7,050 | 9,101 | 986,813 |
| | | Nonperforming | — | — | — | — | — | — | — | — |
| | | Subtotal | 371,625 | 369,572 | 174,852 | 45,799 | 8,814 | 7,050 | 9,101 | 986,813 |
| Leases financing | | Performing | 88,299 | 127,755 | 104,682 | 70,913 | 31,261 | 14,015 | — | 436,925 |
| | | Nonperforming | — | 656 | 797 | 273 | 472 | 79 | — | 2,277 |
| | | Subtotal | 88,299 | 128,411 | 105,479 | 71,186 | 31,733 | 14,094 | — | 439,202 |
| Total | | Performing | 500,972 | 584,161 | 323,615 | 145,680 | 71,705 | 163,909 | 63,929 | 1,853,971 |
| | | Nonperforming | 91 | 717 | 915 | 544 | 1,461 | 5,356 | 1,621 | 10,705 |
| Total other loans | | | $ 501,063 | $ 584,878 | $ 324,530 | $ 146,224 | $ 73,166 | $ 169,265 | $ 65,550 | $ 1,864,676 |

| (dollars in thousands) | | | December 31, 2021<br>Term Loans<br>Amortized Cost Basis by Origination Year<br>2021 | 2020 | 2019 | 2018 | 2017 | Prior | Revolving loans | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Residential real estate | Residential first lien | Performing | $ 38,508 | $ 31,920 | $ 24,311 | $ 30,842 | $ 48,276 | $ 93,462 | $ 888 | $ 268,207 |
| | | Nonperforming | — | 108 | 173 | 780 | 764 | 4,380 | — | 6,205 |
| | | Subtotal | 38,508 | 32,028 | 24,484 | 31,622 | 49,040 | 97,842 | 888 | 274,412 |
| | Other residential | Performing | 888 | 679 | 1,520 | 1,950 | 1,211 | 1,559 | 54,225 | 62,032 |
| | | Nonperforming | — | — | 10 | 16 | 128 | 100 | 1,453 | 1,707 |
| | | Subtotal | 888 | 679 | 1,530 | 1,966 | 1,339 | 1,659 | 55,678 | 63,739 |
| Consumer | Consumer | Performing | 65,915 | 14,955 | 7,874 | 8,728 | 3,025 | 2,582 | 2,721 | 105,800 |
| | | Nonperforming | 89 | 5 | 3 | 14 | 24 | 71 | 2 | 208 |
| | | Subtotal | 66,004 | 14,960 | 7,877 | 8,742 | 3,049 | 2,653 | 2,723 | 106,008 |
| | Consumer other | Performing | 474,385 | 323,437 | 63,463 | 12,635 | 3,888 | 5,447 | 13,341 | 896,596 |
| | | Nonperforming | — | — | — | — | — | — | 1 | 1 |
| | | Subtotal | 474,385 | 323,437 | 63,463 | 12,635 | 3,888 | 5,447 | 13,342 | 896,597 |
| Leases financing | | Performing | 154,803 | 124,575 | 86,402 | 43,536 | 9,077 | 1,983 | — | 420,376 |
| | | Nonperforming | — | 757 | 1,001 | 1,012 | 95 | 39 | — | 2,904 |
| | | Subtotal | 154,803 | 125,332 | 87,403 | 44,548 | 9,172 | 2,022 | — | 423,280 |
| Total | | | | | | | | | | |
| | | Performing | 734,499 | 495,566 | 183,570 | 97,691 | 65,477 | 105,033 | 71,175 | 1,753,011 |
| | | Nonperforming | 89 | 870 | 1,187 | 1,822 | 1,011 | 4,590 | 1,456 | 11,025 |
| Total other loans | | | $ 734,588 | $ 496,436 | $ 184,757 | $ 99,513 | $ 66,488 | $ 109,623 | $ 72,631 | $ 1,764,036 |

## NOTE 6 – PREMISES, EQUIPMENT AND LEASES

A summary of premises and equipment at June 30, 2022 and December 31, 2021 is as follows:

| (dollars in thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Land | $ 15,948 | $ 15,696 |
| Buildings and improvements | 68,625 | 67,143 |
| Furniture and equipment | 33,761 | 33,545 |
| Lease right-of-use assets | 7,670 | 8,428 |
| Total | 126,004 | 124,812 |
| Accumulated depreciation | (48,336) | (45,592) |
| Premises and equipment, net | $ 77,668 | $ 79,220 |

Depreciation expense for the three and six months ended June 30, 2022 was $1.2 million and $2.4 million, respectively, and $1.4 million and $2.9 million for the three and six months ended June 30, 2021, respectively.

The Company has entered into operating leases, primarily for banking offices and operating facilities, which have remaining lease terms of 1 month to 11 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 if they are reasonably certain to be exercised. The operating lease liabilities of the Company were $9.7 million and $10.7 million as of June 30, 2022 and December 31, 2021, respectively.

Information related to operating leases for the three and six months ended June 30, 2022 and 2021 was as follows:

| (dollars in thousands) | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Operating lease cost | $ 532 | $ 514 | $ 1,040 | $ 1,037 |
| Operating cash flows from leases | 630 | 603 | 1,236 | 1,386 |
| Right-of-use assets obtained in exchange for lease obligations | — | 609 | 121 | 689 |
| Right-of-use assets derecognized due to terminations or impairment | — | (88) | — | (210) |
| Weighted average remaining lease term | 7.4 years | 7.9 years | 7.4 years | 7.9 years |
| Weighted average discount rate | 2.89 % | 2.86 % | 2.89 % | 2.86 % |

The projected minimum rental payments under the terms of the leases as of June 30, 2022 were as follows:

| (dollars in thousands) | Amount |
|---|---|
| Year ending December 31: | |
| 2022 remaining | $ 1,028 |
| 2023 | 2,105 |
| 2024 | 1,799 |
| 2025 | 894 |
| 2026 | 763 |
| Thereafter | 4,251 |
| Total future minimum lease payments | 10,840 |
| Less imputed interest | (1,131) |
| Total operating lease liabilities | $ 9,709 |

## NOTE 7 – LOAN SERVICING RIGHTS

A summary of loan servicing rights at June 30, 2022 and December 31, 2021 is as follows:

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Serviced Loans | Carrying Value | Serviced Loans | Carrying Value |
| Commercial FHA | $ 2,456,760 | $ 24,603 | $ 2,650,531 | $ 27,386 |
| SBA | 46,997 | 660 | 50,043 | 774 |
| Residential | 275,673 | 616 | 302,618 | 705 |
| Total | $ 2,779,430 | $ 25,879 | $ 3,003,192 | $ 28,865 |

### *Commercial FHA Mortgage Loan Servicing*

Changes in our commercial FHA loan servicing rights for the three and six months ended June 30, 2022 and 2021 are summarized as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2022 | 2021 | 2022 | 2021 |
| Loan servicing rights: | | | | |
| Balance, beginning of period | $ 26,111 | $ 35,997 | $ 27,386 | $ 38,322 |
| Amortization | (639) | (780) | (1,299) | (1,563) |
| Refinancing fee received from third party | — | (337) | (221) | (604) |
| Permanent impairment | (869) | (1,148) | (1,263) | (2,423) |
| Balance, end of period | $ 24,603 | $ 33,732 | $ 24,603 | $ 33,732 |
| Fair value: | | | | |
| At beginning of period | $ 27,941 | $ 35,997 | $ 28,368 | $ 38,322 |
| At end of period | 26,865 | 34,255 | 26,865 | 34,255 |

The fair value of commercial FHA loan servicing rights is determined using key assumptions, representing both general economic and other published information, including the assumed earnings rates related to escrow and replacement reserves, and the weighted average characteristics of the commercial portfolio, including the prepayment rate and discount rate. The prepayment rate considers many factors as appropriate, including lockouts, balloons, prepayment penalties, interest rate ranges, delinquencies and geographic location. The discount rate is based on an average pre-tax internal rate of return utilized by market participants in pricing the servicing portfolio. Significant increases or decreases in any one of these assumptions would result in a significantly lower or higher fair value measurement. The weighted average prepayment rate was 8.21% and 8.24% at June 30, 2022 and December 31, 2021, respectively, while the weighted average discount rate was 11.69% and 11.87% for the same periods, respectively.

## NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill by segment at June 30, 2022 and December 31, 2021 is summarized as follows:

| (dollars in thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Banking | $ 157,158 | $ 157,158 |
| Wealth management | 4,746 | 4,746 |
| Total goodwill | $ 161,904 | $ 161,904 |

The Company's intangible assets, consisting of core deposit and customer relationship intangibles, as of June 30, 2022 and December 31, 2021 are summarized as follows:

| (dollars in thousands) | June 30, 2022 Gross carrying amount | June 30, 2022 Accumulated amortization | June 30, 2022 Total | December 31, 2021 Gross carrying amount | December 31, 2021 Accumulated amortization | December 31, 2021 Total |
|---|---|---|---|---|---|---|
| Core deposit intangibles | $ 58,913 | $ (42,664) | $ 16,249 | $ 57,012 | $ (40,603) | $ 16,409 |
| Customer relationship intangibles | 15,918 | (8,608) | 7,310 | 15,918 | (7,953) | 7,965 |
| Total intangible assets | $ 74,831 | $ (51,272) | $ 23,559 | $ 72,930 | $ (48,556) | $ 24,374 |

In conjunction with the FNBC branch acquisition, the Company recorded $1.9 million of core deposit intangibles, which are being amortized on an accelerated basis over an estimated useful life of 10 years.

Amortization of intangible assets was $1.3 million and $2.7 million for the three and six months ended June 30, 2022, respectively, and $1.5 million and $3.0 million for the comparable periods in 2021, respectively.

## Note 9 – Derivative Instruments

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

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

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

The following table summarizes the interest rate lock commitments and forward commitments to sell mortgage-backed securities held by the Company, their notional amount and estimated fair values at June 30, 2022 and December 31, 2021:

| (dollars in thousands) | Notional amount June 30, 2022 | Notional amount December 31, 2021 | Fair value gain June 30, 2022 | Fair value gain December 31, 2021 |
|---|---|---|---|---|
| **Derivative instruments (included in other assets):** | | | | |
| Interest rate lock commitments | $ 22,704 | $ 66,216 | $ 91 | $ 410 |
| Forward commitments to sell mortgage-backed securities | 8,213 | 60,427 | — | — |
| Total | $ 30,917 | $ 126,643 | $ 91 | $ 410 |

| (dollars in thousands) | Notional amount June 30, 2022 | Notional amount December 31, 2021 | Fair value loss June 30, 2022 | Fair value loss December 31, 2021 |
|---|---|---|---|---|
| **Derivative instruments (included in other liabilities):** | | | | |
| Forward commitments to sell mortgage-backed securities | $ 9,500 | $ 18,362 | $ 11 | $ 19 |

During the three and six months ended June 30, 2022, the Company recognized net losses of $0.4 million and $0.3 million, respectively, on derivative instruments in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

During the three and six months ended June 30, 2021, the Company recognized net losses of $0.5 million and $1.0 million, respectively, on derivative instruments in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

***Cash Flow Hedges***

In the first quarter of 2022, the Company entered 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 June 30, 2022:

| (dollars in thousands) | June 30, 2022 |
|---|---|
| Notional Amount | $ 200,000 |
| Average remaining life in years | 3.79 years |
| Weighted average pay rate | 0.64 % |
| Weighted average receive rate | 5.48 % |

Quarterly, the effectiveness evaluation is based on the fluctuation of the variable interest the Company receives from the customers for the loans as compared to the fixed interest rate received from the counterparty.

The Company has $140.0 million notional amount of future-starting receive-fixed, pay-variable interest rate swaps on certain FHLB or other fixed-rate advances. These swaps are effective beginning in April 2023. The Company pays or receives the net interest amount quarterly based on the respective hedge agreement and includes the amount as part of FHLB advances interest expense on the consolidated statements of income.

At June 30, 2022, the $8.2 million fair value of the cash flow hedges was included in other assets on the consolidated balance sheets. At December 31, 2021, the $5.1 million fair value of cash flow hedges was included in other liabilities on the consolidated balance sheets. The tax effected amounts of $5.9 million and $3.7 million at June 30, 2022 and December 31, 2021, respectively, were included in accumulated other comprehensive (loss) income. There were no amounts recorded in the consolidated statements of income for the three and six months ended June 30, 2022, related to ineffectiveness.

***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 $7.7 million and $7.9 million at June 30, 2022 and December 31, 2021, respectively. The fair value of the customer derivative instruments and the offsetting counterparty derivative instruments was $0.2 million and $0.4 million at June 30, 2022 and December 31, 2021, respectively, which are included in other assets and other liabilities, respectively, on the consolidated balance sheets.

## NOTE 10 – DEPOSITS

The following table summarizes the classification of deposits as of June 30, 2022 and December 31, 2021:

| (dollars in thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Noninterest-bearing demand | $ 1,972,261 | $ 2,245,701 |
| Interest-bearing: | | |
| Checking | 1,808,885 | 1,663,021 |
| Money market | 1,027,547 | 869,067 |
| Savings | 740,364 | 679,115 |
| Time | 635,381 | 653,744 |
| Total deposits | $ 6,184,438 | $ 6,110,648 |

## NOTE 11 – SHORT-TERM BORROWINGS

The following table presents the distribution of short-term borrowings and related weighted average interest rates as of June 30, 2022 and December 31, 2021:

| (dollars in thousands) | Repurchase agreements: As of and for the Six Months Ended June 30, 2022 | Repurchase agreements: As of and for the Year Ended December 31, 2021 |
|---|---|---|
| Outstanding at period-end | $ 67,689 | $ 76,803 |
| Average amount outstanding | 64,642 | 68,986 |
| Maximum amount outstanding at any month end | 76,807 | 77,497 |
| Weighted average interest rate: | | |
| During period | 0.14 % | 0.12 % |
| End of period | 0.14 % | 0.13 % |

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 $63.9 million and $78.3 million at June 30, 2022 and December 31, 2021, respectively, were pledged for securities sold under agreements to repurchase.

The Company had available lines of credit of $22.7 million and $55.9 million at June 30, 2022 and December 31, 2021, respectively, from the Federal Reserve Discount Window. The lines are collateralized by a collateral agreement with respect to a pool of commercial real estate loans totaling $25.4 million and $64.8 million at June 30, 2022 and December 31, 2021, respectively. There were no outstanding borrowings under these lines at June 30, 2022 and December 31, 2021.

At June 30, 2022, the Company had available federal funds lines of credit totaling $45.0 million. These lines of credit were unused at June 30, 2022.

## NOTE 12 – FHLB ADVANCES AND OTHER BORROWINGS

The following table summarizes our FHLB advances and other borrowings as of June 30, 2022 and December 31, 2021:

| (dollars in thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Midland States Bancorp, Inc.** | | |
| Revolving line of credit - variable interest rate equivalent to Daily Simple SOFR plus 1.60% | $ — | $ — |
| Series G redeemable preferred stock - 171 shares at $1,000 per share | — | 171 |
| **Midland States Bank** | | |
| FHLB advances – putable fixed rate at rates averaging 2.35% and 1.48% at June 30, 2022 and December 31, 2021, respectively – maturing through December 2024 | 110,000 | 210,000 |
| FHLB advances –SOFR floater at rates averaging 3.14% and 1.67% at June 30, 2022 and December 31, 2021, respectively – maturing in October 2023 | 100,000 | 100,000 |
| FHLB advances – Short term fixed rate at rates averaging 1.63% at June 30, 2022 – maturing in July 2022 | 75,000 | — |
| Total FHLB advances and other borrowings | $ 285,000 | $ 310,171 |

The Company’s advances from the FHLB are collateralized by a blanket collateral agreement of qualifying mortgage and home equity line of credit loans and certain commercial real estate loans totaling approximately $2.59 billion and $2.10 billion at June 30, 2022 and December 31, 2021, respectively.

On October 12, 2021, the Company entered into a loan agreement with another bank for a revolving line of credit in the original principal amount of up to $15.0 million. The loan matures on October 11, 2022 and has a variable rate of interest equal to the Daily Simple Secured Overnight Financing Rate ("SOFR") plus 1.60%. The Company is required to make quarterly interest payments with the principal balance due at maturity. The loan agreement contains financial covenants that require the Company to be well-capitalized at all times, maintain a minimum total capital to risk-weighted assets ratio, a minimum return on average assets and a maximum percentage of nonperforming assets to tangible capital. At June 30, 2022, the Company was in compliance with or has obtained waivers for each of these financial covenants.

## NOTE 13 – SUBORDINATED DEBT

The following table summarizes the Company's subordinated debt as of June 30, 2022 and December 31, 2021:

| (dollars in thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Subordinated debt issued June 2015 – fixed interest rate of 6.50%, $550 - maturing June 18, 2025 | $ 547 | $ 546 |
| Subordinated debt issued October 2017 – fixed interest rate of 6.25% through October 2022 and a variable interest rate equivalent to three month LIBOR plus 4.23% thereafter, $40,000 - maturing October 15, 2027 | 39,658 | 39,626 |
| Subordinated debt issued September 2019 – fixed interest rate of 5.00% through September 2024 and a variable interest rate equivalent to three month SOFR plus 3.61% thereafter, $72,750 - maturing September 30, 2029 | 72,171 | 72,042 |
| Subordinated debt issued September 2019 – fixed interest rate of 5.50% through September 2029 and a variable interest rate equivalent to three month SOFR plus 4.05% thereafter, $27,250 - maturing September 30, 2034 | 26,901 | 26,877 |
| Total subordinated debt | $ 139,277 | $ 139,091 |

The subordinated debentures may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

## NOTE 14 – 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. The diluted earnings per common share computation for both the three and six months ended June 30, 2022 excluded antidilutive stock options of 60,698 and excluded antidilutive stock options of 71,547 for the comparable periods in 2021, respectively, because the exercise prices of these stock options exceeded the average market prices of the Company's common shares for those respective periods. Presented below are the calculations for basic and diluted earnings per common share for the three and six months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(dollars in thousands, except per share data)** | **2022** | **2021** | **2022** | **2021** |
| Net income | $ 21,883 | $ 20,124 | $ 42,632 | $ 38,662 |
| Common shareholder dividends | (6,397) | (6,265) | (12,786) | (12,502) |
| Unvested restricted stock award dividends | (73) | (62) | (148) | (126) |
| Undistributed earnings to unvested restricted stock awards | (171) | (134) | (334) | (259) |
| Undistributed earnings to common shareholders | $ 15,242 | $ 13,663 | $ 29,364 | $ 25,775 |
| **Basic** | | | | |
| Distributed earnings to common shareholders | $ 6,397 | $ 6,265 | $ 12,786 | $ 12,502 |
| Undistributed earnings to common shareholders | 15,242 | 13,663 | 29,364 | 25,775 |
| Total common shareholders earnings, basic | $ 21,639 | $ 19,928 | $ 42,150 | $ 38,277 |
| **Diluted** | | | | |
| Distributed earnings to common shareholders | $ 6,397 | $ 6,265 | $ 12,786 | $ 12,502 |
| Undistributed earnings to common shareholders | 15,242 | 13,663 | 29,364 | 25,775 |
| Total common shareholders earnings | 21,639 | 19,928 | 42,150 | 38,277 |
| Add back: | | | | |
| Undistributed earnings reallocated from unvested restricted stock awards | 1 | — | 1 | 1 |
| Total common shareholders earnings, diluted | $ 21,640 | $ 19,928 | $ 42,151 | $ 38,278 |
| Weighted average common shares outstanding, basic | 22,305,590 | 22,591,127 | 22,290,486 | 22,557,728 |
| Options | 55,229 | 86,388 | 65,450 | 75,312 |
| Weighted average common shares outstanding, diluted | 22,360,819 | 22,677,515 | 22,355,936 | 22,633,040 |
| Basic earnings per common share | $ 0.97 | $ 0.88 | $ 1.89 | $ 1.70 |
| Diluted earnings per common share | 0.97 | 0.88 | 1.89 | 1.69 |

## NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Assets and liabilities measured and recorded at fair value, including financial assets for which the Company has elected the fair value option, on a recurring and nonrecurring basis at June 30, 2022 and December 31, 2021, are summarized below:

| | June 30, 2022 | | | |
|---|---|---|---|---|
| **(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. Treasury securities | $ 63,996 | $ 63,996 | $ — | $ — |
| U.S. government sponsored entities and U.S. agency securities | 30,303 | — | 30,303 | — |
| Mortgage-backed securities - agency | 423,838 | — | 423,838 | — |
| Mortgage-backed securities - non-agency | 22,777 | — | 22,777 | — |
| State and municipal securities | 106,688 | — | 106,688 | — |
| Corporate securities | 112,938 | — | 112,938 | — |
| Equity securities | 8,738 | 8,738 | — | — |
| Loans held for sale | 5,298 | — | 5,298 | — |
| Derivative assets | 8,459 | — | 8,459 | — |
| Total | $ 783,035 | $ 72,734 | $ 710,301 | $ — |
| **Liabilities** | | | | |
| Derivative liabilities | $ 189 | $ — | $ 189 | $ — |
| Total | $ 189 | $ — | $ 189 | $ — |
| | | | | |
| Assets measured at fair value on a non-recurring basis: | | | | |
| Loan servicing rights | $ 25,879 | $ — | $ — | $ 25,879 |
| Nonperforming loans | 50,958 | — | 44,599 | 6,359 |
| Other real estate owned | 11,131 | — | 11,131 | — |
| Assets held for sale | 1,231 | — | 1,231 | — |

| (dollars in thousands) | December 31, 2021 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 | $ 64,917 | $ 64,917 | $ — | $ — |
| U.S. government sponsored entities and U.S. agency securities | 33,817 | — | 33,817 | — |
| Mortgage-backed securities - agency | 440,270 | — | 440,270 | — |
| Mortgage-backed securities - non-agency | 28,706 | — | 28,706 | — |
| State and municipal securities | 143,099 | — | 143,099 | — |
| Corporate securities | 195,794 | — | 194,859 | 935 |
| Equity securities | 9,529 | 9,529 | — | — |
| Loans held for sale | 32,045 | — | 32,045 | — |
| Derivative assets | 5,883 | — | 5,883 | — |
| Total | $ 954,060 | $ 74,446 | $ 878,679 | $ 935 |
| **Liabilities** | | | | |
| Derivative liabilities | $ 397 | $ — | $ 397 | $ — |
| Total | $ 397 | $ — | $ 397 | $ — |
| | | | | |
| Assets measured at fair value on a non-recurring basis: | | | | |
| Loan servicing rights | $ 28,865 | $ — | $ — | $ 28,865 |
| Nonperforming loans | 36,542 | 24,358 | 6,129 | 6,055 |
| Other real estate owned | 12,059 | — | 12,059 | — |
| Assets held for sale | 2,284 | — | 2,284 | — |

The following table provides a reconciliation of activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2022 and 2021:

| (dollars in thousands) | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Balance, beginning of period | $ 935 | $ 959 | $ 935 | $ 959 |
| Transferred to level 2 | (935) | — | (935) | — |
| Total realized in earnings [(1)] | 6 | 4 | 11 | 6 |
| Total unrealized in other comprehensive income [(2)] | — | 49 | — | 49 |
| Net settlements (principal and interest) | (6) | (4) | (11) | (6) |
| Balance, end of period | $ — | $ 1,008 | $ — | $ 1,008 |

(1) Amounts included in interest income from investment securities taxable in the consolidated statements of income.
(2) Represents change in unrealized gains or losses for the period included in other comprehensive income for assets held at the end of the reporting period.

The following table provides quantitative information about significant unobservable inputs used in fair value measurements of Level 3 assets measured at fair value on a recurring basis at December 31, 2021:

| (dollars in thousands) | Fair value | Valuation technique | Unobservable input / assumptions | Range (weighted average)[(1)] |
|---|---|---|---|---|
| **December 31, 2021** | | | | |
| Corporate securities | $ 935 | Consensus pricing | Net market price | 0.0% - 7.0% (4.5)% |

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

The significant unobservable inputs used in the fair value measurement of the Company's corporate securities is net market price. The corporate securities are not actively traded, and as a result, fair value is determined utilizing third-party valuation services through consensus pricing. Significant changes in any of the inputs in isolation would result in a significant change to the fair value measurement. Generally, net market price increases when market interest rates decline and declines when market interest rates increase.

The following table presents losses recognized on assets measured on a nonrecurring basis for the three and six months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2022** | **2021** | **2022** | **2021** |
| Loan servicing rights | $ 869 | $ 1,148 | $ 1,263 | $ 2,423 |
| Mortgage servicing rights held for sale | — | 143 | — | 143 |
| Nonperforming loans | 10,779 | 4,295 | 11,366 | 6,272 |
| Other real estate owned | 67 | 314 | 404 | 417 |
| Assets held for sale | — | — | — | — |
| Total losses on assets measured on a nonrecurring basis | $ 11,715 | $ 5,900 | $ 13,033 | $ 9,255 |

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 June 30, 2022 and December 31, 2021:

| **(dollars in thousands)** | **Fair value** | **Valuation technique** | **Unobservable input / assumptions** | **Range (weighted average)[1]** |
|---|---|---|---|---|
| **June 30, 2022** | | | | |
| *Loan servicing rights:* | | | | |
| Commercial MSR | $ 26,865 | Discounted cash flow | Prepayment speed | 8.00% - 18.00% (8.21%) |
| | | | Discount rate | 10.00% - 27.00% (11.69%) |
| SBA servicing rights | 660 | Discounted cash flow | Prepayment speed | 14.06% - 16.58% (16.00%) |
| | | | Discount rate | 10.00% - 12.00% (11.00%) |
| Residential servicing rights | 616 | Discounted cash flow | Prepayment speed | 7.86% -26.28% (8.58%) |
| | | | Discount rate | 9.00% - 11.50% (10.13%) |
| **December 31, 2021** | | | | |
| *Loan servicing rights:* | | | | |
| Commercial MSR | $ 28,368 | Discounted cash flow | Prepayment speed | 8.00% - 18.00% (8.24%) |
| | | | Discount rate | 10.00% - 27.00% (11.87%) |
| SBA servicing rights | 898 | Discounted cash flow | Prepayment speed | 12.27% - 14.14% (13.88%) |
| | | | Discount rate | 10.00% - 12.00% (11.00%) |
| Residential servicing rights | 705 | Discounted cash flow | Prepayment speed | 11.94% - 27.48% (14.94%) |
| | | | Discount rate | 9.00% - 11.50% (10.25%) |

(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 commercial and 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 June 30, 2022 and December 31, 2021:

| | June 30, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Aggregate fair value** | **Difference** | **Contractual principal** | **Aggregate fair value** | **Difference** | **Contractual principal** |
| Commercial loans held for sale | $ — | $ — | $ — | $ 19,230 | $ — | $ 19,230 |
| Residential loans held for sale | 5,298 | 212 | 5,086 | 12,815 | 584 | 12,231 |
| Total loans held for sale | $ 5,298 | $ 212 | $ 5,086 | $ 32,045 | $ 584 | $ 31,461 |

The following table presents the amount of gains (losses) from fair value changes included in income before income taxes for financial assets carried at fair value for the three and six months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2022** | **2021** | **2022** | **2021** |
| Commercial loans held for sale | $ (18) | $ (23) | $ — | $ (67) |
| Residential loans held for sale | 104 | 320 | (277) | (63) |
| Total loans held for sale | $ 86 | $ 297 | $ (277) | $ (130) |

The carrying values and estimated fair value of certain financial instruments not carried at fair value at June 30, 2022 and December 31, 2021 were as follows:

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| **(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 | $ 264,173 | $ 264,173 | $ 264,173 | $ — | $ — |
| Federal funds sold | 5,944 | 5,944 | 5,944 | — | — |
| Loans, net | 5,740,646 | 5,648,295 | — | — | 5,648,295 |
| Accrued interest receivable | 16,552 | 16,552 | — | 16,552 | — |
| **Liabilities** | | | | | |
| Deposits | $ 6,184,438 | $ 6,171,119 | $ — | $ 6,171,119 | $ — |
| Short-term borrowings | 67,689 | 67,689 | — | 67,689 | — |
| FHLB and other borrowings | 285,000 | 286,309 | — | 286,309 | — |
| Subordinated debt | 139,277 | 139,063 | — | 139,063 | — |
| Trust preferred debentures | 49,674 | 55,348 | — | 55,348 | — |

| (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) |
|---|---|---|---|---|---|
| | December 31, 2021 | | | | |
| **Assets** | | | | | |
| Cash and due from banks | $ 673,297 | $ 673,297 | $ 673,297 | $ — | $ — |
| Federal funds sold | 7,074 | 7,074 | 7,074 | — | — |
| Loans, net | 5,173,739 | 5,221,886 | — | — | 5,221,886 |
| Accrued interest receivable | 19,470 | 19,470 | — | 19,470 | — |
| **Liabilities** | | | | | |
| Deposits | $ 6,110,648 | $ 6,109,077 | $ — | $ 6,109,077 | $ — |
| Short-term borrowings | 76,803 | 76,803 | — | 76,803 | — |
| FHLB and other borrowings | 310,171 | 317,464 | — | 317,464 | — |
| Subordinated debt | 139,091 | 148,386 | — | 148,386 | — |
| Trust preferred debentures | 49,374 | 57,827 | — | 57,827 | — |

In accordance with our adoption of ASU 2016-1 in 2019, the methods utilized to measure fair value of financial instruments at June 30, 2022 and December 31, 2021 represent an approximation of exit price; however, an actual exit price may differ.

### Note 16 – Commitments, Contingencies and Credit Risk

The spread of the COVID-19 virus had an impact on our operations as of June 30, 2022 and December 31, 2021, and the Company expects that the virus will continue to have an impact on the business, financial condition, and results of operations of the Company and its customers. The COVID-19 pandemic, and governmental policy responses, caused changes in the behavior of customers, businesses, and their employees, including illness, quarantines, social distancing practices, cancellation of events and travel, business and school shutdowns, reduction in commercial activity and financial transactions, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Future effects, including additional actions taken by federal, state, and local governments to contain COVID-19 or treat its impact, are unknown. If these effects worsen, it may adversely impact several industries within our geographic footprint and impair the ability of our customers to fulfill their contractual obligations to the Company. This could cause the Company to experience a material adverse effect on our business operations, asset valuations, financial condition, and results of operations. Material adverse impacts may include all or a combination of valuation impairments on our intangible assets, investments, loans, loan servicing rights, deferred tax assets, or counter-party risk derivatives.

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 June 30, 2022 and December 31, 2021 were as follows:

| (dollars in thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Commitments to extend credit | $ 1,206,523 | $ 994,709 |
| Financial guarantees – standby letters of credit | 26,553 | 14,325 |

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 2022 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 and six months ended June 30, 2022 and 2021. The liability for unresolved repurchase demands totaled $0.2 million and $0.2 million at June 30, 2022 and December 31, 2021, respectively.

**NOTE 17 – SEGMENT INFORMATION**

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

Selected business segment financial information for the three and six months ended June 30, 2022 and 2021 were as follows:

| (dollars in thousands) | Banking | Wealth Management | Other | Total |
|---|---|---|---|---|
| **Three Months Ended June 30, 2022** | | | | |
| Net interest income (expense) | $ 63,963 | $ — | $ (2,629) | $ 61,334 |
| Provision for credit losses | 5,441 | — | — | 5,441 |
| Noninterest income | 8,495 | 6,143 | (25) | 14,613 |
| Noninterest expense | 37,362 | 4,091 | (114) | 41,339 |
| Income (loss) before income taxes (benefit) | 29,655 | 2,052 | (2,540) | 29,167 |
| Income taxes (benefit) | 7,545 | 573 | (834) | 7,284 |
| Net income (loss) | $ 22,110 | $ 1,479 | $ (1,706) | $ 21,883 |
| Total assets | $ 7,422,518 | $ 29,042 | $ (15,748) | $ 7,435,812 |
| **Six Months Ended June 30, 2022** | | | | |
| Net interest income (expense) | $ 123,316 | $ — | $ (5,155) | $ 118,161 |
| Provision for credit losses | 9,608 | — | — | 9,608 |
| Noninterest income | 16,901 | 13,282 | 43 | 30,226 |
| Noninterest expense | 73,609 | 8,766 | (152) | 82,223 |
| Income (loss) before income taxes (benefit) | 57,000 | 4,516 | (4,960) | 56,556 |
| Income taxes (benefit) | 14,260 | 1,263 | (1,599) | 13,924 |
| Net income (loss) | $ 42,740 | $ 3,253 | $ (3,361) | $ 42,632 |
| Total assets | $ 7,422,518 | $ 29,042 | $ (15,748) | $ 7,435,812 |
| **Three Months Ended June 30, 2021** | | | | |
| Net interest income (expense) | $ 52,908 | $ — | $ (2,798) | $ 50,110 |
| Provision for credit losses | (455) | — | — | (455) |
| Noninterest income | 10,868 | 6,529 | 20 | 17,417 |
| Noninterest expense | 45,084 | 4,164 | (307) | 48,941 |
| Income (loss) before income taxes (benefit) | 19,147 | 2,365 | (2,471) | 19,041 |
| Income taxes (benefit) | (913) | 663 | (833) | (1,083) |
| Net income (loss) | $ 20,060 | $ 1,702 | $ (1,638) | $ 20,124 |
| Total assets | $ 6,642,895 | $ 30,913 | $ (43,798) | $ 6,630,010 |
| **Six Months Ended June 30, 2021** | | | | |
| Net interest income (expense) | $ 107,626 | $ — | $ (5,648) | $ 101,978 |
| Provision for credit losses | 3,110 | — | — | 3,110 |
| Noninterest income | 19,732 | 12,460 | 41 | 32,233 |
| Noninterest expense | 80,600 | 8,165 | (745) | 88,020 |
| Income (loss) before income taxes (benefit) | 43,648 | 4,295 | (4,862) | 43,081 |
| Income taxes (benefit) | 4,876 | 1,203 | (1,660) | 4,419 |
| Net income (loss) | $ 38,772 | $ 3,092 | $ (3,202) | $ 38,662 |
| Total assets | $ 6,642,895 | $ 30,913 | $ (43,798) | $ 6,630,010 |

## NOTE 18 – 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 and six months ended June 30, 2022 and 2021.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2022** | **2021** | **2022** | **2021** |
| **Noninterest income - in-scope of Topic 606** | | | | |
| *Wealth management revenue:* | | | | |
| Trust management/administration fees | $ 5,139 | $ 4,971 | $ 11,121 | $ 9,430 |
| Investment advisory fees | — | 423 | — | 876 |
| Investment brokerage fees | 543 | 485 | 1,141 | 886 |
| Other | 461 | 650 | 1,020 | 1,268 |
| *Service charges on deposit accounts:* | | | | |
| Nonsufficient fund fees | 1,524 | 1,202 | 2,856 | 2,343 |
| Other | 780 | 714 | 1,516 | 1,399 |
| *Interchange revenues* | 3,590 | 3,797 | 6,870 | 7,172 |
| *Other income:* | | | | |
| Merchant services revenue | 399 | 396 | 755 | 733 |
| Other | 671 | 1,418 | 1,439 | 2,209 |
| **Noninterest income - out-of-scope of Topic 606** | 1,506 | 3,361 | 3,508 | 5,917 |
| Total noninterest income | $ 14,613 | $ 17,417 | $ 30,226 | $ 32,233 |

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 by them to the Company on a monthly basis for that month's transactional activity.

### *Service Charges on Deposit Accounts*

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

***Interchange Revenue***

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

***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 June 30, 2022, as compared to December 31, 2021, and operating results for the three and six months ended June 30, 2022 and 2021. 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, 2021, filed with the SEC on February 25, 2022.

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; the effects of the COVID-19 pandemic; changes in the financial markets; changes in business plans as circumstances warrant; risks related to mergers and acquisitions and the integration of acquired businesses; developments and uncertainty related to the future use and availability of some reference rates, such as LIBOR, as well as other alternative reference rates, and the adoption of a substitute; 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, 2021. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since December 31, 2021.

### Significant Developments and Transactions

Each item listed below affects the comparability of our results of operations for the three and six months ended June 30, 2022 and 2021, and our financial condition as of June 30, 2022 and December 31, 2021, and may affect the comparability of financial information we report in future fiscal periods.

***Recent Acquisitions.*** On June 17, 2022, the Company completed its acquisition of the deposits and certain loans and other assets associated with FNBC's branches in Mokena and Yorkville, Illinois. The Company acquired $79.8 million in assets, including $60.3 million in cash and $16.6 million in loans, and assumed $79.8 million in deposits.

On June 1, 2021, the Company completed its acquisition of substantially all of the trust assets of ATG Trust, a trust company based in Chicago, Illinois, with $399.7 million in assets under management.

***Tax Settlement.*** On June 29, 2021, the Company announced the settlement of a prior tax issue related to the treatment of gains recognized on FDIC-assisted transactions that resulted in a $6.75 million tax benefit that was recognized in the second quarter of 2021. The Company also recognized approximately $3.6 million in consulting and legal expenses related to the settlement of the tax issue, resulting in an after-tax gain of approximately $2.9 million.

***FHLB Advance Prepayments.*** During 2021, the Company pre-paid FHLB advances of $50.0 million in the first quarter, $85.0 million in the second quarter and $130.0 million in the fourth quarter. As a result, we paid prepayment fees of $3.7 million and $4.8 million in the second and fourth quarters of 2021, respectively. Interest expense is significantly lower in the current periods as a result of the reduction in borrowings.

***Redemption of Subordinated Notes.*** On June 18, 2021, the Company redeemed all of its outstanding fixed-to-floating rate subordinated notes due June 18, 2025, having an aggregate principal amount of $31.1 million, in accordance with the terms of the notes. The aggregate redemption price was 100% of the aggregate principal amount of the subordinated notes, plus accrued and unpaid interest. The interest rate on the subordinated notes was 4.54%.

***Purchased Loans.*** Our net interest margin benefits from accretion income associated with purchase accounting discounts established on the purchased loans included in our acquisitions. Our reported net interest margin for the three months ended June 30, 2022 and 2021 was 3.65% and 3.29%, respectively. Accretion income associated with accounting discounts established on loans acquired totaled $0.6 million and $1.3 million for the three months ended June 30, 2022 and 2021, respectively, increasing the reported net interest margin by 3 basis points and 9 basis points for each respective period.

The reported net interest margin for the six months ended June 30, 2022 and 2022 was 3.58% and 3.37%, respectively. Accretion income associated with accounting discounts established on loans acquired totaled $1.2 million and $2.5 million for the six months ended June 30, 2022 and 2021, respectively, increasing the reported net interest margin by 4 basis points and 8 basis points for each respective period.

**Results of Operations**

***Overview.*** The following table sets forth condensed income statement information of the Company for the three and six months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(dollars in thousands, except per share data)** | **2022** | **2021** | **2022** | **2021** |
| **Income Statement Data:** | | | | |
| Interest income | $ 69,236 | $ 58,397 | $ 131,984 | $ 118,900 |
| Interest expense | 7,902 | 8,287 | 13,823 | 16,922 |
| Net interest income | 61,334 | 50,110 | 118,161 | 101,978 |
| Provision for credit losses | 5,441 | (455) | 9,608 | 3,110 |
| Noninterest income | 14,613 | 17,417 | 30,226 | 32,233 |
| Noninterest expense | 41,339 | 48,941 | 82,223 | 88,020 |
| Income before income taxes | 29,167 | 19,041 | 56,556 | 43,081 |
| Income taxes | 7,284 | (1,083) | 13,924 | 4,419 |
| Net income | $ 21,883 | $ 20,124 | $ 42,632 | $ 38,662 |
| Basic earnings per common share | $ 0.97 | $ 0.88 | $ 1.89 | $ 1.70 |
| Diluted earnings per common share | $ 0.97 | $ 0.88 | $ 1.89 | $ 1.69 |

During the three months ended June 30, 2022, we generated net income of $21.9 million, or diluted earnings per common share of $0.97, compared to net income of $20.1 million, or diluted earnings per common share of $0.88 in the three months ended June 30, 2021. Earnings for the second quarter of 2022 compared to the second quarter of 2021 increased primarily due to an $11.2 million increase in net interest income and a $7.6 million decrease in noninterest expense. These results were partially offset by a $5.9 million increase in provision for credit losses, a $2.8 million decrease in noninterest income and an $8.4 million increase in income tax expense.

During the six months ended June 30, 2022, we generated net income of $42.6 million, or diluted earnings per common share of $1.89, compared to net income of $38.7 million, or diluted earnings per common share of $1.69 in the six months ended June 30, 2021. Earnings for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 increased primarily due to a $16.1 million increase in net interest income, and a $5.8 million decrease in noninterest expense. These results were partially offset by a $6.5 million increase in provision for credit losses, a $2.0 million decrease in noninterest income and a $9.5 million increase 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 the three and six months ended June 30, 2022 and 2021.

On June 15, 2022, the Federal Reserve announced an increase to its benchmark federal-funds rate by 0.75% to a range between 1.50% and 1.75%, and signaled it would continue lifting rates this year at the most rapid pace in decades as it races to slow the economy and combat inflation that is running at a 40-year high. This is the second increase in 2022. On March 16, 2022, the Federal Reserve announced an increase to its benchmark federal-funds rate by 0.25%.

During the three months ended June 30, 2022, net interest income, on a tax-equivalent basis, increased to $61.7 million compared to $50.5 million for the three months ended June 30, 2021. The tax-equivalent net interest margin increased to 3.65% for the second quarter of 2022 compared to 3.29% in the second quarter of 2021.

During the six months ended June 30, 2022, net interest income, on a tax-equivalent basis, increased to $118.9 million with a tax-equivalent net interest margin of 3.58% compared to net interest income, on a tax-equivalent basis, of $102.7 million and a tax-equivalent net interest margin of 3.37% for the six months ended June 30, 2021.

*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 and six months ended June 30, 2022 and 2021. 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 June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| **(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 | $ 226,517 | $ 468 | 0.83 % | $ 509,886 | $ 142 | 0.11 % |
| *Investment securities*: | | | | | | |
| Taxable investment securities | 714,611 | 4,055 | 2.27 | 610,830 | 3,451 | 2.26 |
| Investment securities exempt from federal income tax (1) | 104,316 | 876 | 3.36 | 123,632 | 1,004 | 3.25 |
| Total securities | 818,927 | 4,931 | 2.41 | 734,462 | 4,455 | 2.43 |
| *Loans*: | | | | | | |
| Loans (2) | 5,609,232 | 62,943 | 4.50 | 4,743,098 | 52,490 | 4.44 |
| Loans exempt from federal income tax (1) | 68,559 | 651 | 3.81 | 83,136 | 823 | 3.97 |
| Total loans | 5,677,791 | 63,594 | 4.49 | 4,826,234 | 53,313 | 4.43 |
| Loans held for sale | 9,865 | 77 | 3.15 | 36,299 | 261 | 2.88 |
| Nonmarketable equity securities | 36,338 | 487 | 5.38 | 49,388 | 609 | 4.94 |
| Total interest-earning assets | 6,769,438 | 69,557 | 4.12 | 6,156,269 | 58,780 | 3.83 |
| **Noninterest-earning assets** | 615,348 | | | 589,336 | | |
| Total assets | $ 7,384,786 | | | $ 6,745,605 | | |
| **Interest-bearing liabilities:** | | | | | | |
| *Deposits:* | | | | | | |
| Checking and money market deposits | $ 2,800,779 | $ 2,903 | 0.42 % | $ 2,397,644 | $ 658 | 0.11 % |
| Savings deposits | 719,204 | 87 | 0.05 | 666,000 | 51 | 0.03 |
| Time deposits | 615,614 | 770 | 0.50 | 723,232 | 2,165 | 1.20 |
| Brokered time deposits | 17,167 | 50 | 1.16 | 28,303 | 118 | 1.67 |
| Total interest-bearing deposits | 4,152,764 | 3,810 | 0.37 | 3,815,179 | 2,992 | 0.31 |
| Short-term borrowings | 59,301 | 22 | 0.15 | 65,727 | 20 | 0.12 |
| FHLB advances and other borrowings | 307,611 | 1,435 | 1.87 | 519,490 | 2,470 | 1.91 |
| Subordinated debt | 139,232 | 2,011 | 5.78 | 165,155 | 2,316 | 5.61 |
| Trust preferred debentures | 49,602 | 624 | 5.05 | 49,026 | 489 | 4.00 |
| Total interest-bearing liabilities | 4,708,510 | 7,902 | 0.67 | 4,614,577 | 8,287 | 0.72 |
| **Noninterest-bearing liabilities:** | | | | | | |
| Noninterest-bearing deposits | 1,967,263 | | | 1,411,428 | | |
| Other noninterest-bearing liabilities | 66,009 | | | 78,521 | | |
| Total noninterest-bearing liabilities | 2,033,272 | | | 1,489,949 | | |
| **Shareholders' equity** | 643,004 | | | 641,079 | | |
| Total liabilities and shareholders' equity | $ 7,384,786 | | | $ 6,745,605 | | |
| Net interest income / net interest margin (3) | | $ 61,655 | 3.65 % | | $ 50,493 | 3.29 % |

(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 $321,000 and $383,000 for the three months ended June 30, 2022 and 2021, respectively.
(2) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
(3) Net interest margin during the periods presented represents: (i) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.

| (tax-equivalent basis, dollars in thousands) | Six Months Ended June 30, 2022 Average balance | 2022 Interest & fees | 2022 Yield/ Rate | 2021 Average balance | 2021 Interest & fees | 2021 Yield/ Rate |
|---|---|---|---|---|---|---|
| **Interest-earning assets:** | | | | | | |
| Federal funds sold and cash investments | $ 304,938 | $ 639 | 0.42 % | $ 430,415 | $ 238 | 0.11 % |
| *Investment securities*: | | | | | | |
| Taxable investment securities | 737,569 | 7,952 | 2.16 | 586,640 | 6,731 | 2.29 |
| Investment securities exempt from federal income tax (1) | 119,002 | 1,942 | 3.26 | 120,842 | 1,993 | 3.30 |
| Total securities | 856,571 | 9,894 | 2.31 | 707,482 | 8,724 | 2.47 |
| *Loans*: | | | | | | |
| Loans (2) | 5,406,467 | 119,529 | 4.46 | 4,823,745 | 107,044 | 4.48 |
| Loans exempt from federal income tax (1) | 70,570 | 1,344 | 3.84 | 85,312 | 1,671 | 3.95 |
| Total loans | 5,477,037 | 120,873 | 4.45 | 4,909,057 | 108,715 | 4.47 |
| Loans held for sale | 20,501 | 297 | 2.93 | 50,752 | 703 | 2.79 |
| Nonmarketable equity securities | 36,358 | 971 | 5.39 | 52,644 | 1,289 | 4.94 |
| Total interest-earning assets | 6,695,405 | 132,674 | 4.00 | 6,150,350 | 119,669 | 3.92 |
| **Noninterest-earning assets** | 623,224 | | | 595,641 | | |
| Total assets | $ 7,318,629 | | | $ 6,745,991 | | |
| **Interest-bearing liabilities:** | | | | | | |
| *Deposits:* | | | | | | |
| Checking and money market deposits | $ 2,705,882 | $ 4,156 | 0.31 % | $ 2,400,540 | $ 1,321 | 0.11 % |
| Savings deposits | 707,111 | 137 | 0.04 | 643,190 | 89 | 0.03 |
| Time deposits | 621,274 | 1,570 | 0.51 | 702,405 | 4,513 | 1.30 |
| Brokered time deposits | 19,290 | 108 | 1.13 | 40,168 | 252 | 1.26 |
| Total interest-bearing deposits | 4,053,557 | 5,971 | 0.30 | 3,786,303 | 6,175 | 0.33 |
| Short-term borrowings | 64,642 | 45 | 0.14 | 70,608 | 44 | 0.13 |
| FHLB advances and other borrowings | 309,436 | 2,647 | 1.72 | 568,226 | 5,040 | 1.79 |
| Subordinated debt | 139,186 | 4,022 | 5.78 | 167,486 | 4,683 | 5.59 |
| Trust preferred debentures | 49,527 | 1,138 | 4.64 | 48,958 | 980 | 4.04 |
| Total interest-bearing liabilities | 4,616,348 | 13,823 | 0.60 | 4,641,581 | 16,922 | 0.74 |
| **Noninterest-bearing liabilities:** | | | | | | |
| Noninterest-bearing deposits | 1,978,277 | | | 1,391,129 | | |
| Other noninterest-bearing liabilities | 73,878 | | | 80,366 | | |
| Total noninterest-bearing liabilities | 2,052,155 | | | 1,471,495 | | |
| **Shareholders' equity** | 650,126 | | | 632,915 | | |
| Total liabilities and shareholders' equity | $ 7,318,629 | | | $ 6,745,991 | | |
| Net interest income / net interest margin (3) | | $ 118,851 | 3.58 % | | $ 102,747 | 3.37 % |

(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 $690,000 and $769,000 for the six months ended June 30, 2022 and 2021, respectively.
(2) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
(3) Net interest margin during the periods presented represents: (i) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.

*Interest Rates and Operating Interest Differential.* Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on our interest-earning assets and the interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume. Changes that 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 June 30, 2022 compared with Three Months Ended June 30, 2021 | | | Six Months Ended June 30, 2022 compared with Six Months Ended June 30, 2021 | | |
|---|---|---|---|---|---|---|
| | Change due to: | | | Change due to: | | |
| **(tax-equivalent basis, dollars in thousands)** | **Volume** | **Rate** | **Interest Variance** | **Volume** | **Rate** | **Interest Variance** |
| **Interest-earning assets:** | | | | | | |
| Federal funds sold and cash investments | $ (332) | $ 658 | $ 326 | $ (166) | $ 567 | $ 401 |
| *Investment securities*: | | | | | | |
| Taxable investment securities | 588 | 16 | 604 | 1,680 | (459) | 1,221 |
| Investment securities exempt from federal income tax | (160) | 32 | (128) | (30) | (21) | (51) |
| Total securities | 428 | 48 | 476 | 1,650 | (480) | 1,170 |
| *Loans*: | | | | | | |
| Loans | 9,652 | 801 | 10,453 | 12,907 | (422) | 12,485 |
| Loans exempt from federal income tax | (141) | (31) | (172) | (285) | (42) | (327) |
| Total loans | 9,511 | 770 | 10,281 | 12,622 | (464) | 12,158 |
| Loans held for sale | (199) | 15 | (184) | (429) | 23 | (406) |
| Nonmarketable equity securities | (168) | 46 | (122) | (417) | 99 | (318) |
| Total interest-earning assets | $ 9,240 | $ 1,537 | $ 10,777 | $ 13,260 | $ (255) | $ 13,005 |
| **Interest-bearing liabilities:** | | | | | | |
| *Deposits:* | | | | | | |
| Checking and money market deposits | $ 265 | $ 1,980 | $ 2,245 | $ 319 | $ 2,516 | $ 2,835 |
| Savings deposits | 5 | 31 | 36 | 11 | 37 | 48 |
| Time deposits | (228) | (1,167) | (1,395) | (363) | (2,580) | (2,943) |
| Brokered time deposits | (39) | (29) | (68) | (124) | (20) | (144) |
| Total interest-bearing deposits | 3 | 815 | 818 | (157) | (47) | (204) |
| Short-term borrowings | (2) | 4 | 2 | (4) | 5 | 1 |
| FHLB advances and other borrowings | (998) | (37) | (1,035) | (2,254) | (139) | (2,393) |
| Subordinated debt | (368) | 63 | (305) | (801) | 140 | (661) |
| Trust preferred debentures | 6 | 129 | 135 | 12 | 146 | 158 |
| Total interest-bearing liabilities | $ (1,359) | $ 974 | $ (385) | $ (3,204) | $ 105 | $ (3,099) |
| Net interest income | $ 10,599 | $ 563 | $ 11,162 | $ 16,464 | $ (360) | $ 16,104 |

***Interest Income.*** Interest income, on a tax-equivalent basis, increased $10.8 million to $69.6 million in the three months ended June 30, 2022 as compared to the same quarter in 2021 primarily due to growth in earning assets. The yield on earning assets increased 29 basis points to 4.12% from 3.83%, primarily due to the impact of increasing market interest rates.

Average earning assets increased to $6.77 billion in the second quarter of 2022 from $6.16 billion in the same quarter in 2021. Increases in average loans and investment securities of $851.6 million and $84.5 million, respectively, resulted in the increase in average earning assets.

Average loans increased $851.6 million in the second quarter of 2022 compared to the same quarter one year prior. Average commercial loans decreased $15.5 million. Included in commercial loans are commercial FHA warehouse lines and PPP loans. Commercial FHA warehouse lines decreased $144.4 million to $106.6 million in the second quarter of 2022. PPP loan balances averaged $14.2 million in second quarter of 2022, compared to $195.7 million in the second quarter of 2021. Excluding the changes in the commercial FHA warehouse line and PPP loan portfolios, commercial loans increased $301.5 million in the second quarter of 2022 compared to the same period one year prior.

Average commercial real estate loans increased this quarter by $697.5 million, compared to the prior year second quarter. Average balances in our consumer loans and lease portfolios also increased this quarter by $191.1 million and $31.7 million, respectively, compared to the prior year second quarter. Consumer loan growth was primarily the result of our continuing relationship with GreenSky and our new relationship with an additional consumer loan origination firm. These increases were partially offset by payoffs and repayments in the residential real estate portfolio.

For the six months ended June 30, 2022, interest income, on a tax-equivalent basis, increased $13.0 million to $132.7 million as compared to the same period in 2021, primarily due to growth in earning assets. The yield on earning assets increased 8 basis points to 4.00% from 3.92%, primarily due to the impact of increasing market interest rates.

Average earning assets increased to $6.70 billion in the first six months of 2022 from $6.15 billion in the same period in 2021. Average loans and investment securities increased $568.0 million and $149.1 million. These increases were partially offset by a $125.5 million decrease in federal funds sold and cash investments.

Average commercial loans decreased $126.5 million. Commercial FHA warehouse lines and PPP loans accounted for $174.2 million and $161.6 million, respectively, of this decrease. Excluding the changes in the commercial FHA warehouse line and PPP loan portfolios, commercial loans increased $209.4 million for the six months ended June 30, 2022 compared to the same period one year prior.

Average balances in our commercial real estate loans and lease portfolios increased by $561.3 million and $26.2 million, respectively, for the six months ended June 30, 2022 compared to the same period of 2021. Average consumer loans also increased $165.8 million for the six months ended June 30, 2022 compared to the same period of 2021. These increases were partially offset by payoffs and repayments in the residential real estate portfolio.

***Interest Expense.*** Interest expense decreased $0.4 million to $7.9 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The cost of interest-bearing liabilities decreased to 0.67% for the second quarter of 2022 compared to 0.72% for the second quarter of 2021 due to the prepayment of FHLB advances and redemption of subordinated notes, as discussed previously.

Interest expense on deposits increased $0.8 million to $3.8 million for the three months ended June 30, 2022 from the comparable period in 2021. The increase was primarily due to an increase in rates paid on deposits. Average balances of interest-bearing deposit accounts increased $337.6 million, or 8.8%, to $4.15 billion for the three months ended June 30, 2022 compared to the same period one year earlier. The increase in volume was attributable to increases of retail deposits, commercial deposits and brokered time deposits of $31.3 million, $120.4 million, and $107.2 million, respectively. In addition, our Insured Cash Sweep product balances increased $59.8 million.

For the six month period ended June 30, 2022, interest expense decreased $3.1 million to $13.8 million compared to the six months ended June 30, 2021. The cost of interest-bearing liabilities decreased to 0.60% for the first six months of 2022 compared to 0.74% for the same period of 2021. Interest expense on deposits decreased to $6.0 million from $6.2 million for the comparable period in 2021, primarily due to a decrease in interest rates on deposits.

Interest expense on FHLB advances and other borrowings decreased $1.0 million and $2.4 million for the three and six months ended June 30, 2022, respectively, from the comparable periods in 2021. Average balances decreased $211.9 million and $258.8 million for the three and six months ended June 30, 2022, respectively, from the comparable periods in 2021 due to the Company prepaying $265.0 million of longer term FHLB advances during 2021.

Interest expense on subordinated debt decreased $0.3 million and $0.7 million for the three and six months ended June 30, 2022, respectively, from the comparable periods in 2021 primarily due to the redemption of $31.1 million of subordinated debt on June 18, 2021. The interest rate on the redeemed subordinated notes was 4.54%.

***Provision for Credit Losses***. The Company's provision for credit losses totaled $5.4 million for the three months ended June 30, 2022, with $4.7 million expense attributable to loans and $0.7 million expense related to unfunded loan commitments. Provision for credit losses for the three months ended June 30, 2021 was a benefit of $0.5 million for the three months ended June 30, 2021. No provision for credit losses on loans was recorded in the quarter, while negative provision expenses of $0.3 million and $0.2 million were recorded for credit losses related to unfunded loan commitments and investment securities, respectively. For the six months ended June 30, 2022 and 2021, the Company recorded provision expense of $9.6 million and $3.1 million, respectively. The increase in the provision for credit losses for the three and six months ended June 30, 2022 compared to prior year periods was primarily due to the growth and changes in the mix of our loan portfolio.

The provision for credit losses on loans made during the three and six months ended June 30, 2022 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 decreased 16.1% and 6.2% for the three and six months ended June 30, 2022, respectively, compared to the same periods one year prior. The following table sets forth the major components of our noninterest income for the three and six months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Increase (decrease) | Six Months Ended June 30, | | Increase (decrease) |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **2022** | **2021** | | **2022** | **2021** | |
| *Noninterest income:* | | | | | | |
| Wealth management revenue | $ 6,143 | $ 6,529 | $ (386) | $ 13,282 | $ 12,460 | $ 822 |
| Residential mortgage banking revenue | 384 | 1,562 | (1,178) | 983 | 3,136 | (2,153) |
| Service charges on deposit accounts | 2,304 | 1,916 | 388 | 4,372 | 3,742 | 630 |
| Interchange revenue | 3,590 | 3,797 | (207) | 6,870 | 7,172 | (302) |
| (Loss) gain on sales of investment securities, net | (101) | 377 | (478) | (101) | 377 | (478) |
| Impairment on commercial mortgage servicing rights | (869) | (1,148) | 279 | (1,263) | (2,423) | 1,160 |
| Company-owned life insurance | 840 | 863 | (23) | 1,859 | 1,723 | 136 |
| Other income | 2,322 | 3,521 | (1,199) | 4,224 | 6,046 | (1,822) |
| Total noninterest income | $ 14,613 | $ 17,417 | $ (2,804) | $ 30,226 | $ 32,233 | $ (2,007) |

*Wealth management revenue*. Wealth management revenue decreased $0.4 million for the three months ended June 30, 2022 as compared to the same period in 2021, and was $0.8 million higher for the six months ended June 30, 2022 as compared to the same period in 2021. The Company added $399.7 million of assets under administration from the acquisition of ATG Trust at June 1, 2021. However, market performance in 2022 has resulted in a decrease in assets under administration, and a resulting decrease in revenue. Assets under administration decreased to $3.60 billion at June 30, 2022 from $4.08 billion at June 30, 2021.

*Residential mortgage banking revenue.* Residential mortgage banking revenue for the three months ended June 30, 2022 totaled $0.4 million, compared to $1.6 million for the same period in 2021, primarily attributable to a decrease in production and the higher interest rate environment. Loans originated for sale into the secondary market in the second quarter of 2022 totaled $19.8 million, with 23% representing refinance transactions versus purchase transactions, compared to loans originated during the same period one year prior, which totaled $52.2 million, with 48% representing refinance transactions.

For the six months ended June 30, 2022, residential mortgage banking revenue totaled $1.0 million, compared to $3.1 million for the same period in 2021. Loans originated for sale into the secondary market in the first half of 2022 totaled $45.3 million, with 27% representing refinance transactions versus purchase transactions. Loans originated during the same period one year prior totaled $124.9 million, with 60% representing refinance transactions.

*Impairment of Commercial Mortgage Servicing Rights*. Impairment of commercial mortgage servicing rights was $0.9 million and $1.3 million for the three and six months ended June 30, 2022, respectively. The impairment resulted from loan prepayments as borrowers refinanced their loans. Loans serviced for others totaled $2.46 billion and $3.15 billion at June 30, 2022 and 2021, respectively.

*Other Income*. Other income decreased $1.2 million and $1.9 million for the three and six months ended June 30, 2022, respectively, as compared to the same periods in 2021. Net unrealized gains on our equity securities decreased $0.6 million and $1.1 million for the three and six months ended June 30, 2022, respectively, compared to the same periods in 2021. In 2021, the Company recognized a gain of $0.5 million on the sale of OREO in the second quarter and a gain of $0.3 million from the termination of a hedged interest rate swap in the first quarter.

***Noninterest Expense.*** The following table sets forth the major components of noninterest expense for the three and six months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Increase (decrease) | Six Months Ended June 30, | | Increase (decrease) |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **2022** | **2021** | | **2022** | **2021** | |
| *Noninterest expense:* | | | | | | |
| Salaries and employee benefits | $ 22,645 | $ 22,071 | $ 574 | $ 44,515 | $ 42,599 | $ 1,916 |
| Occupancy and equipment | 3,489 | 3,796 | (307) | 7,244 | 7,736 | (492) |
| Data processing | 6,082 | 6,288 | (206) | 11,955 | 12,281 | (326) |
| Professional | 1,516 | 5,549 | (4,033) | 3,488 | 7,734 | (4,246) |
| Marketing | 733 | 700 | 33 | 1,421 | 1,177 | 244 |
| Communications | 635 | 824 | (189) | 1,347 | 1,646 | (299) |
| Amortization of intangible assets | 1,318 | 1,470 | (152) | 2,716 | 2,985 | (269) |
| FHLB advances prepayment fees | — | 3,669 | (3,669) | — | 3,677 | (3,677) |
| Other expense | 4,921 | 4,574 | 347 | 9,537 | 8,185 | 1,352 |
| Total noninterest expense | $ 41,339 | $ 48,941 | $ (7,602) | $ 82,223 | $ 88,020 | $ (5,797) |

*Salaries and employee benefits.* For the three and six months ended June 30, 2022, salaries and employee benefits expense increased $0.6 million and $1.9 million, respectively, as compared to the same periods in 2021, primarily due to annual salary increases in 2022 and a modest increase in staffing levels. The Company had 932 employees at June 30, 2022 compared to 914 employees at June 30, 2021.

*Professional fees.* For the three and six months ended June 30, 2022, professional fees decreased $4.0 million and $4.2 million, respectively, as compared to the same periods in 2021. In 2021, the Company incurred $3.6 million of consulting and legal expenses incurred related to the settlement of a tax issue, as previously discussed.

*Other expense.* For the three and six months ended June 30, 2022, other expense increased $0.4 million and $1.4 million, respectively, as compared to the same periods in 2021 primarily as a result of increased business activities.

***Income Tax Expense.*** Income tax expense was $7.3 million for the three months ended June 30, 2022, as compared to an income tax benefit of $1.1 million for the three months ended June 30, 2021. The Company's income tax for the second quarter of 2021 benefited from $6.75 million in settlements related to the treatment of gains recognized on FDIC-assisted transactions. For the six months ended June 30, 2022 and 2021, income tax expense was $13.9 million and $4.4 million, respectively. The effective tax rate was 24.6% for the first half of 2022 compared to 10.3% for the comparable period in 2021.

**Financial Condition**

***Assets.*** Total assets were $7.44 billion at both June 30, 2022 and December 31, 2021.

***Loans.*** The loan portfolio is the largest category of our assets. At June 30, 2022, total loans were $5.80 billion compared to $5.22 billion at December 31, 2021. The following table shows loans by category as of June 30, 2022 and December 31, 2021:

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Book Value** | **%** | **Book Value** | **%** |
| Loans: | | | | |
| Commercial: | | | | |
| Equipment finance loans | $ 546,267 | 9.4 % | $ 521,973 | 10.0 % |
| Equipment finance leases | 439,202 | 7.6 | 423,280 | 8.1 |
| Commercial FHA lines | 23,872 | 0.4 | 91,927 | 1.8 |
| SBA PPP loans | 6,409 | 0.1 | 52,477 | 1.0 |
| Other commercial loans | 814,710 | 14.1 | 783,811 | 14.9 |
| Total commercial loans and leases | 1,830,460 | 31.6 | 1,873,468 | 35.8 |
| Commercial real estate | 2,335,655 | 40.3 | 1,816,828 | 34.8 |
| Construction and land development | 203,955 | 3.5 | 193,749 | 3.7 |
| Residential real estate | 340,103 | 5.9 | 338,151 | 6.5 |
| Consumer | 1,085,371 | 18.7 | 1,002,605 | 19.2 |
| Total loans, gross | 5,795,544 | 100.0 % | 5,224,801 | 100.0 % |
| Allowance for credit losses on loans | (54,898) | | (51,062) | |
| Total loans, net | $ 5,740,646 | | $ 5,173,739 | |

Total loans increased $570.7 million to $5.80 billion at June 30, 2022 as compared to December 31, 2021. The loan growth was primarily reflected in our commercial real estate and consumer portfolios, which increased $518.8 million and $82.8 million, respectively.

Commercial loans and leases, which includes PPP loans and commercial FHA warehouse lines, decreased $43.0 million to $1.83 billion at June 30, 2022 as compared to December 31, 2021. PPP loans at June 30, 2022 totaled $6.4 million, a decrease of $46.1 million from December 31, 2021. Advances on commercial FHA warehouse lines decreased $68.1 million to $23.9 million at June 30, 2022. Excluding the decreases in PPP loans and commercial FHA warehouse lines, commercial loans and leases increased $71.1 million.

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.

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

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

*Lease financing.* Our equipment leasing business provides financing leases to varying types of businesses nationwide for purchases of business equipment and software. The financing is secured by 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 June 30, 2022:

| | June 30, 2022 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 35,266 | $ 380,389 | $ 580,444 | $ 113,358 | $ 180,823 | $ 93,638 | $ 2,972 | $ 4,368 | $ 1,391,258 |
| Commercial real estate | 220,411 | 150,954 | 849,634 | 463,866 | 413,015 | 197,294 | 5,438 | 35,043 | 2,335,655 |
| Construction and land development | 1,889 | 62,429 | 28,723 | 82,905 | 8,823 | 18,104 | 122 | 960 | 203,955 |
| Total commercial loans | 257,566 | 593,772 | 1,458,801 | 660,129 | 602,661 | 309,036 | 8,532 | 40,371 | 3,930,868 |
| Residential real estate | 1,736 | 5,898 | 8,735 | 18,445 | 34,203 | 37,159 | 137,306 | 96,621 | 340,103 |
| Consumer | 2,265 | 1,290 | 1,074,110 | 4,941 | 2,765 | — | — | — | 1,085,371 |
| Lease financing | 10,161 | — | 331,152 | — | 97,889 | — | — | — | 439,202 |
| Total loans | $ 271,728 | $ 600,960 | $ 2,872,798 | $ 683,515 | $ 737,518 | $ 346,195 | $ 145,838 | $ 136,992 | $ 5,795,544 |

### *Loan Quality*

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

*Analysis of the Allowance for Credit Losses on Loans.* The allowance for credit losses on loans was $54.9 million, or 0.95% of total loans, at June 30, 2022 compared to $51.1 million, or 0.98% of total loans, at December 31, 2021. The following table allocates the allowance for credit losses on loans, or the allowance, by loan category:

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Allowance** | **% (1)** | **Allowance** | **% (1)** |
| Commercial | $ 12,748 | 0.92% | $ 14,375 | 0.99% |
| Commercial real estate | 27,874 | 1.19 | 22,993 | 1.27 |
| Construction and land development | 1,101 | 0.54 | 972 | 0.50 |
| Total commercial loans | 41,723 | 1.06 | 38,340 | 1.11 |
| Residential real estate | 3,416 | 1.00 | 2,695 | 0.80 |
| Consumer | 2,994 | 0.28 | 2,558 | 0.26 |
| Lease financing | 6,765 | 1.54 | 7,469 | 1.76 |
| Total allowance for credit losses on loans | $ 54,898 | 0.95% | $ 51,062 | 0.98% |

(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.

The allowance allocated to commercial loans totaled $12.7 million, or 0.92% of total commercial loans, at June 30, 2022, decreasing $1.7 million from $14.4 million at December 31, 2021. Modeled expected credit losses decreased $2.1 million and qualitative factor ("Q-Factor") adjustments related to commercial loans increased $1.0 million. Specific allocations for commercial loans that were evaluated for expected credit losses on an individual basis decreased from $2.9 million at December 31, 2021 to $2.4 million at June 30, 2022.

The allowance allocated to commercial real estate loans totaled $27.9 million, or 1.19% of total commercial real estate loans, at June 30, 2022, increasing $4.9 million, from $23.0 million, or 1.27% of total commercial real estate loans, at December 31, 2021. Modeled expected credit losses related to commercial real estate loans increased $1.7 million and Q-Factor adjustments related to commercial real estate loans increased $3.1 million. Specific allocations for commercial real estate loans that were evaluated for expected credit losses on an individual basis increased from $0.1 million at December 31, 2021 to $0.3 million at June 30, 2022.

The allowance allocated to the lease portfolio totaled $6.8 million, or 1.54% of total commercial leases, at June 30, 2022, decreasing $0.7 million, from $7.5 million, or 1.76% of total commercial leases at December 31, 2021. Modeled expected credit losses related to commercial leases decreased $0.5 million and Q-Factor adjustments related to commercial leases decreased $0.2 million.

As previously stated, the overall loan portfolio increased $570.7 million, or 10.9%, which included a $518.8 million, or 28.6%, increase in commercial real estate loans and a $55.1 million, or 4.2%, increase in increase in commercial loans, excluding PPP loans and commercial FHA warehouse lines. The weighted average risk grade for commercial and industrial loans of 4.35 at June 30, 2022, did not change significantly from 4.53 at December 31, 2021. The weighted-average risk grade for commercial real estate loans also decreased slightly to 4.93 at June 30, 2022 from 5.02 at December 31, 2021.

In estimating expected credit losses as of June 30, 2022, we utilized certain forecasted macroeconomic variables from Oxford Economics in our models. The forecasted projections included, among other things, (i) growth of U.S. gross domestic product (“GDP”) slowing to around 2.3% (previously 2.6%) in 2022 and pulling back further to 1.3% (previously 1.8%) in 2023.; (ii) Federal Reserve raising the policy rate by 75 basis points at each of the July and September 2022 meetings and reducing the pace of rate hikes to 25 basis points at each of the November and December2022 and January 2023 meetings; and (iii) Illinois unemployment rate averaging 4.09% through the second quarter of 2023.

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. 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 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. As a result of this assessment as of June 30, 2022, modeled expected credit losses were adjusted upwards with a Q-Factor adjustment of approximately 46 basis points of total loans, increasing from 43 basis points at December 31, 2021. The Q-Factor adjustment at June 30, 2022 was based primarily on declining economic conditions, including rising inflation fears and an increasing risk of recession and the impact of rising fuel prices on businesses and consumers.

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 and six months ended June 30, 2022 and 2021:

| | As of and for the Three Months Ended June 30, | | As of and for the Six Months Ended June 30, | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2022** | **2021** | **2022** | **2021** |
| Balance, beginning of period | $ 52,938 | $ 62,687 | $ 51,062 | $ 60,443 |
| Charge-offs: | | | | |
| Commercial | 60 | 2,634 | 2,214 | 3,140 |
| Commercial real estate | 2,625 | 946 | 2,852 | 1,719 |
| Construction and land development | — | 1 | 6 | 272 |
| Residential real estate | 46 | 141 | 150 | 251 |
| Consumer | 191 | 218 | 496 | 460 |
| Lease financing | 499 | 516 | 705 | 769 |
| Total charge-offs | 3,421 | 4,456 | 6,423 | 6,611 |
| Recoveries: | | | | |
| Commercial | 298 | 139 | 309 | 154 |
| Commercial real estate | (62) | 11 | 5 | 13 |
| Construction and land development | 6 | 81 | 12 | 147 |
| Residential real estate | 41 | 20 | 154 | 114 |
| Consumer | 98 | 155 | 260 | 277 |
| Lease financing | 259 | 27 | 646 | 177 |
| Total recoveries | 640 | 433 | 1,386 | 882 |
| Net charge-offs | 2,781 | 4,023 | 5,037 | 5,729 |
| Provision for credit losses on loans | 4,741 | — | 8,873 | 3,950 |
| Balance, end of period | $ 54,898 | $ 58,664 | $ 54,898 | $ 58,664 |
| Gross loans, end of period | $ 5,795,544 | $ 4,835,866 | $ 5,795,544 | $ 4,835,866 |
| Average total loans | $ 5,677,791 | $ 4,826,234 | $ 5,477,037 | $ 4,909,057 |
| Net charge-offs to average loans | 0.20 % | 0.33 % | 0.19 % | 0.24 % |
| Allowance to total loans | 0.95 % | 1.21 % | 0.95 % | 1.21 % |

Individual loans considered to be uncollectible are charged off against the allowance. Factors used in determining the amount and timing of charge-offs on loans include consideration of the loan type, length of delinquency, sufficiency of collateral value, lien priority and the overall financial condition of the borrower. Collateral value is determined using updated appraisals and/or other market comparable information. Charge-offs are generally taken on loans once the impairment is determined to be other-than-temporary. Recoveries on loans previously charged off are added to the allowance. Net charge-offs for the three months ended June 30, 2022 totaled $2.8 million, compared to $4.0 million for the same period one year ago. For the six months ended June 30, 2022, net charge-offs totaled $5.0 million, compared to $5.7 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, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings. Deferrals related to COVID-19 are not included as TDRs as of June 30, 2022 and

December 31, 2021. The balances of nonperforming loans reflect the net investment in these assets, including deductions for purchase discounts.

| (dollars in thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Nonperforming loans: | | |
| Commercial | $ 11,579 | $ 12,261 |
| Commercial real estate | 34,316 | 19,175 |
| Construction and land development | 283 | 120 |
| Residential real estate | 8,174 | 7,912 |
| Consumer | 254 | 208 |
| Lease financing | 2,277 | 2,904 |
| Total nonperforming loans | 56,883 | 42,580 |
| Other real estate owned and other repossessed assets | 12,761 | 14,488 |
| Nonperforming assets | $ 69,644 | $ 57,068 |
| Nonperforming loans to total loans | 0.98 % | 0.81 % |
| Nonperforming assets to total assets | 0.93 % | 0.77 % |
| Allowance for credit losses to nonperforming loans | 96.51 % | 119.92 % |

Nonperforming loans totaled $56.9 million at June 30, 2022, an increase of $14.3 million from December 31, 2021, primarily as a result of two commercial real estate loan relationships, totaling $16.4 million, that were transferred to nonaccrual in 2022.

We did not recognize interest income on nonaccrual loans during the three and six months ended June 30, 2022 or 2021 while the loans were in nonaccrual status. Additional interest income that would have been recorded on nonaccrual loans had they been current in accordance with their original terms was $0.3 million and $1.1 million for the three and six months ended June 30, 2022, respectively, and $0.7 million and $1.4 million for the three and six months ended June 30, 2021, respectively.

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

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

| | Commercial | | Commercial real estate | | Construction & land development | | |
|---|---|---|---|---|---|---|---|
| | Risk category | | Risk category | | Risk category | | |
| (dollars in thousands) | 7 | 8 (1) | 7 | 8 (1) | 7 | 8 (1) | Total |
| June 30, 2022 | $ 17,446 | $ 20,116 | $ 30,295 | $ 94,631 | $ 221 | $ — | $ 162,709 |
| December 31, 2021 | 28,248 | 20,413 | 46,295 | 108,634 | 5,235 | 1,336 | 210,161 |

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

Commercial loans with a risk rating of 7 or 8 decreased to $37.6 million as of June 30, 2022, compared to $48.7 million as of December 31, 2021. Commercial real estate loans with a risk rating of 7 or 8 decreased $30.0 million to $124.9 million as of June 30, 2022, compared to December 31, 2021, primarily due to risk rating upgrades within the portfolio.

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

The following table sets forth the book value and percentage of each category of investment securities at June 30, 2022 and December 31, 2021. The book value for investment securities classified as available for sale is equal to fair market value.

| (dollars in thousands) | June 30, 2022 Book Value | June 30, 2022 % of Total | December 31, 2021 Book Value | December 31, 2021 % of Total |
|---|---|---|---|---|
| **Investment securities available for sale:** | | | | |
| U.S. Treasury securities | $ 63,996 | 8.4 % | $ 64,917 | 7.2 % |
| U.S. government sponsored entities and U.S. agency securities | 30,303 | 4.0 | 33,817 | 3.7 |
| Mortgage-backed securities - agency | 423,838 | 55.7 | 440,270 | 48.5 |
| Mortgage-backed securities - non-agency | 22,777 | 3.0 | 28,706 | 3.2 |
| State and municipal securities | 106,688 | 14.0 | 143,099 | 15.8 |
| Corporate securities | 112,938 | 14.9 | 195,794 | 21.6 |
| Total investment securities, available for sale, at fair value | $ 760,540 | 100.0 % | $ 906,603 | 100.0 % |

The following table sets forth the book value, maturities and weighted average yields for our investment portfolio at June 30, 2022. The book value for investment securities classified as available for sale is equal to fair market value.

| (dollars in thousands) | Book value | % of total | Weighted average yield |
|---|---|---|---|
| **Investment securities available for sale:** | | | |
| *U.S. Treasury securities:* | | | |
| Maturing within one year | $ 2,775 | 0.4 % | 0.8 % |
| Maturing in one to five years | 61,221 | 8.0 | 0.9 |
| Maturing in five to ten years | — | — | — |
| Maturing after ten years | — | — | — |
| Total U.S. Treasury securities | $ 63,996 | 8.4 % | 0.9 % |
| *U.S. government sponsored entities and U.S. agency securities:* | | | |
| Maturing within one year | $ 1,330 | 0.2 % | 2.4 % |
| Maturing in one to five years | 20,709 | 2.7 | 1.3 |
| Maturing in five to ten years | 8,264 | 1.1 | 1.0 |
| Maturing after ten years | — | — | — |
| Total U.S. government sponsored entities and U.S. agency securities | $ 30,303 | 4.0 % | 1.3 % |
| *Mortgage-backed securities - agency:* | | | |
| Maturing within one year | $ 2,440 | 0.3 % | 2.9 % |
| Maturing in one to five years | 146,255 | 19.2 | 2.2 |
| Maturing in five to ten years | 193,814 | 25.5 | 1.8 |
| Maturing after ten years | 81,329 | 10.7 | 2.3 |
| Total mortgage-backed securities - agency | $ 423,838 | 55.7 % | 2.1 % |
| *Mortgage-backed securities - non-agency:* | | | |
| Maturing within one year | $ — | — % | — % |
| Maturing in one to five years | 2,485 | 0.3 | 3.4 |
| Maturing in five to ten years | 14,590 | 1.9 | 2.3 |
| Maturing after ten years | 5,702 | 0.8 | 2.4 |
| Total mortgage-backed securities - non-agency | $ 22,777 | 3.0 % | 2.4 % |
| *State and municipal securities [(1)]:* | | | |
| Maturing within one year | $ 7,397 | 1.0 % | 5.1 % |
| Maturing in one to five years | 35,202 | 4.6 | 4.0 |
| Maturing in five to ten years | 36,366 | 4.8 | 2.8 |
| Maturing after ten years | 27,723 | 3.6 | 2.8 |
| Total state and municipal securities | $ 106,688 | 14.0 % | 3.3 % |
| *Corporate securities:* | | | |
| Maturing within one year | $ 1,500 | 0.2 % | 3.0 % |
| Maturing in one to five years | 15,105 | 2.0 | 3.1 |
| Maturing in five to ten years | 96,333 | 12.7 | 3.8 |
| Maturing after ten years | — | — | — |
| Total corporate securities | $ 112,938 | 14.9 % | 3.7 % |
| Total investment securities, available for sale | $ 760,540 | 100.0 % | 2.3 % |

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

The table below presents the credit ratings for our investment securities classified as available for sale, at fair value, at June 30, 2022.

| (dollars in thousands) | Amortized cost | Estimated fair value | Average credit rating AAA | AA+/- | A+/- | BBB+/- | <BBB- | Not Rated |
|---|---|---|---|---|---|---|---|---|
| **Investment securities available for sale:** | | | | | | | | |
| U.S. Treasury securities | $ 68,390 | $ 63,996 | $ 62,147 | $ 1,849 | $ — | $ — | $ — | $ — |
| U.S. government sponsored entities and U.S. agency securities | 33,756 | 30,303 | 25,246 | 5,057 | — | — | — | — |
| Mortgage-backed securities - agency | 480,408 | 423,838 | 427 | 423,411 | — | — | — | — |
| Mortgage-backed securities - non-agency | 26,118 | 22,777 | 22,777 | — | — | — | — | — |
| State and municipal securities | 113,920 | 106,688 | 7,949 | 85,764 | 2,231 | 949 | — | 9,795 |
| Corporate securities | 119,374 | 112,938 | — | — | 32,096 | 77,098 | — | 3,744 |
| Total investment securities, available for sale | $ 841,966 | $ 760,540 | $ 118,546 | $ 516,081 | $ 34,327 | $ 78,047 | $ — | $ 13,539 |

***Cash and Cash Equivalents.*** Cash and cash equivalents decreased $410.3 million to $270.1 million at June 30, 2022 compared to December 31, 2021, primarily due to funding loan growth in the current quarter.

***Loans Held for Sale.*** Loans held for sale totaled $5.3 million at June 30, 2022, comprised of residential real estate loans, compared to $32.0 million at December 31, 2021, comprised of $19.2 million of commercial real estate and $12.8 million of residential real estate loans.

***Liabilities.*** At June 30, 2022, liabilities totaled $6.80 billion compared to $6.78 billion at December 31, 2021.

***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 $73.8 million to $6.18 billion at June 30, 2022, as compared to December 31, 2021. Deposits acquired from FNBC during the quarter ended June 30, 2022 totaled $79.8 million. Noninterest-bearing demand accounts decreased $273.4 million to $1.97 billion at June 30, 2022 compared to December 31, 2021, as servicing deposits decreased $297.6 million. This decrease was offset by increases in retail and commercial deposits of $110.0 million and $135.5 million, respectively.

At June 30, 2022, total deposits were comprised of 31.9% of noninterest-bearing demand accounts, 57.8% of interest-bearing transaction accounts and 10.3% of time deposits. At December 31, 2021, the composition of total deposits was 36.8% of noninterest-bearing demand accounts, 52.5% of interest-bearing transaction accounts and 10.7% of time deposits.

The following table summarizes our average deposit balances and weighted average rates for the three months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| (dollars in thousands) | Average balance | Weighted average rate | Average balance | Weighted average rate |
| *Deposits:* | | | | |
| Noninterest-bearing demand | $ 1,967,263 | — | $ 1,411,428 | — |
| Interest-bearing: | | | | |
| Checking | 1,770,635 | 0.47 % | 1,604,496 | 0.12 % |
| Money market | 1,030,144 | 0.32 | 793,148 | 0.09 |
| Savings | 719,204 | 0.05 | 666,000 | 0.03 |
| Time, insured | 476,233 | 0.47 | 574,570 | 1.28 |
| Time, uninsured | 139,381 | 0.59 | 148,662 | 0.97 |
| Time, brokered | 17,167 | 1.16 | 28,303 | 1.67 |
| Total interest-bearing | $ 4,152,764 | 0.37 % | $ 3,815,179 | 0.31 % |
| Total deposits | $ 6,120,027 | 0.25 % | $ 5,226,607 | 0.23 % |

The following table sets forth the maturity of uninsured time deposits as of June 30, 2022:

| (dollars in thousands) | Amount |
|---|---|
| Three months or less | $ 39,982 |
| Three to six months | 15,008 |
| Six to 12 months | 31,983 |
| After 12 months | 51,364 |
| Total | $ 138,337 |

## Capital Resources and Liquidity Management

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

Shareholders' equity decreased $27.6 million to $636.2 million at June 30, 2022 as compared to December 31, 2021. The Company generated net income of $42.6 million during the first six months of 2022. Offsetting this increase to shareholders' equity were dividends to common shareholders of $12.9 million, stock repurchases of $1.1 million and a decrease in accumulated other comprehensive loss of $58.3 million.

The Company has a stock repurchase program currently in effect, whereby the Board of Directors authorized the Company to repurchase up to $75.0 million of its common stock. This program terminates December 31, 2022. As of June 30, 2022, $56.4 million, or 2,996,778 shares of the Company's common stock, had been repurchased under the program, with approximately $18.6 million of remaining repurchase authority. The Company did not repurchase any shares under this repurchase program in the most recent quarter.

***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 $63.9 million and $78.3 million at June 30, 2022 and December 31, 2021, respectively, were pledged for securities sold under agreements to repurchase.

The Company had available lines of credit of $22.7 million and $55.9 million at June 30, 2022 and December 31, 2021, respectively, from the Federal Reserve Discount Window. The lines are collateralized by a collateral agreement with respect to a pool of commercial real estate loans totaling $25.4 million and $64.8 million at June 30, 2022 and December 31, 2021, respectively. There were no outstanding borrowings under these lines at March 31, 2022 and December 31, 2021.

At June 30, 2022, the Company had available federal funds lines of credit totaling $45.0 million, which were unused.

The Company is a corporation separate and apart from the Bank and, therefore, must provide for its own liquidity. The Company’s main source of funding is dividends declared and paid to us by the Bank. There are statutory, regulatory and debt covenant limitations that affect the ability of the Bank to pay dividends to the Company. Management believed at June 30, 2022, 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 June 30, 2022, 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 June 30, 2022:

| Ratio | Actual | Minimum Regulatory Requirements (1) | Well Capitalized |
|---|---|---|---|
| Total risk-based capital ratio | | | |
| Midland States Bancorp, Inc. | 11.44 % | 10.50 % | N/A |
| Midland States Bank | 10.60 | 10.50 | 10.00 % |
| Tier 1 risk-based capital ratio | | | |
| Midland States Bancorp, Inc. | 8.63 | 8.50 | N/A |
| Midland States Bank | 9.85 | 8.50 | 8.00 |
| Common equity tier 1 risk-based capital ratio | | | |
| Midland States Bancorp, Inc. | 7.66 | 7.00 | N/A |
| Midland States Bank | 9.85 | 7.00 | 6.50 |
| Tier 1 leverage ratio | | | |
| Midland States Bancorp, Inc. | 7.98 | 4.00 | N/A |
| Midland States Bank | 9.12 | 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***

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

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 and capital 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 mortgage price risk and its effect on net interest income and capital. 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.

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

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.

We also have longer-term interest rate risk exposure, which may not be appropriately measured by earnings sensitivity analysis. The Risk Policy and Compliance Committee uses EVE to study the impact of long-term cash flows on earnings and on capital. EVE involves discounting present values of all cash flows of on and off-balance sheet items under different interest rate scenarios. The discounted present value of all cash flows represents our EVE. The analysis requires modifying the expected cash flows in each interest rate scenario, which will impact the discounted present value. The amount of base-case measurement and its sensitivity to shifts in the yield curve allow us to measure longer-term repricing and option risk in the balance sheet.

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

| | Net interest income sensitivity (Shocks) Immediate change in rates | | |
|---|---|---|---|
| **(dollars in thousands)** | **-100** | **+100** | **+200** |
| June 30, 2022: | | | |
| Dollar change | $ (12,793) | $ 11,974 | $ 23,823 |
| Percent change | (4.9)% | 4.6 % | 9.1 % |
| December 31, 2021: | | | |
| Dollar change | $ (13,499) | $ 23,513 | $ 47,028 |
| Percent change | (6.1)% | 10.6 % | 21.2 % |

We report NII at Risk to isolate the change in income related solely to interest-earning assets and interest-bearing liabilities. The NII at Risk results included in the table above reflect the analysis used quarterly by management. It models −100, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next twelve months. We were within board policy limits for the -100, +100 and +200 basis point scenarios at June 30, 2022.

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 June 30, 2022 projects that our earnings exhibit reduced sensitivity to changes in interest rates for all three scenarios compared to December 31, 2021.

The following table shows EVE at the dates indicated:

| (dollars in thousands) | Economic value of equity sensitivity (Shocks) Immediate change in rates -100 | +100 | +200 |
|---|---|---|---|
| June 30, 2022: | | | |
| Dollar change | $ (11,774) | $ 8,759 | $ 19,685 |
| Percent change | (1.6)% | 1.2 % | 2.7 % |
| December 31, 2021: | | | |
| Dollar change | $ (89,850) | $ 51,553 | $ 96,875 |
| Percent change | (13.4)% | 7.7 % | 14.5 % |

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

The EVE reported at June 30, 2022 projected that as interest rates increase, the economic value of equity position will increase, and as interest rates decrease, the economic value of equity position will decrease. When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall.

We were within Board policy limits for the -100, +100 and +200 basis point scenarios at June 30, 2022.

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

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

# PART II – OTHER INFORMATION

## ITEM 1 – LEGAL PROCEEDINGS

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

## ITEM 1A – RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the "Risk Factors" section included in our Annual Report on Form 10-K for the year ended December 31, 2021.

## 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 second quarter of 2022.

| 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] |
|---|---|---|---|---|
| April 1 - 30, 2022 | — | $ — | — | $ 18,565,174 |
| May 1 - 31, 2022 | 876 | 25.99 | — | 18,565,174 |
| June 1 - 30, 2022 | — | — | — | 18,565,174 |
| Total | 876 | $ 25.99 | — | $ 18,565,174 |

(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) On August 6, 2019, the board of directors of the Company approved a stock repurchase program authorizing the Company to repurchase up to $25.0 million of its common stock. On March 11, 2020, the Company announced that its Board of Directors authorized the Company to repurchase up to an additional $25.0 million of its common stock in addition to the amount remaining under the prior authorization. On December 2, 2020, the Company announced that the Board had extended the expiration date of the repurchase program from December 31, 2020 to December 31, 2021. At the time of the extension, the program had approximately $6.4 million of remaining repurchase authority. On September 7, 2021, the Company announced that the Board approved modifications to the Company's stock repurchase program, which increased the aggregate repurchase authority to $75.0 million from $50.0 million, and extended the expiration date of the program to December 31, 2022. At the time of the extension, the program had approximately $1.3 million of remaining repurchase authority. Stock repurchases under these 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 June 30, 2022, $56.4 million, or 2,996,778 shares of the Company's common stock, had been repurchased under the program.

## ITEM 6 – EXHIBITS

| Exhibit No. | Description |
|---|---|
| 3.1 | Articles of Incorporation of Midland States Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-210683), filed with the SEC on April 11, 2016). |
| 3.2 | Articles of Amendment to the Articles of Incorporation of Midland States Bancorp, Inc., effective May 8, 2018 (incorporated by reference to Exhibit 3.5 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2018). |
| 3.3 | Statement of Resolution Establishing Series of Series G Preferred Stock of Midland States Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 12, 2017). |
| 3.4 | By-laws of Midland States Bancorp, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (File No. 333-210683), filed with the SEC on April 11, 2016). |
| 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 June 30, 2022 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 June 30, 2022 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: August 4, 2022 | By: | /s/ | Jeffrey G. Ludwig |
| | | | Jeffrey G. Ludwig |
| | | | *President and Chief Executive Officer* |
| | | | (Principal Executive Officer) |
| Date: August 4, 2022 | 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: August 4, 2022

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: August 4, 2022

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 June 30, 2022 (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: August 4, 2022

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 June 30, 2022 (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: August 4, 2022

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